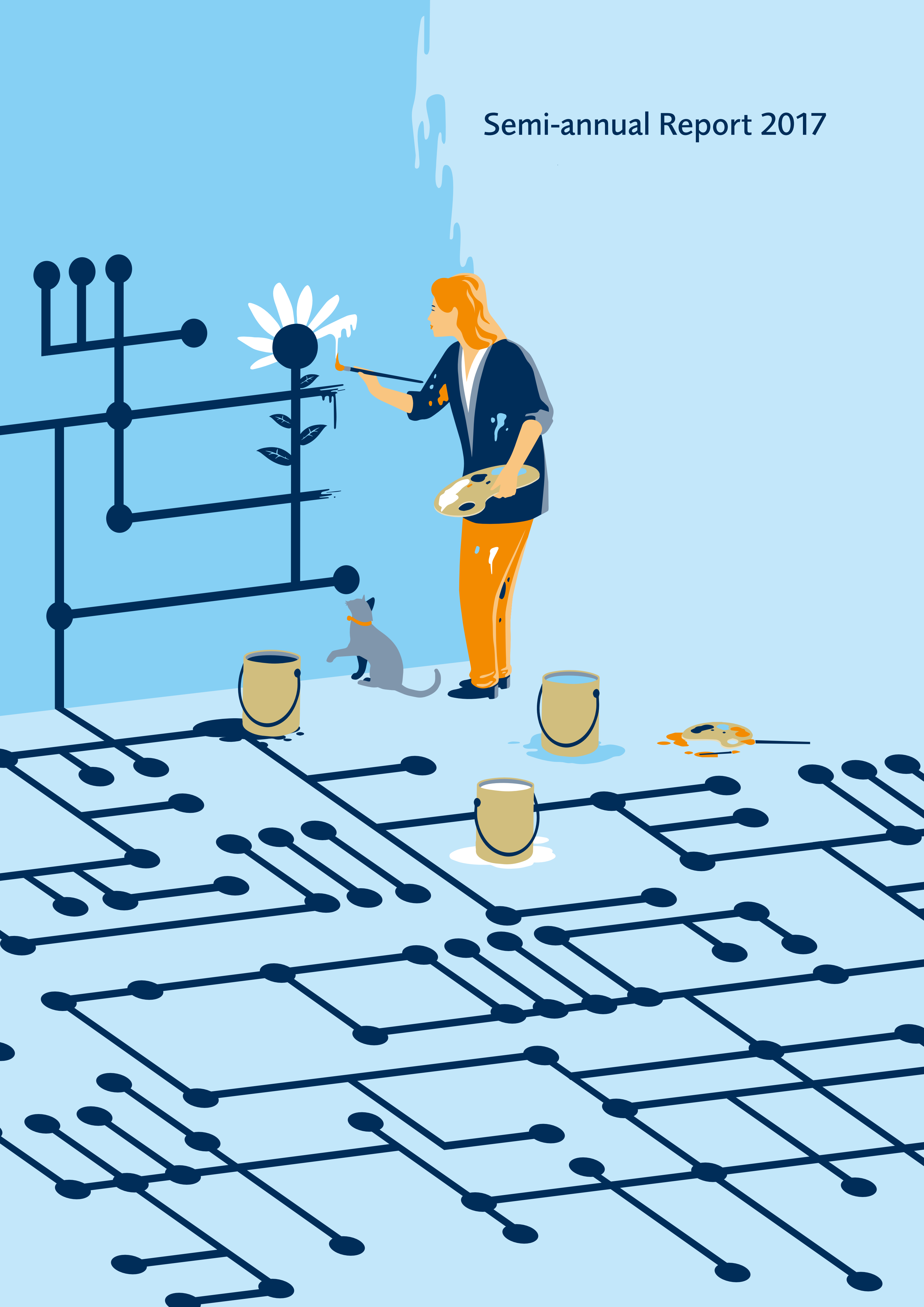
Semi-annual Report 2017



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Digitalisation is on everyone's lips these days, and it is also causing lasting change in the banking sector. VP Bank has invited seven experts to express their views on the enormous reach of digitalisation as well as the opportunities and challenges it presents for the banking industry. For reading and sharing purposes, the full-length versions of these articles are available online at **https://report.vpbank.com/en**

Statement by the Chairman of the Board and Chief Executive Officer

Dear Shareholders,
Ladies and Gentlemen

During the first half of 2017, the financial markets were mesmerised by the political developments. In the USA, hopes for rapidly adopted reforms were dashed as Donald Trump's presidency got under way. On this side of the Atlantic, the election of Emmanuel Macron as France's new president eliminated at least one major political risk – and the relief in the real economy and financial markets was indeed noticeable: both in the eurozone and Switzerland, companies started to take a more optimistic view of the future. VP Bank Group as well was able to profit from the stability in the financial markets during the first semester of 2017.

Very fine first-half results

For the first half of 2017, VP Bank Group recorded consolidated net income of CHF 31.5 million compared to CHF 24.4 million in the comparable prior-year period. This corresponds to a CHF 7.0 million or 28.8 per cent period-on-period gain in net profit.

All VP Bank Group locations contributed to our gratifying CHF 1.1 billion gain in net new money. This attests to the success of our intense market cultivation efforts and the growing significance of VP Bank's investment fund business field.

Operating income for the first half increased versus the prior-year period by 16.4 per cent to CHF 151.1 million.

Operating expenses on the other hand rose from CHF 101.5 million in the first half-year of 2016 to CHF 117.2 million. However, this amount includes a provision for the settlement of a North Rhine-Westphalia claim relating to untaxed assets of German clients. This settlement also applies to all other German states.

Medium-term goals

VP Bank's medium-term goals (i.e. through the end of 2020) have been clearly defined in our "Strategy 2020":

- CHF 50 billion in client assets under management;
- CHF 80 million in consolidated net income;
- a cost/income ratio of less than 70 per cent.

VP Bank's assets under management increased yet again to stand at CHF 37.4 billion as of the halfway point in 2017 (year-end 2016: CHF 35.8 billion; at 30 June 2016: CHF 34.0 billion); our consolidated net income for the first half of 2017 was CHF 31.5 Mio (versus CHF 24.4 million); and at 30 June 2017, the cost/income ratio was 64.6 per cent (as of 30 June 2016: 68.9 per cent).

So our latest key figures, combined with VP Bank's solid capital base and unusually high tier 1 ratio of 25.9 per cent, show that the targeted exploitation of our growth potential and ongoing strict cost controls have put us on the right path towards achieving those goals for 2020.

Key first-half events

The demanding regulatory environment still poses a challenge for VP Bank. In February 2017, the Swiss Federal Council ratified the automatic exchange of information in tax matters (AIA) treaty between Switzerland and Liechtenstein; it will enter into force on 1 January 2018. The AIA creates legal certainty for financial intermediaries and private banking clients, alike.

In March 2017, VP Bank introduced new investment advisory packages that offer attractive solutions for our clients. The launch was accompanied by a German-language media campaign in our Liechtenstein, Switzerland and Luxembourg markets.

Also in March, Standard & Poor's reaffirmed its excellent "A–" rating of VP Bank and raised its outlook from "Stable" to "Positive" after having already revised it from "Negative" to "Stable" in July 2016. In doing so, S&P underscored the strong equity capital base of VP Bank Group and the consequential ability to absorb to the greatest extent any risks that may arise. The reaffirmed rating and improved outlook also take into account the operating progress we have made, as well as VP Bank's low credit risks.

Under the banner of "New challenges – new business opportunities", VP Bank in May 2017 invited participants from the financial, business, political and media world to Luxembourg for our "VP Bank Finance Dialogue 2017". We had the pleasure of welcoming Adrian Hasler, Head of Government of the Principality of Liechtenstein, as the keynote speaker at the event. The "VP Bank Finance Dialogue 2017" was the third of its kind and once again contributed to our open and continuous two-way discussion of the latest developments in the financial world.

Emphasis on corporate culture

A key focal point for 2017 are the core cultural values of VP Bank, which we reinforced in late March through successful management training sessions. At this "Competent to lead" gathering, more than 30 leaders from VP Bank's various locations and divisions took part in courses and used the occasion to network with each other across business segments and discuss their first-hand experiences. As of May 2017, "Lead to perform" workshops were then conducted in order to cement those corporate values and support the ongoing development of our management personnel.

As a way of fostering a dialogue between Group Executive Management and the Bank's employees, we introduced "VP Bank Journeys" this past spring. Through visits to other companies, our people gather new insight that can help them to cope better with the challenges VP Bank is faced with. The first "journey" of this kind took 30 of our employees to Munich and was a great success.

Personnel changes

Term renewal elections for Board members were held at the 54th annual general meeting of VP Bank. Dr Daniel H. Sigg opted not to stand for re-election and stepped down from the Board of Directors. He joined the Board in 2008 and was chair of the Risk Committee as well as member of the Audit Committee of the Board of Directors. The Board wishes to thank Dr Daniel H. Sigg for his outstanding commitment to VP Bank and wish him all the best in his future endeavours.

Prof. Dr Teodoro D. Cocca, Dr Beat Graf and Michael Riesen were re-elected to the Board for a further three-year term of office.

Chief Operating Officer Martin C. Beinhoff decided to leave VP Bank Group at the end of June 2017. He was responsible for the Group Credit, Group Operations and Group Information Technology units as well as for the Bank's digitalisation offensive. Since 1 July 2017, Chief Executive Officer Alfred W. Moeckli and Chief Financial Officer Siegbert Näscher have been co-heading the Chief Operating Officer business unit on an ad interim basis.

There were also important personnel changes at our international offices. As of 1 February 2017, Nicholas A. Clark took over as Chief Executive Officer of VP Bank (BVI), and, since 13 March 2017, Bruno Morel has held the post of Chief Executive Officer at VP Bank (Singapore) Ltd. On 1 July 2017, Executive Management at VP Bank (Switzerland) Ltd was reinforced by Maximilian Barth, who took over the function of Head of Private Banking Germany and Switzerland.

Organisational structure

Effective as of 1 January 2017, VP Bank realigned its organisational and management structure: at the Group Executive Management level, the "General Counsel & Chief Risk Officer" organisational unit was established. Monika Vicandi, who was previously in charge of Group Legal, Compliance & Tax, in January 2017 was named head of the "General Counsel & Chief Risk Officer" unit and member of Group Executive Management at VP Bank. The Group Legal, Compliance & Tax and Group Risk units were combined to create a new organisational unit that also has a seat in Group Executive Management. This upgrading is a reflection of today's constantly increasing market regulation and hence the ever-stricter requirements for internationally oriented financial service providers.

Also established at the outset of 2017 was the new organisational unit "Investment Solutions", with the aim of bolstering our Group-wide investment competence. We have already initiated the recruiting process to identify the future head of Investment Solutions. Christoph Mauchle, Head of Client Business and member of Group Executive Management, is currently fulfilling that post on an ad interim basis.

