



**BANK FRICK**

## **Half-yearly results – H1 2018**

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# Report of the Management Board

**The first six months of the 2018 financial year yielded very positive results. Net profit was CHF 2.6 million, a similar level to the same period in the previous year (CHF 2.7 million), while revenues significantly increased in all areas compared to the previous year. At the same time, we invested more than we had budgeted for, in order to push forward with certain client-relevant strategic projects.**

We have set ourselves ambitious targets for 2018 to consolidate and expand our position. The positive results from the first six months of the year show that we are on the right track in terms of our strategy: to work closely with financial intermediaries, offer products for alternative asset classes and fund services and become an internationally leading partner in the blockchain sector.

We are establishing prudent connections between different areas to facilitate the development of new products, in line with our crossover approach. This has already seen our issues experts join forces with our blockchain team to introduce Europe's first alternative investment fund (AIF) for crypto assets, and we act as a custodian for the assets under management in this and other crypto funds.

We acquired a number of clients from the blockchain sector in the first six months of 2018, including exchanges, initial coin offerings (ICO) and business clients with blockchain business models.

## Range of tradable cryptocurrencies expanded

Since February 2018, institutional clients have been able to trade five of the top cryptocurrencies with us: Bitcoin (BTC), Bitcoin Cash (BCH), Litecoin (LTC), Ripple (XRP) and Ether (ETH). Clients can also deposit the assets they acquire securely with Bank Frick. Trading and safekeeping are two of our Bank's core competencies, and we have now successfully transferred both to the world of cryptocurrencies.

We are constantly working to expand the range of cryptocurrencies which we trade on behalf of our clients. Prudence is key here, and the requirements of our clients in the area of asset management also determine which cryptocurrencies we select. For more on this topic, see the "Events after the balance sheet date" section.

## Blockchain Act expected to support growth

We assume that blockchain banking will continue to grow as a source of income. We expect to see a surge in growth as soon as the previously announced draft of Liechtenstein's Blockchain Act comes into force. The basics of the Blockchain Act were outlined in June, and it will offer market participants and clients greater legal protection and represent a clear unique selling point for Liechtenstein on the world stage. Based on our assessments, the Blockchain Act will constitute the first real point of reference in Europe, and could even serve as the foundation for similar regulations in different countries. It is likely to come into force in the third quarter of 2019.

The Blockchain Act will offer innovative market participants new opportunities to differentiate themselves from their competitors. One example would be intermediaries offering issuer, custodian or validation services. Thanks to our years of experience in the blockchain business, we can help intermediaries make significant reductions in the time to market for new blockchain and crypto business models. This is one area which

we believe holds considerable growth potential for Bank Frick.

## Strategic expansion of bonds and our Funds and Issues department

In terms of our strategy, we have placed considerable focus on expanding our blockchain banking business over the past 18 months. The second half of 2018 will see us make targeted additions to our business in the area of fund services and issues. During the first six months of 2018, we were made custodian of a leading UCITS fund with a volume of CHF 115 million as at 30 June 2018. The total volume of European funds increased to CHF 720 million as a result. Considering the projects already underway in our Funds and Issues department, we are confident that this trend will continue into the second half of 2018.

We plan to strengthen our intermediaries business (private clients and external asset managers) in 2019. We want to gain a better understanding of our clients' requirements and adjust our market strategy accordingly. The aim is to become more efficient in exploiting the current market potential, particularly in the CHF area.

## Recognised provider of modular digital banking services

Our vision is to establish Bank Frick as a recognised provider of modular digital banking services for intermediaries. We offer a way for intermediaries

to differentiate themselves from the competition. In blockchain banking, we have successfully established ourselves as a recognised and trusted brand in just a short time, yet there is still some work for us to do to raise our profile in the area of traditional banking services to set us apart from our competitors on the market. A good example here is the work we are currently doing on interfaces, which are being developed and prepared to cover a range of client-specific requirements. This will improve, simplify and speed up the way data is exchanged.

## Balance sheet

Our balance sheet total amounted to CHF 1,389 million as at 30 June 2018, almost unchanged (+2%) compared to the end of the 2017 financial year on 31 December 2017.

## Client assets under management

Client assets under management increased by CHF 88 million in the first six months of the 2018 financial year to CHF 3,898 million as at 30 June 2018. Net new money inflows remained far below expected levels at CHF 8.6 million.

## Sources of income

In order to meet the challenging requirements of our vision and mission, we invested more resources (in terms of both personnel and finances) in the expansion of our business process

management platform than we had originally budgeted for in the first half of 2018. We also speeded up the progress being made in a number of other ongoing client- and market-relevant projects.

