

// We connect. //



Shareholder information

VP Bank Group at a glance

- Founded in 1956
- Third-largest bank in Liechtenstein
- About 940 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 competency centre

Medium-term goals for the end of 2020

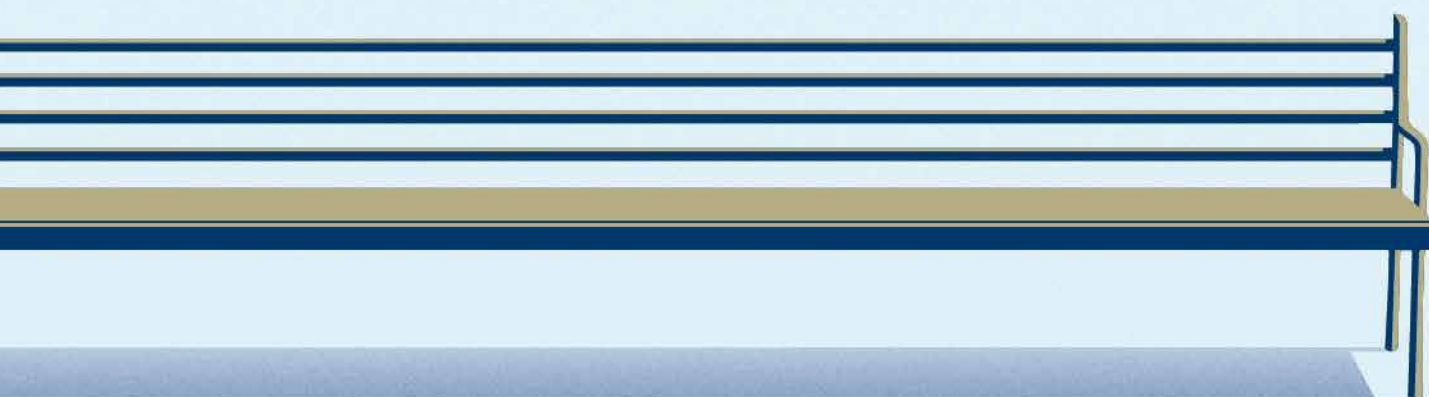
- Assets under management of CHF 50 billion
- Group net income of CHF 80 million
- Cost/income ratio below 70%

Agenda 2020

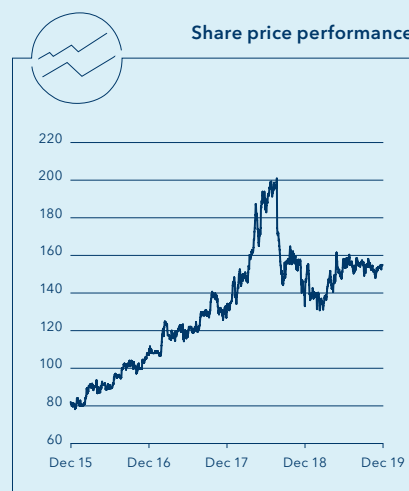
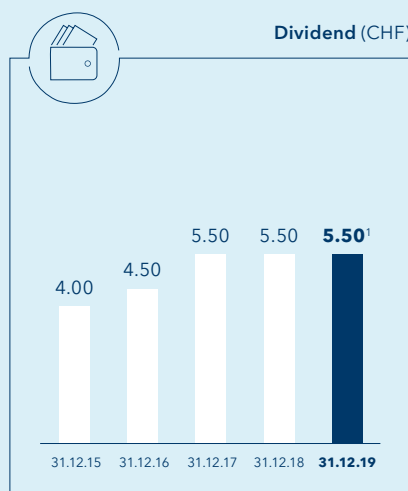
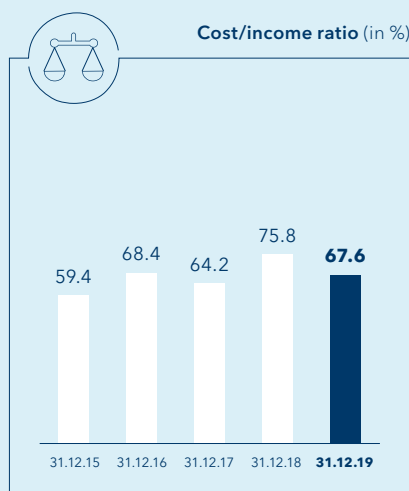
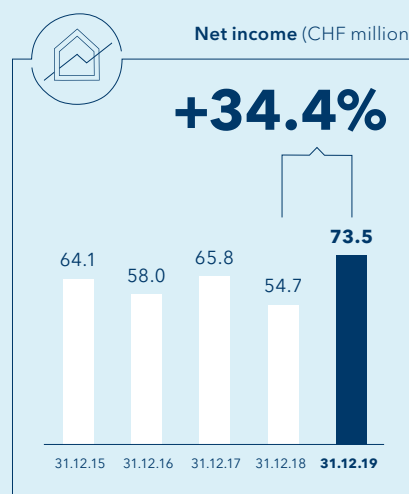
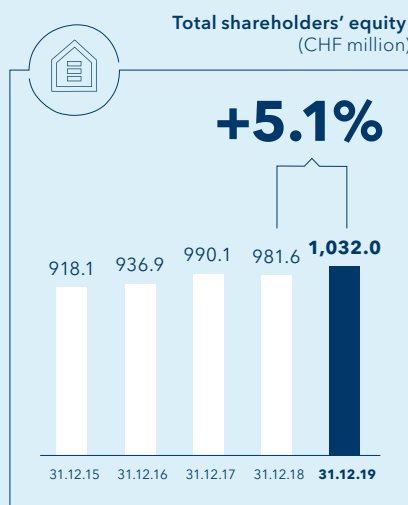
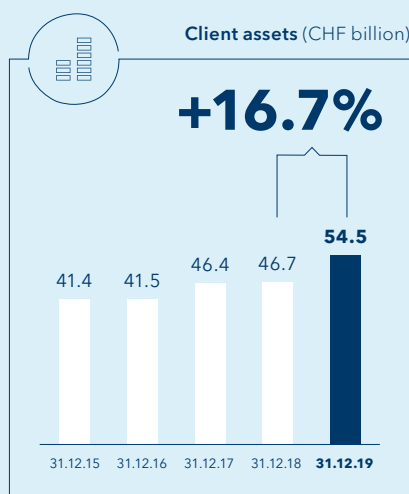
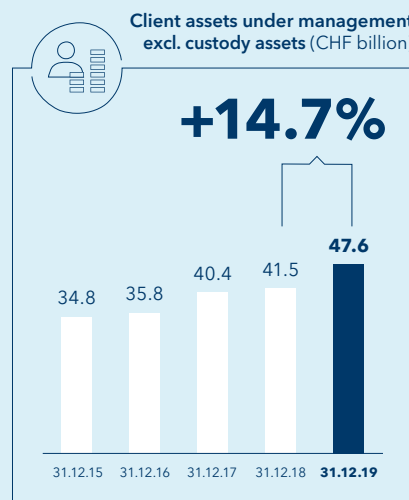
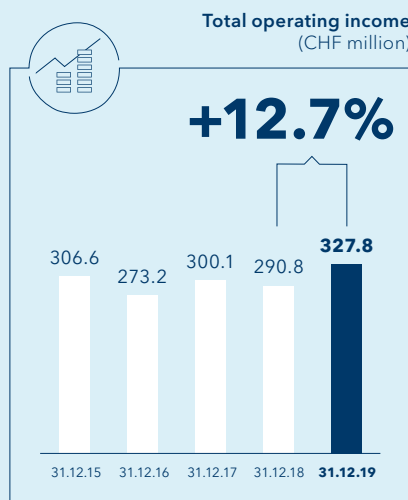
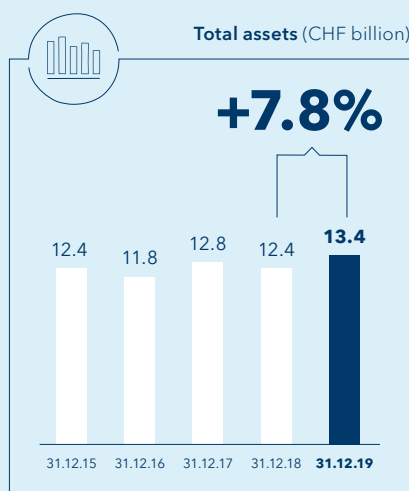
Media and analysts conference	10 March 2020
Annual general meeting of shareholders	24 April 2020
Dividend payment	30 April 2020
Semi-annual results	18 August 2020

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



Key figures of VP Bank Group



¹ Proposal to the annual general meeting

— VP Bank registered shares A (in CHF)

Key figures of VP Bank Group

	2019	2018	Variance in %
Key income statement data in CHF million^{1,2}			
Total net interest income	115.1	111.0	3.7
Total net income from commission business and services	137.2	124.3	10.4
Income from trading activities	61.0	55.0	10.9
Income from financial instruments	14.3	-1.6	n.a.
Total operating income	327.8	290.8	12.7
Operating expenses	244.8	232.3	5.4
Group net income	73.5	54.7	34.4
Key balance-sheet data in CHF million^{1,2}			
Total assets	13,399.9	12,428.2	7.8
Due from banks	735.0	771.1	-4.7
Due from customers	6,797.3	6,196.3	9.7
Due to customers	11,137.5	10,334.9	7.8
Total shareholders' equity	1,032.0	981.6	5.1
Equity ratio (in %)	7.7	7.9	-2.5
Tier 1 ratio (in %)	20.2	20.9	-3.3
Leverage ratio in accordance with Basel III (in %)	7.1	7.3	-2.7
Liquidity coverage ratio in accordance with Basel III (in %)	213.1	142.6	49.4
Total client assets under management in CHF million			
	47,622.9	41,525.9	14.7
On-balance-sheet customer deposits (excluding custody assets)	11,146.1	10,231.3	8.9
Fiduciary deposits (excluding custody assets)	908.6	798.0	13.9
Client securities accounts	35,568.3	30,496.6	16.6
Custody assets in CHF million	6,926.3	5,210.1	32.9
Total client assets in CHF million	54,549.2	46,736.0	16.7
Business volumes in CHF million¹⁰			
	54,420.2	47,722.2	14.0
Net new money in CHF million			
	2,254.6	3,196.9	-29.5
Key operating indicators²			
Return on equity (in %) ^{1,3}	7.4	5.6	
Cost/income ratio (in %) ⁴	67.6	75.8	
Total operating expenses / total net operating income (in %)	74.7	79.9	
Headcount			
(expressed as full-time equivalents, excluding student apprentices) ⁵	873.7	868.4	
Total operating income per employee (in CHF 1,000)	375.2	334.9	
Total operating expenses per employee (in CHF 1,000) ⁶	253.7	254.0	
Group net income per employee (in CHF 1,000)	84.2	63.0	
Key indicators related to shares of VP Bank in CHF¹			
Group net income per registered share A ⁷	12.28	9.04	
Group net income per registered share B ⁷	1.23	0.90	
Dividend per registered share A ⁸	5.50	5.50	
Dividend per registered share B ⁸	0.55	0.55	
Dividend yield (in %)	3.5	3.9	
Payout ratio (in %)	44.8	60.8	
Total shareholders' return on registered shares A (in %) ¹¹	13.51	10.45	
Shareholders' equity per registered share A on the balance-sheet date	173.23	164.80	
Shareholders' equity per registered share B on the balance-sheet date	16.50	15.69	
Quoted price per registered share A	155.00	141.40	
Quoted price per registered share B	15.50	14.20	
Highest quoted price per registered share A	165.40	202.00	
Lowest quoted price per registered share A	130.20	130.80	
Market capitalisation (in CHF million) ⁹	1,025	936	
Price/earnings ratio per registered share A	12.62	15.64	
Price/earnings ratio per registered share B	12.62	15.71	
Rating Standard & Poor's	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 Net income / average shareholders' equity less dividend.

