Risk management

VZ Group's good reputation among clients, investors, lenders, public authorities, business partners and the public is its most valuable asset. Effective risk management makes a significant contribution towards protecting this reputation. For this reason, the correct assessment and monitoring of all key risks is a decisive factor when it comes to the company's sustained success. Risk taking is inevitable in all business activities, and financial services, which are active in asset and liability management, are exposed to particularly high risks. VZ Group avoids business areas with an unfavourable risk/return ratio. It only operates in business areas for which it has sufficient human and technical resources to manage the associated risks.

Organisation of risk management

Board of Directors

VZ Holding Ltd's Board of Directors is responsible for the overall management, supervision and control of risk management. It sets out the general guidelines for the entire group, approves the framework for institution-wide risk management, including the risk policy, risk tolerances and limits, and issues the organisational and business regulations. These principles are reviewed and if necessary updated in the event of changes to legal and regulatory requirements or to general framework conditions. For its own support and relief, the Board of Directors has created the Risk, Sustainability & Audit Committee that consists of at least two independent, qualified members of the Board of Directors and regularly reports on its activities to the entire board.

Organisation of risk management

Executive Board

The Executive Board of VZ Group is responsible for implementing the risk provisions stated by the Board of Directors and for managing and continuously monitoring incoming risks. Its most important goals are to uphold the long-term interests of VZ Group and to maintain a balanced risk/return ratio in its business activities. Within the framework of directives and regulations, VZ Group's management specifies the identification, measurement, monitoring and reporting of risks for all significant risk categories.

Risk Office and Legal & Compliance

The Risk Office is responsible for implementing risk control by independently checking and monitoring all risks assumed. The Legal & Compliance department is responsible for legal and regulatory risks. Both functions are subordinate to the Executive Board, but provide independent reports to the Risk, Sustainability & Audit Committee. The Risk Office compiles a semi-annual risk report and Legal & Compliance an annual activity report for the attention of the Risk, Sustainability & Audit Committee.

For banking and bank-related services VZ Group defines the following risk categories:
- Default/credit risk
- Market risk (including interest rate risks)
- Liquidity and refinancing risk

For insurance services:
- Risks from insurance contracts

Plus generally applicable risk categories:
- Operational risk
- Technology and cyber risks
- Regulatory and legal risk
- Reputational risk

Risks are assessed on the basis of their probability of occurrence and their financial impact. Based on this analysis, a decision is made as to whether the identified risks should be avoided, transferred, minimised or assumed. Risks assumed by the company itself are consistently monitored.

The framework for institution-wide risk management defines the principles and objectives as well as the global framework of risk management in VZ Group. It is part of the internal control system and serves as the central guideline and basis for all other directives and regulations in the area of risk management. The Risk and Audit Committee reviews the concept annually.

The framework contains key principles such as:
- Clear responsibilities and competencies
- Matching of risk profile and risk capacity
- Independent control functions and adequate human and technical resources
- Adequate internal control systems
- Transparency regarding the risks taken

Quantifiable risks are limited by the risk tolerance and risk limits. Compliance with these limits is monitored as part of the regular risk control process. There have been no significant changes to the Group's risk management objectives, policies and processes or risk assessment methods compared to the previous reporting period.

The risks resulting from VZ VermögensZentrum Bank Ltd’s business are not material in relation to VZ Group’s overall risks; in particular those of VZ Depository Bank Ltd, Zug. Therefore, the assessment of the bank risks does not differentiate between the two countries, and the risks are summarised as VZ banks risks. Wherever a differentiation is appropriate, it is specified accordingly.

Default, market, liquidity and refinancing risks

The default, credit, market, liquidity and refinancing risks of the VZ Group largely result from the interest rate differential business of VZ banks. On the asset side of the balance sheet these include receivables from banks, public bodies, reinsurers and clients as well as its financial assets. On the liabilities side, such risks arise from liabilities to banks and clients as well as from long-term financial liabilities.

