

// Clarity //

2018

Semi-annual Report



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With its numerous challenges, digitalisation has helped us create a new, moving design concept for VP Bank. We have named it "**Clarity**" – we express our excellence in a fresh, modern and unique way.

The comprehensive refresh of VP Bank's brand both in appearance and content serves as the basis for future business success. More information on the brand refresh can be found in the section "The VP Bank brand" of our Annual Report 2017 as well as online at www.vpbank.com/brand.



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

Dear Shareholders,
Ladies and Gentlemen

Financial markets were very turbulent in the first half of 2018. After a strong start, they experienced a sudden correction in early February. The US Federal Reserve tightened interest rates, equity markets trended downward and volatility increased. Euro zone economic growth also turned out to be weaker than expected, clearly demonstrating that growth forecasts for the region were overly optimistic. In these choppy waters, VP Bank Group stayed the course and posted a solid result.

Solid interim result

In the first half of 2018, VP Bank Group recorded consolidated net income of CHF 29.3 million, compared with CHF 31.5 million the previous year.

Continued inflows of client deposits totalling CHF 0.6 billion were very satisfying (first half 2017: CHF 1.1 billion). Client assets under management increased by 1.3 per cent (CHF 0.5 billion). These figures attest to the success of our intensive market development initiatives.

The 2.2 per cent decline in operating income was due to equity market volatility in the first half of 2018.

Operating expense fell by CHF 1.7 million (1.5 per cent).

Medium-term goals

In 2015, we defined VP Bank Group's medium-term goals through 2020 as part of our "Strategy 2020" business plan:

- 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 2018, assets under management totalled CHF 40.9 billion (up 1.3 per cent, or CHF 0.5 billion, since 31 December 2017), first-half consolidated net income was CHF 29.3 million (first half 2017: CHF 31.5 million). At 30 June 2018 the cost/income ratio was 70.3 per cent (compared with 64.6 per cent one year earlier).

These latest results as well as our solid financial position with a 22.6 per cent tier 1 ratio show that we are on the right track to achieve our 2020 objectives by taking advantage of organic and external growth opportunities in a targeted manner and by maintaining strict cost controls.

Three strategic pillars

The 2020 strategy comprises three pillars with a long-term orientation.

As regards growth, we continued the favourable inflow trend of 2017 with net new money totalling CHF 603.1 million. Our "Relationship Manager Hiring" project is proceeding apace, as we have hired a total of 31 new client advisors since the start of the project in 2016.

In the focus pillar, we continued our cost management efforts and optimised our product and service offerings in the first half of 2018. These measures included, among others, the launch of VP Bank's new e-banking service, a redesigned website for VP Fund Solutions and additional corporate client advisory packages rolled out as from July.

The third pillar revolves around culture, including the sales and performance culture as well as the company culture. During the first half of the year, we continued to implement our leadership training programme, successfully conducted two "VP Bank Journeys" for employees to Munich and Hamburg and helped to promote dialogue between management and employees through regular joint breakfast events.

"Volunteering Day" continues to be very popular. Some 84 participants have worked on public interest projects since we introduced this programme.

Key first half events

Persistent low market interest rates forced us to adjust our own interest rate schedule and fees. The regulatory environment also poses challenges for the industry given the new EU data protection scheme (GDPR) and US sanctions against Russia. Meanwhile, VP Bank successfully reached

a legally binding agreement with the German authorities on untaxed assets of German clients.

In February 2018, the new Group Projects & Processes unit was created in the Chief Operating Officer business segment. This unit combines the bank's know-how and developmental resources and focuses them in targeted fashion on the Group's priorities. It acts as a competency centre for project and process management and coordinates the bank's digital transformation.

A total of 435 shareholders attended VP Bank's 55th Annual General Meeting on 27 April 2018. All resolutions were approved.

On the occasion of World Fund Day in April 2018, VP Fund Solutions announced record figures and steady demand for fund solutions from fund initiators and investors. Our international funds competency centre can take pride in the on-going growth of the two fund sites in Liechtenstein and Luxembourg.

In the first half of 2018, VP Bank again successfully positioned its brands and products through sponsorships of the "VP Bank Ladies Open" pro golf tournament, the "Next Generation Festival" for up-and-coming international musical talent, and the anniversary activities of the "Harmoniemusik Schaan" ensemble.

Anniversaries and investments in growth

2018 is an anniversary year for VP Bank Group. We have been doing business in the Grand Duchy of Luxembourg for the past 30 years through VP Bank (Luxembourg) SA. In 2018, our fund competency centre celebrates its 20-year anniversary. In June, we celebrated this anniversary in Luxembourg with an elegant event and delightful supporting programme for 90 guests. The move to a new office building is scheduled for November.

VP Bank has also been represented through a subsidiary in Zurich since 1988. In March, after a building renovation and high-quality interior design project, we moved into new offices in Zurich. The prestigious building leaves a lasting impression thanks to its well-equipped client area,

modern workspaces with the state-of-the-art infrastructure and central location. Various public relations measures and a client event scheduled for the fourth quarter will mark this anniversary year.

In 2018 our Singapore site celebrates its 10th anniversary, and we are hosting client and media events there as well. In April, we already doubled the size of our office space in order to keep pace with the growth of the business and now have room for 40 additional employees.

As reported in our 2017 annual report, our growth targets for Singapore require modifications to the existing structures. Going forward, VP Bank will therefore operate in Singapore through a branch instead of a subsidiary. As such, our business currently operating through our Singapore subsidiary VP Bank (Singapore) Ltd will be transferred to a new VP Bank Singapore branch which was registered on 29 June 2018. The banking license has also been expanded from "merchant bank" to "wholesale bank".

The transfer process is targeted to be completed by 1 September 2018. Upon completion, VP Bank's business in Singapore will be operated through our new branch, named VP Bank Ltd Singapore branch.

At our headquarters site in Liechtenstein, we undertook a renovation project on the head office building to create a modern and flexibly designed work environment. The renovation uses an open space concept that allows for different configurations and adds new furniture.

Through these activities, we are supporting VP Bank Group's growth and making significant investments in our future.

Personnel changes

At the 55th Annual General Meeting, elections were held to renew the terms of members of the VP Bank Board of Directors. The terms of Fredy Vogt and Dr Florian Marxer, which were expiring, were renewed for another three-year period. Fredy Vogt was re-elected Chairman of the Board of Directors at the extraordinary meeting of the Board of Directors directly following the Annual General Meeting.

Dr Thomas R. Meier was newly elected to a three-year term on the Board of Directors. He has more than three decades of international banking industry experience with a focus on Asia. The Board of Directors thereby strengthens its competencies, ensures a long-term succession planning and makes a sizeable contribution to the continued strategic development of our Asian business.

Dr Felix Brill was appointed to head the "Investment Solutions" business unit as from 1 March 2018, and Dr Urs Monstein was named Chief Operating Officer (COO) as from 1 May 2018. With these two personnel changes, VP Bank's Group Executive Management brought in two professionals with many years of experience in the financial sector and is now fully staffed.

VP Bank shares

As in 2017, VP Bank shares recorded strong gains in the first half of 2018. The shares began the year trading at CHF 133.00, then briefly hit a low of CHF 130.80 in January before beginning their steady rise. In June they reached a six-month high of CHF 194.00 before easing slightly to CHF 188.80 at the end of the period. This 41.95 per cent gain in the first half (including reinvested dividends) thus outperformed the broader Swiss equity market as well as the Swiss banking sector. During the period, VP Bank shares outperformed the SIX banking index (which fell by 10.82 per cent) by +52.77 per cent and the SMI (which fell by 8.23 per cent) by +50.18 per cent. Compared to shares of other banks, those of VP Bank were once again a solid investment.

The Annual General Meeting approved a resolution to pay out an increased dividend of CHF 5.50 per registered share A and CHF 0.55 per registered share B. The dividend payment date was 4 May 2018.

Using the authorisation granted to it by the 24 April 2015 Annual General Meeting, VP Bank decided to increase its treasury share position through yet another share buy-back programme of up to 10 per cent of the share capital. This latest buy-back programme follows three earlier successful

programmes in 2015 and 2016. The repurchased registered shares are to be used for future acquisitions or treasury management purposes.

At 30 June 2018, VP Bank Ltd directly or indirectly owns 495,285 registered treasury shares A and 143,862 registered treasury shares B (7.70 per cent of the share capital and 5.32 per cent of the voting rights). As the shares will not be cancelled, both capital structure and voting rights will remain the same.

In May 2018, the rating agency Standard & Poor's raised VP Bank's already favourable "A-" rating to "A" and listed the outlook as "stable". As a result, VP Bank now has an "A/A-1" rating. This outstanding rating and stable outlook were confirmed on 9 August 2018 and again reaffirm our Group's solid and successful business model.

Outlook

We have also laid the groundwork for growth in the second half. We expect growth to accelerate even further in 2018, building on the successful results of 2017. We are supporting this effort by actively recruiting new client advisors, with an emphasis on Singapore, Hong Kong, Luxembourg, Zurich and Vaduz.

The upgrading of our Singapore subsidiary to a branch and wholesale bank attests to the growing importance of our Asia business.

We show our commitment to the Luxembourg funds and financial centre and are investing in the future by moving to a new, highly modern office building in November.

To counter the relentless pressure of rising costs and shrinking margins, we continue to develop our digital services, online products and services and new client advisory packages, thereby creating tangible value added for our clients and employees.

The continued development of our products and services in the Investment Solutions segment will be another key emphasis in the second half of the year.

Appreciation

We have come through a turbulent six-month period and successfully implemented growth-oriented projects and organisational changes. We would like to offer heartfelt thanks to our employees for their commitment, and we look forward to continued success together in the second half of 2018.

We would also like to thank our clients and shareholders for the trust they continue to place in us.