⁴ Total operating expenses (without depreciation and amortisation, valuation allowances, provisions and losses) / total operating income.

⁵ In accordance with legal requirements, apprentices are to be included in headcount statistics as 50 per cent of equivalent full-time employees.

⁶ Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / gross income less other income and income from financial instruments.

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

⁸ Subject to approval by the annual general meeting.

⁹ Including registered shares B.

¹⁰ Assets under management and due from customers.

¹¹ Price change compared to previous year closing price plus dividend / closing price previous year.

"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.

Starting with a wide-ranging understanding of change, VP Bank actively shapes the connectivity process and connects people, ideas, competencies and technologies. For us, connectivity also involves the establishment of a meaningful connection and finding the right balance between the digital and the real world.

Our specialists serve as the bank's messengers to describe the areas and topics where VP Bank is forging new conceptual connections. We present seven central themes in all, which include the following areas: client experience, digital advisory, corporate responsibility, working environment, investment solutions, financial strength and fund expertise.

In this annual report, you can discover the extent to which these topics influence the banking world of today and tomorrow. You can also watch more in-depth interviews at our online annual report at report.vpbank.com



Introduction

- U2** · Key figures
- 1** · «We connect.»
- 2** · Statement by the Chairman of the Board and the Chief Executive Officer

VP Bank Group

- 10** · VP Bank at a glance
- 12** · 2019 in review
- 14** · Organisational structure
- 19** · Economic environment
- 20** · VP Bank in capital markets

Corporate strategy

- 26** · Strategic orientation
- 34** · Strategic partnerships

Sustainability

- 38** · Sustainability management
- 40** · CSR reporting
- 42** · Stakeholders
- 43** · Client advisory
- 46** · Employees
- 51** · Responsibility as an employer
- 53** · Suppliers
- 54** · Sustainability in the investment process
- 55** · Social engagement
- 56** · Business ecology
- 60** · Legislation and supervisory authorities

Corporate governance and compensation report

- 66** · Corporate governance
- 84** · Compensation report

Segments

- 92** · Segment reporting
- 94** · Client Business Liechtenstein
- 95** · Client Business International
- 96** · Corporate Center

Financial report 2019 of VP Bank Group

- 100** · Consolidated annual report of VP Bank Group
- 103** · Consolidated income statement
- 104** · Consolidated statement of comprehensive income
- 105** · Consolidated balance sheet
- 106** · Consolidated changes in shareholders' equity
- 107** · Consolidated statement of cash flow
- 109** · Principles underlying financial statement reporting and notes
- 119** · Risk management of VP Bank Group
- 140** · Segment reporting
- 142** · Notes to the consolidated financial statement
- 171** · Auditor's report

Financial report 2019 of VP Bank Ltd, Vaduz

- 178** · Annual report of VP Bank Ltd, Vaduz
- 179** · Balance sheet
- 181** · Income statement
- 182** · Appropriation of profit
- 183** · Information regarding business activities and number of employees
- 184** · Principles of accounting and valuation, disclosures on risk management
- 186** · Notes regarding the balance sheet and income statement
- 197** · Auditor's report



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



Fredy Vogt
Chairman of the Board of Directors



Paul H. Arni
Chief Executive Officer

Dear shareholders, Ladies and gentlemen

2019 emphatically and positively demonstrated that financial markets do not always trend in line with the economy. All major equity indices recorded strong gains. The economic environment was mixed, as the services sector posted robust growth while the manufacturing industry had to contend with pressure from trade disputes. The on-going expansive monetary policy by international central banks left interest rates at extremely low levels.

These conditions worked to the advantage of VP Bank. We recorded strong growth and earnings gains.

Particularly satisfactory annual result

In 2019, VP Bank Group's consolidated net income jumped by 34.4 per cent to CHF 73.5 million (2018: CHF 54.7 million).

Operating income increased by 12.7 per cent, or CHF 36.9 million, to CHF 327.8 million.

Operating expense rose by 5.4 per cent, or CHF 12.5 million, to CHF 244.8 million.

VP Bank Group's client assets under management increased by 14.7 per cent, or CHF 6.1 billion, to CHF 47.6 billion.

At 31 December 2019, the Tier 1 ratio was 20.2 per cent, reflecting our solid capitalisation. The cost/income ratio was 67.6 per cent.

In 2019, VP Bank continued to record further operational progress and a satisfactory result. The strong growth in net new money totalling CHF 2.3 billion was achieved through intensive market development efforts, the implementation of growth initiatives and the client advisors recruitment campaign.

Proposed dividend

The Board of Directors proposes to the Annual General Meeting of 24 April 2020 to pay an unchanged dividend of CHF 5.50 per registered share A and CHF 0.55 per registered share B. The earnings basis predicates the dividend defined by the Board of Directors. VP Bank strives to maintain steady dividend growth, with a goal of distributing 40 per cent to 60 per cent of consolidated net income to shareholders. The proposed dividend is based on consolidated net income of CHF 73.5 million.

Strategic orientation

In 2015, the Board of Directors and Group Executive Management developed "Strategy 2020". This strategy encompasses the long-term initiatives of growth, focus and culture. In that regard, it revolves around a combined strategy of growth, productivity gains and the continued development of our sales and performance culture.

As part of "Strategy 2020" we identified the following medium-term goals:

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

At end-2019, assets under management were CHF 47.6 billion (2018: CHF 41.5 billion), consolidated net income was CHF 73.5 million (2018: CHF 54.7 million) and the cost/income ratio was 67.6 per cent (2018: 75.8 per cent).

The current five-year period of "Strategy 2020" comes to an end at the conclusion of 2020, and we remain confident that we will reach our targets to the greatest extent. The consolidated net income target remains the biggest challenge, given a still challenging market environment and highly unpredictable financial market trends.

During the past year, the Board of Directors and Group Executive Management devoted considerable attention to the bank's orientation over the next strategic cycle through 2025. Through a series of workshops, we laid the foundations of our new "Strategy 2025".

Building on the successful strategy implemented to date, we devised the general motto "Seize opportunities" and from there identified three main strategic focal points:

- Profitable growth ("evolve"): strategic growth of the operating business at all sites
- Efficiency and cost discipline ("scale"): optimisation and scaling of the operating platform
- New sources of income ("move"): opening up new business opportunities

For our positioning, we invoke our proven expertise as an intermediary bank. This expertise offers access to customised financial solutions and excellent networking for both financial service providers and our private clients. Building on our existing vision statement, we formulated a new claim (Seize opportunities).

In that regard, we focus on four strategic business areas:

- Retail & Commercial Banking in Liechtenstein
- Wealthy individuals in Europe and Asia
- Intermediaries in Europe and Asia
- Client solutions in Europe

To implement the main points of Strategy 2025, we have developed a comprehensive package of measures, the success of which is evaluated by three publicly disclosed key performance indicators (KPI):

- Growth: > 4 per cent in net new money per year over the 2021-2015 cycle (in per cent of assets under management)
- Profitability: > 15 bp earnings margin (income after tax) in bp of assets under management and cost/income ratio 70 per cent
- Stability: Tier 1 ratio: > 20 per cent

All measures of "Strategy 2025 – Seize opportunities" are intended to enable VP Bank Group to achieve net income of CHF 100 million by end-2025. More information on our "Strategy 2025" can be found in the "Strategic orientation" section, → page 26 ff.

VP Bank shares and capital markets

2019 was a good year for VP Bank shareholders. Including the dividend payout of CHF 5.50 per share, VP Bank shares delivered a return of nearly 14 per cent in 2019. This result is roughly in line with the Swiss banking index. Volatility over the course of 2019 was clearly lower than that of the overall index. The shares started with an initial price of CHF 141.40 and ended the year at CHF 155.00, resulting in a 6.37 per cent gain for 2019. More information on our shares is presented in the section "VP Bank in capital markets."

At 27 April 2019, the Annual General Meeting approved a dividend of CHF 5.50 per registered share A and CHF 0.55 per registered share B. The dividend was payable on 5 May 2019.

The share buy-back programme announced on 27 June 2018 was completed as planned on 28 June 2019 using the regular trading line. VP Bank's treasury shares now represent 9.58% of total share capital. Since no shares were cancelled, share capital and voting rights ratios remained unchanged. The repurchased registered shares are to be used for future acquisitions or treasury management purposes.

On 27 August 2019 the rating agency Standard & Poor's again confirmed VP Bank's "A/Stable/A-1" rating and underscored the bank's strong funding, very strong capitalisation, stable shareholder base, ample liquidity and stable client deposits. This most recent confirmation of the rating and outlook attests to our solid and successful business model.

At 5 November 2019, VP Bank Ltd successfully issued its first senior non-preferred 10-year bond in the amount of CHF 155 million. This bond was enthusiastically received by investors and reflects VP Bank Ltd's excellent reputation in Swiss capital markets. This bond allows us to optimise our refinancing structure and creates eligible liabilities as regards future regulatory requirements for debt (MREL – Minimum Requirement for Own Funds and Eligible Liabilities).

