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Shareholder information

VP Bank Group at a glance

- Founded in 1956
- Third-largest bank in Liechtenstein
- About 980 employees
- Listed on SIX Swiss Exchange
- "A" rating from Standard & Poor's
- Six locations worldwide in key financial centres (Vaduz, Zurich, Luxembourg, Singapore, Hong Kong, Tortola/BVI)
- Focus on asset management for intermediaries and private individuals
- International fund competence centre

Medium-term goals for the end of 2020

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

Agenda 2021

Media and analysts conference	9 March 2021
Annual general meeting of shareholders	30 April 2021
Ex-dividend date	4 May 2021
Dividend record date	5 May 2021
Dividend payment date	6 May 2021
Semi-annual results	17 August 2021

Master data

Registered shares A, listed on SIX Swiss Exchange	
Symbol SIX	VPBN
Bloomberg ticker	VPBN
Reuters ticker	VPBN.S
Security number	31 548 726
ISIN	LI0315487269

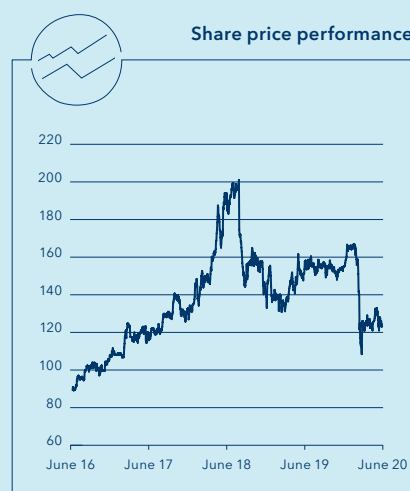
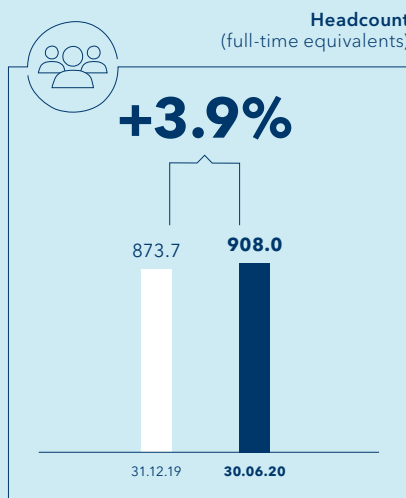
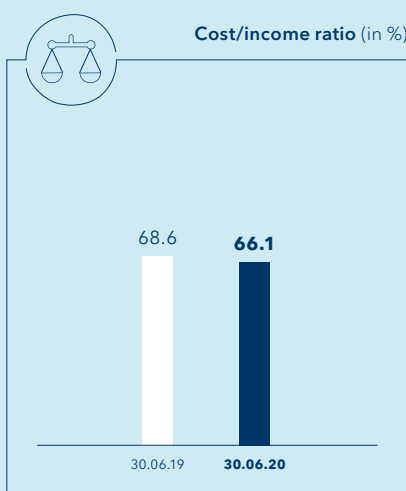
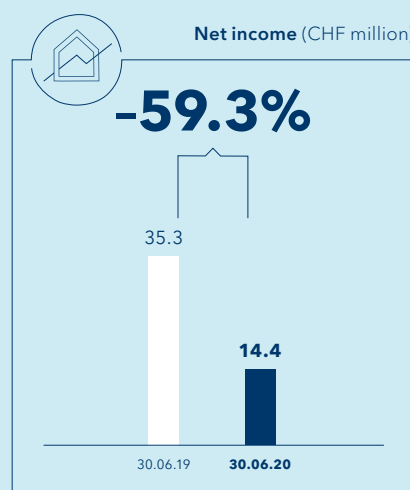
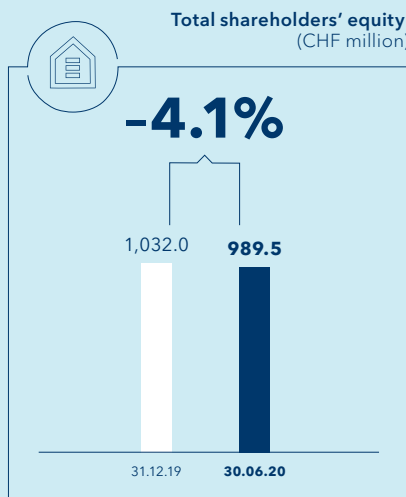
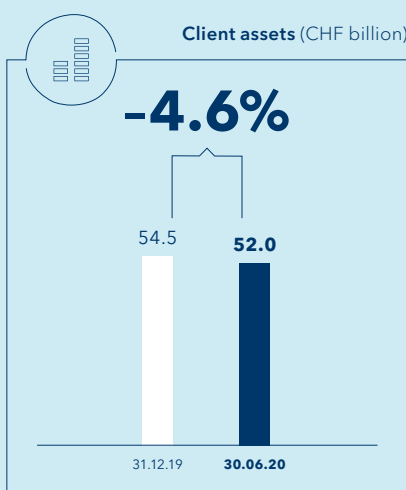
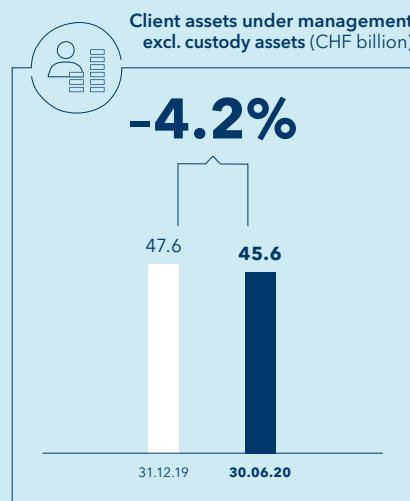
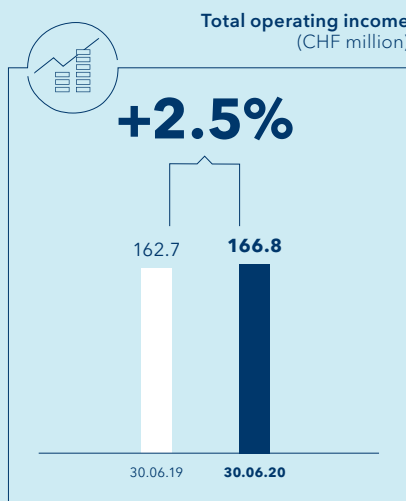
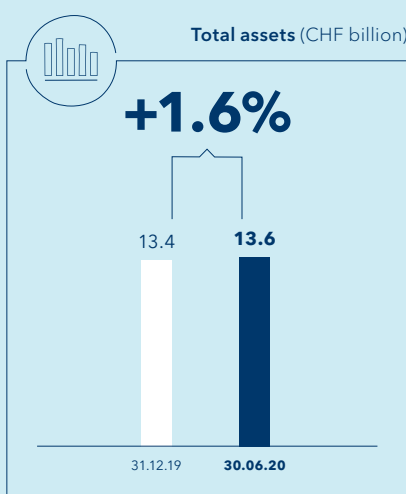
"We connect. Learn more about what connects us."

Connectivity is the corporate megatrend of our time. The principle of unlimited networking continues to grow rapidly and touches all areas of our lives. Our specialists serve as the Bank's messengers to describe the areas and topics where VP Bank is forging new conceptual connections. We present six central themes in all, which include the following areas: digital advisory, corporate responsibility, working environment, investment solutions, financial strength and fund expertise. You can also watch more in-depth interviews in our online annual report at report.vpbank.com



report.vpbank.com

Key figures of VP Bank Group



— VP Bank registered shares A (in CHF)

Key figures of VP Bank Group

	30.06.2020	30.06.2019	31.12.2019	Variance to 30.06.2019 in %
Key income statement data in CHF million^{1,2}				
Total net interest income	57.4	54.6	115.1	5.1
Total net income from commission business and services	71.5	67.0	137.2	6.7
Income from trading activities	32.5	29.3	61.0	11.1
Income from financial instruments	4.9	11.4	14.3	-57.4
Total operating income	166.8	162.7	327.8	2.5
Operating expenses	146.2	122.7	244.8	19.2
Group net income	14.4	35.3	73.5	-59.3
	30.06.2020	30.06.2019	31.12.2019	Variance to 31.12.2019 in %
Key balance-sheet data in CHF million^{1,2}				
Total assets	13,611.0	13,104.6	13,399.9	1.6
Due from banks	1,829.4	682.6	735.0	148.9
Due from customers	6,057.9	6,659.1	6,797.3	-10.9
Due to customers	11,608.5	10,966.2	11,137.5	4.2
Total shareholders' equity	989.5	985.1	1,032.0	-4.1
Equity ratio (in %)	7.3	7.5	7.7	-5.6
Tier 1 ratio (in %)	20.1	19.7	20.2	-0.4
Leverage ratio in accordance with Basel III (in %)	7.0	6.9	7.1	-1.5
Liquidity coverage ratio in accordance with Basel III (in %)	176.7	173.4	213.1	-17.1
Total client assets under management in CHF billion				
On-balance-sheet customer deposits (excluding custody assets)	11,681.2	10,968.0	11,146.1	4.8
Fiduciary deposits (excluding custody assets)	640.5	800.5	908.6	-29.5
Client securities accounts	33,316.2	33,850.9	35,568.3	-6.3
Custody assets in CHF billion	6,399.3	6,066.2	6,926.3	-7.6
Total client assets in CHF billion	52,037.2	51,685.7	54,549.2	-4.6
Business volumes³				
Net new money	952.5	1,212.0	2,254.6	-57.8
Key operating indicators²				
Return on equity (in %) ^{1,4}	2.8	7.3	7.4	
Cost/income ratio (in %) ⁵	66.1	68.6	67.6	
Total operating expenses / total net operating income (in %)	87.7	75.4	74.7	
Headcount (expressed as full-time equivalents, excluding student apprentices)⁶				
Total operating income per employee (in CHF 1,000)	183.7	185.8	375.2	
Total operating expenses per employee (in CHF 1,000)	121.5	127.5	253.7	
Group net income per employee (in CHF 1,000)	15.8	40.3	84.2	
Key indicators related to shares of VP Bank in CHF¹				
Group net income per registered share A ⁷	2.39	5.89	12.28	
Group net income per registered share B ⁷	0.24	0.59	1.23	
Shareholders' equity per registered share A on the balance-sheet date	164.23	165.43	173.23	
Shareholders' equity per registered share B on the balance-sheet date	15.82	15.75	16.50	
Quoted price per registered share A	123.00	157.80	155.00	
Quoted price per registered share B	12.30	15.80	15.50	
Market capitalisation (in CHF million) ⁸	814	1,044	1,025	
Price/earnings ratio per registered share A	25.78	13.40	12.62	
Price/earnings ratio per registered share B	25.78	13.42	12.62	
Rating Standard & Poor's ⁹	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	

¹ The reported key data and operating indicators are computed and reported on the basis of the share of the net profit and shareholders' equity attributable to the shareholders of VP Bank Ltd, Vaduz.

