



BANK FRICK

Half-yearly results – H1 2019



Report of the Management Board

Continued business growth and less investment in personnel and infrastructure going forward: this sums up the first six months of 2019 at Bank Frick. Net profit was CHF 1.5 million for the first half of the year, with net income projected to be around CHF 2 million. Bank Frick took steps to secure its future during the reporting period, investing in four companies to expand and solidify its ecosystem.

2019 has seen continued growth for Bank Frick. We are systematically pursuing our strategy of working closely with financial intermediaries, offering products for alternative asset classes and fund services, and becoming an internationally leading partner in the blockchain sector. With this strategy in mind, we evaluated and acted on various strategic opportunities over the course of the first half of the year. We founded two subsidiaries – The DLT Markets AG and Distributed Ventures AG – and invested in the fintech companies Tradico AG and 21.finance AG.

The DLT Markets AG

Bank Frick founded The DLT Markets AG in February, strengthening our position as a pioneer in the area of blockchain banking. The subsidiary will provide institutional investors with professional access to the multi-exchange trading of digital tokens. To do so, The DLT Markets AG is developing a unique, globally positioned platform, which combines the regulatory security of the traditional securities business with the advantages offered by the new digital token asset class. This fully regulated set-up will also be equipped to trading security tokens in the future. Once the platform has been successfully implemented, our subsidiary expects to start trading in the third quarter of 2019.

Distributed Ventures AG

The subsidiary Distributed Ventures AG was also founded in February. From the birth of an idea to the reaching of market maturity – Distributed Ventures AG supports founders every step of the way and offers help in implementing future-oriented business models for the financial sector. The company also offers consulting services to other financial service providers with regard to blockchain and crypto compliance. The expert team of Distributed Ventures AG can provide in-depth forensic analyses for virtual assets, making an impactful contribution to reducing the risk of money laundering and fraud. As a pioneer in the area of blockchain banking, Bank Frick is thus underlining its goal of promoting the development of the financial ecosystem. At the same time, the subsidiary will give Bank Frick access to promising business ideas.

Tradico AG

Bank Frick took steps to strengthen its fintech expertise in June with the total takeover (100%) of Tradico AG. The Liechtenstein-based company mainly offers enterprises in the DACH region (Germany, Austria and Switzerland) finance for goods purchasing. The acquisition of Tradico AG has opened up access to an innovative technological solution that enables us to expand the Bank's financing business strategically.

Tradico AG, a Liechtenstein start-up, has already achieved turnover of over EUR 60 million since it was founded in 2015; several thousand transactions have been successfully implemented on its www.tradi.co platform. The company is already operating profitably.

21.finance AG

In the second half of 2018, Bank Frick acquired a 25.93% stake in the fintech group 21.finance AG, which operates the multi-asset platform area2Invest. Bank Frick increased its stake to 50.14% in the second quarter of 2019.

21.finance AG focuses on brokering investments to issuers of financial products. The area2Invest platform gives the opportunity to offer primary market placements to a wide investor audience. This makes it an attractive investor portal that issue clients of Bank Frick can use as a highly targeted distribution channel. The shareholding in 21.finance AG thus allows us to expand our service offering and offer issue clients a digital showcase.

We believe that the continued pursuit of our growth strategy will secure a leading position for us in the areas of blockchain banking, capital market products, alternative payment solutions, credit card processing and financing. Because seizing strategic opportunities is part of the entrepreneurial DNA of Bank Frick,

we will continue regularly evaluating our options for entering into partnerships with promising companies.

Blockchain Act set to open the doors to growth

Liechtenstein is one of the first countries in the world to create an innovation-friendly regulatory framework for the token economy. The proposed Law on Transaction Systems Based on Trustworthy Technologies (TT Act) will provide more legal protection to market participants and clients. The Liechtenstein Parliament considered the TT Act in a first reading during its session on 6 June 2019. The law is expected to pass in autumn 2019. We expect the law to go into effect in early 2020.