The demand for blockchain banking services has hugely exceeded our expectations, and we made several additions to our team of experts in this area more quickly than expected. We have also expanded our Compliance team to ensure we are able to meet the challenging requirements of our new business model from a legal and regulatory point of view.

With growth at the Bank continuing apace, we had to accept that personnel expenses (+22%) and operating expenses (+37%) were higher than budgeted for the first half of 2018.

Personnel expenses for the first six months of 2018 was CHF 6.7 million (previous year: CHF 5.2 million), while operating expenses stood at CHF 4.8 million (previous year: CHF 3.5 million).

## Significant growth in revenues

We were able to compensate for the increase in expenditure accordingly with significant growth in revenues. Interest earned increased by 24% to CHF 11.2 million, and we reduced refinancing costs (interest expenses) by 27% to CHF 1.5 million (previous year: CHF 2.0 million).

Commission income grew to CHF 10.8 million (previous year: CHF 7.8 million), an increase of 39%. Commission expenses rose to CHF 5.1 million (previous year: CHF 3.8 million).

The notable increase in commission income can be attributed in particular to expected income from other service transactions (CHF 5.7 million or +69%) and includes services for the blockchain sector.

Income from securities transactions contributed CHF 4.8 million (+17%) to the commission income. Our high fund volume was an important factor in this growth figure.

In order to account for business risk, we made valuation allowances and allocations to provisions amounting to CHF 3.5 million (previous year: CHF 0.3 million).

Other operating income for the first six months of 2018 stood at CHF 3.0 million (previous year: CHF 0.7 million). This included part of a strategic premium paid by Net1 UEPS Technologies, Inc. (Net1). In February 2018, Net1 acquired a further 5% stake in Bank Frick, and has since then held 35% of our capital stock.

### Other significant events during the first half of 2018

As mentioned above, we made several additions to our team during the first half of 2018. Since the beginning of the year, we have hired an additional 30 members of staff. As of 30 June 2018, our employee headcount stood at 111. This corresponds to a full-time equivalent of 95 employees.

We are meeting the challenges faced by any growing business by making a number of changes across our organisation. The IT department became the Business Technology and Innovation Management department as of 1 April 2018, a change which saw several new members of staff join the department and increased its area of responsibility, since it now includes the System Engineering, Application Engineering, Customer Support, Business Consulting and Business Engineering teams.

Furthermore, the Business Clients and Payment Service Providers (PSP) department now operates as the Blockchain and PSP department. This change also took effect on 1 April 2018 and is a testament to the significance which blockchain has assumed in the banking sector. The department includes the Crypto Corporate, ICO, Brokers and Exchanges, Payment, and Support teams.

Project Management has also been a staff unit since 1 April 2018.

### Events after the balance sheet date

The business developers, who had previously operated across various teams and departments, were grouped together into the Business Development staff unit as of 1 July 2018, and now report directly to CEO Edi Wögerer.

As of 21 August 2018, Bank Frick's range of tradable cryptocurrencies was expanded to include Ethereum Classic (ETC), NEM (XEM), Qtum (QTUM) and Stellar (XLM).

### Outlook for the second half of 2018

We will make further investments in the third and fourth quarters of 2018 to ensure our strategic projects continue to progress. We also plan to hire additional members of staff, and have targeted an employee headcount of 145 by the end of the year.

The challenge we face now is to compensate for these increases in expenditure by ensuring income continues to grow, so we are able to reach our expected net income of CHF 5.2 million for the year. We are confident as we head into the second half of 2018: we have opened accounts for a large number of companies in the blockchain banking sector, who have also taken advantage of our advisory services, and we expect these companies to make a significant contribution to our commissions income in the second half of 2018.

Our position as one of the few banks in Europe to offer blockchain banking services will not last forever, and this is something we welcome, as we believe this technology harbours enormous potential for the banking world. We set great store by carefully examining every request we receive to ensure it is serious, and are working hard to consolidate and build on the great advances which we have made in terms of our expertise in the last few years. Margins for certain services in the blockchain banking sector are also set to come under pressure as new competitors enter the market.

In terms of funds and issues, we expect the positive development of our fund volume to strengthen further and projects which are currently in development to become stable sources of income.

Finally, there is one event which we are particularly looking forward to in the second half of 2018: on 24 November 2018, together with our staff, we will be celebrating 20 years since our Bank was founded by Kuno Frick Sr († 2017) in 1998.



