



LETTER TO SHAREHOLDERS

Comments on VZ Group's
annual results 2016

VZ Holding Ltd
Beethovenstrasse 24
8002 Zurich

VZ GROUP: 2016 FINANCIAL YEAR

Dear Shareholders,

Revenues and profit in line with expectations

Relative to the previous year, our revenues grew 4.2%, specifically from CHF 226.4 million to CHF 235.9 million. Growth accelerated in the 2nd half, reaching +7.1%. The CHF 9.5 million higher revenues in the year under report were offset by additional operating costs amounting to CHF 8.8 million. This reflects, on the one hand, the growing number of clients and services, while on the other hand we continue to invest in future growth opportunities on an ongoing basis. The result corresponds to our mid-2016 outlook. At CHF 84.1 million, net profit was in line with the figure recorded in the previous year.

Above-average equity capital

The balance sheet total has exceeded CHF 2.4 billion, while equity capital increased from CHF 377 million to CHF 420 million year-on-year. The sound equity capital provides an excellent basis for financing future growth. In view of the unchanged profit, the Board of Directors proposes a consistent dividend of CHF 4.20 per share to the Shareholders' Meeting. This proposal is in line with our long-term policy of distributing around 40 % of profits to our shareholders.

Well positioned for the future

We were able to win a large number of clients during the year under report. Trust in our services is reflected in the assets under management, which rose from CHF 16.5 billion to reach CHF 18.4 billion. Demand for our occupational benefit solutions for SMEs was particularly strong. Our insurance pool, which offers inexpensive property and liability insurance policies for private households, has successfully completed its first full financial year. These additional services complete our offer. In our view, the fact that we can provide all financial services from a single source will be a key competitive advantage going forward.

Most important initiatives

In the current year, VZ Depository Bank Germany will be launched, and MeinFinanzportal keeps evolving with the goal of providing our clients additional financial services online. At the same time, we keep strengthening our physical coverage in Switzerland with new branch offices.

Outlook

The economy has continued to consolidate in recent months, and the outlook is essentially intact. However, there is considerable potential for surprises. Negative interest rates reinforce margin pressure in the financial sector, which will also be reflected in our results. All things considered, we expect our revenues to grow slightly stronger in 2017.

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

Zurich, 6 March 2017



Fred Kindle
Chairman of the Board of Directors



Matthias Reinhart
Chief Executive Officer

«FIVE YEARS FROM NOW, EACH INDIVIDUAL CLIENT WILL USE EVEN MORE VZ SERVICES»

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

Mr Reinhart, are you satisfied with VZ Group's results?

Not entirely. Admittedly, the inflow of new clients remains very strong. But last year this was not fully reflected by the financial figures.

Why not?

There are a number of reasons: Firstly, the difficult environment had a negative impact on the financial markets, which – secondly – squeezed income from asset management. And thirdly, competition has sharpened considerably, with margins coming under unprecedented pressure. As a result, our revenues grew by just over 4 % last year.

«The fact that we can win so many clients is crucial for our long-term development»

Most competitors would be happy if they had as many new clients as VZ.

This is true, and it is crucial for the long-term development. With the number of clients, our business is growing, contributing to revenue growth. Examples include the occupational benefit solutions for companies and the insurance pool which we founded in 2015. Both services are developing well.

The insurance pool has completed its first full financial year. What are your experiences so far?

The pool offers motor vehicle, property and liability insurance for private individuals. On average, we are able to offer these policies around 15 % cheaper, a clear benefit for the policyholders. The premiums are so low because we have eliminated the cost of sales and distribution. We do not need a distribution network, because we offer this service only to our existing clients. This makes the pool attractive: Last year, we have issued about 5000 policies.

Your revenues have grown by around 4 %, but total costs are up by 5 %. Is this a trend?

It is rather a correction of the operating margin to a normal level. We had an unusual situation in 2015 that led to an inflated margin. In the future, costs and revenues are likely to develop broadly in step again. The growth of our profit is driven primarily by revenues, not by cost-cutting.

What proportion of the costs has an investment character?

A substantial proportion of the cost growth, probably the largest part. Firstly, we invest a lot in new employees, providing them with the skills necessary to advise clients independently after a certain time. Secondly, a number of our projects constitute investment in the future, above all those associated with digitalisation. And finally, we invest in our future growth in Germany.

VZ is setting up a bank in Germany. How is the process coming along, and what objectives do you pursue?

Our depository bank is being founded. The aim is to integrate the value-added chain backwards, that is to say, to offer our asset management clients depository and transaction services. We are looking to attract new clients with cost advantages and interesting services that stand out from the competition. And finally, Germany is also a stepping stone to gain a foothold in other European countries.

