



LETTER TO SHAREHOLDERS

Comments on VZ Group's
half-year results 2018

VZ Holding Ltd
Beethovenstrasse 24
8002 Zürich

VZ GROUP: FIRST HALF YEAR 2018

Dear Shareholders,

Uncertain financial markets

From a Swiss perspective, the environment could have been friendlier in the first half of the year. Measured in Swiss francs, major asset classes lost value after financial market volatility increased significantly at the beginning of the year. While companies around the world are benefiting from the strong economy, the growing tensions between the US and its trading partners are putting the global economy to the test.

Over 10 percent higher revenues and profit

The headwind from the financial markets did not have a significant impact on our growth. Operating income rose by 10.6 percent from 127.8 to 141.3 million Swiss francs compared with the same period last year. As expected, operating costs rose at practically the same rate as revenues, namely by 10.5 percent to 78.6 million Swiss francs. At 48.7 million Swiss francs, net profit was 10.3 percent higher.

Increased balance sheet total

Since the beginning of the year, the balance sheet total has grown by 9.9 percent to 2.97 billion Swiss francs. The increase is mainly due to the fact that clients are keeping large amounts of cash in their accounts. VZ Holding's equity also increased, even though dividends for 2017 were paid out in spring. As expected, both the equity ratio and the core capital ratio of 15.7 and 27.5 percent respectively remain above average in a sector comparison.

Reliable demand

In the first half of the year, many new clients sought advice from our experts, and many opted for our management services. We were able to win around 2000 new clients for our management services in the first half of the year; our medium-term target of 4000 per year therefore remains realistic. At the same time, we keep encouraging our clients to use more than one service. This creates a win-win situation: with every financial service that clients obtain through VZ, they save fees and premiums, while VZ expands its revenue base. The success of this strategy can be tracked, for instance, in the assets under management: Overall, assets under management grew from 21.8 to 22.7 billion Swiss francs in the past six months, whereof new money accounts for 1.3 billion Swiss francs.

Outlook

We expect this positive development to continue in the second half of the year. Whether growth will be as strong or weaker than in the first half of the year also depends on the economic environment and the volatility of the financial markets. For the entire financial year, we assume that earnings and profit will be higher than in 2017 and that we will be able to increase the dividend again accordingly.

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

Zurich, 15 August 2018



Fred Kindle
Chairman of the Board of Directors



Matthias Reinhart
Chairman of the Executive Board

«OUR CLIENTS SAVE MONEY WITH EACH SERVICE THEY OBTAIN 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, are you satisfied with the last six months?

All in all, yes, although the environment was not as friendly as we had hoped. Because interest rates have risen in recent months, all interest-sensitive investments such as real estate and bonds have lost value. The stocks of large Swiss companies also performed poorly. This is reflected in the portfolios of many Swiss clients because they tend to overweight stocks of local companies.

«The dent in the growth of the consulting fees is of technical nature and has no significance for the future.»

Nevertheless, VZ Group has generated 10.6 percent more income.

That is correct. Growth is in line with our expectations and our previous outlook. The correction on the financial markets at the end of January caused headwinds. On the other hand, the above-average volatility led to an increase in stock exchange transactions and had a positive impact on VZ Depository Bank's trading income. Over the entire half-year, the positive and negative effects roughly balanced each other out.

Consulting fees are stagnating. Are you running out of clients?

No, that impression is deceptive. We have again gained many new clients, and the number of consulting projects has also increased compared with the same period last year. The apparent stagnation is due to the switch to a lower VAT rate. Since 1 January, our services are taxed at 7.7 percent. In order to correctly account for VAT, we made a cut at the end of the year, attributing all accrued consulting fees to 2017. Up until then, the higher rate of 8 percent applied. As a result, hardly any revenues were recorded in January. We also announced this «differentiation effect» last year. The dent in the development of the consulting fees is therefore of a

purely technical nature and has no significance for the coming years.

I noticed that the financial reporting for the shareholders looks somewhat different. What exactly has changed?

It has become more transparent, because income from asset management and bank income are no longer mixed. We now make a clear distinction between income directly related to assets under management and income from banking business, such as transaction fees, net trading result and net interest income. This makes it easier for shareholders and analysts to assess our results.

Let us take a closer look at the assets under management. Breaking down the net new money to the Financial Consultants results in a ratio of 17.6 million Swiss francs per full time equivalent. This ratio is at the lower end of your target range of 17 to 20 million francs. How do you assess this development?

That is correct: Over the last 12 months, net new money has grown by around 18 per cent from 1.1 to 1.3 billion Swiss francs. At 17.6 million francs per full time equivalent, the ratio is still at the lower end of the target range, but well above the 16 million francs achieved in the first half of 2017. Whether the ratio will continue to rise or fall back in the coming months and years depends primarily on the development of the financial markets. If the development were to deteriorate over the long term, it would hardly be possible to maintain this level; an improvement would allow a further rise towards the upper edge of our target range.

