Risk management

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

Organisation of risk management

Board of Directors

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

Executive Board

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

Risk Office and Legal & Compliance

The Risk Office is responsible for implementing risk control by independently checking and monitoring all risks assumed. The Legal & Compliance department is responsible for legal and regulatory risks. The Risk Office compiles a semi-annual risk report and Legal & Compliance an annual activity report for the attention of the Risk, Sustainability & Audit Committee.

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

For insurance services:
- Risks from insurance contracts

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

Climate-related risks influence these risk types in the short, medium or long term. They are not a new type of risk, but an additional risk driver. Risks are assessed on the basis of their probability of occurrence and their financial impact. Based on this analysis, a decision is made as to whether the identified risks should be avoided, transferred, minimised or assumed. Risks assumed by the company itself are consistently monitored.

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

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

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

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

Default, market, liquidity and refinancing risks

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

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

Default and credit risk

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

The default risks relevant to VZ Group's banking business arise primarily from business with professional counterparties, in particular with other banks, public-law entities, reinsurers as well as from bonds and mortgage loans. VZ Group does not engage in commercial lending business. The expected credit losses at the balance sheet date were determined using the expected credit loss model (see pages 77 to 79).

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

Impact of the economy

In order to estimate the expected credit losses on the current balance sheet date, the impact of the economic development on receivables from clients and counterparties of financial assets was analysed. In the model applied to calculate the expected credit losses, the economic situation based on the economic forecasts of the Federal Expert Group for the next year was taken into account. No significantly increased default risks are expected, neither for client receivables nor for VZ Group's financial assets.

The assessment of the economic trend on the valuation of mortgage loans is based on an index for the development of residential property prices. At the current balance sheet day, there were no indications of an increase in expected credit losses.

Mortgages

Mortgage loans are the most substantial item in VZ Group's balance sheet. They are spread over a large number of mortgage borrowers and secured by mortgages or, to a lesser extent, by securities. As a result, the risk of default is very low. For credit losses expected, see page 106.

Lombard loans

The lombard loans reported in the balance sheet are secured by collaterals or credit balances, so that the default risk is low. The expected credit losses are listed on page 106.

Bonds and loans

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

In order to limit these credit risks, strict creditworthiness criteria apply to loans to banks and public-sector entities as well as to investments in bonds. As a matter of principle, only loans to borrowers with high credit standing and an international or national rating are approved. The creditworthiness of Swiss banks is somewhat easier to assess and monitor than the creditworthiness of foreign banks. Therefore, loans to Swiss banks without a rating are permitted in exceptional cases. Loans to public-sector entities are restricted to Switzerland.

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

In addition, the Board of Directors limits lending to individual counterparties by setting limits per counterparty which also include lending by other VZ companies. Country limits ensure that regional cluster risks are capped. These measures comply with the provisions of banking law on risk distribution with regard to concentration risks. The expected credit losses are listed on page 106.

Rating table[1] financial instruments and insurance contract receivables

CHF '000	State guaran-tee[2]	AAA	AA	A	BBB	No rating	Total
Cash and cash equivalents							
Sight deposits	1'609'354		7'490	73'329	3'027	126	1'693'326
Short term investments							
Time deposits	177'216		4'692				181'908
Mortgage pre-financing						3'858	3'858
Lombard credits						153'067	153'067
Marketable securities at fair value							
Marketable securities at fair value						173	173
Derivative financial instruments	34'992			3		154	35'149
Trade receivables							
Receivables from clients						3'231	3'231
Insurance contract receivables						1'046	1'046
Other receivables and current assets						29'786	29'786
Financial assets							
Time deposits	300'711						300'711
Mortgages						4'261'248	4'261'248
Bonds	190'370	69'272	78'985	27'628			366'255
Other financial assets					20'085	94'925	115'010
Insurance contract receivables				20'598			20'598
Total as at 31.12.2024	**2'312'643**	**69'272**	**91'167**	**121'558**	**23'112**	**4'547'614**	**7'165'366**
Total as at 31.12.2023	**2'019'675**	**86'511**	**142'762**	**64'134**	**20'014**	**3'924'040**	**6'257'136**

1 The relevant ratings are assigned in accordance with the rules of the Basel Committee on Banking Supervision. If the counterparty is not rated, the positions are categorised as 'no rating'.
2 Financial instruments with state guarantee comprise counterparties with implicit or explicit government guarantee such as the Swiss National Bank, Cantonal banks, Swiss public bodies as well as Deutsche Bundesbank.

