



LETTER TO SHAREHOLDERS

Comments on VZ Group's
half-year results 2017

VZ Holding Ltd
Beethovenstrasse 24
8002 Zurich

VZ GROUP: FIRST HALF YEAR 2017

Dear Shareholders,

Revenues +12 percent,
net profit +9 percent

VZ Group saw its revenues rise to CHF 127.8 million (+12.3 percent) during the first half of 2017 in year-on-year terms. Operating costs increased at broadly the same pace to CHF 71.1 million (+12.8 percent), resulting in an operating margin similar to that in the first half of 2016. Net profit rose to CHF 44.2 million (+9.3 percent). The difference reflects the higher depreciation resulting from investments in the expansion of our services and in their digitalisation.

Solid balance sheet

At CHF 2.3 billion, the balance sheet total has fallen slightly since the start of the year. The decline reflects more optimistic sentiment on capital markets. This encouraged clients to invest more, thereby reducing their cash holdings reported in the balance sheet. Even after the dividend payment in spring, VZ Group's equity remains constantly high.

Digitalisation

The launch of our financial portal last summer is beginning to generate positive results. In the long term, an increasing number of clients will use the opportunity to bundle all of their financial matters and to organise them electronically. This gives them an overview of all their investments and payment flows, their insurance policies, mortgages, taxes and their retirement provisioning. The growing range of services benefits both sides: With every service they use through this platform, clients save fees and premiums, while VZ expands its business opportunities.

VZ Depository Bank
in Germany

In Germany, the newly-founded VZ Depository Bank is set to be launched. This will enable VZ Germany to transfer its portfolio management clients from third-party banks to the in-house banking platform over the second half of the year. Meanwhile, the launch of our financial portal in Germany will provide us with a good basis to attract new clients to our services.

Outlook

VZ Group's future growth will be driven by the steady broadening of its client base. The number of clients establishing a long-term relationship with us rose by around 2000 in the first six months to reach approximately 31'000. We are expecting slightly less momentum from capital markets during the second half of the year and cannot exclude substantial volatility. Overall, we expect revenues and profits to continue to grow, thanks to the higher number of clients. This should allow us to increase the dividend for the business year 2017.

We thank all those involved with VZ, as well as those who help shape its development.

Zurich, 11 August 2017



Fred Kindle
Chairman of the Board of Directors



Matthias Reinhart
Chairman of the Executive Board

«WE ENCOURAGE EACH INDIVIDUAL CLIENT TO USE MORE AND MORE SERVICES THROUGH US»

Adriano Pavone, Head of Media Relations, discusses the results and outlook for VZ Group with Matthias Reinhart, Chairman of the Executive Board.

Mr Reinhart, costs grew faster than profits during the first half of the year. Do you have a problem with costs?

No. Income and operating income grew by roughly 12 percent, while profit rose by over 9 percent. The cost growth is largely attributable to depreciation and to costs that fall under the heading of investments. We are investing a great deal in the digitalisation of our services, in order to make our business fit for the future and to

«We remain determined to protect our clients from negative interest rates»

enable further growth. The most important initiative is our financial portal. It is creating substantial added value for our clients, which will have a positive impact on our business.

What value does the financial portal add?

Our portal is a personal cockpit for our clients that gives them an up-to-date overview of their finances: cash and securities accounts, pension fund and pillar 3a, insurance policies and taxes, properties and mortgages, will and testaments. The portal enables you to do everything online and store your documents securely. We have completed an important phase of the development, and the first version of the financial portal has been online since last summer. Three further releases are planned over the coming twelve months, so that the full scope of functions is scheduled to be available a year from now. We will continue to develop the portal on an ongoing basis beyond this milestone: The more intensively it is used, the clearer the requirements and needs of the users will be. Technological developments are the second most important impulse that will continue to shape the portal.

What does this mean for VZ?

In simple terms, the value of each individual client will grow in step with the range of services on our plat-

forms: Each additional service our clients use generates additional business for us – ideally year for year. At the same time, clients will save fees and premiums, improve their retirement provisioning and invest their money more effectively: a classic win-win situation.

Within the financial sector, long-term revenue growth averaging 12 percent is unusual – above all in this highly challenging environment with negative interest rates and ever tougher competition. How do you accomplish that?

Firstly, we have been attracting large numbers of clients for many years, including the past six months. On average, the number of long-term customers is increased by 3000 to 4000 per year. Secondly, existing clients use more and more of our services. We have been focusing on cross-selling for the past eighteen months, and now we see the first signs that these efforts are paying off. Thirdly, the revenue base improved over the course of the first half of the year, because capital markets recovered. At the same time, however, we are feeling growing competitive pressure, and clients are increasingly price sensitive. These two trends lead to shrinking margins. In overall terms, we are very confident about the future because our services are in strong demand, and because the demographic development will continue to support this demand.

How do the negative interest rates impact your figures?