² Details in the notes to the consolidated income statement and consolidated balance sheet.

³ Assets under management and due from customers.

⁴ Net income / average shareholders' equity less dividend.

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

⁶ In accordance with legal requirements, apprentices are to be included in headcount statistics as 50 per cent of equivalent full-time employees.

⁷ Based on the weighted average number of shares (registered shares A) (note 11).

⁸ Including registered shares B.

⁹ On July 17, 2020, S&P Global Ratings revised the outlook on VP Bank to negative from stable.

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



Dr Thomas R. Meier
Chairman of the Board of Directors



Paul H. Arni
Chief Executive Officer

Dear Shareholders,
Ladies and Gentlemen

The first half of 2020 saw social and economic life turned upside down by the coronavirus pandemic. Far-reaching measures taken by governments in an attempt to contain the spread of coronavirus saw social lives largely ground to a halt and the economy slump to a historic low. But rapid and extensive support measures initiated by governments and central banks kept hopes alive that the financial markets might emerge relatively unscathed. After a one-off collapse in prices on stock markets at the start of the pandemic, the second quarter saw a noticeable recovery. Geopolitical uncertainties continued to grow too - driven partially by coronavirus. VP Bank proved its crisis resilience in this extremely difficult market environment and generated a satisfactory result for the first half of the year in spite of all odds.

VP Bank asserts itself in a difficult market environment

VP Bank reacted quickly and consistently to the coronavirus-marred business environment, benefiting from its resilience and its strong position in the field of digital technologies in the process. Thanks to flexibility on the part of its employees, VP Bank was able to maintain professional care for its clients on an ongoing basis and support them in all their financial affairs, specifically investment decisions.

VP Bank's strong position was further reflected in its key financial indicators for the first half of 2020. Group net income fell significantly to CHF 14.4 million (previous year: CHF 35.3 million) as a result of the announced one-time valuation adjustment of approximately CHF 20 million. Earnings before tax minus valuation adjustments rose by 13.6 per cent to CHF 41.5 million.

This solid performance is also reflected in a strong net new money inflow, which rose by roughly CHF 1 billion (previous-year period: CHF 1.2 billion) in the first half of 2020 thanks to intensive market development and the recruitment of new client advisors. Client assets under management on the other hand fell by 4.2 per cent to CHF 45.6 billion (as of 31 December 2019: CHF 47.6 billion) as of 30 June 2020 due to stock market turbulence and the negative market valuation.

With a tier 1 ratio of 20.1 per cent as of 30 June 2020, VP Bank has maintained a solid equity base and a very strong position given the difficult market environment. Without taking into account the one-off effect of the valuation adjustment on a credit position announced previously, this result shows that VP Bank has at its disposal a solid and sustainable business model that can assert itself even when times are tough.

Medium-term goals 2020

VP Bank's aim is to generate sustainable and profitable growth. As part of our Strategy 2020, we have set ourselves the goal of achieving the following financial performance indicators by the end of 2020:

- Client assets under management of CHF 50 billion
- Group net income of CHF 80 million
- Cost/income ratio below 70 per cent

We are well on track with regard to the cost/income ratio - even in this difficult environment. But our client assets goal is likely to pose a challenge. However, the effects of the coronavirus crisis will make it impossible to achieve our Group net income target.

2025/26 strategy cycle

We presented our Strategy 2025, the theme of which is "Seize opportunities", back in the 2019 annual report. Part of this is growing together with our clients and seizing the opportunities offered by a fast-changing society and economy. Our established business areas Wealthy Individuals, Intermediaries, Client Solutions, and Retail & Commercial Banking in the domestic market will form the basis for this.

As part of the new strategy, we have defined three strategic focal points which we intend to employ in the pursuit of our goals. These include developing our existing business and locations (Evolve), optimising our business model by improving effectiveness, scaling and cost discipline (Scale), and developing new business opportunities to generate additional earnings (Move). This will see us increasingly move our focus towards digitisation and the topic of sustainability.

We aim to have achieved a Group net income of CHF 100 million by the end of the new strategy cycle. Following the coronavirus crisis we remain committed to our targets, but have extended the timeline to 2026.

We have defined our financial strategy goals on the basis of the following medium-term objectives:

- **Growth:** at least 4 per cent net new money p.a. as a percentage of client assets under management over the entire strategy cycle
- **Profitability:** profit margin greater than 15 basis points (bp) (0.15 per cent) and cost/income ratio of 70 per cent
- **Stability:** tier 1 ratio greater than 20 per cent

2020 has been somewhat of a transitional year with regard to the new strategy cycle, one which saw us press ahead with important preparations for the implementation. Work is progressing swiftly and by the end of the year we will have laid the organisational and structural groundwork to ensure we are optimally positioned for the 2025/26 strategy cycle.

Preparation for the new strategy cycle

The first half of 2020 saw our business shaped by the coronavirus crisis. In March, we launched a comprehensive crisis concept to protect our clients and our employees, and implemented this across all of our locations. Measures have specifically included new digital solutions for customer engagement, protective measures for clients and employees, working from home, and regulations regarding business trips. Under the direction of the CEO, our crisis team reviews the implementation of and the need for these measures on an ongoing basis and makes changes where necessary.

Disciplined risk-taking is a fundamental prerequisite for the sustained success of VP Bank. Strong risk management, a distinct understanding of processes and close cooperation between all parties are key components of our growth strategy. In connection with the valuation adjustment on a single position that was announced this spring, the first half of 2020 saw responsibilities in the credit division reorganised and restructured. The measures implemented have allowed us to position VP Bank even more strongly for the future and to lay important groundwork for its long-term business success.

Another key factor in the new strategy is our sustainable investment philosophy "Investing for change", the aim of which is to reposition our product range and provide access to new solutions through impact investing. The past few months have seen us start to consistently incorporate sustainability criteria in our investment processes while also factoring these into the investment and advisory process. Sustainability is something that we plan to incorporate more heavily in our business activities in future too. In order to achieve this, we organised a stakeholder engagement process with a materiality analysis. The aim of this was

to identify focus issues of particular importance to our business and our stakeholders. The results provided us with important indicators for planning and implementing sustainable value creation in our company.

Another cornerstone of Strategy 2025/26 is the future IT infrastructure. This will form the basis for the ongoing digitisation of our services and offerings as well as for the scaling of our operational business processes. This is also expected to serve as a means of facilitating the future integration of fintech solutions and additional collaborations. We are also planning to offer customised, data-assisted consulting as well as tailored financial solutions for intermediaries and private clients, which will allow us to tap into new sources of revenue.

We are also set to expand our operational distribution processes with the launch of new online solutions, with a focus on digital technologies that promote dialogue with our clients. We launched some of the first solutions back in the first half of 2020, for instance introducing video consultation as an additional channel of communication. Likewise, the introduction of new client communication tools like the VP Bank Crisis Barometer, the new investment magazine Telescope and digital online client events saw us continue to expand information provision to our clients. This enables us to ensure that our clients always receive first-hand information and that we can maintain a direct and personal dialogue with them.

Another key component of our Strategy 2025/26 is the targeted development of our locations. The plan is to help these to align their offerings more consistently to clients in their target markets, thereby enabling them to take advantage of market opportunities in a more targeted manner. We started to refine the various location strategies in the first half of the year. We took one important step in this direction in July 2020 with the acquisition of the private banking division of Öhman Bank S.A. in Luxembourg. This acquisition highlights our international growth ambitions and will contribute significantly to the expansion of our activities in the Luxembourg and Scandinavian markets.

In the second half of the year, we will continue to intensify our collaboration with Hywin Wealth in Shanghai. Our collaboration with this prominent Chinese financial service provider offers us the opportunity to further promote our business activities in this attractive region with a strong partner.

We are confident that these measures will help us to lay the fundamental groundwork for the long-term business success of VP Bank Group and the successful implementation of Strategy 2025/26.

Significant events in the first half of the year

In February, our team in Singapore won the Wealth Briefing Asia Award for Best External Asset Manager Service Provider and Best Private Banking Regional Partnership, before going on to win the Citywire Asia EAM Desk Award 2020 for Best Service in June. These awards highlight the prominent position of the Bank and our targeted focus on intermediary business in Asia. They are testament to the successful implementation of our Asia strategy and the measurable added value we generate for our clients.

In the first half of 2020, we celebrated the 25-year anniversary of our branch on the British Virgin Islands. It has played an integral part in our international success and offers credit financing and mortgages in addition to the classic banking services.

In March 2020, Bisnode D&B Switzerland Ltd awarded VP Bank Group the maximum score of 1 in the D&B Risk Indicator for the seventh time. VP Bank Group's outstanding financial stability was instrumental in achieving this great rating.

Rating agency Standard & Poor's (S&P) confirmed the outstanding "A" rating for VP Bank again in July 2020. However, following the valuation adjustment of March 2020, the outlook has been adjusted from "stable" to "negative". We are confident that the improvement measures initiated with regard to processes, duties, competencies and responsibilities will bolster VP Bank's risk governance considerably and help it to fulfil the necessary conditions to quickly return the outlook to "stable".

Staff and organisational changes

At the 2020 annual general meeting, VP Bank shareholders re-elected Dr Beat Graf and Michael Riesen to the VP Bank Board of Directors for another three years each. Professor Teodoro D. Cocca departed the Board of Directors due to the restriction of tenure. Katja Rosenplänter-Marxer was newly elected to the Board of Directors for a term of three years. Fredy Vogt gave up his role as Chairman of the Board of Directors, but will remain a member of the Board of Directors. Dr Thomas R. Meier, former Vice Chairman, was elected as the new Chairman of the VP Bank Board of Directors.

There were significant changes for the Group's executive body too. The reorganisation of Group Executive Manage-

ment took place as part of a joint process carried out by the Board of Directors and the CEO and focused on three key areas. Christoph Mauchle, who is set to take early retirement at the end of September 2020 at his own request, will be succeeded by Tobias Wehrli on 1 July 2020. He will take over the management of the Intermediaries & Private Banking division. On 1 September 2020, Thomas von Hohenhau will take up the position of Head of the Group Executive Management division Client Solutions newly created as part of Strategy 2025/26. Following a valuation adjustment on an individual position, responsibilities in the credit division have been reorganised and restructured. In the wake of these measures, CFO Siegbert Näscher and General Counsel & Chief Risk Officer Monika Vicandi have decided to leave the company. Patrick Bont has been engaged to take on the position of new Chief Risk Officer as of 1 November 2020.

