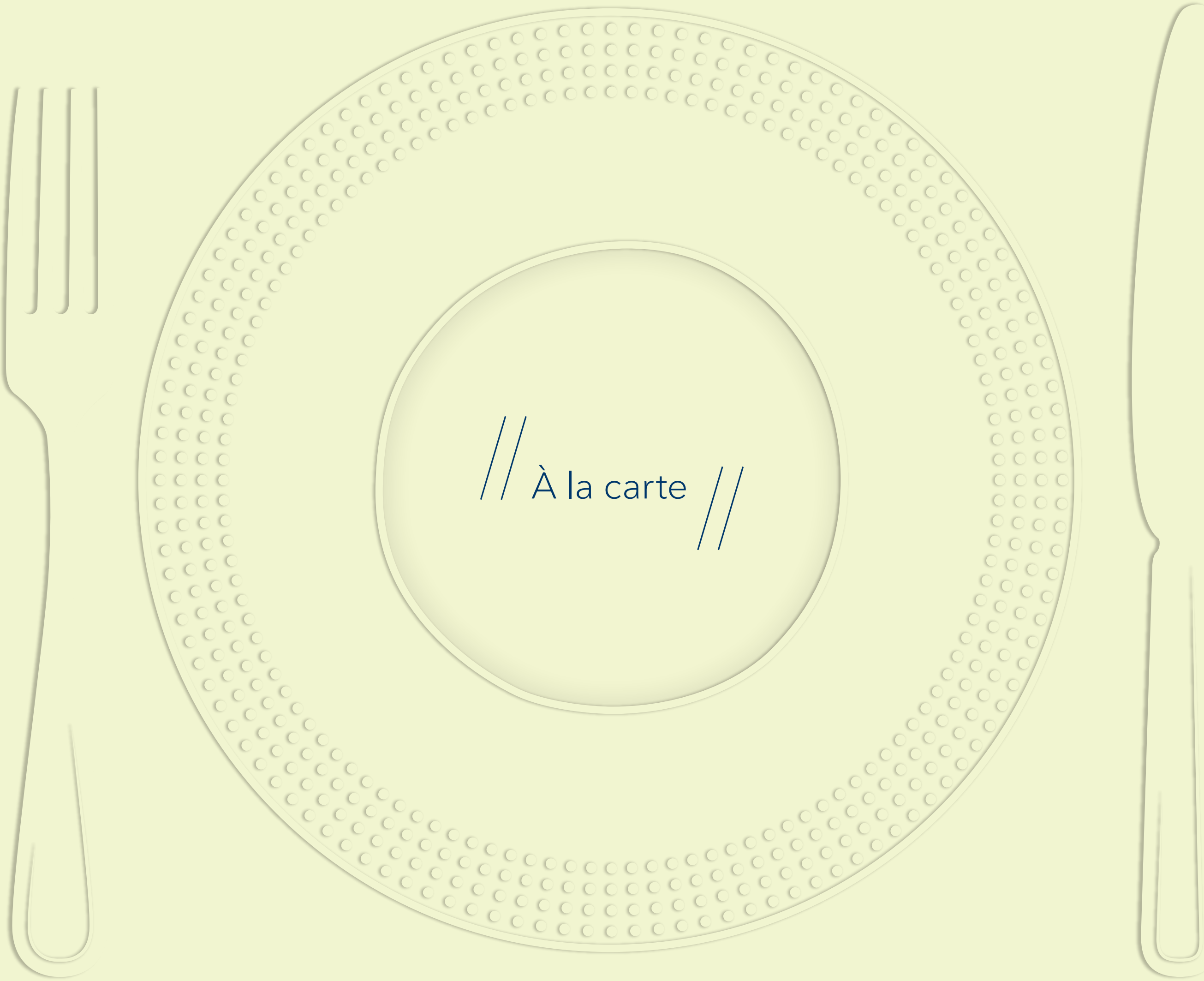
Semi-annual Report 2019



VP BANK

Introduction

VP Bank Group

Financial report of VP Bank Group

We reveal the best recipes from VP Bank's international cuisine: "À la carte" is the design theme of our 2019 semi-annual report.

We focus on six VP Bank Group sites, their strengths and particularities. We offer our clients a global network along with regional know-how for customised and needs-based solutions – essentially "à la carte".

Discover succulent video footage and unusual recipes in the online annual report at report.vpbank.com

www.vpbank.com/en/alacarte

Statement of the Chairman of the Board of Directors and the Chief Executive Officer

Dear shareholders,
Ladies and gentlemen,

Global economic growth slowed in the first half of 2019. Economic policy tensions between the United States and China coupled with the still unresolved Brexit process adversely affected the real economy. The impact on the export-oriented European economy was particularly significant. Thanks to solid domestic demand, the United States economy proved to be very robust. Financial markets, meanwhile, responded favourably to the prospect of monetary easing by the large central banks. In this environment, VP Bank Group again posted a very solid performance.

Very positive interim result

In the first half of 2019, VP Bank Group recorded consolidated net income of CHF 35.3 million, up from CHF 29.3 million the previous year.

Client assets under management increased from CHF 41.5 billion to CHF 45.6 billion thanks to substantial net new money inflows, the asset deal with Catella Bank in Luxembourg and a very favourable market performance. This most satisfactory 9.9 per cent increase confirms the success of our intensive market development efforts.

Medium-term goals

As part of our "Strategy 2020" business plan, we defined VP Bank Group's medium-term goals as follows:

- CHF 50 billion in client assets under management
- CHF 80 million in consolidated net income
- Cost/income ratio below 70 per cent

At 30 June 2019, assets under management totalled CHF 45.6 billion (up 9.9 per cent, or CHF 4.1 billion, since 31 December 2018), first-half consolidated net income was CHF 35.3 million (first half 2018: CHF 29.3 million). At 30 June 2019 the cost/income ratio was 68.6 per cent (compared with 70.3 per cent one year earlier).

These current results as well as our solid financial position with a robust 19.7 per cent tier 1 ratio show that by taking advantage of targeted organic and external growth opportunities and maintaining strict cost controls we are on track.

Three strategic pillars

The 2020 strategy was defined in 2015 with a five-year horizon. It includes three pillars and runs until the end of next year.

As regards growth, the positive trend of 2018 carried over to the first half of 2019 with CHF 1.2 billion in net new money. Another CHF 1.0 billion was taken in through the acquisition of Catella's private banking activities in Luxembourg. As part of our "Relationship Management Hiring" project, we remain slightly below budget after taking into account additional new client advisors, but we are nevertheless extremely satisfied with the net new money brought in through this programme.

In the focus pillar, we made further progress as regards cost management in the first half of 2019 and optimised our products and services. They include a new version of our client and employee portal.

We use the term culture to refer to the sales and performance culture as well as the corporate culture. In the first half, we continued our manager training programme, held a successful "VP Bank Journey" to Vienna for employees and promoted information sharing between managers and employees at frequent breakfast events. In June 2019, we held our first "International Welcome Event" in order to give our new colleagues from the international sites a personal view of VP Bank Group's culture and strategy and thus provide them with active support as regards their integration.

With IT Strategy 2022, we created an IT development plan consisting of nine action areas focused on the three strategic pillars. The main topics include effectiveness, efficiency, growth initiatives, quality and security.

In July 2019, as part of our market strategy, we identified Denmark, Norway and Sweden (the "Nordics") as additional target markets. These markets will be managed by the recently added Luxembourg-based Catella team, among others.

Key first-half events

After celebrating the 20-year anniversary of VP Fund Solutions at our Luxembourg site last year, in 2019 our Liechtenstein fund subsidiary marks its 20th anniversary. We have responded to the dynamic growth of our fund business by adding to the management of VP Fund Solutions with a Chief Operating Officer, a Chief Technology Officer and a Head of Private Equity & Real Estate, all under the management of Eduard von Kymmel.

In February, the government of the Principality of Liechtenstein approved a strategy aimed at strengthening the competitiveness of the financial centre and enhancing its positioning as an international and innovative centre. The strategy revolves around unrestricted and equal market access as well as the corresponding international collaboration.

As from 1 February 2019, we completed the acquisition of the Luxembourg private banking activities of Catella Bank by VP Bank (Luxembourg) SA. Under this deal, which took the form of an asset transfer, we brought over 11 employees and added client assets totalling CHF 1.0 billion. We positioned ourselves in Luxembourg with a new team for the German target market and were very successful in pursuing organic growth in Luxembourg through targeted market development efforts together with VP Fund Solutions.

A total of 487 shareholders attended VP Bank's 56th Annual General Meeting on 26 April 2019. All resolutions were adopted. Markus Thomas Hilti, Ursula Lang and Dr Gabriela Maria Payer were re-elected to three-year terms on the Board of Directors, while Dr Christian Camenzind did not seek re-election and stepped down from the Board.

Personnel and organisational changes

The Board of Directors of VP Bank Group and CEO Alfred W. Moeckli decided to part ways. Alfred W. Moeckli relinquished all his functions at end-January 2019 and left the bank in order to pursue new opportunities. Dr Urs Monstein took over the position of CEO on an interim basis.

The Investment Solutions unit was reorganised as from 1 March 2019 in order to strengthen VP Bank's investment business and thereby make a significant contribution toward achieving the strategic growth objectives.

Last year Dr Thomas R. Meier was newly elected to a three-year term on the Board of Directors. In February 2019 he was appointed as the second Vice Chairman of the Board. An experienced Asia expert, Thomas Meier will become even more involved in the continued development of VP Bank's Asia strategy and our Singapore and Hong Kong sites.

VP Bank shares

After a relatively weak second half of 2018, VP Bank Group's shares delivered a total return of 15.5 per cent (in Swiss francs and including the dividend) in the first half of 2019. They significantly outperformed the SIX's banking index (+6.8 per cent). They nevertheless fell short of the overall market index (SPI), which rose by approximately 21.8 per cent. The underperformance relative to the overall market was mainly due to the trend in the first quarter and June, as the share price significantly outperformed the SPI in April and May in particular. The shares traded in a range between CHF 130.2 (8 March) and CHF 165.4 (28 May). VP Bank shares rose by 11.6 per cent (excluding dividend) over a six-month comparison period, by 75.3 per cent over a three-year period and by 98.5 per cent over a five-year period.

Based on 2018 net income, a dividend of CHF 5.50 per registered share A was paid out on 5 May 2019, corresponding to a dividend yield of approximately 3.9 per cent. Overall, given the challenging market environment for banks, VP Bank's share performance can be viewed favourably and again demonstrates that the shares are a sound investment.

Under the authorisation granted to it by the 24 April 2015 Annual General Meeting, VP Bank Ltd announced a share buy-back programme on 26 June 2018 involving up to 180,000 listed registered shares A, each with a par value of CHF 10 per share. In all, a total of 169,950 registered shares A were repurchased in the period from 27 June

2018 to 28 June 2019, corresponding to 2.57 per cent of the registered share capital in the commercial register, or 1.41 per cent of the voting rights.

At 30 June 2019, VP Bank Ltd directly or indirectly owns 600,847 registered treasury shares A and 325,969 registered treasury shares B (9.58 per cent of the share capital and 7.71 per cent of the voting rights). Since no shares were cancelled, the share capital and voting rights ratios were left unchanged. Registered shares A are held to be used in future acquisitions or for treasury management purposes.

Sustainability

VP Bank Group is committed to the principle of sustainable business practices and strives to continuously develop its sustainability policy. This approach increasingly includes measures in the investment area. In the first half of 2019, we implemented initiatives to promote mobility and environmentally friendly transportation, employee health and workplace ecology. One particularly noteworthy initiative is "Think before you print", which enabled us to reduce paper consumption by 10 per cent at our Liechtenstein head office. In May 2019, for the third time we sponsored a workshop by Liechtenstein University on the topic of "Sustainable Finance" and gave out the "VP Bank Best Paper Award" for a paper on the topic of sustainability in the European bond market.

As a bank group with deep regional roots, we also demonstrate our corporate commitment in the form of sports and cultural sponsorship. In the first half of 2019, we sponsored three prestigious events – the VP Bank Classic Festival, the VP Bank Ladies Open golf tournament and the VP Bank Rally – and thereby affirmed our close ties to the region.

Outlook

In July 2019, the Board of Directors appointed Paul H. Arni as the new CEO of VP Bank Group. He has extensive banking and management experience in both the front and back office areas. The decisive factor in choosing Paul Arni was his distinguished and long-standing front office experience combined with his vast knowledge of a broad range of banking activities. He is also a great fit for our bank from a cultural standpoint, and his technical background contributes to our well-balanced Group Executive Management. Paul Arni will begin his duties on 1 October 2019.

We have also laid the groundwork for profitable growth in the second half. Building on our success to date, we continue to push our international growth efforts. To that end, we are actively looking to add new client advisors and managers at the Singapore, Luxembourg, Zurich and Vaduz sites. We will complete our "Relationship Manager Hiring" programme at end-2019 as planned and ensure that we can achieve our objectives from both a qualitative and quantitative standpoint. In addition to these growth initiatives, we continue to focus on strict cost controls.

We are focusing in particular on our Singapore site. The memorandum of understanding signed in July for strategic cooperation with Hywin Wealth Management Co. in China underscores the growing importance of our Asia business.

