LETTER TO SHAREHOLDERS

Comments on VZ Group's
half-year results 2019

VZ Holding Ltd
Gotthardstrasse 6
8002 Zurich

VZ GROUP: FIRST HALF YEAR 2019

Dear Shareholders,

Surprisingly early market recovery

In recent months, global economic growth has slowed and the outlook has somewhat deteriorated. In the wake of the price slump in the fourth quarter of 2018, the stock markets experienced a surprisingly strong recovery. Thanks to this turnaround, the major indices are well above their end-year level. Experience shows that our clients react with a considerable time lag to developments on the financial markets.

Revenues up 5.3 percent

As expected, operating revenues grew less strongly than in the first half of 2018, by 5.3 percent to CHF 148.8 million. The slower growth is primarily attributable to the weak financial markets at the end of 2018. In addition, banking revenues continued to decline as interest rates remained negative and the proportion of passive investments and all-in fee models continued to rise. Profit before taxes grew slightly weaker by 4.3 percent from CHF 57.7 million to CHF 60.2 million. Due to a temporary additional tax load, our net profit remained virtually unchanged at CHF 48.7 million.

More services for more clients

The steady influx of new clients is clearly reflected in the consulting fees and confirms that VZ is in strong demand as a partner for all money-related matters. An encouraging aspect are the intensified client relations: ever more clients use VZ services in connection with their retirement planning, the financing of their real estate, their insurances or their banking needs. Net new money as well as the client conversion from financial consulting to our platform services developed similarly to the first half of 2018. In order to meet the growing demand, we are increasing our consulting capacity on an ongoing basis. At the same time, we are making more and more services available digitally.

Solid financing

Since the beginning of the year, our balance sheet total has grown from CHF 3.1 billion to CHF 3.5 billion. This growth reflects the strong inflow of new clients and the overall development of our business. At 14.7 and 25.8 percent respectively, both the equity ratio and the core capital ratio are well above the industry average.

Outlook

Revenues are likely to be higher in the second half of the year, while costs are expected to increase moderately. Overall, we anticipate a slightly higher profit for the 2019 financial year compared to the previous year.

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

Zurich, 14 August 2019

F. Kindle

Fred Kindle
Chairman of the Board of Directors

Matthias Reinhart
Chairman of the Executive Board

«WE HAVE EVER MORE CLIENTS, WHO USE EVER MORE OF OUR SERVICES.»

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

Mr Reinhart, the result is positive, but not brilliant compared to previous years. Can you explain why?

We started the year with moderate expectations – primarily because our most important revenue components were under pressure: the revenues from our management activities depend directly on the value of the assets under management. And this value had fallen to an unusually low level during the severe market turmoil in the final months of last year.

«Because we had anticipated the slowdown in revenues, we were able to curb costs early on.»

Are negative interest rates having an impact on earnings? And what about margins?

Absolutely. A direct impact is evident in the balance sheet business, where interest revenues are virtually non-existent. Indirectly, the negative interest rates are also felt in portfolio management. Margins in this segment continue to shrink – another consequence of the persistently low interest rates. That is why we introduced all-in fees years ago. While such models weigh on our revenues, they are cost-effective and transparent for our clients.

Does the erosion of margins jeopardise your business model?

Not at all. The decisive factors are the influx of new clients and the conversion from consulting to management services: these are the two main drivers of our growth. Each year we are able to attract more clients. And those who are already our clients are using ever more of our services. The aim is to steadily increase this rate of penetration so that the revenue per client remains more or less stable, even if margins continue to shrink.

I have noticed that costs have also risen more slowly, so that profit before taxes developed similarly to the previous year's period. Are you able to keep costs under control?

Yes – even if it's very demanding. Personnel costs are by far the most important component, and they cannot be changed in the short term. However, because we had been anticipating the slowdown in revenues for some time, we curbed recruitment for all back-office positions as early as mid-2018. In addition, we are constantly optimising our processes and becoming ever more efficient. As a result, we were able to keep the development of revenues and costs in balance.

Why have taxes risen so sharply?

Our tax rate was indeed exceptionally high in the first half of the year. The temporary increase is due to additional provisions we created because the cantons Zurich and Zug disagree on intercantonal tax allocation.

The growth of net new money is an important indicator. At CHF 1.3 billion, this key figure is only marginally higher than in the first half of 2018. How do you assess this development?