Fredy Vogt
Chairman of the
Board of Directors



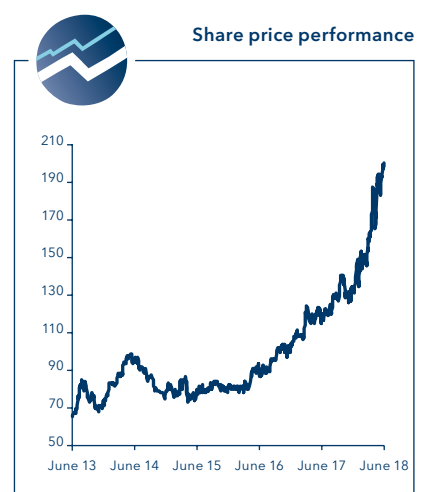
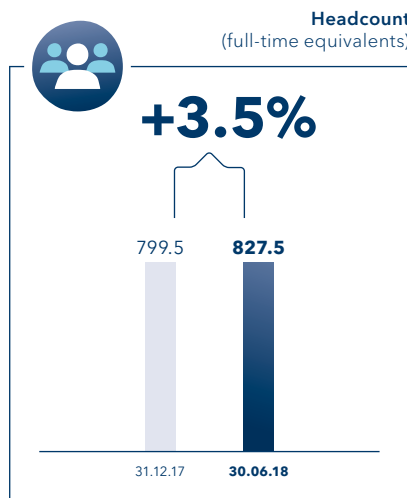
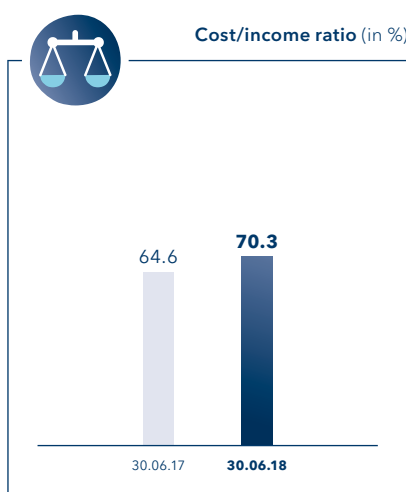
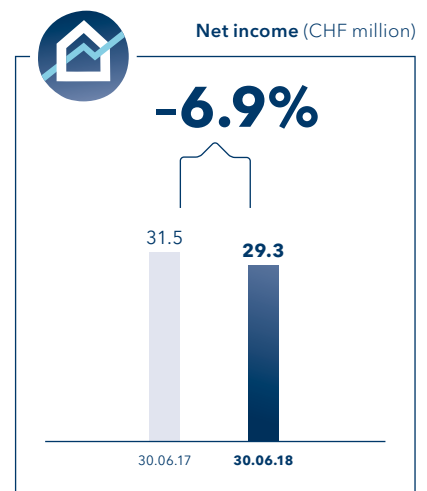
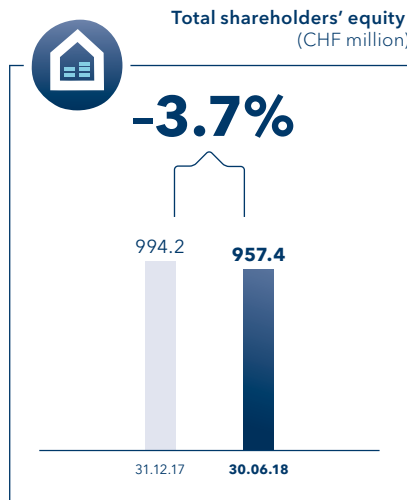
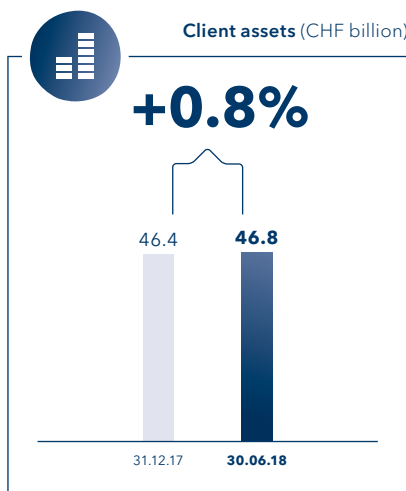
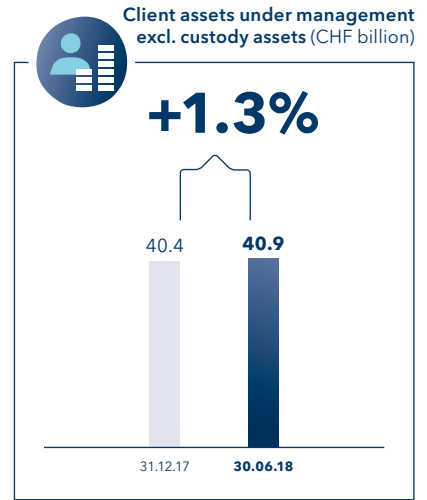
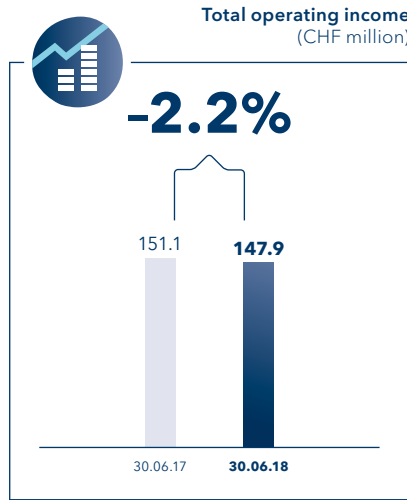
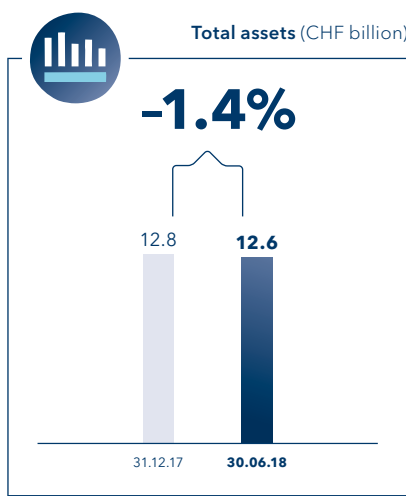
Alfred W. Moeckli
Chief Executive Officer

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VP Bank Group

Key figures of VP Bank Group



— VP Bank shares (in CHF)

Key figures of VP Bank Group

	30.06.2018	30.06.2017	31.12.2017	Variance to 30.06.2017 in %
Key income statement data in CHF million^{1,2}				
Total operating income	147.9	151.1	300.1	-2.2
Total net interest income	55.0	51.4	104.4	6.9
Total net income from commission business and services	64.3	61.1	123.9	5.2
Income from trading activities	26.2	25.2	50.2	4.0
Operating expenses	115.5	117.2	229.8	-1.5
Group net income	29.3	31.5	65.8	-6.9
	30.06.2018	30.06.2017	31.12.2017	Variance to 31.12.2017 in %
Key balance-sheet data in CHF million^{1,2}				
Total assets	12,604.2	12,017.3	12,778.1	-1.4
Due from banks	745.8	799.9	892.6	-16.4
Due from customers	5,727.1	5,535.6	5,647.6	1.4
Due to customers	10,716.6	9,714.4	10,559.4	1.5
Total shareholders' equity	957.4	942.3	994.2	-3.7
Equity ratio (in %)	7.6	7.8	7.8	-2.4
Tier 1 ratio (in %)	22.6	25.9	25.7	-12.0
Leverage ratio in accordance with Basel III (in %)	7.1	7.6	7.5	-5.3
Total client assets under management in CHF billion	40,909.0	37,399.7	40,386.3	1.3
On-balance-sheet customer deposits (excluding custody assets)	10,489.6	9,539.7	10,177.0	3.1
Fiduciary deposits (excluding custody assets)	609.7	762.6	700.8	-13.0
Client securities accounts	29,809.8	27,097.4	29,508.6	1.0
Custody assets in CHF billion	5,898.3	5,482.4	6,062.0	-2.7
Total client assets in CHF billion	46,807.3	42,882.0	46,448.3	0.8
Business volumes³	46,636.2	42,935.3	46,033.9	1.3
Net new money	603.1	1,115.0	1,894.3	n.a.
Key operating indicators²				
Return on equity (in %) ^{1,4}	6.1	6.8	6.9	
Cost/income ratio (in %) ⁵	70.3	64.6	64.2	
Total operating expenses / total net operating income (in %)	78.1	77.5	76.6	
Headcount (expressed as full-time equivalents, excluding student apprentices) ⁶	827.5	757.4	799.5	
Total operating income per employee (in CHF 1,000)	178.7	199.5	375.4	
Total operating expenses per employee (in CHF 1,000)	125.6	129.0	240.9	
Group net income per employee (in CHF 1,000)	35.4	41.5	82.3	
Key indicators related to shares of VP Bank in CHF¹				
Group net income per registered share A ⁷	4.82	5.22	10.89	
Group net income per registered share B ⁷	0.48	0.52	1.09	
Shareholders' equity per registered share A on the balance-sheet date	157.70	156.78	165.33	
Shareholders' equity per registered share B on the balance-sheet date	14.83	14.55	15.37	
Quoted price per registered share A	188.80	118.70	133.00	
Quoted price per registered share B	18.90	11.90	13.30	
Market capitalisation (in CHF million) ⁸	1,249	785	880	
Price/earnings ratio per registered share A	19.60	11.37	12.21	
Price/earnings ratio per registered share B	19.63	11.40	12.20	
Rating Standard & Poor's	A/Stable/A-1	A-/Positive/A-2	A-/Positive/A-2	

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.

³ Assets under management and due from customers.

⁴ Net income / average shareholders' equity less dividend.