Another focal point for the second half of 2019 will be the expansion of our Scandinavian business, which will increasingly be managed from Luxembourg.

In autumn 2019 we will conduct a Group-wide client survey on product and service quality. We are also launching "VP Bank Connect" in the second half of 2019. This new, secure and independent login procedure for our e-banking service runs on a smartphone app and is a simple alternative to the security token.

At the end of next year, we will replace "Strategy 2020" with a new strategic plan. We therefore initiated comprehensive workshops examining the "future of banking" in order to lay the groundwork for VP Bank's own future in a timely fashion. These efforts include trend analyses and the identification of action areas to be pursued by the Group over the next five years. The results of this process will be presented in March 2020 as part of the presentation of our 2019 annual results.

Our outstanding "A/A-1" rating and stable outlook from the Standard & Poor's ratings agency attest to our Group's solid and successful business model.

Appreciation

We have successfully completed a demanding first half marked by weaker economic growth and significant organisational and personnel changes within the bank. The substantial increase in consolidated net income as well as the favourable net new money trend demonstrate VP Bank's innovative capabilities. We would therefore like to extend our thanks to our employees for their commitment.

We would also like to thank our clients and shareholders for their renewed trust in VP Bank.

Fredy Vogt	**Dr Urs Monstein**
Chairman of the Board of Directors	Interim Chief Executive Officer Chief Operating Officer

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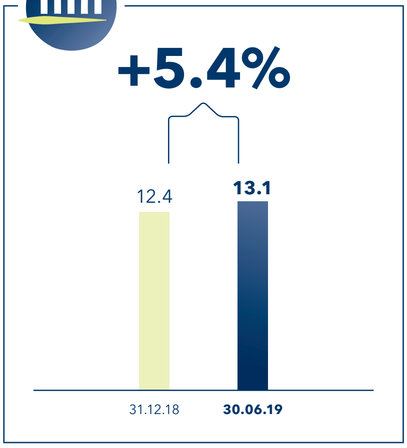
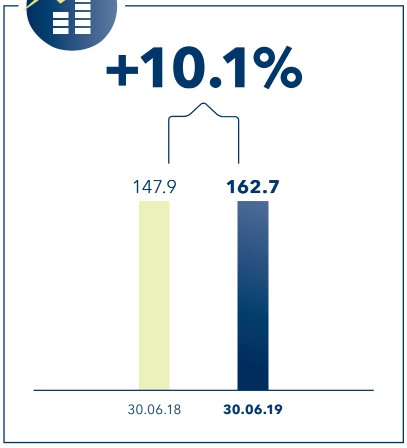
VP Bank Group

Key figures of VP Bank Group

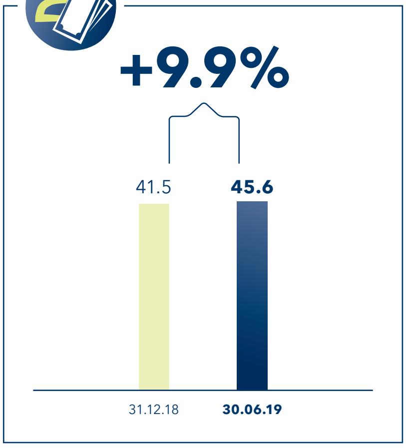
Total assets (CHF billion)



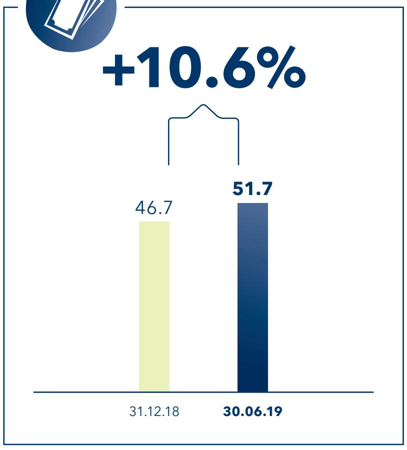
Total operating income (CHF million)



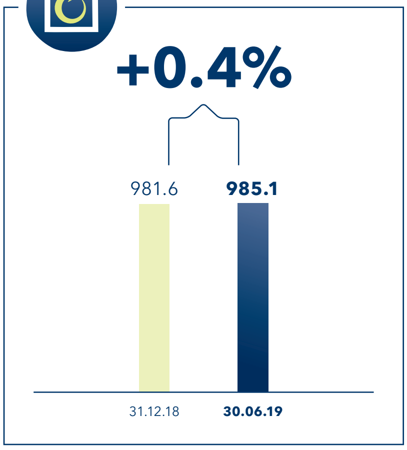
Client assets under management excl. custody assets (CHF billion)



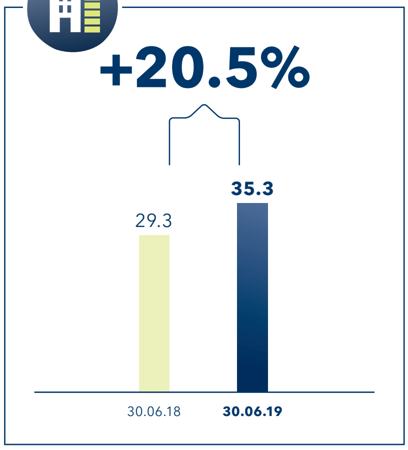
Client assets (CHF billion)



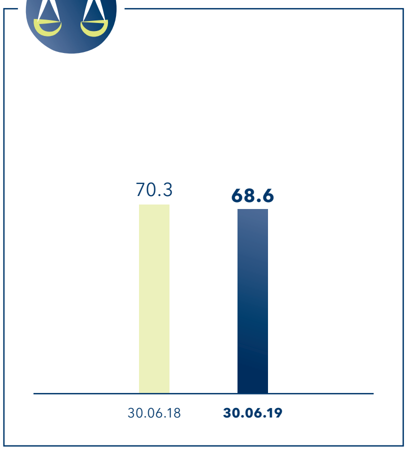
Total shareholders' equity (CHF million)



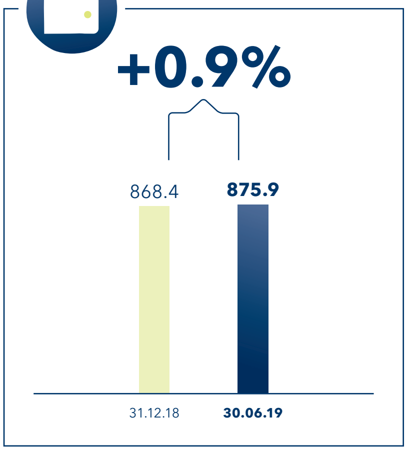
Net income (CHF million)



Cost/income ratio (in %)



Headcount (full-time equivalents)



Share price performance

VP Bank shares (in CHF)

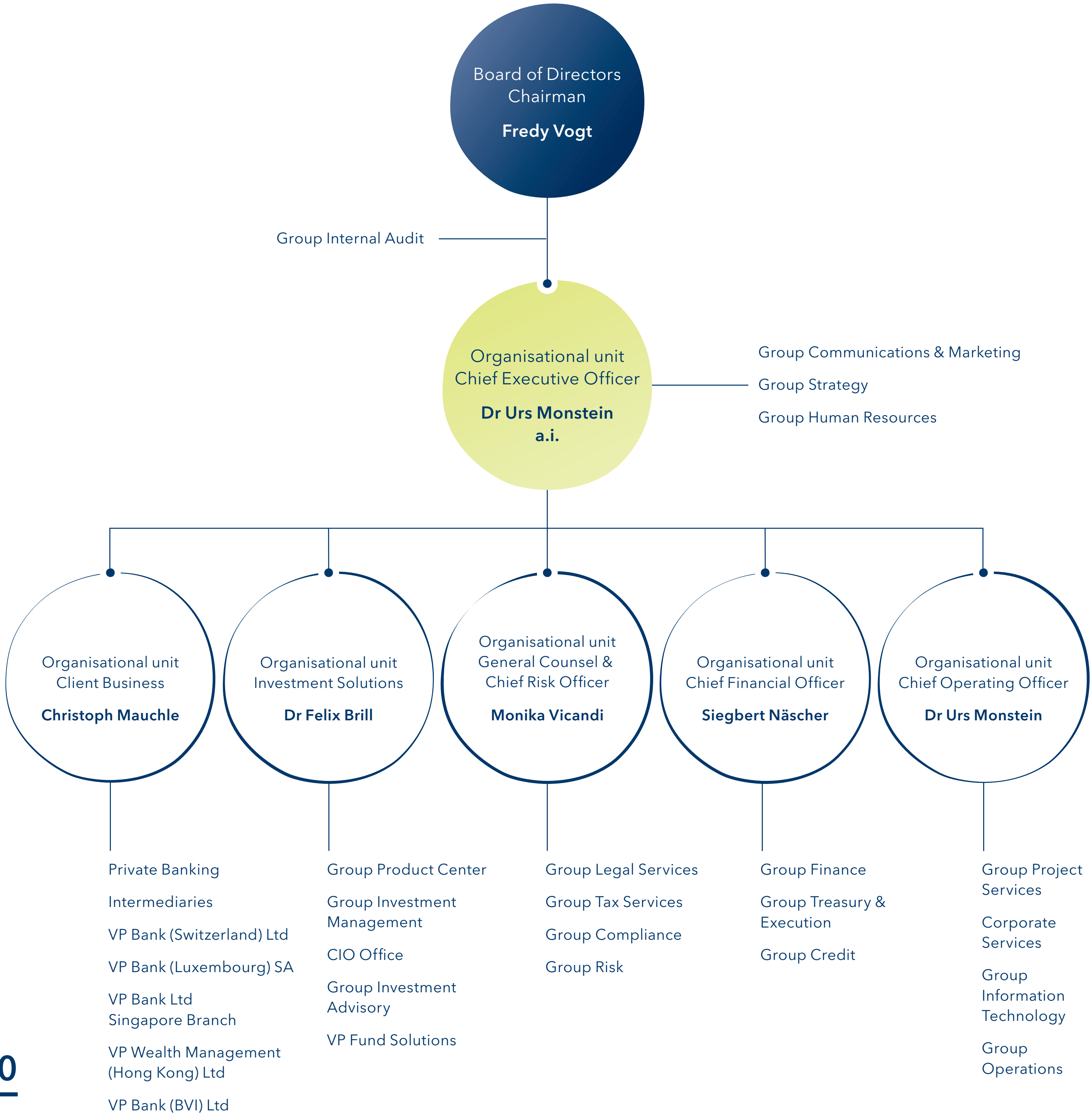
Key figures of VP Bank Group

	30.06.2019	30.06.2018	31.12.2018	Variance to 30.06.2018 in %
Key income statement data in CHF million[1,2]				
Total net interest income	54.6	55.0	111.0	–0.7
Total net income from commission business and services	67.0	64.3	124.3	4.3
Income from trading activities	29.3	26.2	55.0	11.8
Income from financial instruments	11.4	0.9	–1.6	n.a.
Total operating income	162.7	147.9	290.8	10.1
Operating expenses	122.7	115.5	232.3	6.2
Group net income	35.3	29.3	54.7	20.5

	30.06.2019	30.06.2018	31.12.2018	Variance to 31.12.2018 in %
Key balance-sheet data in CHF million[1,2]				
Total assets	13,104.6	12,604.2	12,428.2	5.4
Due from banks	682.6	745.8	771.1	–11.5
Due from customers	6,659.1	5,727.1	6,196.3	7.5
Due to customers	10,966.2	10,716.6	10,334.9	6.1
Total shareholders' equity	985.1	953.3	981.6	0.4
Equity ratio (in %)	7.5	7.6	7.9	–4.8
Tier 1 ratio (in %)	19.7	22.6	20.9	–5.9
Leverage ratio in accordance with Basel III (in %)	6.9	7.1	7.3	–5.5
Liquidity coverage ratio in accordance with Basel III (in %)	173.4	124.4	142.6	21.6
Total client assets under management in CHF billion	**45,619.5**	**40,909.0**	**41,525.9**	**9.9**
On-balance-sheet customer deposits (excluding custody assets)	10,968.0	10,489.6	10,231.3	7.2
Fiduciary deposits (excluding custody assets)	800.5	609.7	798.0	0.3
Client securities accounts	33,850.9	29,809.8	30,496.6	11.0
Custody assets in CHF billion	**6,066.2**	**4,812.2**	**5,210.1**	**16.4**
Total client assets in CHF billion	**51,685.7**	**45,721.3**	**46,736.0**	**10.6**
Business volumes[3]	**52,278.6**	**46,636.2**	**47,722.2**	**9.5**
Net new money	**1,212.0**	**603.1**	**3,196.9**	**n.a.**
Key operating indicators[2]				
Return on equity (in %)[1,4]	7.3	6.1	5.6	
Cost/income ratio (in %)[5]	68.6	70.3	75.8	
Total operating expenses / total net operating income (in %)	75.4	78.1	79.9	
Headcount (expressed as full-time equivalents, excluding student apprentices)[6]	875.9	827.5	868.4	
Total operating income per employee (in CHF 1,000)	185.8	178.7	334.9	
Total operating expenses per employee (in CHF 1,000)	127.5	125.6	254.0	
Group net income per employee (in CHF 1,000)	40.3	35.4	63.0	
Key indicators related to shares of VP Bank in CHF[1]				
Group net income per registered share A[7]	5.89	4.82	9.04	
Group net income per registered share B[7]	0.59	0.48	0.90	
Shareholders' equity per registered share A on the balance-sheet date	165.43	157.04	164.80	
Shareholders' equity per registered share B on the balance-sheet date	15.75	14.76	15.69	
Quoted price per registered share A	157.80	188.80	141.40	
Quoted price per registered share B	15.80	18.90	14.20	
Market capitalisation (in CHF million)[8]	1,044	1,249	936	
Price/earnings ratio per registered share A	13.40	19.60	15.64	
Price/earnings ratio per registered share B	13.42	19.63	15.71	
Rating Standard & Poor's	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	

[1] The reported key data and operating indicators are computed and reported on the basis of the share of the net profit and shareholders' equity attributable to the shareholders of VP Bank Ltd, Vaduz.
[2] Details in the notes to the consolidated income statement and consolidated balance sheet.
[2] Assets under management and due from customers.
[4] Net income / average shareholders' equity less dividend.
[5] Total operating expenses (without depreciation and amortisation, valuation allowances, provisions and losses) / total operating income.
[6] In accordance with legal requirements, apprentices are to be included in headcount statistics as 50 per cent of equivalent full-time employees.
[7] Based on the weighted average number of shares (registered shares A) (note 11).
[8] Including registered shares B.