Today, legal uncertainties surround blockchain applications in many areas – for instance with regard to business models based on blockchain systems that are not covered by financial market legislation but are used for activities similar to traditional financial ones. The TT Act will eliminate substantial parts of these uncertainties.

We believe the draft law to be a highly promising and important building block on which to make the Liechtenstein financial centre fit for the future. We expressly welcome the new TT Act. In regulatory terms, we already apply bank standards when it comes to assessing blockchain clients. For that reason,

we do not expect that any significant changes will have to be made to our internal processes.

Our clients can also rest assured that the services they receive from us are already for the most part compliant with the requirements of the TT Act. Through this legal certainty we offer the added value that clients rightly expect from a premium bank.

In view of the entry into force of the TT Act, we are already working on the development of business models and financial instruments that are adapted to it. The introduction of the token as a new construct which makes it possible to transition from the traditional financial industry to blockchain systems with legal certainty opens up interesting perspectives for new, attractive products for our Fund and Capital Markets department – which is entirely in keeping with our vision of offering financial intermediaries high-quality, modular digital financial services.

Partnership with the University of Liechtenstein: investing in Liechtenstein's fintech ecosystem

Bank Frick believes in the future of Liechtenstein as a fintech centre, something which the proposed TT Act will serve to strengthen. Our confidence has inspired us to make a substantial financial contribution to the future of the country's fintech ecosystem. To mark

Bank Frick's 20th anniversary last year, we entered into a partnership with the University of Liechtenstein in the areas of blockchain and fintech. The university receives substantial financial resources from Bank Frick during the planned five-year cooperation. Partnership-based research projects, projects with students and a certificate programme are the main aims of the collaboration. The first fintech and blockchain course kicked off at the beginning of 2019, and successful students were awarded a Certificate in Blockchain and Fintech on 21 August 2019. The presence of Adrian Hasler, the Prime Minister of Liechtenstein, underlined the importance of blockchain and fintech for the future of the financial ecosystem in Liechtenstein.

Balance sheet

Our balance sheet total amounted to CHF 990 million as at 30 June 2019, which was 7% lower compared to the end of the 2018 financial year on 31 December 2018.

Client assets under management

Client assets under management increased by CHF 61 million in the first six months of the 2019 financial year to CHF 2,719 million as at 30 June 2019. Net new money outflow amounted to CHF 5.7 million as at the reporting date.

Sources of income

Fund and Capital Markets operations, which provide custodian services and custodian banking services in the funds business, remained stable, confirming their position as an important pillar of Bank Frick. Funds under management that were domiciled in Liechtenstein amounted to around CHF 682 million as at 30 June 2019.

We have observed a rash of activity in the third-party issue business and were able to acquire a total of 16 new paying agent mandates. Bank Frick acted as a paying agent for a total volume of CHF 360 million. The interest in our paying agent mandates for non-EU vehicles also remains high.

With regard to Capital Markets, Bank Frick issues tailored structured products on behalf of its clients and takes on the paying agent role for third-party issues. Over the past six months, we launched two certificates and we will also be launching other future-oriented products in the third and fourth quarter of 2019. We have submitted the first tokenised fund to the Financial Market Authority (FMA) Liechtenstein for review. Should it be approved by the FMA, we will put it on the market in the second half of the year.

Blockchain banking continues to be a success. Our clients include the most important crypto exchanges. This is generating strong income and guarantees

that our experts can keep their finger on the pulse of the blockchain ecosystem, which will allow them to react quickly and flexibly to new developments. Compared to 30 June 2018, trading volumes rose by 115%. The first half of the year saw the development of a new crypto lending business model that we will continue to work on. The idea is to allow clients to deposit cryptocurrencies and receive fiat currency in return, similar to traditional Lombard loans.