Significant events

In 2019, our fund subsidiary VP Fund Solutions (Liechtenstein) AG celebrated its 20th anniversary. At 1 July 2019, the fund competency centre VP Fund Solutions expanded its management team at both sites in Liechtenstein and Luxembourg. The extended management will help us grow our international funds business further.

At 1 February 2019 we closed on the transaction announced in October 2018 in which VP Bank (Luxembourg) SA acquired the Luxembourg private banking activities of Catella Bank S.A. This transaction with Catella Bank, whose registered office is in Sweden, supports our efforts to grow in the Scandinavian market. In 2019 we defined the "Nordics" i.e. Denmark, Sweden and Norway as a new target market.

At our Singapore site, we also added to our management team, recruited new client advisors and expanded the line of products and services. Our growth objectives in Asia were bolstered through our signing of a memorandum of understanding for strategic cooperation between VP Bank AG (Liechtenstein) and Hywin Wealth Management Co. (China) on 11 July 2019. Thanks to this planned cooperation, we expect to expand our business activities in the Chinese market.

At 4 September 2019, VP Bank (Switzerland) AG received the "simplified exemption procedure" from the German financial markets supervisory authority (BaFin), making it one of the few Swiss private banks to have received it to date. This authorisation provides us with much easier access and better conditions for developing the German market, which is part of our core business.

In 2019 we further developed our client portal with "VP Bank Connect". We also introduced a secure and independent login procedure for VP Bank's e-banking platform, which satisfies all future regulatory requirements as regards quality and security.

Client surveys help us to optimise our services. They are a vital component of our resolutely client-focused company culture. In June and July 2019, we conducted a client survey at our Liechtenstein and Swiss sites. The feedback from the more than 600 surveys returned shows that our clients value the initiative by VP Bank. Working with

client advisors, we use the survey responses to identify measures and proceed to implement them.

As in 2015 and 2017, we conducted an employee survey last year. In this most recent survey in September 2019, VP Bank measured the satisfaction and commitment of VP Bank employees and reviewed the measures defined in previous years. Thanks to the outstanding 91 per cent survey response rate, the results are representative and provide a generally encouraging snapshot in time. For those areas where action is needed, we have defined corresponding measures. The results were presented as part of a Group-wide roadshow in November 2019.

In 2019, we successfully completed the two-year basic certification process of our client advisors in accordance with SAQ standards in Liechtenstein and Switzerland, thereby guaranteeing outstanding advisory competencies based on a single quality standard. In order to retain their certification, client advisors must get recertified within three years.

At end-2019 we completed our international "Relationship Manager Hiring" programme to recruit new client advisors and bring in new money, which has been in effect since 2017. As part of our Strategy 2025 plan, we will also continue the search going forward under the "Hiring for Growth" campaign and take advantage of targeted opportunities.

So-called "VP Bank Journeys" have been held for the past three years. They promote innovation, and in 2019 our employees visited Vienna and Liechtenstein. These journeys provided valuable insights on how to approach and implement personal development and motivated the employees to approach and implement change together.

The business with financial intermediaries remains one of our strategic business areas. Last year, we reorganised this activity and now offer, together with a well-known service provider, modular training that will be of central importance for future licensing of financial intermediaries.

Personnel changes

At the 56th Annual General Meeting of VP Bank on 26 April 2019, Markus Thomas Hilti, Ursula Lang and Dr Gabriela Maria Payer were re-elected to three-year terms on the Board of Directors, while Dr Christian Camenzind chose not to seek re-election and left the Board.

In 2018, Dr Thomas R. Meier was elected for the first time to a three-year term on the Board of Directors. In February 2019, he was appointed second Vice Chairman of the Board. As a proven Asia specialist, Thomas Meier makes

a substantial contribution to the continued successful strategic development of our Asian activities.

Dr Florian Marxer stepped down from the Board of Directors for personal reasons on 20 August 2019.

In early 2019, the Board of Directors of VP Bank Group and CEO Alfred W. Moeckli mutually agreed not to continue their collaboration. Alfred W. Moeckli relinquished all his functions at end-January 2019 and left the bank. The Board of Directors subsequently appointed Paul H. Arni as the new CEO of VP Bank Group. Paul Arni assumed his duties on 1 October 2019.

Before Paul Arni assumed the position, Dr Urs Monstein served as interim CEO and then returned to focus on his role as Chief Operating Officer. The Board of Directors extends its sincerest thanks to Dr Urs Monstein for his prudent leadership of the bank during this challenging transition phase.

Sustainability

Over the past decade, the topic of sustainability has become a generally recognised company goal. Regulators, clients and investors all demand transparent sustainability. VP Bank has long been committed to the principle of sustainable business practices and considers it an essential part of its corporate culture, which was shaped by company founder Guido Feger. In 2019, we further developed our sustainable initiatives and measures and substantially strengthened our CSR Competency Centre with the establishment of a new function "Head of Group Sustainability". VP Bank is a member of the "Swiss Climate Foundation" and strives to minimise CO₂ emissions through on-going implementation of various measures in such areas as mobility and facility management.

Sustainability issues are also increasingly relevant for investors and affect investment decisions. VP Bank has therefore included sustainability as a major pillar in its "Strategy 2025 - Seize opportunities". Through their responses to an internal survey on the theme of sustainability in November 2019, our employees also made a valuable contribution. Meanwhile, we are developing concrete solutions to embed sustainability criteria in our investment and advisory process and to further develop our product line in a targeted manner. We firmly believe that integrating environmental and social criteria into the investment and advisory process significantly supports the goal of long-term value creation for our clients and the bank.

The Code of Conduct reflects up-to-date corporate responsibility goals. It establishes VP Bank's binding ethical principles and serves as a guide for proper business conduct.

At 23 May 2019, an amended Code of Conduct was approved by the Board of Directors and subsequently communicated to all employees. In autumn 2019, an e-training programme was offered to instruct employees on the contents of the amended code.

Additional information on the subject of sustainability can be found in the section "Sustainability management", → page 38 f.

Outlook

In 1995, we founded VP Bank (BVI), our branch in the British Virgin Islands, which has now been a major part of our success over the past 25 years. An anniversary celebration is being held in the first quarter of 2020 to mark the occasion.

The current year will also see various new regulations such as Basel IV, the Libor transition and the EU Action Plan on Sustainable Finance which will keep VP Bank particularly busy. In the section above we already indicated the growing importance of the sustainability theme.

The focus of the 2020 financial year will involve the successful completion of the current strategy cycle that comes to an end this year as well as preparations for the implementation of new medium-term goals through 2025. In that regard we are building on proven concepts and resorting to organisational measures in targeted fashion for a successful launch of the new cycle. These measures include developing and securing new business opportunities as well as the targeted development of our sites in our strategic goal-setting. We continue to emphasize the importance of developing future talent and employees. Meanwhile, we need to further optimise the operating platform as regards efficiency and scaling, thereby keeping cost increases in line.

With the continuous development of our products and services, we stay current with the times and invest in the future of VP Bank. Digitisation is a topic that drives many activities and offers exciting opportunities for the coming years. Qualitative and profitable growth will thereby remain a core issue for VP Bank Group. We laid the foundation with our "Strategy 2020". With the new "Strategy 2025 - Seize opportunities" we are well equipped to respond to market developments and the macroeconomic environment on the one hand and to actively shape VP Bank Group's own development on the other.

Appreciation

Thanks to our joint efforts, we achieved a very satisfactory result in 2019, for which we would like to expressly thank our employees. The employee survey showed the strong commitment and desire to continue down the successful path together, seize opportunities and successfully position VP Bank Group for the coming decade.

We would like to thank our clients and shareholders for their continued trust in VP Bank.



Fredy Vogt
Chairman of the
Board of Directors



Paul H. Arni
Chief Executive
Officer

CLIENTS



EXPERIENCE



CLIENT EXPERIENCE

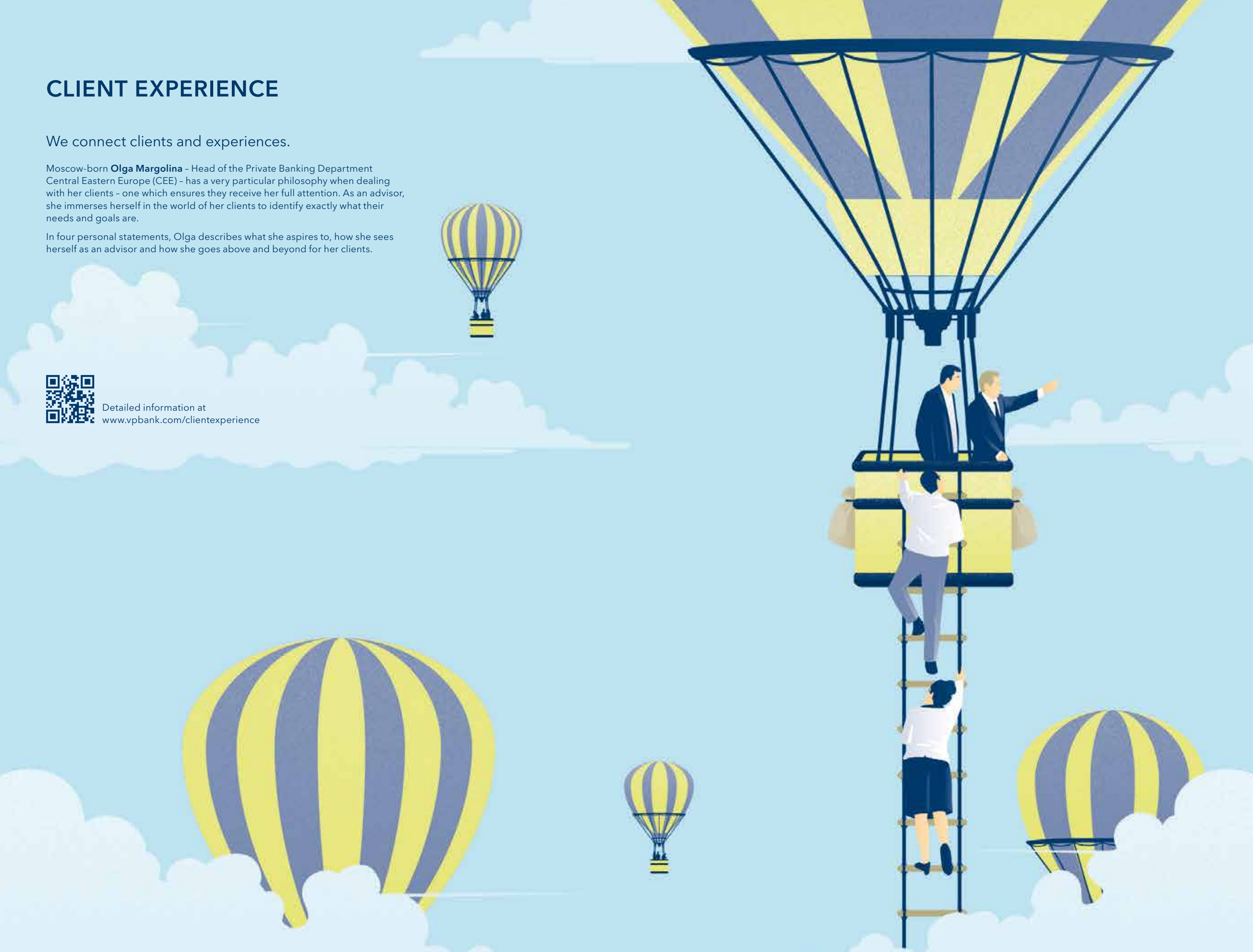
We connect clients and experiences.

