



ANNUAL REPORT 2017
VZ GROUP

KEY FIGURES

Income statement

in CHF '000

	2017	2016	2015	2014	2013
Operating revenues	260'235	235'865	226'382	196'938	171'107
Operating expenses	149'194	128'660	119'843	105'621	94'359
Operating profit (EBITDA)	111'041	107'205	106'539	91'317	76'748
Net profit¹	86'823	84'124	84'322	70'448	60'007

1 Including non-controlling interests.

Balance sheets

in CHF '000

	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Total assets	2'703'475	2'434'598	2'007'704	1'928'847	1'460'931
Equity ¹	459'470	420'056	377'172	318'885	277'966
Net cash ²	366'001	389'595	344'118	292'573	255'121

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.

Funds under management

in CHF million

	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Assets under Management ¹	21'775	18'415	16'495	14'549	12'114

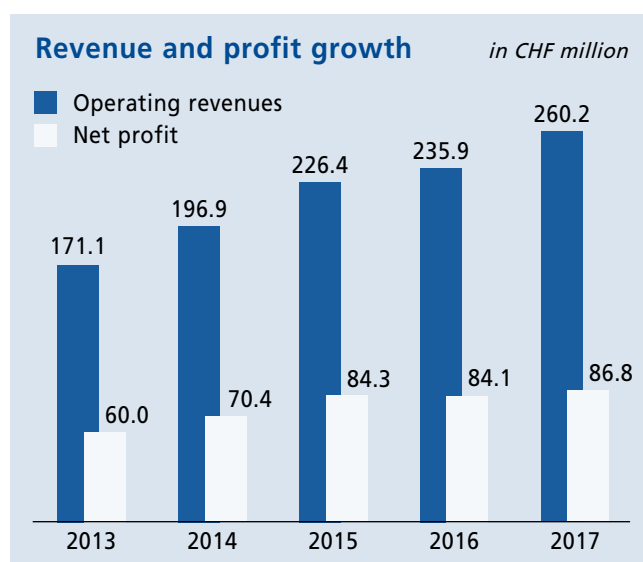
1 Further details are shown on page 121.

Equity key figures

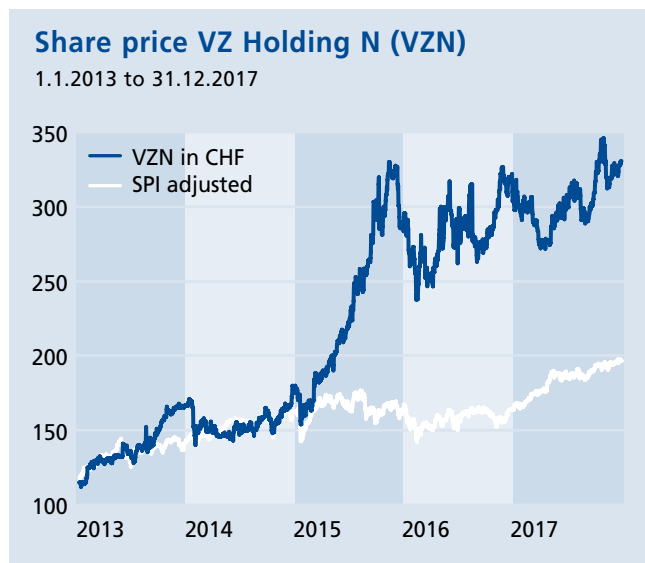
	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Equity ratio ¹	17.0 %	17.3 %	18.8 %	16.5 %	19.0 %
Common equity tier 1 capital ratio (CET1) ²	30.4 %	31.7 %	28.7 %	28.0 %	28.9 %
Total eligible capital ratio (T1 & T2) ²	30.4 %	31.7 %	28.7 %	28.0 %	28.9 %

1 Equity compared to the consolidated balance sheet total.

2 In this annual report VZ Group applies the international standard approach for credit risks (SA-BIZ) for the first time. The previous year's figure has been adjusted accordingly.



INFORMATION FOR SHAREHOLDERS



Ticker symbols/listing

	Bloomberg	Reuters	Telekurs
SIX Swiss Exchange	VZN SW	VZN.S	VZN
ISIN number	CH0028200837		
Securities number	2820083		

Important dates

General meeting 2018	10 April 2018
Ex-Date	12 April 2018
Record-Date	13 April 2018
Dividend payment	16 April 2018
Publication of the half-year report 2018	15 August 2018
Publication of the annual report 2018	1 March 2019
General meeting 2019	9 April 2019

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Share statistics

	2017	2016
Shares issued	8'000'000	8'000'000
Registered shareholders as at 31.12.	1'491	1'498
Highest price in the year	CHF 346.00	CHF 326.50
Lowest price in the year	CHF 271.75	CHF 237.60
Share price as at 31.12.	CHF 330.50	CHF 305.50
Market capitalisation as at 31.12.	CHF 2'644 Mio.	CHF 2'444 Mio.
Dividend per share	4.35 ¹	4.20
Payout ratio	40 %	40 %
Payment date	16.4.2018	12.4.2017

1 Proposal of the Board of Directors to the General Meeting of shareholders of 10.4.2018.

Ownership structure

	31.12.2017	31.12.2016
Matthias Reinhart (direct and indirect)	60.90 %	60.87 %
Members of the Board of Directors	1.42 %	1.40 %
Other members of the Executive Board	2.84 %	2.94 %
Employees ¹	0.38 %	0.40 %
Mawer Investment Management Ltd (reported on 20.4.2017)	3.14 % ²	3.12 %
Capital Group Companies, Inc. (reported on 31.10.2012)	3.00 %	3.00 %
Treasury shares	0.72 %	0.35 %

1 Only the locked-up shares listed in the share register held by VZ employees (including former employees) are shown.

2 Thereof, 0.93 % have been transferred by a third party, including unrestricted voting rights.

Employees

	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Full-time equivalents (FTE)	840.4	771.5	702.9	613.3	586.0

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The photos in this report first appeared in «Wald & Wasser», second volume of a book series on the subject of forest. VZ VermögensZentrum designs and produces these books exclusively as a Christmas gift for its customers.

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VZ GROUP: 2017 FINANCIAL YEAR

Dear Shareholders,

Operating revenues
+10 %

Relative to 2016, our revenues grew 10.3%, specifically from CHF 235.9 million to CHF 260.2 million. As expected, growth levelled off slightly during the second half of the year. Net profit grew less strongly at 3.2% to reach CHF 86.8 million in the year under report. This was due in part to the additional provision of CHF 5.2 million related to uncertainties regarding value added tax, which we reported in November. These additional costs had a one-off impact on net profit.

Margins remain
under pressure ...

Pressure on margins has been high for a number of years. Mandates with all-in fees are becoming increasingly popular in asset management, which leads to lower transaction revenues. Negative interest is an additional burden on revenues. Together, these factors further reduced the margin on assets under management in the year under report.

... while the client
base keeps growing

Trust in our services is directly expressed by the rise in the volume of assets under management. These assets grew from CHF 18.4 billion to reach CHF 21.8 billion, whereby net new money accounted for CHF 2.3 billion. All-in fees make the management of assets predictable and transparent. This is attractive and helps us to gain even more clients. We are confident that the inflow of new clients will offset pressure on margins in the longer term. At the same time, we have recorded more activity on the consultancy side. In particular, the discussion about the financial health of the Swiss pension system has unsettled many clients, increasing their demand for sound advice.

Sound balance sheet
and higher dividend

Relative to the start of the year, the balance sheet total rose 11.0% to CHF 2.7 billion. The equity and core capital ratios are significantly above the industry average at 17.0% and 30.4%, respectively. The Board of Directors proposes a dividend of CHF 4.35 per share (2016: CHF 4.20) to the Shareholders' Meeting, in line with its policy of distributing around 40% of profits to shareholders.

Outlook

The broader client base and higher volumes indicate that revenues and net profit will continue to grow in the current year, in spite of sinking margins – provided that financial markets develop in a stable manner. We are expecting costs to keep rising in step with revenues, despite the fact that we will continue to invest in digitalisation in order to extend our competitive advantage.

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

Zurich, 1 March 2018



Fred Kindle
Chairman of the Board of Directors



Matthias Reinhart
Chief Executive Officer

« THE ADVANTAGE OF OUR ORGANIC GROWTH IS THAT WE DO NOT HAVE TO TAKE ANY MAJOR RISKS. »

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

Mr Reinhart, VZ Group is celebrating its 25th anniversary this year. What has VZ achieved in a quarter of a century?

VZ has successfully positioned itself in the financial service industry. Our unique business model and attractive services for our target clients give us a competitive edge, and we are now an established alternative to traditional banks. Over the first 25 years we have grown from a small start-up into a leading force. And the market is so big that I see a lot of potential for the next 25 years.

« Over 25 years we have grown from a small start-up into a leading force in the market. »

How do you assess the 2017 financial year?

Essentially positive. The strong influx of new clients combined with an upbeat equity market sentiment, which is reflected in the behaviour of our clients, are very encouraging. Challenging factors are the trend towards lower prices throughout the financial sector, and negative interest rates, which affect our results. When it comes to capital expenditure, depreciation and amortisation, our projects to promote digitalisation are noticeable. In overall terms, we continued to make great strides last year, in particular in terms of client numbers and the quantity of services they use. The advantage is that we grow organically and do not have to take any major risks.

Can you explain the fact that you are attracting so many clients, while others are losing clients?

The inflow is indeed remarkable. Our consultancy services focus in particular on the topics of retirement, pension schemes and estates. Here, demographic developments will continue to support demand for many years to come. The ongoing debate about the future of pension schemes is positive for VZ in the sense that many unsettled clients turn to us with their

questions. When it comes to asset management, our expanded and enhanced range of services is paying off. And lastly, more and more clients are discovering the VZ financial portal as their digital cockpit.

Growth slowed in the second half of the year. What is this slowdown due to?

On a half-year basis, revenues actually did grow more slowly, namely by 8.5 % in the second half of the year, compared with 12.3 % in the first. The slowdown is mainly due to the fact that the basis for comparison was higher in the second half of the year. We notified our investors of this base effect six months ago. When it comes to other key performance indicators, growth was actually stronger; in particular the number of asset management clients and the net inflow of new money.

Net new money increased 14.7 %. What is your take on this development?

There has been a shift in sentiment relative to 2015 and 2016. The economic outlook has improved significantly, and the more favourable stockmarket sentiment is reflected in our own figures, including the increase in net new money. For the long term, however, growth in our consultancy capacity is more important than short-term swings and fluctuations.

Revenues and costs were expected to develop in step as usual. What was different in 2017?

Firstly, we set aside an additional 5.2 million Swiss francs in conjunction with disputed liabilities regarding value added tax. Secondly, VZ Depository Bank Germany became operational in July. In 2017, these upfront costs were not offset by any revenues. And thirdly, there was a disproportionately sharp rise in depreciation.

Why this sharp rise in depreciation?

We are investing a great deal in the digitalisation of our services. For this reason, our capital expenditure is higher than in the past. At the same time, we are in the process of upgrading and extending our infrastructure. Therefore, this expenditure will also grow disproportionately in the current year.



What benefits will digitalisation bring for VZ, and what will it do for clients?

We bundle all services in such a way that our clients can manage their entire finances conveniently online. The fact that more clients are using our financial portal helps to increase the number of services they obtain through us. The higher the number of services, the more efficient and cost-effective it becomes for them. From our perspective, this correlation is widening our revenue base, which enables us to offer these services at an even lower price. That is why this goal is at the heart of our digital strategy. In addition, we continuously train specialists who show our clients the benefits of our management services and familiarise them with the digital tools.

«The more services clients obtain through us, the more efficient and cost-effective it becomes for them.»

VZ was an early adopter of rule-based asset management. Has this been successful?

Yes: As early as 2010, we launched the first rule-based mandates with ETF. Since then, it has been confirmed that they work as anticipated. More and more investors value the fact that these mandates are so transparent and reliable. Today, over half of all new clients choose one of these models, and this proportion is likely to continue growing.

What do you do for your corporate clients?

In recent years we have fine-tuned our range of services. SMEs use our insurance management and pension scheme solution in particular. Entrepreneurs plan their succession with us, and implement the planning with our support. It is especially valuable for us that the owners, the managers as well as the employees of these companies have a high affinity to VZ. Their positive experiences contribute to the fact that they are also interested in our services for private individuals. We see substantial growth opportunities here. And we have been making better use of these

opportunities for some time now.

How is the business developing in Germany?

Many things are different in Germany. This is true for the pension system and laws, as well as for client behaviour. Our target segment is similar in size to that in Switzerland, but much more fragmented. Even if our business model cannot be transferred 1:1, we have successfully established ourselves in the market. Growth is likely to accelerate following the launch of the depositary bank: Our low prices give us a competitive advantage, which also helps us to reach new clients.

What goals do you have for the next 25 years?

That's a very long time! A major goal is to stay independent and to remain one of the pioneers in the industry, which create tangible added value for their target clients. More precise forecasts over such a long period of time would be pure speculation. When it comes to the next five years, it can be said with some certainty that our client base will continue to grow, and that we will further extend our coverage with an even denser network of branch offices. In a few months' time, we will open our first branch office in the Italian speaking part of Switzerland, and an additional country market could be added within the next five years. As in the past, we continue to focus on organic growth, in order to keep quality high and risks low.

VZ PRESENTS ITSELF

The first choice for wealth-related issues

In Switzerland, VZ VermögensZentrum has long been the first port of call for independent financial consulting. Each year several thousand clients plan their retirement with us, have their investments reviewed, improve the financing of their real estate, optimise their taxes and insurance policies or settle their estates. VZ Group is present in more than 30 cities in Switzerland and Germany and is listed on the SIX Swiss Exchange.

Independence and expertise

Our clients know that we judge in their interest, because our business model excludes conflicts of interest. We focus on consultancies on behalf of the client. Similar to law firms and corporate consultancies, clients pay for expertise, not for products – namely for the time an expert uses to answer their questions, to solve problems and to identify promising solutions. This work can be documented and settled in a transparent manner.

The most important target groups are individuals and couples aged 50 or over who live in their own homes. Many of those come to us in order to plan their finances for retirement. After the consultancy they have a comprehensive concept as an effective basis for their decisions, together with a detailed plan of action. The result of a consultancy is a tangible added value: for example, a sound financial plan for the coming phase of their lives, an improved balance between investment risks and returns, a lower tax burden or cheaper mortgages and insurance policies. This establishes trust and opens many doors for us: an increasing number of consultancy clients go on to use additional VZ services.

All financial services from a single source

VZ enables private households to manage all their assets efficiently, cost-effectively and securely – from bank accounts and securities, through mortgages and insurance policies to retirement savings and estates. For these services we are remunerated by our clients, not by providers of financial products.

Portfolio management

At VZ, clients can choose to which extent they wish to manage their investments themselves or place their portfolio in professional hands. We offer the right mandate for all needs. Depending upon their individual risk profile and preferences, clients may choose a solution based on fundamental analysis or on intelligent rules. Irrespective of this decision, they benefit from competitive fees and cost-effective financial instruments. These savings directly improve their performance.

Banking services

VZ Depository Bank is a custodian and settles securities and all payment transactions on behalf of its clients. It neither issues any financial products nor sells any third-party financial products. VZ Depository Bank's fees and transaction costs are significantly below the usual market prices, and all kick-backs are passed on to the clients unsolicitedly.

Mortgages	In Switzerland, most mortgage lenders are capital lenders, risk bearers and administrators at the same time. HypothekenZentrum is a lender that brings mortgage borrowers together with institutional investors who wish to invest in prime mortgages. This eliminates any conflicts of interest, for example in respect of maturities. As HypothekenZentrum operates very cost-effectively, clients also benefit from low interest rates.
Occupational benefits	Our foundations enable companies to insure their employees inexpensively, to manage their occupational benefit plans effectively and to invest assets profitably. Many of our clients pay up to 30 % less for equivalent or higher benefits. The VZ Foundations cover the second and third pillars of occupational benefits (Swiss Occupational Pensions Act «BVG», executive pension plans, vested pension benefits and 3a retirement savings).
Insurance	VZ Group's insurance pool offers private individuals identical insurance benefits as the best providers in most key categories, but for significantly lower premiums. This is possible because it pools a large number of risks that are better than average, practically eliminates distribution costs and commissions, and has significantly lower administration overheads.

Prime service online and offline

We want our target customers to be well prepared for their retirement and to make sure they can enjoy the years thereafter without financial worries. To achieve this, we use all our consulting expertise and experience and alleviate the burden of everything that has to do with money. Our financial consultants ensure that they have all the information necessary to make the right decision in each individual question. The fact that we take account of all financial aspects and always keep the overall situation in mind is a great advantage.

VZ Finanzportal	VZ Finanzportal is a cockpit from which our customers conveniently manage their transactions online. They have their investments, mortgages, insurance and taxes under control, know the value of their entire balance sheet and have an overview of all cash flows.
A-la-carte support	Our clients decide how closely they want us to look after them. Even those who handle most of their financial matters online are welcome to get in touch with our experts whenever they may need a professional advice.





CORPORATE GOVERNANCE

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BOARD OF DIRECTORS



From left to right:

Roland Iff, Vice-Chairman, Head Risk & Audit Committee, **Dr. Albrecht Langhart**, Member of the Risk & Audit Committee, **Fred Kindle**, Chairman, Head Compensation Committee, **Roland Ledergerber**, Member of the Compensation Committee, **Olivier de Perregaux**, Member of the Risk & Audit Committee

EXECUTIVE BOARD



Matthias Reinhart
Chief Executive Officer



Giulio Vitarelli
Managing Director VZ VermögensZentrum
(Switzerland)



Thomas Schönbacher
Deputy Managing Director VZ VermögensZentrum
(Switzerland)



Tom Friess
Managing Director VZ VermögensZentrum
(Germany)



Marc Weber
Managing Director VZ Depository Bank



Peter Stocker
Managing Director Asset Management



Lorenz Heim
Managing Director HypothekenZentrum



Urs Feldmann
Managing Director business unit Pension Plans
and Insurance Consulting for corporate clients
as well as People Development & Recruiting



Rafael Pfaffen
Chief Financial Officer

CORPORATE GOVERNANCE

Effective corporate governance ensures fairness and transparency vis-à-vis all stakeholders, in particular vis-à-vis shareholders. VZ Group is committed to protecting the interests of shareholders and to disclosing all relevant information.

VZ Holding Ltd's standards and principles are in accordance with Swiss and international requirements for good corporate governance. VZ Group's Code of Conduct describes the values, objectives and behaviour that serve as a guideline for all employees within the group. This Code of Conduct can be downloaded from www.vzch.com.

Best practice

The information in this section is based upon VZ Holding's articles of association and SIX Swiss Exchange's directives. The information is structured according to the SIX «Corporate Governance Directive» and Economiesuisse's «Swiss Code of Best Practice».

All information on the Board of Directors and VZ Holding Ltd's compensations in this report refers to 31 December 2017.

Regulations

VZ Group is a financial services group. It is subject to the consolidated financial supervision of the Swiss Financial Market Supervisory Authority (FINMA). VZ Depository Bank is licensed to operate as a depository bank and securities trader. VZ InsurancePool is monitored by FINMA as a non-life insurer. The German subsidiary VZ Vermögens-Zentrum GmbH and the VZ Depository Bank Germany Ltd (both in Munich) report to the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) and to the Deutsche Bundesbank. VZ Treuhand GmbH holds an exemption from the German Federal Financial Supervisory Authority for its activities.

Group structure and shareholders

Group structure

VZ Group encompasses the following legally-independent companies:



¹ VZ Holding holds 40 percent of Früh & Partner Vermögensverwaltung Ltd's share capital and 51 percent of the voting rights.

Listed company VZ Holding Ltd (Zurich) is the only listed company within the scope of consolidation. Its entire share capital is listed on SIX Swiss Exchange's International Reporting Standard (securities number 2820083, ISIN CH0028200837). The market capitalisation as at 31 December 2017 amounted to CHF 2644 million.

Non-listed companies The scope of consolidation comprises the following subsidiaries (unless stated otherwise VZ Holding Ltd is the sole shareholder of these companies):

VZ VermögensZentrum Ltd, Zurich

Financial consulting and wealth management for private clients in Switzerland.
Share capital: CHF 2'000'000.

VZ VermögensZentrum GmbH, Munich (Germany)

Financial consulting and wealth management for private clients in Germany.
Registered capital: EUR 3'820'945.

VZ Depository Bank Ltd, Zug

Securities accounts, securities and currency transactions, portfolio advisory and management for private clients and institutional investors; provision and purchasing of mortgage credits; sureties and guarantees for clients who have deposited assets at VZ Depository Bank as collateral for these sureties and guarantees.
Share capital: CHF 45'000'000.

VZ Asset Management Ltd, Zug

Investment research as well as consulting and management mandates from institutional clients.
Share capital: CHF 400'000.

VZ Quant Portfolio Services Ltd, Zug

Consulting services to other financial services providers in asset management, risk management, portfolio management as well as the development of tools for this industry.
Share capital: CHF 100'000.

HypothekenZentrum Ltd, Zurich

Management of mortgages and transfer of mortgages to institutional investors.
Share capital: CHF 250'000.

VZ Insurance Services Ltd, Zurich

Risk management consulting as well as insurance and pension fund management for corporate clients.
Share capital: CHF 100'000.

VZ VersicherungsZentrum Ltd, Zurich

Management of insurance portfolios for private clients.
Share capital: CHF 100'000.

VZ InsurancePool Ltd, Zurich

Property and casualty insurances for individuals in Switzerland.
Share capital: CHF 12'500'000.

VZ Vorsorge Ltd, Zurich

Consulting and management services for as well as management of investment foundations, pension funds and other institutions providing occupational benefit schemes.
Share capital: CHF 100'000.

VZ Corporate Services Ltd, Zurich

IT, marketing, HR, accounting and controlling services for VZ Group companies.
Share capital: CHF 100'000.

VZ Depository Bank Germany Ltd, Munich (Germany)

VZ Services Ltd, Munich, was founded May 2016. On 14 June 2017, the company received the necessary regulatory approvals and was renamed VZ Depository Bank Germany Ltd. Since the operational start in the second half of the year, it has been offering bank services to clients in Germany.
Share capital: EUR 20'000'000

VZ Treuhand GmbH, Munich (Germany)

The unit assumes trustee assets in the area of occupational benefit schemes in order to administrate, secure and finance benefits from entitlements and claims.
Registered capital: EUR 100'000

Claridenhof Ltd, Zurich

In December 2017, VZ Holding Ltd took over Claridenhof Ltd. The company's purpose is the acquisition, holding and sale of real estate. It is not operative and holds one property in Zurich. VZ Group has been renting office space in this building before the take over.
Share capital: CHF 104'000

Subsidiary with a majority of voting rights within the scope of consolidation:

Früh & Partner Vermögensverwaltung Ltd, Zurich

Financial consulting and wealth management for entrepreneurs in Switzerland. VZ Holding Ltd holds 40 % of Früh & Partner Vermögensverwaltung Ltd's share capital and 51 % of the voting rights.
Share capital: CHF 250'000

Minority holdings

VZ Holding Ltd holds a strategic stake of 33 % in Dufour Capital Ltd, Zurich, and takes a seat on Dufour's Board of Directors. Dufour Capital is an asset manager specializing in the development of rule-based investment solutions. The company has a share capital of TCHF 150. Dufour Capital has an advisory mandate from VZ Group.

As per 31 December 2017 no other participation in companies other than stated above were held by VZ Group.

Major shareholders

The Federal Law on Financial Market Infrastructures and the Market Behavior in Securities and Derivatives Trading (Finanzmarktinfrastrukturgesetz) requires that shareholders and holders of rights to acquire or sell shares disclose their holdings if those exceed or fall below certain limits. This is designed to ensure that material changes in ownership and voting rights are transparent for all market participants.

Matthias Reinhart, founder and Chief Executive Officer of VZ Group, holds a majority of 60.90 % of all shares (last disclosure notice in 2012: 60,87 %) both directly and indirectly through Madarex Ltd, a company he controls. In addition to Matthias Reinhart, two institutional investors controlled more than 3 % of the voting rights as of 31 December 2017: Capital Group Companies, Inc. (USA) holds 3,00 %, and Mawer Investment Management Ltd (Canada) 3,14 %. In April 2017, Mawer adjusted their last disclosure notice, informing that their holdings have reached 2,21 % and that they may exercise an additional 0,93 % voting rights at their own discretion for a third party. Therewith, Mawer controls 3,14 % of the voting rights. No further disclosure notices have been received during the year under report. All relevant notifications are published on the website of the SIX Swiss Exchange's disclosure office (www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_de.html).

Shareholders on 31.12.2017

Matthias Reinhart (directly and indirectly)	60.90 %
Members of the Board of Directors ¹	1.42 %
Other members of the Executive Board ¹	2.84 %
VZ employees ²	0.38 %
Mawer Investment Management Ltd (reported on 20.4.2017)	3.14 % ³
Capital Group Companies, Inc. (reported on 31.10.2012)	3.00 %
Treasury shares	0.72 %
Free float/remainder	27.60 %

1 Without related parties.

2 Reported are only those shares of employees (including former employees) which are registered in the share register and subject to a lock-up period. For additional information, please refer to the table on page 21.

3 Thereof, 0.93 % have been transferred by a third party, including unrestricted voting rights.

There are no shareholder pooling agreements.