Income from private clients and financial intermediaries continued to be an important and constant part of the Bank's overall financial results in the first half of 2019. Traditional banking has been and will continue to be an important component of Bank Frick's strategy. Over the next few months, we will introduce new processes and digital applications in this business area to make our work more efficient, thereby enhancing our value proposition for clients even further.

Constant growth in revenues: the trend continues

The encouraging trend of growth in operating income continued in the first six months of 2019. Income from commissions and trading activities grew once again. It was only interest income that did not increase, remaining slightly under the level of the previous year. This is attributable to the fact that last year's interest income was unusually high

due to extraordinary items. However, the positive trend experienced over the past few years also applied to interest income.

In light of the strategic investments mentioned at the beginning of the report, we have had to accept that personnel and operating expenses were higher than budgeted. Digital onboarding and other resource-heavy IT projects will be wrapped up by the end of the year. Our aim with digital onboarding is to get to know clients and their needs better, thereby optimising the needs analysis process. This step will allow us to fundamentally improve our time to market and enhance our value to clients. Once these projects have been implemented, we expect to have lower operating expenditure and reduced expenses going forward, which will allow us to scale back expenses.

Other significant events during the first half of 2019

Over the course of the first six months of the year, Bank Frick reorganised its Management Board. The organisational structure has been adapted to the needs of a tech-savvy bank for intermediaries. Michael Dolzer became a Management Board member and COO on 1 May 2019. Dolzer was previously Head of the Business Technologies and Innovation Management department. The previous CCO Hubert Büchel has decided to take

on a new position at a different financial institution. CEO Edi Wögerer will assume responsibility for the new Customer Relations division. The Management Board now consists of the following members:

Edi Wögerer
(CEO / Customer Relations division)

Michael Dolzer
(COO / Business Technologies and Innovation Management division)

Melanie Mündle
(CFO / Finance, Risk and Controlling division)

As at 30 June 2019, our employee headcount stood at 123. We are nearly done with our staff expansion. In the current financial year, we have made various organisational adjustments to further enhance the efficiency of our organisation. This was always done with one goal in mind: creating the smoothest possible working relationships and generating the greatest possible value for our clients.

Outlook for the second half of 2019

Due to the investments mentioned at the beginning of this report – the founding of the subsidiaries The DLT Markets AG and Distributed Ventures AG and the investment in 21.finance AG and Tradico AG – we do not expect to achieve our projected net income of CHF 3.6 million.

We instead expect our net income for this year to amount to approximately CHF 2.0 million. However, our operating income provides us with positive encouragement, and we are heading into the third and fourth quarter with confidence. We also have high expectations from our new investments and subsidiaries. Tradico AG is already operating profitably, and the other companies are also developing as expected.

We will continue to have our hands full supporting our subsidiaries with the expansion of their business by providing services and consulting.

On an organisational level, we will continue to pursue the integration of blockchain expertise into our traditional banking business. Blockchain is becoming an integral part of all areas of our business. Our blockchain centre of excellence is recruiting specialists and broadening its expertise. The centre of excellence will support and closely advise the individual organisational units on an ongoing basis.

We are especially looking forward to the Liechtenstein Parliament's second reading of the Blockchain Act in autumn of this year. We firmly believe that the draft law will be passed and that there are no obstacles to the law going into effect next year.

We are excellently staffed, both in terms of quality and quantity. The trend of constant growth in operating income is

continuing. We have stayed true to our strategy and taken bold steps to secure our future by founding subsidiaries and investing in promising companies. We are well equipped to meet the challenges of the future and look forward to confidently striding into the second half of the year.