The following sections describe these risks and the internal processes used to measure, monitor and control them.

Default and credit risk

Default/credit risks reflect losses that may arise if a counterparty fails to service or repay loans as agreed. Counterparties are, for example, banks, public bodies, reinsurers, companies and clients. The maximum default risk generally corresponds to the carrying amounts reported. The maximum default risk corresponds in principle to the reported carrying amounts of the receivables.

The default risks relevant to VZ Group's banking business arise primarily from business with professional counterparties, in particular with other banks, public-law entities, reinsurers as well as from bonds and mortgage loans with good credit ratings. VZ Group does not engage in commercial lending business. The expected credit losses at the balance sheet date were determined using the expected credit loss model (see pages 76 to 78).

The relevant default risk in VZ Group's insurance business consists of the non-fulfilment of reinsurance contracts by the reinsurer.

Impact of the economy

In order to estimate the expected credit losses as at 31 December 2023, the impact of the economic development on receivables from clients and counterparties of financial assets was analysed. In the model applied to calculate the expected credit losses, the economic situation based on the economic forecasts of the Federal Expert Group for the years 2023 and 2024 was taken into account. No significantly increased default risks are expected, neither for client receivables nor for VZ Group's financial assets. All calculations for expected credit defaults under the general approach are therefore based, unchanged from the previous year, on a period of 12 months, which corresponds to stage 1. Therefore, a transfer of financial instruments from stage 1 to stage 2 or 3 was not necessary. The assessment of the economic trend on the valuation of mortgage loans is based on an index for the development of residential property prices. As at 31 December 2023, there were no indications of an increase in expected credit losses.

Mortgages

Mortgage loans are the most substantial item in VZ Group's balance sheet. They are spread over a large number of mortgage borrowers and secured by mortgages or, to a lesser extent, by securities. As a result, the risk of default is very low and there have been no defaults to date. For credit losses expected, see page 101. As part of the growth in total assets, mortgage loans were further increased in the 2023 financial year in order to ensure a well-diversified balance sheet structure.

Lombard loans

The lombard loans reported in the balance sheet are secured by collaterals or credit balances, so that the default risk is low. The expected credit losses are listed on page 101.

Bonds and loans to banks and public-law corporations

The VZ Group's loans to banks and public-law corporations as well as investments in bonds entail default risks. The counterparty risk for VZ Group's loans to banks is at a similar level to the previous year.

Rating table[1] financial instruments and insurance contract receivables

CHF '000

	State guarantee[2]	AAA	AA	A	BBB	No rating	Total
Cash and cash equivalents							
Sight deposits	1'336'884	19'298	20'338	41'623		1'577	1'419'720
Short term investments							
Time deposits	124'254		7'445				131'699
Mortgage pre-financing						889	889
Lombard credits						126'355	126'355
Marketable securities at fair value							
Marketable securities at fair value						101	101
Derivative financial instruments	12'185			6		30	12'221
Trade receivables							
Receivables from clients						4'555	4'555
Insurance contract receivables						997	997
Other receivables and current assets						25'558	25'558
Financial assets							
Time deposits	362'742						362'742
Mortgages						3'707'934	3'707'934
Bonds	183'610	67'213	114'979	12'422			378'224
Other financial assets					20'014	56'044	76'058
Insurance contract receivables				10'083			10'083
Total as at 31.12.2023	**2'019'675**	**86'511**	**142'762**	**64'134**	**20'014**	**3'924'040**	**6'257'136**
Total as at 31.12.2022	**1'783'832**	**88'949**	**162'201**	**68'902**	**6'340**	**3'561'086**	**5'671'310**

1 The relevant ratings are assigned in accordance with the rules of the Basel Committee on Banking Supervision.
2 Financial instruments with state guarantee comprise counterparties with implicit or explicit government guarantee such as the Swiss National Bank, Cantonal banks, Swiss public bodies as well as Deutsche Bundesbank.