Which countries are you considering?

That is not a priority at the present time. First, we want to successfully launch the banking operations in Germany. We expect to reach this milestone by mid-year.

How is your financial portal evolving?

We continue to develop MeinFinanzportal on an ongoing basis. Already today, clients are able to manage all their financial transactions online. This begins with payment transactions and covers all other banking services, but also encompasses insurance, 2nd and 3rd pillar provisions, mortgages and taxes. At the



same time, they have access to the most attractive financial services. An example: clients can simply drop their policies off at a VZ branch. From then on, MeinFinanzportal will automatically indicate if equal or higher benefits are available for less money.

«Our depository bank will become operational in Germany in the next few months»

A huge advantage is that clients have an up-to-date overview of their entire balances and all cash flows at all times.

Up until now, VZ has grown organically. Are acquisitions something you might consider?

Organic growth with your own business model, your own services and employees is the most sustainable form of development. Acquisitions are useful to gain access to new clients and markets, to buy in technologies or to obtain specialist expertise. I don't necessarily rule something like that out. Up until now, interesting opportunities have simply not arisen. It should not be underestimated that acquisitions always entail great risks.

If you are not planning to make any acquisitions, then why do you need such a high level of equity capital?

Our long-term policy is to distribute approximately 40% of profits as dividends. We are using the remainder to continue building up our equity capital base. This is necessary because our balance sheet is growing steadily. We want to continue to report above-average equity capital parameters, because they give our clients security and distinguish us from the competition.

Your balance sheet is soundly financed, but you hold a lot of cash. Isn't that rather expensive?

It's true, there are costs involved. The largest part is deposited with the SNB, where we pay 0.75% interest. We have never passed these costs on to our clients. For us, there is no alternative to the SNB: We want to be extremely liquid and at the same time take as little risk as possible.

Where will VZ be in five years?

We will have a great many more clients and more employees. In Switzerland, our branch office network will be even denser, and we will probably have established a foothold in Ticino, the Italian speaking part of Switzerland. In Germany, our new depository bank will be established, and we are likely to operate new branch offices. Whether or not further European countries have been added by 2022, I can not yet forecast. What is certain is that our clients will settle a large proportion of their financial transactions online. And I expect each individual client to use even more VZ services than today, supported above all by digital tools.

KEY FIGURES

Income statement

in CHF '000

	2016	2015
Operating revenues	235'865	226'382
Operating expenses	128'660	119'843
Operating profit (EBITDA)	107'205	106'539
Net profit¹	84'124	84'322

1 Including non-controlling interests.

Balance sheets

in CHF '000

	31.12.2016	31.12.2015
Total assets	2'434'598	2'007'704
Equity ¹	420'056	377'172
Net cash ²	389'595	344'118

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

	31.12.2016	31.12.2015
Equity ratio ¹	17.3%	18.8%
Common equity tier 1 capital ratio (CET1)	27.9%	28.7%
Total eligible capital ratio (T1 & T2)	27.9%	28.7%

1 Equity compared to the consolidated balance sheet total.

Assets under Management

in CHF Mio.

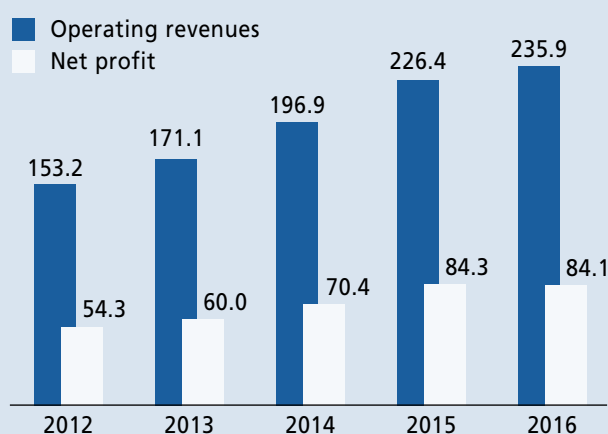
	31.12.2016	31.12.2015
Assets under Management	18'415	16'495

Employees

	31.12.2016	31.12.2015
Number of employees	892	812
Full-time equivalents (FTE)	771.5	702.9

Revenue and profit growth

in CHF million



Where to order and download the annual report 2016

The annual report is printed in German. You are welcome to order it by phone: +41 44 207 27 27 or by email: ir@vzch.ch.

Our press release regarding the annual results as well as the annual report can be downloaded from our website in the PDF format: www.vzch.ch/reports (Investor Relations/financial reports).

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