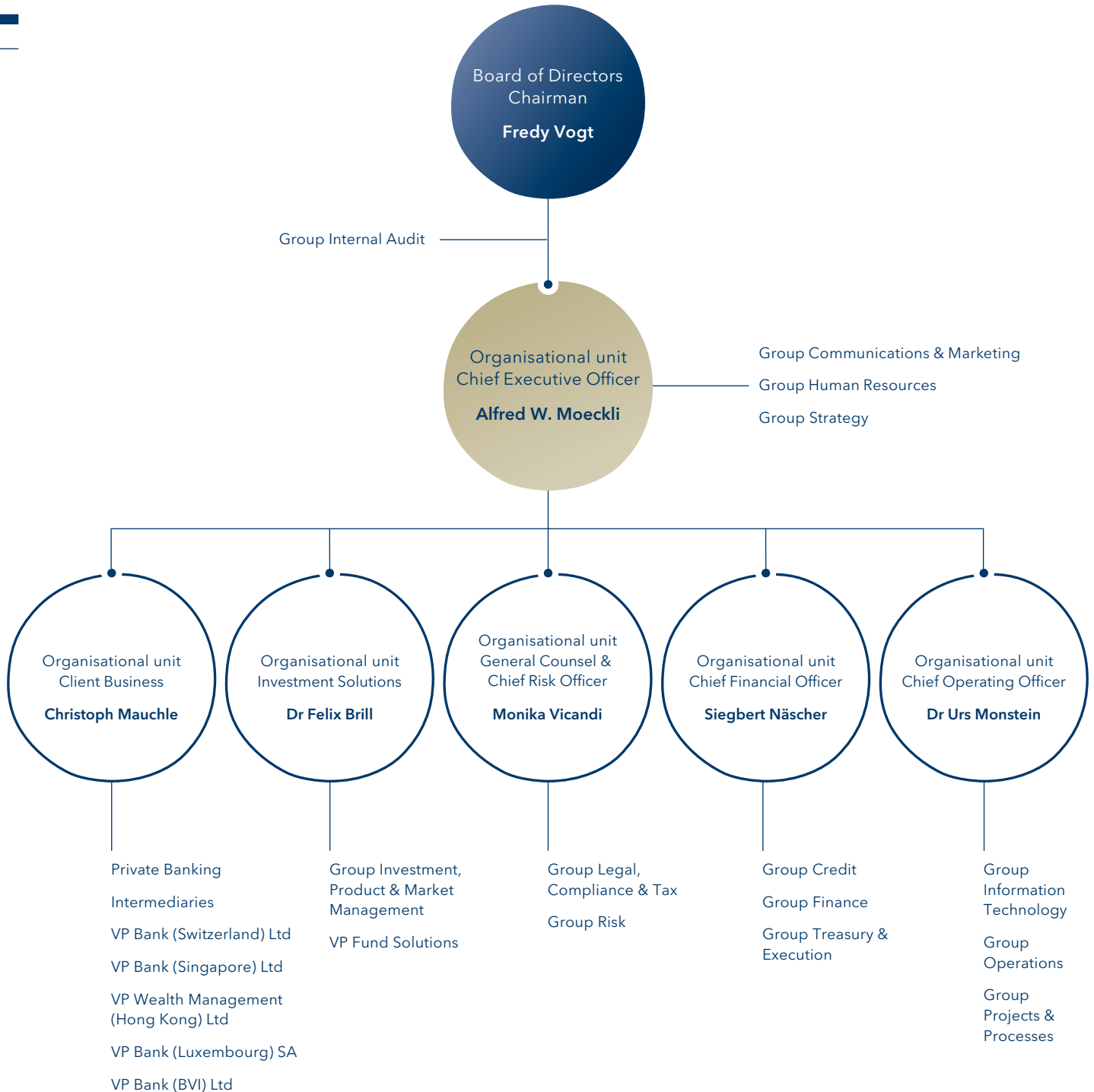
⁵ Total operating expenses (without depreciation and amortisation, valuation allowances, provisions and losses) / total operating income.

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 share 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.

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Financial report
of VP Bank Group

VP Bank Group

Consolidated semi-annual report

Consolidated net income

In the first half of 2018, VP Bank Group recorded consolidated net income in accordance with International Financial Reporting Standards (IFRS) of CHF 29.3 million, compared with CHF 31.5 million in the same period of the previous year. Net inflows of client deposits totalling CHF 0.6 billion were very satisfactory (2017: CHF 1.1 billion).

2020 medium-term goals

VP Bank Group's Board of Directors identified the following goals for 2020:

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

VP Bank plans to carry out additional acquisitions of banks or entire teams in its target markets. These acquisitions should ideally complement VP Bank Group through business models based on comparable core competencies, target markets and client bases. In order to drive organic growth, VP Bank plans to implement a recruiting campaign to hire at least 25 new senior client advisors annually along with transferring the corresponding client assets to VP Bank. This year, the Group already hired seven client advisors as part of this campaign.

As part of the digitalisation strategy, substantial efforts are also being made to develop new innovative services for our clients and to make targeted investments in digital tools in order to enhance the efficiency of internal processes and further optimise benefits to clients.

At 30 June 2018, client assets under management totalled CHF 40.9 billion (31.12.2017: CHF 40.4 billion). The first-half cost/income ratio was 70.3 per cent, compared with 64.6 per cent the previous year.

VP Bank's management is convinced that it can achieve its defined goals for 2020 by taking advantage of organic and acquisition-related growth opportunities while implementing strict cost management. VP Bank Group's solid capital ratios further support the achievement of this goal. At 30 June 2018, VP Bank Group's tier 1 ratio was 22.6 per cent (compared with 25.7 per cent at end-2017). This strong capitalisation confirms VP Bank's sound and successful business model and represents an outstanding basis from which to take advantage of industry consolidation in the banking sector going forward.

In May 2018, the Standard & Poor's rating agency upgraded VP Bank's already strong "A-" rating to "A" and listed the outlook as "stable". This ratings upgrade reflects in particular the considerable net new money inflows in 2017, operational gains and the continued strong capital ratios. Standard & Poor's also highlighted the financial leeway enjoyed by VP Bank to invest in its operating business and play an active role in the consolidation process for the European banking sector. VP Bank is one of the few private banks in Liechtenstein and Switzerland to be so highly rated by a rating agency. The rating and outlook were confirmed on 9 August 2018.

Client assets

At 30 June 2018, VP Bank Group's client assets under management totalled CHF 40.9 billion, up 1.3 per cent (CHF 0.5 billion) from CHF 40.4 billion at 31 December 2017. The increase resulted from the combined effects of CHF 0.6 billion in net new money and a CHF 0.1 billion drop in the market valuation (performance) of client assets.

In the first half of 2018 as in the three that preceded it, VP Bank Group recorded substantial net new money inflows, with CHF 0.6 billion in the first half of this year (compared with CHF 1.1 billion in the first half of 2017). Another positive development was that these inflows were recorded in both business segments: "Client Business Liechtenstein" and "Client Business International". They were made possible by sustained market development efforts, the recruitment of new client advisors and new money from existing clients.

Assets held in custody totalled CHF 5.9 billion at 30 June 2018, down CHF 0.2 billion from 31 December 2017. Client assets including custody assets totalled CHF 46.8 billion at 30 June 2018 (CHF 46.4 billion at 31 December 2017).

Income statement

Operating income

In the first half of 2018, VP Bank's operating income contracted by CHF 3.3 million, or 2.2 per cent, to CHF 147.9 million (first half of 2017: CHF 151.1 million). This decrease resulted mainly from the significant contraction in income from financial instruments (down CHF 11.1 million) due to equity market volatility in the first half of the year.

Interest income increased by CHF 3.5 million, or 6.9 per cent, to CHF 55.0 million. This increase was achieved through active asset-liability management, margin adjustments and volume increases.

Net interest income from customers contracted by CHF 2.8 million to CHF 34.9 million in the first half of 2018 (compared with CHF 37.6 million the previous year). The more than 10 per cent increase in interest income from customers was due to volume increases and higher US dollar interest rates. Given risk/return considerations, VP Bank's treasury increasingly decided not to invest client foreign currency deposits through the interbank market and instead reallocate them to Swiss francs using currency swaps and deposit them with the SNB. That led to an increase in the CHF giro account balance at the SNB, which incurs a negative interest charge of 0.75 per cent on deposits exceeding the exemption threshold. Additional investments were also made in financial instruments in the amount of CHF 378.3 million (up 19.2 per cent as from 30 June 2017).

The loss from interest hedges, which is shown in the interest rate instruments and hedge accounting items, increased only slightly from CHF 0.4 million the previous year to CHF 0.7 million in the first half of 2018.

Income from commission business and services increased by 5.2 per cent to CHF 64.3 million in the first half of 2018 (2017: CHF 61.1 million). Portfolio-based income rose in particular thanks to net new money. Commission income from the asset management and investment business rose by 12.8 per cent to CHF 24.3 million in the first half of 2018. Equity market volatility during this period had a positive impact on income from customer trading, as customer trading picked up slightly relative to the comparable period of the previous year.

Income from trading activities totalled CHF 26.2 million, representing an increase of CHF 1.0 million (4.0 per cent) in the first half of 2018. Income from trading on behalf of clients rose slightly to CHF 25.8 million. Realised and unrealised revaluation differences arising from hedging transactions for financial investments are recognised in securities trading. Thanks to the market environment, positive income of CHF 0.4 million was recorded in the first half of 2018 (compared with a loss of CHF 0.5 million the previous year).

Financial investments generated income of CHF 0.9 million in the first half of 2018 (2017: CHF 12.0 million). This CHF 11.1 million drop in financial investment income was mainly due to revaluation losses on financial investments meas-

ured at fair value totalling CHF 3.2 Mio. in the first half of 2018, compared with revaluation gains of CHF 7.7 million the previous year.

Operating expenses

In the first half of 2018, operating expenses fell by CHF 1.7 million, or 1.5 per cent, from CHF 117.2 million to CHF 115.5 million.

Personnel expenses increased by CHF 4.2 million, or 6.0 per cent, to CHF 74.0 million. The increase in personnel expenses was mainly due to efforts to recruit senior client advisors as well as growth initiatives. At 30 June 2018, VP Bank Group had approximately 828 full-time-equivalent employees, representing a 9.3 per cent increase of 70 employees.

General and administrative expenses increased by 7.6 per cent to CHF 29.9 million (2017: CHF 27.8 million). This increase was mainly due to an increase in other general and administrative expenses, which rose from CHF 3.5 million to CHF 5.1 million in connection with an accrued expense for the investor protection foundation. The 13.4 per cent increase in depreciation and amortisation from CHF 10.4 million to CHF 11.7 million resulted from investments in regulatory projects and growth initiatives, which upon completion are amortised over several years.