Moscow-born **Olga Margolina** - Head of the Private Banking Department Central Eastern Europe (CEE) - has a very particular philosophy when dealing with her clients - one which ensures they receive her full attention. As an advisor, she immerses herself in the world of her clients to identify exactly what their needs and goals are.

In four personal statements, Olga describes what she aspires to, how she sees herself as an advisor and how she goes above and beyond for her clients.



Detailed information at
www.vpbank.com/clientexperience



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 Fürstl. Kommerzienrat Guido Feger" foundation, "U.M.M. Hilti-Stiftung" foundation and "Marxer Stiftung für Bank- und Unternehmenswerte" foundation - a guarantee for continuity, independence and sustainability.

VP Bank has a workforce of more than 940 employees and administers clients assets totalling almost CHF 54.5 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.

The founder of VP Bank, Guido Feger, was a successful entrepreneur and one of Liechtenstein's most highly regarded fiduciaries. Right from the start, he demonstrated innovation, competence and courage, while never veering from the fundamental principles of client orientation and financial security. These tenets have been resolutely upheld for 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 its major shareholder, "Stiftung Fürstl. Kommerzienrat Guido Feger" foundation.

Competencies and client advice

Tailor-made asset management, investment advisory, financing and wealth planning for a sophisticated private clientele represent VP Bank's core competencies. The Bank is also an established partner for financial intermediaries who especially count on decades of experience and a modern infrastructure.

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 more than 940 employees, VP Bank Group is the right size to offer top-notch solutions with a personal touch. Clients enjoy the individualised advice of a private bank and, thanks to the global presence of VP Bank, gain access to a worldwide network of specialists.

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

locations
worldwide

Tortola

Luxembourg
Zurich

Vaduz

Hong Kong
Singapore

About CHF

54.5

billion client assets

Founded in

1956



943

employees



Our core competencies

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



01

JANUARY

Preliminary announcement on annual results

VP Bank announced significantly higher projected net new money inflows and lower Group net income.

Chief Executive Officer

CEO Alfred W. Moeckli left VP Bank Group as from 31 January 2019. Chief Operating Officer Dr Urs Monstein was named interim CEO.

04

APRIL

Highest rating "Risk Indicator 1"

Dun & Bradstreet Worldwide again awarded VP Bank Group the highest rating "Risk Indicator 1" in 2019.

Annual General Meeting

At the 56th ordinary Annual General Meeting, all of the Board of Directors' proposed resolutions were approved. The dividend of CHF 5.50 per registered share A and CHF 0.55 per registered share B was approved. Markus Thomas Hilti, Ursula Lang and Dr Gabriela Maria Payer were re-elected to three-year terms on the Board of Directors of VP Bank. Dr Christian Camenzind chose not to seek another term and stepped down from the Board of Directors.

02

FEBRUARY

Catella transaction closing

Effective 1 February 2019, the acquisition of Catella Bank's Luxembourg private banking activities by VP Bank (Luxembourg) was completed.

VP Bank Classic Festival

By supporting the "VP Bank Classic Festival" in Switzerland, VP Bank continued to promote the next generation of international musical talent.

05

MAY

VP Bank Ladies Open

As the principal sponsor of a pro golf tournament, VP Bank promotes women's golf at the highest level.

Secure connection with VP Bank Connect

As part of on-going upgrades to the client portal, a simple, secure and independent login procedure was introduced with VP Bank Connect.

03

MARCH

2018 annual results

In 2018, VP Bank Group recorded Group net income of CHF 54.7 million. Net new money totalled CHF 3.2 billion, client assets under management increased by 2.8 per cent. The tier 1 capital ratio was 20.9 per cent, and the cost/income ratio rose to 75.8 per cent.

06

JUNE

VP Bank Rally

VP Bank is a partner and headline sponsor of a challenging classic car rally.

Client survey

In June and July, VP Bank conducted a client survey on values and advisory quality.



Detailed information can be accessed at:
www.vpbank.com/en/newsroom

07

JULY

Share buy-back completed

The share buy-back programme launched in June 2018 was successfully completed. At 28 June 2019, VP Bank's treasury shares totalled 9.58 per cent of share capital.

Planned cooperation with Hywin

VP Bank Ltd and Hywin Wealth Management Co. announced their intention to develop a joint collaboration platform in Hong Kong in order to offer high-quality asset management solutions to wealthy Chinese investors.

Preliminary announcement on interim results

VP Bank Group reported it was expecting significantly higher first-half Group net income of around CHF 35 million.

Growth at VP Fund Solutions

VP Fund Solutions expanded its management ranks and celebrated its 20-year anniversary in Liechtenstein.

08

AUGUST

2019 interim results

With a 20.5 per cent increase in Group net income, CHF 1.2 billion in net new money inflows and a substantial 9.9 per cent increase in client assets under management to CHF 45.6 billion, VP Bank Group recorded a strong first-half performance.

Standard & Poor's rating

Standard & Poor's confirmed the "A" rating and stable outlook for VP Bank.

09

SEPTEMBER

German market access

The German financial markets supervisory authority BaFin authorised VP Bank (Switzerland) AG to use the simplified exemption procedure. This authorisation provides easier access to the German market.

10

OCTOBER

New Chief Executive Officer

Paul H. Arni started as the new Chief Executive Officer of VP Bank Group as from 1 October.

Annual report awards

The VP Bank Group's 2018 annual report and online annual report was recognised with eight international awards.

11

NOVEMBER

VP Bank bond

VP Bank Ltd successfully issued its first senior non-preferred 10-year bond totalling CHF 155 million.

Advisory quality recognised

VP Bank's long-term assessment was ranked 11th in the Top 20 European tables of best asset managers by the private banking audit and assessment firm Fuchsbriefe.

"Lichtblick"

As part of the VP Bank foundation's annual "Lichtblick" charity campaign, numerous non-profit institutions received generous grants.

Organisational structure

VP Bank Group comprises six organisational units: "Client Business", "Investment Solutions", "Chief Executive Officer", "Chief Financial Officer", "Chief Operating Officer" and "General Counsel & Chief Risk Officer".

Changes in VP Bank Group's organisational structure in 2019

CEO Alfred W. Moeckli left VP Bank Group at end-January 2019. The Board of Directors named Dr Urs Monstein, Chief Operating Officer since May 2018, to serve as interim head of Group Executive Management. The new CEO Paul H. Arni assumed his duties as from 1 October 2019.

The Human Resources Group was restructured at the start of 2019. All areas involving advisory, information and services for employees and managers were combined into the new HR Consulting department. Meanwhile, the numerous HR projects as well as the planned cultural transformation to an agile bank required an increased focus on the project portfolio and organisational development. To that end, the new HR Projects & Change Management unit was created.

The company's hierarchy was streamlined with the reorganisation of the Investment Solutions unit at 1 March 2019 and through an analysis of processes and the overall organisational structure, thereby making decision-making channels even shorter and more efficient. After Stefan Schwitler stepped down as Head of the Group Investment Center and left VP Bank in January 2019, the decision was made not to replace him.

Christoph Boner, the Head of Group Investment Management, and André Rheinberger, Head of Group Investment Advisory, now report directly to CIO Felix Brill. In conjunction with the fund management company VP Fund Solutions, they are responsible for the products and services level of the Investment Solutions unit and ensure its Group-wide operation. Group Investment Research was integrated within the CIO Office under the leadership of Bernd Hartmann. This unit manages the Group's research and financial markets communications with clients and the media as well as the investment process. Partnering Solutions is driving the expansion of the Private Markets Portfolio and developing client-ready solutions for private market investments. Group Product Management was integrated within the newly created CPO Office under the direction of Marcel Fleisch as Chief Product Officer. Here, along the lines of

a Product Development Center, new ideas and projects from Investment Solutions are initiated, VP Bank's product line is further developed and projects of the entire unit are managed.

The financial industry must respond to continuous and rapid change. In order to be best prepared for this change, the new Corporate Excellence & Transformation unit was created as from 1 August 2019. This unit acts as the Group-wide competency centre for process management, business architecture and the bank's digital transformation. It is managed by Günter Klemens and reports directly to COO Dr Urs Monstein.

At 1 September 2019, the Group Financial Management & Reporting unit was created in order to combine resources and skills in this area. It comprises employees from the existing Group Operational & Regulatory Risk and Group Accounting departments. This new unit led by Robert Kilga reports directly to CFO Siegbert Näscher. Within Group Financial Management & Reporting, two departments were created: Group Financial Regulatory Reporting and Group Financial Management. The main duties of Group Financial Regulatory Reporting include all financial disclosures to supervisory authorities, central banks and others. Group Financial Management is now the competency centre for VP Bank Group's capital and liquidity planning and management along with the corresponding regulatory matters. The Group Risk unit therefore now comprises the Group Financial Risk, Group Security and the newly created Group Operational Risk departments. The Group Operational Risk department is additionally managed by Michael Rey.

At 1 October 2019, the Group Tax Center was folded into Group Compliance and renamed Group Tax Compliance. This unit comprises the former employees of the existing teams Group Tax Center and Tax Statements. Group Compliance therefore now includes Group Tax Compliance, Group Compliance Transformation, Group Financial Crime Compliance and Group Investment Compliance. This new organisational structure combines all compliance matters under one management by Markus Reinacher and thereby adheres to a uniform risk-based compliance approach.