Off-balance sheet contingencies and commitments

CHF '000

	Mortgage collaterals	Other collaterals	Without collaterals	Total
Contingencies		1'993		1'993
Irrevocable residential mortgages granted, promised payments, ÖRK, banks	13'717	9'600	84'201	107'518
Payment obligation regarding depositor protection measures			25'553	25'553
Total unconditional commitments/ payment obligations	**13'717**	**11'593**	**109'754**	**135'064**
Additional funding obligation			1'910	1'910
Total as at 31.12.2023	**13'717**	**11'593**	**111'664**	**136'974**
Total as at 31.12.2022	**29'872**	**11'715**	**19'331**	**60'918**

Domestic and foreign financial instruments and insurance contract receivables

CHF '000

	Domestic	Foreign countries	Total
Cash and cash equivalents			
Sight deposits	1'367'855	51'865	1'419'720
Short term investments			
Time deposits	131'699		131'699
Mortgage pre-financing	889		889
Lombard credits	126'355		126'355
Marketable securities at fair value			
Marketable securities at fair value	82	19	101
Derivative financial instruments	12'195	26	12'221
Trade receivables			
Receivables from clients	4'061	494	4'555
Insurance contract receivables	997		997
Other receivables and current assets	24'188	1'370	25'558
Financial assets			
Time deposits	362'742		362'742
Mortgages	3'707'934		3'707'934
Bonds	264'461	113'763	378'224
Other financial assets	52'804	23'254	76'058
Insurance contract receivables	5'042	5'041	10'083
Total as at 31.12.2023	**6'061'304**	**195'832**	**6'257'136**
Total as at 31.12.2022	**5'474'374**	**196'936**	**5'671'310**

Loans to clients (mortgages and lombard loans)

CHF ’000

	Mortgage collaterals	Other collaterals	Without collaterals	Total
Lombard loans		168'087	11	168'098
Mortgages	3'693'609	14'325		3'707'934
Pre-financing	889			889
Total loans as at 31.12.2023	**3'694'498**	**182'412**	**11**	**3'876'921**
Total loans as at 31.12.2022	**3’373’016**	**155’098**	**0**	**3’528’114**

In order to limit these credit risks, strict creditworthiness criteria apply to loans to banks and public-sector entities as well as to investments in bonds. As a matter of principle, only loans to borrowers with high credit standing and an international or national rating are approved.

The creditworthiness of Swiss banks is somewhat easier to assess and monitor than the creditworthiness of foreign banks. Therefore, loans to Swiss banks without a rating are permitted in exceptional cases. Loans to public-sector entities are restricted to Switzerland.

Investments in bonds focus on first-class and highly liquid securities from debtors with excellent credit ratings, which are listed as «High Quality Liquid Assets 1 and 2» at the time of purchase.

In addition, the Board of Directors limits lending to individual counterparties by setting limits per counterparty which also include lending by other VZ companies. Country limits ensure that regional cluster risks are capped. These measures comply with the provisions of banking law on risk distribution with regard to concentration risks. The expected credit losses are listed on page 101.

Derivative financial instruments

Additional counterparty risks arise from currency and interest rate derivatives: if the counterparty to such transactions defaults, losses may be incurred. These default risks are greatly reduced by margin accounts.

Other default risks

Other default risks arise in connection with receivables from clients. These are mainly short-term account overdrafts with low amounts as well as sureties or guarantees which are issued against account or securities cover. These positions are monitored on an ongoing basis. The Risk Office regularly monitors compliance with the credit criteria and limits. It immediately notifies the Executive Board and Board of Directors of violations and proposes appropriate measures for reducing the risk.

Reinsurance

In order to reduce the default risk for reinsurance receivables, VZ Group's two insurance companies' reinsurance programmes are spread across several reinsurers. Only reinsurers with a rating of at least A are considered as contractual partners.