A net reversal of valuation allowances, provisions and losses totalling CHF 0.2 million was recorded in the first half of 2018, compared with a charge of CHF 9.2 million the previous year, which was mainly due to the agreement with the authorities in North Rhine-Westphalia and establishment of a corresponding provision.

Taxes on income

Taxes on income totalled CHF 3.1 million in the first half of 2018, up CHF 0.6 million relative to the previous year. The increased tax expense despite the lower income was due to the CHF 1.7 million increase in deferred tax expense to CHF 0.3 million in the first half.

Consolidated net income

Consolidated net income was CHF 29.3 million in the first half of 2018 (2017: CHF 31.5 million). Consolidated net earnings per registered share A was CHF 4.82 (first-half of 2017: CHF 5.22).

Comprehensive income

Comprehensive income comprises all revenues and expenses recognised in the income statement and in equity. Items recorded directly in equity principally concern actuarial adjustments relating to pension funds and FVTOCI financial instruments. In the first half of 2018, VP Bank Group generated comprehensive income of CHF 19.2 million as against CHF 31.2 million in the preceding year.

Balance sheet

Total assets were CHF 12.6 billion at 30 June 2018, down a slight CHF 0.2 billion from 31 December 2017. This decrease was due to the decline in cash and cash equivalents, amounts due from banks and amounts due to banks.

VP Bank Group continues to enjoy ample liquidity with cash and cash equivalents totalling CHF 3.3 billion representing approximately 26 per cent of total assets at 30 June 2018.

Client loans increased by CHF 79.6 million (1.4 per cent) to CHF 5.7 billion at 30 June 2018. VP Bank's lending activities remain characterised by strict discipline and controls.

As part of its ALM strategy, the volume of financial instruments measured at amortised cost increased as planned by CHF 180.2 million to CHF 2.4 billion.

On the liabilities side, client deposits recognised under "Amounts due to clients - other liabilities" increased by CHF 162 million (1.6 per cent) to CHF 10.1 billion at 30 June 2018.

On 26 June 2018, under the authorisation granted to it by the 24 April 2015 Annual General Meeting, VP Bank announced that it would increase its treasury share position through another share buy-back programme of up to 10 per cent of the share capital. VP Bank is thus building on the three successful share buy-back programmes in 2015 and 2016. The repurchased registered shares are to be used for future acquisitions or treasury management purposes.

As part of the public share buy-back programme, VP Bank is prepared to purchase up to 180,000 registered shares A. The repurchase period for registered shares A runs from 27 June 2018 to no later than 28 June 2019 and will be

carried out using ordinary trading lines on the SIX Swiss exchange. At no time will VP Bank own more registered shares A than it is authorised to own under the aforementioned authorisation by the Annual General Meeting (a maximum of 601,500 shares, which corresponds to 10 per cent of all registered shares A).

VP Bank also decided to repurchase up to 456,554 of its own unlisted registered shares B at a price of CHF 21.30. The repurchase of registered shares B will be carried out by VP Bank, and the corresponding shareholders will be notified directly in writing.

Since none of the shares are being cancelled, the share capital and voting rights ratios remain unchanged. For the tier 1 ratio calculation, the entire buy-back programme, i.e. 10 per cent of share capital, must be deducted.

At 30 June 2018, shareholders' equity was CHF 957.4 million (CHF 994.2 million at 31 December 2017). The tier 1 ratio calculated in accordance with the Basel III rules was 22.6 per cent at 30 June 2018 (25.7 per cent at 31 December 2017), an outstanding result compared with other banks. This result reflects the bank's strong capital adequacy and provides it with an excellent strategic position in order to play an active role in the banking industry consolidation process.

Outlook

The danger of an escalating trade war has gripped financial markets. Sentiment fluctuates between hope and anxiety, and trends on major financial exchanges are accordingly volatile. This situation is not likely to change measurably in the months ahead. VP Bank Group's business activity will be marked by this challenging market environment.

For the financial industry, digitalisation poses a major challenge but also presents very promising opportunities. VP Bank is well equipped to meet these challenges, has launched projects in this area and continues to implement its growth strategy. VP Bank's strong capital position provides it with a sound basis for a successful future. The excellent new "A" rating and stable outlook confirm VP Bank Group's solid and successful business model.

Consolidated income statement

in CHF 1,000	Note	01.01.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Interest income from financial instruments at amortised cost		61,925	54,034	7,891	14.6
Other interest income		16,247	10,967	5,280	48.1
Interest expense using the effective interest method		23,205	13,573	9,632	71.0
Total net interest income	1	54,967	51,428	3,539	6.9
Commission income		87,816	89,617	-1,801	-2.0
Commission expenses		23,549	28,530	-4,981	-17.5
Total net income from commission business and services	2	64,267	61,087	3,180	5.2
Income from trading activities	3	26,174	25,165	1,009	4.0
Income from financial instruments	4	902	11,964	-11,062	-92.5
Other income	5	1,547	1,493	54	3.6
Total operating income		147,857	151,137	-3,280	-2.2
Personnel expenses	6	74,045	69,883	4,162	6.0
General and administrative expenses	7	29,919	27,805	2,114	7.6
Depreciation and amortisation	8	11,737	10,350	1,387	13.4
Valuation allowances, provisions and losses	9	-217	9,153	-9,370	-102.4
Operating expenses		115,484	117,191	-1,707	-1.5
Earnings before income tax		32,373	33,946	-1,573	-4.6
Taxes on income	10	3,087	2,487	600	24.1
Group net income		29,286	31,459	-2,173	-6.9
Share information					
Undiluted group net income per registered share A		4.82	5.22		
Undiluted group net income per registered share B		0.48	0.52		
Diluted group net income per registered share A		4.82	5.22		
Diluted group net income per registered share B		0.48	0.52		

Consolidated statement of comprehensive income

in CHF 1,000	01.01.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Group net income	29,286	31,459	-2,173	-6.9
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	1,108	-5,944	7,052	118.6
• 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	1,108	-5,944	7,052	118.6
Other comprehensive income which will not be transferred subsequent to the income statement				
• Changes in value of FVTOCI financial instruments	-3,442	-2,328	-1,114	-47.9
• Actuarial gains/losses from defined-benefit pension plans	-7,785	7,996	-15,781	-197.4
Total other comprehensive income which will not be transferred subsequent to the income statement	-11,227	5,668	-16,895	-298.1
Total comprehensive income in shareholders' equity	-10,119	-276	-9,843	n.a.
Total comprehensive income in income statement and shareholders' equity	19,167	31,183	-12,016	-38.5
Attributable to shareholders of VP Bank Ltd, Vaduz	19,167	31,183	-12,016	-38.5

Consolidated balance sheet

Assets

in CHF 1,000	Note	30.06.2018	31.12.2017	Variance absolute	Variance in %
Cash and cash equivalents		3,270,310	3,614,578	-344,268	-9.5
Receivables arising from money-market papers		33,821	20,279	13,542	66.8
Due from banks		745,818	892,620	-146,802	-16.4
Due from customers		5,727,139	5,647,578	79,561	1.4
Trading portfolios		155	135	20	14.8
Derivative financial instruments		35,510	29,457	6,053	20.5
Financial instruments at fair value	16	241,853	200,808	41,045	20.4
Financial instruments measured at amortised cost	16	2,352,017	2,171,837	180,180	8.3
Associated companies		31	33	-2	-6.1
Property and equipment		80,662	79,132	1,530	1.9
Goodwill and other intangible assets		53,474	54,514	-1,040	-1.9
Tax receivables		1,435	1,445	-10	-0.7
Deferred tax assets		18,853	19,259	-406	-2.1
Accrued receivables and prepaid expenses		22,565	26,931	-4,366	-16.2
Other assets		20,509	19,464	1,045	5.4
Total assets		12,604,152	12,778,070	-173,918	-1.4

Liabilities and shareholders' equity

in CHF 1,000	Note	30.06.2018	31.12.2017	Variance absolute	Variance in %
Due to banks		273,409	547,687	-274,278	-50.1
Due to customers - savings and deposits		647,341	652,169	-4,828	-0.7
Due to customers - other liabilities		10,069,254	9,907,280	161,974	1.6
Derivative financial instruments		41,618	47,184	-5,566	-11.8
Medium-term notes		224,037	256,155	-32,118	-12.5
Debentures issued	12	200,536	200,597	-61	-0.0
Tax liabilities		7,575	2,007	5,568	277.4
Deferred tax liabilities		5,542	6,458	-916	-14.2
Accrued liabilities and deferred items		23,374	31,207	-7,833	-25.1
Other liabilities		138,975	116,159	22,816	19.6
Provisions		15,116	16,987	-1,871	-11.0
Total liabilities		11,646,777	11,783,890	-137,113	-1.2
Share capital	13	66,154	66,154	0	0.0
Less: treasury shares	14	-70,626	-47,889	-22,737	-47.5
Capital reserves		24,435	24,181	254	1.1
Income reserves		975,563	987,551	-11,988	-1.2
Unrealised gains/losses on FVTOCI financial instruments		-19,816	-16,374	-3,442	-21.0
Foreign-currency translation differences		-18,335	-19,443	1,108	5.7
Total shareholders' equity		957,375	994,180	-36,805	-3.7
Total liabilities and shareholders' equity		12,604,152	12,778,070	-173,918	-1.4