Cross-shareholdings

No cross-shareholdings exist.

Capital structure

Ordinary share capital

VZ Holding Ltd's nominal share capital amounts to CHF 2 million, divided into 8 million fully paid-up registered shares with a nominal value of CHF 0.25 each. Each registered share entitles its holder to one voting right.

Authorised and conditional capital

There is no authorised capital.

The conditional share capital is limited to CHF 40'000, equal to 0,5 % of the existing share capital. This sum is available to enable the members of the Board of Directors and employees of VZ Group at all levels of seniority to exercise the option rights they have acquired within the framework of the participation plan. For this purpose, VZ Group may issue a maximum of 160'000 fully paid-up registered shares with a nominal value of CHF 0.25 each. The preferential subscription rights of the shareholders are excluded for this conditional capital increase. By the end of 2017, no shares were issued out of the conditional share capital.

Acquisition of the registered shares by exercising option rights and the subsequent transfer of the registered shares is subjected to the transfer restrictions described in the section «Transfer restrictions» on page 21. The conditions for the issuance, including issue price, date of dividend rights, type of contribution and the participation plan are set by the Board of Directors. The shares may be issued at a price below the market price.

Changes in capital

All changes in capital are attributable to share based management benefit programmes and the compensation in shares to the Board of Directors: 80'284 registered shares were bought by VZ Holding Ltd in 2017 (2016: 37'163), and 50'190 registered shares were sold to VZ employees in connection with a share based management benefit programme (2016: 55'355). 925 shares were allocated to the Board of Directors as its compensation for 2017 (2016: 1009). VZ shares held by the company are accounted for in the balance sheet at a value of TCHF 17'276 (2016: TCHF 7371). Further details are shown in the notes to the consolidated financial statements under «Share capital and reserves» (pages 104 and 105). For the year 2015, please refer to the 2015 annual report, page 20 (available online: vzch.com/investors/financial-reports).

Dividend payments

	2017	2016	2015
Dividends in % (annual profit VZ Group)	40%	40%	40%
Dividends in TCHF	34'549 ¹	33'376	33'431
Payment date	16.4.18	12.4.17	19.4.16

¹ The dividend payments are based on a dividend of CHF 4.35 per registered share proposed to the shareholders' meeting of 10 April 2018. No dividend will be paid on treasury shares. Therefore, the actual amount paid out is dependent on the number of treasury shares held by VZ Group on the payment. These shares are not eligible for dividends.

Participation and profit-sharing certificates

There are no participation or profit-sharing certificates.

Restrictions on transferability and nominee registration in the share register

Transfer restrictions

48'336 registered shares are currently subject to lock-up agreements. Only shares related to the management benefit programme or to the Board of Directors' compensation are locked-up. During the year under report 11'078 shares were allocated based on the management benefit programme (2016: 12'977) and 925 shares were allocated to members of the Board of Directors as compensation (2016: 1009).

The vesting period is three years for all shares in the management benefit programme. Up until 2014, all shares were allocated at the end of February. Since 2015, the allocation to the members of the Executive Board and the Board of Directors takes place in April, after their compensation has been approved by the shareholders' meeting. This is why the vesting period for management employees will expire in February 2018 respectively 2019 and 2020, while it will end in April 2018 respectively 2019 and 2020 for members of the Executive Board and the Board of Directors. Detailed information on the management benefit programme can be found in the notes to the consolidated financial statements under «Share-based payments» (page 74) and under «Share-based management benefit programme» (pages 109 and 110).

Locked-up shares as of 31.12.2017

	until 24.2.18 Management		until 12.4.18 EB/BoD		until 24.2.19 Management		until 12.4.19 EB/BoD		until 23.2.20 Management		until 6.4.20 EB/BoD		Total	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Members of the Board of Directors	0	0,00	1'725	0,02	0	0,00	1'009	0,01	0	0,00	925	0,01	3'659	0,05
Members of the Executive Board	254	0,00	6'800	0,09	162	0,00	4'138	0,05	149	0,01	3'033	0,04	14'536	0,18
Management	12'503	0,16	1'065	0,01	8'135	0,10	542	0,01	7'564	0,09	332	0,00	30'141	0,37
Total	12'757	0,16	9'590	0,12	8'297	0,10	5'689	0,07	7'713	0,10	4'290	0,05	48'336	0,60

Share register

The Board of Directors keeps a share register, where the name and address of each holder and usufructuary of registered shares are registered. Entry in the share register is contingent upon proof that the share has been acquired for ownership or for the establishment of a usufruct. Vis-à-vis the company, shareholders or usufructuaries shall be deemed to be only those persons who are recorded in the share register. Upon request, a shareholder's voting rights shall be recorded in the share register, provided the shareholders explicitly acknowledge to have acquired the shares in their own name and for their own account.

Exceptions

Apart from the provisions on nominee registrations, no exceptions to these transfer restrictions shall be granted.

Nominees

The Board of Directors may register persons who hold shares in the name of third parties («nominees») up to 5% of the share capital stated in the Commercial Register as shareholders with voting rights. The Board of Directors may approve the entry of voting

rights exceeding 5 % for nominees who disclose the name, address and number of shares of those persons for whose account they hold 0.5 % or more of the share capital stated in the Commercial Register. This is a discretionary decision. With these nominees the Board of Directors concludes agreements regarding notification requirements, representation of the shares and exercise of the voting rights. If an entry in the share register was based on false information by the shareholder, the company may cancel the entry after a hearing with the nominee. The shareholder must be notified immediately after the cancellation. Each registered share entitles its holder to one vote at the shareholders' meetings. Changes to the statutory provisions and restrictions on the transferability of shares are subject to the approval of two thirds of the represented votes and the absolute majority of the represented nominal share values at the shareholders' meeting. The articles of association of VZ Holding Ltd do not stipulate any statutory privileges.

Convertible bonds and options

The share based management benefit programme provides options for VZ Group's senior employees. These options have a maturity of six years, and may be redeemed only in exchange for shares (subscription ratio 1:1). In addition, the options are blocked for a period of three years and shall become worthless and lapse if their owners leave VZ Group within this period. As at 31 December 2017 VZ Holding Ltd held 57'756 VZ shares (31.12.2016: 27'662). These shares are designated for share allotments and options exercised by employees. By the end 2017 no shares were issued from the conditional capital.

During the year under report 22'156 options were granted under this programme (2016: 25'954), whereof 20'934 were still outstanding on 31.12.2017. If these options are exercised, 20'934 registered shares will be transferred. During the year under report a total of 38'179 options were exercised (2016: 41'369). Options outstanding under all option plans totalled 116'390 as at 31 December 2017 (31.12.2016: 136'317). If all these options will be exercised, 116'390 options will be transferred.

Detailed information on the benefit programme including the exercise prices per option plan is disclosed in the notes to the consolidated financial statements (page 74, section «Share-based payments» and page 109 to 110, section «Share-based management benefit programme»).

No convertible bonds were outstanding during the year under report.

Board of Directors

Authorities

VZ Holding Ltd's Board of Directors is responsible for the supervision and control of the Group's Executive Board. It appoints and monitors the members of the Group Executive Board and periodically revises and signs off the Group's strategy. The Board of Directors acts as a collective body, issues the necessary directives and guidelines, establishes the Group's organisation and risk policy and is briefed about the course of business on a regular basis. The Board of Directors has the necessary leadership skills, expertise and experience in the banking and financial sector. In addition to the main business areas, all areas including finance and accounting as well as risk management are competently represented.

Members of the Board of Directors

Name, Year of birth, Nationality	Function	Elected (for the first time/until)	Professional background, other activities, vested interests and education
Fred Kindle, born 1959, CH	Chairman, Head of Compensation Committee	2002 to 2018	<p>Since the end of 2015, Fred Kindle has been a consultant for Clayton, Dubilier & Rice, the investment firm based in New York and London, where he had been a partner from 2008 through 2015.</p> <p>Before joining CD&R, Mr Kindle managed ABB Group worldwide (2004 to 2008). Prior to this, he served as CEO of Sulzer Ltd (2001 to 2004) and Sulzer Industries, Switzerland (1999 to 2001). From 1992 to 1998 he held a number of senior positions within Sulzer Group.</p> <p>He had previously worked with McKinsey, New York and Zurich, and Hilty Ltd, Liechtenstein, for several years. He graduated in engineering at the Swiss Federal Institute of Technology in Zurich, before completing an MBA at the Northwestern University, Evanston, USA.</p> <p>Fred Kindle is Vice President of the Board of Directors of Zurich Insurance Group (Zurich), member of the Board of Directors of Stadler Rail Ltd (Bussnang) and Schneider Electric (Rueil-Malmaison).</p> <p>As a non-executive and independent member of the Board of Directors, Fred Kindle has never been a member of the Executive Board of VZ Holding Ltd or any of its group companies. He has no material business relationships with the companies of VZ Group.</p>
Roland Iff, born 1961, CH	Vice-Chairman, Head of Risk & Audit Committee	2006 to 2018	<p>Roland Iff is the Chief Financial Officer of Geberit Group. He joined Geberit in 1993 as Head of Group Development. In mid 1995 he was given responsibility for group management accountancy. From 1997 onwards he ran the Group Treasury. Roland Iff has been Chief Financial Officer since 2005. Before joining Geberit, he spent six years working for Mead Corporation in Zurich, Milan (IT) and Dayton (USA). He graduated in business administration at the University of St. Gallen (lic. oec. HSG), majoring in finance and accountancy.</p> <p>As a non-executive and independent member of the Board of Directors, Roland Iff has never been a member of the Executive Board of VZ Holding Ltd or of any of its group companies. He does not maintain any material business relationships with the companies of VZ Group.</p>

(continuation)

Name, Year of birth, Nationality	Function	Elected (for the first time/until)	Professional background, other activities, vested interests and education
Dr. Albrecht Langhart, born 1961, CH	Member of the Risk & Audit Committee	2000 to 2018	<p>Dr. Albrecht Langhart is a partner of Blum & Grob Rechtsanwälte Ltd in Zurich (2005 to 2008 BLUM Rechtsanwälte). Prior to this he was an associate and partner with various commercial law firms in Zurich (1989 to 2005). Since 2000 he has served as an arbitrator at the VSV Verband Schweizerische Vermögensverwalter (Association of Swiss Asset Managers). He studied at the University of Zurich (lic. iur. 1986, Dr. iur. 1993) and at the Queen Mary and Westfield College of the University of London (Master of Laws, LL.M. European Law, 1993). He was called to the bar of the Canton of Zurich in 1988.</p> <p>Albrecht Langhart serves on the Board of Directors of WABAG Wassertechnik Ltd (Winterthur), Allied World Assurance Company Holdings GmbH (Zug) and Fairfax Financial Holdings (Switzerland) GmbH (Zug).</p> <p>Albrecht Langhart has been a member of the Board of Directors of several VZ Group companies since 1996. As a non-executive and independent member of the Board of Directors, Albrecht Langhart has never been a member of the Executive Board of VZ Holding Ltd or any of its group companies. He advises VZ Group in legal matters in his capacity as a partner of Blum & Grob Rechtsanwälte Ltd. Apart from this he does not maintain any material business relationships with the companies of VZ Group.</p>
Roland Ledergerber, born 1961, CH	Member of Compensation Committee	2014 to 2018	<p>Roland Ledergerber has worked for St. Galler Kantonalbank since 1998. He became a member of the Group Management in 2002 and has been responsible for the private and corporate client business since then. In 2008 he assumed the position of President of the Executive Board. Prior to joining the Kantonalbank he had worked for UBS Ltd for twelve years, where he held various positions in the fields of controlling, corporate and institutional banking Europe as well as corporate customers in Switzerland and abroad. He graduated in business administration at the University of St. Gallen (lic. oec. HSG).</p> <p>Within the framework of his activities at St. Galler Kantonalbank Roland Ledergerber member of the Board of Directors of the Swiss Bankers Association (Swiss Banking), Basel and the Association of Swiss Cantonal Banks, Basel. Roland Ledergerber also chairs the Hyposwiss Cultural Foundation, Zurich.</p> <p>As a non-executive and independent member of the Board of Directors, Roland Ledergerber has never been a member of the Executive Board of VZ Holding Ltd or of any of its group companies. He does not maintain any material business relationships with the companies of VZ Group.</p>
Olivier de Perregaux, born 1965, CH	Member of the Risk & Audit Committee	2014 to 2018	<p>Olivier de Perregaux has worked for the LGT Group in Liechtenstein since 1999, since 2001 as CFO and member of the Group Executive Committee and since 2006 as a member of the Senior Management Board of the LGT Group. Prior to this he worked for Zurich Financial Services and for McKinsey & Co. in Switzerland and abroad. Olivier de Perregaux graduated in business administration at the University of St. Gallen (lic. oec. HSG).</p> <p>As a non-executive and independent member of the Board of Directors, Olivier de Perregaux has never been a member of the Executive Board of VZ Holding Ltd or of any of its group companies. He does not maintain any material business relationships with the companies of VZ Group.</p>

Other activities and vested interests

For detailed information please refer to «Members of the Board of Directors» on pages 23 and 24. For reasons of materiality, other activities are listed only if the entity in question is subject to a regular audit.

Restriction of additional activities

Members of the Board of Directors may exercise functions on senior management level or as members of boards of other legal entities only if these activities are compatible with their workloads and responsibilities at VZ Group. Additional remunerated functions are subject to the approval of the Board of Directors.

The number of additional functions is limited to 20, of which no more than 5 at listed companies, 15 at non-listed other legal entities as well as 5 non-remunerated functions, which must be listed in a Swiss commercial register or a comparable register in another country. Functions at companies that are part of the same group are deemed to constitute one function. Excluded from this restriction are functions that a member of the Board of Directors exercises at the direction of VZ Group.

Compensation, shareholdings and loans

For additional information please refer to the «Compensation Report» on page 40 to 51.

Election and term of office

Election

The shareholders' meeting elects all members of the Board of Directors individually for a term of one year. The period of office ends upon the conclusion of the next ordinary shareholders' meeting. The year for the first election is specified in the section «Members of the Board of Directors» (pages 23 and 24). There are no restrictions on how often a member of the Board of Directors may be re-elected.

The rules within the articles of association of VZ Holding Ltd governing the appointment of the chairman, the members of the Compensation Committee and the independent voting proxy correspond to the regulatory requirements. If the Chairman of the Board of Directors does not exercise his office until the end of the period of office, the Board of Directors shall elect a replacement from amongst its members for the period until the next shareholders' meeting.

Internal organisation

Tasks

The Board of Directors consists of five or more members. Decisions are taken by the entire Board of Directors, based on the majority of the votes present. If a vote results in a tie, the Chairman takes the final decision. In the case of routine matters and in urgent cases, the Board may accept or reject applications in writing, unless at least one member requests a meeting. For support and in order to ease its own workload, the Board of Directors has established a Risk & Audit Committee as well as a Compensation Committee. These committees prepare decisions relating to their topics, and also submit motions to the Board of Directors. In view of the number of directors, no further committees are required. The entire Board of Directors decides whether or not a committee is necessary. Members of the Board of Directors abstain from voting on matters that relate to their own interests or the interests of natural persons or legal entities with which they are associated.

Board of Directors

Pursuant to the Swiss Code of Obligations, VZ Holding Ltd's articles of association and internal organisational regulations, the Board of Directors has the following duties:

- the ultimate management of the company and the issue of the necessary directives
- the establishment of the organisation
- the structuring of the accounting system, financial controls and financial planning
- the appointment and dismissal of the persons entrusted with the management and representation of the company
- the ultimate supervision of the persons entrusted with the management especially in connection with compliance with applicable law, articles of association, regulations and directives
- the drawing up of the company's annual report, approving of the compensation report as well as the preparation of the shareholders' meetings and the execution of its resolutions
- the notification of the responsible legal authorities in the event of over-indebtedness
- the passing of resolutions relating to the subsequent payment of capital contributions on shares which have not been fully paid-up
- the passing of resolutions relating to the confirmation of capital increases and the ensuing amendments to the articles of association
- the examination of the professional qualifications of the approved expert auditors or state-supervised audit companies in those cases where such auditors or audit companies are legally required
- the assignment and monitoring of the internal audit, the assignment of the statutory audit company and the evaluation of their reports
- the decision on the formation, liquidation or acquisition of subsidiaries, branches and offices in new regional markets, the participation in companies, the establishing of joint-ventures, foundations as well as the decision on other projects of strategic importance
- the decision on acquisition or disposition of property
- the appointment and dismissal of the vice-chairman of the Board of Directors
- the appointment of the chairman of the Board for the time remaining until the next shareholder's meeting if the chairman elected resigns from his function
- the appointment of the members of committees, e.g. the Risk & Audit Committee (the members of the Compensation Committee are elected by the shareholders' meeting)
- the establishment of and amendments to the organisation's regulations
- the appointment and dismissal of the Chief Executive Officer, the deputy as well as the members of the Executive Board, of the Chief Risk Officers (CRO) and of the Head Legal & Compliance
- the establishment of and amendments to the Risk & Audit Committee's regulations
- the decision on motions brought forward by the Risk & Audit Committee
- the issue of the regulations for the compensation committee respecting the guidelines of the articles of association and the requirements set by the Ordinance against Excessive Compensation in Listed Stock Companies «VegüV»
- the annual written assessment of its own performance (achievement and approach)
- the definition of the job profiles for the members of the Board of Directors including their periodic assessment
- the definition, approval and periodic assessment of the job profiles for the members of the Executive Board, the CRO and the head of the internal audit

- the responsibility for an effective internal control system consisting of at least two bodies (profit-oriented business units and supervisory bodies that are independent from them) including the supervision of the control system

Chairman

The Chairman of the Board of Directors has the following duties:

- the chairmanship of the Board as a whole
- the preparation of the agenda for the shareholders' meetings and the meetings of the Board of Directors
- the convening of the meetings of the Board of Directors
- the chairing of the shareholders' meetings and the meetings of the Board of Directors
- the monitoring of the implementation of the decisions taken by the Board of Directors
- the keeping of the share register, whereas the administration of the register may be delegated to a suitable service provider
- the keeping of the company's records, documents and minutes
- the internal and external representation of the Board
- the shaping of VZ Group's strategy, communication and culture

Vice-Chairman

The Board of Directors elects each year, at the first meeting following the shareholders' meeting, a Vice-Chairman from amongst its own ranks. If the Chairman of the Board of Directors is unavailable, the Vice-Chairman assumes his duties and responsibilities.

Risk & Audit Committee

The Risk & Audit Committee comprises at least two independent, qualified members of the Board of Directors. The Chairman of the Board of Directors is not eligible for this committee. The principal responsibilities of the Risk & Audit Committee are to oversee the risk management, the accounting and the financial reporting as well as the compliance with the applicable legal and regulatory rules and regulations. It reviews the organisation and the effectiveness of the internal controls, namely the risk control, the compliance and the internal audit, as well as the processes of the financial reporting. In addition, it oversees and coordinates the work of the external auditors, including the collaboration with the internal auditors. In the case of important decisions, the Risk & Audit Committee presents the Board of Directors with its recommendations. The Risk & Audit Committee reports to the Board of Directors twice per annum within the context of board meetings.

Compensation Committee

The Compensation Committee consists of at least two independent members of the Board of Directors who are elected at the shareholders' meeting individually for a period of office of one year. The Compensation Committee helps the Board of Directors to develop and monitor the remuneration system as well as to determine the compensation of the members of the Board of Directors and the members of the Executive Board of VZ Group.

The Compensation Committee checks adherence to the remuneration rules defined by the shareholders' meeting. In the event of discrepancies, the Compensation Committee initiates and monitors corrective actions. The Compensation Committee draws up a compensation report that it presents to the Board of Directors for approval. In the event of important decisions associated with the remuneration of members of the Board of Directors and of the Executive Board, the committee submits proposals to the Board of Directors. The Compensation Committee reports to the Board of Directors twice per annum within the framework of the meetings of the Board of Directors.

Mode of operation

Policies

The Board of Directors meets as often as business requires, at least four times per year as a rule. These meetings usually take half a day. The Risk & Audit Committee meets at least twice a year, the Compensation Committee normally also meets twice a year. These meetings usually take 2 to 4 hours.

Mode of operation of the Risk & Audit Committee

The Head of the Risk & Audit Committee invites members of the Executive Board to attend the committee meetings in order to report on their departments. Usually, the CFO participates in these committee meetings. In the year under report, the CFO took part in all meetings held by the Risk & Audit Committee.

Mode of operation of the Compensation Committee

The Head of the Compensation Committee may invite other persons to the meetings of the committee. Such additional attendees do not have any voting rights.

Meetings held in 2017

Board of Directors: four ordinary meetings (as in 2016) plus a strategy workshop with the members of the Executive Board

Risk & Audit Committee: three meetings (2016: four meetings)

Compensation Committee: two meetings (as in 2016)

In the year under report, on two of four Board of Directors meetings, one member was absent with valid excuse, and on one of three Risk & Audit Committee meetings, one member was absent with valid excuse. Neither the Board of Directors as a whole nor the two committees have invited any external consultants in the year under report.

Supervision of the Executive Board

The Chief Executive Officer regularly reports to the Board of Directors about the performance of the Group companies and the fulfilment of his tasks. He may inform all of the members of the board in writing or orally on the occasion of a board meeting. The Chief Executive Officer also provides reports on the company's financial situation to the other members of the board on a quarterly basis, and unsolicited points out unforeseen financial liabilities.

Irrespective of the regular reporting, the Chief Executive Officer also immediately informs the members of the board in writing about events that might have a substantial impact on the course of business, such as in particular:

- planned changes in the Executive Board,
- events that might significantly impair the financial situation of Group companies (e.g. impending lawsuits, an adverse balance or insolvency) or
- significant irregularities in the management of the company.

Risk management system	<p>An impeccable reputation among clients, investors, creditors, government agencies, business partners and the public is VZ Group's most valuable asset. Managing risks effectively contributes greatly to this reputation. Therefore, the correct assessment, the careful and conscious handling and the systematic monitoring of all important risks is crucial for the the company's long-term success. No business activity is free of risks, and financial institutions active in the balance sheet business are exposed to particularly high risks. VZ Group avoids activities with an unfavourable risk/return ratio and enters a business field only if it has the human and technical resources to adequately control the risks.</p> <p>In the area of banking and bank-related services, VZ Group is exposed to default, credit, market, liquidity and refinancing risks. In the field of insurance services, it is exposed to underwriting risks, and in general to operational, regulatory and legal risks as well as to reputation risks. The overall responsibility for the risk management lies with VZ Holding's Board of Directors. It defines the risk policy, issues organisational, business and competence regulations and draws up a risk analysis every year. The Risk Office is responsible for the ongoing risk control, including the independent control and monitoring of all risks, while the Legal & Compliance office is responsible for risks of legal and regulatory nature. The Risk Office draws up a bi-annual risk report, Legal & Compliance an annual activity report to the attention of the Risk & Audit Committee. Additional information is set out in the notes to the consolidated accounts (pages 77 to 88, section «Risk management»).</p>
Independent supervisory bodies	<p>The independent supervisory bodies are part of the internal control system and monitor the risks as well as legal, regulatory and internal compliance. The supervisory bodies assume the risk control and compliance functions. In order to fulfill their duties, they have unlimited rights of access, information and insight, as well as direct access to the Board of Directors.</p>
Internal audit	<p>The internal auditors are elected by VZ Holding's Board of Directors and report to the Risk & Audit Committee. They carry out all tasks assigned by Risk & Audit Committee independently. In 2007 the Board of Directors mandated Grant Thornton Ltd, Zurich as internal auditors, and for the German subsidiaries Warth & Klein Grant Thornton Ltd, Dusseldorf. For VZ InsurancePool Ltd the Board of Directors mandated in 2014 Balmer-Etienne Ltd, Lucerne, which is accredited as auditors for insurance companies by the Swiss Financial market Supervisory Authority (FINMA), as an additional internal auditor.</p> <p>The internal audit carries out a comprehensive risk assessment at least once a year. It takes into account external developments (e.g. economic environment, regulatory changes) as well as internal factors (e.g. important projects, business focus). Based on this risk assessment as well as other needs, the internal audit defines each year an audit plan with specific objectives that are in line with the risk-oriented multi-annual plan. The audit fields are based primarily upon the statutory requirements for audit obligations. In addition, the Board of Directors may define further fields.</p> <p>When planning the audits, the internal audit shall coordinate with the external audit and shall make its audit results available to the external audit. The Risk & Audit Committee shall approve the annual audit plan at the latest on the occasion of the first ordinary meeting of the Risk & Audit Committee of the current year. The internal audit shall inform</p>

the Risk & Audit Committee, the Executive Board and the managers of the audited units in writing about the results of its audits. At the start of the year the internal audit shall furthermore draw up a report on its activities in the past year. In order to enable the internal audit to perform its duties, it has unlimited rights of access, information and insight.

Right to request information

Insofar as this is necessary for the fulfilment of their duties, each member of the Board of Directors may inspect the financial records and documents, and the Chairman of the Board may demand information from the Chief Executive Officer about the performance of the business and about individual transactions. If the Chairman or the Chief Executive Officer rejects a request for information, for a hearing or an inspection, then this shall be decided by the Board of Directors.