Development of expected credit losses in accordance with IFRS 9

CHF '000

	Impairment as at 1.1.2023	Measurement effect in the income statement	Impairment as at 31.12.2023
Assets			
Cash and cash equivalents (A)	(9)	1	(8)
Short-term investments (A)	(10)	2	(8)
Trade receivables (V)[1]	(13)	(7)	(20)
Other current assets (V)	(3)	(3)	(6)
Financial assets (A)[2]	(91)	(2)	(93)
Total	**(126)**	**(9)**	**(135)**

	Impairment as at 1.1.2022	Measurement effect in the income statement	Impairment as at 31.12.2022
Assets			
Cash and cash equivalents (A)	(6)	(3)	(9)
Short-term investments (A)	(9)	(1)	(10)
Trade receivables (V)[1]	(12)	(1)	(13)
Other current assets (V)	(4)	1	(3)
Financial assets (A)[2]	(71)	(20)	(91)
Total	**(102)**	**(24)**	**(126)**

(A) = calculation according to the general approach; (V) = calculation according to the simplified approach

1 Including impairments on insurance contract receivables of TCHF 0.4 and from reinsurance contracts of TCHF 0.0
2 Including impairments on reinsurance contract receivables of TCHF 5

Market risks

Market price and liquidity risk

Market risks refer to the losses incurred due to adverse changes in market variables such as interest rates, equity prices, exchange rates, precious metal or commodity prices. Price risks reflect the price fluctuations of tradable assets or derivative financial instruments. Tradable assets and derivative financial instruments that are not traded on a liquid market are additionally exposed to a market liquidity risk. The VZ banks do not engage in proprietary trading. In exceptional cases, it is possible that residual positions are held temporarily in connection with the settlement and allocation of securities due to client transactions. There are price risks on the derivative financial instruments held for hedging purposes, which, however, are largely compensated by the opposite development of the hedged position in the case of an effective hedge. In event of market shifts of +/–10 % price risks on securities measured at fair value impact total equity by +/– TCHF 1232 (2022: +/– TCHF 134).

The financial assets reported primarily comprise mortgage loans and bonds. They are only exposed to low market price and liquidity risks because they are held to maturity and valued at amortised cost.

Interest rate risk

Interest rates risks arise in the event of mismatches in the interest readjust dates of assets and liabilities. This primarily affects interest-bearing assets of VZ banks with longer maturities (e.g. loans or bonds) that are refinanced with short-term liabilities (e.g. client deposits). If in this case the short-term interest rates rise, the margin will be lower due to the different dates.

VZ banks' business model entails the interest rate risks customary in banking. On the liabilities side, interest rates on client deposits can be adjusted to market developments at any time. Significant parts of the assets are invested on demand or with residual maturities of up to three months. The average fixed-interest period for residential mortgages is around 0.7 years (2022: 0.7 years), and around 5.2 years for bonds (2022: 5.9 years). VZ Group uses derivative financial instruments (interest rate swaps and interest rate caps) to manage interest rate risk.

VZ Depository Bank Ltd, Zug, participates in mortgage bond auctions of the Swiss mortgage bond bank (Pfandbriefbank schweizerischer Hypothekarinstitute) for the purpose of refinancing. As at the balance sheet date of 31 December 2023, the bank held loans from central mortgage institutions in the amount of CHF 417.4 million (31.12.2022: CHF 352.4 million) with an average term of 5.1 years (2022: 5.0 years). Interest rate risks of loans from central mortgage institutions have been hedged using hedge accounting. In order to reduce fluctuations in future interest income from money market mortgages, part of the future interest income has been hedged with interest rate caps. The scope and effectiveness of these hedges are shown on page 162.

Interest rate risks related to equity

CHF Mio.

	31.12.2023	31.12.2022
Parallel shift of the interest rate curve		
by +1,5%	(32,4)	(20,5)
by –1,5%	25,1	20,4

Currency risks

Currency risks refer to losses that can be incurred due to exchange rate fluctuations.