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 shareholders' equity
Total shareholders' equity 01.01.2018	66,154	-47,889	24,181	1,047,370	-16,374	-59,819	-19,443	994,180
Initial adoption IFRS 9, impairment (net of tax)				44				44
Total shareholders' equity 01.01.2018 adjusted	66,154	-47,889	24,181	1,047,414	-16,374	-59,819	-19,443	994,224
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 2017				-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	1,043,167	-19,816	-67,604	-18,335	957,375
Total shareholders' equity 01.01.2017	66,154	-52,466	21,857	1,010,790	-12,723	-81,362	-15,312	936,938
Other comprehensive income, after income tax								
Foreign-currency translation differences							-5,944	-5,944
Changes in value transferred to profit reserves								0
Changes in value of FVTOCI financial instruments					-2,328			-2,328
Actuarial gains/losses from defined-benefit pension plans						7,996		7,996
Group net income				31,459				31,459
Total reported result 30.06.2017	0	0	0	31,459	-2,328	7,996	-5,944	31,183
Appropriation of profit 2016				-29,190				-29,190
Management equity participation plan (LTI)			-1,373					-1,373
Public tender own shares ¹		-781						-781
Movement in treasury shares ¹		5,146	333					5,479
Total shareholders' equity 30.06.2017	66,154	-48,101	20,817	1,013,059	-15,051	-73,366	-21,256	942,256

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

Consolidated statement of cash flow

in CHF 1,000	01.01.- 30.06.2018	01.01.- 30.06.2017
Cash flow from operating activities		
Group net income	29,286	31,459
Non-cash-related positions in Group results	12,609	-1,153
Net increase/reduction in banking activities	-364,163	-16,477
Other cash flow from operating activities	12,289	6,401
Net cash flow from operating activities	-309,979	20,230
Cash flow from investment activities		
Cash flow financial instruments	-219,988	-153,242
Other investment activities	-12,193	-6,124
Net cash flow from investment activities	-232,181	-159,366
Cash flow from financing activities		
Dividend distributions	-33,533	-29,190
Issuance/redemption of medium-term notes	-31,994	-6,792
Other financing activities	287	-211
Net cash flow from financing activities	-65,240	-36,193
Foreign-currency translation impact	5,416	-508
Net increase/reduction in cash and cash equivalents	-601,984	-175,837
Cash and cash equivalents at the beginning of the financial year	4,376,134	4,044,980
Cash and cash equivalents at the end of the reporting period	3,774,150	3,869,141
Net increase/reduction in cash and cash equivalents	-601,984	-175,839
Cash and cash equivalents are represented by		
Cash	3,270,472	3,203,223
Receivables arising from money-market papers	33,822	15,269
Due from banks - at-sight balances	469,856	650,649
Total cash and cash equivalents	3,774,150	3,869,141

Principles underlying financial statement reporting and comments

The unaudited interim financial statements have been prepared in compliance with International Financial Reporting Standards (IAS 34). The financial statements for the six months were drawn up on the basis of the accounting and valuation principles used for the 2017 annual financial statements.

New and revised International Financial Reporting Standards

The following new and revised Standards and Interpretations have been in force from 1 January 2018 onwards:

Improvements to IFRS 2014–2016 Cycles

In December 2016, the IASB published numerous amendments to existing IFRS as part of its annual improvement project "Improvements to IFRS 2014–2016 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 9 – Financial Instruments

Financial instruments are allocated at the time of their initial recognition in accordance with the criteria of IFRS 9. VP Bank Group has applied IFRS 9 (2010) since 1 January 2011 and has made early adoption of IFRS 9 (2013) since 1 January 2015. In the event that the hedge conditions were met, VP Bank Group has made early adoption of

Hedge Accounting in accordance with IFRS 9 (2013). The modifications between IFRS 9 (2013) and IFRS 9 (2014) concerning the classification and measurement of debt securities at fair value through OCI (FVTOCI), which did not yet exist in IFRS 9 (2013), had no impact on the financial statements. Accordingly, there is also no reconciliation for the new IFRS 9 (2014) concerning classification and measurement (Phase I) as well as Hedge Accounting (Phase III).

Application of IFRS 9 Impairment Provisions (Phase II)

As of 1 January 2018, individual and portfolio-based valuation allowances computed in accordance with IAS 39 was replaced by IFRS 9 Impairment. The new Standard encompasses all positions on the assets' side which are exposed to a potential credit risk and which have not already been measured at fair value in the income statement. On 1 January 2018, the individual and portfolio-based valuation allowances computed in accordance with IAS 39 were derecognised over shareholders' equity and re-recognised under shareholders' equity by the estimated credit losses computed in accordance with IFRS 9 Impairment. This derecognition and re-recognition required by the change to IFRS 9 Impairment resulted in an effect after taxes aggregating TCHF 44, which was taken directly to shareholders' equity.

The following tables show the split of material balance-sheet positions which are caught by IFRS 9 Impairment over the individual stages as well as the credit loss allowances (pre-tax) as of 31.12.2017 computed in accordance with the Standard.

Asset allocation as per IFRS 9 expected credit loss

in CHF million	Stage			Total 01.01.2018
	1	2	3	
Cash and cash equivalents	3,480			3,480
Receivables arising from money-market papers	20			20
Due from banks	614	1		615
Due from customers	5,383	199	130	5,712
Financial instruments measured at amortised cost	2,166			2,166
Off-balance-sheet positions	149	1		150
Total	11,812	201	130	12,143

Expected credit loss IFRS 9

in CHF 1,000	Stage			Total 01.01.2018
	1	2	3	
Cash and cash equivalents	168			168
Receivables arising from money-market papers	4			4
Due from banks	22			22
Due from customers	812	20,673	41,695	63,180
Financial instruments measured at amortised cost	1,202			1,202
Off-balance-sheet positions	9	4		13
Total	2,217	20,677	41,695	64,589

As of 31.12.2017, the computed credit loss allowances of VP Bank Group in accordance with IFRS 9 Impairment amounted to CHF 2.2 million for stage 1, CHF 20.7 million for stage 2 and CHF 41.7 million for stage 3. This equates to a sum of CHF 64.6 million.

The following table shows the valuation allowances as of 31.12.2017 as well as the netting as of 01.01.2018 with IFRS 9 Phase 2.

Credit loss allowances

in CHF 1,000	31.12.2017/01.01.2018
Individual credit loss allowances	41,543
Portfolio-based credit loss allowances	25,359
Total credit loss allowances in accordance with IAS 39	66,902
Total credit loss allowances in accordance with IFRS 9	64,589
Released to equity as of 1.1.2018	2,313

In accordance with IFRS 9, no restatement with the prior-year period figures was undertaken.

Supplementary disclosures may be found in the 2017 Annual Report of VP Bank Group, Changes in Financial-Statement Reporting Policies and Comparability, in the section International Financial Reporting Standards, which must be adopted in 2018 or later in sub-section Application of IFRS 9 Impairment on page 135.

IFRS 15 - Revenues from Contracts with Clients

IFRS 15 prescribes when and in which amount a company reporting under IFRS is to recognise revenue. In addition, it is demanded from companies preparing annual financial statements that more informative and relevant disclosures be made available than at present. The Standard offers in this respect a single, principles-based, five-stage model which is to be applied to all contracts with clients.

IFRS 15 was issued in May 2014 and is to be applied for all financial years commencing on or after 1 January 2018. The adoption of IFRS 15, in general, had no or little impact on the recognition, recording, presentation and disclosures of VP Bank Group. Insofar as material in future, the inclusion of further revenue captions will lead to a more detailed presentation of the types of revenue shown under commission and service income.

Most important foreign-currency exchange rates

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

	Balance-sheet-date rates			Average rates		2017	Variance Balance-sheet-date rates		Average rates	
	30.06.2018	30.06.2017	31.12.2017	1H2018	1H2017		Balance-sheet-date rates actual year	previous year	actual year	previous year
USD/CHF	0.9930	0.9577	0.9745	0.96717	0.99416	0.98427	2%	4%	-2%	-3%
EUR/CHF	1.1593	1.0922	1.1702	1.16950	1.07658	1.11181	-1%	6%	5%	9%
SGD/CHF	0.7282	0.6955	0.7292	0.72882	0.70807	0.71304	-0%	5%	2%	3%
HKD/CHF	0.1266	0.1227	0.1247	0.12339	0.12789	0.12631	2%	3%	-2%	-4%
GBP/CHF	1.3109	1.2439	1.3183	1.33006	1.25157	1.26805	-1%	5%	5%	6%

Share repurchase

Within the framework of the authorisation given to it by the Annual General Meeting of Shareholders of 24 April 2015, VP Bank resolved to increase the number of its own shares through a further share repurchase programme of up to 10 per cent of the share capital. VP Bank thus picks up from the two successful programmes from 2015 and 2016. The registered shares so repurchased are to be used for acquisitions or treasury management purposes.

As part of the public repurchase programme, VP Bank has undertaken to repurchase up to a maximum of 180,000 registered shares A. The repurchase period for the registered shares A will last from 27 June 2018 to 28 June 2019, at the latest, and the repurchases will be made over the regular trading line of SIX Swiss Exchange. At no time, however, will VP Bank hold more of its own registered shares A than it is allowed to hold within the framework of the above-mentioned

authorisation by the Annual General Meeting (up to a maximum of 601,500 shares which equals 10 per cent of all registered shares A).

In addition, VP Bank has resolved to repurchase a maximum of 456,554 of its own unquoted registered shares B at a price of CHF 21.30. The repurchase of its own non-quoted registered shares B will be undertaken by VP Bank and the respective shareholders will be informed directly in writing. As no share certificates will be cancelled, the capital and voting-share relationships will remain unchanged. VP Bank Ltd has commissioned Zürcher Kantonalbank to undertake the repurchase of the listed registered shares A.

Post balance-sheet date events

In its meeting of 16 August 2018, the Board of Directors has reviewed, approved and released the semi-annual report for publication.

International Financial Reporting Standards which must be adopted in 2019 or later

IFRS 16 - Leases

The International Accounting Standards Board has published IFRS 16 "Leases" as a new Standard to regulate 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 operating lease 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 is to be applied for the first time for accounting periods beginning on or after 1 January 2019. Early adoption is possible insofar as IFRS 15 Revenues from Contracts with Customers is applied simultaneously. VP Bank Group does not intend to make early application of the Standard. The impact of this new Standard on the Group is not fully analysed, and the project has not yet been completed. In aggregate, however, no material impact is anticipated.

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 it operates, conceals significant process, 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 it judges the probability that such proceedings will entail a financial commitment or loss to be greater than the probability of this not being the case. In isolated cases, in which the amount cannot be reliably 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, where applicable, not the only ones which VP Bank Group is exposed to. Additional, presently unknown risks or risks and proceedings currently assessed as being immaterial, may equally have an impact on future business operations, operating results, financial investments and the outlook of VP Bank Group.