Executive Board

Authorities

The Executive Board of VZ Group is responsible for the management of the entire company. Together with the Board of Directors it is responsible for developing the business strategy of VZ Group. It discusses the focus of the subsidiary companies and of the business units in terms of strategy, corporate culture and business philosophy as well as interdepartmental projects of a personnel, risk policy or market profile nature. The Executive Board has the necessary leadership skills, expertise and experience in the banking and financial sector required for the approval of VZ Group's business operation.

Chief Executive Officer

Within the framework of the law and the articles of association as well as the rules of organisation, the Chief Executive Officer is responsible for the management and representation of the company externally. His responsibilities include in particular:

- Organising, managing and monitoring the business activities at the operative level
- Submitting proposals to the Board of Directors concerning the appointment of members of the Executive Board, the deputy of the Executive Board, of the Chief Risk Officer (CRO) and Head Legal & Compliance, of directors and of holders of general commercial power of attorney
- Organising, managing and monitoring the accounting system, the financial controls and the financial reporting as well as managing the balance sheet structure and liquidity
- Preparing the passing of resolutions by the Board of Directors
- Designing and maintaining an adequate management information system, an internal control system and an appropriate technology infrastructure

Members of the Executive Board

Name, Year of birth, Nationality	Function	Professional background	Member of the Executive Board since
Matthias Reinhart, born 1960, CH	Chief Executive Officer	Lic. oec. HSG Associate and Engagement Manager at McKinsey & Co. in Zurich and Chicago Entry: 1992	1992
Giulio Vitarelli, born 1971, CH	Managing Director VZ VermögensZentrum (Switzerland)	Master of law (lic. iur.) Entry: 1998	2002
Thomas Schönbucher, born 1973, CH	Deputy Managing Director VZ VermögensZentrum (Switzerland)	Master of business administration (lic. oec. HSG) Entry: 2000	2012
Tom Friess, born 1968, CH	Managing Director VZ VermögensZentrum (Germany)	Degree in business administration (HWV) Bank Vontobel, Swiss Invest (Argentina) Entry: 1996	2000
Marc Weber, born 1976, CH	Managing Director VZ Depository Bank	MAS in Bank Management Vaudoise Versicherungen Entry: 1999	2008

Members of the Executive Board (continuation)

Name, Year of birth, Nationality	Function	Professional background	Member of the Executive Board since
Peter Stocker, born 1967, CH	Managing Director Asset Management	Degree in business administration (HWV) Alpina Versicherungsgesellschaft Entry: 1995	1998
Lorenz Heim, born 1968, CH	Managing Director HypothekeZentrum	Schweizerischer Bankverein Entry: 1994	1999
Urs Feldmann, born 1967, CH	Managing Director business unit Pension Plans and Insurance Consulting for corporate clients as well as People Development & Recruiting	Degree in business administration (HWV) CSS Versicherung, Elvia Versicherung Entry: 1996	2000
Rafael Pfaffen, born 1977, CH	Chief Financial Officer	MAS in Bank Management SwissRe CFO VZ Depository Bank Ltd since 2007 Entry: 2007	2017

Other activities and vested interests

- Matthias Reinhart is a member of the Foundation Board of the Swiss Epilepsy Foundation. He also serves on the Board of Directors of the following companies: Familie Ernst Basler Ltd (Zollikon), Reinhart Holding Ltd (Winterthur) and Aktiengesellschaft für die Neue Zürcher Zeitung (Zurich).
- Lorenz Heim is a member of the Foundation Board of HIG Immobilien-Anlagestiftung (Zurich).

The members of the Group Executive Board do not hold any public or political office or a permanent management or advisory function for important Swiss or foreign interest groups. For reasons of materiality, other activities are listed only if the entity in question is subject to a regular audit.

Restriction of additional activities

Members of the Executive Board may exercise functions on senior management level or as members of boards of other legal entities only if these activities are compatible with their workloads and responsibilities at VZ Group. Additional remunerated functions are subject to the approval of the Board of Directors.

The number of remunerated functions is limited to 6, thereof 1 at a listed company and 5 at other non-listed legal entities as well as 6 non-remunerated functions in entities which must be listed in a Swiss commercial register or a comparable register in another country. Functions at companies that are part of the same group are deemed to constitute one function. Excluded from this restriction are functions that members of the Executive Board exercise at the direction of VZ Group.

Changes during the reporting period

Since 1 October 2017, Philipp Marti is no longer a member of VZ Group's Executive Board. The Board of Directors has appointed Rafael Pfaffen as his successor.

Management contracts

There are no management contracts.

Compensation, shareholdings and loans

For additional information please refer to the «Compensation Report» on page 40 to 51.

Shareholders' participation rights

Restrictions on voting rights and representation

Share register

The Board of Directors keeps a share register, where the name and address of each holder and usufructuary of registered shares are registered. Each share listed in the share register entitles the holder to one vote. Entry in the share register is contingent upon proof that the share has been acquired for ownership or for the establishment of a usufruct. Vis-à-vis the company, shareholders or usufructuaries shall be deemed to be only those persons who are recorded in the share register. Further information about the registration conditions is set out in the section «Restrictions on transferability and nominee registration in the share register» on page 21.

If an entry in the share register was based on false information by the shareholder, the company may cancel the entry after a hearing with the nominee. The shareholder must be notified immediately after the cancellation.

Changes to the statutory provisions and restrictions on the transferability of shares are subject to the approval of two thirds of the represented votes and the absolute majority of the represented nominal share values at the shareholders' meeting. Shareholders may only exercise their voting rights if they are recorded as shareholders with voting rights in the share register of VZ Holding Ltd. The treasury stock of VZ Holding Ltd does not confer voting rights.

No exemptions to these provisions were granted during the year under report.

The rules pertaining to participation at the shareholders' meeting correspond to the rules of the Swiss Code of Obligations.

Quorums pursuant to the articles of association

The conversion of registered shares into bearer shares as well as the liquidation and dissolution of the company are only possible with the consent of the shareholders' meeting. The minimum quorum required is two thirds of the represented voting rights as well as the absolute majority of the nominal share value represented.

All other arrangements correspond to the provisions of Art. 703 and 704 of the Swiss Code of Obligations.

Annual general meeting

Convening shareholders' meetings

VZ Group's procedures to convene the shareholders' meetings are in line with the provisions of the Swiss Code of Obligations.

Agenda

The agenda for the shareholders' meetings is set by the Board of Directors. Shareholders who individually or collectively represent shares with an aggregated value of at least 1% of the total share capital may submit proposals to be put on the agenda. The request must be submitted to the Board of Directors in writing, including a proof of the number of shares represented. Such a request must be received by the Board of Directors at least 45 days prior to the shareholders' meeting.

Entry in the share register

The Board of Directors sets the deadline for entries in the share register and notifies the shareholders in the invitation to the annual general meeting. As a rule, the share register closes three days prior to the annual general meeting.

Instructions issued to the independent voting rights proxy

Shareholders may issue powers of attorney and instructions to the independent voting rights proxy up to 48 hours before the start of the shareholders' meeting, including electronically. Specific instructions may be issued in respect of motions that are listed in the invitation to the shareholders' meeting, as well as general instructions on unannounced motions or new agenda items. The Board of Directors defines the rules that are to be used for the electronic issue of powers of attorney and instructions.

Changes of control and defence measures

Mandatory public take-over offer

The articles of association do not include any opting-out or opting-up clauses to suspend or limit the duty to make a public take-over offer based on Article 125 paragraph 3 and 4 (opting-out) and Article 135 para 1 (opting-up) of the Financial Market Infrastructure Act.

Changes of control

No change-of-control clauses are included in the articles of association, in agreements or plans in favour of members of the Board of Directors, the Executive Board and/or the management.

Auditors

Duration of the mandate and term of office of the head auditor

The shareholders' meeting held on 6 April 2017 elected PricewaterhouseCoopers Ltd (PwC) as external auditor of VZ Holding and VZ Group for the 2017 financial year. PwC has held this mandate since 2012, and Rolf Birrer has been the head auditor since then. This makes him eligible for another year until the legally required rotation is due.

Auditing fee

PwC charged revision fees of TCHF 682 (2016: TCHF 582) for the financial and regulatory review in the financial year 2017.

Additional fees

In 2017, PwC charged additional fees for audit-related services amounting to TCHF 57 (2016: TCHF 35). This amount includes TCHF 20 for approval procedures by supervisory authorities, TCHF 33 for consultancy related to the implementation of regulatory requirements within the information technology and TCHF 4 for other project based consultancy. The additional fees correspond to 8.42 % of the audit fees.

The additional services by the auditors are compatible with their auditing services, as there is no conflict of interests.

Information instruments exercised by external auditors

The Risk & Audit Committee oversees the external auditing. It acknowledges the audit objectives and the audit plan, where these are not defined by supervisory authorities. It peruses the auditors' findings, recommendations and reports and monitors the scope and organisation of the audit activities. Finally, it assesses the quality of the audit, the compensation and the conditions of the auditors. In order to assess the work of the external auditors, the Risk & Audit Committee holds meetings with the CEO, the CFO, the responsible head auditor and the senior auditor. Evaluation criteria include qualifications, expertise, independence and achievements of the various audit teams as well as of the head auditor. The Risk & Audit Committee identifies potential conflicts of interests with the auditors, especially where they take on additional consultancy mandates.

The external auditors review the annual statements with the members of the committee and attend additional meetings upon request. The members of the Risk & Audit Committee discuss their feedback on the auditors' work as well as on the cooperation with the head auditor in charge on a regular basis.

During the year under report, the external auditors attended two meetings of the Risk & Audit Committee. The Head of the Committee briefs the members of the Board of Directors on the auditing activities on a regular basis.

Information policy

Regular provision of information

VZ Group has a policy of communicating with shareholders, the capital market and the public in a transparent, comprehensive and regular manner. Regular reporting to shareholders includes publication of the annual and half-yearly reports, shareholder letters, media and analysts' conferences as well as the shareholders' meeting. In addition, VZ Group takes part in conferences for financial analysts and investors on a regular basis.

Important dates are listed at the beginning of this report under «Information for shareholders».

Permanent source of information

VZ Group publishes information simultaneously for all market participants and interested parties on www.vzch.ch. Under the section «Mailing list» (<https://www.vermoegenszentrum.ch/forms/investorRelationsForm.html>), interested parties can put their names on a mailing list if they want to be kept informed automatically about news.

Contact addresses

The main contact addresses are listed at the beginning of this report under «Information for shareholders».

Relevant changes since balance sheet date

Between 31 December 2017 and 1 March 2018 there were no changes that would have to be disclosed.



COMPENSATION REPORT

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COMPENSATION REPORT

The compensation report provides information about VZ Group's guiding principles and responsibilities for compensation. In addition, the individual components of the compensation of the Board of Directors and of the Executive Board are described in detail, as stipulated by Art. 14–16 of the Swiss Ordinance Against Excessive Remuneration at Listed Stock Corporations [Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften] («VegüV»). The compensation charts have been reviewed by the Auditors.

Legal standards and best practice

VZ Holding Ltd's remuneration principles are outlined in its articles of association and published in the investor/corporate governance section on www.vzch.ch. The information in the compensation report is based on VZ Holding's articles of association and regulations as well as the VegüV. The remunerations also comply with the recommendations of SIX's corporate governance directive and of Economiesuisse's «Swiss Code of Best Practice». VegüV specifically bans termination payments, advance remunerations and commissions for the takeover of companies. VZ Group's remunerations do not fall into any of these categories.

FINMA's Circular 2010/1 «Remuneration Systems» has been in force since 1 January 2010. It is mandatory for banks, securities traders, financial groups and financial conglomerates with a minimum equity capital of CHF 10 billion pursuant to the Capital Adequacy Ordinance. Although VZ Group does not belong to this group, it uses the recommendations as a guideline for its remuneration principles.

Changes during the year under report

VZ Group's compensation principles remain unchanged. The Remuneration Committee confirms that they are adequate because they support VZ Group's strategy and promote a culture that will ensure its long-term success.

On 1 October 2017, Rafael Pfaffen took up the position as Chief Financial Officer from Philipp Marti. Since that date, Rafael Pfaffen has been a member of VZ Group's Executive Board, replacing Philipp Marti. In this report, Rafael Pfaffen's and Philipp Marti's compensation (basic salary and bonus) are reported for those months only during which they were members of the Executive Board.

Compensation principles

Compensation policy and goals

For VZ Group to remain successful in the long term, it needs to attract, develop and retain sufficiently qualified and loyal employees. This is the aim of VZ Group's compensation system. Compensation is structured in such a way that it supports the strategy and promotes a culture that safeguards the company's long-term success. All activities of VZ employees focus on client satisfaction. For this reason, employees are assessed based on what they directly and indirectly contribute towards this goal. In addition to monetary remuneration, immaterial aspects are also important. These include an open working atmosphere, honest interactions and the recognition of individual performances.

VZ Group's remuneration is based upon the following four principles:

Objective and fair	Objectivity is the basis of a fair remuneration system and ensures that nobody is discriminated against. For this reason, objective criteria are applied when setting compensation.
Performance-based	At VZ, compensation reflects first and foremost the performance and the function of a person (skills and responsibility). In addition to the individual performance, the work within a team and across departments is also encouraged and recognised. In certain functions, experience or specific know-how are also important components. In addition to the fixed remuneration, compensation may also contain variable components – above all where the individual performance is measurable and contributes directly towards the success of the business.
Competitive	VZ Group needs a competitive compensation system to recruit and retain a sufficient number of employees. For this reason, it is orientated towards the compensation models of companies that compete with VZ for talent.
Long-term	Corporate culture at VZ Group is based on long-term success. This is demonstrated by the services, processes and structures, as well as by the development of the employees in particular. Also the compensation system is designed to support VZ Group's long-term and sustainable development. For this reason, the variable components in particular are structured in such a way that no conflicts with the interests of the company arise. For example, the compensation must not create incentives to take disproportionate risks. Executives draw a part of their variable compensation in the form of locked-up shares in VZ Holding Ltd. This supports their long-term commitment, and brings their interests into line with those of VZ.

Responsibility for compensation

	CEO	CC ¹	BoD	SM
Principles	P	R	A	
Compensation report		P	A	
Compensation BoD and EB				
Maximum compensation BoD		P	R	A
Maximum fixed compensation EB		P	R	A
Variable compensation EB		P	R	A
Individual compensation BoD		P	A	
Individual compensation CEO		P	A	
Individual compensation remaining EB	P	R	A	

P = proposal
R = review
A = approval

1 Board of Directors' Compensation Committee

Compensation Committee

The Compensation Committee helps the Board of Directors develop and monitor VZ Group's compensation system. It reviews the compensation principles proposed by the CEO, and submits these to the Board of Directors for approval. It helps the Board of Directors to set the compensation for the members of VZ Group's Board of Directors and Executive Board, and prepares the compensation report. It moreover conducts regular checks to verify that the shareholders' meeting guidelines and the statutory provisions on compensation are being fulfilled. In conjunction with the compensation of the Board of Directors and Executive Board, the Compensation Committee has the following responsibilities:

- It proposes to the Board of Directors the maximum compensation of the Board of Directors as well as the maximum fixed compensation and the variable compensation of the Executive Board that is to be approved by the shareholders' meeting.
- It reviews the compensation of the members of the Board of Directors, and proposes this to the Board of Directors.
- It reviews the compensation of the CEO and submits this to the Board of Directors for approval.
- It reviews the compensation of the members of the Executive Board, which is proposed by the CEO, and submits this to the Board of Directors for approval.

The Compensation Committee consists of at least two members who are individually elected by the shareholders' meeting for one-year periods of office. Fred Kindle and Roland Ledergerber are currently the members of the Compensation Committee. The Compensation Committee shall meet as often as the business requires, although at least twice per year. Two meetings took place in 2017, as in 2016, in which both members took part. No external experts were consulted in order to define the compensations.

Board of Directors

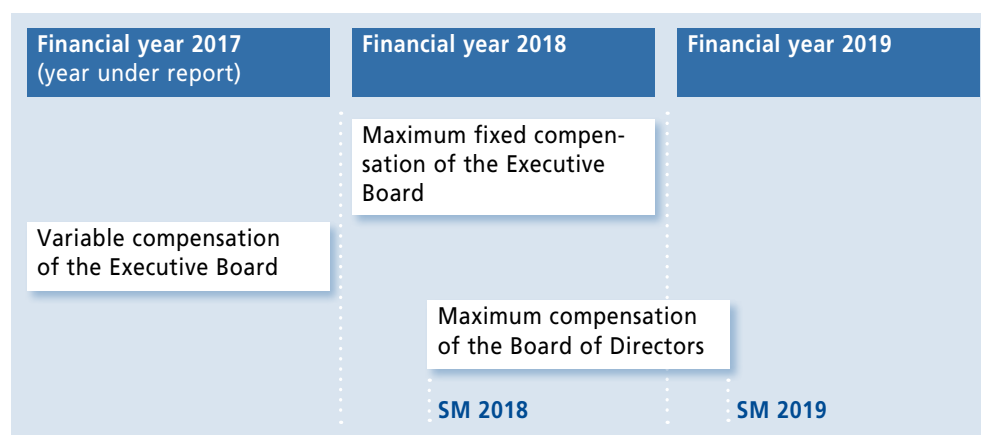
The Board of Directors has the overall responsibility for the duties and powers that it assigns to the Compensation Committee. It approves the compensation principles and the compensation report, checks the compensation of the Board of Directors and Executive Board, and submits the maximum compensation of the Board of Directors, the maximum fixed compensation and the variable compensation of the Executive Board to the shareholders' meeting for approval. In addition, it approves the individual compensation of the members of the Board of Directors, the CEO and the members of the Executive Board.

Shareholders' meeting

As stipulated by the VegüV, the shareholders approve the overall compensation of the Board of Directors and Group Management in a binding vote at the shareholders' meeting. Pursuant to VZ Holding's articles of association, the shareholders' meeting shall pass resolutions on the following three motions:

- The maximum compensation of the Board of Directors until the next ordinary shareholders' meeting
- The maximum fixed compensation of the Executive Board for the current financial year
- The variable compensation of the Executive Board for the past financial year

The shareholders' meeting scheduled for 10 April 2018 will address the following three motions:



This means that following publication of the annual results, the shareholders can vote prospectively on the maximum compensation of the Board of Directors and Executive Board, and retrospectively in respect of the variable compensation of the Executive Board. This method ensures high transparency vis-à-vis shareholders, and corresponds to best practice in implementing the VegüV.

If the shareholders' meeting rejects one of these motions, the Board of Directors may submit one or more new motions to the same shareholders' meeting. If the Board of Directors decides not to submit any new motions, or if these are not approved, then it may call a new shareholders' meeting within the context of the statutory guidelines and the provisions of the articles of association.

Compensation provisions in the articles of association

The articles contain the following provisions regarding compensation:

Supplement for new members

If new Executive Board members are appointed after the shareholders' meeting, and the approved sum is not sufficient, then a supplementary sum amounting to 30 % of the approved total compensation shall be made available to the Executive Board.

Performance-related compensation

The performance-related compensation is based upon the qualitative and quantitative objectives defined by the Board of Directors. The bonus may be paid out in cash or in the form of shares, convertible or option rights. The articles of association stipulate that the bonus of a member of the Executive Board may not exceed 150 % of his or her fixed compensation. The Board of Directors has decided that this upper limit shall not be reached with the structuring of the current bonus scheme. Depending upon Executive Board seniority, the bonus currently amounts to no more than 63 to 100 % of a fixed basic salary.

Shares, convertible and option rights

The articles of association stipulate that VZ Group may allocate shares, convertible or option rights to members of the Board of Directors and Executive Board. The value of

such securities corresponds to the value that they are attributed at the time of allocation, applying generally accepted valuation methods. The Board of Directors may stipulate a lock-up period for the holding of these securities or rights. It shall also stipulate when, to what extent and under which conditions lock-up periods shall be lifted.

The management benefit programme is described in the section «Compensation in shares and options (Share-based payments)» on page 74 and in the notes to the consolidated financial statements in the section «Share-based management benefit programme» on pages 109 and 110.

If members of the Board of Directors or Executive Board receive convertible rights or options in their capacity as VZ shareholders, on the grounds that the share capital is raised or reduced, then these rights or options shall not be deemed to constitute compensation.

Loans and credits

VZ Group grants members of the Board of Directors and the Executive Board loans and credits subject to the same conditions as other employees. The total volume of such loans and credits is limited to CHF 100 million and to CHF 20 million per person. The same eligibility and creditworthiness criteria apply to members of the Board of Directors and Executive Board that are applicable to third parties who receive a loan or a credit.

Pension benefits

The members of the Executive Board are members of VZ Group's pension schemes, and their obligatory and supra-obligatory benefits correspond to the regulations of these schemes. The members of the Board of Directors may decide to join on a voluntary basis, insofar this is permitted by the regulations of these pension schemes. VZ Group pays the regulatory pension fund contributions. If a member of the Board of Directors or the Executive Board falls ill or suffers an accident, VZ Group may continue to pay his or her salary within the context of the insurance benefits. If a member of the Board of Directors or Executive Board is not a member of VZ Group's pension schemes, pension benefits of VZ Group or of one of its group companies may not exceed 40 % of the annual income of the individual in question.

Compensation of the Board of Directors

Determination method

The Compensation Committee shall review the compensation of the Board of Directors (as a rule, every two years) and base its assessment on comparable listed companies and the necessary involvement. In accordance with the Committee's proposal, the Board of Directors shall stipulate the compensation of its members and shall submit the maximum remuneration of the Board of Directors to the shareholders' meeting for approval.

Compensation components

Fixed compensation

The members of the Board of Directors shall be enabled to exercise their supervisory function independently. For this reason each non-executive member of the Board of Directors shall receive a fixed basic compensation. A supplementary fixed sum shall be stipulated for additional tasks, e.g. for the chairmanship or heading of a committee. This remuneration is not linked to specific targets or performance goals. These rules apply for all members of the Board of Directors.

100 % of the approved amount shall be paid out in the form of VZ shares subject to a three-year lock-up period. The subscription price corresponds to the weighted average price of the shares traded during a 4-week period in January of the year in which the fee is paid out. The subscription price for the 2017/18 period of office is CHF 330.05, the weighted average price of the shares traded between 3 and 26 January 2018.

Function	Compensation per period ¹	Form ²
Chair of the Board of Directors	CHF 100'000	locked-up shares
Member of the Board of Directors	CHF 45'000	locked-up shares
Head of the Risk & Audit Committee	additional CHF 15'000	locked-up shares

¹ Plus contributions to social insurance

² Locked-up for 3 years

Information regarding the Board of Directors' functions is set out in the Corporate Governance section on pages 23 and 24.

Variable compensation	The members of the Board of Directors shall not receive any variable compensation.
Other compensation	Salary components such as public transport season tickets and private use of company cars are reported under the heading «other compensation». During the year under report, as well as in the previous year, the members of the Board of Directors did not receive any compensation that falls into these categories.
Social insurance	The reported employer social insurance contributions encompass payments for OASI, DI, ILI, FCO (incl. administrative costs), and correspond to the contributions stipulated by law. VZ Holding Ltd does not make any contributions on behalf of Board of Director members exceeding these.
Loans and credits	On 31 December 2017, there were loans to members of the Board of Directors of totalled CHF 13.9 million (31 December 2016: CHF 13.9 million). The full amount has been granted as loan against securities (Lombard loan) to Fred Kindle, Chairman of the Board of Directors.
Additional fees and remuneration	In 2017 VZ Group paid Blum & Grob Attorneys at Law Ltd legal fees totalling TCHF 133 (2016: TCHF 77). Blum & Grob is represented by Dr. Albrecht Langhart, member of VZ Group's Board of Directors. These services are charged at market rates. VZ Group also acquires further goods and services from companies with which members of the Board of Directors are associated. However, the scope of these services does not impair the independence of the members of the Board of Directors. Additional information is set out in the notes to the consolidated accounts (pages 107 and 108, section «Related party disclosures»).
Former members	There are no former board members who received compensation in 2017 (2016: zero).

Compensation of the Board of Directors in 2017

The reported compensation of the Board of Directors during the year under report consists of the deferred share of the compensation of the 2017/18 period of office, i.e. from 6 April 2017 to the end of 2017, as well as the already paid-out share of the 2016/17 period of office (1 January to 5 April 2017). The compensation of the Board of Directors has not changed compared to the previous year.

Last name ¹	First name	Fixed compensation ²		Variable compensation		Other compensation		Employer social insurance contributions		Total	
		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
CHF '000											
Kindle	Fred	100	100	–	–	–	–	6	6	106	106
Iff	Roland	60	60	–	–	–	–	3	3	63	63
Langhart	Albrecht, Dr.	45	45	–	–	–	–	3	3	48	48
Ledergerber	Roland	45	45	–	–	–	–	3	3	48	48
de Perregaux	Olivier	45	45	–	–	–	–	3	3	48	48
Total Board of Directors		295	295	–	–	–	–	18	18	313	313

1 Functions: Fred Kindle: Chairman, Head of the Compensation Committee, Roland Iff: Vice-Chairman, Head of Risk & Audit Committee, Dr. Albrecht Langhart: member of Risk & Audit Committee, Roland Ledergerber: member of the Compensation Committee, Olivier de Perregaux: member of Risk & Audit Committee

2 Compensation in shares

Compensation of the Board of Directors: Proposal to the 2018 shareholders' meeting

For the period since the 2017 shareholders' meeting (6 April 2017 to 10 April 2018) the shareholders' meeting approved the maximum compensation of the Board of Directors amounting to TCHF 325 plus the mandatory employer contributions to social insurance amounting to TCHF 20.