By the middle of the year, around 35,000 clients were using one or more service platforms such as VZ Depository Bank, HypothekenZentrum, VZ InsurancePool or VZ Group's portfolio management. This is about 2000 more than six months ago. What is your forecast for the year as a whole?

VZ Group's business model and positioning ensure a stable growth in demand. If there are no surprises, we anticipate that another 2000 will follow in the second half of the year and that this trend will continue at a similar pace in the medium term.



It is your explicit goal that all your clients should obtain more services through VZ Group.

Do you see any progress in that area?

This remains a top priority. And the fact that our clients save money with each service they obtain through us greatly helps to achieve this goal. Experience shows that it can take years before someone will switch from one financial service provider to another, but the trend proves that we are on the right track. A comparison with last year's figures confirms this assessment. Our Private Client Consultants make a major contribution to this success. We introduced this role two years ago. The task of these consultants is to present our services to clients and to support them in making the transition.

«It can take years before someone will switch providers, but the trend proves that we are on the right track.»

Why is it that the margin on management revenues has shrunk?

The margin we generate on assets under management has been eroding for several years. There are three main reasons for this: Firstly, more and more customers follow our recommendation to invest in passive funds. As a result, our transaction revenues decrease. Secondly, all-in fees are becoming increasingly popular, leading to a further decline. And thirdly, the negative interest rates also put pressure on our revenues.

And why has the balance sheet total grown so strongly?

We have noticed that many customers «park» large amounts in their cash accounts. This inflates our balance sheet, and it also generates costs, because we do not pass on the negative interest rates we pay the Swiss National Bank for these deposits.

Since last autumn, VZ Depository Bank has also been operational in Germany. How has this business developed?

The new service is well received. Today, 70 percent of the existing management clients have already been transferred to the new depository bank. We expect the bank's additional revenues to cover its costs for the first time next year. Opening our own bank has been an important step for our development in this market.

What else is new?

This summer we opened our first branch in the Italian-speaking part of Switzerland, filling the last noteworthy white spot on the Swiss map. The first experiences are promising. We are confident that we will be able to offset the considerable expense associated with an additional language in the near future. At the same time, we continue to work intensively on the digitalisation of our client interfaces, in particular on the mobile version of our financial portal, the digital cockpit for our clients.

And what is your longer-term outlook?

With our business model, we are very well positioned, because the benefits of our services are tangible for our customers. The market is very large and continues to grow, thanks to the demographic trend. This gives VZ Group plenty of scope for further development – in Switzerland as well as in selected markets abroad. That is why we remain confident.

KEY FIGURES

Income statement

in CHF '000

	1H 2018	2H 2017	1H 2017
Operating revenues	141'334	132'479	127'756
Operating expenses	78'554	78'108	71'086
Operating profit (EBITDA)	62'780	54'371	56'670
Net profit¹	48'700	42'659	44'164

1 Including non-controlling interests.

Balance sheets

in CHF '000

	30.06.2018	31.12.2017	30.06.2017
Total assets	2'969'931	2'703'475	2'320'945
Equity ¹	467'452	459'470	420'379
Net cash ²	369'385	366'001	378'849

1 Including non-controlling interests.

2 Cash and 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

	30.06.2018	31.12.2017	30.06.2017
Equity ratio ¹	15.7%	17.0%	18.1%
Common equity tier 1 capital ratio (CET1) ²	27.5%	30.4%	29.9%
Total eligible capital ratio (T1 & T2) ²	27.5%	30.4%	29.9%

1 Equity compared to the consolidated balance sheet total.

2 The international standard approach for credit risks (SA-BIZ) have been applied in the 2017 annual report for the first time. For better comparability, the figures as of 30 June 2017 have been adjusted.

Assets under Management

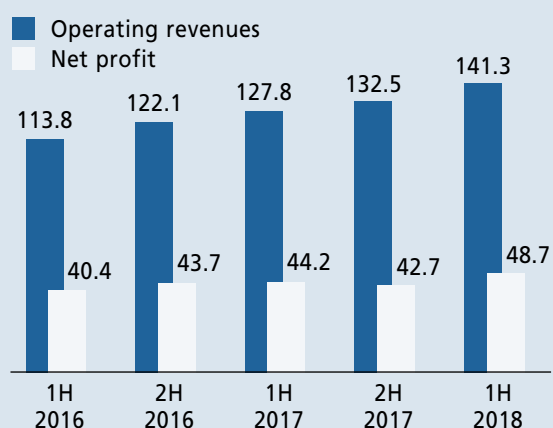
in CHF million

	30.06.2018	31.12.2017	30.06.2017
Assets under Management	22'653	21'775	19'982

Employees

	30.06.2018	31.12.2017	30.06.2017
Full-time equivalents (FTE)	872.7	840.4	793.7

Revenue and profit growth 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.