VP Bank shares and capital market

Given the ban on gatherings due to coronavirus, the 57th annual general meeting of VP Bank on 24 April 2020 took place solely with electronic and postal votes and via live stream. All proposals were accepted. Based on the 2019 net annual profit, a dividend of CHF 5.50 per registered share A was paid out on 30 April 2020, corresponding to a dividend yield of roughly 4.3 per cent and in line with our policy of consistent dividend performance.

Despite a persistently difficult environment for banks, VP Bank shares performed relatively robustly during the difficult first half of the year.

Outlook

VP Bank has weathered the past few months of the coronavirus storm relatively well. But the effects of the pandemic are likely to be felt by society and the economy in the second half of the year too. As well as the ongoing uncertainties surrounding the further development of the coronavirus pandemic, there are a variety of geopolitical challenges facing the economy. Despite the anticipated decline of the economy, VP Bank is looking to the future with confidence. We plan to actively pursue opportunities as these arise and to invest in the further sustainable, profitable and independent development of the Bank.

The rest of 2020 will see us work consistently towards successfully completing the current strategy period and achieving our targets. Having said that, our earnings target of CHF 80 million is now unattainable. Thanks to its healthy equity base and high level of liquidity, we are confident that VP Bank is in a good position to cope with the current crisis on the global financial markets.

We remain committed to our targets for the new 2025/26 strategy cycle, especially our Group net income target of CHF 100 million, but have extended the cycle by one year to 2026.

Thank you

The coronavirus situation is making clear to us how important it is to be creative and open to change. We are proud of our employees and our organisation - over the past few months, they have proven that VP Bank is capable of acting in a flexible and targeted manner. This is allowing us to successfully operate our business for our clients and the Bank at the accustomed level of quality despite the changed framework conditions.

We would like to thank everyone who has dedicated their efforts to helping us to "Seize opportunities" and emerge stronger from these socially and economically challenging times.

We would like to thank our clients and shareholders for the confidence they have demonstrated towards VP Bank.



Dr Thomas R. Meier
Chairman of the
Board of Directors



Paul H. Arni
Chief Executive Officer

VP Bank at a glance

VP Bank Group is an internationally active private bank focused on rendering asset management services for financial intermediaries and private individuals. VP Fund Solutions, the fund competence centre, gives easy access to top-notch fund solutions.

VP Bank is one of the largest banks in the Liechtenstein financial centre. In addition to its headquarters in the Principality of Liechtenstein, VP Bank Group is present with offices in five other locations around the globe: Switzerland, Luxembourg, Singapore, Hong Kong and the British Virgin Islands.

VP Bank Group has a sound balance sheet and a strong capital base. An "A" rating from Standard & Poor's vouches for the financial strength of this banking enterprise. The shares of VP Bank are listed on SIX Swiss Exchange. A large proportion of its equity capital is in the hands of three anchor shareholders: "Stiftung Fürstlicher Kommerzienrat Guido Feger" foundation, "U.M.M. Hilti-Stiftung" foundation and "Marxer Stiftung für Bank- und Unternehmenswerte" foundation – a guarantee of continuity, independence and sustainability.

VP Bank has a workforce of almost 980 employees and manages client assets totalling almost CHF 52.0 billion. Its client advisors are supported by a global network of partner firms that contribute to the outstanding international know-how of VP Bank Group.

Tradition and innovation for more than 60 years

Founded in 1956 in Vaduz, Liechtenstein, VP Bank has grown steadily from a friendly local bank to become a globally active financial services enterprise.

VP Bank's founder, Guido Feger, was a successful entrepreneur and one of Liechtenstein's most important trustees. Right from the start, he demonstrated innovation, compe-

tence and courage, while never veering from the fundamental principles of client orientation and financial security. These basic principles have been upheld consistently for the last six decades.

A number of international awards for the quality of the Bank's client advice and ancillary services, as well as for its competence in transaction processing, attest to our pronounced quality consciousness.

In 1983, VP Bank became Liechtenstein's first exchange listed company, and ever since then it has been present in the international banking system via the euro money market. The philanthropic activities of VP Bank's founder have been continued by the "Stiftung Fürstlicher Kommerzienrat Guido Feger" foundation.

Expertise and consulting

VP Bank is an established partner for financial intermediaries who value its many years of experience and modern infrastructure. VP Bank's core competencies lie in tailored asset management and investment consulting, as well as wealth planning and financing for private clients with high standards.

One of the strengths of VP Bank is its independence in terms of providing financial advice. The Bank's investment solutions are based on the principle of "open architecture", an approach that also takes into account the best-in-class products and services of third-party providers. The result: conflicts of interest are avoided right from the start.

With almost 980 employees, VP Bank Group is the right size to offer top-notch solutions with a personal touch. Clients benefit from the tailored advice of a private bank while at the same time gaining access to a worldwide network of specialists thanks to the international presence of VP Bank.

VP Bank relies on short decision-making paths, agility, and flexible and sustainable solutions. The use of digital tools supports personal client care. In addition, VP Bank's e-banking application affords clients freedom of movement and maximum security when conducting banking transactions. They have round-the-clock electronic access to their securities and deposit accounts.

6

international
locations

Tortola

Luxembourg
Zurich

Vaduz

Hong Kong
Singapore

About CHF
52.0
billion in
client assets

Founded in

1956



979

employees

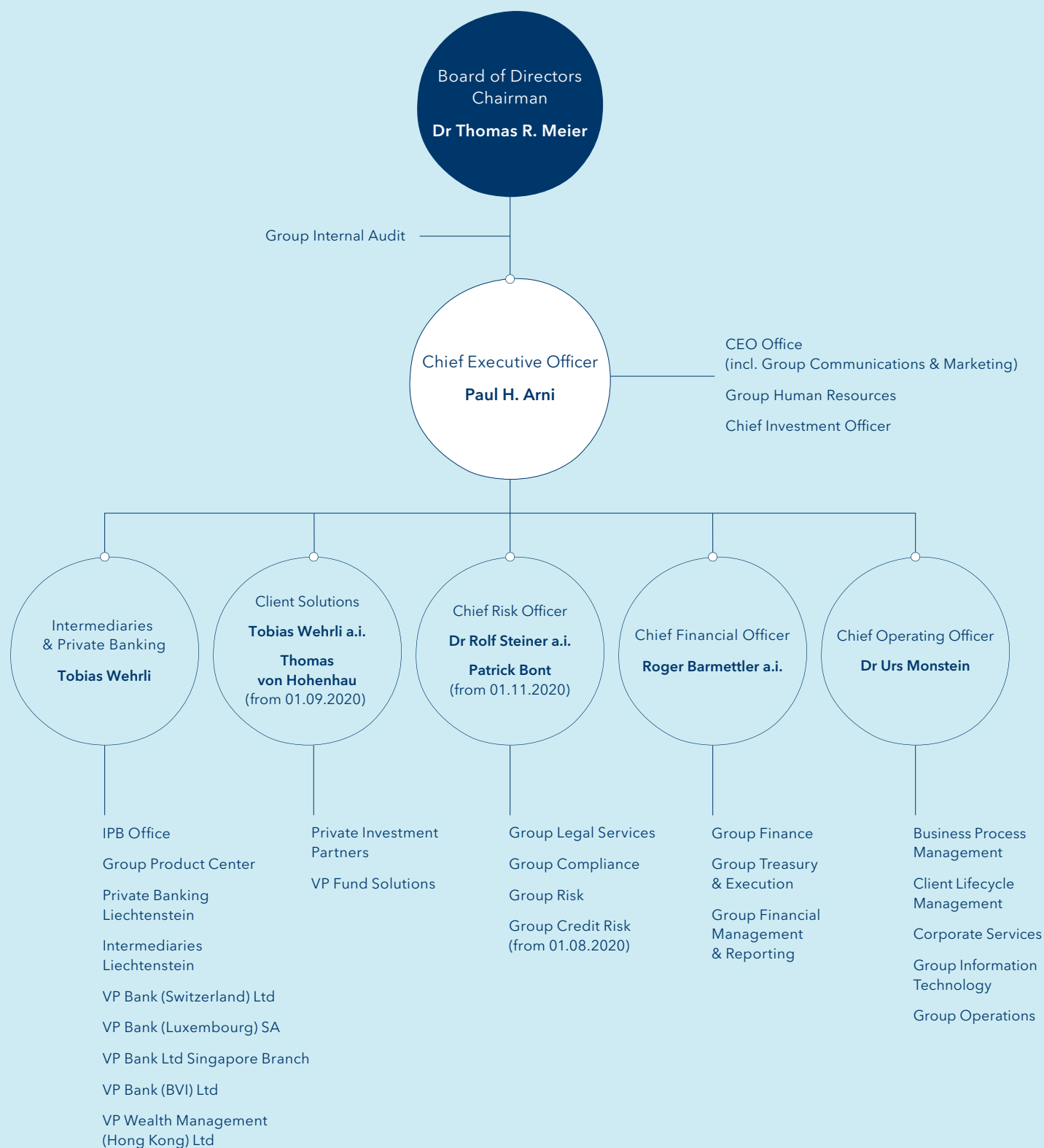


Our core competencies

- Asset management
- Investment advisory
- Wealth planning
- Partner for financial intermediaries
- Fund competence centre



Organisational structure



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

The organisational chart applies from 01.07.2020

Consolidated semi-annual report of VP Bank Group

Consolidated results

VP Bank Group generated a group net income of CHF 14.4 million in the first half of 2020 (-59.3 per cent) compared with CHF 35.3 million in same period last year. This is attributable to a one-off valuation adjustment announced in March in connection with a credit case. Earnings before tax minus valuation adjustments for credit risks in the first half of 2020 totalled CHF 41.5 million compared with CHF 36.5 million in the previous-year period (up 13.6 per cent). The cost/income ratio for the first half of 2020 was 66.1 per cent (compared with 68.6 per cent in the previous-year period).

VP Bank Group has a strong capital base. As of 30 June 2020, the tier 1 ratio was 20.1 per cent (compared with 20.2 per cent at the end of 2019). This strong capital base is testament to VP Bank's resilient and successful business model and offers an ideal starting point for the ongoing development of VP Bank Group.