It order to resolutely pursue and further refine our "Strategy 2020" within the Group as well as to underscore its importance, VP Bank on 1 April 2017 consolidated various tasks associated with strategic leadership into the newly created "Group Strategy" unit. Through the establishment of this organisational unit, we are ensuring that the strategy process is consistently applied, and this with an intensified focus on the holistic development of VP Bank Group.

VP Bank shares

The shares of VP Bank yet again performed very well in the first half of 2017. After starting the year at a price of CHF 108.00, they closed out the first semester at a pleasing CHF 118.70 after having hit a March interim high of CHF 124.90. With that gain of almost 9 per cent, VP Bank's shares proved once again to be a solid investment compared to the first-half performance of other banking stocks.

Shareholders at the annual general meeting approved the distribution of an increased dividend CHF 4.50 per registered share A and CHF 0.45 per registered share B. The payment date for the dividend was 5 May 2017.

Our share buyback programme via the ordinary trading line was concluded at the end of May 2017. On 6 June 2016, VP Bank Ltd announced at the time that it would buy up to 120,000 of its own registered shares A with a par value of CHF 10. In the period from 7 June 2016 through 31 May 2017, a total of 88,835 registered shares A were repurchased, representing 1.34 per cent of the equity capital recorded in the Commercial Register or, as it were, 0.74 per cent of the voting rights. Thus as of 31 May 2017, VP Bank Ltd held directly or indirectly 560,135 of its own registered shares A and 127,812 registered shares B (for a total of 8.66 per cent of the equity capital and 5.72 per cent of the total voting rights). The repurchased shares A are to be used for future acquisitions or otherwise for treasury management purposes.

Digitalisation strategy

In our annual report for the 2016 financial year, we provided extensive information on VP Bank's digitalisation strategy. The strategy initially covers a three-year time frame and involves both the modernisation of communication channels between our clients and the Bank as well as the expansion of our online service offering. In the first phase, which is being conducted in 2017 and 2018, we are focusing on the technical modernisation of our existing services. This includes projects in the areas of e-banking, the client portal, marketing/communication/product management/processes and CRM (customer relationship management).

In a programme named "Next", we are carrying out several far-reaching digitalisation projects. More than 100 employees of VP Bank are involved in this programme. During the first half of 2017, we pressed ahead with our digitalisation strategy according to plan by means of these various projects. The related activities centre on creating a wide array of new features and functionalities for our e-banking routine, making WIFI available to all employees, turning each workplace into a virtual meeting room, and ensuring the consistent compilation of contracts with the help of a new contract management tool. And at the last annual general meeting, we were able for the first time to offer shareholders the possibility to submit their votes online.

Fund business

For VP Bank, the fund business is an especially attractive growth segment and represents an important addition to our palette of offerings. The Bank's fund business is managed out of Luxembourg and Liechtenstein under the "VP Fund Solutions" brand.

In the first half of 2017, we made further headway with our fund strategy. Our "One-stop Shop", which functions as a single source for our entire range of fund-related services, has been particularly successful. By the halfway mark in 2017, we had already recorded a 10 per cent gain in the number of fund mandates and a 20 per cent increase in managed fund assets. The new Luxembourg fund vehicle known as a RAIF (Reserved Alternative Investment Fund) has played a key role in this growth; however, the increased presence of VP Fund Solutions in the Asian markets has been of equal importance.

The top European fund managers once again achieved superior results for this past semester, and VP Bank's proprietary European umbrella fund was a major beneficiary: it rose in value by almost 9 per cent. Also pleasing are the top ratings of VP Bank's Best Manager equity funds, which were accorded outstanding grades for their sustainability.

Sustainability

VP Bank Group's commitment to the principle of sustainable business dealings (CSR – Corporate Social Responsibility) is evident in many areas of our activity.

By signing the "Global Compact" of the United Nations in 2016, VP Bank pledged to uphold the ten principles set forth in that concord. In January 2017, we published our first annual Communication on Progress report, which can be inspected at the UN Global Compact website.

VP Bank encourages the sustainable use of tap water and supports the "Drink & Donate" association, which finances drinking-water projects in developing nations. As further evidence of this patronage, shareholders at our 2017 annual general meeting as well as all employees of VP Bank in Vaduz and Zurich received as a gift a "Drink & Donate" water bottle especially designed for VP Bank.

The VP Bank "Volunteering Day" introduced in 2016 enables our employees in Liechtenstein and Switzerland to spend a day doing pro bono work for social institutions, education programmes or environmental organisations of a charitable nature. The programme is enjoying ever-greater popularity: by mid-2017, already some 50 of our employees have taken part.

We also foster the targeted use of bicycles, a means of transport that offers an environmentally friendly alternative to motorised commuting. Since 2016, VP Bank has made available cost-free e-bikes for the use of employees at its Vaduz and Triesen facilities. Apart from employee participation in the recent Liechtenstein "Biking to Work" challenge, VP Bank's Mobility Management team organised a spring campaign that offered cost-free servicing of our employees' bicycles. In June, the VP Bank Sport Club conducted a bike weekend.

A CSR workgroup and the newly established CSR Board are promoting the topic of sustainability within VP Bank Group by offering sustainable products, in-house awareness campaigns, memberships in relevant organisations and increased networking.

Outlook

All of our tracks are set for further growth in the second half of the year. With the "Relationship Manager Hiring" project which we already described in last year's annual report, we are resolutely expanding our financial advisory teams. By having already hired 17 new advisors alone in the first half of the year, we are right on course: our three-year goal is to onboard a total of 75 client advisors in the Intermediaries and Private Banking segments, roughly half of which in Asia. In addition to organic growth, we will also use our solid equity capital base for investing in growth through acquisitions.

The further development of digital services is on our agenda as well. Within the scope of our digitalisation strategy, we are combining the time-tested personalised advice of VP Bank with the latest technologies and thereby creating tangible added value for our clients and employees alike.

The second half will see special emphasis placed on our public appearance and image. In recent months, we have worked intensively on the VP Bank brand and our self-perception. The Board of Directors has drawn up a Mission Statement that clearly expresses how we define and position VP Bank as a company. At the same time, we have freshened our design and optimised our visual impact to reflect the Digital Age. As the months proceed, you will notice the results of this dynamic process in many ways – from the new look-and-feel of our website to our redesigned advertisements and numerous publications.

VP Bank's Internet presence is our most important digital calling card. Apart from its optical makeover, we have equipped the website with new portal technology that allows the integration of a multitude of modular building blocks. And it will also "fit" optimally on mobile devices such as tablets and smartphones. And new, clearly arranged navigation features will make it easier to locate the topics that interest you most. We look forward to introducing this new website in conjunction with the presentation of our first-half results.

A word of gratitude

We have successfully completed a first half full of exciting projects and far-reaching organisational changes. We would like to take this opportunity to express our special thanks to VP Bank's employees for their staunch commitment. Here's to a successful and personally fulfilling second half of 2017 for all of us together!

And of course our sincere thanks also goes to our clients and shareholders for the abiding trust they place in VP Bank.

Fredy Vogt
Chairman of the Board of Directors

Alfred W. Moeckli
Chief Executive Officer

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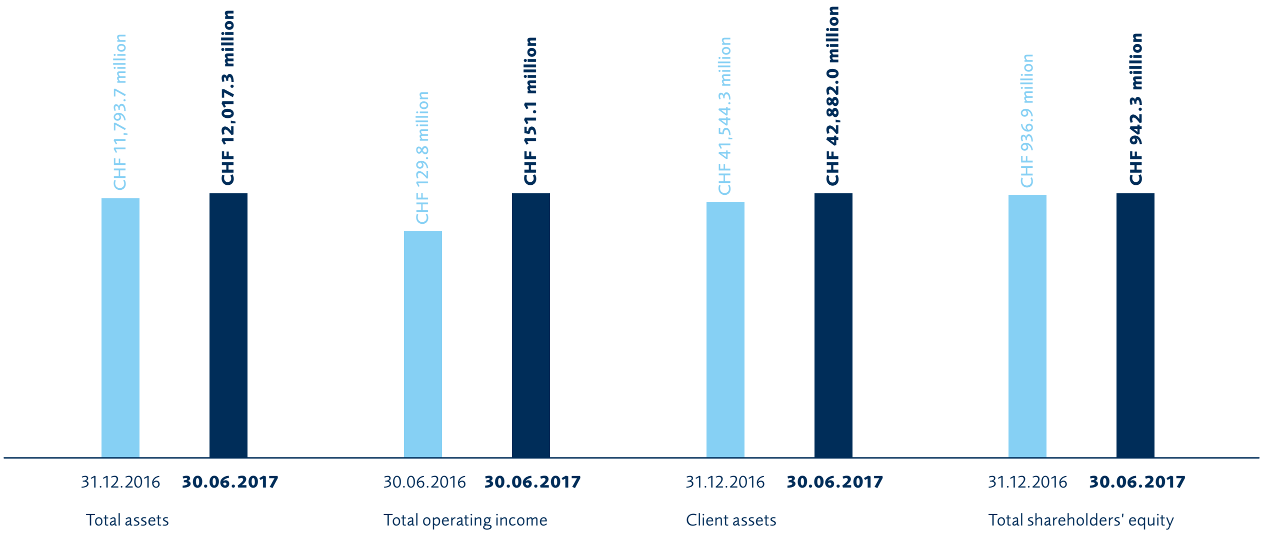
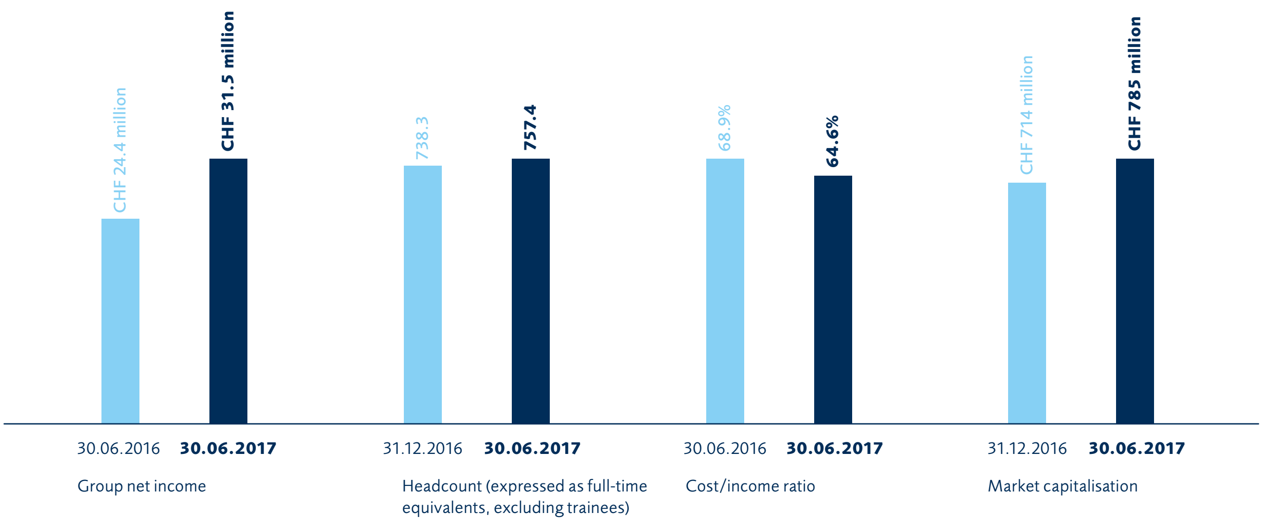
VP Bank Group