The organisational structure of VP Bank Group



The assignment of the organisational units in the segment reporting is set out on page 23 ff.

Organisational chart as of 30.06.2019

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Financial report of VP Bank Group

Consolidated semi-annual report of VP Bank Group

Consolidated results

For the first half of 2019, VP Bank Group earned, in accordance with International Financial Reporting Standards (IFRS), a consolidated net income of CHF 35.3 million (plus 20.5 per cent) which is markedly higher than that of the comparative prior-year period during which a net income of CHF 29.3 million was achieved. The positive growth of net new client money achieved in 2018 continued into the first six months of 2019 at the encouraging level of CHF 1.2 billion (prior-year period: CHF 0.6 billion).

Medium-term goals 2020

The Board of Directors of VP Bank Group has defined the following target values for 2020:

- CHF 50 billion of assets under management
- Group net income of CHF 80 million
- a cost/income ratio of under 70 per cent.

VP Bank intends to make further acquisitions of banks or whole teams in its target markets. The acquisitions should ideally complement VP Bank Group on the basis of their business model with comparable core competencies, target markets and client structures.

In order to promote organic growth, 24 new senior client advisors were hired in both 2017 and 2018 as part of a recruitment offensive. This recruitment offensive will continue through to the end of 2019, as planned.

In addition, as part of the digitalisation strategy, new innovative services are being developed with urgency and targeted investments made in digital tools in order to render internal processes more efficient and to further optimise the benefit for the client.

Assets under management at 30 June 2019 aggregated CHF 45.6 billion (31.12.2018: CHF 41.5 billion). The cost/income ratio for the first six months of 2019 was 68.6 per cent (prior-year period: 70.3 per cent), thus fulfilling the 2020 goal of under 70 per cent.

The achievement of targets is facilitated by the robust equity resources of VP Bank Group. As of 30 June 2019, VP Bank Group possessed a tier 1 ratio of 19.7 per cent (end of 2018: 20.9 per cent). This strong equity-capital base confirms the robust and successful business model of VP Bank and constitutes an outstanding point of departure from which to be able to play an active role the future process of consolidation of the banking industry.

In May 2018, the rating agency Standard & Poor's raised its already very good rating of «A–» for VP Bank to «A» and graded the outlook as stable. This increase in the rating takes account particularly of the substantial new net client money inflows since 2017, the operational progress as well as the continuing very strong equity basis. In addition, Standard & Poor's emphasises the financial leeway enjoyed by VP Bank in order to invest in its operating business and to be able to assume an active role the future process of consolidation in the banking sector. VP Bank is one of the few private banks in Liechtenstein and Switzerland to receive such a good rating by an international rating agency.

Client assets under management

As of 30 June 2019, the client assets under management of VP Bank Group aggregated CHF 45.6 billion. Compared to the equivalent amount as of 31 December 2018 of CHF 41.5 billion, this represents an increase of 9.9 per cent (CHF 4.1 billion). This amount is made up of net new client money inflows of CHF 1.2 billion and CHF 1.0 billion resulting from the acquisition of the private-banking activities of Catella Bank as well as CHF 1.9 billion from positive movements arising from the revaluation of assets under management at market rates (performance).

During the first six months of 2019, VP Bank Group was able to report a high level of organic new client money, as in the three preceding semesters, of CHF 1.2 billion (prior-year period: CHF 0.6 billion). These inflows were achieved as a result of intensive market-development activities, the recruitment of new client advisors and new money from existing clients.

As of 30 June 2019, custody assets aggregated CHF 6.1 billion representing an increase of CHF 0.9 billion over 31 December 2018. As of 30 June 2019, client assets under management including custody assets aggregated CHF 51.7 billion (31 December 2018: CHF 46.7 billion).

Income statement

Operating income

In the first half year of 2019, the operating income of VP Bank increased by CHF 14.9 million, or 10.1 per cent, to CHF 162.7 million (prior-year period: CHF 147.9 million). This growth results principally from the sharply increased income from financial investments (plus CHF 10.5 Mio.) as a result of the encouraging state of equity markets in the first six months of 2019.

Despite the continuing negative interest-rate environment, interest income fell only by CHF 0.4 million, or 0.7 per cent, to CHF 54.6 million which can be ascribed to continuing active balance-sheet management, margin adjustments and volume increases. As regards interest income from client activities, the result could be marginally increased on a net basis whilst net income from treasury transactions reflected slight losses.

The increase in interest income from receivables from clients exceeding 22 per cent can be explained by volume increases and higher US-dollar interest rates. Based upon risk/return considerations, the Treasury of VP Bank, as in prior years, no longer placed foreign-currency denominated client deposits on the interbank market but swapped them into Swiss francs using currency swaps and deposited them with the Swiss National Bank (SNB). The CHF-denominated SNB clearing account which is in excess of the exemption threshold bears negative interest at a rate of minus 0.75 per cent. In addition, investments continued to be made in financial instruments in the amount of CHF 126.7 million (plus 4.9 per cent since 30.6.2018). In this process, lower income from treasury operations resulted as follows: this SNB negative interest is reported under "interest expense from financial assets" in the amount of CHF 4.3 million (prior-year period: CHF 9.0 million). The related revaluation gains/losses are disclosed in the interest income component "derivatives (forward components)" in the amount of CHF 7.9 million (prior-year period: CHF 17.0 million). The planned additional investments in financial instruments, principally in the form of bonds valued at amortised cost, increased the corresponding interest income by CHF 3.3 million (plus 27.1 per cent) to CHF 15.6 million in the first six months of 2019.

The negative performance from interest-rate hedging transactions under interest-rate derivatives and hedge accounting came in at the same level as in the prior-year period with minus CHF 0.7 million.

In the first six months of 2019, commission and service income grew by 4.3 per cent to CHF 67.0 million (prior-year period: CHF 64.3 million). Portfolio-based income grew as a result of net new money and of the Catella acquisition as well as performance-related growth of assets under management. Particularly in the case of commissions from asset management and the investment business, an increase of 7.7 per cent to CHF 26.2 million could be achieved in the first six months of 2019.

The volatile state of equity markets in the first half of 2019 negatively impacted trade-based client income in that client-related activities declined over the comparative prior-year period. Brokerage income in the reporting period fell as a result by CHF 1.0 million, or 6.2 per cent, from CHF 16.5 million to CHF 15.5 million. Income from trading activities aggregated CHF 29.3 million, thus constituting an increase of CHF 3.1 million (11.8 per cent) over the first six months of 2018. Trading income on behalf of clients could be increased by a welcome 21 per cent (plus CHF 5.4 million) to CHF 31.2 million. Realised and unrealised revaluation differences arising from hedging transactions for financial investments are recognised in securities trading. As a result of market conditions, a negative result of CHF 1.9 million (prior-year period: positive result of plus CHF 0.4 million) ensued.

In the first six months of 2019, financial investments gave rise to an income of CHF 11.4 million (prior-period gain: CHF 0.9 million). This sharp increase of CHF 10.5 million in income from financial investments derives principally from revaluation gains on financial investments with plus CHF 4.9 million in the first six months of 2019 (prior-year period: minus CHF 3.2 million). These revaluation gains are already realised for the most part.

Operating expenses

Operating expenses in the first half-year of 2019 rose period-on-period by CHF 7.2 million from CHF 115.5 million to CHF 122.7 million (plus 6.2 per cent).

Compared to the first six months of 2018, personnel expenses increased by CHF 8.3 million, or 11.2 per cent, to CHF 82.4 million. The increase is primarily the result of the recruitment offensive for new senior client advisors and growth initiatives. At the end of June 2019, VP Bank Group employed some 876 employees, expressed as full-time equivalents, which constitutes an increase in the employee headcount of 48 employees (plus 5.8 per cent) compared to 30 June 2018.

General and administrative expenses could be reduced by 2.1 per cent to CHF 29.3 million (prior-year period: CHF 29.9 million). This reduction relates principally to a CHF 2.8 million lower level of occupancy expense at CHF 1.4 million (prior-year period: CHF 4.3 million) as a result of the implementation of IFRS 16 Leases as of 1 January 2019. With the adoption of IFRS 16, rental expense in the income statement is now substituted by depreciation and amortisation and interest expense starting in 2019 (cf. Financial-Statement Reporting Standards). Other general and administrative expense in the first half of 2019 also reported an increase of CHF 1.4 million to CHF 6.5 million primarily in connection with higher regulatory levies.

The 22.1 per cent increase in depreciation and amortisation of CHF 11.7 million to CHF 14.3 million arises in connection with the adoption of IFRS 16 Leases resulting in a corresponding reduction in occupancy expense (cf. above for further details).

The first six months of 2019 resulted in a net release of CHF 3.3 million (prior-year period: CHF 0.2 million) of valuation allowances, provisions and losses. This relates to individual valuation allowances as well as credits from stage 2 in accordance with IFRS 9 Expected Credit Loss.

Taxes on income

Taxes on income for the first half of 2019 amounted to CHF 4.8 million which is CHF 1.7 million higher than in the comparative prior-year period. The increase is the result of higher taxable income within VP Bank Group.

Consolidated net income

Consolidated net income for the first six months of 2019 totalled CHF 35.3 million (prior-year period: CHF 29.3 million). Group net earnings per registered share A were CHF 5.89 (first six months of 2018: CHF 4.82).

Comprehensive income

Comprehensive income comprises all revenues and expenses recognised in both the income statement and in shareholders' equity. Items recorded directly in equity principally concern actuarial adjustments relating to pension funds and changes in the value of FVTOCI financial instruments. VP Bank Group generated comprehensive income in the first half of 2019 of CHF 42.1 million as against CHF 19.2 million in the prior-year period.

Balance sheet

In the first half of 2019, total assets increased by CHF 0.7 billion to CHF 13.1 billion in comparison to 31 December 2018. This increase in total assets is to be explained primarily by the increase under the liabilities caption "other amounts due to clients" of CHF 0.6 billion and an increase, under assets, of amounts due from clients of CHF 0.5 billion.

VP Bank Group continues to possess a very comfortable liquidity situation with cash and cash equivalents of CHF 2.6 billion (CHF 2.5 billion as of 31.12.2018) representing some 20 per cent of total assets.

As regards loans to clients, to be noted is an increase of CHF 0.5 billion (7.5 per cent) since the beginning of the year to CHF 6.7 billion as at 30 June 2019. In this respect, VP Bank continues an unchanged high level of discipline and control in its credit-granting activities.

Within the scope of its ALM strategy (Asset and Liability Management), the volume of financial instruments, valued at amortised cost, continued to expand since the beginning of the year, as planned, by CHF 80.8 million to CHF 2.5 billion.

On the liabilities' side, client deposits in the caption "other amounts due to clients" as of 30 June 2019 rose by CHF 0.6 billion (6.6 per cent) since the beginning of the year to CHF 10.3 billion.

On 28 June 2019, VP Bank concluded its public share buyback programme initiated on 27 June 2018 over the regular trading line.

At 30 June 2019, VP Bank holds, directly or indirectly, a total of 600,847 registered shares A and 325,929 registered shares B (9.58 per cent of the share capital and 7.71 per cent of the voting rights) in the treasury. As no cancellation of the repurchased shares takes place, the structure of capital and voting rights remains unchanged. The registered shares A held in the treasury are designed to be used for future corporate acquisitions or for treasury-management purposes.

As at the end of June 2019, the shareholders' equity amounted to CHF 985.1 million (31 December 2018: CHF 981.6 million).

The tier 1 ratio at 30 June 2019, computed in accordance with Basel III, amounted to 19.7 per cent (31 December 2018: 20.9 per cent) which represents a strong equity base and constitutes an outstanding strategic baseline from which to continue to play an active role in the process of consolidation of banks.