Client assets

As of 30 June 2020, VP Bank Group's client assets under management amounted to CHF 45.6 billion. This represents a decrease of CHF 4.2 per cent (CHF -2.0 billion) on the CHF 47.6 billion recorded as of 31 December 2019. Of this, around CHF 1.0 billion was attributable to net new money inflow and CHF -2.9 billion to negative changes in the market valuation (performance) of client assets. The decline in client assets under management is largely down to stock market turbulence triggered by COVID-19. Intensive market development and the recruitment of new client advisors helped to generate client asset inflow despite the challenges.

As of 30 June 2020, custody assets amounted to CHF 6.4 billion, this represented a drop of CHF 0.5 billion from the level of 31 December 2019. As of 30 June 2020, client assets including custody assets totalled CHF 52.0 billion (31 December 2019: CHF 54.5 billion).

Income statement

Operating income

In the six months of 2020 under review, VP Bank's operating income rose by CHF 4.1 million or 2.5 per cent to CHF 166.8 million (previous-year period: CHF 162.7 million). This increase is attributable to growth in income from commission business and services, trading activities, and interest income.

Year-on-year, net interest income increased from CHF 54.6 million to CHF 57.4 million in the period under review. Interest income fell by CHF 12.0 million (-15.5 per cent). This reduction is predominantly due to lower client loans and weaker USD interest rates. Furthermore, expiring bonds are having to be reinvested in lower-yielding investments due to the low interest environment. Other interest income increased by CHF 1.8 million to CHF 9 million primarily due to valuation successes with FX swaps. Interest expenses fell by CHF 12.9 million (-43 per cent).

Income from commission business and services rose by 6.7 per cent to CHF 71.5 million in the first half of 2020 (previous-year period: CHF 67.0 million). Owing to avid client activity in the first quarter, brokerage fees increased significantly from CHF 15.5 million in the same period of the previous year to CHF 20.6 million in the reporting period (up 32.8 per cent). Recurring income from asset management also rose by 5.0 per cent to CHF 27.4 million (previous year: CHF 26.2 million).

Income from trading activities amounted to CHF 32.5 million, which constitutes an increase of CHF 3.2 million (11.1 per cent) in comparison to the first half of 2019. Income from trading on behalf of clients increased by a welcome 9.5 per cent (up CHF 3.0 million) to CHF 34.2 million.

Financial investments ended the first half of 2020 with a net income of CHF 4.9 million (net income in the previous-year period: CHF 11.4 million). The CHF 6.5 million reduction in income from financial investments came primarily as a result of lower valuations, which accounted for a CHF 0.3 million drop in the first half of the year after a positive result of CHF 4.9 million in the same period of the previous year.

Operating expenses

Operating expenses in the first six months of the current financial year rose by CHF 23.6 million, from CHF 122.7 million to CHF 146.2 million in the previous-year period (19.2 per cent). This increase is primarily associated with the CHF 20 million valuation adjustment on an individual credit position announced in March. Without factoring in valuation adjustments, operating expenses in the period under review would have been CHF 0.9 million lower than in the previous-year period (-0.7 per cent).

Personnel expenses fell by CHF 1.1 million or -1.3 per cent compared with the first half of the previous year to CHF 81.3 million. As of the end of June 2020, VP Bank Group employed roughly 908 members of staff in full-time equivalents, representing an increase in headcount of 32 employees compared with 30 June 2019 (3.7 per cent).

General and administrative expenses fell slightly by 1.0 per cent to CHF 29.0 million (previous-year period: CHF 29.3 million). Depreciation and amortisation remained stable at CHF 14.2 million in the reporting period compared with the previous year (CHF 14.3 million). Valuation adjustments, provisions and losses amounted to CHF 21.7 million in the first half of 2020 compared with a net reversal of CHF 3.3 million the previous year. This change is mainly due to the valuation adjustment on a credit position announced in March 2020.

The aim of IFRS 9 is to map the expected credit loss (ECL) over an economic cycle. The individual parameters of the ECL model are monitored on an ongoing basis and may be adapted where potential changes in economic circumstances require it. With the exception of a valuation adjustment on a credit position, the impact of COVID-19 on IFRS 9 and the semi-annual financial statements has not led to any significant expenses in the income statement.

Tax on income

Tax on income amounted to CHF 6.2 million in the first half of 2020, CHF 1.4 million more than in the previous-year period. This increase is primarily attributable to deferred taxes on valuation differences.

Group net income

Group net income for the first half of 2020 amounted to CHF 14.4 million (previous-year period: CHF 35.3 million). Group net income per registered share A was CHF 2.39 (first half of 2019: CHF 5.89).

Comprehensive income

Comprehensive income refers to all income and expenses recognised in the income statement and in equity capital. The primary items recognised directly in equity capital include actuarial adjustments for pension funds and changes in the value of FVTOCI (at fair value through other comprehensive income) financial instruments. VP Bank Group generated comprehensive income of CHF -12.3 million in the first half of 2020 compared with CHF 42.1 million in the preceding year.

Balance sheet

The first half of 2020 saw total assets increase by CHF 0.2 billion to CHF 13.6 billion compared with 31 December 2019. This increase in total assets is primarily attributable to a CHF 0.5 billion increase in "Other liabilities due to clients" and a CHF 1.1 billion increase in receivables from banks alongside a simultaneous CHF 0.7 billion reduction in receivables from clients. The value of financial instruments measured at amortised cost remained stable in comparison to the start of the year at CHF 2.3 billion. This was attributable to the reinvestment of expiring financial instruments.

VP Bank Group has a very comfortable liquidity structure with liquid assets of roughly 20 per cent of total assets worth CHF 2.8 billion (CHF 2.9 billion as of 31 December 2019). This is reflected in an optimum liquidity coverage ratio (LCR) of 176.7 per cent.

As of 30 June 2020, VP Bank Ltd holds, directly or indirectly, 536,956 registered shares A and 328,019 registered shares B (8.6 per cent of the share capital and 7.2 per cent of the voting rights). As the shares have not been cancelled, both capital structure and voting rights will remain the same.

The registered shares A in the portfolio are to be used for future acquisitions or for treasury management purposes.

As of the end of June 2020, equity capital stood at CHF 989.5 million (31 December 2019: CHF 1,032 million).

The tier 1 ratio calculated under Basel III was 20.1 per cent as of 30 June 2020 (as of 31 December 2019: 20.2 per cent), reflecting a strong capital base and an ideal strategic starting point for the ongoing development of VP Bank Group.

Outlook

The coronavirus pandemic had the world on tenterhooks in the first half of the year. The recovery of the financial markets from May onwards was miraculous. Governments and central banks propped up the economy and financial markets with record spending and financial policy easing. Nonetheless, real economic growth and the situation on the financial markets remain challenging.

VP Bank cannot escape the challenging environment and potential consequences of COVID-19. Having said that, it is well-equipped for the challenges and all set to press ahead with its sustainable growth strategy. With a strong capital base and optimum liquidity, VP Bank Group has everything it needs to build a successful future. The outstanding "A" rating confirmed by Standard & Poor's in July 2020 underlines the resilience and effectiveness of VP Bank Group's business model.

Consolidated income statement

in CHF 1,000	Note	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Interest income from financial instruments at amortised cost		65,472	77,438	-11,966	-15.5
Other interest income		9,018	7,165	1,853	25.9
Interest expense using the effective interest method		17,114	30,030	-12,916	-43.0
Total net interest income	1, 18	57,376	54,573	2,803	5.1
Commission income		94,092	90,485	3,607	4.0
Commission expenses		22,565	23,470	-905	-3.9
Total net income from commission business and services	2	71,527	67,015	4,512	6.7
Income from trading activities	3	32,512	29,269	3,243	11.1
Income from financial instruments	4	4,850	11,389	-6,539	-57.4
Other income	5	540	491	49	10.0
Total operating income		166,805	162,737	4,068	2.5
Personnel expenses	6	81,318	82,370	-1,052	-1.3
General and administrative expenses	7	28,991	29,288	-297	-1.0
Depreciation of property, equipment and intangible assets	8, 18	14,222	14,326	-104	-0.7
Credit loss expenses	9	20,886	-3,555	24,441	n.a.
Provisions and losses	9	818	245	573	233.9
Operating expenses		146,235	122,674	23,561	19.2
Earnings before income tax		20,570	40,063	-19,493	-48.7
Taxes on income	10	6,220	4,778	1,442	30.2
Group net income		14,350	35,285	-20,935	-59.3
Share information					
Undiluted group net income per registered share A		2.39	5.89		
Undiluted group net income per registered share B		0.24	0.59		
Diluted group net income per registered share A		2.39	5.89		
Diluted group net income per registered share B		0.24	0.59		

Consolidated statement of comprehensive income

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Group net income	14,350	35,285	-20,935	-59.3
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	-2,573	-1,248	-1,325	-106.2
• 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	-2,573	-1,248	-1,325	-106.2
Other comprehensive income which will not be transferred subsequent to the income statement				
• Changes in value of FVTOCI financial instruments	-17,105	4,598	-21,703	-472.0
• Actuarial gains/losses from defined-benefit pension plans	-8,674	5,240	-13,914	-265.5
• Tax effects	1,670	-1,756	3,426	195.1
Total other comprehensive income which will not be transferred subsequent to the income statement	-24,109	8,082	-32,191	-398.3
Total comprehensive income in shareholders' equity	-26,682	6,834	-33,516	-490.4
Total comprehensive income in income statement and shareholders' equity	-12,332	42,119	-54,451	-129.3
Attributable to shareholders of VP Bank Ltd, Vaduz	-12,332	42,119	-54,451	-129.3

Consolidated balance sheet

Assets

in CHF 1,000	Note	30.06.2020	31.12.2019	Variance absolute	Variance in %
Cash and cash equivalents		2,777,867	2,909,935	-132,068	-4.5
Receivables arising from money-market papers		145,138	122,956	22,182	18.0
Due from banks		1,829,441	735,026	1,094,415	148.9
Due from customers		6,057,898	6,797,316	-739,418	-10.9
Trading portfolios		394	199	195	98.0
Derivative financial instruments		88,259	72,513	15,746	21.7
Financial instruments at fair value	16	180,163	215,690	-35,527	-16.5
Financial instruments measured at amortised cost	16	2,301,275	2,302,477	-1,202	-0.1
Associated companies		25	28	-3	-10.7
Property and equipment	17	109,472	115,368	-5,896	-5.1
Goodwill and other intangible assets		61,781	62,189	-408	-0.7
Tax receivables		53	847	-794	-93.7
Deferred tax assets		10,893	9,974	919	9.2
Accrued receivables and prepaid expenses		27,388	28,536	-1,148	-4.0
Other assets		20,932	26,802	-5,870	-21.9
Total assets		13,610,979	13,399,856	211,123	1.6