Off-balance sheet contingencies and commitments

CHF '000	Mortgage collaterals	Other collaterals	Without collaterals	Total
Contingencies		2'146	1'100	3'246
Irrevocable residential mortgages granted, promised payments	487'846	11'744	83'603	583'193
Payment obligation regarding depositor protection measures			32'422	32'422
Total unconditional commitments/payment obligations	**487'846**	**13'890**	**117'125**	**618'861**
Additional funding obligation			2'208	2'208
Total as at 31.12.2024	**487'846**	**13'890**	**119'333**	**621'069**
Total as at 31.12.2023[1]	**250'539**	**11'593**	**111'664**	**373'796**

1 Irrevocable commitments in connection with mortgage redemptions that had not been utilised on the balance sheet date but were binding were understated by CHF 236.8 million in the 'Mortgage collaterals' and 'Total' columns in the previous year.

Domestic and foreign financial instruments and insurance contract receivables

CHF '000	Domestic	Foreign countries	Total
Cash and cash equivalents			
Sight deposits	1'640'961	52'365	1'693'326
Short term investments			
Time deposits	181'908		181'908
Mortgage pre-financing	3'858		3'858
Lombard credits	153'067		153'067
Marketable securities at fair value			
Marketable securities at fair value	161	12	173
Derivative financial instruments	35'147	2	35'149
Trade receivables			
Receivables from clients	3'142	89	3'231
Insurance contract receivables	1'046		1'046
Other receivables and current assets	28'226	1'560	29'786
Financial assets			
Time deposits	300'711		300'711
Mortgages	4'261'248		4'261'248
Bonds	265'757	100'498	366'255
Other financial assets	90'824	24'186	115'010
Insurance contract receivables	10'299	10'299	20'598
Total as at 31.12.2024	**6'976'355**	**189'011**	**7'165'366**
Total as at 31.12.2023	**6'061'304**	**195'832**	**6'257'136**

Loans to clients (mortgages and lombard loans)

CHF '000	Mortgage collaterals	Other collaterals	Without collaterals	Total
Lombard loans		232'349	1	232'350
Mortgages	4'246'623	14'625		4'261'248
Pre-financing	3'858			3'858
Total as at 31.12.2024	**4'250'481**	**246'974**	**1**	**4'497'456**
Total as at 31.12.2023	**3'694'498**	**182'412**	**11**	**3'876'921**

Derivative financial instruments

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

Other default risks

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

Reinsurance

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

Development of expected credit losses

CHF '000	Net impairment in the income statement 2024		Impairment as at 31.12.2024 in the balance sheet	Net impairment in the income statement 2023		Impairment as at 31.12.2023 in the balance sheet
	(stage 1)	(stage 2 & 3)		(stage 1)	(stage 2 & 3)	
Assets						
Cash and cash equivalents (A)*	(15)		(23)	1		(8)
Short-term investments (A)	(9)		(17)	2		(8)
Trade receivables (V)[1]		3	(17)		(7)	(20)
Other current assets (V)	(1)	(5)	(12)		(3)	(6)
Mortgages (A)	(81)	(2)	(131)	(4)		(48)
Bonds (A)	(14)		(43)	6		(29)
Time deposits (A)	(32)		(39)	(5)		(7)
Other financial assets (A)[2]	(7)		(14)	1		(7)
Total	**(159)**	**(4)**	**(296)**	**1**	**(10)**	**(133)**

Summary of net impairment (losses)/recoveries on financial assets in the income statement	2024	2023
From expected credit losses	(163)	(9)
From actual credit losses incurred	(49)	
	(212)	**(9)**

* (A) = calculation according to the general approach; (V) = calculation according to the simplified approach
1 Including impairments on insurance contract receivables of TCHF 1.5 (2023: TCHF 0.4) and from reinsurance contracts of TCHF 0.0 (2023: 0.0).
2 Including impairments on reinsurance contract receivables of TCHF 10 (2023: TCHF 5).

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. The VZ banks do not engage in proprietary trading. In exceptional cases, it is possible that residual positions are held temporarily in connection with the settlement and allocation of securities due to client transactions. There are price risks on the derivative financial instruments held for hedging purposes, which, however, are largely compensated by the opposite development of the hedged position in the case of an effective hedge.