Edi Wögerer  
CEO

## Balance sheet as at 30 June 2018

in CHF 1,000	30.6.2018	31.12.2017
<b>Assets</b>		
Liquid assets	199,343	118,868
Due from banks	606,107	613,720
→ of which repayable upon demand	227,650	252,609
→ of which other receivables	378,457	361,112
Due from clients	414,600	473,464
→ of which mortgage-backed claims	103,878	111,803
Bonds and other fixed-interest securities	51,628	36,885
→ of which bonds issued by public bodies	26,798	3,516
→ of which bonds issued by other borrowers	24,831	33,369
Shares and other non-fixed-interest securities	80,264	85,053
Participations	487	493
Shares in affiliated companies	–	–
Intangibles	–	–
Property, plant and equipment	10,800	10,857
Other assets	19,065	13,727
Accrued expenses and deferred income	6,784	6,712
<b>Total assets</b>	<b>1,389,077</b>	<b>1,359,779</b>

## Balance sheet as at 30 June 2018

in CHF 1,000

30.6.2018

31.12.2017

### Liabilities

Due to banks	21,502	5,564
→ of which repayable on demand	21,502	5,564
→ with agreed terms or notice period	–	–
Due to clients	1,150,088	1,133,443
→ of which savings deposits	–	–
→ of which other liabilities repayable on demand	986,867	826,524
→ of which other liabilities with agreed terms or notice periods	163,221	306,920
Certificated liabilities	99,232	100,935
→ of which medium-term notes	17,042	17,122
→ of which other certificated liabilities	82,190	83,813
Other liabilities	23,357	23,685
Accrued expenses and deferred income	5,314	3,041
Tax Provisions	1,933	1,816
Provisions for general banking risks	16,400	16,400
Subscribed capital	25,000	25,000
Capital reserves	1,000	1,000
Retained profit	42,644	42,612
→ of which statutory reserves	6,000	6,000
→ of which other reserves	36,644	36,612
Profit carried forward	1	5
Profit	2,606	6,278
<b>Total liabilities</b>	<b>1,389,077</b>	<b>1,359,779</b>

## Income statement from 1 January to 30 June 2018

in CHF 1,000

30.6.2018

30.6.2017

### Items

Interest earned	11,156	8,984
→ of which income from fixed-interest securities	554	8
Interest expenses	-1,469	-2,014
Current income from securities	10	8
→ of which shares and other non-fixed-interest securities	10	8
Income from commission and service transactions	10,784	7,777
→ of which commission income on loan transactions	233	273
→ of which commission income on securities and investment operations	4,840	4,120
→ of which commission income on other service transactions	5,711	3,384
Commission expenses	-5,080	-3,830
Profit on financial operations	427	792
→ of which from trading	1,843	1,267
Other operating income	2,964	680
General and administrative expenses	-11,514	-8,667
→ of which personnel expenses	-6,730	-5,157
→ of which business and office expenses	-4,784	-3,510
Depreciation on intangible assets and property, plant and equipment	-365	-235
Other operating expenses	-395	-67
Valuation allowances on claims and transfers to reserves for contingencies and credit risks	-3,504	-300
Income from the dissolution of valuation allowances in respect of loans and from the dissolution of provisions for contingent liabilities and credit risks	-	-
Depreciation on participations, shares in affiliated companies and securities treated as non-current assets	-	-
Income from write-ups of shareholdings, shares in affiliated companies and securities treated as non-current assets	-	-
<b>Income from normal business activities</b>	<b>3,013</b>	<b>3,129</b>
Extraordinary income	-	-
Extraordinary expenditure	-	-
Income tax	-407	-392
Other taxes	-	-
Allocations to provisions for general banking risks	-	-
<b>Profit for the period from 1 January to 30 June 2018</b>	<b>2,606</b>	<b>2,737</b>

## Off-balance-sheet items as at 30 June 2018

in CHF 1,000

30.6.2018

31.12.2017

### Off-balance sheet items

#### Contingent liabilities

Liabilities from guarantees and warranty contracts as well as liability from provision of collateral	5,356	5,485
<b>Total contingent liabilities</b>	<b>5,356</b>	<b>5,485</b>

#### Derivative financial instruments

Notional value	671,083	527,610
Positive replacement values	10,535	2,839
Negative replacement values	10,332	2,684

#### Fiduciary transactions

Fiduciary transactions	150,806	151,303
Fiduciary loans	–	–
<b>Total fiduciary transactions</b>	<b>150,806</b>	<b>151,303</b>

The Bank Frick Half-yearly report is published in German and English.  
The German version is authoritative.

*Crossover Finance*