Changes in the organisational structure of Group companies in 2019

Dr Oliver Möhl, COO and member of VP Bank (Switzerland) AG's executive management, left the bank at end-August 2019. Antony Lassanianos took over the COO duties on an interim basis. As from 1 December 2019, Martin Vetsch joined VP Bank (Switzerland) AG as the new COO. In this capacity he became the manager of the Regulatory, Services & Risk unit and a member of VP Bank (Switzerland) AG's executive management.

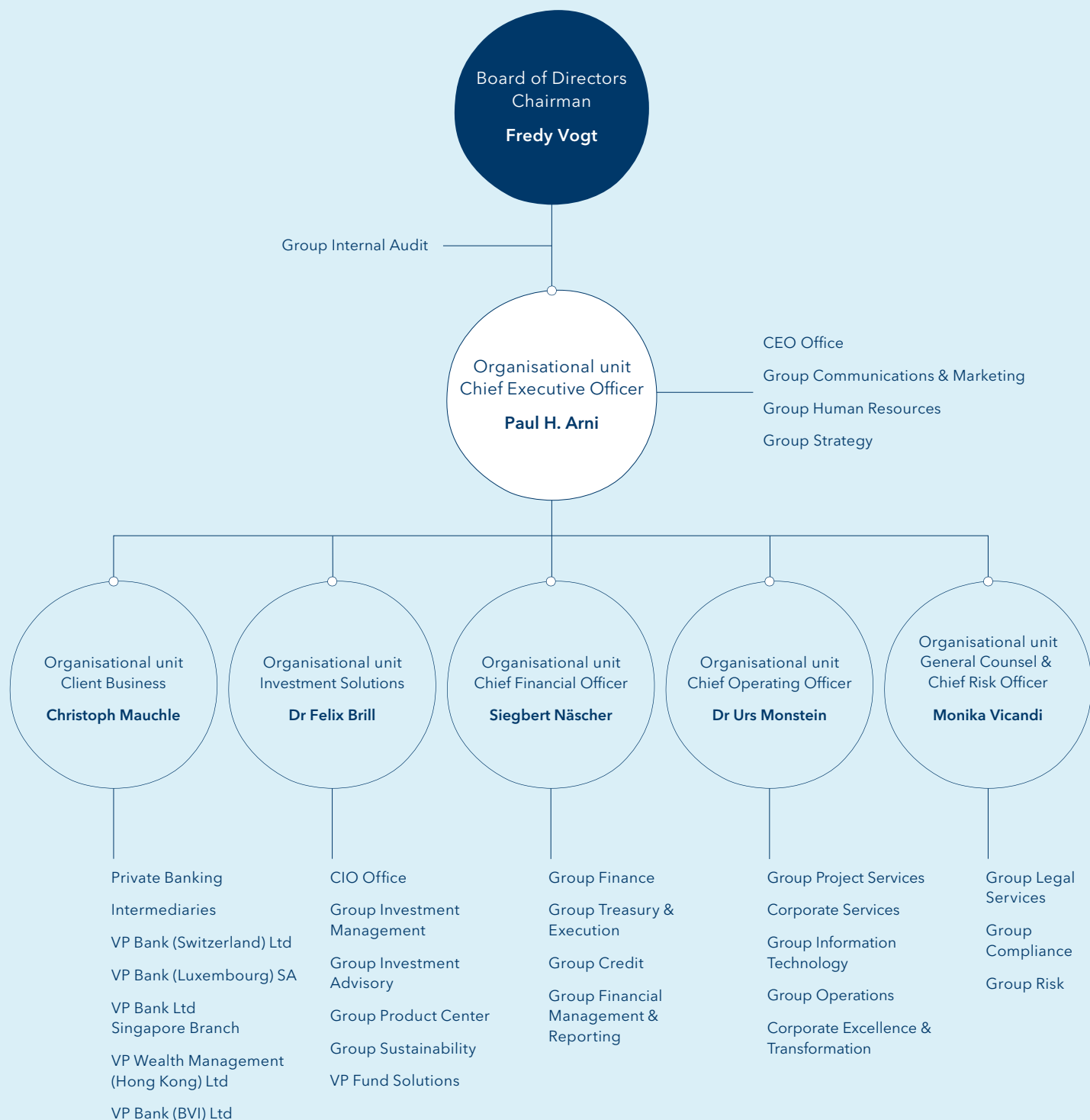
As part of its growth strategy, VP Bank Ltd Singapore Branch expanded its organisational and management ranks by creating the position Head of Client Business. At end-January 2019 Reto Marx joined VP Bank Ltd. Singapore Branch and filled this position. He is responsible for the Private Banking, Intermediaries and Investment Advisory & Treasury areas and reports directly to the CEO Bruno Morel.

In 2019, our subsidiary VP Fund Solutions expanded its management team. Dr Martin Jonasch, who has been with VP Fund Solutions since 2012 and was Head of Advisory & Structuring since 2016, was named Chief Operating Officer of VP Fund Solutions (Liechtenstein) AG as from 1 July 2019. Reto Grässli, who served as Head of Fund Operations & Risk Management since 2012 and has been a member of VP Fund Solutions (Liechtenstein) AG's executive management, is now Chief Technology Officer and focuses on the key issues of automation and digitalisation at both fund companies. Torsten Ries, Head of Private Equity & Real Estate (PERE), was a member of VP Fund Solutions (Luxembourg) SA's executive management. Since 2013 he has been at VP Fund Solutions and will also continue to act as the head of PERE. As before, Ralf Konrad remains the Head Investments and CEO of VP Fund Solutions (Liechtenstein) AG, Dr Uwe Stein is Chief Risk Officer of VP Fund Solutions (Luxembourg) SA and Ralf Funk is Chief Financial Officer of VP Fund Solutions (Luxembourg) SA under the overall leadership of Eduard von Kymmel.

Changes after the reporting period ending 31 December 2019

Following the departure of Dr Hanspeter Kaspar from VP Bank at end-September 2019, Roger Barmettler replaced him as Head of Group Finance as from 1 January 2020.

At 1 January 2020, VP Bank combined all support activities involving market and segment management into a new organisational unit, Market & Segment Management, led by Patrick Bischofberger. This unit reports to the Head of Client Business, Christoph Mauchle. In addition to implementing target market and segment strategies, this unit ensures in particular Group-wide coordination of content and processes for market and segment strategies while providing support to managers in these areas. Meanwhile, the Group's strategic management was folded into the CEO Office under the management of Dr Rolf Steiner. The main duties of the newly expanded CEO Office include management of Group-wide strategy along with everyday management support. The duties therefore include supporting the development of the strategy and management of the strategic project portfolio on the one hand and the management of M&A activities on the other.



The assignment of the organisational units in the segment reporting is set out on → page 92 ff.

Organisational chart as of 31.12.2019



Fredy Vogt
Chairman of the Board of Directors



Paul H. Arni
Chief Executive Officer



Siegbert Näscher
Chief Financial Officer



Dr Felix Brill
Chief Investment Officer



Christoph Mauchle
Head of Client Business



Dr Urs Monstein
Chief Operating Officer



Monika Vicandi
General Counsel & Chief Risk Officer

VP Bank, Vaduz, Head Office

Segment	Area	Head
Board of Directors	Group Internal Audit	Nikolaus Blöchlinger
Chief Executive Officer	CEO Office Group Communications & Marketing Group Human Resources Group Strategy	Dr Rolf Steiner Cécile Bachmann Dominique Christen Patrick Bischofberger
Client Business	Private Banking Intermediaries	Martin Engler Tobias Wehrli
Investment Solutions	CIO Office Group Investment Management Group Investment Advisory Group Product Center Group Sustainability	Bernd Hartmann Christoph Boner André Rheinberger Marcel Fleisch Rashila Kerai
Chief Financial Officer	Group Finance Group Treasury & Execution Group Credit Group Financial Management & Reporting	Roger Barmettler (as of 01.01.2020) Claus Hug Peter Siber Robert Kilga
Chief Operating Officer	Group Information Technology Group Operations Group Project Services Corporate Excellence & Transformation Corporate Services	Dr Andreas Benz Jürg Mühlethaler Thomas Ludescher Günter Klemens Andreas Nigg
General Counsel & Chief Risk Officer	Group Legal Services Group Compliance Group Risk	Stefan Zünd Markus Reinacher Michael Rey

Branch office

Company	Country	City	Head
VP Bank Ltd Singapore Branch	Singapore	Singapore	Bruno Morel

Subsidiaries with bank status

Company	Country	City	Head
VP Bank Ltd	Liechtenstein	Vaduz	Paul H. Arni, Siegbert Näscher, Dr Felix Brill, Christoph Mauchle, Dr Urs Monstein, Monika Vicandi
VP Bank (Switzerland) Ltd	Switzerland	Zurich	Antony Lissanianos, Thomas Westh Olsen, Martin Vetsch
VP Bank (Luxembourg) SA	Luxembourg	Luxembourg	Thomas Steiger, Romain Moebus, Claus Jørgensen
VP Bank (BVI) Ltd	British Virgin Islands	Tortola	Nicholas A. Clark, Sjoerd Koster

Wealth management companies

Company	Country	City	Head
VP Wealth Management (Hong Kong) Ltd	China	Hongkong	Clare Lam Chan

Fund management companies

Company	Country	City	Head
VP Fund Solutions (Liechtenstein) AG	Liechtenstein	Vaduz	Ralf Konrad, Reto Grässli, Dr Martin Jonasch
VP Fund Solutions (Luxembourg) SA	Luxembourg	Luxembourg	Eduard von Kymmel, Ralf Funk, Dr Uwe Stein, Torsten Ries

Representative offices

Company	Country	City	Head
VP Bank Ltd Hong Kong Representative Office	China	Hong Kong	Clare Lam Chan

Economic environment

Global economy in 2019

Measured against the forecast, 2019 was a disappointing year. The tariff war and complex Brexit negotiations had negative consequences, as uncertainties involving foreign trade dampened investment sentiment among companies, which in turn had a direct impact on demand for capital goods. The punitive tariffs imposed by the United States also had a noticeable impact on China's export economy. That impact was felt by all countries and regions that are major suppliers to Chinese manufacturers, including the euro zone. The direct and indirect effects of the trade wars ultimately resulted in a decline in industrial production in the G7 countries.