Edi Wögerer
CEO

Balance sheet as at 30 June 2019

in CHF 1,000	30.6.2019	31.12.2018
Assets		
Liquid assets	109,605	97,715
Due from banks	188,018	374,348
→ of which repayable upon demand	63,676	104,137
→ of which other receivables	124,341	270,211
Due from clients	405,188	398,443
→ of which mortgage-backed claims	104,867	103,977
→ of which secured by mortgages	21,182	17,795
→ of which secured by other collateral	178,443	173,989
→ of which without collateral	100,596	102,683
Bonds and other fixed-interest securities	97,980	44,905
→ of which bonds issued by public bodies	59,845	27,200
→ of which bonds issued by other borrowers	38,136	17,705
Shares and other non-fixed-interest securities	76,057	80,456
Participations	1,212	-
Intangibles	-	-
Real estate	-	-
Property, plant and equipment	10,062	10,401
Other assets	98,965	49,004
Accrued expenses and deferred income	3,088	6,325
Total assets	990,177	1,061,597

Balance sheet as at 30 June 2019

in CHF 1,000	30.6.2019	31.12.2018
Liabilities		
Due to banks	7,180	15,937
→ of which repayable on demand	7,180	15,937
→ with agreed terms or notice period	-	-
Due to clients	674,097	769,577
→ of which savings deposits	-	-
→ of which other liabilities repayable on demand	592,720	653,103
→ of which other liabilities with agreed terms or notice periods	81,378	116,474
Certificated liabilities	93,260	111,449
→ of which medium-term notes	11,667	16,860
→ of which other certificated liabilities	81,593	94,589
Other liabilities	116,232	69,500
Accrued expenses and deferred income	6,236	4,661
Tax Provisions	1,493	1,229
Provisions for general banking risks	16,400	16,400
Subscribed capital	25,299	25,000
Capital reserves	1,598	1,000
Retained profit	46,844	42,644
→ of which statutory reserves	6,000	6,000
→ of which other reserves	40,844	36,644
Profit carried forward	-	1
Profit	1,538	4,200
Total liabilities	990,177	1,061,597

Income statement from 1 January to 30 June 2019

in CHF 1,000	30.6.2019	30.6.2018
Items		
Interest earned	10,310	11,156
→ of which income from fixed-interest securities	516	554
Interest expenses	-1,914	-1,469
Current income from securities	12	10
→ of which shares and other non-fixed-interest securities	12	10
Income from commission and service transactions	9,429	10,784
→ of which commission income on securities and investment operations	5,118	4,840
→ of which commission income on other service transactions	4,276	5,711
→ of which commission income on loan transactions	35	233
Commission expenses	-3,125	-5,080
Profit on financial operations	1,346	427
→ of which from trading	1,944	1,843
→ of which from disposal of securities	2	-110
→ of which impairments to securities	-600	-2,850
Other operating income	1,389	2,964
General and administrative expenses	-13,861	-11,514
→ of which personnel expenses	-8,499	-6,730
→ of which business and office expenses	-3,059	-4,784
→ of which IT expenses	-2,303	-4,401
Depreciation on intangible assets and property, plant and equipment	-378	-365
Other operating expenses	-163	-395
Valuation allowances on claims and transfers to reserves for contingencies and credit risks	-836	-3,504
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	-405	-
Income from write-ups of shareholdings, shares in affiliated companies and securities treated as non-current assets	-	-
Income from normal business activities	1,803	3,013
Extraordinary income	-	-
Extraordinary expenditure	-1	-
Income tax	-264	-407
Other taxes	-	-
Allocations to provisions for general banking risks	-	-
Profit for the period from 1 January to 30 June 2019	1,538	2,606

Off-balance-sheet items as at 30 June 2019

in CHF 1,000	30.6.2019	31.12.2018
Off-balance sheet items		
Contingent liabilities		
of which credit guarantees and similar instruments	10,496	10,674
of which guarantees for warranty obligations and similar instruments	-	-
Total contingent liabilities	10,496	10,674
Derivative financial instruments		
Notional value	714,962	593,351
Positive replacement values	3,250	1,300
Negative replacement values	-2,997	-1,310
Fiduciary transactions		
Fiduciary transactions	129,925	141,024
Fiduciary loans	-	-
Total fiduciary transactions	129,925	141,024

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

Crossover Finance