In June 2017, the Group had reached an agreement with the authorities of North Rhine-Westphalia to settle the investigations in connection with untaxed assets of German clients. The agreement covered all subsidiaries of the Group possessing a banking license and included a one-time compensation payment amounting to EUR 9.98 million for which a corresponding provision was established. The Group has now formally closed the proceedings.

The Russian Agency for Deposit Insurance, 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 a disputed amount 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 appeals without suspensive effect were rejected. After the Russian Agency of Deposit Insurance had attempted in vain to obtain satisfaction of its claims directly from an account of VP Bank (Switzerland) Ltd with a Russian bank, the Court Bailiff initiated enforcement proceedings against the Moscow Representative Office on 7 June 2018. As the Group contests the validity of this decision, it will not recognise this claim. In addition, VP Bank Group has 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, with an amount in dispute of USD 15 million are similar but are not yet closed. In these proceedings, only the issue of Russian jurisdiction was decided. On 16 March 2018, the competence of Russian courts was confirmed by the Supreme Court. The case is thus again in the hands of the court of first appeal, the Moscow Arbitration Court, as to the substance of the matter. On 16 April 2018, the Moscow Arbitration Court, at the claimant's request, has involved VP Bank (Switzerland) Ltd as defendant in the proceedings. In principle, such amendments to the claim are also unlawful in accordance with Russian law and for this reason, an appeal was lodged which will be heard on 7 August 2018. In both cases, VP Bank considers the risk of outflow of funds to be small for which reason no provision was established.

Segment reporting

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 and amortisation	2,399	1,594	7,744	11,737
Valuation allowances, provisions and losses	-1,350	-665	1,798	-217
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	692	11,647
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
as of 31.12.2017				
Segment assets (in CHF million)	4,151	4,111	4,516	12,778
Segment liabilities (in CHF million)	7,301	3,434	1,048	11,784
Client assets under management (in CHF billion) ¹	26.7	13.7	0.0	40.4
Net new money (in CHF billion)	0.4	1.5	0.0	1.9
Headcount (number of employees)	195	279	387	861
Headcount (expressed as full-time equivalents)	183.4	262.2	353.9	799.5

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 is undertaken on the basis of internally set transfer prices, actual services provided or on the basis of market-customary conditions. Costs recharged between the segments are reviewed annually and, whenever necessary, adjusted to reflect changed economic circumstances.

Structure

External segment reporting reflects the organisational structure of VP Bank Group and internal reporting to Management. These form the basis for assessing the 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 expenses as well as assets and liabilities are allocated to the business segments on the basis of client responsibility or the principle of origination. Whenever no direct allocation is possible, the related positions are reported under the Corporate Center. In addition, consolidation adjustments are included in the Corporate Center.

01.01.-30.06.2017

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income	36,207	14,566	655	51,428
Total net income from commission business and services	45,673	17,044	-1,630	61,087
Income from trading activities ¹	9,954	4,568	10,643	25,165
Income from financial instruments	5	46	11,913	11,964
Other income	0	1,706	-213	1,493
Total operating income	91,839	37,930	21,368	151,137
Personnel expenses	17,582	19,311	32,990	69,883
General and administrative expenses	1,666	10,249	15,890	27,805
Depreciation and amortisation	1,710	1,641	6,999	10,350
Valuation allowances, provisions and losses ¹	-2,768	1,373	10,548	9,153
Services to/from other segments	18,934	0	-18,934	0
Operating expenses	37,124	32,574	47,493	117,191
Earnings before income tax	54,715	5,356	-26,125	33,946
Taxes on income				2,487
Group net income				31,459
Segment assets (in CHF million)	4,168	3,664	4,185	12,017
Segment liabilities (in CHF million)	6,986	3,048	1,041	11,075
Client assets under management (in CHF billion) ²	25.0	12.4	0.0	37.4
Net new money (in CHF billion)	0.0	1.1	0.0	1.1
Headcount (number of employees)	190	256	373	819
Headcount (expressed as full-time equivalents)	179.1	240.5	337.9	757.4

¹ The provision for a single payment which is to be made to the German authorities as part of an agreement is shown in Corporate Center.

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 is undertaken on the basis of internally set transfer prices, actual services provided or on the basis of market-customary conditions. Costs recharged between the segments are reviewed annually and, whenever necessary, adjusted to reflect changed economic circumstances.

Client Business Liechtenstein

Segment results

in CHF 1,000	01.01.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Total net interest income	39,429	36,207	3,222	8.9
Total net income from commission business and services	46,597	45,673	924	2.0
Income from trading activities	9,512	9,954	-442	-4.4
Income from financial instruments	0	5	-5	-100.0
Other income	50	0	50	0.0
Total operating income	95,588	91,839	3,749	4.1
Personnel expenses	17,292	17,582	-290	-1.6
General and administrative expenses	2,059	1,666	393	23.6
Depreciation and amortisation	2,399	1,710	689	40.3
Valuation allowances, provisions and losses	-1,350	-2,768	1,418	51.2
Services to/from other segments	20,733	18,934	1,799	9.5
Operating expenses	41,133	37,124	4,009	10.8
Segment income before income tax	54,455	54,715	-260	-0.5
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	41.9	41.6		
Total operating expenses / total net operating income (in %)	43.0	40.4		
Client assets under management (in CHF billion)	27.0	25.0		
Change in client assets under management compared to 31.12. prior year (in %)	0.9	1.7		
Net new money (in CHF billion)	0.3	0.0		
Total operating income / average client assets under management (bp) ¹	71.2	74.0		
Segment result / average client assets under management (bp) ¹	40.6	44.1		
Cost/income ratio operating income (in %) ²	42.0	41.6	0.4	0.9
Headcount (number of employees)	198	190	8.0	4.2
Headcount (expressed as full-time equivalents)	183.5	179.1	4.4	2.5

¹ Annualised, average values.

² 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 located 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, Group Investment, Product & Market Management and VP Fund Solutions (Liechtenstein) AG are allocated to this business segment.

Segment result

With CHF 54.5 million, the pre-tax segment result in the first six months of 2018 could be held at a constant level (CHF -0.3 million) in comparison to the prior-year period (CHF 54.7 million). Period-on-period, operating income could be increased by CHF 3.7 million (4.1 per cent) in the first six months of 2018. This growth results from interest income from clients (8.9 per cent) as well as commission and service income (2.0 per cent). Primarily developments in USD interest rates as well as margin increases in credit-granting activities contributed to this positive result. Operating expenses rose by CHF 4.0 million (10.8 per cent)

to CHF 41.1 million (comparative prior-year period: CHF 37.1 million). This increase is primarily attributable to the caption credit loss allowances, provisions and losses as well as a higher level of inter-segmental recharges. In the first six months of 2018, the charges for credit loss allowances, provisions and loss increased, period-on-period, by CHF 1.4 million to minus CHF 1.4 million (comparative prior-year period: minus CHF 2.8 million) due to the release of credit loss allowances no longer required. Cost and revenue recharges in the business segment Client Business Liechtenstein are based upon fixed internal transfer prices. Indirect costs for internal services are reported in the caption "services to/from other segment(s)". The gross margin amounted to 71.2 basis points (prior-period: 74.0 basis points). The cost/income ratio improved marginally from 41.6 per cent to 42.0 per cent.

In the reporting period, the segment reported net new money inflows from clients of CHF 0.3 billion. The welcome new money inflows resulting from market-development activities thereby offset money outflows resulting from the regulatory environment and taxation-related issues. Assets under management at 30 June 2018 totalled CHF 27.0 billion (31 December 2017: CHF 26.7 billion). The employee headcount rose from 179 (30 June 2017) to 184 individuals.

Client Business International

Segment results

in CHF 1,000	01.01.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Total net interest income	17,472	14,566	2,906	20.0
Total net income from commission business and services	21,252	17,044	4,208	24.7
Income from trading activities	4,474	4,568	-94	-2.1
Income from financial instruments	-12	46	-58	-126.1
Other income	1,401	1,706	-305	-17.9
Total operating income	44,587	37,930	6,657	17.6
Personnel expenses	24,672	19,311	5,361	27.8
General and administrative expenses	14,312	10,249	4,063	39.6
Depreciation and amortisation	1,594	1,641	-47	-2.9
Valuation allowances, provisions and losses	-665	1,373	-2,038	-148.4
Services to/from other segments	0	0	0	0.0
Operating expenses	39,913	32,574	7,339	22.5
Segment income before income tax	4,674	5,356	-682	-12.7
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	87.4	77.9		
Total operating expenses / total net operating income (in %)	89.5	85.9		
Client assets under management (in CHF billion)	14.0	12.4		
Change in client assets under management compared to 31.12. prior year (in %)	2.2	10.6		
Net new money (in CHF billion)	0.3	1.1		
Total operating income / average client assets under management (bp) ¹	64.6	64.5		
Segment result / average client assets under management (bp) ¹	6.8	9.1		
Cost/income ratio operating income (in %) ²	90.2	81.7	8.5	10.4
Headcount (number of employees)	294	256	38.0	14.8
Headcount (expressed as full-time equivalents)	278.1	240.5	37.6	15.6

¹ Annualised, average values.² 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 at international locations. VP Bank (Switzerland) Ltd, VP Bank (Luxembourg) SA, VP Bank (BVI) Ltd, VP Bank (Singapore) Ltd, VP Wealth Management (Hong Kong) Ltd and VP Fund Solutions (Luxembourg) SA are allocated to this business segment.

Segment result

In the first six months of 2018, the pre-tax segment result declined by CHF 0.7 million in comparison to the prior-year period of 2017. Operating income could be increased, period-on-period, by CHF 6.7 million (17.6 per cent). This increase is attributable principally to higher interest income from clients (20.0 per cent) as well as commission and service income (24.7 per cent). The recruitment offensive already contributes positively to commission and service income. Operating expenses rose by CHF 7.3 million, or 22.5 per cent, to CHF 39.9 million. This increase results, on the one hand, from personnel and general and administrative expense reflecting principally the recruitment offensive for new senior client advisors. In the business segment "Client Business International", the recharging of services

is based on actual invoices and recorded under general and administrative expenses. In 2018, these recharges increased by CHF 2.5 million. The charges for credit loss allowances, provisions and losses amounted to minus CHF 0.7 million.

