LETTER TO SHAREHOLDERS

Comments on VZ Group's
half-year results 2020

VZ Holding Ltd
Innere Güterstrasse 2
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VZ GROUP: FIRST HALF YEAR 2020

Dear Shareholder

Dramatic environment

The Corona crisis has been defining social, political and economic life for months. In the meantime, most countries have resumed their economic activities. Although governments and central banks were able to prevent even worse things from happening by providing enormous financial resources, the economy slumped dramatically. Stock market prices also plummeted in March, but have since then shown a V-shaped recovery. Our clients have seen their freedom of action severely curtailed, and their focus remains on the crisis and its consequences.

Profit grows disproportionately

Compared with the first half of 2019, operating revenues grew slightly less than expected, namely by 7.4 percent from CHF 148.8 to 159.8 million. Banking income however increased slightly, although we had expected a slight decline. This increase is mainly due to the higher volatility on the stock markets. As expected, profit grew disproportionately by 15.8 percent from CHF 48.7 to 56.4 million, in part due to the lower tax burden.

Higher balance sheet total

Since 1 January, the group's balance sheet total has risen from CHF 4.1 to 4.6 billion. The primary reasons for this substantial growth are the additional inflow of clients and the Swiss National Bank's higher exemption threshold. The core capital ratio now stands at 24.7 percent and is therefore very solid.

Robust demand

We are experiencing robust demand for both financial consulting and platform solutions. While the lockdown resulted in some of the consulting projects being shifted into the future, demand for platform solutions is less affected. In fact, we recorded more than 3000 new clients in net terms for the first time. This is directly reflected in net new money, which rose to CHF 1.64 billion from 1.3 billion in the first half of 2019. These encouraging developments prove that our business model is aligned with client needs. We will therefore continue to increase our consulting capacity even in the current crisis, so that our business can continue to grow.

Outlook

We expect growth to continue in the second half of the year, both in consulting and in platform services. While banking income is likely to continue to decline, we expect management fees to rise slightly, depending on the development on the stock markets. Overall, we expect slightly higher performance figures for the entire 2020 financial year than in the previous year, so that the dividend should be increased again.

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

Zug, 12 August 2020

F. Kindle

Fred Kindle
Chairman of the Board of Directors

Matthias Reinhart
Chairman of the Executive Board

«IN A CRISIS LIKE THIS, IT BECOMES PARTICULARLY EVIDENT JUST HOW ROBUST OUR BUSINESS MODEL IS.»

Adriano Pavone, Head of Media Communications, discusses the results and outlook for VZ Group with Matthias Reinhart, Chief Executive Officer.

Mr Reinhart, despite the Corona crisis, VZ Group achieved a better result than in the previous year. How is that possible?

In a crisis like this, it becomes particularly evident just how robust our business model is. The inflow of clients does not necessarily depend on the economy or the stock market trend, but above all on demographics. In the three to ten years leading up to retirement, comprehensive advice is essential – and the crisis does nothing to change that. Business on our platforms is also characterised by stable client relationships and revenues. Most of our revenues are recurring and are not based on one-off transactions. And management fees are naturally not very volatile – neither in an uptrend nor in a downtrend. That explains why our business can grow even in difficult times like these.

«In the years leading up to retirement, comprehensive advice is essential – and the crisis does not change that.»

Nevertheless – VZ must also feel the crisis …

Of course, individual areas and revenue components are heavily affected. From mid-March to the end of April, for example, there were virtually no meetings with new clients, and in Germany the restrictions are still in force. That made it much more difficult to acquire new clients during this period. When stock market prices plummeted in March, they also pulled down our management fees. On the other hand, clients who manage their securities portfolios themselves traded significantly more, which supported VZ Depository Bank's transaction-related revenues. However, their share of total revenues is small.

Is the situation similar for corporate business?

So far, the Corona crisis has been less noticeable here. While many private individuals have only started to use digital channels since the lockdown, this is business as usual for companies. Consequently, their demand for advice and support has remained virtually unchanged.

Why have so many people switched to VZ services over the past months?

The number of pure consultancy projects has declined, but more clients have opted for one or more of our platform services. This is also due to the fact that in recent years we have developed solutions that prove their worth even in times of crisis – and that is now paying off. Our cross-selling efforts are also bearing fruit, as can be seen from the increasing use of our platform solutions and growing net new money.

How do you assess the performance of your portfolio management mandates?

Our investment philosophy is closely aligned with the market and emphasises the long-term strategy. That has paid off for our clients in the first half of the year: We met the relevant benchmarks and outperformed many competitors. Obviously, that is a good argument to win new clients for our portfolio management mandates.

Does VZ Finanzportal help to support clients in such a demanding situations?

In a crisis such as the current one, investors need to be constantly reminded that it is worthwhile to stick to the investment strategy that has been defined. After all, short-term activism often causes losses. Digital interfaces and electronic means of communication make it a lot easier to stay in close contact with clients and help them react correctly. Since the lockdown, these channels have been used much more frequently.