In event of market shifts of +/–10 % price risks on securities measured at fair value impact total equity by +/– TCHF 3523 (2023: +/– TCHF 1232).

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

VZ banks' business model entails the interest rate risks customary in banking. On the liabilities side, interest rates on client deposits can be adjusted to market developments at any time. Significant parts of the assets are invested on demand or with residual maturities of up to three months. The average fixed-interest period for residential mortgages is around 0.8 years (2023: 0.7 years), and around 5.0 years for bonds (2023: 5.2 years). VZ Group uses derivative financial instruments (interest rate swaps and interest rate caps) to manage interest rate risk.

VZ Depository Bank Ltd, Zug, participates in mortgage bond auctions of the Swiss mortgage bond bank (Pfandbriefbank schweizerischer Hypothekarinstitute) for the purpose of refinancing. As at the balance sheet date of 31 December 2023, the bank held loans from central mortgage institutions in the amount of CHF 576.6 million (31.12.2023: CHF 417.4 million) with an average term of 6.0 years (2023: 5.1 years). Interest rate risks of loans from central mortgage institutions have been hedged using hedge accounting. In order to reduce fluctuations in future interest income from money market mortgages, part of the future interest income has been hedged with interest rate caps. The scope and effectiveness of these hedges are shown on page 170.

Interest rate risks related to equity

CHF Mio	31.12.2024	31.12.2023
Parallel shift of the interest rate curve		
by +1,5%	(16.7)	(32.4)
by –1,5%	(16.8)	25.1

Entire balance sheet: foreign exchange table

CHF '000	CHF	EUR	USD	Others	Total
Cash and cash equivalents					
Sight deposits	1'573'472	66'534	37'196	16'124	1'693'326
Short term investments					
Time deposits	155'788	21'585	4'535		181'908
Mortgage pre-financing	3'858				3'858
Lombard credits	153'027	22	18		153'067
Marketable securities at fair value					
Marketable securities at fair value	161	12			173
Derivative financial instruments	35'147	2			35'149
Trade receivables					
Receivables from clients	3'142	44		45	3'231
Insurance contract receivables	1'046				1'046
Other receivables	13'114	1'411		81	14'606
Accrued income and deferred expenses	89'226	4'819		620	94'665
Other current assets	15'126	26		28	15'180
Financial assets					
Time deposits	300'711				300'711
Mortgages	4'261'248				4'261'248
Bonds	344'002	22'253			366'255
Other financial assets	106'887	2'627		5'496	115'010
Insurance contract receivables	20'598				20'598
Investments in associates	8'846				8'846
Property and equipment	171'209	4'719		842	176'770
Goodwill and other intangible assets	15'831	576		23'477	39'884
Deferred tax assets	1'532	676		404	2'612
Trade payables	(1'455)	(135)		(44)	(1'634)
Other current liabilities	(30'166)	(3'412)		(398)	(33'976)
Due to banks	(96'872)	(151)	(158)	(2'311)	(99'492)
Due to customers	(5'209'421)	(151'450)	(68'745)	(4'504)	(5'434'120)
Income tax payables	(33'155)	(111)		(327)	(33'593)
Provisions	(1'620)				(1'620)
Accrued expenses and deferred income	(62'500)	(1'189)		(725)	(64'414)
Long-term debts					
Medium-term notes	(148)				(148)
Loans from central mortgage institutions	(576'579)				(576'579)
Time deposits from customers	(4'450)				(4'450)
Long-term leasing liabilities	(60'963)	(3'723)		(491)	(65'177)
Other long-term debts	(649)				(649)

Continuation table

CHF '000	CHF	EUR	USD	Others	Total
Other non-current liabilities					
Residual purchase obligations from acquisitions				(31'831)	(31'831)
Insurance contract liabilities	(49'115)				(49'115)
Other non-current liabilities	(22'847)	(48)		(9)	(22'904)
Deferred tax liabilities	(4'748)			(2'070)	(6'818)
Total as at 31.12.2024	**1'119'283**	**(34'913)**	**(27'154)**	**4'407**	**1'061'623**
Foreign exchange forward contracts		58'105	27'161	1'825	87'091
Total as at 31.12.2024 (hedged)	**1'119'283**	**23'192**	**7**	**6'232**	**1'148'714**
Total as at 31.12.2023 (hedged)	**1'064'582**	**16'198**	**274**	**7'320**	**1'088'374**

Currency risks

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

VZ Group does not have any significant foreign exchange holdings and therefore hardly bears any currency risks. Foreign currency holdings can be acquired from earnings in daily operations. For example, such earnings at VZ banks are attributable to the spread on foreign exchange transactions, interest payments and transaction fees in foreign currencies. The holdings are continuously monitored and converted to the functional currency. Forward exchange transactions and currency swaps can be entered into to optimise income. Foreign currency holdings are converted into another currency and hedged with forward exchange contracts that neutralise the currency risk.