The gross margin could be increased to 64.6 basis points (prior comparative period: 64.5 basis points). The cost/income ratio improved from 81.7 per cent to 90.2 per cent.

Net new money developed positively in the first six months of 2018 with CHF 0.3 billion. The recruitment offensive at these locations continues to show new client money inflows in the first six months of 2018. Net new money inflows could again be achieved in the investment-fund business and in European markets thanks to reinforced market-development activities. Assets under management at 30 June 2018 totalled CHF 14.0 billion (31 December 2017: CHF 12.4 billion). The employee headcount rose from 241 individuals (30 June 2017) to 278 primarily because of the recruitment offensive for new senior client advisors.

Corporate Center

Segment results

in CHF 1,000	01.01.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Total net interest income	-1,934	655	-2,589	-395.3
Total net income from commission business and services	-3,582	-1,630	-1,952	-119.8
Income from trading activities	12,188	10,643	1,545	14.5
Income from financial instruments	914	11,913	-10,999	-92.3
Other income	96	-213	309	145.1
Total operating income	7,682	21,368	-13,686	-64.0
Personnel expenses	32,081	32,990	-909	-2.8
General and administrative expenses	13,548	15,890	-2,342	-14.7
Depreciation and amortisation	7,744	6,999	745	10.6
Valuation allowances, provisions and losses	1,798	10,548	-8,750	-83.0
Services to/from other segments	-20,733	-18,934	-1,799	-9.5
Operating expenses	34,438	47,493	-13,055	-27.5
Segment income before income tax	-26,756	-26,125	-631	-2.4
Additional information				
Headcount (number of employees)	400	373	27.0	7.2
Headcount (expressed as full-time equivalents)	365.9	337.9	28.0	8.3

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, Compliance & Tax, 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 for the first six months of 2018 amounted to minus CHF 26.8 million as opposed to minus CHF 26.1 million in the comparative prior-year period.

Period-on-period, operating income declined by CHF 13.7 million in the first six months of 2018. Responsible for this decrease is largely the income from financial investments.

Interest income declined, period-on-period, by CHF 2.6 million. This is attributable, in part, to the on-going negative interest level and, consequently, to the decline in interest revenues from maturity transformation (SNB negative interest).

Commission and service income reports a fall in revenues. This 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 six months of 2018 totalled CHF 0.9 million. In the comparative prior-year period, an income of CHF 11.9 million was reported under this caption, primarily resulting from unrealised revaluation gains on financial instruments.

Operating expenses in the reporting period fell by CHF 13.1 million from CHF 47.5 million to CHF 34.4 million. This drop is largely to be explained by the provision raised in the comparative prior-year period for a payment relating to a settlement with the German authorities. Consequently, charges for credit loss allowances, provisions and losses in the reporting period fell by CHF 8.8 million. Personnel and general and administrative expenses could be reduced by CHF 0.9 million and CHF 2.3 million, respectively. Depreciation and amortisation rose from CHF 7.0 million to CHF 7.7 million.

The employee headcount rose from 338 (30 June 2017) to 366 positions.

Notes to the consolidated income statement and consolidated balance sheet

1 Interest income

in CHF 1,000	01.01.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Interest and discount income	129	51	78	152.9
Loan commissions with the character of interest	211	233	-22	-9.4
Interest income from banks	783	1,338	-555	-41.5
Interest income from customers	46,604	41,750	4,854	11.6
Interest income from financial instruments measured at amortised cost	12,291	9,552	2,739	28.7
Interest income from financial liabilities	1,907	1,110	797	71.8
Total interest income from financial instruments at amortised cost	61,925	54,034	7,891	14.6
Interest-rate instruments	-770	-551	-219	-39.7
Trading derivatives (forward points)	16,981	11,391	5,590	49.1
Hedge accounting	36	127	-91	-71.7
Total other interest income	16,247	10,967	5,280	48.1
Total interest income	78,172	65,001	13,171	20.3
Interest expenses on amounts due to banks	136	749	-613	-81.8
Interest expenses on amounts due to customers	13,042	4,707	8,335	177.1
Interest expenses on medium-term notes	420	506	-86	-17.0
Interest expenses on debentures issued	637	637	0	0.0
Interest expense from financial assets	8,970	6,974	1,996	28.6
Total interest expenses using the effective interest method	23,205	13,573	9,632	71.0
Total net interest income	54,967	51,428	3,539	6.9
Fair-value hedges				
Movements arising from hedges	379	642	-263	-41.0
• Micro fair-value hedges	379	642	-263	-41.0
Movements in underlying transactions	-343	-515	172	33.4
• Micro fair-value hedges	-343	-515	172	33.4
Total hedge accounting	36	127	-91	-71.7

2 Income from commission business and services

in CHF 1,000	01.01.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Commission income from credit business	707	406	301	74.1
Asset management and investment business ¹	24,281	21,535	2,746	12.8
Brokerage fees	16,521	17,605	-1,084	-6.2
Securities account fees	9,922	9,953	-31	-0.3
Fund management fees	26,888	30,512	-3,624	-11.9
Fiduciary commissions	873	648	225	34.7
Other commission and service income	8,625	8,958	-333	-3.7
Total income from commission business and services	87,817	89,617	-1,800	-2.0
Brokerage expenses	1,163	594	569	95.8
Other commission and services-related expenses	22,386	27,936	-5,550	-19.9
Total expenses from commission business and services	23,549	28,530	-4,981	-17.5
Total net income from commission business and services	64,268	61,087	3,181	5.2

¹ Income from corporate actions, asset-management commissions, investment advisory services, all-in fees, securities lending and borrowing. The income 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.

3 Income from trading activities

in CHF 1,000	01.01.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Securities trading ¹	400	-512	912	178.1
Interest income from trading portfolios	0	0	0	0.0
Dividend income from trading portfolios	0	0	0	0.0
Foreign currency	25,405	25,043	362	1.4
Banknotes, precious metals and other	369	634	-265	-41.8
Total income from trading activities	26,174	25,165	1,009	4.0

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.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Income from financial instruments at fair value	855	11,903	-11,048	-92.8
Income from financial instruments at amortised cost (foreign exchange)	47	61	-14	-23.0
Total income from financial instruments	902	11,964	-11,062	-92.5
Income from financial instruments at fair value				
Income from FVTPL assets	-3,165	7,673	-10,838	-141.2
Interest income from FVTPL financial instruments	847	1,693	-846	-50.0
Dividend income from FVTPL financial instruments	789	846	-57	-6.7
Dividend income from FVTOCI financial instruments	2,384	1,691	693	41.0
thereof from FVTOCI financial instruments sold	0	0	0	0.0
Income from FVTPL liabilities	0	0	0	0.0
Total	855	11,903	-11,048	-92.8
Income from financial instruments at amortised cost (foreign exchange)				
Revaluation gains/losses on financial instruments at amortised cost	67	-216	283	131.0
Realised gains/losses on financial instruments at amortised cost	-20	277	-297	-107.2
Total	47	61	-14	-23.0

5 Other income

in CHF 1,000	Note	01.01.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Income from real estate		32	35	-3	-8.6
Income from associated companies		-2	736	-738	-100.3
Miscellaneous other income		1,517	722	795	110.1
Total other income		1,547	1,493	54	3.6

6 Personnel expenses

in CHF 1,000	01.01.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Salaries and wages	59,405	55,538	3,867	7.0
Social contributions required by law	5,326	4,710	616	13.1
Contributions to pension plans / defined-benefit plans	5,672	6,692	-1,020	-15.2
Contributions to pension plans / defined-contribution plans	900	762	138	18.1
Other personnel expenses	2,742	2,613	129	4.9
Capitalized personnel expenses ¹	0	-432	432	100.0
Total personnel expenses	74,045	69,883	4,162	6.0

¹ In conformity with IAS 38, a portion of self-produced software is capitalized. Personnel expenses are reduced by the amount capitalized in this way.

7 General and administrative expenses

in CHF 1,000	01.01.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Occupancy expenses	4,268	3,740	528	14.1
Insurance	422	463	-41	-8.9
Professional fees	5,732	5,789	-57	-1.0
Financial information procurement	3,214	3,111	103	3.3
Telecommunication and postage	699	601	98	16.3
IT systems	7,709	7,415	294	4.0
Marketing and public relations	2,343	2,711	-368	-13.6
Capital taxes	465	459	6	1.3
Other general and administrative expenses	5,067	3,516	1,551	44.1
Total general and administrative expenses	29,919	27,805	2,114	7.6

8 Depreciation and amortisation

in CHF 1,000	01.01.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Depreciation and amortisation of property and equipment	3,992	4,214	-222	-5.3
Depreciation and amortisation of intangible assets	7,745	6,136	1,609	26.2
Total depreciation and amortisation	11,737	10,350	1,387	13.4

9 Valuation allowances, provisions and losses

in CHF 1,000	01.01.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Credit risks ¹	-537	-2,213	1,676	75.7
Legal and litigation risks ¹	23	152	-129	-84.9
Other ^{1,2}	297	11,214	-10,917	-97.4
Total valuation allowances, provisions and losses	-217	9,153	-9,370	-102.4

¹ Including currency effects.

² Includes in 2017 a provision of CHF 10.9 million for a single payment which is to be made to the German authorities as part of an agreement.