Liabilities and shareholders' equity

in CHF 1,000	Note	30.06.2020	31.12.2019	Variance absolute	Variance in %
Due to banks		244,114	401,844	-157,730	-39.3
Due to customers - savings and deposits		579,035	600,966	-21,931	-3.6
Due to customers - other liabilities		11,029,459	10,536,568	492,891	4.7
Derivative financial instruments		120,531	94,625	25,906	27.4
Medium-term notes		120,207	177,493	-57,286	-32.3
Debentures issued	12	355,266	355,327	-61	-0.0
Tax liabilities		10,026	6,221	3,805	61.2
Deferred tax liabilities		295	65	230	353.8
Accrued liabilities and deferred items		29,635	39,510	-9,875	-25.0
Other liabilities	17	132,227	154,250	-22,023	-14.3
Provisions		697	942	-245	-26.0
Total liabilities		12,621,492	12,367,811	253,681	2.1
Share capital	13	66,154	66,154	0	0.0
Less: treasury shares	14	-61,593	-68,004	6,411	9.4
Capital reserves		23,297	26,772	-3,475	-13.0
Income reserves		1,017,592	1,043,893	-26,301	-2.5
Unrealised gains/losses on FVTOCI financial instruments		-32,138	-15,518	-16,620	-107.1
Foreign-currency translation differences		-23,825	-21,252	-2,573	-12.1
Total shareholders' equity		989,487	1,032,045	-42,558	-4.1
Total liabilities and shareholders' equity		13,610,979	13,399,856	211,123	1.6

Consolidated changes in shareholders' equity

in CHF 1,000	Share capital	Treasury shares	Capital reserves	Retained earnings	Unrealised FVTOCI gains/losses	Actuarial gains/losses from defined-benefit pension plans	Foreign-currency translation differences	Total shareholders' equity
Total shareholders' equity 01.01.2020	66,154	-68,004	26,772	1,105,044	-15,518	-61,151	-21,252	1,032,045
Other comprehensive income, after income tax					-16,620	-7,489	-2,573	
Group net income				14,350				14,350
Total reported result 30.06.2020	0	0	0	14,350	-16,620	-7,489	-2,573	-12,332
Appropriation of profit 2019				-33,162				-33,162
Management equity participation plan (LTI)			-3,904					-3,904
Movement in treasury shares ¹		6,411	429					6,840
Total shareholders' equity 30.06.2020	66,154	-61,593	23,297	1,086,232	-32,138	-68,640	-23,825	989,487
Total shareholders' equity 01.01.2019	66,154	-65,807	28,419	1,064,505	-22,704	-69,923	-19,064	981,580
Other comprehensive income, after income tax					3,895	4,187	-1,248	6,834
Group net income				35,285				35,285
Total reported result 30.06.2019	0	0	0	35,285	3,895	4,187	-1,248	42,119
Appropriation of profit 2018				-33,004				-33,004
Management equity participation plan (LTI)			-2,826					-2,826
Public tender own shares ¹		-8,555						-8,555
Movement in treasury shares ¹		6,088	-321					5,767
Total shareholders' equity 30.06.2019	66,154	-68,274	25,272	1,066,786	-18,809	-65,736	-20,312	985,081

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

Consolidated statement of cash flow

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019
Cash flow from operating activities		
Group net income	14,350	35,285
Non-cash-related positions in Group results	37,725	-987
Net increase/reduction in banking activities	-111,346	271,354
Other cash flow from operating activities	-6,806	1,895
Net cash flow from operating activities	-66,077	307,547
Cash flow from investment activities		
Cash flow from financial instruments	-10,930	-115,378
Other investment activities	-8,365	-36,960
Net cash flow from investment activities	-19,295	-152,338
Cash flow from financing activities		
Dividend distributions	-33,163	-33,004
Issuance/redemption of medium-term notes	-56,854	-6,616
Other financing activities	-1,953	-7,609
Net cash flow from financing activities	-91,970	-47,229
Foreign-currency translation impact	-3,324	9,677
Net increase/reduction in cash and cash equivalents	-180,666	117,657
Cash and cash equivalents at the beginning of the financial year	3,688,846	3,279,005
Cash and cash equivalents at the end of the reporting period	3,508,180	3,396,662
Net increase/reduction in cash and cash equivalents	-180,666	117,657
Cash and cash equivalents are represented by		
Cash	2,778,000	2,624,211
Receivables arising from money-market papers	145,170	118,168
Due from banks - at-sight balances	585,010	654,283
Total cash and cash equivalents	3,508,180	3,396,662

Principles underlying financial statement reporting and comments

The unaudited interim financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS)/IAS 34. The semi-annual financial statements are prepared applying the same accounting and valuation principles as were applied for the 2019 financial statements.

New and revised International Financial Reporting Standards

Since 1 January 2020, the following new and revised standards and interpretations have taken effect:

Interest Rate Benchmark Reform (changes to IFRS 9, IAS 39 and IFRS 7)

In September 2019, the IASB published changes to IFRS 9, IAS 39 and IFRS 7, which concluded the first phase of its work. These provide for a temporary exemption from the application of specific hedge accounting requirements in respect of hedge relationships which are directly affected by the reform of interbank offered rates (IBORs).

The amendments take effect in respect of accounting periods beginning on or subsequent to 1 January 2020. At present, VP Bank Group only applies portfolio fair value hedge accounting. The changes will have no material impact on VP Bank Group's consolidated accounts.

A project team is currently analysing the implications Phase II (adjustments after the introduction of new reference interest rates) will have for VP Bank Group.

Definition of materiality (changes to IAS 1 and IAS 8)

In October 2018, the IASB published changes to IAS 1 and IAS 8 with a view to adjusting the definition of "material" across all standards and making clearer certain aspects of the definition. The changes will demonstrate that materiality depends on the nature or extent of the information or both. A company must assess whether the information is material in the context of the financial statements either in isolation or in combination with other information.

In the amendments it is explained that information is deemed to be concealed if transmitted in such a way that its effect reflects that of an omission of information or the provision of inaccurate information. Key information may for example be concealed if information relating to a significant item, transaction or another event is spread out across the financial statements or disclosed in vague or unclear language. Key information may also be concealed if different elements, transactions or events are unduly aggregated or, vice versa, if similar elements are unduly split up.

Following the changes, the threshold "could influence", which indicates that a potential influencing of users cannot be ruled out, will be replaced, and the definition of the term "material" is to be associated with "probable" influence. As such, the change in definition makes it clear that, when assessing materiality, only that influence over the economic decisions of main users which might reasonably be expected need to be taken into account.

The amendments take effect in respect of accounting periods beginning on or subsequent to 1 January 2020. The changes will have no material impact on VP Bank Group's consolidated accounts.

Post-balance-sheet date events

On 7 July 2020, VP Bank (Luxembourg) SA signed an agreement to acquire the private banking division of Öhman Bank S.A. in Luxembourg. The asset deal transaction involved the acquisition of a client advisor team of eleven employees as well as client assets totalling roughly EUR 760 million. The transaction is expected to be concluded by 1 January 2021 at the latest. The acquisition process had not yet started at the time of the approval of the semi-annual financial statements. As such, the information under IFRS 3.B64 cannot be supplied yet. The calculation and disclosure of the required financial information relating to acquired assets and liabilities as well as any goodwill from the transaction will be published in the annual report as of 31 December 2020.

The Board of Directors reviewed and approved the semi-annual report and authorised it for publication in its meeting of 13 August 2020.

Litigation

As part of its ordinary banking activities, VP Bank Group is involved in various legal and regulatory proceedings. The legal and administrative environment in which VP Bank Group operates involves significant litigation, compliance, reputational and other risks in connection with legal disputes and regulatory proceedings. The impact of these proceedings on the financial strength and profitability of VP Bank Group is dependent on the status of the proceedings and their outcome. VP Bank Group employs the relevant processes, reports and committees to monitor and manage these risks. It also establishes provisions for ongoing and threatened proceedings if the probability that such proceedings will entail a financial loss is judged to be greater than the probability of this not being the case. In isolated cases in which the amount cannot be reliably estimated, for instance because of the early stage or the

complexity of the proceedings or other factors, no provision is established but a contingent liability is disclosed.

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

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

In the first proceedings against VP Bank (Switzerland) Ltd involving an amount in dispute of USD 10 million, the 9th Arbitration Appeal Court on 24 May 2017 upheld the nullity of the realisation pursuant to Russian bankruptcy law. The court required VP Bank (Switzerland) Ltd to pay an amount of approximately USD 10 million. The judgement became res judicata on 19 September 2017. All extraordinary legal remedies without suspensive effect were dismissed.

The debt collection procedure opened on 7 June 2018 in Moscow has so far gone nowhere. In a letter dated 31 July 2019, the DIA, in its capacity as insolvency administrator, issued the first call for payment to VP Bank (Switzerland) Ltd. VP Bank Group will not comply with this request as it contests this ruling. Further developments will be monitored by local lawyers in Moscow.

The second proceedings against VP Bank Ltd, and now VP Bank (Switzerland) Ltd, in an amount in dispute of USD 15 million are of a similar nature but are not yet closed. On 16 March 2018, the Supreme Court confirmed the jurisdiction of the Russian courts and dismissed the case to the Arbitration Court for substantive judgement. On 22 May 2019, the Arbitration Court ruled in favour of VP Bank Ltd and VP Bank (Switzerland) Ltd. This judgement was confirmed by the Court of Appeal on 12 August 2019. On 19 November 2019, the Court of Cassation overturned the judgements of the lower-instance courts and dismissed the case to the court of first instance (Arbitration Court) for a new ruling. VP Bank Ltd and VP Bank (Switzerland) Ltd appealed to the Judicial Chamber of the Supreme Court against the ruling.

In both cases, VP Bank Ltd considers the risk of outflow of funds to be small, which is why no provision has been formed.

In another case, the High Court of Justice in London brought a civil action against VP Bank (Switzerland) Ltd at the beginning of 2020. VP Bank Ltd is also named as a defendant and was notified of the action in March 2020. The main defendant is a former body of a foreign pension fund. The latter is said to have acted unlawfully in its role by accepting distribution remunerations for investment funds. The action has also been brought against various other banks and individuals that processed payments or paid distribution remunerations.