Key figures of VP Bank Group





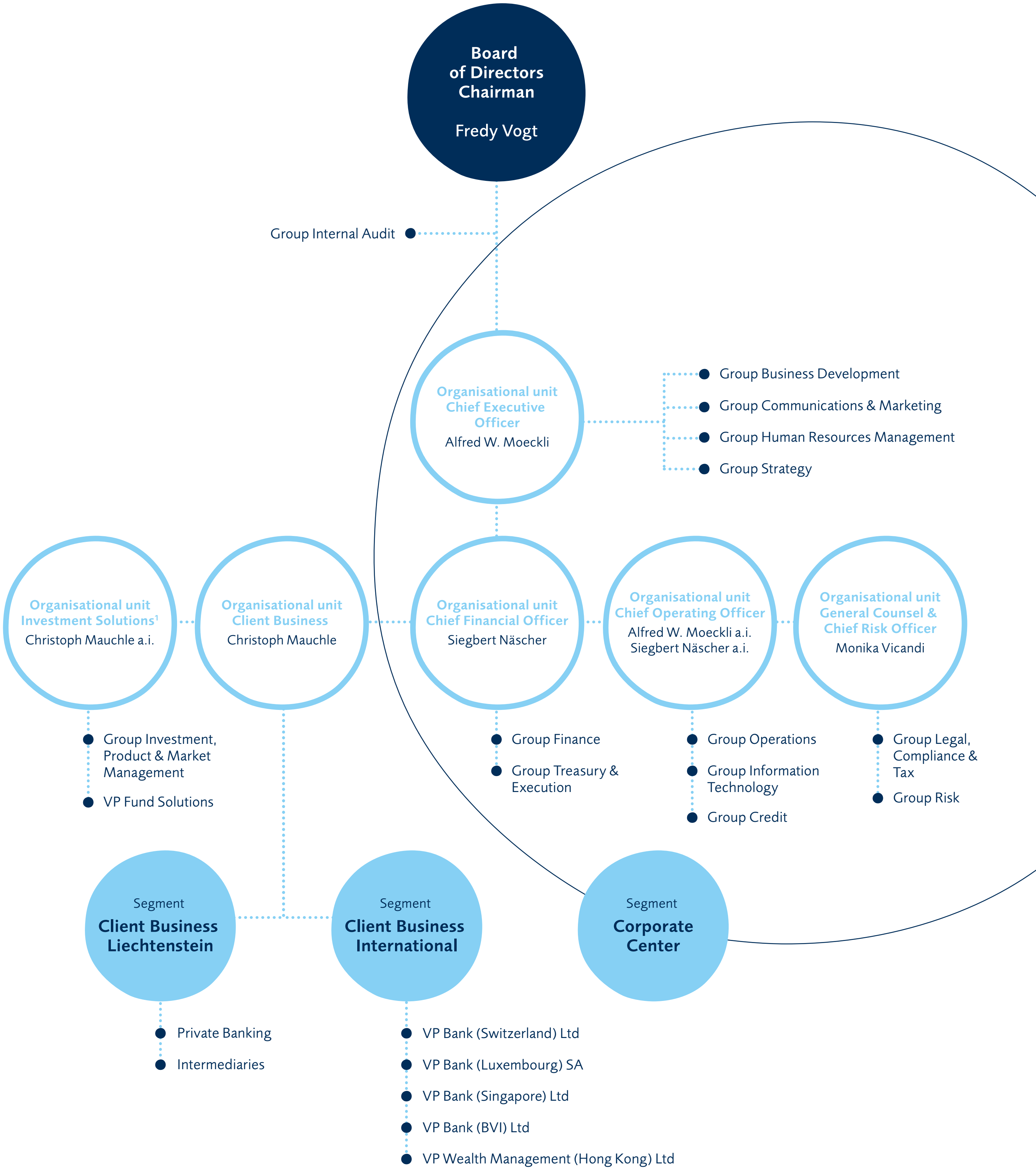
Key figures of VP Bank Group

	30.06.2017	30.06.2016	31.12.2016	Variance to 30.06.2016 in %
Key income statement data in CHF million[1, 2]				
Total operating income	151.1	129.8	273.2	16.4
Total net interest income	51.4	47.3	102.4	8.8
Total net income from commission business and services	61.1	60.7	118.8	0.7
Income from trading activities	25.2	19.9	44.5	26.4
Operating expenses	117.2	101.5	212.2	15.5
Group net income	31.5	24.4	58.0	28.8

	30.06.2017	30.06.2016	31.12.2016	Variance to 31.12.2016 in %
Key balance-sheet data in CHF million[1, 2]				
Total assets	12,017.3	11,539.6	11,793.7	1.9
Due from banks	799.9	1,154.2	660.8	21.1
Due from customers	5,535.6	5,080.6	5,248.7	5.5
Due to customers	9,714.4	9,576.4	9,838.9	–1.3
Total shareholders' equity	942.3	890.0	936.9	0.6
Equity ratio (in %)	7.8	7.7	7.9	–1.3
Tier 1 ratio (in %)	25.9	25.7	27.1	–4.4
Leverage ratio in accordance with Basel III (in %)	7.6	7.4	7.8	–2.6
Client assets in CHF billion[2]	**42,882.0**	**39,767.4**	**41,544.3**	**3.2**
On-balance-sheet customer deposits (excluding custody assets)	9,539.7	9,380.3	9,712.2	–1.8
Fiduciary deposits (excluding custody assets)	762.6	555.8	612.9	24.4
Client securities accounts	27,097.4	24,104.0	25,428.8	6.6
Custody assets	5,482.4	5,727.3	5,790.4	–5.3
Business volumes[3]	**42,935.3**	**39,120.7**	**41,002.6**	**4.7**
Net new money	**1,115.0**	**–218.5**	**7.4**	**n.a.**
Key operating indicators[2]				
Return on equity (in %)[1, 4]	6.8	5.5	6.3	
Cost/income ratio (in %)[5]	64.6	68.9	68.4	
Total operating expenses / total net operating income (in %)	77.5	78.2	77.7	
Headcount (expressed as full-time equivalents, excluding student apprentices)[6]	757.4	735.0	738.3	
Total operating income per employee (in CHF 1,000)	199.5	176.6	370.1	
Total operating expenses per employee (in CHF 1,000)	129.0	121.7	253.3	
Group net income per employee (in CHF 1,000)	41.5	33.2	78.5	
Key indicators related to shares of VP Bank in CHF[1]				
Group net income per registered share A[7]	5.22	4.04	9.61	
Group net income per registered share B[7]	0.52	0.40	0.96	
Shareholders' equity per registered share A on the balance-sheet date	156.78	147.48	157.14	
Shareholders' equity per registered share B on the balance-sheet date	14.55	13.74	14.47	
Quoted price per registered share A	118.70	89.30	108.00	
Quoted price per registered share B	11.90	8.90	10.80	
Market capitalisation (in CHF million)[8]	785	591	714	
Price/earnings ratio per registered share A	11.37	11.04	11.24	
Price/earnings ratio per registered share B	11.40	11.00	11.24	
Rating Standard & Poor's	A–/Positive/A–2	A–/Stable/A–2	A–/Positive/A–2[9]	

1 The reported key data and operating indicators are computed and reported on the basis of the share of the net profit and shareholders' equity attributable to the shareholders of VP Bank Ltd, Vaduz.
2 Details in the notes to the consolidated income statement and consolidated balance sheet.
2 Assets under management and due from customers.
4 Net income / average shareholders' equity less dividend.
5 Total operating expenses (without depreciation and amortisation, valuation allowances, provisions and losses) / total operating income.
6 In accordance with legal requirements, apprentices are to be included in headcount statistics as 50 per cent of equivalent full-time employees.
7 Based on the weighted average number of shares (registered share A) (note 11).
8 Including registered shares B.
9 As of 2 March 2017.

Structure of VP Bank Group



[1] In segment reporting, the organisational unit "Investment Solutions" is disclosed under "Client Business Liechtenstein" and "Client Business International".

Organisational chart as of 30.06.2017

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Financial report of VP Bank Group

Consolidated semi-annual report of VP Bank Group

Consolidated results

In accordance with International Financial Reporting Standards (IFRS), VP Bank Group realised a consolidated net income of CHF 31.5 million for the first half of 2017, this in comparison to the CHF 24.4 million profit recorded in the comparable prior-year period – a year-on-year gain of CHF 7.0 million or 28.8 per cent. Also very gratifying was the net inflow of new client money in the amount of CHF 1.1 billion.

Medium-term goals for 2020

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

- total assets under management of CHF 50 billion
- consolidated net income of CHF 80 million
- a cost/income ratio less than 70 per cent

The net new money inflow of CHF 1.1 billion alone in the first half is indeed an impressive performance. In an effort to forge ahead with organic growth, a recruiting offensive has been launched with the aim of hiring each year at least 25 new senior client advisors who will have their managed client assets transferred to VP Bank. This offensive has already shown results, with a number of senior advisors having joined the Group in the first semester of the year. By the end of 2017, the goal of 25 will likely be achieved.

At 30 June 2017, client assets under management amounted to CHF 37.4. billion (30 June 2016: CHF 34.0 billion). The cost/income ratio as of 30 June 2017 stood at 64.6 per cent (versus 68.9 per cent in H1 2016).

The Management of VP Bank is convinced of achieving the defined goals in 2020 through the targeted exploitation of its organic and acquisition-related growth potential whilst maintaining strict management of costs at the same time.

This quest will be underpinned by VP Bank Group's solid equity capital base. As of 30 June 2017, VP Bank had a tier 1 ratio of 25.9 per cent (previous year: 25.7 per cent) and an admirable A–/Positive rating from Standard & Poor's. These key readings attest to VP Bank's robust, successful business model and constitute an outstanding point of departure for playing an active role in the consolidation process under way in the banking industry.

Client assets

Client assets under management at VP Bank Group on 30 June 2017 amounted to 37.4 billion. This compares to the CHF 35.8 billion recorded on 31 December 2016 and represents an increase of 4.6 per cent (CHF 1.6 billion). Performance-related factors accounted for CHF 0.5 billion of that growth.