10 Taxes on income

in CHF 1,000	01.01.- 30.06.2018	01.01.- 30.06.2017	Variance absolute	Variance in %
Total current taxes	2,780	3,882	-1,102	-28.4
Total deferred taxes	307	-1,395	1,702	122.0
Total taxes on income	3,087	2,487	600	24.1

11 Earnings per share

	30.06.2018	30.06.2017
Consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000)	29,286	31,459
Weighted average of registered shares A	5,495,128	5,440,464
Weighted average of registered shares B	5,867,641	5,876,355
Total weighted average number of shares (registered share A)	6,081,892	6,028,100
Undiluted consolidated earnings per registered share A	4.82	5.22
Undiluted consolidated earnings per registered share B	0.48	0.52
Fully diluted consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000)	29,286	31,459
Adjusted group net income (in CHF 1,000)	29,286	31,459
Number of shares used to compute the fully diluted consolidated net income	6,081,892	6,028,100
Fully diluted consolidated earnings per registered share A	4.82	5.22
Fully diluted consolidated earnings per registered share B	0.48	0.52

12 Debentures, VP Bank Ltd, Vaduz

in CHF 1,000						30.06.2018	31.12.2017
Year of issue	ISIN	Interest rate in %	Currency	Maturity	Nominal amount	Total	Total
2015	CH0262888933	0.5	CHF	07.04.2021	100,000	100,192	100,227
2015	CH0262888941	0.875	CHF	07.10.2024	100,000	100,344	100,370
Total					200,000	200,536	200,597

Debt securities issued are recorded at fair value plus transaction costs upon initial recognition. Fair value corresponds to the consideration received. Subsequently, they are remeasured at amortised cost. The difference between issue price and redemption price of the security is amortised over the duration of the debt security using the effective interest method (0.43 per cent debenture 2021; 0.82 per cent debenture 2024).

13 Share capital

in CHF 1,000	30.06.2018		31.12.2017	
	No. of shares	Nominal CHF	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	30.06.2018		31.12.2017	
	No. of shares	in CHF 1,000	No. of shares	in CHF 1,000
Registered shares A at the beginning of the financial year	547,320	46,767	593,777	50,559
Purchases	2,700	504	7,049	781
Sales	-54,735	-4,677	-53,506	-4,573
Balance of registered shares A as of balance-sheet date^{1,3}	495,285	42,594	547,320	46,767
Registered shares B at the beginning of the financial year	131,662	1,122	127,812	1,073
Purchases	12,200	197	3,850	49
Sales	0	0	0	0
Balance of registered shares B as of balance-sheet date²	143,862	1,319	131,662	1,122

¹ Within the framework of the public share buyback programme, VP Bank AG is prepared to acquire a maximum of 180,000 registered shares A. However, VP Bank's holdings of registered shares A will not exceed the amount permitted under authorisation given by the annual general meeting of shareholders at any time (up to a maximum of 601,500 shares, which corresponds to 10% of all registered shares A). The buyback programme for the registered shares A on the ordinary trading line on the SIX Swiss Exchange will run from 27 June 2018 up to 28 June 2019. The maximum amount to be paid under this bid amounts to CHF 20.5 million (open permitted buyback of 106,215 registered shares A multiplied with closing price as per 30 June 2018) million and is deducted from its own shares. In the table above, these shares are not disclosed, as they are not yet in the possession of VP Bank Ltd.

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. The maximum amount to be paid under this bid amounts to CHF 6.7 million (open buyback of 312,692 registered shares B) and is deducted from its own shares. In the table above, these shares are not disclosed, as they are not yet in the possession of VP Bank Ltd.

³ VP Bank Ltd carried out a repurchase programme of registered shares A from 7 June 2016 to 31 May 2017. In the context of the repurchase programme, VP Bank acquired 88,835 registered shares A at a price of CHF 8.786 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

	30.06.2018	31.12.2017
Approved and paid dividend of VP Bank Ltd, Vaduz		
Dividend (in CHF 1,000) for the financial year 2017 (2016)	36,385	29,769
Dividend per registered share A	5.50	4.50
Dividend per registered share B	0.55	0.45
Payout ratio (in %)	46.8	39.3

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. Fair value equates to the price that would be realised in an orderly transaction between market participants at the date of measurement upon sale of the asset or would be paid in transferring the liability.

in CHF million	Carrying value 30.06.2018	Fair value 30.06.2018	Variance	Carrying value 31.12.2017	Fair value 31.12.2017	Variance
Assets						
Cash and cash equivalents	3,270	3,270	0	3,615	3,615	0
Receivables arising from money-market paper	34	34	0	20	20	0
Due from banks	746	746	0	893	893	0
Due from customers	5,727	5,843	116	5,648	5,773	125
Trading portfolios	0	0	0	0	0	0
Derivative financial instruments	36	36	0	29	29	0
Financial instruments at fair value	242	242	0	201	201	0
of which designated on initial recognition	187	187	0	0	0	0
of which mandatory under IFRS 9	0	0	0	185	185	0
of which recognised in other comprehensive income with no effect on net income	55	55	0	16	16	0
Financial instruments at amortised cost	2,352	2,352	0	2,172	2,171	-1
Subtotal			116			124
Liabilities						
Due to banks	273	273	0	548	548	0
Due to customers	10,717	10,702	15	10,559	10,548	11
Derivative financial instruments	42	42	0	47	47	0
Medium-term notes	224	227	-3	256	259	-3
Debentures issued	201	204	-3	201	206	-5
Subtotal			9			3
Total variance			125			127

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

16 Financial instruments (continued)

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 30.06.2018
Assets				
Cash and cash equivalents	3,270			3,270
Receivables arising from money-market paper	34			34
Due from banks		746		746
Due from customers		5,843		5,843
Trading portfolios				0
Derivative financial instruments		36		36
Financial instruments at fair value	212	27	3	242
Financial instruments at amortised cost	2,352			2,352
Liabilities				
Due to banks		273		273
Due to customers		10,702		10,702
Derivative financial instruments		42		42
Medium-term notes		227		227
Debentures issued	204			204

In the financial year 2018 as well as in the first half of 2017, 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 31.12.2017
Assets				
Cash and cash equivalents	3,615			3,615
Receivables arising from money-market paper	20			20
Due from banks		893		893
Due from customers		5,773		5,773
Trading portfolios				0
Derivative financial instruments		29		29
Financial instruments at fair value	165	34	2	201
Financial instruments at amortised cost	2,158	8	5	2,171
Liabilities				
Due to banks		548		548
Due to customers		10,548		10,548
Derivative financial instruments		47		47
Medium-term notes		259		259
Debentures issued	206			206

Valuation methods for financial instruments (continued)

Level 3 financial instruments	30.06.2018	31.12.2017
Balance sheet		
Holdings at the beginning of the year	8.4	6.9
Investments	0.0	1.6
Disposals	-5.1	0.0
Issues	0.0	0.0
Redemptions	0.0	0.0
Losses recognised in the income statement	0.0	-0.1
Losses recognised as other comprehensive income	-0.1	-0.1
Gains recognised in the income statement	0.0	0.1
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	3.2	8.4
Income on holdings at balance-sheet date		
Unrealised losses recognised in the income statement	0.0	-0.2
Unrealised losses recognised as other comprehensive income	-0.1	0.0
Unrealised gains recognised in the income statement	0.0	0.1
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 2018 or 31 December 2017.

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 Consolidated off-balance-sheet positions

in CHF 1,000	30.06.2018	31.12.2017
Total contingent liabilities	210,168	128,846
Irrevocable facilities granted	53,625	58,056
Total fiduciary transactions	752,145	839,614
Contract volumes of derivative financial instruments	6,048,389	5,114,878
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	24,828	0
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	334,750	360,947
• of which securities where the unlimited right to sell on or pledge has been granted	262,548	275,418
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	315,292	347,368
• of which securities which have been resold or repledged	72,202	85,529

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.

18 Client assets

in CHF million	30.06.2018	31.12.2017	Variance absolute	Variance in %
Analysis of client assets under management				
Assets in self-administered investment funds	6,844.5	6,967.2	-122.7	-1.8
Assets in discretionary asset management accounts	3,764.6	3,741.4	23.2	0.6
Other client assets under management	30,299.9	29,677.7	622.2	2.1
Total client assets under management (including amounts counted twice)	40,909.0	40,386.3	522.7	1.3
of which amounts counted twice	2,255.6	2,285.6	-29.9	-1.3
Change of assets under management				
Total client assets under management (including amounts counted twice) at the beginning of the financial year	40,386.3	35,753.9	4,632.5	13.0
of which net new money	603.1	1,894.3	-1,291.3	-68.2
of which change in market value	-80.4	2,738.1	-2,818.5	-102.9
of which other effects	0.0	0.0	0.0	0.0
Total client assets under management (including amounts counted twice) as of balance-sheet date	40,909.0	40,386.3	522.7	1.3
Custody assets	5,898.3	6,062.0	-163.7	-2.7
Total client assets				
Total client assets under management (including amounts counted twice)	40,909.0	40,386.3	522.7	1.3
Custody assets	5,898.3	6,062.0	-163.7	-2.7
Total client assets	46,807.3	46,448.3	359.0	0.8
in CHF million				
Net new money	603.1	1,115.0	-511.9	-45.9

19 Capital-adequacy computation

in CHF 1,000	30.06.2018	31.12.2017
Core capital	939,148	974,169
Eligible core capital (tier 1)	927,340	976,553
Eligible core capital (adjusted)	927,340	976,553
Total required equity	533,151	493,924
Tier 1 ratio	22.6%	25.7%
Total risk-weighted assets	4,101,152	3,799,412
Return on investment (net income / average balance sheet total)	0.5%	0.5%

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 890 employees
- Listed on SIX Swiss Exchange
- "A" rating from Standard & Poor's
- Seven locations worldwide in key financial centres (Vaduz, Zurich, Luxembourg, Singapore, Hong Kong, Moscow, Tortola/BVI)
- Focus on asset management for intermediaries and private individuals

Medium-term goals for the end of 2020

- Assets under management of CHF 50 billion
- Group net income of CHF 80 million
- Cost/income ratio below 70%

Agenda 2019

Annual results 2018, media and analysts conference	5 March 2019
Annual general meeting of shareholders 2019	26 April 2019
Ex-dividend date	30 April 2019
Record date	2 May 2019
Dividend payment	3 May 2019
Semi-annual results 2019	20 August 2019

Master Data

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Reuters ticker	VPBN.S
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ISIN	LI0315487269

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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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