VP Bank Ltd and VP Bank (Switzerland) Ltd are accused of a violation of due diligence obligations. They are also accused of involvement in the processing of questionable third-party fees and commissions of at least USD 46 million, meaning they would have to assume non-contractual collective liability for the damages incurred. VP Bank is disputing the accusations and the place of jurisdiction. At the moment it considers the risk of an outflow of funds to be small, which is why no provision has been formed.

Most important foreign-currency exchange rates

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

	Balance-sheet-date rates			Average rates			Variance		Average rates	
	30.06.2020	30.06.2019	31.12.2019	1H2020	1H2019	2019	Balance-sheet-date rates actual year	previous year	actual year	previous year
USD/CHF	0.9476	0.9750	0.9684	0.96596	0.99974	0.99382	-2%	-3%	-3%	-3%
EUR/CHF	1.0642	1.1103	1.0870	1.06396	1.12931	1.11247	-2%	-4%	-4%	-6%
SGD/CHF	0.6792	0.7206	0.7202	0.69086	0.73571	0.72855	-6%	-6%	-5%	-6%
HKD/CHF	0.1223	0.1248	0.1243	0.12446	0.12746	0.12683	-2%	-2%	-2%	-2%
GBP/CHF	1.1708	1.2409	1.2828	1.21750	1.29428	1.26881	-9%	-6%	-4%	-6%

Segment reporting

Structure

The external segment reporting reflects the organisational structure of VP Bank Group up until 30 June 2020 and the internal reporting to management. These form the basis for assessing the financial performance of the segments and the allocation of resources to the segments.

As of 30 June 2020, VP Bank Group consisted of the six organisational units "Client Business", "Investment Solutions", "Chief Executive Officer", "Chief Financial Officer", "Chief Operating Officer" and "Chief Risk Officer".

For segment reporting purposes, the organisational unit "Client Business" is divided into two business segments: "Client Business Liechtenstein" and "Client Business Inter-

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

Revenues and expenditures as well as assets and liabilities are allocated to the business segments based on the responsibilities for the clients and the originator principle. Insofar as a direct allocation is not possible, the positions in question are reported under Corporate Center. Consolidation entries are also included under Corporate Center.

01.01.-30.06.2020

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income	30,065	23,408	3,903	57,376
Total net income from commission business and services	41,389	33,568	-3,430	71,527
Income from trading activities	9,090	8,734	14,688	32,512
Income from financial instruments	0	-80	4,930	4,850
Other income	152	1,505	-1,117	540
Total operating income	80,696	67,135	18,974	166,805
Personnel expenses	16,548	29,685	35,085	81,318
General and administrative expenses	1,784	12,457	14,750	28,991
Depreciation of property, equipment and intangible assets	1,979	4,010	8,233	14,222
Credit loss expenses	-395	21,283	-2	20,886
Provisions and losses	769	49	0	818
Services to/from other segments	21,914	0	-21,914	0
Operating expenses	42,599	67,484	36,152	146,235
Earnings before income tax	38,097	-349	-17,178	20,570
Taxes on income				6,220
Group net income				14,350
Segment assets (in CHF million)	4,000	5,896	3,715	13,611
Segment liabilities (in CHF million)	6,890	5,290	441	12,621
Client assets under management (in CHF billion) ¹	25.5	20.1	0.0	45.6
Net new money (in CHF billion)	-0.1	1.1	0.0	1.0
Headcount (number of employees)	209	355	415	979
Headcount (expressed as full-time equivalents)	193.1	335.8	379.1	908.0
as of 31.12.2019				
Segment assets (in CHF million)	4,275	5,689	3,436	13,400
Segment liabilities (in CHF million)	6,742	5,046	580	12,368
Client assets under management (in CHF billion) ¹	26.9	20.7	0.0	47.6
Net new money (in CHF billion)	-0.6	2.9	0.0	2.3
Headcount (number of employees)	195	345	403	943
Headcount (expressed as full-time equivalents)	179.5	326.2	368.0	873.7

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

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

The loss reported for the Client Business International segment is mainly due to the one-off impairment on a credit position of approximately CHF 20 million.

01.01.-30.06.2019

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

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

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

Client Business Liechtenstein

Segment results

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Total net interest income	30,065	33,484	-3,419	-10.2
Total net income from commission business and services	41,389	43,037	-1,648	-3.8
Income from trading activities	9,090	7,911	1,179	14.9
Income from financial instruments	0	0	0	0.0
Other income	152	204	-52	-25.5
Total operating income	80,696	84,636	-3,940	-4.7
Personnel expenses	16,548	17,229	-681	-4.0
General and administrative expenses	1,784	1,868	-84	-4.5
Depreciation of property, equipment and intangible assets	1,979	2,472	-493	-19.9
Credit loss expenses	-395	462	-857	-185.5
Provisions and losses	769	118	651	n.a.
Services to/from other segments	21,914	20,438	1,476	7.2
Operating expenses	42,599	42,587	12	0.0
Segment income before income tax	38,097	42,049	-3,952	-9.4
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	49.9	46.7		
Total operating expenses / total net operating income (in %)	52.8	50.3		
Client assets under management (in CHF billion)	25.5	26.0		
Change in client assets under management compared to 31.12. prior year (in %)	-5.2	3.9		
Net new money (in CHF billion)	-0.1	-0.2		
Total operating income / average client assets under management (bp) ¹	61.6	66.3		
Segment result / average client assets under management (bp) ¹	29.1	32.9		
Cost/income ratio operating income (in %) ²	50.0	46.8	3.1	6.7
Headcount (number of employees)	209	197	12.5	6.4
Headcount (expressed as full-time equivalents)	193.1	183.3	9.8	5.3

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

Segment result

The pre-tax segment result fell from CHF 42.1 million to CHF 38.1 million compared to the previous-year period (CHF -4 million). In the first half of 2020, operating income declined by CHF 4 million (-4.7 per cent) over that of the comparable previous-year period. This decline resulted from interest income from clients (-10.2 per cent), as well as commission and service income (-3.8 per cent). USD interest payments in client business contributed significantly to this negative movement in interest income. Both the lower asset basis resulting from COVID-19 and the associated

lower recurring income affected commission income negatively. Transaction-related client revenue on the other hand increased on the previous-year level thanks to increased client activity. Likewise, income from trading activities developed favourably with an increase of CHF 1.2 million in comparison to the previous year. Operating expenses were kept on a par with those of the previous year at CHF 42.6 million. With the exception of charges from other segments, all positions in operating expenses were reduced in comparison to the first half of 2019. Charges from other segments increased due to the increase in client activity (7.2 per cent). Indirect costs for internal services are reported in the business segment under the position "Services to/from other segment(s)". The gross margin amounted to 61.6 basis points (previous-year period: 66.3 basis points). The cost/income ratio increased from 46.8 per cent to 50.0 per cent.

The segment recorded a net outflow of new assets of CHF 0.1 billion in the reporting period, primarily as a result of the outflow of the assets of a major fund client. Client assets under management as of 30 June 2020 totalled CHF 25.5 billion (31 December 2019: CHF 26.9 billion). The employee headcount rose from 183 (30 June 2019) to 193 positions.

Client Business International

Segment results

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Total net interest income	23,408	26,081	-2,673	-10.2
Total net income from commission business and services	33,568	27,017	6,551	24.2
Income from trading activities	8,734	6,474	2,260	34.9
Income from financial instruments	-80	132	-212	-160.6
Other income	1,505	1,540	-35	-2.3
Total operating income	67,135	61,244	5,891	9.6
Personnel expenses	29,685	31,299	-1,614	-5.2
General and administrative expenses	12,457	12,801	-344	-2.7
Depreciation of property, equipment and intangible assets	4,010	3,819	191	5.0
Credit loss expenses	21,283	-3,960	25,243	n.a.
Provisions and losses	49	127	-78	-61.4
Operating expenses	67,484	44,086	23,398	53.1
Segment income before income tax	-349	17,158	-17,507	-102.0
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	62.8	72.0		
Total operating expenses / total net operating income (in %)	100.5	72.0		
Client assets under management (in CHF billion)	20.1	19.6		
Change in client assets under management compared to 31.12. prior year (in %)	-3.0	18.9		
Net new money (in CHF billion)	1.1	1.4		
Total operating income / average client assets under management (bp) ¹	65.8	67.9		
Segment result / average client assets under management (bp) ¹	-0.3	19.0		
Cost/income ratio operating income (in %) ²	64.1	74.0	-9.9	-13.4
Headcount (number of employees)	355	372	-16.5	-4.4
Headcount (expressed as full-time equivalents)	335.8	325.4	10.4	3.2

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.

The loss reported for the Client Business International segment is mainly due to the one-off impairment on a credit position of approximately CHF 20 million.

Structure

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

Segment result

The first half of 2020 saw the pre-tax segment result fall by CHF 17.5 million over the previous-year period. Operating income increased by CHF 5.9 million (9.6 per cent) over the previous-year period. This increase is attributable to higher income from commission business and services (24.2 per cent) and income from trading activities (34.9 per cent). Increased client trading activity and the targeted recruitment of client advisors continued to contribute positively to commission income. The decline in interest income resulted largely from the sharp drop in USD yields in 2020. Operating expenses increased by CHF 23.4 million to CHF 67.5 million. This increase resulted primarily from a roughly CHF 20 million valuation adjustment on an indi-

vidual credit position (CHF -4 million on the previous-year period). The rest of the positions in operating expenses were reduced on the previous-year period (personnel expenses: -5.2 per cent, general and administrative expenses: -2.7 per cent) or maintained at roughly the same level as the previous year. Internal transfer prices are included in general and administrative expenses in the business segment "Client Business International".

The gross margin was reduced slightly to 65.8 basis points (previous-year period: 67.9 basis points). The cost/income ratio improved from 74.0 per cent to 64.1 per cent.

At CHF 1.1 billion, net new money continued to develop positively in the first half of 2020 despite the challenges posed by COVID-19. The targeted recruitment of client advisors at locations continued to generate net new money inflow in the first half of 2020. Net new money inflow was achieved in fund business and on the European markets thanks to intensive market development. Client assets under management as of 30 June 2020 totalled CHF 20.1 billion (31 December 2019: CHF 20.7 billion). The employee headcount rose from 325 (30 June 2019) to 336 positions.