In the first semester of 2017, VP Bank Group booked a CHF 1.1 billion net new money inflow (prior-year period: a net outflow of CHF 0.2 billion). All of the Bank's locations contributed to this positive result. The inflows were attributable to intensified market cultivation, the recruiting of new client advisors, as well as new deposits by existing clients especially in the fund area and at the individual international subsidiaries.

As of 30 June 2017, client assets held in custody amounted to CHF 5.5 billion, a slight decline of CHF 0.3 billion versus the total recorded on 31 December 2016. Total client assets (i.e. including custody assets) on 30 June 2017 stood at CHF 42.9 billion (31 December 2016: CHF 41.5 billion).

Income statement

Total operating income

In the first half of 2017, VP Bank's total operating income rose by CHF 21.3 million or 16.4 per cent to CHF 151.1 million (prior-year period: CHF 129.8 million). This increase was observed in all line items on the income statement.

Income from the interest differential business showed a year-on-year increase of CHF 4.2 million or 8.8 per cent to CHF 51.4 million. This rise is mainly attributable to the active management of the Bank's liquidity as well as to margin adjustment, volume increases and higher yields on USD dollar holdings.

Interest income from the client business (incl. negative interest) amounted to CHF 37.9 million, roughly in line with the prior-year level.

Interest income from treasury operations during the first half rose versus the first half-year of 2016 by CHF 1.3 million to a total of CHF 14.0 million. Included in that amount are negative interest charges of CHF 7.0 million (first half-year of 2016: 6.4 million) imposed by the Swiss National Bank (SNB). Out of risk/reward considerations, we did not use the interbank market to invest monies due to customers in foreign currencies, preferring instead to make increased use of foreign currency swaps into Swiss francs that were then deposited with the SNB. This resulted in a higher CHF giro account balance at the SNB, which in turn was charged 0.75 negative interest on the amount in excess of the exemption threshold.

This SNB negative interest charge is reflected under "Interest expense from financial assets" and was more than compensated by the value increase of the forex swaps as recorded under "Income from trading activities" in the amount of CHF 11.4 million (previous year: CHF 9.7 million).

The loss on interest rate hedges was reduced to a negative CHF 0.4 compared to the CHF 3.4 million loss in the first half-year of 2016. Whilst the hedge accounting position hardly changed, the negative performance of interest rate derivatives (CHF –0.6 million) was considerably less than the CHF 3.5 million loss recorded for the prior-year period.

The interest income from financial instruments valued at amortised cost of acquisition increased by 4.3 per cent to CHF 9.6 million due to the increased magnitude of the corresponding balance sheet item.

Income from commissions and services rose in the first half of 2017 by 0.7 per cent to CHF 61.1 million (prior-year period: CHF 60.7 million). The favourable stock market environment during the first six months of the year had a positive impact on commission income. This was primarily attributable to higher transaction-related revenues from client activities as compared to the previous year's first half. Brokerage fees increased by CHF 2.0 million or 12.9 per cent from CHF 15.6 million to 17.6 million versus the first half-year of 2016. At the same time, the inflow of new money as well as the positive performance of existing positions resulted in higher account value-dependent revenues. On the whole, income from the commission and services business in the first half of 2017 rose by 5.7 per cent to 89.6 million (previous year: CHF 84.8 million). Commission and services expenses on the other hand also increased by CHF 4.4 million from CHF 24.1 million to CHF 28.5 million.

Income from trading activities amounted to CHF 25.2 million, an increase of CHF 5.3 million (26.4 per cent) versus the prior-year period. Income from foreign exchange trading of behalf of clients rose by 10.4 per cent to CHF 25.7 million. As to securities trading, the realised and unrealised valuation differences are booked to hedging transactions on financial investments. Due to unfavourable market conditions, a loss of CHF 0.5 million was recorded (previous year: CHF 3.4 million loss).

In the first six months of 2017, financial investments generated a profit of CHF 12.0 million (prior-year period: CHF 1.2 million). This CHF 10.7 million relative outperformance was mainly attributable to unrealised valuation gains on financial instruments recorded at fair value of CHF 7.7 million (H1 2016: 3.6 CHF million loss). The increase in other income reflects a one-time effect of CHF 0.7 million from the sale of an associated company at the outset of the year.

Operating expenses

Operating expenses rose in the first semester of 2017 by CHF 15.7 million from CHF 101.5 million (first half-year of 2016) to CHF 117.2 million, or 15.5 per cent. Included in that total is a provision for the settlement of a legal dispute with the authorities of North Rhine-Westphalia relating to the untaxed assets of German clients. This is a comprehensive settlement and applies to all German federal states.

Compared to the previous year's first half, personnel expenses rose by CHF 4.9 million or 7.5 per cent to CHF 69.9 million. One of the reasons for this increase was the added expense of the effort to recruit new senior client advisors. At the end of June 2017, VP Bank Group employed 757.4 individuals (expressed in fulltime equivalents), 22.4 more FTEs than in the comparable prior-year period. In keeping with IAS 38, CHF 0.4 million worth of self-developed software was capitalised and hence deducted from personnel expenses.

General and administrative expenses rose by 13.8 per cent to CHF 27.8 million (prior-year period: CHF 24.4 million) primarily due to the costs of external consultants who have been assisting VP Bank in a variety of projects (e.g. regulatory, growth initiatives, digitalisation, etc.). Depreciation and amortisation was CHF 1.0 million (8.5 per cent) lower than the prior-year total and on 30 June 2017 came to a total of CHF 10.4 million.

Valuation allowances, provisions and losses in the first half-year of 2017 amounted to CHF 9.2 million (prior-year period: CHF 0.7 million). This increase is mainly attributable to the aforementioned settlement with the authorities of North Rhine-Westphalia and the related CHF 10.9 million provision that was established. Provisions for credit risks in the net amount of CHF 2.2 million were released and recognised on the income statement.

Income taxes

Taxes on income for the first half of 2017 totalled CHF 2.5 million, CHF 1.4 million less than in the first half-year of 2016. This lower tax burden despite the Bank's higher profit for the period is explained by the tax-free income earned on certain financial investments.

Consolidated net income

VP Bank's consolidated net income for the first half of 2017 stood at CHF 31.5 million (prior-year period: CHF 24.4 million). Consolidated net income per registered share A was CHF 5.22 (30 June 2016: CHF 4.04).

Comprehensive income

Comprehensive income embraces all income and expenses recognised on the income statement and in shareholders' equity. Directly booked to the latter are actuarial adjustments to pension schemes as well as changes in the fair value of financial instruments (FVTOCI). VP Bank Group in the first semester of 2017 recorded total comprehensive income of CHF 31.2 million compared to the CHF 0.6 million achieved in the prior-year period.

Balance sheet

Total assets increased over the amount on 31 December 2016 by CHF 0.2 billion to CHF 12.0 billion as of 30 June 2017, primarily due to the larger volumes of client credits and financial instruments valued at amortised cost of acquisition.

With cash and cash equivalents totalling CHF 3.2 billion, VP Bank Group has a very comfortable cushion of liquidity.

Client loans increased in the first half of 2017 by CHF 286.9 million (5.5 per cent) to CHF 5.5 billion as of 30 June 2017. VP Bank remains true to the principle of maintaining strict discipline and control in its lending practices.

On the liabilities side, client deposits and medium-term cash bonds declined in the first half-year of 2017 by CHF 131.3 million (1.3 per cent) to CHF 9.9 billion as of 30 June 2017.

On 6 June 2016, VP Bank Ltd announced a share buyback programme for a maximum of 120,000 of its own registered shares A, each with a par value of CHF 10. In total, 88,835 of those shares were purchased in the period between 7 June 2016 and 31 May 2017, representing 1.34 per cent of equity capital reflected in the Commercial Register or, as it were, 0.74 per cent of the voting rights. These repurchased shares are earmarked to future acquisitions or otherwise for treasury management purposes.

At the end of June 2017, shareholders' equity amounted to CHF 942.3 million (31 December 2016: CHF 937.0 million).

The tier 1 ratio on 30 June 2017 as calculated in accordance with Basel III stood at 25.9 per cent (on 31 December 2016: 27.1 per cent), far superior to that of other banks. This very solid equity capital base enables VP Bank to continue its active role in the consolidation process within the banking industry.

Outlook

The general market environment and interest rate developments will have an influence on the business performance and results of VP Bank Group also in the second half of the current year. The prevailing trends in terms of tax transparency and the automatic exchange of information will persist and have a direct impact on the clients and business fields of VP Bank Group as well as the Liechtenstein financial centre.

With the advent of digitalisation, the financial industry is faced with tremendous challenges, but also promising opportunities. VP Bank is well equipped to tackle these challenges. We have initiated the appropriate projects and are resolutely pursuing our sustainable growth strategy. VP Bank Group's solid equity base represents the launch pad for a successful future.

Consolidated income statement

in CHF 1,000	Note	01.01.–30.06.2017	01.01.–30.06.2016	Variance absolute	Variance in %
Interest income		65,001	59,070	5,931	10.0
Interest expense		13,573	11,815	1,758	14.9
Total net interest income[1]	1	**51,428**	**47,255**	**4,173**	**8.8**
Commission income		89,617	84,792	4,825	5.7
Commission expenses		28,530	24,104	4,426	18.4
Total net income from commission business and services	2	**61,087**	**60,688**	**399**	**0.7**
Income from trading activities[1]	3	25,165	19,905	5,260	26.4
Income from financial instruments	4	11,964	1,246	10,718	n.a.
Other income	5	1,493	731	762	104.2
Total operating income		**151,137**	**129,825**	**21,312**	**16.4**
Personnel expenses	6	69,883	65,001	4,882	7.5
General and administrative expenses	7	27,805	24,433	3,372	13.8
Depreciation and amortisation	8	10,350	11,315	–965	–8.5
Valuation allowances, provisions and losses	9	9,153	740	8,413	n.a.
Operating expenses		**117,191**	**101,489**	**15,702**	**15.5**
Earnings before income tax		**33,946**	**28,336**	**5,610**	**19.8**
Taxes on income	10	2,487	3,920	–1,433	–36.6
Group net income		**31,459**	**24,416**	**7,043**	**28.8**

Share information					
Undiluted group net income per registered share A		5.22	4.04		
Undiluted group net income per registered share B		0.52	0.40		
Diluted group net income per registered share A		5.22	4.04		
Diluted group net income per registered share B		0.52	0.40		

[1] Restatement of prior year figure because of a change of accounting principles (note 1 and 3 and principles underlying financial statement).