VZ Group does not have any significant foreign exchange holdings and therefore hardly bears any currency risks. Foreign currency holdings can be acquired from earnings in daily operations. For example, such earnings at VZ banks are attributable to the spread on foreign exchange transactions, interest payments and transaction fees in foreign currencies. The holdings are continuously monitored and converted to the functional currency. Foreign exchange transactions for clients are normally traded through. To optimise revenues short-term foreign exchange contracts can be closed. For this reason foreign currency holdings are exchanged in the functional currency of VZ banks and hedged by forward foreign exchange contracts so that no currency risks arise.

Entire balance sheet: foreign exchange table

CHF '000

	CHF	EUR	USD	Others	Total
Cash and cash equivalents					
Sight deposits	1'347'140	46'887	13'449	12'244	1'419'720
Short term investments					
Time deposits	114'995	7'445	9'259		131'699
Mortgage pre-financing	889				889
Lombard credits	124'918	1'437			126'355
Marketable securities at fair value					
Marketable securities at fair value	83	18			101
Derivative financial instruments	12'194	27			12'221
Trade receivables					
Receivables from clients	4'062	68		425	4'555
Insurance contract receivables	997				997
Other receivables	13'302	1'428		2	14'732
Accrued income and deferred expenses	75'042	3'660		716	79'418
Other current assets	10'784	35		7	10'826
Financial assets					
Time deposits	362'742				362'742
Mortgages	3'707'934				3'707'934
Bonds	359'415	18'809			378'224
Other financial assets	71'256	209		4'593	76'058
Insurance contract receivables	10'083				10'083
Investments in associates	418			2	420
Property and equipment	147'351	4'455		987	152'793
Goodwill and other intangible assets	16'906	412		23'200	40'518
Deferred tax assets	3'800	1'239		384	5'423
Trade payables	(1'683)	(42)		(154)	(1'879)
Other current liabilities	(57'010)	(2'364)		(353)	(59'727)
Due to banks	(44'409)	(233)	(548)	(3'678)	(48'868)
Due to customers	(4'585'631)	(144'996)	(89'449)	(15'409)	(4'835'485)
Income tax payables	(34'053)	(5)		(561)	(34'619)
Provisions	(1'383)				(1'383)
Accrued expenses and deferred income	(51'816)	(1'089)		(509)	(53'414)
Long-term debts					
Medium-term notes	(148)				(148)
Loans from central mortgage institutions	(417'350)				(417'350)
Time deposits from customers	(28'280)				(28'280)
Long-term leasing liabilities	(47'694)	(3'546)		(620)	(51'860)
Other non-current liabilities					
Residual purchase obligations from acquisitions				(23'882)	(23'882)
Insurance contract liabilities	(34'763)				(34'763)
Other non-current liabilities	(14'816)	(186)			(15'002)
Deferred tax liabilities	(728)			(2'203)	(2'931)
Total as at 31.12.2023	**1'064'547**	**(66'332)**	**(67'289)**	**(4'809)**	**926'117**
Foreign exchange forward contracts		82'530	67'563	12'129	162'221
Total as at 31.12.2023 (hedged)	**1'064'582**	**16'198**	**274**	**7'320**	**1'088'338**
Total as at 31.12.2022 (hedged)	**744'163**	**16'064**	**400**	**10'437**	**771'064**

The currency risk from net investments in foreign companies within VZ Group is not hedged.

The following table shows the currency risks of financial instruments and other balance sheet items with their impact on the equity:

CHF ’000

Currency	Change in value	Impact on equity 2023	2022
EUR	+/–25%	+/–4’087	+/–4’015
USD	+/–25%	+/–68	+/–100
GBP	+/–25%	+/–1’827	+/–2’474
Other	+/–25%	+/–3	+/–135

Liquidity and refinancing risks

Liquidity and refinancing risks arise when ongoing obligations can no longer be fulfilled or assets such as loans can no longer be refinanced at a reasonable price. The overriding objective of VZ Group’s liquidity and refinancing management is to have sufficient liquidity available anytime. VZ Group’s liquidity management is based on FINMA regulations, and it also applies its own models.