Outlook

The economic outlook for Europe has deteriorated noticeably in recent months. Trade disputes are now displaying their negative effects and recessionary risks have risen accordingly. Also, the most significant Central banks have become aware of the dangers for the future development of the economy. The reins of monetary policy are thus being eased. Economic woes, on the one hand, and interest-rate cuts, on the other, will repeatedly lead to phases of heightened volatility on financial markets. VP Bank Group is preparing itself for an imminent more demanding market environment.

With digitalisation, the financial sector is confronted with major challenges but also very promising opportunities. VP Bank is optimally equipped to meet these future challenges and continues to pursue its sustained growth strategy. Its high level of equity resources constitutes a healthy basis for a successful future for VP Bank Group. The outstanding A rating and the stable outlook confirm the robust and successful business model of VP Bank Group.

Consolidated income statement

in CHF 1,000	Note	01.01.–30.06.2019	01.01.–30.06.2018	Variance absolute	Variance in %
Interest income from financial instruments at amortised cost		77,438	61,925	15,513	25.1
Other interest income		7,165	16,247	–9,082	–55.9
Interest expense using the effective interest method		30,030	23,205	6,825	29.4
Total net interest income	**1, 18**	**54,573**	**54,967**	**–394**	**–0.7**
Commission income		90,485	85,316	5,169	6.1
Commission expenses		23,470	21,049	2,421	11.5
Total net income from commission business and services	**2**	**67,015**	**64,267**	**2,748**	**4.3**
Income from trading activities	3	29,269	26,174	3,095	11.8
Income from financial instruments	4	11,389	902	10,487	n.a.
Other income	5	491	1,547	–1,056	–68.3
Total operating income		**162,737**	**147,857**	**14,880**	**10.1**
Personnel expenses	6	82,370	74,045	8,325	11.2
General and administrative expenses	7	29,288	29,919	–631	–2.1
Depreciation of property, equipment and intangible assets	8, 18	14,326	11,737	2,589	22.1
Credit loss expenses	9	-3,555	–537	–3,018	n.a.
Provisions and losses	9	245	320	–75	–23.4
Operating expenses		**122,674**	**115,484**	**7,190**	**6.2**
Earnings before income tax		**40,063**	**32,373**	**7,690**	**23.8**
Taxes on income	10	4,778	3,087	1,691	54.8
Group net income		**35,285**	**29,286**	**5,999**	**20.5**
Share information					
Undiluted group net income per registered share A		5.89	4.82		
Undiluted group net income per registered share B		0.59	0.48		
Diluted group net income per registered share A		5.89	4.82		
Diluted group net income per registered share B		0.59	0.48		

Consolidated statement of comprehensive income

in CHF 1,000	01.01.–30.06.2019	01.01.–30.06.2018	Variance absolute	Variance in %
Group net income	35,285	29,286	5,999	20.5
Other comprehensive income, net of tax				
Other comprehensive income which will be transferred to the income statement upon realisation				
Changes in foreign-currency translation differences	–1,248	1,108	–2,356	–212.6
Foreign-currency translation difference transferred to the income statement from shareholders' equity	0	0	0	0.0
Total other comprehensive income which will be transferred to the income statement upon realisation	**–1,248**	**1,108**	**–2,356**	**–212.6**
Other comprehensive income which will not be transferred subsequent to the income statement				
Changes in value of FVTOCI financial instruments	3,895	–3,442	7,337	213.2
Actuarial gains/losses from defined-benefit pension plans	4,187	–7,785	11,972	153.8
Total other comprehensive income which will not be transferred subsequent to the income statement	**8,082**	**–11,227**	**19,309**	**172.0**
Total comprehensive income in shareholders' equity	**6,834**	**–10,119**	**16,953**	**167.5**
Total comprehensive income in income statement and shareholders' equity	**42,119**	**19,167**	**22,952**	**119.7**
Attributable to shareholders of VP Bank Ltd, Vaduz	42,119	19,167	22,952	119.7

Consolidated balance sheet

Assets

in CHF 1,000	Note	30.06.2019	31.12.2018	Variance absolute	Variance in %
Cash and cash equivalents		2,624,089	2,521,276	102,813	4.1
Receivables arising from money-market papers		118,144	67,407	50,737	75.3
Due from banks		682,640	771,107	–88,467	–11.5
Due from customers		6,659,071	6,196,326	462,745	7.5
Trading portfolios		246	123	123	100.0
Derivative financial instruments		59,348	42,164	17,184	40.8
Financial instruments at fair value	16	250,209	232,263	17,946	7.7
Financial instruments measured at amortised cost	16	2,470,288	2,389,521	80,767	3.4
Associated companies		29	30	–1	–3.3
Property and equipment	17	120,485	87,819	32,666	37.2
Goodwill and other intangible assets		60,077	51,454	8,623	16.8
Tax receivables		1,392	1,407	–15	–1.1
Deferred tax assets		13,846	15,581	–1,735	–11.1
Accrued receivables and prepaid expenses		26,700	28,102	–1,402	–5.0
Other assets		18,023	23,600	–5,577	–23.6
Total assets		**13,104,587**	**12,428,180**	**676,407**	**5.4**

Liabilities and shareholders' equity

in CHF 1,000	Note	30.06.2019	31.12.2018	Variance absolute	Variance in %
Due to banks		444,565	433,793	10,772	2.5
Due to customers – savings and deposits		626,031	638,097	–12,066	–1.9
Due to customers – other liabilities		10,340,193	9,696,786	643,407	6.6
Derivative financial instruments		88,125	59,374	28,751	48.4
Medium-term notes		233,596	240,616	–7,020	–2.9
Debentures issued	12	200,413	200,474	–61	–0.0
Tax liabilities		12,162	7,041	5,121	72.7
Deferred tax liabilities		254	0	254	0.0
Accrued liabilities and deferred items		33,436	36,530	–3,094	–8.5
Other liabilities	17	139,575	132,680	6,895	5.2
Provisions		1,156	1,209	–53	–4.4
Total liabilities		**12,119,506**	**11,446,600**	**672,906**	**5.9**
Share capital	13	66,154	66,154	0	0.0
Less: treasury shares	14	–68,274	–65,807	–2,467	–3.7
Capital reserves		25,272	28,419	–3,147	–11.1
Income reserves		1,001,050	994,582	6,468	0.7
Unrealised gains/losses on FVTOCI financial instruments		–18,809	–22,704	3,895	17.2
Foreign-currency translation differences		–20,312	–19,064	–1,248	–6.5
Total shareholders' equity		985,081	981,580	3,501	0.4
Total liabilities and shareholders' equity		**13,104,587**	**12,428,180**	**676,407**	**5.4**

Consolidated changes in shareholders' equity

in CHF 1,000	Share capital	Treasury shares	Capital reserves	Income reserves	Unrealised FVTOCI gains/losses	Actuarial gains/ losses from defined-benefit pension plans	Foreign-currency translation differences	Total share-holders' equity
Total shareholders' equity 01.01.2019	**66,154**	**-65,807**	**28,419**	**1,064,505**	**-22,704**	**-69,923**	**-19,064**	**981,580**
Other comprehensive income, after income tax								
Foreign-currency translation differences							-1,248	-1,248
Changes in value transferred to profit reserves								0
Changes in value of FVTOCI financial instruments					3,895			3,895
Actuarial gains/losses from defined-benefit pension plans						4,187		4,187
Group net income				35,285				35,285
Total reported result 30.06.2019	**0**	**0**	**0**	**35,285**	**3,895**	**4,187**	**-1,248**	**42,119**
Appropriation of profit 2018				-33,004				-33,004
Management equity participation plan (LTI)			-2,826					-2,826
Public tender own shares[1]		-8,555						-8,555
Movement in treasury shares[1]		6,088	-321					5,767
Total shareholders' equity 30.06.2019	**66,154**	**-68,274**	**25,272**	**1,066,786**	**-18,809**	**-65,736**	**-20,312**	**985,081**
Total shareholders' equity 01.01.2018	**66,154**	**-47,889**	**24,181**	**1,043,321**	**-16,374**	**-59,819**	**-19,443**	**990,131**
Initial adoption IFRS 9, impairment (net of tax)				44				44
Total shareholders' equity 01.01.2018 adjusted	**66,154**	**-47,889**	**24,181**	**1,043,365**	**-16,374**	**-59,819**	**-19,443**	**990,175**
Other comprehensive income, after income tax								
Foreign-currency translation differences							1,108	1,108
Changes in value transferred to profit reserves								0
Changes in value of FVTOCI financial instruments					-3,442			-3,442
Actuarial gains/losses from defined-benefit pension plans						-7,785		-7,785
Group net income				29,286				29,286
Total reported result 30.06.2018	**0**	**0**	**0**	**29,286**	**-3,442**	**-7,785**	**1,108**	**19,167**
Appropriation of profit 2016				-33,533				-33,533
Management equity participation plan (LTI)			-597					-597
Public tender own shares[1]		-27,218						-27,218
Movement in treasury shares[1]		4,481	851					5,332
Total shareholders' equity 30.06.2018	**66,154**	**-70,626**	**24,435**	**1,039,118**	**-19,816**	**-67,604**	**-18,335**	**953,326**

[1] Details on transactions with treasury shares can be found in note 14.

Consolidated statement of cash flow

in CHF 1,000	01.01.– 30.06.2019	01.01.– 30.06.2018
Cash flow from operating activities		
Group net income	35,285	29,286
Non-cash-related positions in Group results	–987	12,609
Net increase/reduction in banking activities	271,354	–364,163
Other cash flow from operating activities	1,895	12,289
Net cash flow from operating activities	**307,547**	**–309,979**
Cash flow from investment activities		
Cash flow from financial instruments	–115,378	–219,988
Other investment activities	–36,960	–12,193
Net cash flow from investment activities	**–152,338**	**–232,181**
Cash flow from financing activities		
Dividend distributions	–33,004	–33,533
Issuance/redemption of medium-term notes	–6,616	–31,994
Other financing activities	–7,609	287
Net cash flow from financing activities	**–47,229**	**–65,240**
Foreign-currency translation impact	9,677	5,416
Net increase/reduction in cash and cash equivalents	**117,657**	**–601,984**
Cash and cash equivalents at the beginning of the financial year	3,279,005	4,376,134
Cash and cash equivalents at the end of the reporting period	3,396,662	3,774,150
Net increase/reduction in cash and cash equivalents	**117,657**	**–601,984**
Cash and cash equivalents are represented by		
Cash	2,624,211	3,270,472
Receivables arising from money-market papers	118,168	33,822
Due from banks – at-sight balances	654,283	469,856
Total cash and cash equivalents	**3,396,662**	**3,774,150**

Principles underlying financial statement reporting and comments

The unaudited interim consolidated financial statements were drawn in compliance with International Financial Reporting Standards (IAS 34). The semi-annual financial statements are prepared applying the same presentation and valuation policies as were applied for the 2018 financial statements.

New and revised International Financial Reporting Standards

The following new and revised Standards and Interpretations have taken effect since 1 January 2019:

Improvements to IFRS 2015–2017 Cycles

In December 2017, the IASB published several amendments to existing IFRS as part of its annual improvement project "Improvements to IFRS 2015–2017 Cycles". These encompass both amendments to various IFRS impacting the recognition, measurement and disclosure of business transactions as well as terminological and editorial corrections. The amendments have no material impact on the consolidated financial statements.

IFRS 16 – Leases

The International Accounting Standards Board has published IFRS 16 Leases which regulates the accounting for lease arrangements. For lessees, the new Standard provides for a new accounting model which does away with a differentiation between finance leases and operating leases. In future, most leasing agreements will require to be recognised in the balance sheet. For lessors, the rules of IAS 17 Leases will continue to largely apply with the result that here the differentiation between finance leases and leasing agreements will continue to be made as at present with the related differing accounting consequences. IFRS 16 replaces IAS 17 as well as the related Interpretations and are to be applied for the first time for accounting periods beginning on or subsequent to 1 January 2019.

In implementing the new Standard, VP Bank applies the modified retrospective approach. As a result of adoption, right-of-use assets and leasing liabilities amounting to CHF 34.2 million were recognised as of 1 January 2019. In this process, leasing liabilities were measured at the net present value of their outstanding leasing instalments discounted using the lessee's incremental borrowing rate as of 1 January 2019. In the case of VP Bank, the weighted average incremental borrowing rate in accordance with IFRS 16. C12(a) for the leasing liabilities upon initial adoption amounts to approx. 1.1 per cent.

Leasing arrangements exist for the rental of real estate, office premises as well as motor vehicles. Total assets increased by some CHF 0.03 billion. From 2019 onwards, depreciation and amortisation (approx. CHF 5.5 million) and interest expense (approx. CHF 0.5 million) replace rental expense (approx. CHF 6 million) in the income statement.

The Group rents various office and warehousing buildings as well as motor vehicles. As a rule, rental agreements are entered into for fixed periods of 2 to 8 years but may have renewal options.

Until 31 December 2018, leases were recognised by charges to income on a straight-line basis over the term of the lease. From 1 January 2019, leases are accounted for as rights of use and corresponding lease liabilities at present value. The discounting is effected at the incremental external borrowing rate corresponding to the interest rate that VP Bank would have to pay if it had to take up financing to acquire an asset in a comparable economic environment and on comparable conditions. Each lease instalment is divided into a capital amortisation amount and financing expense. The financing costs are recognised over the term of the lease as charges to interest income which produce a constant periodic interest rate on the residual amount of the liability for each period. The right-of-use asset is amortised on a straight-line basis over the lease term with charges to the income-statement caption depreciation and amortisation of property, plant and equipment. Right-of-use assets are capitalised as part of property, plant and equipment and leasing liabilities recognised under other liabilities.