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

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

CHF '000	Change in value	Impact on equity	
		2024	2023
EUR	+/–25%	+/–5798	+/–4087
USD	+/–25%	+/–2	+/–68
GBP	+/–25%	+/–1558	+/–1827
Other	+/–25%	+/–2	+/–3

Liquidity and refinancing risks

Responsibility and monitoring

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

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

Execution

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

Risk mitigation

To limit its risks, VZ Group plans its liquidity over several years and monitors a number of early warning indicators tailored to its business model. The group companies that have a significant impact on liquidity simulate a liquidity stress scenario every month. In addition, VZ Group maintain a sufficient liquidity reserve on a sustainable basis. A contingency plan is part of the group-wide risk management and is regularly reviewed for effectiveness. VZ Group's banks mainly refinance themselves through stable client deposits as well as mortgage bonds, time deposits and medium-term notes. The other group companies' borrowings are insignificant. Overall, VZ Group's refinancing risks are therefore low. Further details and the remaining time to maturity of trade payables and other liabilities can be found on pages 132 and 133.

Maturity table for financial instruments and receivables/liabilities from insurance contracts as at 31.12.2024

CHF '000	Demand	0 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
Cash and cash equivalents						
Sight deposits	1’693’326					1’693’326
Short term investments						
Time deposits		95’216	86’692			181’908
Mortgage pre-financing		3’858				3’858
Lombard credits		40’520	112’547			153’067
Marketable securities at fair value						
Marketable securities at fair value	173					173
Derivative financial instruments	35’149					35’149
Trade receivables						
Trade receivables		3’231				3’231
Insurance contract receivables		1’046				1’046
Other receivables and current assets		29’786				29’786
Financial assets						
Time deposits				88’461	212’250	300’711
Mortgages		144’840	548’641	3’323’193	244’574	4’261’248
Bonds		3’005	28’541	166’886	167’823	366’255
Other financial assets		31’343	34	78’394	5’239	115’010
Insurance contract receivables				6’916	13’682	20’598
Due to banks	(97’222)	(2’270)				(99’492)
Due to customers	(5’082’566)	(280’481)	(71’073)			(5’434’120)
Long-term debts						
Medium-term notes			(50)	(98)		(148)
Loans from mortgage institutions		(10’002)	(7’995)	(221’180)	(337’402)	(576’579)
Time deposits from customers				(4’150)	(300)	(4’450)
Long-term leasing liabilities				(40’799)	(27’131)	(67’930)
Other long-term debts				(649)		(649)
Other non-current liabilities						
Residual purchase obligations from acquisitions				(33’910)		(33’910)
Liabilities from insurance contracts				(29’571)	(19’544)	(49’115)
Interest payments		(2’358)	(4’371)	(20’070)	(18’775)	(45’574)
Total as at 31.12.2024	**(3’451’140)**	**57’734**	**692’966**	**3’313’423**	**240’416**	**853’399**

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

CHF '000	Demand	0 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
Cash and cash equivalents						
Sight deposits	1'406'944		12'776			1'419'720
Short term investments						
Time deposits		46'254	85'445			131'699
Mortgage pre-financing		889				889
Lombard credits		27'478	98'877			126'355
Marketable securities at fair value						
Marketable securities at fair value	101					101
Derivative financial instruments	12'221					12'221
Trade receivables						
Trade receivables		4'555				4'555
Insurance contract receivables		997				997
Other receivables and current assets		25'558				25'558
Financial assets						
Time deposits				121'492	241'250	362'742
Mortgages		112'846	447'386	2'908'970	238'732	3'707'934
Bonds		12'018	47'082	140'260	178'864	378'224
Other financial assets		29'957	42	40'818	5'241	76'058
Receivables from insurance contracts				4'507	5'576	10'083
Due to banks	(45'653)	(3'215)				(48'868)
Due to customers	(4'050'372)	(528'885)	(256'228)			(4'835'485)
Long-term debts						
Medium-term notes				(124)	(24)	(148)
Loans from mortgage institutions		(7'970)	(21'730)	(188'137)	(199'513)	(417'350)
Time deposits from customers				(27'980)	(300)	(28'280)
Long-term leasing liabilities				(29'417)	(22'443)	(51'860)
Other non-current liabilities						
Residual purchase obligations from acquisitions				(23'882)		(23'882)
Liabilities from insurance contracts				(19'023)	(15'740)	(34'763)
Interest payments		(3'591)	(5'700)	(11'424)	(9'364)	(30'079)
Total as at 31.12.2023	**(2'676'759)**	**(283'109)**	**407'950**	**2'916'060**	**422'279**	**786'421**