Despite the challenging situation in the process industry, overall economic growth rates nevertheless remained generally positive. The services and construction sectors provided welcome relief in many countries. A favourable employment trend and low interest rates led to greater household spending on the one hand and full order books in the construction industry on the other.

The appearance of economic skid marks caused by the trade war led the major central banks to undertake a noticeable change in course. Whereas the 2019 forecast initially called for rising interest rates, suddenly interest rate cuts were on the agenda. The US central bank (Fed) lowered its benchmark rate by a total of 75 basis points in three increments. In the light of short-term tensions in the US money market, the Fed resumed its securities purchases during the autumn months of 2019. Commercial banks also benefited from extensive lending by the US central bank. Meanwhile, the ECB lowered its deposit rate by 10 basis points to negative 0.5 per cent. At the same time, it also resumed securities purchases in monthly amounts totalling EUR 20 billion. As for the Swiss National Bank (SNB), it did not change its monetary policy since interest rates were already at very low levels. In order to provide some relief for the payment of negative interest rates, the SNB increased the exemption amount for commercial banks. The ECB, meanwhile, introduced exemption limits for the first time.

The Swiss franc again appreciated against both the US dollar and euro. The SNB's unchanged monetary policy, in contrast to the Fed and ECB, played a decisive role.

Equity markets in 2019

2019 proved to be an excellent year for the stock market. Equity markets benefited fundamentally from robust private consumption, monetary policy easing and a de-escalation of the trade dispute between the United States and China. These factors led to the first signs of improvement in the business climate, reassured investors and paved the way for an unusually positive year-end close.

From a global perspective, equity investors chalked up the strongest price gains since 2009. Based on the MSCI USA Total Return Index, US equity markets recorded their second-highest overall return in the new millennium. In that context, economic conditions were certainly favourable at the start and over the course of the year, but they were never unequivocally positive.

The steadily worsening trade dispute between the United States and China generated immense challenges for the process industry. Not only did costs increase, production had to be relocated to other countries, including the United States, in order to maintain international supply chains. These relocations affected not only companies from China; producers and suppliers from Europe were also seriously affected.

At the centre of the process industry was the already transformative automotive industry, and thus in particular Germany. It is therefore no surprise that the nearly 21 per cent return of Germany's benchmark DAX index may seem very good, but it was the weakest cyclical recovery following a down year in the stock market since 1995.

VP Bank in capital markets

Number of shares, market capitalisation and trading volume

VP Bank's registered shares A are listed on the SIX Swiss Exchange; the registered shares B are not listed. The number of VP Bank's listed, registered shares A remained unchanged at 6,015,000 in 2019. The market capitalisation of registered shares A combined with the market value of registered shares B totalled CHF 1,025 million at year-end 2019, up approximately 10 per cent from the previous year (CHF 936 million).

On the SIX Swiss Exchange where they are listed, VP Bank shares had a trading volume of 967,357 shares in 2019, representing average daily volume of 3,885 shares.

VP Bank share price trend

VP Bank's share price trend was volatile in the early months of 2019. It recovered nicely following the disclosure of 2018 results. The market viewed the net new money inflows particularly favourably (→ **Chart 1**).

Over the course of the entire year, VP Bank shares experienced clearly less volatility than the overall index. The shares reached a low on 8 March 2019 (CHF 130.20) and a high on 28 May 2019 (CHF 165.40). The share price averaged CHF 149.21 in 2019 and the year-end close was CHF 155.00. After taking into account the dividend of CHF 5.50 VP Bank shares delivered a return of nearly 14 per cent, i.e. roughly in line with the Swiss Bank Index (→ **Chart 2**).

Dividend

VP Bank strives to maintain a steady dividend, with a goal of paying out 40 per cent to 60 per cent of consolidated net income to shareholders. In May 2019, VP Bank paid a dividend of CHF 5.50 per registered share A, representing a dividend yield of 3.7 per cent at the time. That dividend was based on 2018 consolidated net income totalling CHF 54.7 million (→ **Chart 3**).

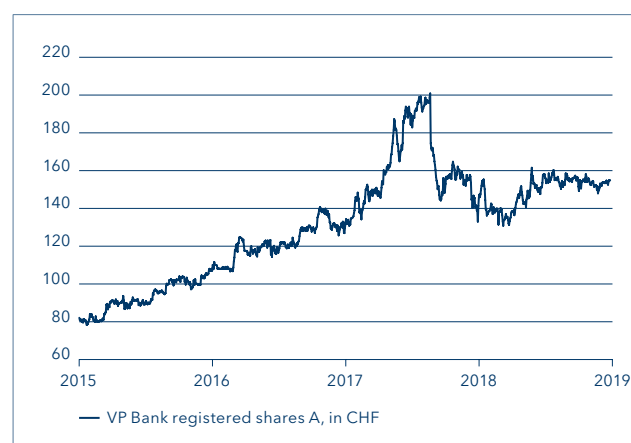
Senior non-preferred bond

At 5 November 2019, VP Bank AG successfully issued its first senior non-preferred 10-year bond in the amount of CHF 155 million. The bond was very well received by investors and underscored VP Bank AG's excellent reputation in the Swiss capital market. The bond pays a nominal interest rate of 0.60 per cent (yield of 0.565 per cent) and received an A- rating from Standard & Poor's. The bond's payment date was 29 November 2019.

This bond enables us to optimise our refinancing structure and creates eligible liabilities under future MREL requirements.

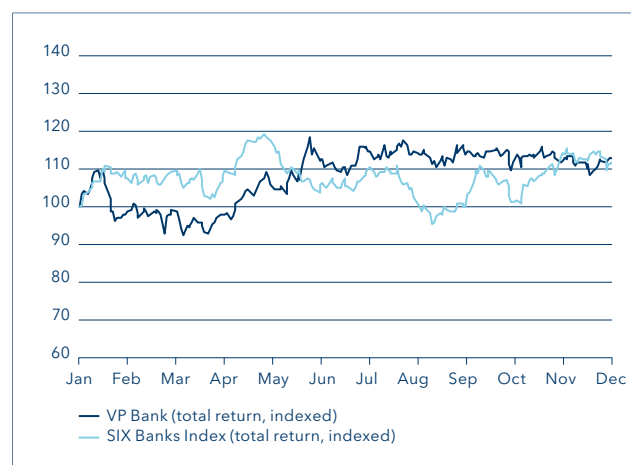
Share price performance 2015 to 2019

Chart 1



VP Bank registered share A vs. the SIX Banks Index, 2019

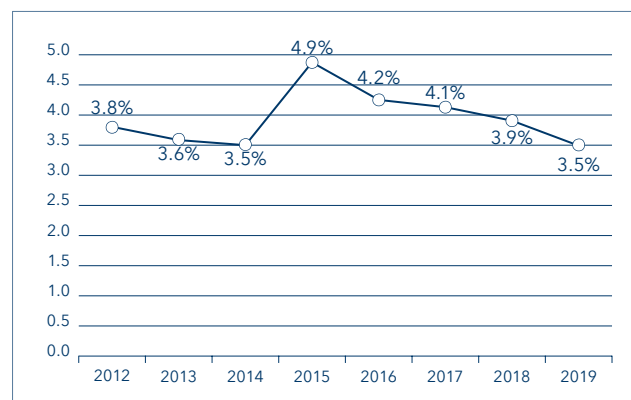
Chart 2



Dividend yield performances

(calculated based on closing price at end of prior year)

Chart 3

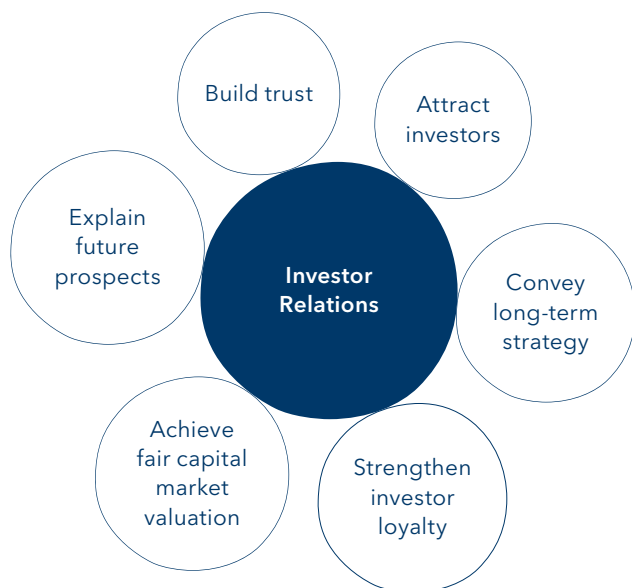


Investor relations

VP Bank views investor relations as a value-enhancing factor for the company and its shareholders. It strives to keep market participants informed of the latest developments in a timely and optimal manner. Its investor relations efforts are designed primarily to provide shareholders and other capital markets participants with a true and fair view of VP Bank Group through an open, ongoing dialogue, build trust, explain future prospects and achieve a fair capital market valuation.

Investor relations tasks include such tasks as holding discussions with analysts and investors, disclosing ad hoc information regarding business issues of relevance under securities law, producing the company's annual and interim reports, releasing the related financial results and organising the annual general meeting of shareholders.

Investor relations goals



VP Bank's Investor Relations department is responsible for ensuring the Group's "corporate language", i.e. a common language used both inside and outside the company in order to speak to all target audiences in one voice. Through the corresponding interfaces, VP Bank ensures that consistent company information is disseminated across the various publications platforms.

In 2019, VP Bank's management met with analysts and investors individually and in groups, held conference calls, went on a road show in the spring and participated in two investor conferences in autumn. Analyst meetings were

held following the presentation of the annual and interim results in Zurich.

We provide extensive information on the Group and its shares on the company's website. Annual and interim reports, letters to shareholders, presentations and regulations are available online and can be downloaded, thereby enabling the broadest possible accessibility and distribution of information. This information can be found at www.vpbank.com/investor-relations. Investors and stakeholders can also find information on the latest developments on social media platforms such as Twitter and LinkedIn.

Annual and interim reports

VP Bank's published annual and interim reports help enhance communications with institutional and private investors. These reports are complemented by the [www.vpbank.com/Investors Relations](http://www.vpbank.com/Investors-Relations) website and the online annual report posted online at report.vpbank.com/en/2019.html along with all current information. The VP Bank interim annual report is also available in an online version at report.vpbank.com/en/semi2019.