VZ Group's balance sheet is growing at an exceptional rate. Since 1 January, it has increased by around CHF 500 million to CHF 4.6 billion. How does that affect the shareholders?

About half of the balance sheet growth is attributable to the influx of new clients who are organising their investments with VZ. The other half is due to the increase in the Swiss National Bank's exemption threshold to CHF 1.45 billion.

portant than this one-off effect is the development of profit before tax: at +9.0 percent, it corresponds to the development of operating revenues. In other words, costs and revenues are growing in step.

What is the situation in Germany and the UK?

In Germany, our marketing is working noticeably better than before. But because the Corona measures are much more rigorous there than in Switzerland, this success is not yet reflected in the results. Our activities are also limited in the UK. Nevertheless, our team is working consistently towards market entry. After all, experience shows that a crisis also opens up new opportunities.

What is the impact of the higher threshold on net interest income?

The short-term effect is positive, especially in the first half of 2020: Compared to the same period last year, when the exemption threshold was much lower, interest income has doubled. Currently, about 33 percent of our assets are invested with the SNB, another 45 percent in prime Swiss residential mortgages and the rest in short-term bonds and loans to Swiss banks and public-sector entities. Thanks to this structure, negative interest payments have been virtually eliminated.

«The performance is a good argument to win new clients for our portfolio management mandates.»

Are impairments to be expected because of Corona?

No, nothing indicates that. Unlike most banks, we do not grant operating loans to companies, and we attach great importance to the rating of our investments. That costs margin, but it adds security for our clients and shareholders.

Profit has even grown disproportionately in these difficult times. How can that be?

In the first half of 2019, the tax rate was at 19 percent. Thanks to the corporate tax reform, it came down to 14 percent in the first half of 2020, and this rate should apply for the entire year. More im-

What else is coming up?

One of our most important projects is the new CRM, which will bring us a big step forward in consulting and client development. Again, several new features will be added to our financial portal. Already now, users can evaluate properties on their own, and soon they will be able to upload insurance policies on their smartphone in order to have them managed. Documents are securely stored in the new safe provided by the financial portal. And then, we are also setting up a trading platform that will be at least as user-friendly as those of our competitors, yet significantly cheaper.

And how do you assess developments in the second half of the year and in the coming year?

We expect revenues and profits in the second half of the year to grow at a similar rate as in the first half. That means solid growth for the entire 2020 financial year. And we see no reason why this development should end in 2021 either – provided that the economic downturn will not be much sharper than is currently foreseeable.

KEY FIGURES

Income statement

in CHF '000

	1H 2020	2H 2019	1H 2019
Operating revenues	159'836	152'908	148'810
Operating expenses	85'176	79'821	79'519
Operating profit (EBIT)	65'837	64'365	60'385
Net profit	**56'434**	**53'582**	**48'723**

Balance sheets

in CHF '000

	30.06.2020	31.12.2019	30.06.2019
Total assets	**4'591'066**	**4'056'231**	**3'470'104**
Equity	560'924	549'774	510'966
Net cash	384'752	432'380	371'417

Equity key figures

	30.06.2020	31.12.2019	30.06.2019
Equity ratio	12.2%	13.6%	14.7%
Common equity tier 1 capital ratio (CET 1)	24.7%	27.7%	25.8%
Total eligible capital ratio (T1 & T2)	24.7%	27.7%	25.8%

Assets under Management

in CHF million

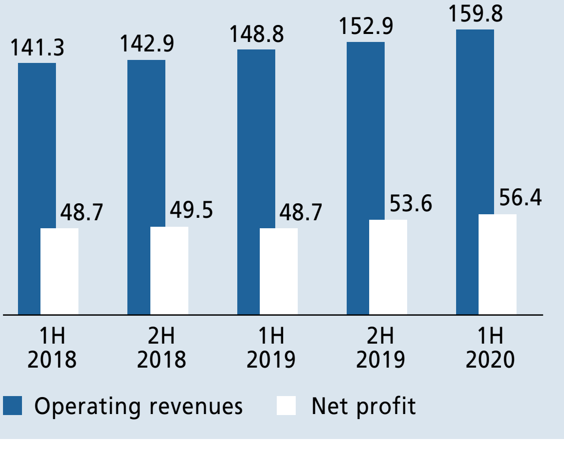
	30.06.2020	31.12.2019	30.06.2019
Assets under Management	28'585	27'627	25'623

Employees

	30.06.2020	31.12.2019	30.06.2019
Full-time equivalents (FTE)	985.1	944.8	924.2

Revenue and profit growth

in CHF million



Alternative Performance Measures (APM)

To measure our performance, we use alternative performance measures that are not defined under International Financial Reporting Standards (IFRS). Details can be found on page 25 of the half-year report 2020.

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.