Insurance risks

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

Company	Insurance services	Reinsurance contracts held
VZ BVG Rück Ltd	Group life insurance for occupational benefit schemes	Proportional quota shares reinsurance
VZ InsurancePool Ltd	Non-life insurance, consisting of: ▪ Motor vehicle ▪ Building incl. liability ▪ Household contents ▪ Personal liability	Non-proportional reinsurance

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

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

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

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

Operational risk

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

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

Technology and cyber risks

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

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

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

Legal and compliance risks

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

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

Reputational risk

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

Capital management

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

Banking regulatory disclosures on capital resources

The VZ Group as a financial services provider is subject to supervision by the Swiss Financial Market Supervisory Authority (FINMA). As a financial services provider in category 4, VZ Group must comply with extended supervisory disclosure requirements in accordance with FINMA Circular 2016/1 Disclosure for Banks. The following is an excerpt from the regulatory data disclosed in full on pages 179 to 181. The extract is limited to a comparison between the existing eligible own funds and the minimum required own funds as well as the associated key figures. Thanks to a solid capital structure, VZ Group aims to not only meet the regulatory requirements for own funds, but to finance the targeted growth.

The data on the following page is unaudited information.

Presentation of eligible capital

CHF '000	31.12.2024	31.12.2023
Common equity tier 1 capital (net CET1)	889'533	799'216
Total regulatory capital (net T1)	889'533	799'216
Total of eligible capital	**889'533**	**799'216**

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

CHF '000	Approach used	Capital adequacy requirements	
		31.12.24	31.12.23[4]
Credit risk	Int. standardised approach	192'022	167'035
Non-counterparty-related risk	Int. standardised approach	14'492	12'560
Market risk	De-minimis approach	1'413	2'143
Operational risk	Basis indicator	70'195	63'600
Amounts below the deduction threshold		2'013	854
Total of required capital		**280'135**	**246'192**
Common equity tier 1 capital ratio (CET1)[1,4]		25.4%	26.0%
Tier 1 capital ratio (T1)[2,4]		25.4%	26.0%
Total eligible capital ratio (T1 & T2)[3,4]		25.4%	26.0%

1 CET1 capital adequacy target as at 31.12.2024: 8.5% (31.12.2023: 8.5%)
2 Tier 1 capital adequacy target as at 31.12.2024: 10.1% (31.12.2023: 10.1 %)
3 Overall capital adequacy target as at 31.12.2024: 12.3% (31.12.2023: 12.3 %)
Details can be found from page 178 under «Disclosure obligations under supervisory law».
4 Retrospectively adjusted from 26.2% to 26.0%, as additional irrevocable loan commitments were included in the calculation.

Information to the leverage ratio

CHF Mio.	31.12.2024	31.12.2023
Ratio of eligible equity and of total exposure		
Tier 1 capital	890	799
Leverage ratio exposure	7'734	6'634
Leverage ratio	**11.5%**	**12.0%**

Required capital resources for insurance companies

CHF '000	31.12.2024	31.12.2023
Regulatory required capital according to Supervisory Ordinance	18'000	18'000
Existing capital in % of the regulatory requirement	288%	291%