Consolidated statement of comprehensive income

in CHF 1,000	01.01.–30.06.2017	01.01.–30.06.2017	Variance absolute	Variance in %
Group net income	31,459	24,416	7,043	28.8
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	–5,944	–2,405	–3,539	–147.2
• 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	**–5,944**	**–2,405**	**–3,539**	**–147.2**
Other comprehensive income which will not be transferred subsequent to the income statement				
• Changes in value of FVTOCI financial instruments	–2,328	–1,874	–454	–24.2
• Actuarial gains/losses from defined-benefit pension plans	7,996	–19,489	27,485	141.0
Total other comprehensive income which will not be transferred subsequent to the income statement	**5,668**	**–21,363**	**27,031**	**126.5**
Total comprehensive income in shareholders' equity	**–276**	**–23,768**	**23,492**	**98.8**
Total comprehensive income in income statement and shareholders' equity	**31,183**	**648**	**30,535**	**n.a.**
Attributable to shareholders of VP Bank Ltd, Vaduz	31,183	648	30,535	n.a.

Consolidated balance sheet

Assets

in CHF 1,000	Note	30.06.2017	31.12.2016	Variance absolute	Variance in %
Cash and cash equivalents		3,203,223	3,524,512	–321,289	–9.1
Receivables arising from money-market papers		15,269	15,248	21	0.1
Due from banks		799,926	660,760	139,166	21.1
Due from customers		5,535,640	5,248,717	286,923	5.5
Trading portfolios		148	100	48	48.0
Derivative financial instruments		39,743	43,699	–3,956	–9.1
Financial instruments at fair value	16	248,980	280,143	–31,163	–11.1
Financial instruments measured at amortised cost	16	1,973,684	1,823,882	149,802	8.2
Associated companies		46	66	–20	–30.3
Property and equipment		78,976	82,738	–3,762	–4.5
Goodwill and other intangible assets		51,276	51,469	–193	–0.4
Tax receivables		1,376	1,359	17	1.3
Deferred tax assets		21,220	22,041	–821	–3.7
Accrued receivables and prepaid expenses		21,625	22,854	–1,229	–5.4
Other assets		26,174	16,138	10,036	62.2
Total assets		**12,017,306**	**11,793,726**	**223,580**	**1.9**

Liabilities and shareholders' equity

in CHF 1,000	Note	30.06.2017	31.12.2016	variance absolute	Variance in %
Due to banks		687,403	357,771	329,632	92.1
Due to customers – savings and deposits		679,233	705,223	–25,990	–3.7
Due to customers – other liabilities		9,035,184	9,133,724	–98,540	–1.1
Derivative financial instruments		68,417	57,178	11,239	19.7
Medium-term notes		213,031	219,823	–6,792	–3.1
Debentures issued	12	200,659	200,720	–61	–0.0
Tax liabilities		7,597	3,892	3,705	95.2
Deferred tax liabilities		6,333	8,204	–1,871	–22.8
Accrued liabilities and deferred items		18,607	28,509	–9,902	–34.7
Other liabilities		140,197	132,989	7,208	5.4
Provisions		18,389	8,755	9,634	110.0
Total liabilities		**11,075,050**	**10,856,788**	**218,262**	**2.0**
Share capital	13	66,154	66,154	0	0.0
Less: treasury shares	14	–48,101	–52,466	4,365	8.3
Capital reserves		20,817	21,857	–1,040	–4.8
Income reserves		939,693	929,428	10,265	1.1
Unrealised gains/losses on FVTOCI financial instruments		–15,051	–12,723	–2,328	–18.3
Foreign-currency translation differences		–21,256	–15,312	–5,944	–38.8
Total shareholders' equity		**942,256**	**936,938**	**5,318**	**0.6**
Total liabilities and shareholders' equity		**12,017,306**	**11,793,726**	**223,580**	**1.9**

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 01.01.2017	**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**
Total shareholders' equity 01.01.2016	**66,154**	**–50,499**	**22,857**	**977,101**	**–10,819**	**–69,260**	**–17,410**	**918,124**
Other comprehensive income, after income tax								
Foreign-currency translation differences							–2,405	–2,405
Changes in value transferred to profit reserves								0
Changes in value of FVTOCI financial instruments					–1,874			–1,874
Actuarial gains/losses from defined-benefit pension plans						–19,489		–19,489
Group net income				24,416				24,416
Total reported result 30.06.2016	**0**	**0**	**0**	**24,416**	**–1,874**	**–19,489**	**–2,405**	**648**
Appropriation of profit 2015				–24,297				–24,297
Management equity participation plan (LTI)			–2,619					–2,619
Public tender own shares[1]		–6,567						–6,567
Movement in treasury shares[1]		5,446	–740					4,706
Total shareholders' equity 30.06.2016	**66,154**	**–51,620**	**19,498**	**977,220**	**–12,693**	**–88,749**	**–19,815**	**889,995**

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

Consolidated statement of cash flow

in CHF 1,000	01.01.–30.06.2017	01.01.–30.06.2016
Cash flow from operating activities		
Group net income	31,459	24,416
Non-cash-related positions in Group results	–1,153	33,043
Net increase/reduction in banking activities	–16,477	464,587
Other cash flow from operating activities	6,401	10,741
Net cash flow from operating activities	**20,230**	**532,787**
Cash flow from investment activities		
Cash flow financial instruments	–153,242	–5,604
Assets held for sale	0	15,000
Other investment activities	–6,124	–3,608
Net cash flow from investment activities	**–159,366**	**5,788**
Cash flow from financing activities		
Dividend distributions	–29,190	–24,297
Issuance/redemption of medium-term notes	–6,792	–972
Redemption of debentures	0	–149,280
Other financing activities	–211	–605
Net cash flow from financing activities	**–36,193**	**–175,154**
Foreign-currency translation impact	–508	–2,935
Net increase/reduction in cash and cash equivalents	**–175,837**	**360,486**
Cash and cash equivalents at the beginning of the financial year	4,044,980	3,415,841
Cash and cash equivalents at the end of the reporting period	3,869,141	3,776,327
Net increase/reduction in cash and cash equivalents	**–175,839**	**360,486**
Cash and cash equivalents are represented by		
Cash	3,203,223	3,017,491
Receivables arising from money-market papers	15,269	12,071
Due from banks – at-sight balances	650,649	746,765
Total cash and cash equivalents	**3,869,141**	**3,776,327**

Principles underlying financial statement reporting and comments

The unaudited interim financial report was prepared in compliance with International Financial Reporting Standards (IAS 34). The semi-annual financial statements are drawn up on the basis of the same accounting and valuation principles as underlie the 2016 annual consolidated financial statements. This gives rise to reclassifications in the comparative prior-year period resulting in a reduction of interest income by CHF 2.2 million. Income from trading activities in the 2016 prior-year period increased by the same amount. The corresponding financial-statement reporting policies are to be found in the 2016 Annual Report, page 113 ff.

In addition, the presentation of the income statement (and thus also segment reporting) was amended at the end of 2016 to conform to current practice in the sector. The sub-total "gross operating income" was replaced by the term "operating income". Furthermore, the captions "depreciation and amortisation" and "valuation adjustments, provisions and losses" are now recorded under "operating expense". The prior sub-total "gross income" was dropped. Because of the revised presentation, the sub-total "operating expenses" for the first half-year of 2016 of CHF 89.4 million increased to CHF 101.5 million. The other positions remain unchanged or are dropped.

New and revised International Financial Reporting Standards

Since 1 January 2017, the following new or revised Standards or Interpretations have taken effect:

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 2012–2016 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.

IAS 7 – Statement of cash flows (amendments to IAS 7)

The amendments are designed to clarify IAS 7 and improve informational disclosures provided to addressees of financial statements regarding the financing activities of a company. They become effective for reporting periods beginning on or after 1 January 2017. The changes have no material impact on the consolidated financial statements.

IAS 12 – Income taxes (amendments relating to the recognition of deferred tax assets for unrealised losses)

The amendments clarify the following matters:

- Unrealised losses on debt instruments measured at fair value and which are valued for tax purposes at purchase cost give rise to a deductible temporary difference. This occurs regardless of whether the debt instrument's holder expects to recover the carrying amount of the asset by holding the instrument until maturity and collecting all contractual payments or whether he intends to sell it.
- The carrying value of an asset does not represent the upper limit for estimating probable future taxable profits.
- In estimating future taxable profits, tax deductions resulting from the reversal of deductible temporary differences are to be excluded.
- An entity shall evaluate a deferred tax asset in combination with other deferred tax assets. Whenever tax law restricts the utilisation of tax losses, the entity is to assess a deferred tax asset in combination with other deferred tax assets of the same (permissible) type.

These changes have no material impact on the consolidated semi-annual financial statement.

Share repurchase

Within the framework of the authorisation given to it by the Annual General Meeting of Shareholders of 24 April 2015, VP Bank Ltd 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 Ltd thus picks up from the two successful programmes of 2015.

As part of the public repurchase programme, VP Bank Ltd is prepared to repurchase up to a maximum of 120,000 registered shares A. At no time, however, may it hold more of its own registered shares A than it is allowed within the framework of the above-mentioned authorisation granted by the Annual General Meeting (up to a maximum of 601,500 shares, which equates to 10 per cent of all registered shares A).

As part of this repurchase programme, VP Bank acquired 88,835 registered shares A at a price of CHF 8.8 million between 7 June 2016 and 31 May 2017.

The registered shares A so repurchased are to be used for acquisitions or treasury management purposes. VP Bank Ltd had commissioned Zürcher Kantonalbank to undertake the repurchase of the listed registered shares A.

Provisions

The half-yearly results contain a provision based upon a settlement with the authorities in North Rhine-Westphalia pertaining to untaxed assets owned by German clients. This is a comprehensive settlement and applies to all German federal states.

It thus creates clarity and legal security. The settlement covers VP Bank Ltd and all of its subsidiary banks. The half-yearly results reflect a provision in an amount of EUR 9.9 million for the settlement.

Post balance-sheet-date events

The Board of Directors reviewed and approved the consolidated financial statements in its meeting of 17 August 2017 and released them for publication.

International Financial Reporting Standards which must be adopted in 2018 or later

IFRS 15 – Revenue from contracts with customers

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 financial years commencing on or after 1 January 2018. Based upon the current stage of implementation, the introduction of IFRS 15 in general will have only minor impact on the recognition, recording, presentation and disclosures of VP Bank Group. Insofar as material in future, the inclusion of further revenue positions will be made with a more detailed presentation of the revenue types shown under commission and service income.

Application of IFRS 9 Impairment

As from 1 January 2018, the methodology used to compute the expected credit loss under IFRS 9 will replace the current valuation adjustments for credit risks of VP Bank. The computation and reporting of valuation adjustments for default risks using the current methodology will be undertaken for the last time as of 31 December 2017. On 1 January 2018, the valuation adjustments for credit risks will be derecognised over shareholders' equity and the expected credit losses computed in accordance with IFRS 9 will be recognised in shareholders' equity. From then on, changes in anticipated credit losses will be recorded in the income statement. IFRS 9 Impairment relates to all asset positions which are exposed to a potential credit risk and which are not already recorded at fair value over the income statement. This includes particularly client loans, amounts due from banks and financial investments measured at amortised cost. Also affected by this methodology are off-balance-sheet positions such as credit commitments and guarantees. Preparations for the implementation of the Standard had begun in VP Bank at the end of 2015. Implementation is now in the final phase. After completing the phases "conception", "analysis" and "data preparation", there now follows, based upon the technical specification concept, the calibration and refinement of the software solution implemented. At the same time, the data will be re-fed into the banking system and its integration into current operational processes expedited with the result that VP Bank Group, wherever required, can record the data at the individual-entity and group levels as of 1 January 2018.