In applying IFRS 16 for the first time, VP Bank availed itself of the following simplifications:

- As of 1 January 2019, VP Bank applies the modified retrospective approach whereby the leasing liability and right-of-use asset at the time of initial measurement is computed by reference to the net present value of the remaining leasing instalments using the Group's incremental borrowing rate.
- Lease contracts with a remaining term of less than 12 months as of 1 January 2019 were classified as current liabilities in accordance with IFRS16.C10(c) and thus continued to be recognised as expense.
- Lease contracts with a right-of-use value of less than CHF 5,000 are not capitalised because of their small underlying value but taken to income.
- As of 1 January 2019, VP Bank, pursuant to IFRS 16.C10(d), has ignored the initial direct costs (e.g. planning permission costs) in measuring the right-of-use value at the time of initial adoption, and thus did not consider them as part of the right-of-use value.

IAS 19 – Employee benefits, adjustments resulting from amendment, curtailment or settlement of retirement benefit plans

The modification of the accounting provisions in IAS 19 concerns benefits payable to employees in the event of a modification, curtailment or settlement of a defined-benefit retirement benefit plan. In future, in the case of a modification, curtailment or settlement of a defined-benefit retirement pension plan, it will be mandatory to recompute the current service cost and net interest cost for the remaining business year using the current actuarial assumptions which were used for the mandatory revaluation of the net liability (asset). Furthermore, supplementary disclosures were now required which clarify the impact of a modification, curtailment or settlement on the asset ceiling requirements. The modifications take effect in respect of accounting periods beginning on or subsequent to 1 January 2019.

IFRIC 23

The Interpretation is to be applied to taxable profits (tax losses), tax assessment bases, unused tax-loss carry-forwards, unused tax credits and tax rates whenever uncertainty as to the tax treatment under IAS 12 exists. An entity shall apply discretion in determining whether each tax treatment is to be assessed individually or several are to be assessed jointly. The decision shall be based on which approach enables a better prediction to remove the uncertainty.

An entity shall consider whether it is probable that the taxing authority involved will accept the respective tax treatment (or combination of tax treatments) which it has applied or intends to apply in its tax declaration. If an entity concludes that it is not probable, then it shall use the most probable value for the tax treatment. The decision should be based on which method helps to better predict the resolution of the uncertainty.

IFRIC 23 takes effect for accounting periods beginning on or after 1 January 2019. Earlier adoption is permitted but VP Bank Group will not avail itself of this possibility. The adoption of the amendments has no material impact on the consolidated semi-annual financial statements of VP Bank Group.

Post-balance-sheet date events

In its meeting of 14 August 2019, the Board of Directors reviewed and approved the semi-annual report and released it for publication.

Litigation

As part of its ordinary banking activities, VP Bank Group is involved in various legal, regulatory and administrative proceedings. The legal and administrative environment in which the Group operates conceals significant litigation, compliance, reputational and other risks in connection with legal disputes and regulatory proceedings. The impact of these proceedings on the financial strength and profitability of VP Bank Group is dependent on the status of the proceedings and their outcome. VP Bank Group establishes provisions for on-going and threatened proceedings if the probability that such proceedings will entail a financial commitment or loss is judged to be greater than the probability of this not being the case. In isolated cases in which the amount cannot be estimated, as, for instance, because they are at an early stage or of the complexity of the proceedings or other factors, no provision is established but a contingent liability is disclosed.

The risks described below are not, as the case may be, the only ones to which VP Bank Group is exposed. Additional risks which are presently unknown or risks and proceedings which are currently considered as being insignificant may equally impact the future course of business, operating results, financial investments and the outlook of VP Bank Group.

The Russian Agency for Deposit Insurance (DIA), as part of the bankruptcy proceedings of two Russian banks, asserts that third-party pledges created in connection with the granting of credits to foreign companies shortly prior to the revocation of the banking license and commencement of bankruptcy proceedings should not have been realised on the open market. Both proceedings are at differing stages of development.

In the first proceedings against VP Bank (Switzerland) Ltd involving an amount in dispute of USD 10 million, the Ninth Arbitration Court of Appeal on 24 May 2017 upheld the nullity of the realisation pursuant to Russian bankruptcy law. The court required VP Bank (Switzerland) Ltd to pay an amount of approx. USD 10 million. The sentence became res judicata on 19 September 2017. All extraordinary legal remedies without suspensive effect were dismissed.

The debt collection procedure opened on 7 June 2018 in Moscow has so far gone nowhere. In a letter dated 31 July 2019, DIA, in its capacity as insolvency administrator, issued the first call for payment to VP Bank (Switzerland) Ltd. VP Bank Group will not comply with this request as it denies the correctness of this decision. Further developments will be monitored by local lawyers in Moscow. VP Bank Group has also initiated measures to protect its own interests and those of its employees.

The second proceedings against VP Bank Ltd, and more recently VP Bank (Switzerland) Ltd, in an amount in dispute of USD 15 million are of a similar nature but are not yet closed. On 16 March 2018, the Supreme Court confirmed the jurisdiction of the Russian courts and dismissed the case to the Arbitration Court for substantive judgment. On 22 May 2019, the Arbitration Court ruled in favour of VP Bank Ltd and VP Bank (Schweiz) AG. This judgment was confirmed by the Court of Appeal on 12 August 2019. It is now open to the DIA to bring the decision before the Court of Cassation.

In both cases, VP Bank considers the risk of an outflow of assets to be low, for which reason no provision has been set aside.

Most important foreign-currency exchange rates

The exchange rates for the most important foreign currencies are as follows:

	Balance-sheet-date rates			Average rates			Variance Balance-sheet-date rates		Variance Average rates	
	30.06.2019	30.06.2018	31.12.2018	1H2019	1H2018	2018	actual year	previous year	actual year	previous year
USD/CHF	0.9750	0.9930	0.9858	0.99974	0.96717	0.97878	–1%	–2%	2%	3%
EUR/CHF	1.1103	1.1593	1.1269	1.12931	1.16950	1.15478	–1%	–4%	–2%	–3%
SGD/CHF	0.7206	0.7282	0.7233	0.73571	0.72882	0.72527	–0%	–1%	1%	1%
HKD/CHF	0.1248	0.1266	0.1259	0.12746	0.12339	0.12488	–1%	–1%	2%	3%
GBP/CHF	1.2409	1.3109	1.2555	1.29428	1.33006	1.30565	–1%	–5%	–1%	–3%

Segment reporting

Structure

External segment reporting reflects the organisational structure of VP Bank Group and the internal reporting to Management. The latter form the basis for assessing financial performance of the segments and the allocation of resources to the segments.

VP Bank Group consists of the six organisational units "Chief Executive Officer", "Client Business", "Investment Solutions", "General Counsel & Chief Risk Officer", "Chief Financial Officer" and "Chief Operating Officer".

For segment-reporting purposes, the organisational unit "Client Business" is divided into two business segments "Client Business Liechtenstein" and "Client Business International". The unit "Investment Solutions" is managed, for segment-reporting purposes, in "Client Business Liechtenstein" and "Client Business International". The four organisational units "Chief Executive Officer", "Chief Financial Officer", "Chief Operating Officer" and "General Counsel & Chief Risk Officer" are regrouped together, for segment reporting, under the business segment "Corporate Center".

Revenues and expenditures as well as assets and liabilities are allocated to the business segments based on the responsibilities for the clients and the principle of origination. Insofar as a direct allocation is not possible, the positions in question are reported under the Corporate Center. Furthermore, the Corporate Center includes adjustments made on consolidation.

01.01.–30.06.2019

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income[1]	33,484	26,081	–4,992	54,573
Total net income from commission business and services	43,037	27,017	–3,039	67,015
Income from trading activities	7,911	6,474	14,884	29,269
Income from financial instruments	0	132	11,257	11,389
Other income	204	1,540	–1,253	491
Total operating income	**84,636**	**61,244**	**16,857**	**162,737**
Personnel expenses	17,229	31,299	33,842	82,370
General and administrative expenses	1,868	12,801	14,619	29,288
Depreciation of property, equipment and intangible assets	2,472	3,819	8,035	14,326
Credit loss expenses	462	–3,960	–57	–3,555
Provisions and losses	118	127		245
Services to/from other segments[1]	20,438	0	–20,438	0
Operating expenses	**42,587**	**44,086**	**36,001**	**122,674**
Earnings before income tax	**42,049**	**17,158**	**–19,144**	**40,063**
Taxes on income				4,778
Group net income				**35,285**
Segment assets (in CHF million)	4,188	5,531	3,385	13,105
Segment liabilities (in CHF million)	6,757	4,884	479	12,120
Client assets under management (in CHF billion)[2]	26.0	19.6	0.0	45.6
Net new money (in CHF billion)	–0.2	1.4	0.0	1.2
Headcount (number of employees)	197	372	402	970
Headcount (expressed as full-time equivalents)	183.3	325.4	367.2	875.9
as of 31.12.2018				
Segment assets (in CHF million)	4,112	4,761	3,556	12,428
Segment liabilities (in CHF million)	6,961	4,102	384	11,447
Client assets under management (in CHF billion)[2]	25.0	16.5	0.0	41.5
Net new money (in CHF billion)	–0.2	3.4	0.0	3.2
Headcount (number of employees)	197	330	407	933
Headcount (expressed as full-time equivalents)	183.3	313.3	371.9	868.4

1 As of 1 January 2019, the new funds transfer pricing was introduced within the Group. With funds transfer pricing, the internal bank recharges between the Treasury department and Client Business segments are determined and computed. Funds transfer pricing is a central instrument to manage market-price and liquidity risks. With funds transfer pricing, refinancing and liquidity costs between Client Business segments and Treasury are recharged at market-oriented prices. This recharging is applied for new business and resubmissions as from 1 January 2019. The result of this change for the first six months of 2019 amounts to CHF -4.6 million for Client Business Liechtenstein, CHF -0.1 million for Client Business International and CHF 4.7 million for the Corporate Center. The prior-year comparatives were not restated as the change for prior periods was impracticable because of the passage of time as well as the lack of an appropriate data base and the cost of assembling this data retrospectively on an individual-transaction basis would be so high that it would bear no relationship to the benefit to be derived therefrom. The introduction of funds transfer pricing has no impact on the consolidated results of VP Bank Group.

2 Calculation in accordance with Table P of the Guidelines to the Liechtenstein Banking Ordinance issued by the Government of Liechtenstein (FL-BankO).

The recharging of costs and revenues between the business units takes place on the basis of internal transfer prices, actual recharges or prevailing market conditions. Recharged costs within the segments are subject to an annual review and are amended to reflect new economic conditions, where necessary.

01.01.–30.06.2018

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income	39,429	17,472	–1,934	54,967
Total net income from commission business and services	46,597	21,252	–3,582	64,267
Income from trading activities	9,512	4,474	12,188	26,174
Income from financial instruments	0	–12	914	902
Other income	50	1,401	96	1,547
Total operating income	**95,588**	**44,587**	**7,682**	**147,857**
Personnel expenses	17,292	24,672	32,081	74,045
General and administrative expenses	2,059	14,312	13,548	29,919
Depreciation of property, equipment and intangible assets	2,399	1,594	7,744	11,737
Credit loss expenses	–1,597	–738	1,798	–537
Provisions and losses	247	73	0	320
Services to/from other segments	20,733	0	–20,733	0
Operating expenses	**41,133**	**39,913**	**34,438**	**115,484**
Earnings before income tax	**54,455**	**4,674**	**–26,756**	**32,373**
Taxes on income				3,087
Group net income				**29,286**
Segment assets (in CHF million)	4,176	4,094	4,334	12,604
Segment liabilities (in CHF million)	7,527	3,427	696	11,651
Client assets under management (in CHF billion)[1]	27.0	14.0	0.0	40.9
Net new money (in CHF billion)	0.3	0.3	0.0	0.6
Headcount (number of employees)	198	294	400	892
Headcount (expressed as full-time equivalents)	183.5	278.1	365.9	827.5

[1] Calculation in accordance with Table P of the Guidelines to the Liechtenstein Banking Ordinance issued by the Government of Liechtenstein (FL-BankO).

The recharging of costs and revenues between the business units takes place on the basis of internal transfer prices, actual recharges or prevailing market conditions. Recharged costs within the segments are subject to an annual review and are amended to reflect new economic conditions, where necessary.