The continuing development of VP Bank Group's annual and interim reports in accordance with international trends and legal requirements is taken seriously; the design theme of the most recent annual report focused on our sites under the motto "A la Carte".

VP Bank Group's 2018 annual report received a total of eight international awards, recognising the outstanding quality of the VP Bank's communications policy and again demonstrating its creative design prowess. For the first time at the International Annual Report Design Awards (IADA) in London, VP Bank qualified for a Gold Award. The 2018 annual report also won Gold at the "ARC Awards" in the United States, where VP Bank was up against 2,100 entries from 34 countries. The ARC Awards have been handed out in the United States for more than 30 years.

Of the more than 1,000 participants at the "Vision Awards" sponsored by the League of American Communications Professionals (LACP) in the United States, VP Bank won a Gold Award. Other awards included the "Galaxy Award" (Silver) and the "Stevie Award" in the United States.

The online version of the 2018 VP Bank annual report won three international awards: Gold at the Stevie Awards and LACP Vision Awards and Silver at the ARC Awards.

As part of the "Swiss Annual Report Ratings", a jury of communications and finance professionals again ranked VP Bank Group's annual report in the top 12 for reports from Switzerland and Liechtenstein.

Annual general meeting

VP Bank's 56th Ordinary Annual General Meeting on 26 April 2019 in Vaduz was attended by 487 shareholders, who approved all of the resolutions proposed by the Board of Directors. Shareholders represented at the meeting accounted for 73.83 per cent of all shares outstanding.

VP Bank offers shareholders a notice of meeting electronically and also gives them the possibility of casting electronic votes on agenda items. Some shareholders made use of this online voting option once again in 2019.

The next ordinary annual general meeting will be held on 24 April 2020.

VP Bank rating

VP Bank maintains regular contacts with analysts from rating agencies and informs them continuously about business trends in order to ensure the most accurate valuation possible.

VP Bank is one of the few private banks in Liechtenstein and Switzerland to be rated by an international rating agency. In August 2019, Standard & Poor's confirmed the "A/Stable/A-1" rating for VP Bank and emphasized its sound financial position, strong capitalisation, stable shareholder base, ample liquidity and stable client deposits.

The recent confirmation of the rating and outlook by S&P Global Ratings attests to the VP Bank Group's solid and successful business model.

Standard & Poor's current ratings report can be downloaded as a pdf file from the VP Bank website in the "Investor Relations / VP Bank Share" section.

VP Bank shares are also followed by analysts from MIRA-BAUD Securities LLP (recommendation: hold), Research Partners AG (recommendation: buy) and Zürcher Kantonalbank (recommendation: overweight). Recommendations as from March 2020.

Calendar

Publication of 2019 annual results	Tuesday, 10 March 2020
57 th ordinary annual general meeting	Friday, 24 April 2020
Ex-dividend date	Tuesday, 28 April 2020
Dividend record date	Wednesday, 29 April 2020
Dividend payment date	Thursday, 30 April 2020
Publication of 2020 interim results	Tuesday, 18 August 2020

VP Bank share details

Registered shares A, listed on the SIX Swiss Exchange	
Listed shares	6,015,000
Free float	50.14%
SIX symbol	VPBN
Bloomberg Ticker	VPBN
Reuters Ticker	VPBN.S
Securities number	31 548 726
ISIN	LI0315487269

2019 share data

High (28 May 2019)	165.40
Low (8 March 2019)	130.20
Year-end close (31 December 2019)	155.00
Average price	149.21
Market capitalisation in CHF millions	1,025
Consolidated income per registered share A	12.28
Price/earnings ratio per registered share A	12.62
Dividend per registered share A (proposed)	5.50
Net dividend yield in %	3.5
Standard & Poor's rating	A (A/Stable/A-1)

Further information on VP Bank's capital structure and core shareholders can be found in the section "Corporate Governance", → page 66 ff.

Contact

Cécile Bachmann

Head of Group Communications & Marketing
T +423 235 67 62, F +423 235 66 20
investor.relations@vpbank.com
www.vpbank.com / Investor Relations

DIGITISATION



ADVISORY



DIGITAL ADVISORY

We connect digitisation and advisory.

Even established banks have been grappling with the topic of digitisation for some time now. How much private banking will be done with smartphones in the future is just one of the questions in this area. Technical innovations unlock new opportunities and raise the issue of how companies deal with change.

Experts from a range of divisions at VP Bank discuss how digitisation is progressing and what the future of banking might be.

In discussion with moderator Sandro Möhr:

Dr Urs Monstein - Group Chief Operation Officer

Tobias Wehrli - Head of Intermediaries

Gernot Schuh - Head of IT Business Relations & Digital Banking



Detailed information at
www.vpbank.com/digitaladvisory



Strategic orientation

VP Bank's business model is based on the intermediaries business and private banking. The Liechtenstein home market also includes the retail and commercial banking activities. In addition to these core competencies, VP Bank Group has its own international fund competency centre. Thanks to the valuable synergies between the respective business segments, VP Bank can offer its clients attractive value added across a broad range of services.

Diversified business model and target markets

VP Bank Group has offices in six financial centres: Vaduz/Triesen, Zurich, Luxembourg, Singapore, Hong Kong and Road Town (BVI). From these locations, VP Bank actively cultivates its defined target markets, differentiating between the intermediaries business and private banking activities.

VP Bank's primary strategic goal is to pursue profitable and qualitative growth through its activities in the target markets and thereby ensure its independence. To that end, VP Bank Group offers a comprehensive line of services that correspond to its business model.

The target markets for Europe include Liechtenstein, Switzerland, Germany, Luxembourg, Russia, Ukraine and the "Nordic" markets (Denmark, Norway, Sweden). In Asia, the target markets are Singapore, Hong Kong, Indonesia, Malaysia and Thailand. Each site is responsible for market penetration efforts, which are coordinated by



the Group. The “Nordics” and Germany are for the most part managed from Luxembourg and Switzerland, and market penetration in Russia is handled primarily from Zurich as the competency centre for Central and Eastern European markets.

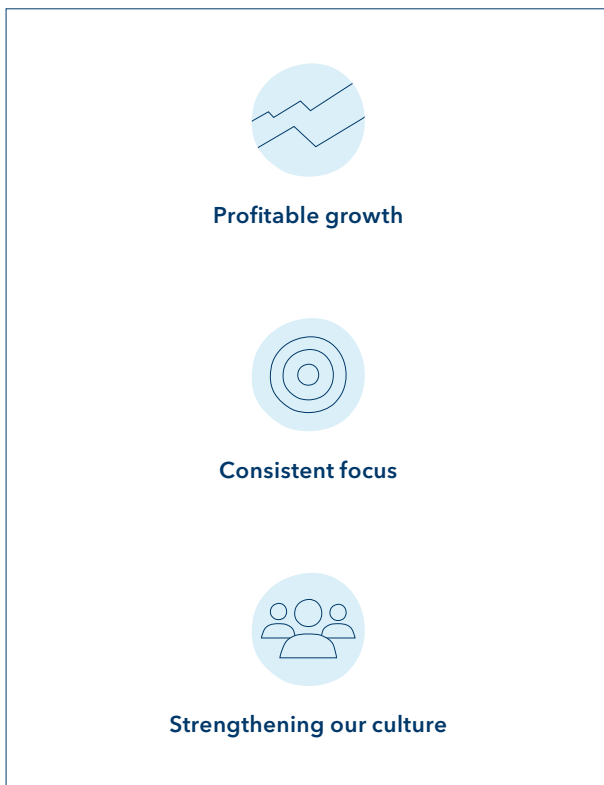
Strategy 2020

In 2015, the Board of Directors and Group Executive Management defined “Strategy 2020”, with the following medium-term goals through end-2020:

VP Bank medium-term targets through end-2020

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

The 2020 strategy consists in three pillars with a long-term approach:



In order to achieve the defined growth targets, we are pursuing a dual strategy. Through organic growth, VP Bank seeks to win new clients in its target markets and expand the existing client base and coverage through our line of services, thereby increasing client assets under management and achieving qualitative and profitable growth.

Organic growth is supported through the recruitment of new client advisors. This objective was successfully pursued between 2017 and 2019 through the “Relationship Manager Hiring” project. Along with organic growth, VP Bank seeks to take advantage of its very strong equity position to invest in acquisitions and joint ventures, if and when the right situations and opportunities arise. Such projects are assessed not just from an economic standpoint but also how well they fit with our culture and geographic coverage.

We use the term Focus to refer to measures to enhance efficiency and reduce the complexity and cost of internal processes. The knowledge gained from these efforts goes toward strict recurring cost management and results in a sharper focus for products and services. Productivity gains are reinvested.