VP Bank follows international standards for the modelling of expected credit losses. Should an instrument possess an external rating from a recognised rating agency (e.g. S&P, Moody's), this rating will be utilised for determining the probability of default. Should no external rating be available, VP Bank, in principle, bases itself on the internal rating. Wherever the procurement of additional information is possible only with disproportionately high costs and efforts, use was made of admissible simplifications. Thus, a so-called "loss rate approach" is applied in the case, for example, of lombard credits. The level of expected credit losses is determined by allocating the credit instrument to one of three stages: in the case of stage 1, should no significant deterioration in credit quality exist since initial recognition, reductions in value in the amount of the loss arising from possible credit events within the following 12 months are to be recorded by corresponding charges to the income statement. Should no objective indication of a reduction in value exist but a significant increase in default risk be present, the reduction in value is to be recognised up to the level of the expected loss over the entire remaining duration through a corresponding charge to income (stage 2). In stage 3, an objective indication of a reduction in value must exist and an individual valuation adjustment for the financial instrument is to be recorded. Numerous studies suggest that the volatility of future income statements will increase because of fluctuating valuation adjustments. Current analyses show that no negative impact on shareholders' equity and thus on the regulatory equity ratio will ensue in total for VP Bank through the discontinuation of existing lump-sum valuation adjustments and the initial application of IFRS 9 Impairment.

Significant foreign exchange rates

The following exchange rates were used for the most important currencies:

	Balance-sheet-date rates			Average rates			Variance Balance-sheet-date rates		Average rates	
	30.06.2017	30.06.2016	31.12.2016	1H2017	1H2016	2016	actual year	previous year	actual year	previous year
USD/CHF	0.9577	0.9742	1.0164	0.99416	0.9819	0.9853	–6%	–2%	1%	1%
EUR/CHF	1.0922	1.0823	1.0720	1.07658	1.0954	1.0897	2%	1%	–1%	–2%
SGD/CHF	0.6955	0.7238	0.7035	0.70807	0.7116	0.7137	–1%	–4%	–1%	–0%
HKD/CHF	0.1227	0.1256	0.1311	0.12789	0.1264	0.1269	–6%	–2%	1%	1%
GBP/CHF	0.1244	1.3023	1.2559	1.25157	1.4064	1.3333	–90%	–90%	–6%	–11%

Segment reporting

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	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
as of 31.12.2016				
Segment assets (in CHF million)	4,108	3,581	4,106	11,794
Segment liabilities (in CHF million)	7,160	3,048	649	10,857
Client assets under management (in CHF billion)[2]	24.6	11.2	0.0	35.8
Net new money (in CHF billion)	–0.2	0.2	0.0	0.0
Headcount (number of employees)	185	248	371	804
Headcount (expressed as full-time equivalents)	174.1	233.2	331.0	738.3

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

Structure

As of 1 January 2017, VP Bank amended its organisational structure by creating two new organisational units "General Counsel & Chief Risk Officer" and "Investment Solutions". As part of the process of implementing Strategy 2020, the function of the General Counsel was merged with that of the Chief Risk Officer and the Group's investment-related expertise systematically strengthened. As already communicated in the 2016 Annual Report of VP Bank Group (page 15), the management structure consists, from this date on, of the six organisational units "Chief Executive Officer", "Client Business", "Investment Solutions", "General Counsel & Chief Risk Officer", "Chief Financial Officer" and "Chief Operating Officer".

The organisational unit "Client Business" is divided into two business segments "Client Business Liechtenstein" and "Client Business International". In segment reporting, the unit "Investment Solutions" is disclosed under "Client Business Liechtenstein" and "Client Business International". The four organizational units "Chief Executive Officer", "Chief Financial Officer", "Chief Operating Officer" as well as "General Counsel & Chief Risk Officer" are regrouped together under the business segment "Corporate Center".

01.01.–30.06.2016

in CHF 1,000	**Client Business Liechtenstein**	**Client Business International**	**Corporate Center**	**Total Group**
Total net interest income[1]	32,973	11,812	2,470	47,255
Total net income from commission business and services	45,238	17,813	–2,363	60,688
Income from trading activities[1]	9,974	3,281	6,651	19,905
Income from financial instruments	5	570	671	1,246
Other income	0	735	–4	731
Total operating income	**88,190**	**34,210**	**7,426**	**129,825**
Personnel expenses	16,620	18,326	30,055	65,001
General and administrative expenses	1,622	9,917	12,895	24,433
Depreciation and amortisation	1,838	1,686	7,791	11,315
Valuation allowances, provisions and losses	803	15	–78	740
Services to/from other segments	19,982	–0	–19,982	–0
Operating expenses	**40,865**	**29,945**	**30,680**	**101,489**
Earnings before income tax	**47,325**	**4,265**	**–23,255**	**28,336**
Taxes on income				3,920
Group net income				**24,416**
Segment assets (in CHF million)	4,118	3,042	4,380	11,540
Segment liabilities (in CHF million)	7,202	2,618	830	10,650
Client assets under management (in CHF billion)[2]	23.6	10.4	0.0	34.0
Net new money (in CHF billion)	–0.3	0.1	0.0	–0.2
Headcount (number of employees)	181	253	366	800
Headcount (expressed as full-time equivalents)	170.5	238.9	325.6	735.0

[1] Change of accounting principles (note 1 and 3 and principles underlying financial statement reporting).
[2] Calculation in accordance with Table P of the Guidelines to the Liechtenstein Banking Ordinance issued by the Government of Liechtenstein (FL-BankO).

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

Client Business Liechtenstein

Segment results

in CHF 1,000	01.01.–30.06.2017	01.01.–30.06.2016	Variance absolute	Variance in %
Total net interest income	36,207	32,973	3,234	9.8
Total net income from commission business and services	45,673	45,238	435	1.0
Income from trading activities	9,954	9,974	–20	–0.2
Income from financial instruments	5	5	0	0.0
Other income	0	0	0	0.0
Total operating income	**91,839**	**88,190**	**3,649**	**4.1**
Personnel expenses	17,582	16,620	962	5.8
General and administrative expenses	1,666	1,622	44	2.7
Depreciation and amortisation	1,710	1,838	–128	–7.0
Valuation allowances, provisions and losses	–2,768	803	–3,571	–444.6
Services to/from other segments	18,934	19,982	–1,048	–5.2
Operating expenses	**37,124**	**40,865**	**–3,741**	**–9.2**
Segment income before income tax	**54,715**	**47,325**	**7,390**	**15.6**
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	41.6	43.3		
Total operating expenses / total net operating income (in %)	40.4	46.3		
Client assets under management (in CHF billion)	25.0	23.6		
Change in client assets under management compared to 31.12. prior year (in %)	1.7	–2.7		
Net new money (in CHF billion)	0.0	–0.3		
Total operating income / average client assets under management (bp)[1]	74.0	73.6		
Segment result / average client assets under management (bp)[1]	44.1	39.5		
Cost/income ratio operating income (in %)[2]	41.6	43.3	–1.8	–4.1
Headcount (number of employees)	190	181	9.0	5.0
Headcount (expressed as full-time equivalents)	179.1	170.5	8.6	5.0

[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 conducted in Liechtenstein as well as the local universal banking and credit-granting businesses. It includes those units of VP Bank Ltd, Vaduz having direct client contact. In addition, Group Investment, Product & Market Management and VP Fund Solutions (Liechtenstein) AG are allocated to this business segment.

Segment result

The pre-tax segment result for the first half of 2017 rose by CHF 7.4 million (15.6 per cent) over that of the comparative prior-year period. In the first half of 2017, operating income could be increased, period-on-period, by CHF 3.6 million (4.1 per cent). This growth results from interest income from clients (+9.8 per cent) as well as commission and service income (+1.0 per cent). Contributing to this positive result in interest income was principally the interest-rate developments in the USD as well as margin increases in credit-granting operations. As regards commission income, trade-related income from clients in particular reported an improvement, period-on-period, thanks to higher levels of client activities. Operating expenses could be reduced by CHF 3.7 million (9.2 per cent) to CHF 37.1 million (prior-year period: CHF 40.9 million). This decline results primarily from the position valuation adjustments, provisions and losses as well as the lower level of intersegmental recharges from other segments. During the first half of 2017, charges for valuation adjustments, provisions and losses, period-on-period, declined by CHF 3.6 million to minus CHF 2.8 million (prior-year period: CHF 0.8 million) because of the release of valuation adjustments no longer required. Intersegmental recharges in Client Business Liechtenstein are based upon internally set transfer prices. Indirect costs for internal services are reported in the caption "services to/from other segment(s)". With 74.0 basis points, the gross margin could be marginally increased (prior-year: 73.6 basis points). The cost/income ratio improved from 43.3 per cent to 41.6 per cent.

During the reporting period, the segment reported a balanced result in terms of net new client money. Net new money inflows resulting from market-development activities could fully offset outflows resulting from the regulatory environment and tax-related issues. Assets under management at 30 June 2017 totalled CHF 25.0 billion (31 December 2016: CHF 23.6 billion). The employee headcount rose from 171 (31 December 2016) to 179 individuals.

Client Business International

Segment results

in CHF 1,000	01.01.–30.06.2017	01.01.–30.06.2016	Variance absolute	Variance in %
Total net interest income	14,566	11,812	2,754	23.3
Total net income from commission business and services	17,044	17,813	–769	–4.3
Income from trading activities	4,568	3,281	1,287	39.2
Income from financial instruments	46	570	–524	–91.9
Other income	1,706	735	971	132.2
Total operating income	**37,930**	**34,210**	**3,720**	**10.9**
Personnel expenses	19,311	18,326	985	5.4
General and administrative expenses	10,249	9,917	332	3.3
Depreciation and amortisation	1,641	1,686	–45	–2.7
Valuation allowances, provisions and losses	1,373	15	1,358	n.a.
Services to/from other segments	0	–0	0	100.0
Operating expenses	**32,574**	**29,945**	**2,630**	**8.8**
Segment income before income tax	**5,356**	**4,265**	**1,091**	**25.6**
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	77.9	82.6		
Total operating expenses / total net operating income (in %)	85.9	87.5		
Client assets under management (in CHF billion)	12.4	10.4		
Change in client assets under management compared to 31.12. prior year (in %)	10.6	–0.7		
Net new money (in CHF billion)	1.1	0.1		
Total operating income / average client assets under management (bp)[1]	64.5	65.5		
Segment result / average client assets under management (bp)[1]	9.1	8.2		
Cost/income ratio operating income (in %)[2]	81.7	85.8	–4.1	–4.8
Headcount (number of employees)	256	253	3.0	1.2
Headcount (expressed as full-time equivalents)	240.5	238.9	1.6	0.7

[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 private banking business in 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

The pre-tax segment result for the first half of 2017 could be improved by CHF 1.1 million over that of the 2016 comparative semi-annual result. Period-on-period, operating income rose by CHF 3.7 million (10.9 per cent). This increase primarily resulting from higher interest income from clients (23.3 per cent), income from trading activities (39.2 per cent) as well as other income (including gain from the disposal of an associated company) contributed to the positive result. Operating expenses rose by CHF 2.6 million or 8.8 per cent to CHF 32.6 million. This increase results from personnel and general and administrative expenses reflecting primarily the recruitment offensive for senior client advisors. Charges for valuation adjustments, provisions and losses amounted to CHF 1.4 million. In the business segment "Client Business International", the recharging of services is based on actual invoices and recorded under general and administrative expenses.