Client Business Liechtenstein

Segment results

in CHF 1,000	01.01.–30.06.2019	01.01.–30.06.2018	Variance absolute	Variance in %
Total net interest income[1]	33,484	39,429	–5,945	–15.1
Total net income from commission business and services	43,037	46,597	–3,560	–7.6
Income from trading activities	7,911	9,512	–1,601	–16.8
Income from financial instruments	0	0	0	0.0
Other income	204	50	154	308.0
Total operating income	**84,636**	**95,588**	**–10,952**	**–11.5**
Personnel expenses	17,229	17,292	–63	–0.4
General and administrative expenses	1,868	2,059	–191	–9.3
Depreciation of property, equipment and intangible assets	2,472	2,399	73	3.0
Credit loss expenses	462	–1,597	2,059	128.9
Provisions and losses	118	247	–129	–52.2
Services to/from other segments	20,438	20,733	–295	–1.4
Operating expenses	**42,587**	**41,133**	**1,454**	**3.5**
Segment income before income tax	**42,049**	**54,455**	**–12,406**	**–22.8**
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	46.7	41.9		
Total operating expenses / total net operating income (in %)	50.3	43.0		
Client assets under management (in CHF billion)	26.0	27.0		
Change in client assets under management compared to 31.12. prior year (in %)	3.9	0.9		
Net new money (in CHF billion)	–0.2	0.3		
Total operating income / average client assets under management (bp)[2]	66.3	71.2		
Segment result / average client assets under management (bp)[2]	32.9	40.6		
Cost/income ratio operating income (in %)[3]	46.8	42.0	4.9	11.6
Headcount (number of employees)	197	198	–1.5	–0.8
Headcount (expressed as full-time equivalents)	183.3	183.5	–0.2	–0.1

[1] As of 1 January 2019, the new funds transfer pricing was introduced within the Group. The impact of this change for the segment Client Business Liechtenstein amounted to CHF -4.6 million. The prior-year comparatives were not restated as the change for prior periods was impracticable because of the passage of time as well as the lack of an appropriate data base and the cost of assembling this data retrospectively on an individual-transaction basis would be so high that it would bear no relationship to the benefit to be derived therefrom.
[2] Annualised, average values.
[3] Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / gross income less other income and income from financial instruments.

Structure

The business segment "Client Business Liechtenstein" encompasses the international private-banking business and the business with intermediaries conducted in Liechtenstein as well as the local universal banking and credit-granting businesses. It includes the units of VP Bank Ltd, Vaduz which are in direct client contact. In addition, the CIO Office, the Group Investment Management, Group Investment Advisory, Group Product Center and VP Fund Solutions (Liechtenstein) AG are allocated to this business segment.

Segment result

The pre-tax segment result fell from CHF 54.5 million to CHF 42.1 million (CHF -12.4 million). In the first half of 2019, operating income declined by CHF 11.0 million (11.5 per cent) over that of the comparable prior-year period. This decline results, on the one hand, from interest income from clients (-15.1 per cent) as well as commission and service income (-7.6 per cent). This negative movement in interest income was a result primarily of the introduction of funds transfer pricing as of 1 January 2019 which negatively impacted the result, period-on-period, by CHF 4.6 million. The lower asset basis and the related lower portfolio-based income, on the one hand, and declining stock-exchange trading volumes, on the other, negatively impacted commission and trading income. Operating expenses rose by CHF 1.5 million (3.5 per cent) to CHF 42.6 million (comparative prior-year period: CHF 41.1 million). This increase results primarily from the caption valuation allowances, provisions and losses. In the first half of 2019, charges for valuation allowances, provisions and losses, period-on-period, declined by CHF 1.9 million to CHF minus 0.6 million (prior-year period: plus CHF 1.4 million) due to the release of valuation allowances no longer required in the prior-year period. Intersegmental recharges in the business segment Client Business Liechtenstein are based upon fixed internal transfer prices. Indirect costs for internal services are reported in the business segment in the caption "services to/from other segment(s)". The gross margin amounted to 66.3 basis points (prior year: 71.2 basis points). The cost/income ratio rose from 42.0 per cent to 46.8 per cent.

During the period, the segment reported a net outflow of client monies of CHF 0.2 billion, principally resulting from the loss of one large client. Assets under management at 30 June 2019 totalled CHF 26.0 billion (31 December 2018: CHF 27.0 billion). The employee headcount declined slightly from 184 (30 June 2018) to 183 employees.

Client Business International

Segment results

in CHF 1,000	01.01.–30.06.2019	01.01.–30.06.2018	Variance absolute	Variance in %
Total net interest income[1]	26,081	17,472	8,609	49.3
Total net income from commission business and services	27,017	21,252	5,765	27.1
Income from trading activities	6,474	4,474	2,000	44.7
Income from financial instruments	132	–12	144	n.a.
Other income	1,540	1,401	139	9.9
Total operating income	**61,244**	**44,587**	**16,657**	**37.4**
Personnel expenses	31,299	24,672	6,627	26.9
General and administrative expenses	12,801	14,312	–1,511	–10.6
Depreciation of property, equipment and intangible assets	3,819	1,594	2,225	139.6
Credit loss expenses	–3,960	–738	–3,222	–436.6
Provisions and losses	127	73	54	74.0
Services to/from other segments	0	0	0	0.0
Operating expenses	**44,086**	**39,913**	**4,173**	**10.5**
Segment income before income tax	**17,158**	**4,674**	**12,484**	**267.1**
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	72.0	87.4		
Total operating expenses / total net operating income (in %)	72.0	89.5		
Client assets under management (in CHF billion)	19.6	14.0		
Change in client assets under management compared to 31.12. prior year (in %)	18.9	2.2		
Net new money (in CHF billion)	1.4	0.3		
Total operating income / average client assets under management (bp)[2]	67.9	64.6		
Segment result / average client assets under management (bp)[2]	19.0	6.8		
Cost/income ratio operating income (in %)[3]	74.0	90.2	–16.2	–18.0
Headcount (number of employees)	372	294	77.5	26.4
Headcount (expressed as full-time equivalents)	325.4	278.1	47.4	17.0

1 As of 1 January 2019, the new funds transfer pricing was introduced within the Group. The impact of this change for the segment Client Business International amounted to CHF -0.1 million. The prior-year comparatives were not restated as the change for prior periods was impracticable because of the passage of time as well as the lack of an appropriate data base and the cost of assembling this data retrospectively on an individual-transaction basis would be so high that it would bear no relationship to the benefit to be derived therefrom.
2 Annualised, average values.
3 Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / gross income less other income and income from financial instruments.

Structure

The business segment "Client Business International" encompasses the business conducted in international locations. VP Bank (Switzerland) Ltd, VP Bank (Luxembourg) SA, VP Bank (BVI) Ltd, VP Bank Ltd Singapore Branch, VP Wealth Management (Hong Kong) Ltd and VP Fund Solutions (Luxembourg) SA are allocated to this business segment.

Segment result

The pre-tax segment result for the first half of 2019 rose, period-on-period, by CHF 12.5 million. Operating income could be increased by CHF 16.7 million (37.4 per cent) over the comparable prior-year period. This increase is attributable mainly to higher interest income from clients (49.3 per cent), as well as higher commission and service income (27.1 per cent) as well as trading income (44.7 per cent). The recruitment offensive continued to positively impact commission and service income. Operating expenses rose by CHF 4.2 million, or 10.5 per cent, to CHF 44.1 million. This increase results from personnel and general and administrative expense reflecting principally the recruitment offensive for new senior client advisors as well as the acquisition of the private-banking activities of Catella Bank. In the business segment "Client Business International", the recharging of services is based on actual invoices and recorded under general and administrative expenses. Charges for valuation allowances, provisions and losses were minus CHF 3.8 million (prior-year comparable period: minus CHF 0.7 million).

The gross margin rose to 67.9 basis points (prior-year period: 64.6 basis points). The cost/income ratio declined from 90.2 per cent to 74.0 per cent.

Net new money from clients developed positively in the first half of 2019 with CHF 1.4 billion. The recruitment offensive continued to produce net new money inflows in the first half of 2019 in the locations. Net new money from clients could again be achieved in the investment-fund business as well as on European markets as a result of intensive market-development activities. New client monies aggregating CHF 1.0 billion could be acquired through the acquisition of the private banking activities of Catella Bank. Assets under management at 30 June 2019 aggregated CHF 19.6 billion (31 December 2018: CHF 14.0 billion). The employee headcount rose from 278 individuals (30 June 2018) to 325, primarily as a result of the recruitment offensive for new senior client advisors and the transfer of employees from the Catella acquisition.

Corporate Center

Segment results

in CHF 1,000	01.01.–30.06.2019	01.01.–30.06.2018	Variance absolute	Variance in %
Total net interest income[1]	–4,992	–1,934	–3,058	–158.1
Total net income from commission business and services	–3,039	–3,582	543	15.2
Income from trading activities	14,884	12,188	2,696	22.1
Income from financial instruments	11,257	914	10,343	n.a.
Other income	–1,253	96	–1,349	n.a.
Total operating income	**16,857**	**7,682**	**9,175**	**119.4**
Personnel expenses	33,842	32,081	1,761	5.5
General and administrative expenses	14,619	13,548	1,071	7.9
Depreciation of property, equipment and intangible assets	8,035	7,744	291	3.8
Credit loss expenses	–57	1,798	–1,855	–103.2
Provisions and losses	0	0	0	0.0
Services to/from other segments	–20,438	–20,733	295	1.4
Operating expenses	**36,001**	**34,438**	**1,563**	**4.5**
Segment income before income tax	**–19,144**	**–26,756**	**7,612**	**28.4**
Additional information				
Headcount (number of employees)	402	400	2.0	0.5
Headcount (expressed as full-time equivalents)	367.2	365.9	1.3	0.4

[1] As of 1 January 2019, the new funds transfer pricing was introduced within the Group. The impact of this change for the segment Corporate Center amounted to CHF 4.7 million. The prior-year comparatives were not restated as the change for prior periods was impracticable because of the passage of time as well as the lack of an appropriate data base and the cost of assembling this data retrospectively on an individual-transaction basis would be so high that it would bear no relationship to the benefit to be derived therefrom

Structure

The business segment "Corporate Center" is of great importance for banking operations and the processing of business transactions. It encompasses the areas Group Operations, Group Information Technology, Group Projects & Processes, Group Credit, Group Treasury & Execution, Group Finance, Group Risk, Group Legal Services, Group Compliance, Group Tax Center, Group Human Resources Management, Group Communications & Marketing, and Group Strategy. In addition, those revenues and expenses of VP Bank Ltd having no direct relationship to client-oriented business segments, as well as consolidation adjustments are reported under the Corporate Center.
Revenue-generating business activities of the segment Corporate Center arise in connection with the Group Treasury function. The results of the Group's own financial investments, the structural contribution and the changes in the value of hedges are reported in this segment.

Segment result

The pre-tax segment result in the first half of 2019 amounted to minus CHF 19.1 million as opposed to minus CHF 26.8 million in the comparable prior-year period.
In the first half of 2019, operating income grew, period-on-period, by CHF 9.2 million. Responsible for this increase is income from financial investments, for the most part.
Interest income fell by CHF 3.1 million over the comparable prior-year period. This is attributable, in part, to the ongoing negative interest level and, consequently, to the decline in interest revenues from maturity transformation (SNB negative interest). In addition, income from SNB swaps turned negative in comparison to the prior-year period (CHF –9.1 million). The introduction of funds transfer pricing as of 1 January 2019 and the movement in financial instruments contributed positively to interest income. Commission and service income reports a decline in income. This caption comprises third-party bank commissions which were invoiced to front business units by the service units through internal recharging.
Income received by Group Treasury & Execution is reported under trading income. This relates to income generated from the execution of foreign-exchange trades. The caption also includes the results of derivatives employed to minimize risks as well as gains/losses from balance-sheet management activities.
Income from financial investments in the first half of 2019 amounted to CHF 11.3 million. In the comparative prior-year period, this position had reported an income of CHF 0.9 million, the increase of which arose primarily from revaluation gains on financial instruments.
Operating expenses in the period rose by CHF 1.6 million from CHF 34.4 million to CHF 36.0 million. Charges for valuation allowances, provisions and losses in the period reported a decrease of CHF 1.9 million. Personnel and general and administrative expense rose by CHF 1.8 million and CHF 1.1 million, respectively. Depreciation and amortisation increased marginally from CHF 7.7 million to CHF 8.0 million.
The employee headcount rose slightly from 366 (30 June 2018) to 367 positions.