CHF '000

	2017/2018 period of office:			2018/2019 period of office:
	Approved at the 2017 shareholders' meeting	Compensation April 2018 ¹	Difference	Proposal to the 2018 shareholders' meeting
Fixed compensation	325	295	30	325
Employer social insurance contribution	20	18	2	20
Total	345	313	32	345

1 On 27 February 2018 the Board of Directors has approved of the compensations for the 2017/2018 period of office. It will be paid out after the shareholders' meeting held in April 2018.

As last year, the Board of Directors proposes a maximum compensation of the Board of Directors for the 2018/19 period of office amounting to TCHF 345 (incl. employer social insurance contributions) to the shareholders' meeting of 10 April 2018. The Board of Directors' fixed compensation remains unchanged.

Compensation of the Executive Board

Determination method

Each year, the CEO proposes the fixed compensation for each member of the Executive Board to the Compensation Committee of the Board of Directors in respect of the current financial year, as well as the variable compensation for the past financial year. The Committee reviews these proposals, and makes recommendations to the Board of Directors. In addition, the Compensation Committee submits the proposed fixed compensation of the CEO to the Board of Directors for the current financial year, as well as the variable compensation for the past financial year. The CEO participates in the meeting of the Compensation Committee when the proposed compensation of the members of the Executive Board are discussed. On the basis of the recommendations of the Compensation Committee, the Board of Directors proposes the maximum fixed and variable compensation of the Executive Board and submits this proposal to the shareholders' meeting for approval.

Compensation components

Fixed components

The CEO and the remaining members of the Executive Board receive a basic salary. The level of the basic salary is based above all on the function (responsibilities and skills) as well as the experience and qualifications of the member of the Executive Board. The compensation is also based on current executive salary statistics for executive salaries that comparable listed and non-listed Swiss corporations pay on average. The payment is performed monthly in cash.

Variable components

The bonus paid to the CEO and the remaining members of the Executive Board consists of two components, reflecting on the one hand the consolidated results of VZ Group and on the other the individual achievement of objectives. The first component depends upon the growth in operating revenues and profits, while the two variables have equal weightings. The Board of Directors defines these targets each year in advance. The individual component is dependent upon the objectives for the management field of each member of the Executive Board, defined each year by the CEO.

For all members of the Executive Board, the consolidated result of VZ Group and the individual achievement of objectives each account for 50 % of the bonus. The so-called target bonus is deemed to have been achieved if both the financial objectives as well as the individual objectives have been fulfilled. Depending upon the seniority of the Executive Board member, the target bonus amounts to between 25 and 43 % of the fixed basic salary. Relative to the total compensation, the target bonus consequently amounts to at least 20 % and no more than 30 %. If both the financial targets as well as the individual targets are exceeded, then the bonus shall be raised proportionately; however there is an upper limit. Depending on Executive Board seniority, the bonus amounts to no more than 63 to 100 % of the fixed basic salary.

If the financial or individual targets have not been achieved, the Board of Directors may reduce or suspend the bonus components at its own discretion. In addition, it may resolve exemptions from these rules.

The Board of Directors proposes a variable remuneration in the amount of TCHF 1749 (2016: TCHF 1591). The variable compensation of the members of the Executive Board varies from 30 to 56 % of their fixed compensation, depending on the individual achievement of their objectives.

The variable compensation for the year under report will be paid out once this has been approved by the shareholders' meeting of 10 April 2018. The variable salary components are reported in accordance with the accrual principle, i.e. in the form of a provision in the year under report.

**Shares and options
(Management Benefit
Programme)**

The Management Benefit Programme stipulates that Executive Board members shall receive 50 % of their bonus in the form of locked-up shares. They may also draw a larger proportion in the form of shares; the maximum share component amounts to 75 %. The subscription price corresponds to the weighted average price of the traded shares within the defined period from the beginning to the end of January in the year following the bonus period. The subscription price for the variable compensation for the 2017 financial year corresponds to the weighted average price of the shares traded between 3 and 26 January 2018, and is CHF 330.05. The shares are subject to a three-year lock-up period that shall also remain in force if the owner of the shares leaves VZ Group before the end of the blocking period. At the same time, for each subscribed share the members of the Executive Board shall also receive two free options to acquire two additional shares. The strike price for the option amounts to 125 % of the subscription price of the underlying value. The options have a maturity of six years, and may be redeemed only for shares; a cash settlement is excluded. In addition, the options shall be locked-up for three years and shall expire worthlessly if the Executive Board member leaves VZ Group during this period. The parameters taken into account in the option valuation model are set out in the notes to the consolidated financial statements on page 109 in the management benefit plan section.

Other components

Other salary components contain public transport season tickets and private shares of company vehicles.

**Social insurance
contributions**

Social insurance and pension benefits are designed to provide employees and their families with reasonable protection if they fall ill or become disabled, retire or die. The benefits correspond to the statutory guidelines, and in some respects exceed these. The reported employer contributions to social insurance schemes encompass expenditure on occupational pensions, for OASI, DI, ILI, FCO (incl. administrative costs) as well as statutory per diem sickness benefit and accident insurance.

Loans and credits

On 31 December 2017 no loans or credits were outstanding, neither to members of the Executive Board, nor to persons linked to these (31 December 2016: zero).

Former officers

No former member of the Executive Board received compensation in 2017 (2016: zero).

Compensation of the Executive Board in the 2017 financial year

The compensation of the Executive Board during the year under report consists of all salary components that belong to this period. The shareholders' meeting approves the variable compensation (cf. motions submitted to the shareholders' meeting 2018). The approved sum covered the compensation of the new member of the Executive Board, Rafael Pfaffen. The supplementary sum has not been used. All remunerations paid to persons close to key personnel are based on the Swiss market.

CHF '000	Fixed compensation		Variable compensation		Other compensation		Employer social insurance contribution		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Total Executive Board	3'190	3'343	1'662	1'494	15	15	592	621	5'459²	5'473³
<i>thereof cash</i>	<i>3'190</i>	<i>3'343</i>	<i>445</i>	<i>340</i>	<i>15</i>	<i>15</i>	<i>592</i>	<i>621</i>	<i>4'242</i>	<i>4'319</i>
<i>thereof shares</i>	-	-	<i>1'055</i>	<i>1'015</i>	-	-	-	-	<i>1'055</i>	<i>1'015</i>
<i>thereof options</i>	-	-	<i>162</i>	<i>139</i>	-	-	-	-	<i>162</i>	<i>139</i>
thereof Matthias Reinhart¹	525	525	190	165	9	9	83	82	807	781
<i>thereof cash</i>	<i>525</i>	<i>525</i>	<i>43</i>	<i>38</i>	<i>9</i>	<i>9</i>	<i>83-</i>	<i>82</i>	<i>660</i>	<i>654</i>
<i>thereof shares</i>	-	-	<i>127</i>	<i>112</i>	-	-	-	-	<i>127</i>	<i>112</i>
<i>thereof options</i>	-	-	<i>20</i>	<i>15</i>	-	-	-	-	<i>20</i>	<i>15</i>

1 Highest compensation within the Executive Board as CEO of VZ Group.

2 On 1 October 2017, Rafael Pfaffen took up the position as Chief Financial Officer from Philipp Marti. Rafael Pfaffen became a member of VZ Group's Executive Board, replacing Philipp Marti. Their compensation is reported only for the time during which they were members of the Executive Board.

3 On 1 August 2016, Stefan Thurnherr left VZ Group' Executive Board. His compensation is shown for the months as a member of the Executive Board only.

Executive Board compensation:

Motions submitted to the 2018 shareholders' meeting

In respect of the 2017 financial year, the shareholders' meeting approved the maximum fixed compensation of the Executive Board amounting to TCHF 3500 plus the employer social insurance contributions amounting to TCHF 550. In addition, in respect of the 2016 financial year, it approved the variable compensation amounting to TCHF 1494 plus the employer social insurance contributions amounting to TCHF 97.

Fixed compensation

CHF '000

	Financial year 2017: Approved at the 2017 shareholders' meeting	Compensation 2017	Difference	Financial year 2018: Proposal to the 2018 shareholders' meeting
Fixed compensation	3'500	3'205	295	3'600 ¹
Employer social insurance contribution	550	495	55	560
Total	4'050	3'700	350	4'160

¹ Including other salary components

For the 2018 financial year, the Board of Directors is proposing a maximum compensation amounting to TCHF 4160 (incl. employer contributions to social insurance agencies) to the shareholders' meeting of 10 April 2018. In addition, it is proposing a variable compensation for the 2017 financial year amounting to TCHF 1749 (incl. employer contributions to social insurance agencies).

Variable compensation

CHF '000

	Bonus Financial year 2016: Approved at the 2017 shareholders' meeting	Bonus financial year 2017: Proposal to the 2018 shareholders' meeting
Variable compensation	1'494	1'662
Employer social insurance contribution	97	87
Total	1'591	1'749

Share ownership

Share portfolio of Board of Directors, including related parties

Last name	First name	Number of shares per 31.12.2017	Number of shares per 31.12.2016
Kindle	Fred	98'771	98'457
Iff	Roland	6'041	5'853
Langhart	Albrecht, Dr.	5'776	5'335
Ledergerber	Roland	2'058	1'917
de Perregaux	Olivier	558	417

Share portfolio of Executive Board, including related parties

Last name	First name	Number of shares per 31.12.2017	Number of shares per 31.12.2016
Reinhart	Matthias	4'872'101 ¹	4'869'334 ¹
Vitarelli	Giulio	25'677	25'757
Schönbucher	Thomas	3'323	3'200
Friess	Tom	45'341	44'994
Weber	Marc	12'909	12'407
Stocker	Peter	64'941	64'680
Heim	Lorenz	52'858	52'535
Feldmann	Urs	22'736	22'855
Marti	Philipp	– ²	10'000
Pfaffen	Rafael	1'613	– ³

1 4'407'974 of the shares are held through Madarex Ltd, Zug, of which Matthias Reinhart is the sole shareholder.

2 Philipp Marti left the Executive Board on 1 October 2017.

3 Rafael Pfaffen has been a member of the Executive Board since 1 October 2017.

Options portfolio of Executive Board, including related parties as at 31.12.2017

Last name	First name	Year of allocation				
		2017	2016	2015	2014	2013
Reinhart	Matthias	746	1'194	2'038	1'668	2'306
Vitarelli	Giulio	1'016	1'378	2'252	1'890	0
Schönbucher	Thomas	646	896	1'482	0	0
Friess	Tom	694	950	1'504	966	900
Weber	Marc	1'004	1'340	2'170	1'860	1'395
Stocker	Peter	522	760	1'390	932	0
Heim	Lorenz	646	814	1'296	932	643
Feldmann	Urs	820	976	1'534	0	0
Pfaffen	Rafael	298	324	508	376	460
Exercised options		0	0	0	2'698	9'758
Exercise price in CHF		376.45	345.25	202.25	191.00	146.25
Maturity		5.4.23	11.4.22	11.4.21	24.2.20	24.2.19

All options allocated in 2012 (exercise price CHF 117.45, maturity 24.2.2018) have been exercised.

REPORT OF THE STATUTORY AUDITOR



Report of the statutory auditor to the General Meeting of VZ Holding AG Zurich

We have audited the remuneration report of VZ Holding AG for the year ended 31 December 2017. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables on pages 40 to 51 of the remuneration report.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Opinion

In our opinion, the remuneration report of VZ Holding AG for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

A handwritten signature in blue ink, appearing to be 'R. Birrer'.

Rolf Birrer
Audit expert
Auditor in charge

A handwritten signature in blue ink, appearing to be 'Y. Khan'.

Yousuf Khan
Audit expert

Zurich, 27 February 2018





FINANCIAL STATEMENTS VZ GROUP

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CONSOLIDATED INCOME STATEMENTS

CHF '000

	Page	2017	2016
Consulting fees	89	21'716	18'759
Management fees			
On assets under management	89	184'709	167'268
Other management fees	89	18'946	17'824
Banking revenues	89	30'207	29'215
Net earned insurance premiums	90	4'199	2'327
Other operating revenues	90	458	472
Total operating revenues		260'235	235'865
Personnel expenses	90	(104'001)	(93'715)
Other operating expenses	91	(45'193)	(34'945)
Total operating expenses		(149'194)	(128'660)
EBITDA		111'041	107'205
Depreciation and amortisation	97, 98	(8'438)	(6'820)
EBIT		102'603	100'385
Finance expenses	91	(120)	(156)
Finance income	91	91	170
Net finance income		(29)	14
Profit before income taxes		102'574	100'399
Income taxes	92	(15'751)	(16'275)
Net profit		86'823	84'124
Attributable to:			
Shareholders of VZ Holding Ltd		86'754	84'092
Non-controlling interests		69	32
Basic earnings per share (CHF)	93	10.92	10.56
Diluted earnings per share (CHF)	93	10.88	10.50

The notes to the consolidated financial statement are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CHF '000

	2017	2016
Net profit recognised in the income statement	86'823	84'124
Other comprehensive income, which can be reclassified to the income statement		
Cumulative conversion adjustments	2'222	(88)
Tax effects	0	0
Total other comprehensive income (net of tax), which can be reclassified to the income statement	2'222	(88)
Other comprehensive income, which can not be reclassified to the income statement		
Remeasurement of defined benefit obligation	(3'214)	(8'966)
Tax effects	630	1'781
Total other comprehensive income (net of tax), which can not be reclassified to the income statement	(2'584)	(7'185)
Total comprehensive income	86'461	76'851
Attributable to:		
Shareholders of VZ Holding Ltd	86'399	76'835
Non-controlling interests	62	16

The notes to the consolidated financial statement are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

CHF '000

	Page	31.12.2017	31.12.2016
Assets			
Cash and cash equivalents	94	695'459	758'335
Short term investments	94	215'542	157'369
Marketable securities at fair value	94	110	43
Trade receivables	94, 95	5'695	4'396
Other receivables	94, 95	16'436	13'465
Accrued income and deferred expenses	95	50'806	33'615
Other current assets	95	12'468	4'679
Current assets		996'516	971'902
Financial assets	95, 96	1'619'563	1'435'365
Investments in associates	96	405	403
Property and equipment	97	71'882	15'193
Intangible assets	98	9'957	9'367
Deferred tax assets	100	5'152	2'368
Non-current assets		1'706'959	1'462'696
Total assets		2'703'475	2'434'598
Liabilities and equity			
Trade payables	99	873	519
Other current liabilities	99	10'173	10'261
Due to banks	99	4'552	5'889
Due to customers	99	2'026'436	1'842'756
Income tax payables		16'471	8'891
Provisions	101	7'200	2'000
Accrued expenses and deferred income	102	22'676	13'499
Current liabilities		2'088'381	1'883'815
Long-term debts	103	133'685	112'872
Other non-current liabilities	103	21'913	17'658
Deferred tax liabilities	100	26	197
Non-current liabilities		155'624	130'727
Total liabilities		2'244'005	2'014'542
Share capital	104	2'000	2'000
Treasury shares	105	(17'276)	(7'371)
Retained earnings	105	386'839	342'439
Net profit		86'754	84'092
Cumulative conversion adjustments	105	958	(1'264)
Equity attributable to shareholders of VZ Holding Ltd		459'275	419'896
Non-controlling interests		195	160
Total equity		459'470	420'056
Total liabilities and equity		2'703'475	2'434'598

The notes to the consolidated financial statement are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

CHF '000

	Page	2017	2016
Operating activities			
Net profit		86'823	84'124
Depreciation and amortisation of fixed assets and intangible assets	97, 98	8'438	6'820
Net capital (gains)/losses and impairments on financial assets		315	1'633
(Increase)/decrease in dues from short term investments	94	(58'173)	39'618
(Increase)/decrease in market value of marketable securities at fair value	94	(68)	183
(Increase)/decrease in trade receivables	94, 95	(1'299)	(287)
(Increase)/decrease in financial assets	95, 96	(136'192)	(219'213)
(Increase)/decrease in other operational assets	95	(30'735)	(7'641)
Increase/(decrease) in trade payables	99	353	(180)
Increase/(decrease) in other operational liabilities		25'953	14'876
Increase/(decrease) in due to banks		(1'337)	5'889
Increase/(decrease) in due to customers	99	183'680	364'610
Non cash share-based payment transactions		(1'320)	(2'606)
Other non-cash items		(2'584)	(7'185)
Net cash flows (used in)/provided by operating activities		73'854	280'641
Investing activities			
Purchase of property and equipment	97	(60'532)	(5'083)
Proceeds from sale of property and equipment		0	4
Purchase of financial assets held to maturity	95	(93'625)	(13'899)
Proceeds from financial assets held to maturity	95	45'302	41'473
Purchase of intangible assets	98	(5'135)	(5'912)
Cash flow (used in)/provided by investing activities		(113'990)	16'583
Financing activities			
Purchase of treasury shares	105	(24'017)	(9'916)
Proceeds of treasury shares	105	11'692	12'022
Repayment of long-term debts	103	(8'100)	(1'189)
Proceeds from long-term debts	103	28'914	3
Dividends paid to shareholders	122	(33'376)	(33'431)
Cash flow (used in)/provided by financing activities		(24'887)	(32'511)
Effect of foreign exchange rate changes		2'147	(126)
Net increase/(decrease) in cash and cash equivalents		(62'876)	264'587
Cash and cash equivalents at beginning of the period		758'335	493'748
Cash and cash equivalents at the end of the period		695'459	758'335
thereof			
Cash at banks and in hand		638'876	476'738
Short term deposits less than 90 days		56'583	281'597
Other supplementary cash flow disclosures			
Interest paid from net finance income		(11)	(16)
Interest received from net finance income		14	62
Income tax paid		(10'719)	(9'403)

The notes to the consolidated financial statement are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

CHF '000

	Share capital ¹	Treasury shares ¹	Cumulative conversion adjustment ¹	Retained earnings ¹	Equity to shareholders of VZ Holding Ltd ¹	Non-controlling interests	Total equity
As at 1 January 2016	2'000	(9'364)	(1'176)	385'532	376'992	180	377'172
Net profit				84'092	84'092	32	84'124
Other comprehensive income			(88)	(7'169)	(7'257)	(16)	(7'273)
Total comprehensive income for the period			(88)	76'923	76'835	16	76'851
Participation plans				(6'469)	(6'469)		(6'469)
Change in treasury shares ¹		1'993		3'976	5'969		5'969
Dividends				(33'431)	(33'431)	(36)	(33'467)
As at 31 December 2016	2'000	(7'371)	(1'264)	426'531	419'896	160	420'056
As at 1 January 2017	2'000	(7'371)	(1'264)	426'531	419'896	160	420'056
Net profit				86'754	86'754	69	86'823
Other comprehensive income			2'222	(2'577)	(355)	(7)	(362)
Total comprehensive income for the period			2'222	84'177	86'399	62	86'461
Participation plans				(4'937)	(4'937)		(4'937)
Change in treasury shares ¹		(9'905)		1'198	(8'707)		(8'707)
Dividends				(33'376)	(33'376)	(27)	(33'403)
As at 31 December 2017	2'000	(17'276)	958	473'593	459'275	195	459'470

1 Further details are shown on pages 104 and 105

The notes to the consolidated financial statement are an integral part of these consolidated financial statements.



NOTES TO THE FINANCIAL STATEMENTS

Accounting principles

The Board of Directors approved VZ Holding Ltd's consolidated financial statements on 27 February 2018. They must also be approved by the shareholders' meeting held on 10 April 2018.

Corporate information

VZ Group consists of VZ Holding Ltd, founded in 1992 in Zurich, Switzerland, and its consolidated subsidiaries. VZ Holding is a limited company under Swiss law, domiciled in 8002 Zurich, Beethovenstrasse 24.

The most important target groups are individuals and couples aged 50 or over who live in their own homes. Many of those come to VZ Group in order to plan their financials for retirement. After the consultancy they have a comprehensive concept as an effective basis for their decisions, together with a detailed plan of action. The result of a consultancy is a tangible added value: for example, a sound financial plan for the coming phase of their lives, an improved balance between investment risks and returns, a lower tax burden or cheaper mortgages and insurance policies. This establishes trust and opens many doors for us: an increasing number of consultancy clients go on to use additional VZ wealth management services.

The majority of VZ's operating revenues stems from wealth management services, in particular from discretionary portfolio management mandates. Clients who prefer not to delegate investment decisions entirely may opt for a depository or advisory mandate to get professional support for their investments. Revenues from management mandates are normally settled on a volume basis.

Most wealth management clients use VZ Depository Bank as a custody and transaction platform. This platform is also open to clients who manage their assets themselves. HypothekenZentrum enables clients to take out or refinance their mortgages. VZ Group's foundations offer attractive personal insurance under the second and third pillar. And finally, clients can insure their property and liability risks through VZ InsurancePool. Together, these platforms enable households to cover all their financial needs.

Principles

Basis of preparation

The consolidated financial statements are presented in Swiss francs (CHF). All amounts in the Notes are shown in thousand francs (CHF '000), rounded to the nearest thousand unless otherwise stated.

VZ Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. Generally, the historical cost principle is applied, with the exception of financial assets at fair value through profit or loss, derivative financial instruments and financial liabilities, which are measured at fair value.

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of the accounting standards and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results form the basis for determining the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. A revised estimate can affect both the current and future periods.

Decisions made by management in the application of IFRS can have a significant impact on the consolidated financial statements while estimates in the annual financial statements can entail significant material adjustment in the following year. Further details are provided in the section entitled «Estimates, assumptions and management's discretionary power» on pages 75 and 76.

Changes in financial reporting

New accounting policies

The following new standards and amendments to existing standards have been adopted with a date of initial application as of 1 January 2016:

- IAS 7 Disclosure initiative
- IAS 12 Recognition of deferred taxes for on unrealised losses
- Annual improvements 2014–2016

These new or revised IFRS Standards and Interpretations have no impact on the group result or VZ Group's equity capital.

Standards and interpretations that have not yet been implemented

IASB and IFRS IC have passed a number of new Standards and Interpretations. Some of them must be applied from 1 January 2018, others later on. VZ Group has not used the possibility of early adoption of these changes and is currently analysing their implications.

New standards and interpretations: main impact

- IFRS 9 Financial instruments

IFRS 9 describes the classification, valuation and derecognition of financial assets and liabilities and introduces new hedge accounting rules. Therefore, several financial instruments have been re-classified, and new valuation principles apply. VZ Group will introduce a new model to calculate the impairment of financial instruments and will take expected losses to the profit and loss account at the initial recognition. VZ Group will apply the new standard with the modified retrospective method as of 1 January 2018. With the new model for impairment in value, VZ Group expects a negative valuation difference of TCHF 89 as of 1 January 2018, which will be recognised in the consolidated equity without affecting the operating result.

- IFRS 16 Leases

Under IFRS 16, all leases are reported in the balance sheet and the lease payments are divided into amortisation and interest components. VZ Group will apply the new standard as of 1 January 2018. Based on previous analysis, no significant impact is expected, except of the accounting of lease liabilities and rights of use.

According to the current assessment, the implementation of these innovations will have no material impact on VZ Group's net profit, comprehensive income and equity in 2019 besides the accounting of lease liabilities and rights of use.

Other new standards and interpretations

Based on initial analyses, the following new and revised standards and interpretations are not expected to have any significant impact on VZ Group's net profit, comprehensive income and equity or are not expected to be relevant for VZ Group:

- IFRS 2 Classification and measurement of share based payment transactions
- IFRS 4/IFRS 9 Financial instruments with insurance contracts
- IFRS 15 Revenues from contracts with clients
- IAS 28 Investments in associates and joint ventures
- IAS 40 Transfers of investment properties
- IFRS IC 22 Foreign currency transactions and advance consideration
- IFRS IC 23 Uncertainty over income tax treatments
- Annual improvements 2014–2016
- Annual improvements 2015–2017

Summary of key accounting principles

The consolidated financial statements of the VZ Group and its subsidiaries are prepared applying consistent accounting and valuation principles.

Consolidation principles

Subsidiaries

The consolidated financial statements comprise the financial statements of VZ Group and its subsidiaries as at 31 December of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

All subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date on which such control ceases.

Associates

Companies in which VZ Group holds 20% to 50% of the voting rights and is able to exercise a significant influence are included according to the equity method. According to the equity method, shares in a company are recognised at acquisition at acquisition cost. After the acquisition, the carrying amount of the associates is increased or reduced by VZ Group's share of the comprehensive income and the owner-related changes in the associates' equity.

Foreign currency translation and transactions

Foreign currency transactions

Revenues and expenses denominated in foreign currencies are translated at the foreign exchange rate prevailing on the date of the transaction.

Foreign currency translation

The consolidated financial statements are presented in Swiss francs (CHF), which is the functional and presentation currency of the companies in Switzerland. The euro (EUR) is the functional currency of the companies in Germany. At the end of the year, the assets and liabilities of this subsidiary are translated into VZ Group's presentation currency at the rate of exchange prevailing on the balance sheet date. Its income and cash flow statements are converted at the average exchange rates for the year. The resulting conversion differences are recorded directly in the statements of comprehensive income as cumulative conversion adjustments. Monetary assets and liabilities denominated in a foreign currency are converted at the balance sheet date. Non-monetary assets are converted at historical foreign exchange rates. Foreign exchange differences are recognised in the income statement.