The gross margin fell to 64.5 basis points (prior-year comparative period: 65.5 basis points). The cost/income ratio improved from 85.8 per cent to 81.7 per cent.

Net new money developed positively in the first half year of 2017 aggregating CHF 1.1 billion. All locations recorded net new money inflows in the reporting period. The recruitment offensive at these locations left its mark on the first net new money inflows already in the first semester of 2017. Net new money inflows could again be achieved in the investment-fund business as well as on Asian markets thanks to intensive market-development efforts. Assets under management at 30 June 2017 totalled CHF 12.4 billion (31 December 2016: CHF 10.4 billion). The employee headcount of 241 remained at a comparable level to that of the prior year (30 June 2016: 239 positions).

Corporate Center

Segment results

in CHF 1,000	01.01.–30.06.2017	01.01.–30.06.2016	Variance absolute	Variance in %
Total net interest income	655	2,470	–1,815	–73.5
Total net income from commission business and services	–1,630	–2,363	733	31.0
Income from trading activities	10,643	6,651	3,993	60.0
Income from financial instruments	11,913	671	11,242	n.a.
Other income	–213	–4	–209	n.a.
Total operating income	**21,368**	**7,426**	**13,943**	**187.8**
Personnel expenses	32,990	30,055	2,935	9.8
General and administrative expenses	15,890	12,895	2,995	23.2
Depreciation and amortisation	6,999	7,791	–792	–10.2
Valuation allowances, provisions and losses	10,548	–78	10,626	n.a.
Services to/from other segments	–18,934	–19,982	1,048	5.2
Operating expenses	**47,493**	**30,680**	**16,813**	**54.8**
Segment income before income tax	**–26,125**	**–23,255**	**–2,870**	**–12.3**
Additional information				
Headcount (number of employees)	373	366	7.0	1.9
Headcount (expressed as full-time equivalents)	337.9	325.6	12.3	3.8

Structure

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

Segment result

The pre-tax segment result in the first semester of 2017 amounted to minus CHF 26.1 million in comparison to minus CHF 23.3 million in the prior-year comparative period.

Period-on-period, operating income rose by CHF 13.9 million principally due to income from financial investments.

Interest income declined by CHF 1.8 million over the comparative prior-year period. This is to be ascribed in part to the on-going negative interest-rate levels and, as a result, to the decline in interest revenues from maturity transformation (SNB negative interest).

Commission and service income reported a decline in income. The latter comprises third-party bank commissions which were passed onto front business units by the service units through internal recharges.

Income from trading activities includes the income of Group Treasury & Execution. This relates to income generated from the execution of foreign-exchange trades. The caption also includes the results of derivatives employed to minimise risks as well as gains/losses from balance-sheet management activities.

Income from financial investments in the first half of 2017 aggregated CHF 11.9 million. This welcome increase of CHF 11.2 million results primarily from unrealised revaluation gains on financial investments. Interest and dividend income reported a slight increase.

Operating expenses in the reporting period rose by CHF 16.8 million from CHF 30.7 million to CHF 47.5 million. The reason for this is primarily the establishment of a provision for a payment to the German authorities in connection with a settlement reached with them. The settlement covers VP Bank Ltd and all subsidiary banks and is reported in full within the Corporate Center. The charges for valuation adjustments, provisions and losses thus recorded an increase of CHF 10.6 million in the reporting period. Personnel and general and administrative expenses rose by CHF 2.9 million and CHF 3.0 million, respectively, reflecting, inter alia, costs in connection with growth initiatives as well as brand renewal costs (corporate image of VP Bank). Depreciation and amortisation declined from CHF 7.8 million to CHF 7.0 million.

The personnel headcount rose from 326 (30 June 2016) to 338 positions.

Notes to the consolidated income statement and consolidated balance sheet

1 Interest income

in CHF 1,000	01.01.–30.06.2017	01.01.–30.06.2016 restated[1]	Variance absolute	Variance in %
Interest and discount income	51	61	–10	–16.4
Interest income from banks	1,338	2,854	–1,516	–53.1
Interest income from customers	41,750	38,681	3,069	7.9
Interest income from financial instruments measured at amortised cost	9,552	9,156	396	4.3
Interest income from financial liabilities	1,110	1,073	37	3.4
Interest-rate instruments	–551	–3,459	2,908	84.1
Trading derivatives (forward points)	11,391	9,696	1,695	17.5
Hedge accounting	127	81	46	56.8
Loan commissions with the character of interest	233	927	–694	–74.9
Total interest income	**65,001**	**59,070**	**5,931**	**10.0**
Interest expenses on amounts due to banks	749	355	394	111.0
Interest expenses on amounts due to customers	4,707	1,932	2,775	143.6
Interest expenses on medium-term notes	506	782	–276	–35.3
Interest expenses on debentures issued	637	2,322	–1,685	–72.6
Interest expense from financial assets	6,974	6,424	550	8.6
Total interest expenses	**13,573**	**11,815**	**1,758**	**14.9**
Total net interest income	**51,428**	**47,255**	**4,173**	**8.8**
Fair-value hedges[2]				
Movements arising from hedges	642	–4,431	5,073	114.5
• Micro fair-value hedges	642	–4,431	5,073	114.5
• Portfolio fair-value hedges	0	0	0	0.0
Movements in underlying transactions	–515	4,512	–5,027	–111.4
• Micro fair-value hedges	–515	4,512	–5,027	–111.4
• Portfolio fair-value hedges	0	0	0	0.0
Cash-flow hedges[2]				
Result of effectively hedged cash-flow hedges (only ineffective portion)	0	0	0	0.0
Total hedge accounting	**127**	**81**	**46**	**56.8**

[1] Change of accounting principles (note 3 and principles underlying financial statement).
[2] Cash-flow hedge accounting as well as portfolio fair-value hedges were employed in neither the current nor the prior-year period.

2 Income from commission business and services

in CHF 1,000	01.01.–30.06.2017	01.01.–30.06.2016	Variance absolute	Variance in %
Commission income from credit business	406	351	55	15.7
Asset management and investment business[1]	21,535	20,557	978	4.8
Brokerage fees	17,605	15,594	2,011	12.9
Securities account fees	9,953	9,415	538	5.7
Fund management fees	30,512	29,526	986	3.3
Fiduciary commissions	648	410	238	58.0
Other commission and service income	8,958	8,939	19	0.2
Total income from commission business and services	**89,617**	**84,792**	**4,825**	**5.7**
Brokerage expenses	594	903	–309	–34.2
Other commission and services-related expenses	27,936	23,201	4,735	20.4
Total expenses from commission business and services	**28,530**	**24,104**	**4,426**	**18.4**
Total net income from commission business and services	**61,087**	**60,688**	**399**	**0.7**

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

3 Income from trading activities

in CHF 1,000	01.01.–30.06.2017	01.01.–30.06.2016 restated[1]	Variance absolute	Variance in %
Securities trading[2]	–512	–3,360	2,848	84.8
Interest income from trading portfolios	0	0	0	0.0
Dividend income from trading portfolios	0	0	0	0.0
Foreign currency[2]	25,043	22,551	2,492	11.1
Banknotes, precious metals and other	634	714	–80	–11.2
Total income from trading activities	**25,165**	**19,905**	**5,260**	**26.4**

[1] Change of accounting principles (note 1 and principles underlying financial statement).
[2] 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.–30.06.2017	01.01.–30.06.2016	Variance absolute	Variance in %
Income from financial instruments at fair value	11,903	766	11,137	n.a.
Income from financial instruments at amortised cost (foreign exchange)	61	480	–419	–87.3
Total income from financial instruments	**11,964**	**1,246**	**10,718**	**n.a.**
Income from financial instruments at fair value				
Income from FVTPL assets	7,673	–3,551	11,224	316.1
Interest income from FVTPL financial instruments	1,693	2,370	–677	–28.6
Dividend income from FVTPL financial instruments	846	453	393	86.8
Dividend income from FVTOCI financial instruments	1,691	1,494	197	13.2
thereof from FVTOCI financial instruments sold	0	0	0	0.0
Income from FVTPL liabilities	0	0	0	0.0
Total	**11,903**	**766**	**11,137**	**n.a.**
Income from financial instruments at amortised cost (foreign excchange)				
Revaluation gains/losses on financial instruments at amortised cost	–216	–99	–117	–118.2
Realised gains/losses on financial instruments at amortised cost	277	579	–302	–52.2
Total	**61**	**480**	**–419**	**–87.3**

5 Other income

in CHF 1,000	Note	01.01.–30.06.2017	01.01.–30.06.2016	Variance absolute	Variance in %
Income from real estate		35	53	–18	–34.0
Income from associated companies		736	18	718	n.a.
Miscellaneous other income		722	660	62	9.4
Total other income		**1,493**	**731**	**762**	**104.2**

6 Personnel expenses

in CHF 1,000	01.01.–30.06.2017	01.01.–30.06.2016	Variance absolute	Variance in %
Salaries and wages	55,538	51,407	4,131	8.0
Social contributions required by law	4,710	4,675	35	0.7
Contributions to pension plans / defined-benefit plans	6,692	6,682	10	0.1
Contributions to pension plans / defined-contribution plans	762	673	89	13.2
Other personnel expenses	2,613	1,564	1,049	67.1
Capitalized personnel expenses[1]	–432	0	–432	0.0
Total personnel expenses	**69,883**	**65,001**	**4,882**	**7.5**

[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.–30.06.2017	01.01.–30.06.2016	Variance absolute	Variance in %
Occupancy expenses	3,740	3,455	285	8.2
Insurance	463	472	–9	–1.9
Professional fees	5,789	3,471	2,318	66.8
Financial information procurement	3,111	3,457	–346	–10.0
Telecommunication and postage	601	590	11	1.9
IT systems	7,415	7,693	–278	–3.6
Marketing and public relations	2,711	2,212	499	22.6
Capital taxes	459	93	366	393.5
Other general and administrative expenses	3,516	2,990	526	17.6
Total general and administrative expenses	**27,805**	**24,433**	**3,372**	**13.8**

8 Depreciation and amortisation

in CHF 1,000	01.01.–30.06.2017	01.01.–30.06.2016	Variance absolute	Variance in %
Depreciation and amortisation of property and equipment	4,214	4,645	–431	–9.3
Depreciation and amortisation of intangible assets	6,136	6,670	–534	–8.0
Total depreciation and amortisation	**10,350**	**11,315**	**–965**	**–8.5**

9 Valuation allowances, provisions and losses

in CHF 1,000	01.01.–30.06.2017	01.01.–30.06.2016	Variance absolute	Variance in %
Credit risks	–2,213	–107	–2,106	n.a.
Legal and litigation risks	152	102	50	49.0
Other[1]	11,214	745	10,469	n.a.
Total valuation allowances, provisions and losses	**9,153**	**740**	**8,413**	**n.a.**

[1] See "Principles underlying financial statement reporting and comments" for details.