Responsibility and monitoring

The Board of Directors is responsible for the overall supervision of the liquidity and refinancing risks and issues risk tolerances and limits annually. The group’s management ensures compliance with risk tolerances and limits and may further restrict them. The Asset Liability Committee (ALCO), which reports directly to the Group Executive Board, has been established to support the management of risks. The Risk Office monitors all specified risk tolerances and limits as well as regulatory requirements. Liquidity and refinancing management is integrated into the group-wide risk management process.

Execution

Group-wide liquidity and refinancing management is carried out by the Treasury of VZ Depository Bank Ltd, Zug, which reports directly to ALCO and the Executive Board. The reporting components include the short-term liquidity ratio (Liquidity Coverage Ratio, LCR) and the structural liquidity ratio (Net Stable Funding Ratio, NSFR). The Treasury of VZ Depository Bank Ltd, Zug, is primarily responsible for investing the Group’s liquid funds.

Risik mitigation

To limit its risks, VZ Group plans its liquidity over several years and monitors a number of early warning indicators tailored to its business model. The group companies that have a significant impact on liquidity simulate a liquidity stress scenario every month. In addition, VZ Group maintain a sufficient liquidity reserve on a sustainable basis. A contingency plan is part of the group-wide risk management and is regularly reviewed for effectiveness.

Maturity table for financial instruments and receivables/payables from insurance contracts as at 31.12.2023

CHF '000

	Demand	0 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
Cash and cash equivalents						
Sight deposits	1'406'944		12'776			1'419'720
Short term investments						
Time deposits		46'254	85'445			131'699
Mortgage pre-financing		889				889
Lombard credits		27'478	98'877			126'355
Marketable securities at fair value						
Marketable securities at fair value	101					101
Derivative financial instruments	12'221					12'221
Trade receivables		4'555				4'555
Insurance contract receivables		997				997
Other receivables and current assets		25'558				25'558
Financial assets						
Time deposits				121'492	241'250	362'742
Mortgages		112'846	447'386	2'908'970	238'732	3'707'934
Bonds		12'018	47'082	140'260	178'864	378'224
Other financial assets		29'957	42	40'818	5'241	76'058
Receivables from insurance contracts				4'507	5'576	10'083
Due to banks	(45'653)	(3'215)				(48'868)
Due to customers	(4'050'372)	(528'885)	(256'228)			(4'835'485)
Long-term debts						
Medium-term notes				(124)	(24)	(148)
Loans from mortgage institutions		(7'970)	(21'730)	(188'137)	(199'513)	(417'350)
Time deposits from customers				(27'980)	(300)	(28'280)
Long-term leasing liabilities				(29'417)	(22'443)	(51'860)
Other non-current liabilities						
Residual purchase obligations from acquisitions				(23'882)		(23'882)
Liabilities from insurance contracts				(19'023)	(15'740)	(34'763)
Interest payments		(3'591)	(5'700)	(11'424)	(9'364)	(30'079)
Total as at 31.12.2023	**(2'676'759)**	**(283'109)**	**395'174**	**2'916'060**	**422'279**	**786'421**

Maturity table for financial instruments and receivables/payables from insurance contracts as at 31.12.2022