The following exchange rates are used for the major currencies:

Foreign currency unit	Year end rates for the balance sheets as of		Average rates for income statements and cash flow statements for the years	
	31.12.2017	31.12.2016	2017	2016
USD	0.9750	1.0158	0.9846	0.9853
EUR	1.1708	1.0726	1.1119	1.0901

Cash and cash equivalents in the consolidated cash flow statements

Cash and cash equivalents in the consolidated cash flow statements comprise petty cash, cash in bank and postal accounts, call deposits and short-term money market investments with a maturity of three months or less from the date of acquisition, net of outstanding bank and postal overdrafts.

Segment information

The determination of the operating segments is based on the management approach. The reported segments have to be in line with the financial information the business is managed, the management takes decisions and assesses the performance. The reported financial information correspond with the internal management information.

VZ Group focuses its services on individuals and couples aged 50 or over who live in their own homes. Out of one hand and through several platforms miscellaneous financial services are provided for these clients. Because of this focus VZ Group only reports one segment, in accordance with the applicable rules and VZ Group's management organisation. The financial management of VZ Group by the board of directors and executive board therefore is based on the consolidated income statements, consolidated balance sheets and consolidated cashflow statements. The reported financial information correspond with the internal management information.

Further details are provided on page 106.

Financial instruments (general information)

Initial recognition

Purchases and sales of financial assets are recognised in the balance sheet on the transaction date. At the time of initial recognition, financial assets or liabilities are assigned to a corresponding category according to IAS 39 criteria and measured at the fair value of the consideration given or received including directly attributable transaction costs. In the case of trading portfolios, the transaction costs are classified with immediate effect on the income statement (see section entitled «Financial instruments» on pages 114 to 117).

Determination of fair value

Following initial recognition, the fair value of financial instruments is determined according to quoted market prices or the prices quoted by traders as long as the financial instrument is traded on an active market. The fair value of the remaining financial instruments is exclusively determined using generally accepted valuation models that are based on parameters observable on the market. In these cases, the appropriateness of the valuation is ensured through the application of clearly defined methods and processes as well as independent controls.

Impairment of financial instruments

VZ Group assesses at each balance sheet date whether a financial instrument is impaired. For listed financial instruments, impairment is considered if creditworthiness requirements are no longer met because of a rating downgrade. Impairments are also considered in case of available market information about a possible default or incomplete recovery. For non-listed financial instruments valuation is assessed on the basis of other suitable information (general financial information as well as information available to VZ Group due to its business activities).

Derecognition	<p>Financial instruments assets are derecognised if the rights to receive payments from them have expired or are transferred and the group has transferred all risks and remuneration claims.</p> <p>Financial liabilities are derecognised when the obligations specified in the contract are discharged, cancelled or expired.</p>
	Financial instruments (specifications for the balance sheet items)
Receivables due from customers and other receivables	Receivables due from customers and other receivables are recognised at amortised costs less any value adjustments. By 31 December 2017, no value adjustments were necessary. Defaults are derecognised.
Financial instruments held for trading at fair value	Financial instruments held for trading purposes are reported in the balance sheet at fair value under «Marketable securities». Profits and losses from sales and repayments, interest and dividend income as well as changes to the fair value are recorded in the income statement.
Financial assets available for sale	As at the reporting date of 31 December 2017, VZ Group did not hold any financial assets classified as available for sale (31.12.2016: zero).
Financial assets held to maturity	Financial assets held to maturity are reported in the balance sheet under «Financial assets» at amortised cost using the effective interest method. A financial asset held to maturity is considered impaired if it is likely that it will not be possible to collect the entire amount due according to the contractual terms. The causes of an impairment may relate to the counterparty or be of a country-specific nature. If an impairment takes place, the carrying amount will be reported in the income statement at the reduced recoverable value. As per the reporting date of 31 December 2017, VZ Group did not have to carry out any impairments or derecognitions (31.12.2016: zero). Interest is amortised using the effective interest method for each reporting period and recorded under «Banking revenues».
Loans	Loans are reported in the balance sheet at amortised cost under «Financial assets» using the effective interest method less any specific allowances for credit risks. Due to the size and structure of VZ Group's credit portfolio and its policy, loans are generally only granted on a secured basis and to counterparties with very high creditworthiness and no general allowances are made for credit risks. A loan is considered impaired if it is likely that the amount due according to the contractual terms cannot be entirely collected. An impairment is recorded under «Other operating expenses» and corresponds to the difference between the carrying amount of the loan and the present value of estimated future cash flows, taking account of the counterparty risk and the net proceeds from the liquidation of any collateral. The reasons for impairment can be specific to the relevant counterparties or countries. As a rule, derecognition takes place at the time when a legal title confirms the conclusion of the liquidation process. On the reporting date of 31 December 2017, no impairments or derecognitions were necessary (31.12.2016: zero). Interest income on loans which are not overdue are deferred to the respective period and recorded in the income statement under «Banking revenues».

HypothekenZentrum Ltd remains the creditor for collateralised residential mortgages for private individuals in Switzerland. The mortgages are refinanced in undisclosed assignments, either by VZ Depository Bank or by other institutional investors. The credit risks consisting of the mortgages' nominal value and the interest payments for the refinancing are assumed by the assignees. HypothekenZentrum may provide interim financing for individual mortgages. In accordance with the relevant accounting principles, mortgages assigned to third parties are not recognised in the balance sheet, whereas mortgages refinanced either by VZ Depository Bank or HypothekenZentrum are recognised. Further details are provided on pages 95 and 96.

Derivative financial instruments and hedging transactions

VZ Group applies foreign exchange forward and interest rate swaps. Interest rate swaps are only applied to hedge the interest rate risk. The positive and negative replacement values of derivative financial instruments are assessed at fair value and reported in the balance sheet. The fair values are based on stock exchange quotations or option price models. From an economic point of view and in accordance with VZ Group's risk management principles, these interest rate swaps qualify as hedging transactions (hedge accounting). If hedge accounting is applied, VZ Group documents the relationship between the hedging instrument and the underlying transaction as well as the type of risk and risk management objectives and strategy. This documentation also comprises proof of how VZ Group determines the effectiveness of the hedging instrument regarding the offsetting of the exposure to changes in the hedged item's fair value or attributable cash flows. The effectiveness of the hedge is measured at inception, periodically during its term as well as prospectively, and must amount to between 80 % and 125 %. If not, hedge accounting is discontinued and the underlying transaction is assessed at amortised cost again. The valuation difference at the time of the revaluation of the underlying transaction as well as future changes in fair values of the derivative financial instruments are recognised in the income statement under «Banking revenues».

Foreign exchange forward transactions held for trading are recognised as positive or negative replacement values. They are assessed at fair value and recognised in the balance sheets. The fair value is based on stock exchange quotations or option price models. Changes of the fair value of items held for trading are recognised in the income statements under «banking revenues».

There are three basic types of hedge: «fair value hedge», «cash flow hedge» and «hedge of net investments in foreign operations». VZ Group currently only uses fair value hedges. When applying fair value hedges, changes attributable to the hedged risk in the fair value of the underlying transaction as well as overall changes to the derivative financial instrument are recognised in the income statement under «Banking revenues». Changes in the fair value of the underlying transaction are reported under «Financial assets» while changes in the fair value of the derivative financial instrument are shown under «Other assets» or «Other liabilities».

Cash and cash equivalents	Cash and cash equivalents in the balance sheet comprise petty cash and cash in bank and postal accounts, call deposits and short-term money market investments with a maturity of three months or less from the date of acquisition. The amount payable as per the reporting date of claims vis-à-vis banks due on demand without fixed maturity dates corresponds to the fair value.
Short term investments	Short-term investments include fixed-term investments at banks as well as bridging loans for mortgage customers and lombard credits. All positions entail maturities of between three and twelve months from the date of acquisition.
Due to customers	Liabilities to clients include sight deposits and fixed-term investments made by clients. The amount payable as per the reporting date of sight deposits without fixed maturity dates corresponds to the fair value.
Non-current financial liabilities	Non-current financial liabilities include loans from central mortgage institutions, time deposits and medium-term notes. Non-current financial liabilities are recognised at fair value less transaction costs at initial issue and subsequently at amortised cost using the effective interest method.

Property and equipment

Property and equipment assets comprise buildings and land, interior fittings, furnishings, equipment and IT systems. These assets are capitalised if their acquisition or production costs can be reliably determined, they will bring future economic benefit and their expected period of use exceeds one year. Minor purchases and renovation and maintenance costs that do not generate added value, on the other hand, are charged directly to operating expenses.

Capitalisation is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the useful life of the assets.

Property and equipment assets are derecognised upon disposal or when no future economic benefits are expected from them. Any gain or loss arising on the derecognition of assets (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) is included in the income statement in the year the assets are derecognised.

The residual values of the assets, their useful lives and the methods of depreciation are reviewed and adjusted if appropriate at the end of each financial year.

Intangible assets

On the one hand intangible assets include purchase of software and licences, on the other hand they comprise business set-up costs from external suppliers for IT solutions related to the launch of VZ InsurancePool Ltd and VZ Depository Bank Germany Ltd. Those costs are capitalised as intangible assets if they meet the recognition criteria for capitalisation (identifiability, control, probable future economic benefits, reliability in measuring costs), and are carried at cost less accumulated amortisation.

Capitalisation is recorded at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis over the useful life of the assets.

The residual values of the assets, their useful lives and the methods of depreciation are reviewed and adjusted if appropriate at the end of each financial year.

Impairment of tangible and intangible assets

The carrying amount of tangible and intangible assets is reviewed whenever events or changes in circumstances indicate that the carrying amount may be unjustifiably high. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised. The amount of this impairment comprises the difference between the carrying amount and the higher amount of a) the fair value less costs to sell or b) the value in use. Any reversal of impairments at a later date is recognised in the income statement.

Trade payables and other current and non-current liabilities

Trade payables and other current and non-current liabilities are carried at amortised costs using the effective interest rate method.

Provisions

Provisions are recognised if the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of funds will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The recognition and release of provisions are presented in the income statement under the corresponding expense category.

Recognition of revenue

Revenues from services are recognised in the account period in which the services are rendered. Revenues from services are recognised pro rata if the services are rendered over a given period.

Performance fees are only recognised once the contractual performance measurement criteria are met. No revenue is recognised if there are significant uncertainties regarding the solvency of a counterparty.

Net finance income

Net finance income comprises interest income and expenses, income from investments, gains and losses from foreign exchange and securities transactions, bank charges and credit commissions. Gains and losses from foreign exchange transactions are determined using the current foreign exchange rate. Interest income and expenses are recognised in the income statement when incurred. VZ Depository Bank's interest income and expenses form part of our business activities and are therefore attributed to banking revenues and not reported under net finance income.

For detailed information please see page 91.

Income taxes

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to calculate the amount are those that are enacted or most likely to be substantively enacted in the future.

Current income taxes

Current income taxes are calculated on the basis of the applicable tax laws in the individual countries and recognised as expenses in the period in which the related profits are made. Assets or liabilities related to current income taxes are reported in the balance sheet as income tax payables and receivables.

Deferred income taxes

Tax effects arising from temporary valuation differences between the carrying amounts of assets and liabilities in the Group balance sheet and their corresponding tax values are recognised as «Deferred tax assets» and «Deferred tax liabilities» in the balance sheet. Deferred tax assets arising from temporary valuation differences and from loss carry-forwards eligible for offset are capitalised if it is likely that sufficient taxable profits will be available against which these differences or loss carry-forwards can be offset. Deferred tax assets and deferred tax liabilities are calculated at the tax rates expected to apply in the period in which the tax assets will be realised or tax liabilities settled.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised as an expense in the income statement on an accrual straight-line basis over the lease term. Operating lease contracts exist for office spaces and office equipment. There are no financial lease contracts.

Insurance business

Insurance contracts as defined by IFRS comprise all products containing a significant technical risk.

Insurance premiums are recognised at the beginning of the contract period. The share of earned premiums is calculated for each contract and accrued pro rata temporis. The remaining share is deferred to the relevant financial years as unearned premium reserve. Earned premiums are recognised under «Net earned insurance premiums».

Claims incurred including external claims handling expenses less the reinsurers' share of claims incurred are reported on an accrual basis. These expenses plus the change in actuarial loss reserves are recognised under «Other operating expenses».

The total actuarial claims reserve is recognised under «Other long-term liabilities».

VZ InsurancePool Ltd insures non-life risks for private individuals such as insurances for motor vehicles, buildings, private properties and liabilities. VZ InsurancePool Ltd's financial statements are subject to the regulation of the Swiss financial market supervisory authority.

Treasury shares

Shares of VZ Holding Ltd held by VZ Group are qualified as treasury shares. They are deducted from equity at the weighted average acquisition value. Changes in fair value are not recorded. For sales of treasury shares the FIFO method is applied. The difference between the sales proceeds of the treasury shares and the acquisition value is reported under reserves.

Share-based payments

Shares

As a reward for their services, senior management members receive part of their compensation in the form of shares of VZ Holding Ltd (so called equity-settled transactions). Share-based compensation is restricted to variable salary components. Variable compensation is determined by the achievement of individual performance targets and the group's financial results.

Furthermore, the remunerations of the members of the Board of Directors are paid out in shares.

Options

Costs for equity-settled transactions are calculated at the fair value of the transactions on their date of issue. The fair value is determined using the Enhanced American model. The costs for granting the equity instruments and the corresponding increase in equity are recognised over the vesting period (period in which the exercise or performance conditions must be fulfilled). The vesting period ends on the day on which the employee is irrevocably entitled to exercise the option right. At each reporting date until the end of the vesting period the cumulated costs of the equity-settled options are disclosed and reflect the share of the vesting period already over and the number of equity-settled options that are expected to be exercisable after the vesting period. The costs or revenues recognised in the accounting period reflect the development of the cumulated costs for the equity-settled options at the start and end of the accounting period. No costs are recognised for options that do not become exercisable.

The diluting effect of the outstanding options on the calculation of earnings per share is recognised by adding the outstanding exercisable options from the management participation program to the weighted number of shares.

Further information relating to the management participation is shown on pages 109 and 110.

Employee benefits/pensions

VZ Group operates three different pension schemes for its employees. The schemes are funded through payments to collective foundations or insurance companies. VZ Group has both defined contribution plans and a scheme qualifying as a defined benefit plan under IAS 19.

For the defined contribution plans, VZ Group pays contributions to a collective foundation or an insurance company. VZ Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future contributions is provided.

VZ Group's net obligations in respect of the defined benefit pension plan are calculated by qualified actuaries using the projected unit credit method. The actuarial gains and losses are recognised in the comprehensive income statements. Repayments and surpluses are only recognised to the extent that VZ Group derives an economic benefit in the form of a reduction in future contribution payments or a refund.

Estimates, assumptions and management's discretionary power

Estimates and judgements are continuously evaluated and are based on experience and other factors that are believed to entail reasonable future expectations under the circumstances. VZ Group makes estimates and assumptions concerning the future and assesses these according to the accounting principles in force. The estimates and assumptions by definition rarely match the effective results entirely. The estimates and assumptions that can significantly impact the carrying amounts of assets and liabilities in the following financial year or for which application of the accounting principles is largely based on estimates are discussed below.

Income taxes	VZ Group and its subsidiaries are liable for income tax. Current income tax assets and liabilities reported as per the balance sheet date and the current tax expenses resulting for the reporting period are based in part on estimates and assumptions and can therefore deviate from the amounts determined in the future by the tax authorities.
Deferred income taxes	Deferred taxes from losses are capitalised only if sufficient taxable profits are likely to be available in the future against which these losses carried forward can be offset. For detailed information refer to page 92 and 100.
Provisions	The amount recognised as a provision is calculated on the basis of the best estimates and assumptions available on the balance sheet date. The provisions are reviewed on each balance sheet date and adjusted to reflect the current best estimates. For detailed information refer to page 101.

Liabilities from insurance contracts	Loss reserves are set aside for all claims incurred by the end of the accounting period. The reserves also include provisions for claims incurred but not yet reported. Actuarial methods that take account of uncertainties are applied to determine the amount of reserves. For detailed information refer to page 103.
Management benefit programme	For the valuation of the costs for the options granted out of the share-based management benefit programme the probability of employees resigning before the vesting period has to be reassessed in the light of the current circumstances on a regular basis. For detailed information refer to pages 109 and 110.
Pension and other post-employment benefits	The costs of defined benefit pension plans are determined on the basis of actuarial valuations. The actuarial valuations involve making assumptions concerning the discount factor, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. For detailed information refer to page 75.
Revenue accruals	The recognition principles and the composition of revenues are described on page 72 and on pages 89 and 90. Although the principles are applied consistently, discretion may occur when calculating certain revenue accruals. Estimates are based on the actual revenues due.

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

Overall responsibility for risk management, including guidance, supervision and control, lies with the Board of Directors of VZ Group. It sets out the general guidelines for the entire Group, defines the risk policy and draws up the organisational, business and competence 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 & Audit Committee that consists of at least two independent, professionally qualified members of the Board of Directors and regularly reports to the entire Board of Directors on its activities.



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.

Risk Office,
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. The Risk Office compiles a semi-annual risk report and Legal & Compliance an annual activity report for the attention of the Risk & Audit Committee.

For banking and bank-related services VZ Group defines the following risk categories:

- Default risk (credit risk)
- Market risk
- Liquidity and refinancing risk

For insurance services:

- Risks from insurance contracts

Plus generally applicable risk categories:

- Operational risk
- Regulatory and legal risk
- Reputational risk

VZ Depository Bank Germany Ltd has been operative since 1 July 2017. Due to the short presence on the market, the risks from the new bank's business account for a minor share of VZ Group's risks (especially 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 Depository 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 margin business of VZ Depository banks. On the asset side of the balance sheet these include receivables from banks, public bodies and clients as well as its financial assets. On the liabilities side these risks derive from liabilities towards clients of VZ Depository banks.

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

Default and credit risk

Default and credit risks reflect the losses that can arise if counterparties fail to service or repay loans as agreed. Counterparties are banks, public bodies, companies and clients. The maximum default risk essentially amounts to the reported book values. There were no overdue receivables as at the reporting date and there are no value adjustments required.

Mortgages	Mortgage loans are the most significant item in the balance sheet of VZ Group. They are spread across a large number of mortgage holders and secured by way of a real estate lien. For this reason the default risk is low and there have been no defaults so far. For diversification reasons, mortgage loans were increased in the course of the growth of the balance sheet total.
Lombard credits	Lombard credits reported in the balance sheets are secured by lodged securities. For that reason the resulting credit risk is very low.
Loans to banks	The greatest default risks of VZ Group arise from loans of VZ Depository banks to other banks. Many bank balance sheets still do not fulfill solid capital adequacy even though in 2017 measures to build and rise additional capital were taken. The economic structural improvements within the financial industry in many countries is still on-going. Historically low interest rates remain a significant risk in evaluating banks as counterparties for loans.

In order to limit the credit risk, strict credit criteria apply to loans to other banks. VZ Group only approves loans to banks with high credit standings and an international rating. The credit standings of Swiss banks are easier to assess and monitor. For this reason, loans to Swiss banks are also permitted if they have a state guarantee, a rating of a local financial institution or in exceptional cases no rating at all.

In addition, the Board of Directors restricts loans to individual counterparties by stipulating individual limits and taking into account investments or loans of other VZ Group companies to monitor counterparty risks also on a consolidated level. Additional country limits ensure that regional cluster risks are also restricted. Concentration risks relate primarily to the banking law provisions concerning risk distribution (Art. 95 et seq. CAO).

Foreign exchange swaps

A further counterparty risk results from foreign exchange swaps in the context of hedging short-term investments in foreign currencies. A loss may incur if the counterparty of the transaction defaults.

Rating table financial instruments

CHF '000

	State guarantee ¹	AAA	AA	A	BBB	No rating	Total
Cash & cash equivalents							
Sight deposits	580'588		3'101	46'940	427	7'820	638'876
Time deposits (< 3 months from original maturity)	51'708			4'875			56'583
Short term investments							
Time deposits (> 3 months from original maturity)	163'615			17'549			181'164
Mortgage pre-financing						1'373	1'373
Lombard credits						33'005	33'005
Due to customers						5'695	5'695
Other receivables						16'436	16'436
Financial assets							
Time deposits (> 1 year)	152'000						152'000
Mortgages						1'247'269	1'247'269
Bonds	142'459	9'844	44'154	21'368			217'825
Other financial assets						2'469	2'469
Total as at 31.12.2017	1'090'370	9'844	47'255	90'732	427	1'314'067	2'552'695
Total as at 31.12.2016	944'195	8'236	80'866	161'719	1'628	1'172'286	2'368'930

¹ 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.

Loans to customers (mortgages and lombard credits)

CHF '000

	Mortgage collaterals	Other collaterals	Without collaterals	Total
Lombard credits		33'005		33'005
Mortgages	1'226'231	21'038	0	1'247'269
Pre-financing	1'373			1'373
Total loans as at 31.12.2017	1'227'604	54'043	0	1'281'647
Total loans as at 31.12.2016	1'087'407	53'767	55	1'141'229

Off-balance sheet information

CHF '000

	Mortgage collaterals	Other collaterals	Without collaterals	Total
Contingencies		740		740
Irrevocable residential mortgages granted, promised payments, ÖRK, banks	24'427			24'427
Payment obligation regarding depositor protection measures			9'716	9'716
Total unconditional commitments/ payment obligations	24'427	740	9'716	34'883
Call receivables and liabilities			906	906
Total as at 31.12.2017	24'427	740	10'622	35'789
Total as at 31.12.2016	5'225	2'162	9'004	16'391

Table domestic and foreign countries financial instruments

CHF '000

	Domestic	Foreign countries	Total
Cash & cash equivalents			
Sight deposits	601'432	37'444	638'876
Time deposits (< 3 months from original maturity)	51'708	4'875	56'583
Short term investments			
Time deposits (> 3 months from original maturity)	181'164		181'164
Mortgage pre-financing	1'373		1'373
Lombard credits	19'056	13'949	33'005
Financial assets			
Time deposits (over 1 year)	152'000		152'000
Mortgages	1'247'269		1'247'269
Bonds	162'318	55'507	217'825
Other financial assets	2'469		2'469
Total as at 31.12.2017	2'418'789	111'775	2'530'564
Total as at 31.12.2016	2'279'392	71'677	2'351'069

Account overdrafts

An additional default risk is posed by the possibility of short-term overdrafts of clients' accounts of VZ Depository banks. This risk is very low because of individually defined small limits for overdrafts. Nevertheless, VZ Depository Bank continuously monitors such overdrafts.

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.

While both the Swiss National Bank and the Deutsche Bundesbank apply negative interest on deposits and the capital market rates remain at a historic low, VZ Depository banks maintained their strict criteria for granting loans and did not take any higher risks.

Market risks

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.

Market price and liquidity risk

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.

VZ Group is barely exposed to any market price and liquidity risks because VZ Depository banks does not engage in any proprietary trading and VZ Group therefore only holds small stocks of securities. In exceptional cases, VZ Depository banks can temporarily hold small residual items arising from the processing of transactions for clients.

In event of market shifts of +/-10% price risks on securities measured at fair value impact total equity by +/- TCHF 11 (2016: +/- TCHF 4).

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 Depository 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. The interest risks are determined in accordance with the regulations that apply in the country in question. The accounting on group level is in accordance with the reporting of interest rate risks as defined in FINMA's Circular 08/06.

The business model of VZ Depository banks only entails low interest risks, as it can adjust its client interest rates (interest payable) to market developments at all times. A major share of the clients' money is deposited at sight and the residual maturity of most money market investments is less than 90 days. The average fixed interest period is around 1.2 years for mortgage loans (2016: 1.4 years) and around 5.2 years for bonds (2016: 4.1 years).

VZ Depository Bank Ltd, Zug, participates regularly in mortgage bond auctions of Schweizerische Pfandbriefbank in order to align the maturities of assets and liabilities. Mortgage bonds on the balance sheet date at 31.12.2017 amounted to CHF 130.8 million (31.12.2016: CHF 109.0 million) with an average maturity of 5.2 years (2016: 3.9 years). Due to no need for additional financial resources and the low level of interest rate risks no further long-term mortgage bonds were subscribed in 2017.

The interest risk in the event of a rise in the interest yield curve of 1 % (or 100 basis points) impact total equity by minus CHF 1.9 million (2016: minus CHF 4.8 million). In the event of a lowering of the interest yield curve of 1 % (or minus 100 basis points) the interest risk impact on total equity by plus CHF 2.3 million (2016: plus CHF 5.4 million). The interest risk is still on a low level.

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 Depository 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 Depository banks and hedged by forward foreign exchange contracts so that no currency risks arise.

As of 31 December 2017, the net balance of euros was CHF 20.9 million (31.12.2016: CHF 2.2 million). The higher balance results from the increase in VZ Depository Bank Germany Ltd's equity, which is held in cash and financial assets in euros.

The currency risk in the event of changes of foreign currency rates of +/-25 % in EUR impact total equity by +/- TCHF 5224 (2016: +/- TCHF 539), respectively of +/-25 % in USD the impact amounts to +/- TCHF 13 (2016: +/- TCHF 5).