The modest growth is not due to fewer clients, but to the fact that our clients reacted with great caution to the turbulence on the financial markets, especially in the first quarter. Since then, the markets have recovered, but experience has shown that clients' investments lag 6 to 9 months behind the markets.

If you want to offer ever more services to ever more clients, you will need more staff. What are your plans for the next few years?

The ability to advise and serve an ever increasing number of clients is indeed the key to our continued growth. One thing is certain: we do not compromise on the quality of our consulting services and on the training of our staff. For some time now, we have been successfully training Private Client Consultants to advise our clients on where and how they can benefit from our services. This contributes greatly to the fact that more and more clients are obtaining financial services through us and use our financial portal.

What other developments are in the pipeline?

We are in the process of making our e-banking real-time ready. This is a prerequisite for the introduction of a trading platform with additional features for clients who want to trade actively. Other highlights include a document safe to securely store private and business documents, a budget planner that compares planned expenses with actual cash flows, and a tool that helps users to complete their tax returns.

Will you ever reach an upper limit in the number of new clients?

We gain new clients primarily through our financial consulting services. Many clients plan their retirement and estate with us, others seek our advice on other financial topics. The most important driver of this demand is neither the economy, nor the stock market or the interest rates, but demographics. And the demographic trend is benefiting our business: never before were so many people about to retire as in the next ten years.

«The main driver of demand is neither the economy nor the stock market, but demographics.»

«VZ Finanzportal» is the core element of the group's path to digitalisation. What is the status of this project?

Our financial portal is something like a digital cockpit from which our clients can take care of everything that has to do with banking, insurance and retirement savings. We still have a long way to go, and the development is far from complete. However, usage is constantly increasing, also thanks to intensive information, advice and support. We reached another milestone in February by making the financial portal mobile, which is essential for its acceptance.

What about the plans for Germany and the UK?

In Germany, we introduced a depository bank just over a year ago to complement our portfolio management activities. As expected, the extended range of services allows us to attract additional clients. Meanwhile, we have opened a small organisation in England. The aim there is to get to know the market and to sharpen our entry strategy.

What is your outlook for the second half of the year and for the coming year?

In general, we expect further growth. We have no doubt that we will continue to gain many new clients and that the number of existing clients will continue to rise. Interest rates are likely to remain negative for a long time to come, which is why we are preparing for the further shrinking of margins in the portfolio management business. We expect these two developments to be more or less balanced.

KEY FIGURES

Income statement

in CHF '000

	1H 2019	2H 2018	1H 2018
Operating revenues	148'810	142'854	141'334
Operating expenses	79'519	78'450	78'554
Operating profit (EBIT)	60'385	58'979	57'785
Net profit[1]	**48'723**	**49'546**	**48'700**

1 Including non-controlling interests.

Balance sheets

in CHF '000

	30.06.2019	31.12.2018	30.06.2018
Total assets	**3'470'104**	**3'087'945**	**2'969'931**
Equity[1]	510'966	512'266	467'452
Net cash[2]	371'417	439'543	369'385

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

	30.06.2019	31.12.2018	30.06.2018
Equity ratio[1]	14.7%	16.6%	15.7%
Common equity tier 1 capital ratio (CET 1)	25.8%	30.1%	27.5%
Total eligible capital ratio (T1 & T2)	25.8%	30.1%	27.5%

1 Equity compared to the consolidated balance sheet total.

Assets under Management

in CHF million

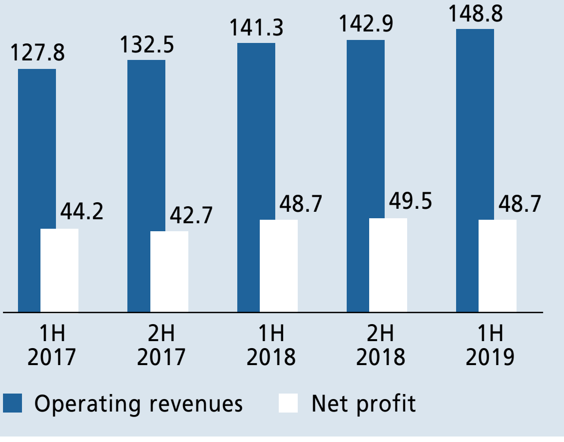
	30.06.2019	31.12.2018	30.06.2018
Assets under Management	25'623	23'056	22'653

Employees

	30.06.2019	31.12.2018	30.06.2018
Full-time equivalents (FTE)	924.2	897.5	872.7

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.