Corporate Center

Segment results

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Total net interest income	3,903	-4,992	8,895	178.2
Total net income from commission business and services	-3,430	-3,039	-391	-12.9
Income from trading activities	14,688	14,884	-196	-1.3
Income from financial instruments	4,930	11,257	-6,327	-56.2
Other income	-1,117	-1,253	136	10.9
Total operating income	18,974	16,857	2,117	12.6
Personnel expenses	35,085	33,842	1,243	3.7
General and administrative expenses	14,750	14,619	131	0.9
Depreciation of property, equipment and intangible assets	8,233	8,035	198	2.5
Credit loss expenses	-2	-57	55	96.5
Provisions and losses	0	0	0	0.0
Services to/from other segments	-21,914	-20,438	-1,476	-7.2
Operating expenses	36,152	36,001	151	0.4
Segment income before income tax	-17,178	-19,144	1,966	10.3
Additional information				
Headcount (number of employees)	415	402	13.0	3.2
Headcount (expressed as full-time equivalents)	379.1	367.2	11.9	3.2

Structure

The business segment "Corporate Center" is of great importance for banking operations and the processing of business transactions. It encompasses the areas Group Operations, Group Information Technology, Group Projects Services, Corporate Excellence & Transformation, Corporate Services, Group Credit, Group Treasury & Execution, Group Finance, Group Financial Management & Reporting, Group Risk, Group Legal Services, Group Compliance, Group Human Resources and the CEO Office. In addition, those revenues and expenses of VP Bank Ltd that have no direct relationship to client-oriented business segments, as well as consolidation adjustments, are reported under the Corporate Center. The revenue-generating business activities of the segment "Corporate Center" are associated with the exercise of the Group Treasury function. The results of the Group's own financial investments, the structural contribution and the changes in the value of hedges are reported in this segment.

Segment result

The pre-tax segment result in the first half of 2020 amounted to CHF -17.2 million as opposed to CHF -19.1 million in the previous-year period.

In the first half of 2020, operating income increased by CHF 2.1 million on that of the previous-year period.

Net interest income increased by CHF 8.9 million compared with the previous-year period.

This is partially due to higher earnings from SNB swaps and the optimisation of liquid fund investments.

Commission and service income saw a fall in revenues. This includes bank commissions which were invoiced to front business units by the service units through internal recharging.

Income received by Group Treasury & Execution is reported under trading income. This relates to income generated from the execution of foreign-exchange trades. Income from derivatives for risk minimisation and income from balance sheet management are disclosed under this position too.

Income from financial investments totalled CHF 4.9 million in the first half of 2020 due to market performance. This position recorded a result of CHF 11.3 million in the previous-year period.

Operating expenses were kept on a par with those of the previous year at CHF 36.2 million (0.4 per cent). Personnel, general and administrative expenses increased by CHF 1.2 million and CHF 0.1 million respectively. Depreciation and amortisation increased slightly from CHF 8.0 million to CHF 8.2 million.

The employee headcount rose from 367 (30 June 2019) to 379 positions.

Notes to the consolidated income statement and consolidated balance sheet

1 Interest income

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Discount income	787	1,067	-280	-26.2
Loan commissions with the character of interest	545	767	-222	-28.9
Interest income from banks	584	579	5	0.9
Interest income from customers	45,926	56,850	-10,924	-19.2
Interest income from financial instruments measured at amortised cost	14,076	15,616	-1,540	-9.9
Interest income from financial liabilities	3,554	2,559	995	38.9
Total interest income from financial instruments at amortised cost	65,472	77,438	-11,966	-15.5
Interest-rate instruments	-397	-764	367	48.0
Trading derivatives (forward points)	9,451	7,890	1,561	19.8
Hedge accounting	-36	39	-75	-192.3
Total other interest income	9,018	7,165	1,853	25.9
Total interest income	74,490	84,603	-10,113	-12.0
Interest expenses on amounts due to banks	33	568	-535	-94.2
Interest expenses on amounts due to customers	11,156	24,007	-12,851	-53.5
Interest expenses on medium-term notes	250	336	-86	-25.6
Interest expenses on debentures issued	1,102	637	465	73.0
Interest expense from financial assets	4,411	4,313	98	2.3
Interest expense on right-of-use assets	162	169	-7	-4.1
Total interest expenses using the effective interest method	17,114	30,030	-12,916	-43.0
Total net interest income	57,376	54,573	2,803	5.1
Fair-value hedges				
Movements arising from hedges	-1	-1,606	1,605	99.9
• Micro fair-value hedges	-1	-1,606	1,605	99.9
Movements in underlying transactions	-35	1,645	-1,680	-102.1
• Micro fair-value hedges	-35	1,645	-1,680	-102.1
Total hedge accounting	-36	39	-75	-192.3

2 Income from commission business and services

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Commission income from credit business	424	832	-408	-49.0
Asset management and investment business	27,448	26,151	1,297	5.0
Brokerage fees	20,592	15,503	5,089	32.8
Securities account fees	9,191	10,077	-886	-8.8
Fund management fees	27,068	28,153	-1,085	-3.9
Fiduciary commissions	893	1,136	-243	-21.4
Other commission and service income	8,476	8,633	-157	-1.8
Total income from commission business and services	94,092	90,485	3,607	4.0
Brokerage expenses	1,280	845	435	51.5
Other commission and services-related expenses	21,285	22,625	-1,340	-5.9
Total expenses from commission business and services	22,565	23,470	-905	-3.9
Total net income from commission business and services	71,527	67,015	4,512	6.7

The following table shows what proportions are included in the income position «asset management and investment business».

Fees for securities settlement	4,133	4,326	-193	-4.5
Administration commissions ¹	15,362	14,245	1,117	7.8
Management fees	3,707	4,305	-598	-13.9
Brokerage fees	8,119	5,897	2,222	37.7
Securities account fees	1,884	2,342	-458	-19.6
Administration fees	1,652	1,701	-49	-2.9
All-in-fees	6,647	6,170	477	7.7
Miscellaneous fees	1,306	1,410	-104	-7.4
Asset management and investment business	27,448	26,151	1,297	5.0

¹ Presentation of previous year's figures for the reporting period adjusted.

3 Income from trading activities

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Securities trading ¹	-1,654	-1,923	269	14.0
Foreign currency	33,513	30,790	2,723	8.8
Banknotes, precious metals and other	653	402	251	62.4
Total income from trading activities	32,512	29,269	3,243	11.1

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

4 Income from financial instruments

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Income from financial instruments at fair value	4,005	11,384	-7,379	-64.8
Income from financial instruments at amortised cost (foreign exchange)	845	5	840	n.a.
Total income from financial instruments	4,850	11,389	-6,539	-57.4
Income from financial instruments at fair value				
Income from FVTPL assets	-321	4,874	-5,195	-106.6
Interest income from FVTPL financial instruments	656	1,304	-648	-49.7
Dividend income from FVTPL financial instruments	417	905	-488	-53.9
Dividend income from FVTOCI financial instruments	3,253	4,301	-1,048	-24.4
thereof from FVTOCI financial instruments sold	0	190	-190	-100.0
Income from FVTPL liabilities	0	0	0	0.0
Total	4,005	11,384	-7,379	-64.8
Income from financial instruments at amortised cost (foreign exchange)				
Revaluation gains/losses on financial instruments at amortised cost	-25	-146	121	82.9
Realised gains/losses on financial instruments at amortised cost	870	151	719	476.2
Total	845	5	840	n.a.

5 Other income

in CHF 1,000	Note	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Income from real estate		100	76	24	31.6
Income from associated companies		-3	-1	-2	-200.0
Miscellaneous other income		443	416	27	6.5
Total other income		540	491	49	10.0

6 Personnel expenses

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Salaries and wages	66,519	67,248	-729	-1.1
Social contributions required by law	5,547	6,154	-607	-9.9
Contributions to pension plans / defined-benefit plans	5,926	5,881	45	0.8
Contributions to pension plans / defined-contribution plans	1,134	861	273	31.7
Other personnel expenses	2,192	2,226	-34	-1.5
Total personnel expenses	81,318	82,370	-1,052	-1.3

7 General and administrative expenses

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Occupancy expenses	1,566	1,440	126	8.8
Insurance	526	485	41	8.5
Professional fees	4,393	5,198	-805	-15.5
Financial information procurement	4,819	4,468	351	7.9
Telecommunication and postage	688	632	56	8.9
IT systems	8,809	7,998	811	10.1
Marketing and public relations	1,919	2,184	-265	-12.1
Capital taxes	422	434	-12	-2.8
Other general and administrative expenses	5,849	6,449	-600	-9.3
Total general and administrative expenses	28,991	29,288	-297	-1.0

8 Depreciation and amortisation

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Depreciation and amortisation of property and equipment	7,959	7,361	598	8.1
Depreciation and amortisation of intangible assets	6,263	6,965	-702	-10.1
Total depreciation and amortisation	14,222	14,326	-104	-0.7

9 Valuation allowances, provisions and losses

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
De-/increase credit allowances ^{1,2}	20,886	-3,555	24,441	n.a.
Legal and litigation risks	-11	-39	28	71.8
Release of valuation allowances and provisions no longer required ¹	829	284	545	191.9
Total valuation allowances, provisions and losses	21,704	-3,310	25,014	n.a.

¹ Including currency effects.

² Includes the provision of a single position.

10 Taxes on income

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Current taxes	5,243	5,753	-510	-8.9
Deferred taxes	977	-975	1,952	200.2
Total taxes on income	6,220	4,778	1,442	30.2

11 Earnings per share

	30.06.2020	30.06.2019
Consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000)	14,350	35,285
Weighted average of registered shares A	5,447,276	5,424,205
Weighted average of registered shares B	5,676,491	5,678,649
Total weighted average number of shares (registered share A)	6,014,925	5,992,070
Undiluted consolidated earnings per registered share A	2.39	5.89
Undiluted consolidated earnings per registered share B	0.24	0.59
Fully diluted consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000)	14,350	35,285
Adjusted group net income (in CHF 1,000)	14,350	35,285
Number of shares used to compute the fully diluted consolidated net income	6,014,925	5,992,070
Fully diluted consolidated earnings per registered share A	2.39	5.89
Fully diluted consolidated earnings per registered share B	0.24	0.59

12 Debentures, VP Bank Ltd, Vaduz

Year of issue	ISIN	Interest rate in %	Currency	Maturity	Nominal amount	in CHF 1,000	
						Total 30.06.2019	Total 31.12.2019
2015	CH0262888933	0.5	CHF	07.04.2021	100,000	100,054	100,088
2015	CH0262888941	0.875	CHF	07.10.2024	100,000	100,236	100,263
2019	CH0461238880	0.6	CHF	29.11.2029	155,000	154,976	154,976
Total					355,000	355,266	355,327

Debt securities issued are recorded at fair value plus transaction costs upon initial recognition. Fair value corresponds to the consideration received. Subsequently, they are re-measured at amortised cost. In this process, the effective interest method (0.43 per cent debenture 2021; 0.82 per cent debenture 2024; 0.60 per cent debenture 2029) is applied in order to amortise the difference between the issuance price and redemption value over the duration of the debentures.