Notes to the consolidated income statement and consolidated balance sheet

1 Interest income

in CHF 1,000	01.01.–30.06.2019	01.01.–30.06.2018	Variance absolute	Variance in %
Interest and discount income	1,067	129	938	n.a.
Loan commissions with the character of interest	767	211	556	263.5
Interest income from banks	579	783	–204	–26.1
Interest income from customers	56,850	46,604	10,246	22.0
Interest income from financial instruments measured at amortised cost	15,616	12,291	3,325	27.1
Interest income from financial liabilities	2,559	1,907	652	34.2
Total interest income from financial instruments at amortised cost	**77,438**	**61,925**	**15,513**	**25.1**
Interest-rate instruments	–764	–770	6	0.8
Trading derivatives (forward points)	7,890	16,981	–9,091	–53.5
Hedge accounting	39	36	3	8.3
Total other interest income	**7,165**	**16,247**	**–9,082**	**–55.9**
Total interest income	**84,603**	**78,172**	**6,431**	**8.2**
Interest expenses on amounts due to banks	568	136	432	317.6
Interest expenses on amounts due to customers	24,007	13,042	10,965	84.1
Interest expenses on medium-term notes	336	420	–84	–20.0
Interest expenses on debentures issued	637	637	0	0.0
Interest expense from financial assets	4,313	8,970	–4,657	–51.9
Interest expense on right-of-use assets	169	0	169	0.0
Total interest expenses using the effective interest method	**30,030**	**23,205**	**6,825**	**29.4**
Total net interest income	**54,573**	**54,967**	**–394**	**–0.7**
Fair-value hedges				
Movements arising from hedges	–1,606	379	–1,985	n.a.
Micro fair-value hedges	–1,606	379	–1,985	n.a.
Movements in underlying transactions	1,645	–343	1,988	n.a.
Micro fair-value hedges	1,645	–343	1,988	n.a.
Total hedge accounting	**39**	**36**	**3**	**8.3**

2 Income from commission business and services

in CHF 1,000	01.01.–30.06.2019	01.01.–30.06.2018	Variance absolute	Variance in %
Commission income from credit business	832	707	125	17.7
Asset management and investment business[1]	26,151	24,281	1,870	7.7
Brokerage fees	15,503	16,521	–1,018	–6.2
Securities account fees	10,077	9,922	155	1.6
Fund management fees[2]	28,153	24,388	3,765	15.4
Fiduciary commissions	1,136	873	263	30.1
Other commission and service income	8,633	8,624	9	0.1
Total income from commission business and services	**90,485**	**85,316**	**5,169**	**6.1**
Brokerage expenses	845	1,163	–318	–27.3
Other commission and services-related expenses[2]	22,625	19,886	2,739	13.8
Total expenses from commission business and services	**23,470**	**21,049**	**2,421**	**11.5**
Total net income from commission business and services	**67,015**	**64,267**	**2,748**	**4.3**

[1] Income from corporate actions, asset-management commissions, investment advisory services, all-in fees, securities lending and borrowing.
The income in 2019 includes fees for securities settlement of TCHF 4,326; administration commissions of TCHF 14,245 (of which management fees of TCHF 4,305, securities account fees of TCHF 2,342, brokerage fees of TCHF 1,701, administration fees of TCHF 5,897); all-in-fees of TCHF 6,170; miscellaneous fees of TCHF 1,410.
The income in 2018 includes fees for securities settlement of TCHF 3,600; administration commissions of TCHF 13,338 (of which management fees of TCHF 3,261, securities account fees of TCHF 1,936, brokerage fees of TCHF 899, administration fees of TCHF 7,242); all-in-fees of TCHF 5,944; miscellaneous fees of TCHF 1,399.
[2] The prior year's figure was adjusted by TCHF -2.500 because a subsidiary applied double gross accounting for internal purposes. This correction had no further impact on the financial statements.

3 Income from trading activities

in CHF 1,000	01.01.– 30.06.2019	01.01.– 30.06.2018	Variance absolute	Variance in %
Securities trading[1]	–1,923	400	–2,323	n.a.
Foreign currency	30,790	25,405	5,385	21.2
Banknotes, precious metals and other	402	369	33	8.9
Total income from trading activities	**29,269**	**26,174**	**3,095**	**11.8**

[1] The results from derivatives for the purposes of risk minimisation (other than interest-rate derivatives) are included in this item.

4 Income from financial instruments

in CHF 1,000	01.01.– 30.06.2019	01.01.– 30.06.2018	Variance absolute	Variance in %
Income from financial instruments at fair value	11,384	855	10,529	n.a.
Income from financial instruments at amortised cost (foreign exchange)	5	47	–42	–89.4
Total income from financial instruments	**11,389**	**902**	**10,487**	**n.a.**
Income from financial instruments at fair value				
Income from FVTPL assets	4,874	–3,165	8,039	254.0
Interest income from FVTPL financial instruments	1,304	847	457	54.0
Dividend income from FVTPL financial instruments	905	789	116	14.7
Dividend income from FVTOCI financial instruments	4,301	2,384	1,917	80.4
thereof from FVTOCI financial instruments sold	190	0	190	0.0
Income from FVTPL liabilities	0	0	0	0.0
Total	**11,574**	**855**	**10,719**	**n.a.**
Income from financial instruments at amortised cost (foreign exchange)				
Revaluation gains/losses on financial instruments at amortised cost	–146	67	–213	–317.9
Realised gains/losses on financial instruments at amortised cost	151	–20	171	n.a.
Total	**5**	**47**	**–42**	**–89.4**

5 Other income

in CHF 1,000	Note	01.01.– 30.06.2019	01.01.– 30.06.2018	Variance absolute	Variance in %
Income from real estate		76	32	44	137.5
Income from associated companies		–1	–2	1	50.0
Miscellaneous other income		416	1,517	–1,101	–72.6
Total other income		**491**	**1,547**	**–1,056**	**–68.3**

6 Personnel expenses

in CHF 1,000	01.01.– 30.06.2019	01.01.– 30.06.2018	Variance absolute	Variance in %
Salaries and wages	67,248	59,405	7,843	13.2
Social contributions required by law	6,154	5,326	828	15.5
Contributions to pension plans / defined-benefit plans	5,881	5,672	209	3.7
Contributions to pension plans / defined-contribution plans	861	900	–39	–4.3
Other personnel expenses	2,226	2,742	–516	–18.8
Total personnel expenses	**82,370**	**74,045**	**8,325**	**11.2**

7 General and administrative expenses

in CHF 1,000	01.01.–30.06.2019	01.01.–30.06.2018	Variance absolute	Variance in %
Occupancy expenses[1]	1,440	4,268	–2,828	–66.3
Insurance	485	422	63	14.9
Professional fees	5,198	5,732	–534	–9.3
Financial information procurement	4,468	3,214	1,254	39.0
Telecommunication and postage	632	699	–67	–9.6
IT systems	7,998	7,709	289	3.7
Marketing and public relations	2,184	2,343	–159	–6.8
Capital taxes	434	465	–31	–6.7
Other general and administrative expenses[1]	6,449	5,067	1,382	27.3
Total general and administrative expenses	**29,288**	**29,919**	**–631**	**–2.1**

[1] Excluding depreciation and interest on right-of-use assets starting 1.1.2019 as per IFRS 16 (note 18)

8 Depreciation and amortisation

in CHF 1,000	01.01.–30.06.2019	01.01.–30.06.2018	Variance absolute	Variance in %
Depreciation and amortisation of property and equipment[1]	7,361	3,992	3,369	84.4
Depreciation and amortisation of intangible assets	6,965	7,745	–780	–10.1
Total depreciation and amortisation	**14,326**	**11,737**	**2,589**	**22.1**

[1] Including depreciation on right-of-use assets starting 1.1.2019 as per IFRS 16 (note 18)

9 Valuation allowances, provisions and losses

in CHF 1,000	01.01.–30.06.2019	01.01.–30.06.2018	Variance absolute	Variance in %
De-/increase credit allowances[1]	–3,555	–537	–3,018	n.a.
Legal and litigation risks	–39	23	–62	–269.6
Release of valuation allowances and provisions no longer required[1]	284	297	–13	–4.4
Total valuation allowances, provisions and losses	**–3,310**	**–217**	**–3,093**	**n.a.**

[1] Including currency effects.

10 Taxes on income

in CHF 1,000	01.01.–30.06.2019	01.01.–30.06.2018	Variance absolute	Variance in %
Current taxes	5,753	2,780	2,973	106.9
Deferred taxes	–975	307	–1,282	–417.6
Total taxes on income	**4,778**	**3,087**	**1,691**	**54.8**

11 Earnings per share

	30.06.2019	30.06.2018
Consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000)	35,285	29,286
Weighted average of registered shares A	5,424,205	5,495,128
Weighted average of registered shares B	5,678,649	5,867,641
Total weighted average number of shares (registered share A)	5,992,070	6,081,892
Undiluted consolidated earnings per registered share A	5.89	4.82
Undiluted consolidated earnings per registered share B	0.59	0.48
Fully diluted consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000)	35,285	29,286
Adjusted group net income (in CHF 1,000)	35,285	29,286
Number of shares used to compute the fully diluted consolidated net income	5,992,070	6,081,892
Fully diluted consolidated earnings per registered share A	5.89	4.82
Fully diluted consolidated earnings per registered share B	0.59	0.48

12 Debentures, VP Bank Ltd, Vaduz

Year of issue	ISIN	Interest rate in %	Currency	Maturity	Nominal amount	in CHF 1,000 Total 30.06.2019	Total 31.12.2018
2015	CH0262888933	0.5	CHF	07.04.2021	100,000	100,123	100,158
2015	CH0262888941	0.875	CHF	07.10.2024	100,000	100,290	100,316
Total					**200,000**	**200,413**	**200,474**

Debt securities issued are recorded at fair value plus transaction costs upon initial recognition. Fair value corresponds to the consideration received. Subsequently, they are re-measured at amortised cost. In this process, the effective interest method (0.43 per cent debenture 2021; 0.82 per cent debenture 2024) is applied in order to amortise the difference between the issuance price and redemption value over the duration of the debentures.

13 Share capital

in CHF 1,000	30.06.2019 No. of shares	Nominal CHF	31.12.2018 No. of shares	Nominal CHF
Registered shares A of CHF 10.00 nominal value	6,015,000	60,150,000	6,015,000	60,150,000
Registered shares B of CHF 1.00 nominal value	6,004,167	6,004,167	6,004,167	6,004,167
Total share capital		**66,154,167**		**66,154,167**

All shares are fully paid-up.

14 Treasury shares

in CHF 1,000	30.06.2019 No. of shares	in CHF 1,000	31.12.2018 No. of shares	in CHF 1,000
Registered shares A at the beginning of the financial year	599,442	60,362	547,320	46,767
Purchases	58,750	8,556	111,200	18,708
Sales	–57,345	–5,814	–59,078	–5,113
Balance of registered shares A as of balance-sheet date[1]	**600,847**	**63,104**	**599,442**	**60,362**
Registered shares B at the beginning of the financial year	324,929	5,155	131,662	1,122
Purchases	1,040	15	193,267	4,033
Sales	0	0	0	0
Balance of registered shares B as of balance-sheet date[2]	**325,969**	**5,170**	**324,929**	**5,155**

[1] VP Bank Ltd carried out a repurchase programme of registered shares A from 27 June 2018 to 28 June 2019. In the context of the repurchase programme, VP Bank acquired 169,950 registered shares A of total CHF 31.0 million. The repurchased shares are to be used for future acquisitions or for treasury management purposes. Own shares are offset against equity in line with IAS 32.

[2] On 26 June 2018, VP Bank Ltd announced a public fixed-price bid for the acquisition of a maximum of 456,554 not listed registered shares B at a price of CHF 21.30. In the context of the closed repurchase programme, VP Bank acquired 173,067 registered shares B at a price of CHF 3.7 million. The repurchased shares are to be used for future acquisitions or for treasury management purposes. Own shares are offset against equity in line with IAS 32.

15 Dividend

	30.06.2019	31.12.2018
Approved and paid dividend of VP Bank Ltd, Vaduz		
Dividend (in CHF 1,000) for the financial year 2018 (2017)	36,385	36,385
Dividend per registered share A	5.50	5.50
Dividend per registered share B	0.55	0.55
Payout ratio (in %)	60.8	50.5

16 Financial instruments

Fair value of financial instruments

The following table shows the fair values of financial instruments based on the valuation methods and assumptions set out below. This table is presented because not all financial instruments are disclosed at their fair values in the consolidated financial statements. The fair value equates to the price at the date of measurement which could be realised from the sale of the asset, or which must be settled for the transfer of the liability, in an orderly transaction between market participants.

in CHF million	Carrying value 30.06.2019	Fair value 30.06.2019	Variance	Carrying value 31.12.2018	Fair value 31.12.2018	Variance
Assets						
Cash and cash equivalents	2,624	2,624	0	2,521	2,521	0
Receivables arising from money-market paper	118	118	0	67	67	0
Due from banks	683	683	0	771	771	0
Due from customers	6,659	6,795	136	6,196	6,309	113
Trading portfolios	0	0	0	0	0	0
Derivative financial instruments	59	59	0	42	42	0
Financial instruments at fair value	250	250	0	232	232	0
of which designated on initial recognition	0	0	0	0	0	0
of which mandatory under IFRS 9	0	0	0	181	181	0
of which recognised in other comprehensive income with no effect on net income	0	0	0	51	51	0
Financial instruments at amortised cost	2,470	2,527	57	2,390	2,390	0
Subtotal			**193**			**113**
Liabilities						
Due to banks	445	445	0	434	434	0
Due to customers	10,966	10,977	–11	10,335	10,325	10
Derivative financial instruments	88	88	0	59	59	0
Medium-term notes	234	236	–2	241	243	–2
Debentures issued	200	206	–6	200	204	–4
Subtotal			**–19**			**4**
Total variance			**174**			**117**

The following valuation methods are used to determine the fair value of on-balance-sheet financial instruments:

Cash and cash equivalents, money-market paper

For the balance-sheet-items "Cash and cash equivalents" and "Receivables arising from money-market paper", which do not have a published market value on a recognised stock exchange or on a representative market, the fair value corresponds to the amount payable at the balance-sheet date.

Due from/to banks and customers, medium-term notes, debenture issues

In determining the fair value of amounts due from/to banks, due from/to customers (including mortgage receivables and due to customers in the form of savings and deposits), as well as of medium-term notes and debenture issues with a fixed maturity or a refinancing profile, the net present value method is applied (discounting of monetary flows with swap rates corresponding to the respective term). For products whose interest or payment flows cannot be determined in advance, replicating portfolios are used.