CHF '000

	Demand	0 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total[1]
Cash and cash equivalents						
Sight deposits	1'243'983					1'243'983
Fixed-term deposits		46'251				46'251
Short term investments						
Time deposits		27'625	52'813			80'438
Mortgage pre-financing		1'149				1'149
Lombard credits		25'238	65'660			90'898
Marketable securities at fair value						
Marketable securities at fair value	102					102
Derivative financial instruments	1'241					1'241
Trade receivables		3'220				3'220
Other receivables		18'191				18'191
Financial assets						
Time deposits				108'487	267'250	375'737
Mortgages		91'476	374'419	2'650'534	270'517	3'386'946
Bonds		3'503	10'249	150'263	201'650	365'665
Other financial assets		3'636		53'592	261	57'489
Due to banks	(11'442)	(119'002)				(130'444)
Due to customers	(4'219'578)	(165'547)	(46'480)			(4'431'605)
Long-term debts						
Medium-term notes		(100)	(35)	(98)	(50)	(283)
Loans from central mortgage institutions		(16'681)	(6'393)	(156'913)	(172'374)	(352'361)
Time deposits from customers				(5'990)		(5'990)
Long-term leasing liabilities				(24'658)	(18'282)	(42'940)
Other non-current liabilities				(26'070)		(26'070)
Interest payments		(817)	(1'664)	(5'696)	(4'244)	(12'421)
Total as at 31.12.2022	**(2'985'694)**	**(81'858)**	**448'569**	**2'743'451**	**544'728**	**669'196**

1 Retrospectively adjusted due to the introduction of IFRS 17 «Insurance Contracts».

Further details and the remaining time to maturity of trade payables and other liabilities can be found on pages 125 and 126.

VZ Group's banks mainly refinance themselves through stable client deposits as well as mortgage bonds, time deposits and medium-term notes. The other group companies' borrowings are insignificant. Overall, VZ Group's refinancing risks are therefore low.

Insurance risks

GVZ Group has two insurance companies operating in the Swiss market. The following table shows the insurance policies offered and the reinsurance contracts..

Company	Insurance services	Reinsurance contracts held
VZ BVG Rück Ltd	Group life insurance within the scope of occupational benefits	Proportional quota shares reinsurance
VZ Insurance-Pool Ltd	Non-life insurance, consisting of: • Motor vehicle • Buildings incl. liability • Household contents • Personal liability	Non-proportional reinsurance

The risks that VZ Group insures in the group life business as part of occupational benefit schemes are limited to the risks of death and disability.

Underwriting risks (also premium and reserve risk) are the risk that the actual cost of claims and benefits may deviate from the expected cost due to chance, error or change. It includes the risk of new claims or premiums and the reserve risk. In order to take these risks into account, additional provisions are recognised in the form of risk adjustments, and risks are transferred to reinsurers. The reinsurance programmes for both insurance companies are designed in a defensive way.

In the area of non-life insurance for private individuals, VZ Group has concluded numerous insurance contracts, and there are no concentration risks. However, there are concentration risks in the area of group life insurance, as VZ Group only works with a few collective foundations.

Concentration risks can also arise in the event of major losses, such as large-scale hailstorms in the area of non-life insurance or high payments as a result of death or long-term disability pensions in the area of life insurance. Defensive reinsurance programmes are in place to reduce concentration risks from individual losses.

Operational risk

Operational risks describe losses caused by external events as well as losses that can occur when business processes, controls, systems or people fail. The management of the respective subsidiary is responsible for managing and controlling operational risks. Risk management ensures that the guidelines are adhered to in all essential work processes. Organisational measures such as automation, internal control and security systems, written guidelines and general damage mitigation techniques additionally limit the operational risks.

Employees are also sensitised towards operational risks. The Risk Office analyses and discusses the risks at regular intervals with the executive boards of the individual subsidiaries. The aim of this is also to identify new risks and define their measurement and control.

Technology and cyber risks

VZ Group's business processes are largely based on information and communication technologies for processing and storing client, personnel and business data, and VZ Group provides its clients with a digital financial portal for managing their finances. This results in technology and cyber risks in terms of confidentiality, data integrity and availability of IT systems.

Technology risk is the risk that technical failures could impair VZ Group's business activities. The secure and stable operation and adaptability of critical IT systems are ensured through appropriate design, maintenance and further development. This ensures that the systems run stably, remain adaptable and are designed to meet requirements. This optimally supports the fulfilment of customer needs, the development of the VZ Group and compliance with legal requirements.