Foreign exchange table financial instruments

CHF '000

	CHF	EUR	USD	Others	Total
Cash & cash equivalents					
Sight deposits	580'944	48'785	5'307	3'840	638'876
Time deposits (< 3 months from original maturity)	40'000	11'708	4'875		56'583
Short term investments					
Time deposits (> 3 months from original maturity)	112'900	23'415	44'849		181'164
Mortgage pre-financing	1'373				1'373
Lombard credits	32'888	117			33'005
Financial assets					
Time deposits (over 1 year)	152'000				152'000
Mortgages	1'247'269				1'247'269
Bonds	208'799	4'137	4'889		217'825
Other financial assets	2'469				2'469
Due to banks	(4'500)	(23)	(29)	0	(4'552)
Due to customers	(1'864'890)	(85'917)	(62'766)	(12'863)	(2'026'436)
Long-term debts					
Medium-term notes	(2'494)				(2'494)
Loans from central mortgage institutions	(131'191)				(131'191)
Total as at 31.12.2017	375'567	2'222	(2'875)	(9'023)	365'891
Foreign exchange forward contracts	0	18'672	2'926	9'053	30'651
Total as at 31.12.2017 (hedged)	375'567	20'894	51	30	396'542
Total as at 31.12.2016 (hedged)	392'952	2'154	19	19	395'144

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 financed at a reasonable price.

Refinancing risk VZ Group hardly bears any refinancing risks in the conventional sense. Maturity transformation is very low as the majority of clients' money and own funds are deposited at sight or in small to medium-term investments.

Liquidity risk The cash-flow and the gain in clients' money ensure sufficient liquidity for VZ Group. Based on the current business trend, this statement also remains valid for the near future. The treasury of VZ Depository Bank Ltd, Zug, is primarily responsible for investing the liquid assets.

VZ Depository Bank monitors its liquidity risks on the basis of the statutory risk measurement figures, in particular to the liquidity coverage ratio (LCR).

Maturity table (remaining time to maturity) financial instruments

CHF '000

	Demand	0 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
31.12.2017						
Cash & cash equivalents						
Sight deposits	638'876					638'876
Time deposits (< 3 months from original maturity)		56'583				56'583
Short term investments						
Time deposits (> 3 months from original maturity)		93'065	88'099			181'164
Mortgage pre-financing		1'373				1'373
Lombard credits		5'979	27'026			33'005
Financial assets						
Time deposits (over 1 year)				57'500	94'500	152'000
Mortgages		39'007	137'721	967'779	102'762	1'247'269
Bonds			24'357	86'988	106'480	217'825
Other financial assets		2'469				2'469
Due to banks	(4'552)					(4'552)
Due to customers	(2'017'797)	(5'031)	(3'608)			(2'026'436)
Long-term debts						
Medium-term notes		(430)	(610)	(1'419)	(35)	(2'494)
Loans from central mortgage institutions		(8'003)	(6'399)	(50'758)	(66'031)	(131'191)
Interest payments		(342)	(847)	(3'315)	(786)	(5'290)
Total as at 31.12.2017	(1'383'473)	184'670	265'739	1'056'775	236'890	360'601
31.12.2016						
Cash & cash equivalents						
Sight deposits	476'738					476'738
Time deposits (< 3 months from original maturity)		281'597				281'597
Short term investments						
Time deposits (> 3 months from original maturity)		41'360	85'610			126'970
Mortgage pre-financing		1'016				1'016
Lombard credits		5'645	23'738			29'383
Financial assets						
Time deposits (over 1 year)				62'547	107'500	170'047
Mortgages		23'867	81'584	876'131	129'248	1'110'830
Bonds		5'813	20'362	68'684	56'821	151'680
Other financial assets		2'808				2'808
Due to banks	(5'889)					(5'889)
Due to customers	(1'842'756)					(1'842'756)
Long-term debts						
Medium-term notes		(1'205)	(395)	(2'133)	(111)	(3'844)
Loans from central mortgage institutions		(12'801)		(52'867)	(43'360)	(109'028)
Interest payments		(277)	(766)	(3'349)	(936)	(5'328)
Total as at 31.12.2016	(1'371'907)	347'823	210'133	949'013	249'162	384'224

Further details and the remaining time to maturity of trade payables and other liabilities can be found on page 99.

Risks from insurance contracts

Risks from insurance contracts contain the risk that by accident, factual error or modification the expenses incurred for claims payments differ from anticipated expenses. It includes risks for claims, premiums and reserves. Large risks are transferred to reinsurers. Defaults of reinsurance partners qualify as counterparty risks.

Risks from insurance contracts are limited to VZ InsurancePool Ltd which is covering property and casualty insurance policies for private households (car, building, household and personal liability insurance).

Compared to other risk categories of VZ Group risks from insurance contracts are still of minor importance. VZ InsurancePool Ltd disposes of a very low-risk defined reinsurance programme.

Operational risk

Operational risks relate to the losses that can occur due to the failure of business processes or controls, systems or people or due to external events. Risk management ensures that the guidelines are upheld in all key 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 and business units. The aim of this is also to identify new risks and define their measurement and control.

Legal and regulatory risk

Legal and regulatory risk management seeks to minimise the so-called compliance risk, which refers to the legal or regulatory sanctions, financial loss or loss of reputation resulting from failure to comply with the applicable provisions. For VZ Group these particularly include financial market regulations and decrees and self-regulatory provisions in addition to its own code of conduct and provisions.

In 2017, the new duties for Corporate Governance as well for IT and cyber risks were implemented. In addition, changes and developments of the regulatory framework with potential implications from 2018 i.e. the Insurance Contracts Act, the Financial Services Act as well as the Financial Institutions Act and other Circulars of the Supervisory Authority were analysed. VZ Group continuously tracks these developments. It has formed the necessary committees and disposes of enough specialists in the Legal & Compliance department to implement all requirements on time.

Reputational risk

Negative media coverage can damage the VZ Group's good reputation. The VZ Group minimises reputational risks by means of clear management structures, standardised work processes, detailed client documentation, a code of conduct for all employees and the centralisation of important communication tasks.

Capital management

The purpose of capital management is to ensure sufficient capital allocation to the individual companies of the VZ Group at all times. To this end, three-year capital planning is carried out on an annual basis.

Banking regulatory disclosures on capital resources

The VZ Group as a financial services provider is subject to supervision by the Swiss Financial Market Supervisory Authority (FINMA). It therefore also has to meet the banking law regarding capital, liquidity and disclosure provisions. In terms of capital resources and liquidity, the VZ Group aims not only to meet the minimum regulatory requirements at all times, but also to facilitate its growth thanks to a solid capital structure and excess liquidity.

Presentation of eligible capital

CHF '000

	31.12.2017	31.12.2016
Common equity tier 1 capital (net CET1)	419'575	384'045
Additional tier 1 capital	0	0
Total regulatory capital (net T1)	419'575	384'045
Supplementary capital (T2)	0	0
Total of eligible capital	419'575	384'045

Presentation of required capital¹

CHF '000

	Approach used	Capital adequacy requirements	
		31.12.2017	31.12.2016
Credit risk	SA-BIZ	66'166	61'774
Non-counterparty-related risks	SA-BIZ	6'553	1'970
Market risk	De-minimis approach	1'678	170
Operational risk	Basis indicator	36'124	32'959
Total of required capital		110'521	96'873
Countercyclical buffer		8'663	7'645
Total risk-weighted positions		1'381'516	1'210'913
Countercyclical buffer as a percentage of total risk-weighted positions		0.63 %	0.63 %

¹ In this annual report VZ Group applies the international standard approach for credit risks (SA-BIZ) for the first time. The previous year's figure has been adjusted accordingly.

BIS ratios according to the FINMA Circular 2016/1¹

	31.12.2017	31.12.2016
Common equity tier 1 capital ratio (CET1) ²	30.37 %	31.72 %
Tier 1 capital ratio (T1) ³	30.37 %	31.72 %
Total eligible capital ratio (T1 & T2) ⁴	30.37 %	31.72 %
CET1 available to cover minimum and buffer requirements after deduction of AT1 and T2	26.87 %	28.22 %
CET1 available	26.57 %	27.92 %
T1 available	28.17 %	29.52 %
Eligible capital available	30.37 %	31.72 %

1 In this annual report VZ Group applies the international standard approach for credit risks (SA-BIZ) for the first time. The previous year's figure has been adjusted accordingly.

2 CET1 capital adequacy target according to FINMA Circular 11/2 for Category 4: 7.40 % (31.12.2016: 7.40 %)

3 Tier 1 capital adequacy target according to FINMA Circular 11/2 for Category 4: 9.00 % (31.12.2016: 9.00 %)

4 Overall capital adequacy target according to FINMA Circular 11/2 for Category 4: 11.20 % (31.12.2016: 11.20 %).

Information to the leverage ratio¹

CHF mio.

	31.12.2017	31.12.2016
Ratio of eligible equity and of total exposure		
Tier 1 capital	454	418
Leverage ratio exposure	2'728	2'441
Leverage ratio		
Leverage ratio	16.65 %	17.11 %

1 In this annual report VZ Group applies the international standard approach for credit risks (SA-BIZ) for the first time. The previous year's figure has been adjusted accordingly.

Notes on the income statements

Operating revenues

CHF '000

	2017	2016
Consulting fees	21'716	18'759
Management fees		
On assets under management	184'709	167'268
Other management fees	18'946	17'824
Banking revenues	30'207	29'215
Net earned insurance premiums	4'199	2'327
Other operating revenues	458	472
Total operating revenues	260'235	235'865

Consulting fees

Consulting topics include retirement, tax and estate planning, real estate financing and sales, builder-owner consulting, investment advice and will execution. Otherwise fiduciary services, risk management as well as occupational benefit planning.

Management fees

On assets under management

Management fees cover portfolio management, mortgage originating and servicing and other services.

Other management fees

Other management fees cover insurance, foundation and pension fund management.

Banking revenues

Banking revenues comprise the VZ Depository Bank's net revenues from interest, commission and trading business. Banking revenues attributable to portfolio management services are reported under management fees.

CHF '000

	2017	2016
Banking revenues	30'207	29'215
<i>thereof interest income</i>	<i>11'471</i>	<i>10'226</i>
<i>thereof interest expense¹</i>	<i>7'351</i>	<i>7'834</i>

¹ Negative interest paid on balances with the Swiss National Bank, Deutsche Bundesbank and other counterparties in 2017 TCHF 1989 (2016: TCHF 2402).

Earnings from insurance contracts

CHF '000

	2017	2016
Gross premiums written	5'363	3'617
Reinsurance premiums ceded	(648)	(278)
Net premiums written	4'715	3'339
Net change in unearned premium reserve	(516)	(1'012)
Net earned premiums	4'199	2'327
Claims incurred incl. claims handling expenses	(2'119)	(781)
Reinsurers' share of claims incurred	0	0
Change in actuarial loss reserves	(671)	(806)
Expenses of insurance contracts¹	(2'790)	(1'587)
Earnings of insurance contracts	1'409	740

1 Actuarial expenses are recognised in «other operating expenses»

Other operating revenues

Other operating revenues comprise mainly revenues generated with our publishing activities, e.g. books and periodicals.

Personnel expenses

	31.12.2017	31.12.2016	
Full time equivalents	840,4	771,5	
CHF '000			
	Pages	2017	2016
Salaries		86'720 ¹	79'098 ²
Pension costs – defined benefit plan	111–113	4'238	2'739
Pension costs – defined contribution plans		1'476	1'382
Other social security expenses		7'033	6'465
Other personnel expenses		4'534	4'031
Total personnel expenses		104'001	93'715

1 Including share-based payments of TCHF 3617 and costs for option plans TCHF 410

2 Including share-based payments of TCHF 3863 and costs for option plans TCHF 420

Other operating expenses

CHF '000

	2017	2016
Office space rent and maintenance	8'687	8'247
Marketing expenses	8'141	7'871
Expenses of insurance contracts	2'790	1'587
General and administrative expenses	25'575 ¹	17'240
Total	45'193	34'945

¹ Including provisions to value added tax in the amount of CHF 5.2 million. Further details are shown on page 101.

Net finance income

CHF '000

	2017	2016
Interest expense to third parties	(11)	(43)
Interest income from third parties	54	150
Income from investments in associates	3	3
Capital losses incl. foreign exchange	(13)	(20)
Capital gains incl. foreign exchange	34	17
Other commission expenses	(96)	(93)
Total	(29)	14

All interest income and expenses stem from financial instruments that are recognised in the balance sheet at amortised cost or fair value (excluding interest income from mortgages and bonds). In addition to the interest income and expenses shown in the table above, operating revenues («Banking revenues») include VZ Depository banks net interest income. VZ Depository banks net interest income forms part of VZ Group's business activities and is therefore attributed to «Banking revenues». Further details can be found on page 89.

Marketable securities are recognised at fair value. The share of capital gains from tradable securities at short notice excluding foreign currency forward transactions amounts to TCHF 39 (2016: TCHF 35) and the share of capital losses comes to TCHF 0 (2016: TCHF 0). The remaining capital gains and losses were derived from financial instruments that are valued at amortised cost.

Income tax

VZ Group applies a weighted average Swiss tax rate to calculate the expected tax expenses. Changes to the weighted average expected tax rates are largely attributable to different local taxation rates. Since the contributions of each company to total profit before income taxes differ each year, the weighted average expected tax rates also change. Furthermore, changes to the local taxation rates can impact the weighted average expected tax rates.

Consolidated income statement

CHF '000

	2017	2016
Current income tax		
Current income tax charge	17'618	17'525
Adjusted for current income tax for previous years	305	291
Deferred income tax		
Relating to origination and reversal of temp. differences	(2'172)	(1'541)
Tax expense reported in the cons. income statement	15'751	16'275

CHF '000

	2017	Rate	2016	Rate
Profit before income taxes	102'574		100'399	
Expected income tax expense	16'872	16.45%	16'699	16.63%
Adjusted for current income tax for previous years	305		291	
Non-deductible expenses	14		0	
Effect of higher tax rates in Germany	(423)		(129)	
Appropriation of non-capitalised deferred taxes loss carryforwards	0		(1)	
Effect of tax losses	(1'017)		(585)	
Effective income tax expenses	15'751	15.36%	16'275	16.21%

Earnings per share

Consolidated earnings per share are calculated by dividing the net profit for the year attributable to shareholders of the parent company by the weighted average number of outstanding shares (excluding the weighted number of treasury shares) for the year.

CHF '000

	2017	2016
Net profit for the year	86'754	84'092
Weighted average number of shares issued	8'000'000	8'000'000
Less weighted average number of treasury shares	52'396	35'710
Weighted average number of outstanding shares (undiluted)	7'947'604	7'964'290
Dilution effect from option programmes	27'202	41'618
Weighted average number of outstanding shares (diluted)	7'974'806	8'005'908
Undiluted earnings per share (CHF)	10.92	10.56
Diluted earnings per share (CHF)	10.88	10.50

To calculate the diluted earnings per share, potentially dilutive shares from the option programme are added to ordinary shares to create an adjusted number of shares of VZ Holding Ltd. The dilution from the option programme is determined on the basis of the number of ordinary shares of VZ Holding Ltd which could have been bought at the market price for the amount of the accumulated difference between the market and exercise price of the outstanding options. The relevant market price used is the average annual share price in the financial year.

There were no other changes to the capital structure between the reporting date and the date of preparation of these financial statements.

Notes on the balance sheets

Cash and cash equivalents

Cash and cash equivalents comprise cash in bank and postal accounts, petty cash, call deposits and short-term investments with a residual maturity of three months or less from the date of acquisition.

Short term investments

CHF '000

	31.12.2017	31.12.2016
Time deposits more than 3 months	181'164	126'969
Interim financing for mortgages	1'373	1'017
Lombard credits	33'005	29'383
Total	215'542	157'369

Time deposits comprise fixed-term deposits with banks with a maturity of between three and twelve months from the date of acquisition.

Marketable securities at fair value

The securities items comprise above all investment funds as well as positive replacement values of foreign exchange forward transactions, which are held at fair value as securities investments tradable at short notice.

Receivables from clients and other receivables

As at 31 December, the maturity structure for receivables from clients and other receivables was as follows:

Receivables from clients

CHF '000

	Total	Not due nor impaired	Due but not impaired		
			< 30 days	30–90 days	> 90 days
31.12.2017	5'695	5'249	234	124	88
31.12.2016	4'396	3'936	164	222	74

Other receivables

CHF '000

	Total	Not due nor impaired	Due but not impaired		
			< 30 days	30–90 days	> 90 days
31.12.2017	16'436	16'436	0	0	0
31.12.2016	13'465	13'465	0	0	0

Receivables from clients and other receivables are non-interest bearing and generally have one- to three-month terms. Receivables from clients are largely derived from invoices for consulting and management services not yet paid as per the balance sheet date.

Accrued income and deferred expenses

CHF '000

	31.12.2017	31.12.2016
Prepaid expenses	1'514	1'884
Consulting fees	2'623	3'013
Management fees	36'519	21'125
Banking revenues	10'133	7'544
Other operating revenues	17	49
Total accrued revenues	49'292	31'731
Total	50'806	33'615

Accrued income and deferred expenses include revenues not invoiced as of 31 December and prepaid expenses.

Other current assets

CHF '000

	31.12.2017	31.12.2016
Rent deposits	596	510
Short term overdrafts due to securities transactions	11'783	4'032
Other positions	89	137
Total	12'468	4'679

Financial assets

CHF '000

	31.12.2017	31.12.2016
Loans to employees	612	951
Time deposits more than 1 year	152'000	170'047
Mortgages (also see following overview)	1'247'269	1'110'830
Bonds (for further details, see the section «Risk management»)	217'825	151'680
Other financial assets	1'857	1'857
Total	1'619'563	1'435'365

Most loans to employees have no fixed repayment dates.

Disclosure of the remaining time to maturity/framework agreements¹ of mortgages

CHF '000

	to 1 year	1 to 3 years	3 to 5 years	over 5 years	Total
31.12.2017					
Interest rate based on libor					
3 month libor	143'998	366'579	424'050	764	935'391
6 month libor	3'434	11'105	18'462	0	33'001
Total libor mortgages	147'432	377'684	442'512	764	968'392
Fixed interest rate	29'296 ²	88'202	59'381	101'998	278'877
Total mortgages	176'728	465'886	501'893	102'762	1'247'269
31.12.2016					
Interest rate based on libor					
3 month libor	76'965	263'996	451'243	447	792'651
6 month libor	0	5'184	22'632	0	27'816
Total libor mortgages	76'965	269'180	473'875	447	820'467
Fixed interest rate	28'486 ²	57'716	75'360	128'801	290'363
Total mortgages	105'451	326'896	549'235	129'248	1'110'830

1 The framework agreements of mortgages with libor based interest rates maturities are fixed at the beginning – the table above displays the remaining time to maturity.

2 VZ Group is applying fair value hedge accounting by using interest rate swaps (contract volume to CHF 0 million, 2016: CHF 5 million) to hedge its exposure to market fluctuations with fixed-rate mortgages. Further information is shown on page 116.

These exclusively comprise Swiss prime residential mortgages. No value adjustments were carried out in the reporting year. In addition, no mortgage receivables were classified as distressed.

Further details of mortgages and bonds can be found in the section entitled «Risk management» on pages 77 to 88 and on page 119.

Investments in associates

VZ Holding Ltd holds a strategic stake of 33% in Dufour Capital Ltd and takes a seat on Dufour's Board of Directors. Dufour Capital is a licensed asset manager specializing in the development of rule-based investment solutions. The company is registered in Switzerland and has a share capital of TCHF 150. Dufour Capital has an advisory mandate from VZ Group. The share of the associates' profit in the 2017 financial year is TCHF 3 (2016: TCHF 3). As a result, the investments' value increased to TCHF 405.

Property and equipment

CHF '000

	Buildings and land		Interior fittings		Office furniture and others		Equipment and IT fittings		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Gross values at cost										
Balance as at 1 January	0	0	16'358	15'390	5'792	5'049	5'740	4'466	27'890	24'905
Additions	58'000	0	1'327	2'671	726	1'068	479	1'344	60'532	5'083
Disposals/Removals	0	0	(1'313)	(1'703)	(459)	(324)	(1'427)	(68)	(3'199)	(2'095)
Cumulative conversion adjustments	0	0	12	0	10	(1)	10	(2)	32	(3)
Balance as at 31 December	58'000	0	16'384	16'358	6'069	5'792	4'802	5'740	85'255	27'890
Accumulated depreciation and impairment										
Balance as at 1 January	0	0	5'889	6'067	3'186	2'723	3'622	2'302	12'697	11'092
Depreciation	67	0	1'618	1'524	874	788	1'299	1'389	3'858	3'701
Impairments	0	0	0	0	0	0	0	0	0	0
Disposals/Removals	0	0	(1'313)	(1'703)	(459)	(324)	(1'427)	(68)	(3'199)	(2'095)
Cumulative conversion adjustments	0	0	6	1	4	(1)	7	(1)	17	(1)
Balance as at 31 December	67	0	6'200	5'889	3'605	3'186	3'501	3'622	13'373	12'697
Net carrying amount										
As at 1 January	0	0	10'469	9'323	2'606	2'326	2'118	2'164	15'193	13'813
As at 31 December	57'933	0	10'184	10'469	2'464	2'606	1'301	2'118	71'882	15'193

Impairment losses incurred of property and equipment:

CHF '000

	2017	2016
Impairment losses incurred	0	0

The estimated useful life of the tangible assets is as follows:

	2017	2016
Buildings excluding land	35 years	n/a
Land	unlimited	n/a
Interior fittings	10 years	10 years
Office furniture and others	5 years	5 years
Equipment and IT fittings	3 years	3 years

Intangible assets

CHF '000	Software		Business set-up ¹		Total	
	2017	2016	2017	2016	2017	2016
Gross values at cost						
Balance as at 1 January	15'609	12'365	1'407	842	17'016	13'207
Additions	4'123	5'347	1'012	565	5'135	5'912
Disposals/Removals	(3'696)	(2'096)	0	0	(3'696)	(2'096)
Cumulative conversion adjustments	27	(7)	40	0	67	(7)
Balance as at 31 December	16'063	15'609	2'459	1'407	18'522	17'016
Accumulated amortisation and impairment						
Balance as at 1 January	7'384	6'553	265	80	7'649	6'633
Amortisation	4'268	2'934	312	185	4'580	3'119
Impairments	0	0	0	0	0	0
Disposals/Removals	(3'696)	(2'096)	0	0	(3'696)	(2'096)
Cumulative conversion adjustments	26	(7)	6	0	32	(7)
Balance as at 31 December	7'982	7'384	583	265	8'565	7'649
Net carrying amount						
As at 1 January	8'225	5'812	1'142	762	9'367	6'574
As at 31 December	8'081	8'225	1'876	1'142	9'957	9'367

¹ Business set-up costs comprise IT-solutions from external suppliers related to the launch of VZ InsurancePool Ltd and VZ Depository Bank Germany Ltd.

The estimated useful life of the intangible assets is as follows:

	2017	2016
Software	3 years	3 years
Business set-up costs	5 years	5 years

Trade payables and other current liabilities

CHF '000

	31.12.2017	31.12.2016
Trade payables	873	519
Tax payables	8'855	8'365
Derivative financial instruments	96	103
Others	1'222	1'793
Total other current liabilities	10'173	10'261
Due to banks	4'552	5'889
Due to customers	2'026'436	1'842'756
Total	2'042'034	1'859'425

Trade payables are not interest-bearing and are normally settled within 30 days. Taxes and duties include withholding taxes, value added taxes and issue duties. Derivative financial instruments include negative replacement values of interest rate swaps and foreign exchange forward transactions. Further details can be found on page 116. Client liabilities are primarily derived from client deposits with VZ Depository banks. As at 31 December 2017, VZ Group reported CHF 38.0 million (31.12.16: CHF 38.0 million) of unutilised credit limits.

As at 31 December the maturity structure of the liabilities was as follows:

CHF '000

	Total	Demand < 3 months	3–12 months
31.12.2017			
Trade payables	873	873	
Other current liabilities	10'173	10'173	0
Due to banks	4'552	4'552	
Due to customers	2'026'436	2'026'436	
Total	2'042'034	2'030'988	11'046
31.12.2016			
Trade payables	519	519	
Other current liabilities	10'261	10'169	92
Due to banks	5'889	5'889	
Due to customers	1'842'756	1'842'756	
Total	1'859'425	1'848'645	10'688

Deferred tax assets and tax liabilities

CHF '000

	As at 1 January	Recognised in profit or loss	Recognised in comprehensive income	As at 31 December
Deferred income tax assets 2017				
Deferred pension cost for defined benefit plan (IAS 19)	3'246	62	630	3'937
Property and equipment	124	44	0	168
Intangible assets	70	60	0	130
Tax loss carry-forwards	1'697	1'224	0	2'921
Total deferred income tax assets	5'137	1'390	630	7'157
Deferred tax liabilities 2017				
Provisions	(49)	(9)	0	(58)
Options incl. social security expenses	(2'917)	944	0	(1'973)
Total deferred tax liabilities	(2'966)	935	0	(2'031)
Deferred (tax liabilities)/tax assets net	2'171	2'325	630	5'126
Deferred income tax assets 2016				
Deferred pension cost for defined benefit plan (IAS 19)	1'596	653	997	3'246
Property and equipment	83	41	0	124
Intangible assets	177	(107)	0	70
Tax loss carry-forwards	1'043	654	0	1'697
Total deferred income tax assets	2'899	1'241	997	5'137
Deferred tax liabilities 2016				
Provisions	(21)	(28)	0	(49)
Options incl. social security expenses	(4'018)	1'101	0	(2'917)
Total deferred tax liabilities	(4'039)	1'073	0	(2'966)
Deferred (tax liabilities)/tax assets net	(1'140)	2'314	997	2'171

CHF '000

	31.12.2017	31.12.2016
Reflected in the balance sheet as follows		
Deferred tax assets	5'152	2'368
Deferred tax liabilities	(26)	(197)
Deferred tax assets/(tax liabilities) net	5'126	2'171

The reported tax assets from losses carried forward amount to TCHF 2921 (2016: TCHF 1697). These tax assets are available for offset against future taxable profits.