Trading portfolios, trading portfolios pledged as security, financial instruments at fair value

Fair value corresponds to market value for the majority of these financial instruments. The fair value of non-exchange-listed financial instruments (in particular for structured credit loans) is determined only on the basis of external traders' prices or pricing models which are based on prices and interest rates in an observable, active and liquid market.

Derivative financial instruments

For the majority of the positive and negative replacement values, the fair value equates to the market value. The fair value for derivative instruments without market value is determined using uniform models. These valuation models take account of the relevant parameters such as contract specifications, the market price of the underlying security, the yield curve and volatility.

Valuation methods for financial instruments

The fair value of listed securities held for trading purposes or as financial instruments, as well as that of listed derivatives and other financial instruments with a price established in an active market, is determined on the basis of current market value (Level 1). Valuation methods or pricing models are used to determine the fair value of financial instruments if no direct market prices are available. If possible, the underlying assumptions are based on observed market prices or other market indicators as at the balance-sheet date (Level 2). For most of the derivatives traded over the counter, as well as for other financial instruments that are not traded in an active market, fair value is determined by means of valuation methods or pricing models. Among the most frequently applied of those methods and models are cash-value-based forward pricing and swap models, as well as options pricing models such as the Black-Scholes model or derivations thereof. The fair values arrived at on the basis of these methods and models are influenced to a significant degree by the choice of the specific valuation model and the underlying assumptions applied, for example the amounts and time sequence of future cash flows, discount rates, volatilities and/or credit risks. If neither current market prices nor valuation methods/models based on observable market data can be drawn on for the purpose of determining fair value, then valuation methods or pricing models supported by realistic assumptions derived from actual market data are used (Level 3). Level 3 principally includes investment funds, for which an obligatory net asset value is not published at least on a quarterly basis. The fair value of these positions is, as a rule, computed on the basis of external estimates by experts in relation to the level of future distributions of fund units, or equates to the acquisition cost of the securities less any applicable valuation allowances.

Valuation methods for financial instruments

in CHF million at fair value	Quoted market prices, Level 1	Valuation methods, based on market data, Level 2	Valuation methods, with assumptions based on market data, Level 3	Total 30.06.2019
Assets				
Cash and cash equivalents	2,624			2,624
Receivables arising from money-market paper	118			118
Due from banks		683		683
Due from customers		6,795		6,795
Trading portfolios				0
Derivative financial instruments		59		59
Financial instruments at fair value	214	27	9	250
Financial instruments at amortised cost	2,527			2,527
Liabilities				
Due to banks		445		445
Due to customers		10,977		10,977
Derivative financial instruments		88		88
Medium-term notes		236		236
Debentures issued	206			206

In the financial year 2019 as well as in the first half of 2018, no financial instruments were reclassified.

in CHF million at fair value	Quoted market prices, Level 1	Valuation methods, based on market data, Level 2	Valuation methods, with assumptions based on market data, Level 3	Total 31.12.2018
Assets				
Cash and cash equivalents	2,521			2,521
Receivables arising from money-market paper	67			67
Due from banks		771		771
Due from customers		6,309		6,309
Trading portfolios				0
Derivative financial instruments		42		42
Financial instruments at fair value	210	18	4	232
Financial instruments at amortised cost	2,390			2,390
Liabilities				
Due to banks		434		434
Due to customers		10,325		10,325
Derivative financial instruments		59		59
Medium-term notes		243		243
Debentures issued	204			204

Valuation methods for financial instruments (continued)

Level 3 financial instruments	30.06.2019	31.12.2018
Balance sheet		
Holdings at the beginning of the year	4.1	8.4
Investments	5.6	0.0
Disposals	–0.9	–5.2
Issues	0.0	0.0
Redemptions	0.0	0.0
Losses recognised in the income statement	0.0	0.0
Losses recognised as other comprehensive income	0.0	–0.1
Gains recognised in the income statement	0.0	1.0
Gains recognised as other comprehensive income	0.0	0.0
Reclassification to Level 3	0.0	0.0
Reclassification from Level 3	0.0	0.0
Translation differences	0.0	0.0
Total book value at balance-sheet date	**8.8**	**4.1**
Income on holdings at balance-sheet date		
Unrealised losses recognised in the income statement	0.0	0.0
Unrealised losses recognised as other comprehensive income	0.0	–0.1
Unrealised gains recognised in the income statement	0.0	1.0
Unrealised gains recognised as other comprehensive income	0.0	0.0

No deferred day 1 profit or loss (difference between the transaction price and the fair value calculated on the transaction day) was reported for Level 3 positions as of 30 June 2019 or 31 December 2018.

Sensitivity of fair values of Level 3 financial instruments

Changes in the net asset values of investment funds lead to corresponding changes in the fair values of these financial instruments. A realistic change in the basic assumptions or estimated values has no material impact on the statement of income, other comprehensive income or the equity of VP Bank Group's shareholders.

17 Leases in the balance sheet

in CHF 1,000	30.06.2019	01.01.2019	Variance absolute	Variance in %
Property and equipment				
Right of use – buildings and premises	31,810	33,866	–2,056	–6.1
Right of use – motor vehicles	441	297	144	48.5
Total assets	**32,251**	**34,163**	**–1,912**	**–5.6**
Other liabilities				
Short-term lease liabilities	5,640	5,518	122	2.2
Long-term lease liabilities	26,704	28,645	–1,941	–6.8
Total liabilities	**32,344**	**34,163**	**–1,819**	**–5.3**

18 Leases in the profit and loss statement

in CHF 1,000	01.01.–30.06.2019
Net interest income	
Interest expense on right-of-use assets	169
Depreciation of property and equipment	
Depreciation on right-of-use assets	2,768

19 Consolidated off-balance-sheet positions

in CHF 1,000	30.06.2019	31.12.2018
Total contingent liabilities	182,238	207,207
Irrevocable facilities granted	121,181	93,898
Total fiduciary transactions	984,005	994,172
Contract volumes of derivative financial instruments	9,199,581	5,799,070
Securities lending and repurchase and reverse-repurchase transactions with securities		
Amounts receivable arising from cash deposits in connection with securities borrowing and reverse-repurchase transactions	0	0
Amounts payable arising from cash deposits in connection with securities lending and repurchase transactions	0	39,466
Securities lent out within the scope of securities lending or delivered as collateral within the scope of securities borrowing activities, as well as securities in own portfolio transferred within the framework of repurchase transactions	266,957	474,986
of which securities where the unlimited right to sell on or pledge has been granted	194,959	365,784
Securities received as collateral within the scope of securities lending or borrowed within the scope of securities borrowing activities, as well as received under reverse-repurchase transactions, where the unlimited right to sell on or further pledge has been granted	247,008	396,577
of which securities which have been resold or repledged	71,998	109,201

These transactions were conducted under conditions which are customary for securities lending and borrowing activities as well as trades for which VP Bank acts as intermediary.

20 Client assets

in CHF million	30.06.2019	31.12.2018	Variance absolute	Variance in %
Analysis of client assets under management				
Assets in self-administered investment funds	8,975.5	8,688.9	286.5	3.3
Assets in discretionary asset management accounts	4,185.6	3,772.0	413.6	11.0
Other client assets under management	32,458.5	29,065.0	3,393.5	11.7
Total client assets under management (including amounts counted twice)	**45,619.5**	**41,525.9**	**4,093.6**	**9.9**
of which amounts counted twice	2,179.9	2,171.3	8.6	0.4
Change of assets under management				
Total client assets under management (including amounts counted twice) at the beginning of the financial year	41,525.9	40,386.3	1,139.6	2.8
of which net new money	1,212.0	3,196.9	–1,984.9	–62.1
of which change in market value	1,929.4	–2,057.3	3,986.7	193.8
of which other effects	952.2	0.0	952.2	0.0
Total client assets under management (including amounts counted twice) as of balance-sheet date	**45,619.5**	**41,525.9**	**4,093.6**	**9.9**
Custody assets[1]	**6,066.2**	**5,210.1**	**856.2**	**16.4**
Total client assets				
Total client assets under management (including amounts counted twice)	45,619.5	41,525.9	4,093.6	9.9
Custody assets[1]	6,066.2	5,210.1	856.2	16.4
Total client assets	**51,685.7**	**46,736.0**	**4,949.8**	**10.6**

in CHF million	30.06.2019	30.06.2018	Variance absolute	Variance in %
Net new money	**1,212.0**	**603.1**	**608.9**	**101.0**

[1] During the closing operations we determined that the published custody assets as per 31 December 2018 were CHF 1.781 billion (30 June 2018: CHF 1.086 billion) overvalued due to amounts counted twice. The figures were restated accordingly.

Net new money inflows/outflows

This item comprises the acquisition of new clients, lost clients and inflows or outflows from existing clients. Performance-related changes in assets such as share price movements, interest and dividend payments, as well as interest charged to clients, are not considered as inflows and outflows. Acquisition-related changes in assets are presented separately. If the service provided changes and if assets under management are reclassified as assets held for custody purposes, or vice versa, this will generally be recognised, respectively, as an outflow or inflow of new client assets. In 2019, net new money includes reclassifications amounting to CHF 300.2 million (2018: CHF 0).

21 Acquisition

As of 1 February 2019, the acquisition of the Luxembourg private banking activities of Catella Bank by VP Bank (Luxembourg) SA was completed. The acquisition was announced on 26 October 2018.

This transaction in the form of an asset deal was successfully completed as planned on 1 February 2019. It included the acquisition of eleven employees and the migration of client assets of CHF 952 million. The purchase price amounted to CHF 10.2 million. The private banking business of Catella Bank S.A. in Sweden is excluded from the acquisition. In addition, VP Bank Group will enter a distribution partnership with the Catella Group in the fund and real estate sector.

Catella is a leading specialist in property investments and advisory, fund management and banking, with operations in 14 countries. The group manages assets of approximately EUR 20 billion. Catella has about 600 employees and is listed on Nasdaq Stockholm in the Mid Cap segment. The head office is located in Stockholm, Sweden.

in CHF million	Fair value
Other intangible assets	4.6
Total assets	**4.6**
Deferred tax liabilities	–1.2
Total liabilities	**–1.2**
Total net assets	**3.4**
Net assets acquired	**3.4**
Purchase price settled in cash and cash equivalents	10.2
Purchase consideration	**10.2**
Goodwill arising from acquisition	**6.8**
Purchase consideration settled in cash and cash equivalents	10.2
Cash inflow arising from the transaction	0.0

Assets under management of CHF 952 million were taken over as part of the acquisition. The transaction gave rise to intangible assets (client relationships) of CHF 4.6 million. The client relationships will be amortised over 10 years. The costs of the transaction incurred in the reporting period (advisory, legal, auditing, valuation costs, etc.) amount to CHF 0.3 million and are recognised in general and administrative expenses (note 7) (financial year 2018: CHF 0.7 million).
The individual factors underlying the amount of goodwill recognised consist of, in particular, the employees transferred, the know-how available, the strategic market entry in the Nordic countries and the growth related thereto.

22 Capital-adequacy computation

in CHF 1,000	30.06.2019	31.12.2018
Total shareholders' equity	985,081	981,580
Total regulatory deduction	–52,936	–38,797
Eligible core capital (tier 1)	932,145	942,783
Total required equity	379,034	360,826
Capital buffer	236,896	225,516
Total required equity including capital buffer	615,930	586,342
Tier 1 ratio	19.7%	20.9%
Total risk-weighted assets	4,737,922	4,510,319
Return on investment (net income / average balance sheet total)	0.6%	0.4%

VP Bank Group

VP Bank Ltd is a bank domiciled in Liechtenstein and is subject to supervision by the Liechtenstein Financial Market Authority (FMA), Landstrasse 109, 9490 Vaduz, Liechtenstein, www.fma-li.li

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Shareholder information

VP Bank Group at a glance

- Founded in 1956
- Third-largest bank in Liechtenstein
- About 940 employees
- Listed on SIX Swiss Exchange
- "A" rating from Standard & Poor's
- Six locations worldwide in key financial centres (Vaduz, Zurich, Luxembourg, Singapore, Hong Kong, Tortola/BVI)
- Focus on asset management for intermediaries and private individuals
- International fund competency centre

Medium-term goals for the end of 2020

- Assets under management of CHF 50 billlion
- Group net income of CHF 80 milllion
- Cost/income ratio below 70 per cent

Agenda 2020

Annual results 2019, media and analysts conference	10 March 2020
Annual general meeting of shareholders 2020	24 April 2020
Ex-dividend date	28 April 2020
Record date	2 May 2020
Dividend payment	3 May 2020
Semi-annual results 2020	18 August 2020

Master Data

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This semi-annual report has been produced with the greatest possible care and all data have been closely examined. Rounding, typeset or printing errors, however, cannot be ruled out.

This report includes information and forecasts relating to the future development of VP Bank Group. Those forecasts represent estimates based on all information available at the time of publication. Any such forward-looking statement is subject to risks and uncertainties that could lead to significant variances in actual future results. No guarantee can be made as to the reliability of the prognoses, planned quantities or forward-looking statements contained herein.

This report has been produced in German and English, whereas the German version shall prevail in case of doubt.

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