Cyber risks are part of technology risks and include all risks that arise from attacks on the confidentiality, integrity and availability of IT systems as well as possible losses of data or assets. Various risk management tools are implemented to avoid or minimise technology and cyber risks. They are based on national and international standards and forward-looking risk identification. The competence and regular training of the responsible employees, a resilient infrastructure, the promotion of risk awareness and cooperation with specialised partners are further key components of risk minimisation. The measures in the area of technology and cyber risks are embedded in the group-wide risk management system.

Legal and compliance risks

Legal and compliance risks include potential losses that may result from breaches of applicable laws, regulatory requirements, internal and external codes of conduct and contractual obligations. For VZ Group, in addition to its own rules of conduct and regulations, compliance with financial market laws and decrees as well as self-regulatory regulations is particularly relevant in this context.

VZ Group continuously tracks these developments. It has formed the necessary committees and disposes of enough specialists in the Legal & Compliance departement to implement all requirements on time.

Reputational risk

Reputational risk is understood as the risk of events that could cause lasting damage to VZ Group's reputation. Reputational risks are minimised primarily through clear management structures, standardised work processes, detailed client documentation, a code of conduct for all employees, protection of the confidentiality and integrity of internal information and the centralisation of important communication tasks.

Capital management

Capital management has the objective of providing VZ Group and the individual group companies with sufficient capital at all times. To this end, a capital plan for the next three years is drawn up each year.

Banking regulatory disclosures on capital resources[1]

The VZ Group as a financial services provider is subject to supervision by the Swiss Financial Market Supervisory Authority (FINMA).

As a financial services provider in category 4, VZ Group must comply with extended supervisory disclosure requirements in accordance with FINMA Circular 2016/1 Disclosure for Banks.

The following is an excerpt from the regulatory data disclosed in full on pages 171 to 173. The extract is limited to a comparison between the existing eligible own funds and the minimum required own funds as well as the associated key figures.

Thanks to a solid capital structure, VZ Group aims to not only meet the regulatory requirements for own funds, but to finance the targeted growth.

The data on the following page is unaudited information.

Presentation of eligible capital

CHF ’000

	31.12.2023	31.12.2022
Common equity tier 1 capital (net CET1)	**799'216**	**696’792**
Total regulatory capital (net T1)	**799'216**	**696’792**
Total of eligible capital	**799'216**	**696’792**

Presentation of required capital and capital adequacy ratios according to FINMA Circular 2016/1

CHF ’000

	Approach used	Capital adequacy requirements	
		31.12.2023	31.12.2022
Credit risk	Int. standardised approach	164'484	148’437
Non-counterparty-related risk	Int. standardised approach	12'560	11’674
Market risk	De-minimis approach	2'143	2’164
Operational risk	Basis indicator	64'600	57’059
Amounts below the deduction threshold		855	1’982
Total of required capital		**244'642**	**221’316**
Common equity tier 1 capital ratio (CET1)[1]		26,2%	25,2%
Tier 1 capital ratio (T1)[2]		26,2%	25,2%
Total eligible capital ratio (T1 & T2)[3]		26,2%	25,2%

1 CET1 capital adequacy target as at 31.12.2023: 8.5 % (31.12.2022: 8.5%)
2 Tier 1 capital adequacy target as at 31.12.2023: 10.1 % (31.12.2022: 10,1 %)
3 Overall capital adequacy target as at 31.12.2023: 12.3 % (31.12.2022: 12,3 %)

Details can be found on page 171 under «Disclosure obligations under supervisory law»

Information to the leverage ratio

CHF mio.

	31.12.2023	31.12.2022
Ratio of eligible equity and of total exposure		
Tier 1 capital	799	697
Leverage ratio exposure	**6'546**	**5’939**
Leverage ratio	**12,2%**	**11,7%**

Required capital resources for insurance companies

CHF ’000

	31.12.2023	31.12.2022
Regulatory required capital according to Supervisory Ordinance	18'000	18'000
Existing capital in % of the regulatory requirement	**291%**	**240%**