Provisions

CHF '000

	Provisions for operational risks
As at 1 January 2016	2'000
Additions	0
Used during the year	0
Unused amounts reversed	0
Cumulative conversion adjustments	0
As at 31 December 2016	2'000
As at 1 January 2017	2'000
Additions	5'200
Used during the year	0
Unused amounts reversed	0
Cumulative conversion adjustments	0
As at 31 December 2017	7'200

Operational risks

A number of group companies are the subject to litigation arising out of the normal conduct of their business as a result of which claims could be made against them. Such claims, in whole or in part, might not be covered by insurance. The provisions for operational risk are valued at management's best estimates.

Based on a first assessment in 2015, VZ Group deferred CHF 2 million in connection with risks in the field of value added tax. After receiving an order of the tax administration, VZ Group decided to defer an additional CHF 5.2 million. These provisions cover claims that were accrued over 9 years.

Accrued expenses and deferred income

CHF '000

	31.12.2017	31.12.2016
Personnel expenses	6'513	5'833
Other expenses	3'381	2'329
Expenses of insurance contracts	178	104
Banking expenses ¹	646	643
Management fee expenses ¹	813	990
Total accrued expenses	11'531	9'899
Prepaid revenues	11'145	3'600
Total	22'676	13'499

¹ These expenses which have not yet been charged constitute expenditure (negative revenues) in conjunction with bank revenues and administrative revenues which, in accordance with industry standards, are reported as net revenues in the income statement.

Accrued expenses and deferred income include expenditure that has not yet been invoiced as well as revenue paid in advance for services to be rendered in the future. Personnel and other operating expenses which have not yet been settled are due within the next 90 days. The majority of banking and management expenses are also due within the next 90 days.

Non-current liabilities

CHF '000

	31.12.2017	31.12.2016
Medium-term notes	2'494	3'844
Loans from central mortgage institutions	131'191	109'028
Total long-term debts (also see following overview)	133'685	112'872
Deferred pension cost	19'611	16'041
Liabilities from insurance contracts		
Incurred but not reported reserve	603	578
Outstanding loss reserve	918	272
Others	781	767
Total other non-current liabilities	21'913	17'658
Total non-current liabilities	155'598	130'530

Deferred pension fund costs relate to the liabilities attributable to occupational pension plans pursuant to IAS 19. Further details can be found on pages 111 to 113.

Disclosure of the residual term to maturity of non-current financial liabilities

CHF '000

	to 1 year	1 to 3 years	3 to 5 years	over 5 years	Total
31.12.2017					
Medium-term notes	1'040	1'067	352	35	2'494
Loans from central mortgage institutions	14'403	20'851	29'906	66'031	131'191
Total long-term debts	15'443	21'918	30'258	66'066	133'685
31.12.2016					
Medium-term notes	1'600	1'697	436	111	3'844
Loans from central mortgage institutions	12'801	32'253	20'614	43'360	109'028
Total long-term debts	14'401	33'950	21'050	43'471	112'872

Share capital and reserves

VZ Holding Ltd's share capital as per 31 December 2017 amounts to CHF 2 million and consists of 8 million registered shares with a nominal value of CHF 0.25 each. All shares are fully paid up. There is a conditional share capital of 160'000 registered shares with a nominal value of CHF 0.25 each to serve option plans for employees and for members of the Board of Directors. The company has not issued any preferential shares and there is no authorised capital.

Matthias Reinhart directly holds 5.80 % of VZ Holding Ltd's shares. He also owns 100 % of Madarex Ltd, Zug, which in turn holds an additional 55.10 % of VZ Holding Ltd's shares. The other members of the Board of Directors hold 1.42 %, while the other members of the Executive Board hold 2.84 % of VZ Holding Ltd's shares.

In addition, 0.38 % of the shares are held by employees.

Major shareholders The table below illustrates the structure of VZ Holding Ltd's shareholding and lists those shareholders holding 3 % or more of the voting rights.

	as at 31.12.2017		as at 31.12.2016	
	Number of shares at CHF 0.25 nominal value each	in %	Number of shares at CHF 0.25 nominal value each	in %
Employees and statutory bodies				
Matthias Reinhart (direct and indirect) ¹	4'872'081	60,90	4'869'314	60,87
Members of the Board of Directors ²	113'204	1,42	111'979	1,40
Other members of the Executive Board ²	227'294	2,84	235'039	2,94
Employees ³	30'141	0,38	32'163	0,40
Other shareholders				
Mawer Investment Management Ltd (reported on 20.4.2017)	251'462	3,14 ⁴	249'636	3,12
Capital Group Companies, Inc. (reported on 31.10.2012)	240'000	3,00	240'000	3,00
Others < 3%	2'265'818	28,32	2'261'869	28,27
Grand total	8'000'000	100,0	8'000'000	100,0

1 Thereof 1989 shares (0.02 %) are locked-up (31.12.2016: 2450 shares (0.03 %) are locked-up).

2 Without related parties.

3 Shown are only the locked-up shares listed in the share register held by employees (including former employees).

4 Thereof, 0.93 % have been transferred by a third party, including unrestricted voting rights.

Treasury shares

	Number	in '000 CHF
As of 1 January 2016	45'854	9'364
Purchases	37'163	9'916
Disposals	(55'355)	(11'909)
As of 31 December 2016	27'662	7'371
As of 1 January 2017	27'662	7'371
Purchases	80'284	24'017
Disposals	(50'190)	(14'112)
As of 31 December 2017	57'756	17'276

Reserves

This position includes the retained net profit (retained earnings and free reserves) as well as the reserves that are required by law (legal and statutory reserves). Together with the «net profit» item, the reserves form the retained earnings. VZ Group's legal reserves rose to CHF 25.089 million as at 31 December 2017 (2016: CHF 25.078 million). Statutory reserves remained unchanged at CHF 0.363 million (2016: CHF 0.363 million).

VZ Group is not subject to any legal restrictions on the amount of dividends it pays to its shareholders apart from the Swiss Code of Obligations. The Swiss Code of Obligations stipulates that dividends may only be paid out of freely distributable reserves or retained earnings and that 5 % of annual retained earnings must be allocated to the legal reserves until such reserves amount to 20 % of the paid-in share capital.

Translation differences

The foreign currency translation reserves are used to record exchange differences arising from the translation of the financial statements of the companies in Germany.

Additional information

Segment reporting

VZ Group's main target clients are individuals and couples aged 50 or over who live in their own homes. Many of them turn to VZ to plan their finances after their retirement. The consulting fees are billed according to the time spent. Sound advice creates trust: more and more consultancy clients use additional services, in particular the numerous management services. The majority of VZ Group's revenues is attributable to management services, which are billed according to the volume. These services are offered across platforms. They enable VZ to serve the target clients comprehensively and to cover a household's main financial needs.

In accordance with the applicable rules and based on VZ Group's management structure the focus is clearly on private clients. Therefore, VZ Group does not disclose segment information, as the external reporting provided in these financial statements reflects the internal management accounting.

VZ Group's external financial reporting is based on the internal reporting to the Executive Board, responsible for allocating resources and assessing the financial performance of the business. However, for its management decisions, the Executive Board reviews and uses the consolidated financial reports.

All revenues are generated in Switzerland except the insignificant revenues generated by the subsidiaries in Germany. Also, the assets held abroad are insignificant, and therefore no separate information covering geographical areas is necessary.

Related party disclosures

VZ Holding Ltd, Zurich, is VZ Group's parent company. Related parties include members of the Board of Directors and the Group Executive Board. Since Madarex Ltd, Zug, holds 55.1 % of VZ Holding's shares, Madarex Ltd and its subsidiary Madarex Immobilien Ltd, Zug, likewise qualify as related parties (ultimate parent). VZ Sammelstiftung, Zurich, VZ Freizügigkeitsstiftung, Zurich, VZ Immobilien-Anlagestiftung, Zug, VZ Vorsorgestiftung 3a, Zurich, VZ Anlagestiftung, Zurich, Freizügigkeitsstiftung der Zentralschweiz, Zug, and VZ BVG Sammelstiftung, Zurich, count as related parties because the Supervisory Committee consists of representatives of VZ Group. In accordance with IFRS 10, these foundations do not fall into the scope of consolidation, because VZ Group does not control them. Furthermore, VZ Group holds a strategic, non-consolidated investment in its associated company Dufour Capital Ltd, Zurich.

The following table shows the total amounts of transactions with related parties for the relevant financial years.

CHF '000

	Services rendered to related parties	Services purchased from related parties	Receivables vis-à-vis related parties	Liabilities vis-à-vis related parties
Board of Directors and Executive Board				
2017	282	185 ¹	13'967 ²	53
2016	209	124 ¹	13'949 ²	24
Madarex Ltd, Zug³				
2017	185	5	31	0
2016	175	21	35	0
Madarex Immobilien Ltd, Zug				
2017	7	23	0	0
2016	7	21	0	0
VZ Foundations, Switzerland⁴				
2017	26'955	533	2'849	80
2016	21'139	573	1'936	30
Associates⁵				
2017	0	429	0	47
2016	0	436	0	31

1 Blum & Grob attorneys at law Ltd – represented by Dr. Albrecht Langhart acting in his capacity as a partner – provided legal services worth TCHF 133 (2016: TCHF 77) for VZ Holding Ltd as well as for its Group companies.

2 Loans against securities (Lombard loans) to Fred Kindle, Chairman of the Board.

3 In addition, as at 31 December 2016 Madarex Ltd holds receivables vis-à-vis related parties of VZ Group in the amount of TCHF 29'808 (2016: TCHF 24'943) and no liabilities as at 31 December 2017 (2016: zero). Revenues generated out of these receivables amount for TCHF 268 (2016: TCHF 222) whereas expenses account for TCHF 46 (2016: TCHF 46).

4 VZ Sammelstiftung, Zurich; VZ Freizügigkeitsstiftung, Zurich; VZ Immobilien-Anlagestiftung, Zug; VZ Vorsorgestiftung 3a, Zurich; VZ Anlagestiftung, Zurich; Freizügigkeitsstiftung der Zentralschweiz, Zug and VZ BVG Sammelstiftung, Zurich.

5 Dufour Capital Ltd, Zurich.

Receivables and liabilities

Outstanding balances at year end are largely unsecured. No guarantees have been issued or received in connection with related party receivables or liabilities. For the year ending on 31 December 2017, the VZ Group did not form any provisions for outstanding amounts owed by related parties (2016: zero). This assessment is carried out at the end of each financial year.

Key management compensation

CHF '000

	2017	2016
Share-based payments	295	295
Total compensation to members of the Board of Directors	295	295
Fixed basic salary	3'190	3'343
Variable performance-related compensation	1'662	1'494
<i>thereof cash</i>	445	340
<i>thereof shares</i>	1'055	1'015
<i>thereof expenses related to options</i>	162	139
Other	15	15
Total compensation to members of the Executive Board	4'867¹	4'852²
Total compensation to key management	5'162	5'147

1 On 1 October 2017, Rafael Pfaffen became a member of VZ Group's Executive Board, replacing Philipp Marti. Their compensation is shown only for the time during which they were members of the Executive Board.

2 On 1 August 2016, Stefan Thurnherr left VZ Group's Executive Board. His compensation was shown for the months as a member of the Executive Board only.

Individuals in key positions include the members of VZ Group's Board of Directors and its Group Executive Board.

Compensation paid to members of the Board of Directors consists of basic compensation plus a lump sum for additional tasks. The entire compensation of the Board of Directors is paid in shares. Compensation paid to the members of the Group Executive Board consists of a fixed basic salary component settled in cash, a variable performance-related portion, services provided and non-cash benefits categorised as salary. The disclosures required by the Swiss Ordinance against Excessive Compensation in Listed Companies (OaEC) are set out in the chapter containing the Remuneration Report. The compensation reported in the consolidated financial statements is based on the international financial reporting standards (IFRS), which may differ from the standards defined by the OaEC. The share portfolios of the Board of Directors and the Executive Board are detailed in the «Compensation Report» (page 51).

Share-based management benefit programme

The share-based management benefit programme ensures that management employees receive 20 % to 50 % of their bonus in the form of shares, depending on their level of management. Management employees may also draw an additional part of their bonus in shares rather than cash. The share component can be raised by 50 % in relative terms and therefore amount to a maximum of between 30 % and 75 %. The allotment rate of the shares corresponds to the weighted average price of the traded shares within a period specified. The vesting period is three years for all shares in the share-based management benefit programme. The allocation of shares to management employees is made in February and to members of the Executive Board after the Annual General Meeting, usually in April. The vesting period of three years starts with the respective allocation date.

	2017	2016
Number of shares allocated	7'713	8'297
End of lock-up period	23.2.2020	24.2.2019
Number of shares allocated	3'365	4'680
End of lock-up period	6.4.2020	12.4.2019
Price per share transferred	CHF 301.15	CHF 276.20
Total of shares allocated	11'078	12'977

In addition, management employees receive two free options of one share each for every share drawn. The option exercise price is 125 % of the subscription price of the underlying share. The options have a maturity of six years and can only be redeemed against cash settlement is ruled out. The options remain locked-up for the first three years and expire worthless if the employee leaves VZ Group during this period. The options are American-style call options.

The indicative market value of the options allocated in 2018 for the 2017 bonus year is CHF 26.31 per option (year of allocation 2017, bonus year 2016: for management employees effective CHF 16.27, for members of the Executive Board effective CHF 25.70). The market value is calculated with the enhanced-American model. The options will be effectively valued at the time of the allocation. The exercise price for the allocation year 2017 for the 2016 bonus year is CHF 412.55 (year of allocation 2017, bonus year 2016: CHF 376.45).

Option plans

Year of allocation	Valuation date	Remaining maturity	Expiration date	Market value at grant date	Exercise price
2017 ^a	7.4.2017	5.3 years	5.4.2023	CHF 16.27	CHF 376.45
2017 ^b	24.2.2017	5.2 years	23.2.2023	CHF 25.70	CHF 376.45
2016 ^a	12.4.2016	4.3 years	11.4.2022	CHF 16.49	CHF 345.25
2016 ^b	25.2.2016	4.2 years	24.2.2022	CHF 23.48	CHF 345.25
2015 ^a	12.4.2015	3.3 years	11.4.2021	CHF 8.50	CHF 202.25
2015 ^b	25.2.2015	3.2 years	24.2.2021	CHF 8.50	CHF 202.25
2014	25.2.2014	2.2 years	24.2.2020	CHF 13.42	CHF 191.00
2013	25.2.2013	1.2 years	24.2.2019	CHF 16.71	CHF 146.25
2012	24.2.2012	0.2 years	23.2.2018	CHF 8.69	CHF 117.45
2011	25.2.2011	0.0 years	24.2.2017	CHF 17.67	CHF 147.25

a Allocation to members of the Executive Board. These options are allocated upon the approval of the shareholders' meeting in April. Therefore, these options expire later than those from the options plans 2017^b, 2016^b and 2015^b. The terms for all three plans are the same.

b Allocation to management employees. These options expire earlier than those from the options plans 2017^a, 2016^a and 2015^a. The terms for all three plans are the same.

Outstanding options

Year of allocation	Allocated options	Outstanding as at 31.12.2016	Exercised options	Forfeited options in the reporting period	Outstanding as at 31.12.2017
2017 ^a	6'730	–	–	498	6'232
2017 ^b	15'426	–	–	724	14'702
2016 ^a	9'360	9'360	–	678	8'682
2016 ^b	16'594	16'040	–	820	15'220
2015 ^a	15'730	15'730	–	–	15'730
2015 ^b	25'514	23'968	–	1'042	22'926
2014	34'810	32'666	13'296	30	19'340
2013	44'396	23'000	10'416	–	12'584 ¹
2012	46'194	14'267	13'293	–	974 ¹
2011	41'960	1'286	1'174	112	0 ¹
Total	256'714	136'317	38'179	3'904	116'390

a Allocation to members of the Executive Board. These options are allocated upon the approval of the shareholders' meeting in April. Therefore, these options expire later than those from the options plans 2017^b, 2016^b and 2015^b. The terms of all three plans are the same.

b Allocation to management employees. These options expire earlier than those from the options plans 2017^a, 2016^a and 2015^a. The terms of all three plans are the same.

1 Options exercisable at balance sheet date.

The weighted average of the remaining maturities of outstanding options as at 31.12.2017 was 3.4 years (31.12.2016: 4.3 years). The weighted average exercise price as at 31.12.2017 is CHF 254.31 (31.12.2016: CHF 207.36).

Pension plans

There are pension plans for the majority of VZ Group's employees. These are either defined contribution or defined benefit plans.

The majority of VZ Group's employees participate in a pension plan with affiliation to a collective foundation with full insurance coverage. Contributions to such plans are paid by the employer and employees. VZ Group has an affiliation to a semi-autonomous collective foundation with congruent reinsurance for the disability and death risks. The previous affiliation was based on full insurance. In 2016, this collective foundation decided to gradually reduce the conversion rate which is applied in the non-mandatory part from 5.84 % to 5.30 %. This change results in a gain of TCHF 382 from plan amendments, which is recognised through profit or loss in 2016 as pension expenses.

Under IAS 19, Swiss pension plans are regarded as defined benefit plans because they have a guaranteed interest rate and a stipulated rate of benefit conversion. These plans cover mandatory benefits as well as excess benefits. Actuarial calculations are carried out by independent experts for defined benefit plans. The last actuarial calculation for these pension plans was carried out as of 31 December 2017. The defined contribution benefit plan is hedged by insurance premiums. These are charged against the income statement in the period in question.

Disclosures
defined
benefit plan

Reconciliation of the amount recognised in the balance sheet at the end of the year

CHF '000

	2017	2016
Plan assets at fair value	62'182	52'911
Present value of pension obligations	(81'793)	(68'952)
Prepaid/(deferred) pension cost recognised	(19'611)	(16'041)

Component of pension expense

CHF '000

	2017	2016
Current service cost	(4'097)	(3'036)
Net interest (expense)/income	(141)	(85)
Plan amendments	0	382
Pension cost for defined benefit plans recognised in personnel expenses	(4'238)	(2'739)
Actuarial (loss)/gain on obligation	(4'517)	(8'188)
Actuarial (loss)/gain on plan assets	1'303	(778)
Total remeasurement recognised in OCI	(3'214)	(8'966)
Net pension cost for defined benefit plans for the VZ Group	(7'452)	(11'705)

Changes in the net amount recognised in the balance sheet

CHF '000

	2017	2016
Prepaid/(deferred) pension cost at the beginning of the year	(16'041)	(7'815)
Pension cost for defined benefit plans	(7'452)	(11'705)
Employer contributions	3'882	3'479
Prepaid/(deferred) pension cost	(19'611)	(16'041)

Changes in the present value of the pension obligation

CHF '000

	2017	2016
Present value of the obligation as at 1 January	68'952	51'583
Interest cost	707	763
Current service cost	4'097	3'036
Employee's contributions	2'435	2'178
Plan amendments	0	(382)
Benefits paid	1'085	3'586
Actuarial (gain)/loss on pension obligation (balancing figure) ¹	4'517	8'188
Present value of the pension obligation as at 31 December	81'793	68'952

¹ All actual gains and losses are based on experience adjustments, except for the year 2017, when TCHF 2760 (2016: TCHF 4077) was attributable to changes in the discount rate and TCHF 0 (2016: TCHF -1335) to the changes in the assumptions regarding the demographic development.

Changes in the fair value of the plan assets

CHF '000

	2017	2016
Fair value of plan assets as at 1 January	52'911	43'768
Expected return on plan assets	566	678
Employer's contributions	3'882	3'479
Employee's contributions	2'435	2'178
Benefits paid	1'085	3'586
Actuarial (gain)/loss on plan assets (balancing figure) ¹	1'303	(778)
Fair value of plan assets as at 31 December	62'182	52'911

¹ All actual gains and losses are based on experience adjustments.

Defined benefit pension plan (actuarial assumptions)

	2017	2016
Discount rate (as at 31.12.)	0.70 %	1.00 %
Expected rate of return	0.70 %	1.00 %
Future salary increase	2.00 %	2.00 %
Future pension increases	0.00 %	0.00 %
Expected average remaining service years	8.3	8.2

Interest and current service cost for 2017 were calculated at a discount rate of 1.00 % (2016: 1.40 %). The discount rate is adjusted at year-end in order to reevaluate the pension obligations. The technical principles for the calculation of the pension obligations are based on the BVG 2015 generations table (2016: BVG 2015).

Sensitivity analysis (Impact of changes in parameters on pension obligations)

CHF '000

	2017	2016
Discount rate (-0.5%)	4'307	3'625
Discount rate (+0.5%)	(3'769)	(3'178)
Future salary increase (-0.5%)	(1'418)	(1'110)
Future salary increase (+0.5%)	1'521	1'190

The collective foundation's assets are listed on active markets and invested in accordance with the Swiss Occupational Pensions Act (BVG).

Allocation of plan assets

	2017		2016	
	in CHF '000	in %	in CHF '000	in %
Cash	1'555	2.5 %	3'386	6.4 %
Equity	17'411	28.0 %	10'900	20.6 %
Bonds	32'024	51.5 %	27'778	52.5 %
Real Estate	5'845	9.4 %	4'921	9.3 %
Other	5'347	8.6 %	5'926	11.2 %
Total	62'182	100.0 %	52'911	100.0 %

The estimated employer's contribution to be paid for our pension plans in 2018 amounts to CHF 4.3 million (2017: CHF 3.8 million) and is based on prior-year premiums and expected trends in personal expenses (number of employees, salary development).

Financial instruments

The following page shows the fair values of financial instruments based on the valuation methods and assumptions described below.

The fair value corresponds to the sum at which assets can be freely exchanged and obligations fulfilled between willing and knowledgeable parties that are independent of each other. Insofar as an active and liquid market (for example a recognised stock exchange) exists, VZ Group uses the market price, as this is the best indicator of the fair value of financial instruments.

Liquid assets, short-term investments

For these financial instruments, the carrying amount on the balance sheet date corresponds to the fair value.

Securities at fair value

For these financial instruments, the fair value corresponds to the market value.

Trade receivables and liabilities vis-à-vis clients, other receivables, other current assets, financial assets, other liabilities, other financial liabilities

The fair value of these financial instruments is based on listed market prices or prices quoted by traders insofar as the financial instruments are traded on an active market. Otherwise, the fair value is determined using discounted cash flows. For products whose fixed interest rate or payment flows cannot be determined in advance, replicable portfolios are used.

Fair value of financial instruments

CHF '000

	Book value	Fair value	Divergence
as at 31.12.2017			
Assets			
Cash & cash equivalents ¹	695'459	695'459	0
Short term investments ²	215'542	215'542	0
Marketable securities at fair value ^{1,2}	110	110	0
Trade receivables ²	5'695	5'695	0
Other receivables ²	16'436	16'436	0
Other current assets ²	12'468	12'468	0
Financial assets			
Mortgage ²	1'247'269	1'266'221	18'952
Bonds ²	217'825	218'918	1'093
Time deposits ²	152'000	152'000	0
Other financial assets ²	2'469	2'469	0
Subtotal	2'565'273	2'585'318	20'045
Liabilities			
Trade payables ²	873	873	0
Other current liabilities ²	10'173	10'173	0
Due to banks ²	4'552	4'552	0
Due to customers ²	2'026'436	2'026'436	0
Long-term debts			
Medium-term notes ²	2'494	2'547	(53)
Loans from central mortgage institutions ²	131'191	135'868	(4'677)
Other non-current liabilities ²	21'913	17'658	4'255
Subtotal	2'197'632	2'198'107	(475)
Total of divergence			19'570
as at 31.12.2016			
Assets			
Cash & cash equivalents ¹	758'335	758'335	0
Short term investments ²	157'369	157'369	0
Marketable securities at fair value ^{1,2}	43	43	0
Trade receivables ²	4'396	4'396	0
Other receivables ²	13'465	13'465	0
Other current assets ²	4'679	4'679	0
Financial assets			
Mortgage ²	1'110'830	1'164'114	53'284
Bonds ²	151'680	155'276	3'596
Time deposits ²	170'047	170'047	0
Other financial assets ²	2'808	2'808	0
Subtotal	2'373'652	2'430'532	56'880
Liabilities			
Trade payables ²	519	519	0
Other current liabilities ²	10'261	10'261	0
Due to banks ²	5'889	5'889	0
Due to customers ²	1'842'756	1'842'756	0
Long-term debts			
Medium-term notes ²	3'844	3'936	(92)
Loans from central mortgage institutions ²	109'028	114'339	(5'311)
Other non-current liabilities ²	17'658	17'658	0
Subtotal	1'989'955	1'995'358	(5'403)
Total of divergence			51'477

1 The fair value of these financial instruments falls under level 1

2 The fair value of these financial instruments falls under level 2

Valuation methods for financial instruments at fair value

CHF '000

	Listed market prices (Level 1)	Valuation methods based on market data (Level 2)	Valuation methods not based on market data (Level 3)	Total
as at 31.12.2017				
Assets				
Marketable securities at fair value	39	2	0	41
Foreign exchange forward transactions	0	69	0	69
Liabilities				
Derivative financial instruments	0	96	0	96
as at 31.12.2016				
Assets				
Marketable securities at fair value	39	4	0	43
Foreign exchange forward transactions	0	0	0	0
Liabilities				
Derivative financial instruments	0	103	0	103

Following initial recognition, the fair value of financial instruments (level 1) is determined on the basis of listed market prices or prices quoted by traders insofar as the financial instruments are traded on an active market.