Notes on the income statement

Revenues

CHF '000	2024	2023
Consulting fees	**38’624**	**37’316**
Management fees		
Management fees on assets under management	332’394	285’690
Fees for the management of securities portfolios	284’388	240’596
Custody fees	12’086	10’873
Fees for the management of residential property mortgages	35’920	34’221
Other management fees	34’815	31’101
Total management fees	**367’209**	**316’791**
Banking income from commissions and trading activities		
Income from commission business	18’089	19’313
Commission income	25’216	23’796
Commission expenses	(7’127)	(4’483)
Income from trading activities	23’098	17’431
Other banking income	33	34
Total banking income from commissions and trading activities	**41’220**	**36’778**
Banking income from interest operations		
Interest income [1,2]	95’397	88’738
Interest expense [3]	(32’701)	(27’071)
Total banking income from interest operations	**62’696**	**61’667**
Insurance result		
Insurance service result	11’514	7’258
Insurance revenue	40’192	31’603
Insurance service expenses	(25’518)	(22’554)
Result from reinsurance contracts	(3’160)	(1’791)
Insurance finance result	3’197	3’440
Investment result from insurance	1’203	696
Finance result from Insurance contracts	1’994	2’744
Total insurance result	**14’711**	**10’698**
Net impairment (losses)/recoveries on financial assets	**(212)**	**(7)**
Other revenues	**833**	**599**
Total revenues	**525’081**	**463’842**

1 Calculated according to the effective interest rate method. Interest income includes interest income of TCHF 4966 (2023: TCHF 5737) from foreign exchange swaps for the interest rate differential business.
2 Interest income from liabilities amounts to TCHF 0 (2023: TCHF 0).
3 Negative interest paid on balances with the Swiss National Bank, the German Federal Bank and other counterparty banks in 2024 TCHF 2 (2023: TCHF 0).

Information on the criteria for recognition in the income statement, the period during which the services are provided and invoiced, and the uncertainty of revenues for the various revenue categories can be found in the section «Accounting policies» on pages 84 and 85.

Revenue components

Consulting fees
Consultancy fees are incurred in the areas of retirement and estate planning, real estate financing, builder-owner consulting, property sales, tax planning, investment advice, succession planning and execution of wills. Further consultancy services include fiduciary services, risk management as well as employee benefit package planning.

Management fees on assets under management
Management fees from assets under management include revenues that are directly related to assets under management. These revenues include fees for asset management and client service, net revenues from all-in fees, net deposit fees and management fees for residential property mortgages.

Other management fees
Other management fees include the management of insurance portfolios as well as management services for foundations and pension funds.

Banking income from commissions and trading activities
Banking income from commissions and trading activities includes income from transactional commission business, net trading income and other banking income.

Insurance Result
The Insurance result is shown on the following page.

Net impairment on financial assets
The calculation of the net impairment on financial assets is described in detail on pages 77 to 79.

Other revenues
Other revenues comprise mainly revenues generated with publishing activities such as publication of own books and periodicals as well as from rental income.

Insurance result

CHF '000	Group life 2024	Non-life 2024	Total 2024	Group life 2023	Non-life 2023	Total 2023
Insurance revenue						
Release of CSM	1'376		1'376	611		611
Change in risk adjustment	446		446	(360)		(360)
Insurance service expenses expected	12'131		12'131	9'081		9'081
Premiums written		27'721	27'721		23'430	23'430
Net change in unearned premium reserve		(1'482)	(1'482)		(1'159)	(1'159)
Total insurance revenue	**13'953**	**26'239**	**40'192**	**9'332**	**22'271**	**31'603**
Insurance service expenses	**(10'027)**	**(15'491)**	**(25'518)**	**(9'015)**	**(13'539)**	**(22'554)**
Result from reinsurance contracts	**(1'931)**	**(1'229)**	**(3'160)**	**(594)**	**(1'197)**	**(1'791)**
Total insurance service result	**1'995**	**9'519**	**11'514**	**(277)**	**7'535**	**7'258**
Interest income from cash	3		3	1		1
Investment income from financial assets	773	427	1'200	428	267	695
Total investment result from insurance [1]	**776**	**427**	**1'203**	**429**	**267**	**696**
Interest expense from discounting		(97)	(97)		(5)	(5)
Interest income from discounting	2'091		2'091	2'749		2'749
Total finance result from insurance contracts	**2'091**	**(97)**	**1'994**	**2'749**	**(5)**	**2'744**
Total insurance finance result	**2'867**	**330**	**3'197**	**3'178**	**262**	**3'440**
Total insurance result	**4'862**	**9'849**	**14'711**	**2'901**	**7'797**	**10'698**

[1] Investment income from insurance arises from investments recognised at amortised cost

The insurance result is explained in detail from page 141 «Insurance business».