13 Share capital

in CHF 1,000	30.06.2020		31.12.2019	
	No. of shares	Nominal CHF	No. of shares	Nominal CHF
Registered shares A of CHF 10.00 nominal value	6,015,000	60,150,000	6,015,000	60,150,000
Registered shares B of CHF 1.00 nominal value	6,004,167	6,004,167	6,004,167	6,004,167
Total share capital		66,154,167		66,154,167

All shares are fully paid up.

14 Treasury shares

in CHF 1,000	30.06.2020		31.12.2019	
	No. of shares	in CHF 1,000	No. of shares	in CHF 1,000
Registered shares A at the beginning of the financial year	598,065	62,812	599,442	60,362
Purchases	0	0	58,750	8,556
Sales	-61,109	-6,418	-60,127	-6,106
Balance of registered shares A as of balance-sheet date¹	536,956	56,394	598,065	62,812
Registered shares B at the beginning of the financial year	327,419	5,192	324,929	5,155
Purchases	600	7	2,490	37
Sales	0	0	0	0
Balance of registered shares B as of balance-sheet date	328,019	5,199	327,419	5,192

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

15 Dividend

	30.06.2020	31.12.2019
Approved and paid dividend of VP Bank Ltd, Vaduz		
Dividend (in CHF 1,000) for the financial year 2019 (2018)	36,385	36,385
Dividend per registered share A	5.50	5.50
Dividend per registered share B	0.55	0.55
Payout ratio (in %)	44.8	60.8

16 Financial instruments

Fair value of financial instruments

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

in CHF million	Carrying value 30.06.2020	Fair value 30.06.2020	Variance	Carrying value 31.12.2019	Fair value 31.12.2019	Variance
Assets						
Cash and cash equivalents	2,778	2,778	0	2,910	2,910	0
Receivables arising from money-market paper	145	145	0	123	123	0
Due from banks	1,829	1,830	1	735	735	0
Due from customers	6,058	6,179	121	6,797	6,914	117
Trading portfolios	0	0	0	0	0	0
Derivative financial instruments	88	88	0	73	73	0
Financial instruments at fair value	180	180	0	216	216	0
of which designated on initial recognition	0	0	0	0	0	0
of which mandatory under IFRS 9	91	91	0	109	109	0
of which recognised in other comprehensive income with no effect on net income	89	89	0	107	107	0
Financial instruments at amortised cost	2,301	2,372	71	2,302	2,355	53
Subtotal			193			170
Liabilities						
Due to banks	244	244	0	402	402	0
Due to customers	11,608	11,627	-19	11,138	11,133	5
Derivative financial instruments	121	121	0	95	95	0
Medium-term notes	120	122	-2	177	179	-2
Debentures issued	355	359	-4	355	363	-8
Subtotal			-25			-5
Total variance			168			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 30.06.2020
Assets				
Cash and cash equivalents	2,778			2,778
Receivables arising from money-market paper	145			145
Due from banks		1,830		1,830
Due from customers		6,179		6,179
Trading portfolios				0
Derivative financial instruments		88		88
Financial instruments at fair value	135	37	8	180
Financial instruments at amortised cost	2,372			2,372
Liabilities				
Due to banks		244		244
Due to customers		11,627		11,627
Derivative financial instruments		121		121
Medium-term notes		122		122
Debentures issued	359			359

In the financial year 2020 as well as in the first half of 2019, no financial instruments were reclassified.

in CHF million at fair value	Quoted market prices, Level 1	Valuation methods, based on market data, Level 2	Valuation methods, with assumptions based on market data, Level 3	Total 31.12.2019
Assets				
Cash and cash equivalents	2,910			2,910
Receivables arising from money-market paper	123			123
Due from banks		735		735
Due from customers		6,914		6,914
Trading portfolios				0
Derivative financial instruments		73		73
Financial instruments at fair value	188	19	9	216
Financial instruments at amortised cost	2,355			2,355
Liabilities				
Due to banks		402		402
Due to customers		11,133		11,133
Derivative financial instruments		95		95
Medium-term notes		179		179
Debentures issued	363			363

Level 3 financial instruments	30.06.2020	31.12.2019
Balance sheet		
Holdings at the beginning of the year	8.6	4.1
Investments	0.0	5.6
Disposals	0.0	-1.0
Issues	0.0	0.0
Redemptions	0.0	0.0
Losses recognised in the income statement	-0.3	0.0
Losses recognised as other comprehensive income	0.0	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	8.3	8.6
Income on holdings at balance-sheet date		
Unrealised losses recognised in the income statement	0.0	0.0
Unrealised losses recognised as other comprehensive income	0.0	-0.1
Unrealised gains recognised in the income statement	0.0	1.0
Unrealised gains recognised as other comprehensive income	0.0	0.0

No deferred day 1 profit or loss (difference between the transaction price and the fair value calculated on the transaction day) was reported for Level 3 positions as of 30 June 2020 or 31 December 2019.

Sensitivity of fair values of Level 3 financial instruments

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

17 Leases in the balance sheet

in CHF 1,000	30.06.2020	31.12.2019	Variance absolute	Variance in %
Property and equipment				
Right of use – buildings and premises	26,357	29,549	-3,192	-10.8
Right of use – motor vehicles	637	1,002	-365	-36.4
Total assets	26,994	30,551	-3,557	-11.6
Other liabilities				
Short-term lease liabilities	4,459	5,264	-805	-15.3
Long-term lease liabilities	22,836	25,588	-2,752	-10.8
Total liabilities	27,295	30,852	-3,557	-11.5

18 Leases in the profit and loss statement

in CHF 1,000	01.01.- 30.06.2020	01.01.- 30.06.2019	Variance absolute	Variance in %
Net interest income				
Interest expense on right-of-use assets	162	169	-7	-4
Depreciation of property and equipment				
Depreciation on right-of-use assets	2,902	2,768	134	5

19 Consolidated off-balance-sheet positions

in CHF 1,000	30.06.2020	31.12.2019
Total contingent liabilities	134,997	143,951
Irrevocable facilities granted	62,306	97,495
Total fiduciary transactions	823,615	1,113,104
Contract volumes of derivative financial instruments	10,335,773	8,555,632
Securities lending and repurchase and reverse-repurchase transactions with securities		
Amounts receivable arising from cash deposits in connection with securities borrowing and reverse-repurchase transactions	0	0
Amounts payable arising from cash deposits in connection with securities lending and repurchase transactions	236	0
Securities lent out within the scope of securities lending or delivered as collateral within the scope of securities borrowing activities, as well as securities in own portfolio transferred within the framework of repurchase transactions	270,284	185,729
of which securities where the unlimited right to sell on or pledge has been granted	166,468	132,084
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	223,202	164,482
of which securities which have been resold or repledged	54,994	53,644

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

20 Client assets

in CHF million	30.06.2020	31.12.2019	Variance absolute	Variance in %
Analysis of client assets under management				
Assets in self-administered investment funds	9,233.7	9,719.7	-486.0	-5.0
Assets in discretionary asset management accounts	4,361.6	4,476.9	-115.3	-2.6
Other client assets under management	32,042.7	33,426.4	-1,383.7	-4.1
Total client assets under management (including amounts counted twice)	45,637.9	47,622.9	-1,985.0	-4.2
of which amounts counted twice	2,108.1	2,347.1	-239.1	-10.2
Change of assets under management				
Total client assets under management (including amounts counted twice) at the beginning of the financial year	47,622.9	41,525.9	6,097.0	14.7
of which net new money	952.5	2,254.6	-1,302.1	-57.8
of which change in market value	-2,937.5	2,890.2	-5,827.7	-201.6
of which other effects	0.0	952.2	-952.2	-100.0
Total client assets under management (including amounts counted twice) as of balance-sheet date	45,637.9	47,622.9	-1,985.0	-4.2
Custody assets	6,399.3	6,926.3	-527.0	-7.6
Total client assets				
Total client assets under management (including amounts counted twice)	45,637.9	47,622.9	-1,985.0	-4.2
Custody assets	6,399.3	6,926.3	-527.0	-7.6
Total client assets	52,037.2	54,549.2	-2,512.0	-4.6
in CHF million				
Net new money	952.5	1,212.0	-259.5	-21.4

Net new money inflows/outflows

This item comprises the acquisition of new clients, lost clients and inflows or outflows from existing clients. Performance-related changes in assets such as share price movements, interest and dividend payments, as well as interest charged to clients, are not considered as inflows and outflows. Acquisition-related changes in assets are presented separately. If the service provided changes and if assets under management are reclassified as assets held for custody purposes, or vice versa, this will generally be recognised, respectively, as an outflow or inflow of new client assets. There were no reclassifications in net new money in 2020 (2019: CHF 300.2).

21 Acquisition (excerpt from the semi-annual report 2019)

No acquisitions occurred during the first semester of 2020.

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

This transaction in the form of an asset deal was successfully completed as planned on 1 February 2019. It included the acquisition of eleven employees and the migration of client assets of CHF 952 million. The purchase price amounted to CHF 10.2 million. The private banking business of Catella Bank S.A. in Sweden is excluded from the acquisition.

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

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

Assets under management of CHF 952 million were taken over as part of the acquisition. The transaction gave rise to intangible assets (client relationships) of CHF 4.6 million. The client relationships will be amortised over 10 years. The costs of the transaction incurred in the reporting period (advisory, legal, auditing, valuation costs, etc.) amount to CHF 0.3 million and are recognised in general and administrative expenses (note 7) (financial year 2018: CHF 0.7 million).

The individual factors underlying the amount of goodwill recognised consist of, in particular, the employees transferred, the know-how available, the strategic market entry in the Nordic countries and the growth related thereto.

22 Capital-adequacy computation

in CHF 1,000	30.06.2020	31.12.2019
Total shareholders' equity	989,487	1,032,045
Total regulatory deduction	-25,836	-53,083
Eligible core capital (tier 1)	963,651	978,962
Total required equity	382,872	387,348
Capital buffer	217,159	242,093
Total required equity including capital buffer	600,031	629,441
Tier 1 ratio	20.1%	20.2%
Total risk-weighted assets	4,785,909	4,841,859
Return on investment (net income / average balance sheet total)	0.2%	0.5%

VP Bank Group

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Imprint

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

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

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

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