The fair value of financial instruments (level 2) is determined by generally accepted valuation models which are based on input parameters available on the market. The pricing models are based on the relevant parameters such as the contract specifications, the underlying instrument's market value and the interest rate curves. Investment funds are recognised according to their published net asset values.

VZ Group does not have any financial instruments (level 3) whose fair value is determined using a valuation method which is not based on market data.

No financial instruments have been reclassified in 2017 and 2016.

VZ Group hedges foreign exchange risks with foreign exchange forward transactions. For these transactions, no hedge accounting is applied. The fair values recognised as positive replacement values amounted to TCHF 69 (2016: TCHF 0.3), those recognised as negative replacement values to TCHF 15 (2016: TCHF 11). The total value of the contracts amounts to CHF 30.7 Mio. (2016: CHF 5.6 Mio.) The trading result of TCHF 64 (2016: TCHF -191) is reported under «Banking revenues».

VZ Group deployed fair value hedge accounting using interest rate swaps to hedge its exposure to market fluctuations with fixed rate mortgages. The fair values are recognised as negative replacement values and amount to TCHF 0 (2016: TCHF 92) with a contract volume of CHF 0 million (2016: CHF 5 million). Hedging instruments generated a gain of TCHF 92 (2016: TCHF 123), while in the same period the hedged mortgages yielded a loss of TCHF 95 (2016: gain TCHF 122). The trading result of TCHF -3 (2016: TCHF 1) is reported under «Banking revenues».

Categories of financial instruments

CHF '000

	Loans and receivables	Held for trading	Held to maturity	Other liabilities	Non-financial instrument	Total
as at 31.12.2017						
Assets						
Cash & cash equivalents	695'459					695'459
Short term investments	215'542					215'542
Marketable securities at fair value		110				110
Trade receivables	5'695					5'695
Other receivables	16'436					16'436
Accrued income					50'806	50'806
Other current assets	12'469					12'469
Financial assets	1'401'738		217'825			1'619'563
Investments in associates					405	405
Property and equipment					71'882	71'882
Intangible assets					9'957	9'957
Deferred tax assets					5'152	5'152
Total assets	2'347'339	110	217'825	0	138'202	2'703'476
Liabilities						
Trade payables				873		873
Other current liabilities				10'173		10'173
Due to banks				4'552		4'552
Due to customers				2'026'436		2'026'436
Income tax payables					16'471	16'471
Provisions					7'200	7'200
Accrued expenses					22'676	22'676
Long-term debts			133'685			133'685
Other non-current liabilities				21'913		21'913
Deferred tax liabilities					26	26
Total liabilities	0	0	133'685	2'063'947	46'373	2'244'005
as at 31.12.2016						
Assets						
Cash & cash equivalents	758'335					758'335
Short term investments	157'369					157'369
Marketable securities at fair value		43				43
Trade receivables	4'396					4'396
Other receivables	13'465					13'465
Accrued income					33'615	33'615
Other current assets	4'679					4'679
Financial assets	1'283'685		151'680			1'435'365
Investments in associates					403	403
Property and equipment					15'193	15'193
Intangible assets					9'367	9'367
Deferred tax assets					2'368	2'368
Total assets	2'221'929	43	151'680	0	60'946	2'434'598
Liabilities						
Trade payables				519		519
Other current liabilities				10'261		10'261
Due to banks				5'889		5'889
Due to customers				1'842'756		1'842'756
Income tax payables					8'891	8'891
Provisions					2'000	2'000
Accrued expenses					13'499	13'499
Long-term debts			112'872			112'872
Other non-current liabilities				17'658		17'658
Deferred tax liabilities					197	197
Total liabilities	0	0	112'872	1'877'083	24'587	2'014'542

Scope of consolidation

Changes in the group structure

On 3 March 2017, the share capital of VZ Services AG in Munich, a wholly-owned subsidiary of VZ Holding Ltd, was increased by EUR 5 million, and on 4 April 2017 by further EUR 13 million to EUR 20 million. These share capital increases are due to capital requirements applicable in the context of the regulatory approval procedures. Following the approval of the regulatory approval on 14 June 2017, the company was renamed VZ Depository Bank Germany Ltd. on 23 June 2017. With the operational start in the second half year 2017, portfolio management clients in Germany are offered a banking platform for custody and transactions services.

On 3 March 2017, the share capital of VZ InsurancePool Ltd in Zurich, a wholly-owned subsidiary of VZ Holding Ltd, was increased from CHF 10 million to CHF 12.5 million. On 27 March 2017, the nominal capital of VZ VermögensZentrum GmbH in Munich, a wholly-owned subsidiary of VZ Holding Ltd, was increased from EUR 3.8 million to EUR 4.8 million.

On 6 December 2017, VZ Holding Ltd took over 100% of Claridenhof Ltd at a price of CHF 57.9 million. Claridenhof Ltd is not operative; it solely holds a property that is predominantly used by VZ Group. This transaction has not been classified as a merger, but as a real investment.

The consolidated financial statements include the financial statements of VZ Group and the subsidiaries listed in the table below:

CHF '000

	Currency	Share capital 31.12.17	31.12.16	Equity interest
Subsidiaries (full consolidation)				
VZ VermögensZentrum Ltd, Zurich	CHF	2'000	2'000	100%
VZ VermögensZentrum GmbH, Munich	EUR	4'821	3'821	100%
VZ Asset Management Ltd, Zug	CHF	400	400	100%
VZ VersicherungsZentrum Ltd, Zurich	CHF	100	100	100%
VZ Insurance Services Ltd, Zurich	CHF	100	100	100%
HypothekenZentrum Ltd, Zurich	CHF	250	250	100%
VZ Corporate Services Ltd, Zurich	CHF	100	100	100%
VZ Depository Bank Ltd, Zug	CHF	45'000	45'000	100%
VZ Quant Portfolio Services Ltd, Zug	CHF	100	100	100%
Früh & Partner Vermögensverwaltung Ltd, Zurich	CHF	250	250	40% ¹
VZ Vorsorge Ltd, Zurich	CHF	100	100	100%
VZ InsurancePool Ltd, Zurich	CHF	12'500	10'000	100%
VZ Depository Bank Germany Ltd, Munich	EUR	20'000	2'000	100%
VZ Treuhand GmbH, Munich	EUR	100	100	100%
Claridenhof Ltd, Zurich	CHF	104	0	100%

¹ VZ Holding Ltd hold 50.66% of Früh & Partner Vermögensverwaltung Ltd's voting rights (31.12.16: 50.66%).

Pledged assets

CHF '000

	Book value	thereof utilised
31.12.2017		
Cash & cash equivalents	18'315	5'255
Mortgages	167'937	141'264
Bonds	24'988	0
Total	211'240	146'519
31.12.2016		
Cash & cash equivalents	23'015	2'800
Mortgages	153'346	117'504
Bonds	21'789	0
Total	198'150	120'304

Other liabilities

Operating lease commitments

VZ Group has entered into various operating leases for office space and equipment. Future minimum lease payments under non-cancellable operating leases in the aggregate for each of the following periods ending on 31 December are as follows:

CHF '000

	31.12.2017	31.12.2016
Within one year	7'987	8'793
After one year but not more than five years	16'770	17'685
More than five years	3'066	2'834
Subtotal commitments for minimum payments under operating leases	27'823	29'312
Sublease rentals	(111)	(154)
Commitments for minimum payments under operating leases, net	27'712	29'158

Assets under Management

Assets under Management include all assets managed for investment purposes (with management mandates) and assets held (other assets). Excluded are assets in custody, i.e. assets held for transaction purposes only.

Net new money is the result of assets brought by new clients, cash payments and withdrawals, deposits and withdrawals of securities as well as the balancing of clients' assets. Changes in the value of these assets due to economic changes, interest rates, dividends and fees are not included in the calculation of the net new money.

Distribution of the assets under management (according to FINMA's Circular 2015/1 Accounting Banks)

Assets under management are reported in accordance with the accounting guidelines of the Swiss financial market supervisory authority (FINMA).

CHF '000

	31.12.2017	31.12.2016
Assets under management with management mandates	10'453'807	9'960'501
Other assets under management	7'333'572	4'840'897
Total assets under management (incl. double counts)	17'787'379	14'801'398
<i>thereof double counts</i>	<i>2'001'444</i>	<i>1'549'305</i>

Development of the assets under management

CHF '000

	2017	2016
Total assets under management (incl. double counts)		
As of 1 January	14'801'398	13'240'674
Net new money ¹	1'537'515	1'270'886
Performance, interest, dividends and changes in foreign exchange rates	996'327	(41'592)
Other effects ²	452'139	331'430
Total assets under management (incl. double counts)		
As of 31 December	17'787'379	14'801'398

¹ Based on values without double counts

² Other effects are based on double counts. They include net new money, performance, interest, dividends and changes in foreign exchange rates

**MIS (Management Information System)
Calculation of Assets under Management¹**

Assets under Management are calculated according to the internal approach (MIS approach) that includes HypothekenZentrum Ltd's mortgages etc.

CHF '000

	2017	2016
Total assets under management (incl. double counts) As of 31 December	17'787'379	14'801'398
Double counts	(2'001'444)	(1'549'305)
Additional assets (mortgages and other assets)	5'989'399	5'162'459
Assets under Management according to the internal approach	21'775'334	18'414'552
Changes to net new money from assets under management	1'537'515	1'270'886
Changes to net new money from additional assets under management (mortgages and other assets)	774'725	745'356
Net new money according to the internal approach	2'312'240	2'016'242

¹ Transition to the key figures inside the cover (unaudited figures)

Dividends paid and proposed

Date of the general annual meeting	Date of the dividend payment	Number of ordinary shares	Nominal amount per share in CHF	Dividend per share in CHF	Dividend paid out in TCHF
12.4.2016	19.4.2016	8'000'000	0.25	4.20	33'431 ¹
6.4.2017	12.4.2017	8'000'000	0.25	4.20	33'376 ¹

Proposed dividend per ordinary shares for approval at the AGM for the year 2017:

10.4.2018	16.4.2018	8'000'000	0.25	4.35	34'549 ²
-----------	-----------	-----------	------	------	---------------------

1 No dividend payments on treasury shares.

2 Status of dividend entitled shares as at 31 December 2017. The actual amount is to be determined at the dividend distribution date (16 April 2018).

Events after the balance sheet date

No events took place between 31 December 2017 and 27 February 2018 that would require adjustments to the amounts recognised in these consolidated financial statements or a disclosure under this heading.

Approval of the consolidated financial statements

At its meeting on 27 February 2018, the Board of Directors discussed and approved the consolidated financial statements. They will be submitted to the general meeting of shareholders on 10 April 2018 for approval.

REPORT OF THE STATUTORY AUDITOR



Report of the statutory auditor

to the Board of Directors of VZ Holding AG

Zurich

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of VZ Holding AG and its subsidiaries (the Group) which comprise the income statement and the statement of comprehensive income as at 31 December 2017, the balance sheet as at 31 December 2017, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 58 to 122) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall Group materiality: CHF 5.1 million

We completed full scope audits at six Group companies in Switzerland and one Group company in Germany and limited statutory examinations at five Group companies in Switzerland. Our audit scope addressed almost all of the profit before income taxes of the Group.

As key audit matter the following area of focus has been identified:
Valuation of financial assets (mortgages)

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Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

<i>Overall Group materiality</i>	CHF 5.1 million
<i>How we determined it</i>	5% of profit before income taxes
<i>Rationale for the materiality benchmark applied</i>	We chose profit before income taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. In addition, profit before income taxes is a generally accepted benchmark for materiality considerations.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of financial assets (mortgages)

Key audit matter

The Group is engaged in traditional mortgage business, as can be seen on pages 95 to 96 and page 60 of the consolidated financial statements.

Mortgages amount to TCHF 1'247'269 as at 31 December 2017 and are thus the largest asset on the balance sheet.

We consider the valuation of mortgage loans as a key audit matter because the Board of Directors has significant scope for judgement in assessing the value of mortgages.

We focussed on the existing standardised processes and controls relating to the assessment of the creditworthiness of mortgage borrowers and the impairment testing of the related collateral. Additionally, we focussed on the provision of mortgage loans where the standard guidelines are not followed.

Please refer to pages 69 to 70 (Summary of key accounting principles) in the notes to the consolidated financial statements.

How our audit addressed the key audit matter

We tested the adequacy and effectiveness of the following key controls relating to the valuation of mortgage loans. The testing was performed on a sample basis.

- Credit analysis and loan approval

We checked compliance with the requirements set out in internal policies and guidelines concerning documentation, collateralisation, affordability and repayment of mortgage loans. Additionally, we checked whether loans were provided with complete documentation, approved at the appropriate level of authority and appropriately accounted for in the financial records.

- Loan disbursement

Using loan disbursement checklists, we checked whether all of the required documents and contracts were available before the loan was disbursed.

- Credit monitoring

On the basis of the monthly credit reports, we tested whether mortgages with indicators of impairment were identified and monitored adequately.

Further, we performed the following tests of detail on a sample basis:

Based on the credit reviews, we tested the mortgage loans for impairment. The credit reviews considered, among other matters, the loan-to-value ratio of the properties, the income and net assets of the borrower and the market value of the properties in question.

No impairment charges were made in the year under review. The combination of the audits of key controls and the tests of detail gave us sufficient assurance that no impairment charges were necessary in the year under review.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the compensation report of VZ Holding AG and our auditor's reports thereon.



Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. <http://www.expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.



Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

A handwritten signature in blue ink, appearing to be 'R. Birrer'.

Rolf Birrer
Audit expert
Auditor in charge

A handwritten signature in blue ink, appearing to be 'Y. Khan'.

Yousuf Khan
Audit expert

Zurich, 27 February 2018





FINANCIAL STATEMENTS OF VZ HOLDING LTD

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INCOME STATEMENTS

CHF '000

	2017	2016
Revenues		
Management fees	14	14
Dividend income	35'691	33'722
Other financial income	5'214	8'037
Total revenues	40'919	41'773
Expenses		
Personnel expenses	359	359
Other operating expenses	424	321
Other operating expenses VZ Group companies	625	625
Other financial expenses	164	111
Direct income taxes	323	547
Total expenses	1'895	1'963
Net profit	39'024	39'810

BALANCE SHEETS

CHF '000

	31.12.2017	31.12.2016
Assets		
Cash & cash equivalents	107	2'276
Accounts receivable VZ Group companies	23'606	43'142
Other receivables	10'315	8'906
Accrued income	2	2
Current assets	34'030	54'326
Loans to third parties	406	441
Loan VZ Group companies	50'000	50'000
Investments in subsidiaries	144'225	63'498
Investments in associates	400	400
Non-current assets	195'031	114'339
Total assets	229'061	168'665
Liabilities and equity		
Trade payables	43	1
Liabilities VZ Group companies	78'102	13'217
Other current liabilities	0	5
Provisions	2	2
Income tax payables	325	551
Accrued expenses	239	282
Current liabilities	78'711	14'058
Total liabilities	78'711	14'058
Share capital	2'000	2'000
Legal reserves	1'000	1'000
Free reserves	80'000	80'000
Retained earnings	84'626	78'978
Treasury shares	(17'276)	(7'371)
Total equity	150'350	154'607
Total liabilities and equity	229'061	168'665

NOTES TO THE FINANCIAL STATEMENTS

Company's name, legal form and domicile

VZ Holding Ltd, Zurich

The nominal capital amounts to CHF 2 million, consisting of 8 million registered shares with a par value of CHF 0.25 each.

Easing of requirements for the notes to the separate financial statements

VZ Holding Ltd prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), which are published by the International Accounting Standards Board (IASB). Consequently, VZ Holding Ltd is exempt from numerous disclosure requirements in the statutory separate financial statements.

CHF '000

	31.12.2017	31.12.2016
Contingency items		
HypothekenZentrum Ltd is allowed a credit line by a third party bank for which VZ Holding Ltd guarantees full coverage.	20'000	20'000
Subordinate loans		
VZ Holding Ltd has granted to VZ Depository Bank Ltd, Zug, an indefinite subordinate loan.	45'000	45'000
VZ Holding Ltd has granted to VZ VersicherungsPool Ltd an indefinite subordinate loan.	5'000	5'000
Liabilities VZ Group companies		
VZ Holding Ltd has received an interim loan from VZ Depository Bank Ltd, Zug, for the purchase of Claridenhof Ltd.	40'000	0
Other short-term overdrafts	38'102	13'217

Joint and several liability

In terms of Article 13 of the Value Added Tax Act (VAT), VZ Group is subject to group taxation for VAT purposes. VZ Holding Ltd is therefore held jointly and severally liable for all VAT commitments of VZ Group.

Shareholdings

CHF '000

	Ownership	Voting interest	Share capital 31.12.2017	31.12.2016
VZ VermögensZentrum Ltd, Zurich	100 %	100 %	2'000	2'000
VZ VersicherungsZentrum Ltd, Zurich	100 %	100 %	100	100
VZ Asset Management Ltd, Zug	100 %	100 %	400	400
VZ VermögensZentrum GmbH, Munich, Germany Registered capital EUR 4'820'945	100 %	100 %	6'822	5'749
VZ Insurance Services Ltd, Zurich	100 %	100 %	100	100
HypothekenZentrum Ltd, Zurich	100 %	100 %	250	250
VZ Depository Bank Ltd, Zug	100 %	100 %	45'000	45'000
VZ Quant Portfolio Services Ltd, Zug	100 %	100 %	100	100
Früh & Partner Vermögens- verwaltung Ltd, Zurich	40 %	51 %	250	250
VZ Corporate Services Ltd, Zurich	100 %	100 %	100	100
VZ Vorsorge Ltd, Zurich	100 %	100 %	100	100
VZ InsurancePool Ltd, Zurich	100 %	100 %	12'500	10'000
VZ Depository Bank Germany Ltd, Munich, Germany Registered capital EUR 20'000'000	100 %	100 %	21'475	2'212
VZ Treuhand GmbH, Munich, Germany Registered capital EUR 100'000	100 %	100 %	108	108
Claridenhof Ltd, Zurich	100 %	100 %	104	0

Investments in associates

VZ Holding Ltd holds a strategic stake of 33% in Dufour Capital Ltd at the price of TCHF 400. VZ takes a seat on Dufour's Board of Directors. Dufour Capital is a licensed asset manager specializing in the development of rule-based investment solutions. The company is registered in Switzerland and has a share capital of TCHF 150. Dufour Capital has an advisory mandate from VZ Group. The results of the 2017 and 2016 financial years had no significant impact on the valuation of the investment.

Liabilities under occupational benefit schemes

As of 31.12.2017, there were no liabilities under occupational benefit schemes (31.12.2016: zero).

Contingent capital

In 2007 the decision was taken to create contingent capital. The share capital can be increased by up to CHF 40'000 by issuing up to 160'000 registered shares, which are to be fully paid up, with a par value of CHF 0.25 each. These are to be used to exercise the options of the share-based management benefit programmes granted to members of the

Board of Directors and employees. The preferential subscription rights of the shareholders are excluded in favour of the holders of the option rights. No shares from the contingent capital had been issued by the end of 2017.

Treasury shares

During the 2017 financial year, VZ Holding Ltd purchased a total of 80'284 treasury shares (2016: 37'163) at an average price of CHF 299.15 (2016: CHF 266.82). During the same period, it sold 50'190 shares (2016: 55'355) at an average price of CHF 305.03 (2016: CHF 286.96) within the framework of the share-based management benefit programme. As at 31 December 2017, VZ Holding Ltd had 57'756 treasury shares at an average price of CHF 299.12 (2016: 27'662 shares at CHF 266.48).

Major shareholders

For details of the major shareholders within the meaning of Art. 663c of the Swiss Code of Obligations, please refer to the Notes to the financial statements of the VZ Group on page 104.

Compensation of the members of the Board of Directors and the Executive Board

The information required by the articles 663b^{bis} and 663c of the Swiss Code of Obligations are disclosed in the «compensation report» on pages 40 to 51, including specifically:

- compensation of the Board of Directors
- compensation of the Executive Board
- portfolio of shares and options of the members of the Board of Directors and the Executive Board

Full-time equivalents

In the year under review and the previous year, the annual average number of full-time positions was less than 10.

Events after the balance sheet date

No events took place between 31 December 2017 and 27 February 2018 that would require adjustments to the amounts recognised in these financial statements or a disclosure under this heading.

APPROPRIATION OF BALANCE SHEET PROFIT

Proposal of the Board of Directors to the General Meeting of shareholders

The Board of Directors will propose the following appropriation of the balance sheet profit at its Annual General Meeting of shareholders on 10 April 2018:

CHF '000

	31.12.2016	31.12.2015
Retained earnings, beginning of year	45'602	39'168
Net profit for the year	39'024	39'810
Retained earnings, end of year	84'626	78'978
Dividend	(34'549)	(33'376)
Balance carried forward	50'077¹	45'602

¹ Status as at 31 December 2017. The dividend payments are based on a dividend of CHF 4.35 per registered share proposed to the shareholders' meeting of 10 April 2018. No dividend will be paid on treasury shares. Therefore, the actual amount paid out is dependent on the number of treasury shares held by VZ Group on the payment date.

Since the legal reserve amounts to 50 % of the share capital, no further allocation has been proposed.

Assuming acceptance of the proposal by the Annual General Meeting of shareholders on 10 April 2018, the dividend of CHF 4.35 per registered share with a nominal value of CHF 0.25 each will be paid out on 16 April 2018 less 35 % withholding tax.

REPORT OF THE STATUTORY AUDITOR



Report of the statutory auditor to the Board of Directors of VZ Holding AG Zurich

Report on the audit of the financial statements

Opinion

We have audited the financial statements of VZ Holding AG which comprise the income statement as at 31 December 2017, the balance sheet as at 31 December 2017 and the notes to the financial statements.

In our opinion, the accompanying financial statements (pages 132 to 137) as at 31 December 2017 comply with Swiss law and the articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 1.95 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:
Impairment testing of investments in subsidiaries

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Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

<i>Overall materiality</i>	CHF 1.95 million
<i>How we determined it</i>	5% of profit before income taxes
<i>Rationale for the materiality benchmark applied</i>	We chose profit before income taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Impairment testing of investments in subsidiaries

Key audit matter

Shareholdings in subsidiaries held by the Company are recognised in the financial statements under 'Investments in subsidiaries'.

Investments in subsidiaries are stated at acquisition cost less impairment charges.

VZ Holding AG compares the book values of the investments with the equity according to the statutory financial statements prepared in accordance with the Swiss Code of Obligations and thus determines whether indications of impairment exist.

If indications of impairment are identified, VZ Holding AG tests whether impairment charges are needed by analysing the available business plans, which includes assessing the current market situation.

We consider the impairment testing of the investments in subsidiaries as a key audit matter because the book value of these investments may be higher than the equity recognised as at the balance-sheet date. If such is the case, alternative valuation methods, based on assumptions, are used.

Please refer to page 135 (Shareholdings) in the notes to the financial statements.

How our audit addressed the key audit matter

We compared the book value of the investments in subsidiaries with the equity capital recognised in the statutory financial statements of the subsidiaries as at the balance-sheet date.

Where the book value was higher than the available equity, we performed an impairment test based on an analysis of the business plans.

The analysis consisted of the following:

- We compared Management's expectations for revenue growth and long-term growth rates with developments in the industry.
- Where possible, we compared the results of the year under review with the forecasts made in the prior year and assessed the appropriateness of the prior year's assumptions.
- We examined critically the business plans of those companies still in the start-up phase.
- We performed an assessment of the appropriateness of the discount rate used in the calculation.

We consider the principles and the assumptions applied by Management to be adequate and sufficient for the impairment testing of the investments in subsidiaries.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. <http://www.expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Rolf Birrer
Audit expert
Auditor in charge

Yousuf Khan
Audit expert

Zurich, 27 February 2018





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VZ Corporate Services Ltd	Beethovenstrasse 24, 8002 Zurich, Phone +41 44 207 27 27
Claridenhof Ltd	Gotthardstrasse 6, 8002 Zurich, Tel. +41 44 207 27 27
VZ Depository Bank Germany Ltd	Maximiliansplatz 12, 80333 Munich, Tel. +49 89 904 20 20 00
VZ Treuhand GmbH	Maximiliansplatz 12, 80333 Munich, Phone +49 89 288 117-0
Früh & Partner Vermögensverwaltung Ltd	Beethovenstrasse 24, 8002 Zurich, Tel. +41 58 958 97 97

The annual report for shareholders is available in German and English. The German version prevails.

Electronic information

Additional information on VZ Holding Ltd can be found on our website: www.vzch.ch.

Disclaimer

All statements in this report, if they are not based on historical facts, relate to the future and do not provide any guarantee regarding future benefits. They include risks and uncertainties comprising, but not limited to future global economic conditions, exchange rates, legal provisions, market conditions, activities of competitors as well as other factors that are outside the company's control.

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