Personnel expenses

	31.12.2024	31.12.2023
Full time equivalents	1’567.9	1’390.7

CHF '000	Page	2024	2023
Salaries [1]		161’821	143’763
Pension costs – defined benefit plan	160-163	6’210	7’043
Pension costs – defined contribution plans		2’694	2’445
Other social security expenses		13’594	11’947
Other personnel expenses		6’417	5’037
Total personnel expenses		**190’736**	**170’235**

[1] Including share-based payments of TCHF 7007 and costs for option plans TCHF 1968 (2023: Including share-based payments of TCHF 6169 and costs for option plans TCHF 1011).

Equal pay

The revised Federal Gender Equality Act (GlG) has been in force since 1 July 2020. Companies with 100 or more employees had to analyse by mid-2021 whether they pay men and women equally. They had to have their analysis reviewed by an independent body and inform employees and shareholders of the results by mid-2023. Companies that will reach the threshold of 100 employees by 30 June 2023 may fall under this new analysis requirement.

The GlG applies to VZ VermögensZentrum Ltd, VZ Depository Bank Ltd and VZ Corporate Services Ltd, each of which employs more than 100 people. In 2020, the management of VZ Group had not only the salaries of these companies analysed, but those of the entire Group. The analysis with the Confederation’s standard analysis tool (Logib) did not reveal any significant, inexplicable wage differences. PwC has verified that the equal pay analyses of VZ VermögensZentrum Ltd, VZ Depository Bank Ltd and VZ Corporate Services Ltd was carried out in a formally correct manner and confirms that it «did not come across any facts from which it would have to conclude that the analyses do not comply with the legal requirements in all respects.» PwC’s confirmation is included in the 2020 annual report.

Since then, the Executive Board had the VZ Group’s salaries analysed again every year using the same methodology and the same tool. These analyses also showed no significant, inexplicable wage differences between women and men. At the beginning of 2024, VZ VersicherungsZentrum AG reached the threshold of 100 employees. In accordance with the GlG, management will analyse salaries next year and have the results audited by an independent body.

Other operating expenses

CHF '000	2024	2023
Office space rent and maintenance	6’880	6’739
Marketing expenses	12’572	11’909
IT expenses	20’542	19’692
General and administrative expenses	15’280	13’255
Total	**55’274**	**51’595**

Net finance income

CHF '000	2024	2023
Interest expense	(1’588)	(1’185)
Interest income	541	547
Result from investments in associates	479	29
Foreign exchange loss(-)/profit	(113)	(324)
Capital loss(-)/gains	348	103
Other commission expenses	(98)	(94)
Total	**(431)**	**(924)**

Interest income and interest expense originate from financial instruments measured at amortised cost. The expenses also include interest expenses from lease liabilities. In addition to the interest income and expenses shown in the table, VZ Group’s revenues include interest income from the banking and insurance business. For these business lines, the interest income arises from their operating activities and is therefore recognised as part of revenue.

Income taxes

VZ Group applies a weighted average tax rate to calculate the expected tax expenses. The changes in the weighted average expected tax rates are due on to the differences local tax rates. As the individual companies’ contributions to the total profit before tax vary from year to year, the weighted average expected tax rate also fluctuates for each financial year.

Consolidated income statement

CHF '000	2024	2023
Current income tax		
Current income tax charge	29’401	28’193
Adjusted for current income tax for previous years	273	(75)
Deferred income tax		
Deferred income tax (see page 134)	4’712	2’455
Adjusted for deferred tax expense for previous years	10	401
Income tax expense reported in the consolidated income statement	**34’396**	**30’974**

CHF '000	2024	Tax rate	2023	Tax rate
Profit before income taxes	**253’474**		**217’996**	
Expected income tax expense	33’383	13.2%	30’081	13.8%
Adjusted for current income tax for previous years	273		(75)	
Non-deductible expenses	155		153	
Effect of higher tax rates in Germany and UK	575		414	
Effect of change in applicable tax rates on deferred taxes	10		401	
Effective income tax expenses	**34’396**	**13.6%**	**30’974**	**14.2%**

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	2024	2023
Net profit	218’225	186’935
Weighted average number of shares issued	40’000’000	40’000’000
Less weighted average number of treasury shares	543’910	629’878
Weighted average number of outstanding shares (undiluted)	39’456’090	39’370’122
Dilution effect from option programmes	108’147	31’146
Weighted average number of outstanding shares (diluted)	39’564’237	39’401’268
Undiluted earnings per share (CHF)	5.53	4.75
Diluted earnings per share (CHF)	5.52	4.74

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 more changes to the capital structure between the reporting date and the date of preparation of these financial statements.