We pay negative interest on all short-term investments in the balance sheet. This is a burden, because we do not pass these costs on to clients. During the first half of the year, however, interest charges declined relative to the same period of the previous year. This is above all because the level of investment in the assets under management has risen. We remain determined to protect our clients from negative interest rates.

Why have you been hiring fewer people in the past few months if business is performing so well?

The number of employees increased disproportionately during the second half of 2016. We were somewhat more restrained in recent months, on account of the market situation. At the end of June we had 915 employees, and this figure will continue to



rise, above all on the consultancy side. In particular, we have been hiring an increasing number of private client consultants, who educate our clients about our service platforms. Where standardised processes are concerned, automation is increasing – for example in the back offices of our bank, our foundations and our insurance services. These effects of scale are one of the reasons why our services are so cost-effective. In Swiss franc terms, personnel costs are therefore expected to rise less than revenues, whereas other costs are likely to rise slightly faster.

«As long as we continue to attract as many new clients, we will be able to grow»

Is outsourcing an issue then?

Yes, outsourcing can boost the efficiency of standardised procedures – such as settlement processes or maintaining the IT infrastructure. When it comes to interaction with clients though, we rely on our own resources and build up know-how in-house. This is where we differentiate ourselves from the competition, and our expertise remains the foundation of our success.

VZ recently secured a banking licence for Germany. What does this mean for the future?

To date, our German clients had to turn to other banks for services that VZ offers in Switzerland. In the medium term, we want to offer the same benefits to our

German clients. As soon as VZ Depository Bank Germany will be operational, we will be able to expand the range of services, thus enabling us to attract additional clients as well.

You reorganised your corporate client business last year. How has this business performed since then?

We have bundled occupational benefit schemes and risk management for corporate clients. VZ offers a unique service for companies, above all when it comes to occupational benefits. Our corporate

client business is growing disproportionately, and we expect this trend to accentuate. The Swiss pension system has a number of major reforms pending, requiring each individual to save up more capital. This is possible only if companies exhaust all the possibilities within the statutory framework and if they make their benefit schemes more flexible.

Can VZ continue to grow forever?

Definitely as long as we continue to attract around 4000 new clients every year and as long as a fair share of them entrust their assets to us. Today we have around 31'000 clients. This is a relatively small proportion of our target segment.

What may your shareholders expect next?

We launched a number of initiatives in recent years. It takes time and energy to turn these into successes, this will be our focus. Of course, digitalisation will continue to occupy a great deal of our attention. Towards the end of the year we will be launching a robo-advice app in Germany in order to gather experience in this particular field. And in the longer term we are planning to gain a foothold in further countries, too.

KEY FIGURES

Income statement

in CHF '000

	1H 2017	2H 2016	1H 2016
Operating revenues	127'756	122'107	113'758
Operating expenses	71'086	65'658	63'002
Operating profit (EBITDA)	56'670	56'449	50'756
Net profit¹	44'164	43'700	40'424

1 Including non-controlling interests.

Balance sheets

in CHF '000

	30.06.2017	31.12.2016	30.06.2016
Total assets	2'320'945	2'434'598	2'332'821
Equity ¹	420'379	420'056	383'644
Net cash ²	378'849	389'595	333'476

1 Including non-controlling interests.

2 Cash & cash equivalents, short-term investments, marketable securities, financial assets less current liabilities due to customers, long-term debts and due to banks.

Equity key figures

	30.06.2017	31.12.2016	30.06.2016
Equity ratio ¹	18.1%	17.3%	16.5%
Common equity tier 1 capital ratio (CET1)	26.7%	27.9%	26.5%
Total eligible capital ratio (T1 & T2)	26.7%	27.9%	26.5%

1 Equity compared to the consolidated balance sheet total.

Funds under management

in CHF million

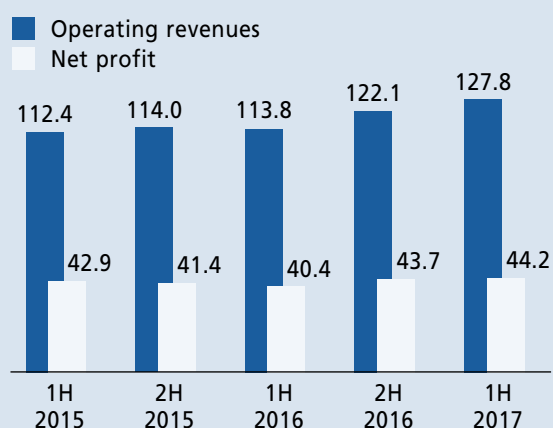
	30.06.2017	31.12.2016	30.06.2016
Assets under Management	19'982	18'415	17'272

Employees

	30.06.2017	31.12.2016	30.06.2016
Number of employees	915	892	830
Full-time equivalents (FTE)	793.7	771.5	718.3

Revenues and profit

in CHF million



Download reports and press releases

Our press release regarding the half-year results as well as the half-year report can be downloaded in the PDF format from our website: www.vzch.com (Investor Relations/Financial reports).

The Letter to Shareholders is published in German, English and French. In case of inconsistencies, the German original version shall prevail.