10 Taxes on income

in CHF 1,000	01.01.–30.06.2017	01.01.–30.06.2016	Variance absolute	Variance in %
Total current taxes	3,882	4,244	–362	–8.5
Total deferred taxes	–1,395	–324	–1,071	–330.6
Total taxes on income	**2,487**	**3,920**	**–1,433**	**–36.6**

11 Earnings per share

	30.06.2017	30.06.2016
Consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000)	31,459	24,416
Weighted average of registered shares A	5,440,464	5,449,289
Weighted average of registered shares B	5,876,355	5,877,862
Total weighted average number of shares (registered share A)	6,028,100	6,037,075
Undiluted consolidated earnings per registered share A	5.22	4.04
Undiluted consolidated earnings per registered share B	0.52	0.40
Fully diluted consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000)	31,459	24,416
Adjusted group net income (in CHF 1,000)	31,459	24,416
Number of shares used to compute the fully diluted consolidated net income	6,028,100	6,037,075
Fully diluted consolidated earnings per registered share A	5.22	4.04
Fully diluted consolidated earnings per registered share B	0.52	0.40

12 Debentures, VP Bank Ltd, Vaduz

in CHF 1,000						30.06.2017	31.12.2016
Year of issue	ISIN	Interest rate in %	Currency	Maturity	Nominal amount	Total	Total
2015	CH0262888933	0.5	CHF	07.04.2021	100,000	100,262	100,296
2015	CH0262888941	0.875	CHF	07.10.2024	100,000	100,397	100,424
Total					**200,000**	**200,659**	**200,720**

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	30.06.2017 No. of shares	Nominal CHF	31.12.2016 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	30.06.2017 No. of shares	in CHF 1,000	31.12.2016 No. of shares	in CHF 1,000
Registered shares A at the beginning of the financial year	593,777	50,559	594,774	49,443
Purchases	7,049	781	81,786	8,005
Sales	–50,452	–4,312	–82,783	–6,889
Balance of registered shares A as of balance-sheet date[1]	**550,374**	**47,028**	**593,777**	**50,559**
Registered shares B at the beginning of the financial year	127,812	1,073	125,912	1,056
Purchases	0	0	1,900	17
Sales	0	0	0	0
Balance of registered shares B as of balance-sheet date	**127,812**	**1,073**	**127,812**	**1,073**

[1] 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

	30.06.2017	31.12.2016
Approved and paid dividend of VP Bank Ltd, Vaduz		
Dividend (in CHF 1,000) for the financial year 2016 (2015)	29,769	26,462
Dividend per registered share A	4.50	4.00
Dividend per registered share B	0.45	0.40
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 30.06.2017	Fair value 30.06.2017	Variance	Carrying value 31.12.2016	Fair value 31.12.2016	Variance
Assets						
Cash and cash equivalents	3,203	3,203	0	3,525	3,525	0
Receivables arising from money-market paper	15	15	0	15	15	0
Due from banks	800	800	0	661	661	0
Due from customers	5,536	5,675	139	5,249	5,396	147
Trading portfolios	0	0	0	0	0	0
Derivative financial instruments	40	40	0	44	44	0
Financial instruments at fair value	249	249	0	280	280	0
of which designated on initial recognition	236	236	0	268	268	0
of which mandatory under IFRS 9	0	0	0	0	0	0
of which recognised in other comprehensive income with no effect on net income	13	13	0	12	12	0
Financial instruments at amortised cost	1,974	1,989	15	1,824	1,843	19
Subtotal			**154**			**166**
Liabilities						
Due to banks	687	687	0	358	358	0
Due to customers	9,714	9,709	5	9,839	9,833	6
Derivative financial instruments	68	68	0	57	57	0
Medium-term notes	213	216	–3	220	224	–4
Debentures issued	201	205	–4	201	204	–3
Subtotal			**–2**			**–1**
Total variance			**152**			**165**

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

Cash and cash equivalents, money market paper

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

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

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

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

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

Derivative financial instruments

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

Valuation methods for financial instruments

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

Valuation methods for financial instruments

in CHF million at fair value	Quoted market prices, Level 1	Valuation methods, based on market data, Level 2	Valuation methods, with assumptions based on market data, Level 3	Total 30.06.2017
Assets				
Cash and cash equivalents	3,203			3,203
Receivables arising from money-market paper	15			15
Due from banks		800		800
Due from customers		5,675		5,675
Trading portfolios				0
Derivative financial instruments		40		40
Financial instruments at fair value	231	14	4	249
Financial instruments at amortised cost	1,977	8	4	1,989
Liabilities				
Due to banks		687		687
Due to customers		9,709		9,709
Derivative financial instruments		68		68
Medium-term notes		216		216
Debentures issued	205			205

In the financial year 2017, positions with a fair value of CHF 0.0 million (2016: CHF 0.0 million) were reclassified from Level 1 (quoted market prices) to Level 2 (valuation methods based on market data), CHF 0.0 million (2016: CHF 0.0 million) from Level 2 to Level 3 (valuation methods, based on realistic market-data-related assumptions) as well as CHF 0.0 million from Level 3 to Level 2 (2016: CHF 0.0 million). The reclassifications are made as of the end of the reporting period in the case of changes in the availability of market prices (market liquidity).

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 31.12.2016
Assets				
Cash and cash equivalents	3,525			3,525
Receivables arising from money-market paper	15			15
Due from banks		661		661
Due from customers		5,396		5,396
Trading portfolios				0
Derivative financial instruments		44		44
Financial instruments at fair value	258	18	4	280
Financial instruments at amortised cost	1,825	15	3	1,843
Liabilities				
Due to banks		358		358
Due to customers		9,833		9,833
Derivative financial instruments		57		57
Medium-term notes		224		224
Debentures issued	204			204

Valuation methods for financial instruments (continued)

Level 3 financial instruments	30.06.2017	31.12.2016
Balance sheet		
Holdings at the beginning of the year	6.9	4.4
Investments	4.4	3.1
Disposals	−3.0	−0.1
Issues	0.0	0.0
Redemptions	0.0	0.0
Losses recognised in the income statement	−0.2	−0.4
Losses recognised as other comprehensive income	−0.1	0.0
Gains recognised in the income statement	0.0	0.0
Gains recognised as other comprehensive income	0.0	0.0
Reclassification to Level 3	0.0	0.0
Reclassification from Level 3	0.0	0.0
Translation differences	0.0	0.0
Total book value at balance-sheet date	**8.0**	**6.9**
Income on holdings at balance-sheet date		
Unrealised losses recognised in the income statement	−0.2	−0.4
Unrealised losses recognised as other comprehensive income	−0.1	0.0
Unrealised gains recognised in the income statement	0.0	0.0
Unrealised gains recognised as other comprehensive income	0.0	0.0

No deferred day 1 profit or loss (difference between the transaction price and the fair value calculated on the transaction day) was reported for Level 3 positions as of 30 June 2017 or 31 December 2016.

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	30.06.2017	31.12.2016
Total contingent liabilities	116,609	114,630
Irrevocable facilities granted	42,827	45,426
Total fiduciary transactions	870,505	728,681
Contract volumes of derivative financial instruments	5,048,449	5,437,379
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	13,106	1,256
Amounts payable arising from cash deposits in connection with securities lending and repurchase transactions	105,368	50,883
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	513,225	478,910
• of which securities where the unlimited right to sell on or pledge has been granted	416,607	410,780
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	396,893	426,254
• of which securities which have been resold or repledged	96,618	68,130

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	30.06.2017	31.12.2016	Variance absolute	Variance in %
Analysis of client assets under management				
Assets in self-administered investment funds	6,448.9	5,813.4	635.5	10.9
Assets in discretionary asset management accounts	3,475.9	3,439.1	36.8	1.1
Other client assets under management	27,474.9	26,501.4	973.5	3.7
Total client assets under management (including amounts counted twice)	**37,399.7**	**35,753.9**	**1,645.8**	**4.6**
of which amounts counted twice	2,169.7	1,972.4	197.3	10.0
Change of assets under management				
Total client assets under management (including amounts counted twice) at the beginning of the financial year	35,753.9	34,768.7	985.2	2.8
of which net new money	1,115.0	7.4	1,107.6	n.a.
of which change in market value	530.8	977.8	–447.0	–45.7
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	**37,399.7**	**35,753.9**	**1,645.8**	**4.6**
Custody assets	**5,482.4**	**5,790.4**	**–308.1**	**–5.3**
Total client assets				
Total client assets under management (including amounts counted twice)	37,399.7	35,753.9	1,645.8	4.6
Custody assets	5,482.4	5,790.4	–308.1	–5.3
Total client assets	**42,882.0**	**41,544.3**	**1,337.7**	**3.2**

in CHF million	30.06.2017	30.06.2016	Variance absolute	Variance in %
Net new money	**1,115.0**	**–218.5**	**1,333.5**	**n.a.**

19 Capital-adequacy computation

in CHF 1,000	30.06.2017	31.12.2016
Core capital	925,848	919,892
Eligible core capital (tier 1)	936,996	938,537
Eligible core capital (adjusted)	936,996	938,537
Total required equity	470,324	450,321
Tier 1 ratio	25.9%	27.1%
Total risk-weighted assets	3,617,866	3,464,005
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 the Financial Market Authority (FMA) Liechtenstein, Landstrasse 109, PO Box 279, 9490 Vaduz, Liechtenstein, www.fma-li.li

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Shareholder information

Tuesday, 6 March 2018	Media and analysts conference, financial results 2017
Friday, 27 April 2018	55th ordinary annual general meeting
Wednesday, 2 May 2018	Ex date
Thursday, 3 May 2018	Record date
Friday, 4 May 2018	Payment date
Tuesday, 21 August 2018	Roundtable, semi-annual results 2018

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