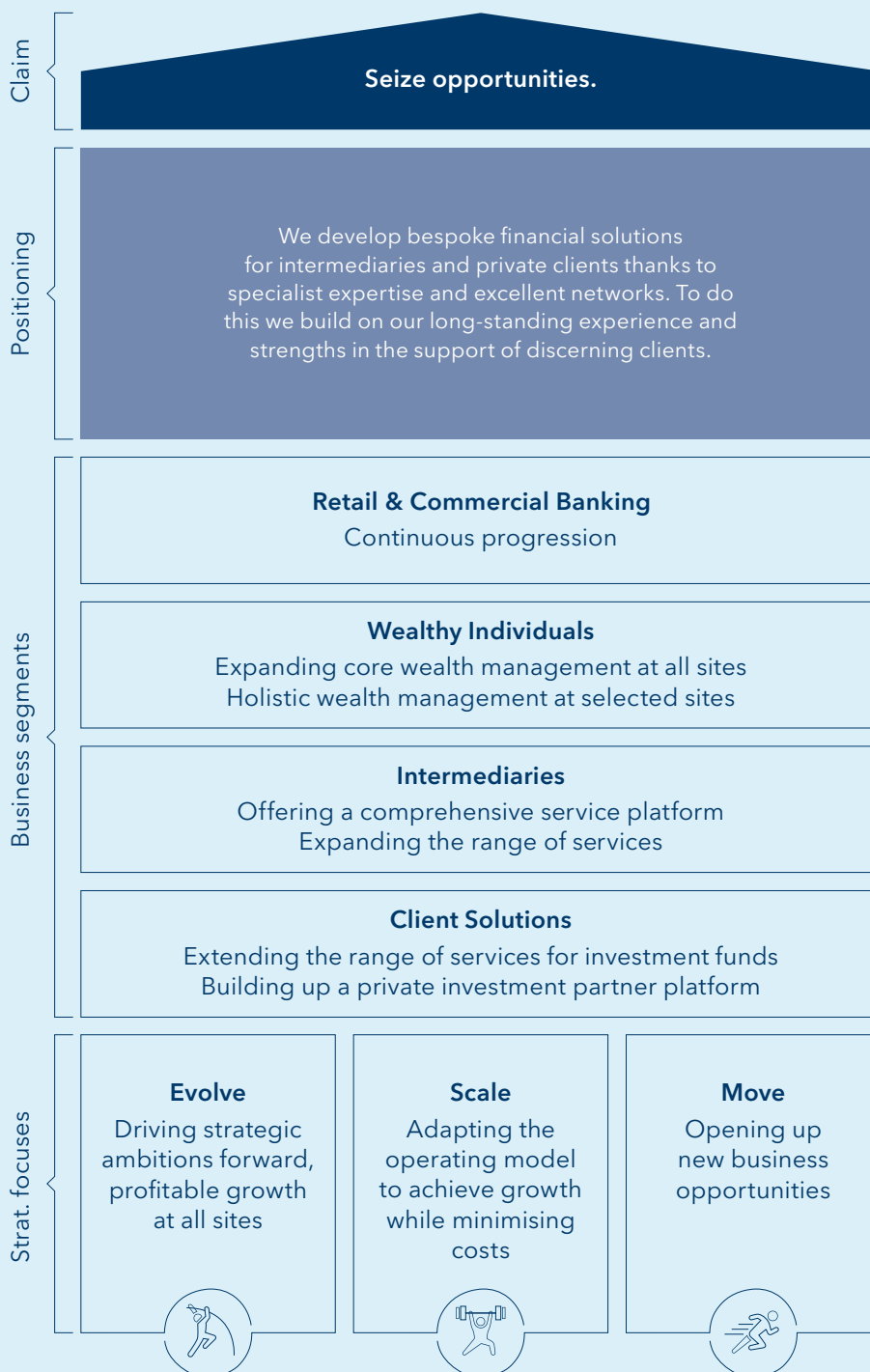
The third main theme of Strategy 2020, Culture, includes two areas: sales and performance culture and corporate culture.

As regards measures to strengthen the sales and performance culture, our goal is to further improve our advisory quality. Group-wide seminars, workshops and management training as well as training courses and certifications all help to secure VP Bank’s cultural values, foster a sense of commitment, support management’s continuing development and actively promote the sharing of experiences.

In the area of corporate culture, we support our employees and encourage them to play an active role in shaping the company’s future. VP Bank conducts employee surveys every two years to remain well informed about employee conditions. Thanks to the high response rate and resulting relevance, we can formulate targeted improvement measures.

A comprehensive overview of all measures on behalf of employees is presented in the section “Employees” (→ page 46 ff.).

Strategy 2025



Strategy 2025

The end of the 2020 financial year marks the start of a new strategy cycle. Our successful Strategy 2020 is the starting point and basis for the new Strategy 2025, which the Board of Directors and Group Executive Management developed following a comprehensive process. Numerous workshops were launched back in 2018 on the subject of the “Future of Banking” in order to lay the groundwork for VP Bank Group’s future in advance.

Following comprehensive trend analyses, we classified the trends, selected the most important and relevant development scenarios and identified forward-looking action areas for the years ahead.

VP Bank’s more sharply defined positioning forms the basis for our Strategy 2025. Building on this positioning, we can take advantage of opportunities that arise in the financial services industry. We have therefore summarised our strategic approach under the motto “Seize opportunities”.

Starting with the existing strategic business areas, Strategy 2025 (→ table on the left) now encompasses **four business areas**: Retail & Commercial Banking, Wealthy Individuals, Intermediaries and Client Solutions.

The focus is on **three main strategic themes**: Evolve, Scale and Move, in order to consolidate the planned initiatives. These three terms refer to the profitable and targeted growth of the existing business (Evolve), efficiency, scaling and cost discipline (Scale) and winning new business opportunities to generate additional revenue (Move).

Evolve - Measures focus on the strategic and targeted development of the operating business in the core segments. As part of this process, the segment priorities, target markets, product offerings and price models are defined and developed by and for the respective sites, which are then responsible for their local implementation. These measures are complemented through the development of sustainable investment solutions, streamlined price models and future digital solutions to achieve an even more personalised advisory service.




Scale - Measures include process optimisation through standardisation and automation, as well as efforts to make the operating platform even more flexible. This process also takes into account considerations on the sourcing of services.

Move - Measures serve to build up new competencies as regards asset digitisation, the development of private market solutions and the expansion of our wealth management platform for our clients. Priorities include recognising and exploiting new business opportunities.

Our sustainable investment philosophy plays an outsized role in the new Strategy 2025. This strategy goes under the title of “Investing for Change” and seeks to reposition the product line, with our own sustainability funds and access to new solutions as regards impact investing, among other features.

Financial strategic targets were defined with new medium-term targets through end-2025 (→ table below). VP Bank seeks consolidated net income of CHF 100 million by 2025, supported by the following four key performance indicators (KPI):

VP Bank’s medium-term goals 2021-2025

 Growth	 Profitability		 Stability
Net new money (in % AUM)	Profit margin (in bp of AUM)	Cost/income ratio ²	Tier 1 ratio
> 4% p.a.¹	> 15 bp	70%	> 20%

¹ Over the cycle 2021-2025

² Total operating expenses / total net operating income

With “Strategy 2025 - Seize opportunities”, we created a sustainable basis for VP Bank Group’s continued growth and international success.

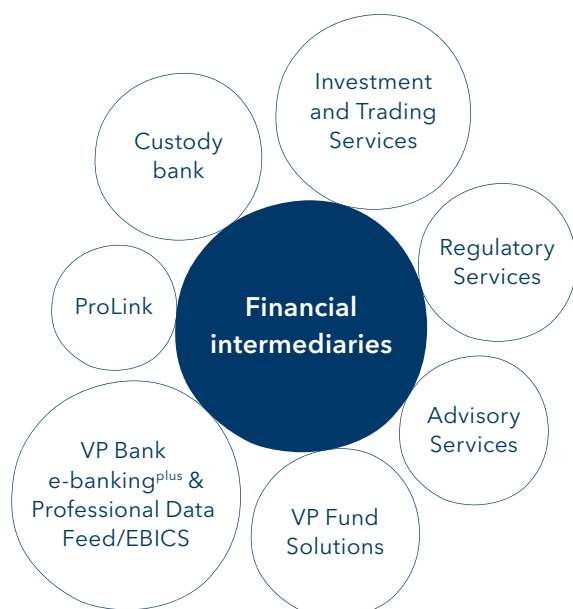
Intermediaries strategy

VP Bank was founded in 1956 by Guido Feger, one of the leading trustees in Liechtenstein. From the outset, VP Bank therefore saw its role as a dependable and competent financial partner for intermediaries. VP Bank focuses on large, internationally oriented trustees as well as medium-sized external asset managers.

For its intermediaries business, VP Bank Group uses a hybrid business model. Basic banking services on behalf of the end customers of intermediaries are designed to be as efficient, dependable and cost effective as possible using digital channels. The bank then offers high-quality, personal advisory services for intermediaries and end clients.

Specialised IT solutions such as VP Bank e-banking^{plus} are offered specifically to intermediaries. The VP Bank e-banking^{plus} solution is for financial services providers looking to work with multiple users and diverse authorisations. With the ProLink information platform, intermediaries clients also enjoy a simple and speedy way to access the most important information and services they need for their day to day work.

Core competencies for intermediaries



VP Bank also offers complete fund solutions, from advisory to risk management to fund administration. These offerings are complemented by exclusive Investment and Trading Services, enabling intermediaries to make use of a variety of services such as market research, trade recommendations and investment advisory. We also help clients select appropriate funds or structured products.

VP Bank also offers comprehensive, personalised support on legal, regulatory and tax issues. We are constantly looking to find other solutions that satisfy the needs of our intermediaries clients as comprehensively as possible.

VP Bank also has five booking centres worldwide, making it one of the few banks of its size to have such a broad international presence.

As a proven partner for external asset managers, VP Bank also makes targeted investments in its own resources to comply with the new Swiss financial services act FIDLEG and the corresponding financial infrastructure act FINIG. These investments include measures involving digitisation as well as the optimisation of interfaces and continuing training for advisors. In 2019, we also further developed and optimised the organisation of our intermediaries business segment.

Asia strategy

The Asia/Pacific region is one of the most important growth markets for private banking and is one of the identified target markets where VP Bank sees attractive growth opportunities. VP Bank has positioned itself as a "boutique bank" that provides first-class solutions to satisfy demanding standards.

In Asia, VP Bank is represented in the major financial centres. It has an asset management company and representative office in Hong Kong as well as a branch in Singapore with around 75 employees. The bank's business model in Asia is also based on the two strategic pillars of private banking and intermediaries. The target markets include Southeast Asia, notably Singapore, Hong Kong, Indonesia, Malaysia and Thailand. The client segments range from high net worth individuals (HNWI) to ultra high net worth individuals (UHNWI).

The growing number of intermediaries clients in Asia also creates promising opportunities, thanks to our many years of experience and professional products and services in this business. In this segment, VP Bank offers its clients regionally oriented service models for trustees and external asset managers as well as personalised support. The development of strategic partnerships is also being advanced. Clients benefit from direct market access to VP Bank's trading desks in Singapore and Liechtenstein/Switzerland, which cover the major time zones.

As part of our growth strategy, we expanded the organisational and management structure at our Singapore site in 2019 and bolstered the client focus with the creation of a new position "Head of Client Business". We also significantly expanded our product line with special offers such as structured products and mortgages aimed specifically at our Asian clients.

Through a memorandum of understanding in July 2019, VP Bank AG and Hywin Wealth Management Co. announced their intent to develop a joint collaboration platform in Hong Kong in order to offer high-quality asset management solutions to wealthy Chinese clients. The two companies are thereby pooling their respective strengths and creating a comprehensive, global asset management product line for the rapidly growing segment of Chinese (ultra) high net worth individuals both within and outside of China.

Hywin Wealth was founded in Shanghai in 2006 and is currently among the leading Chinese asset management companies, with 148 branches in 72 cities and more than 2,000 employees, serving more than 50,000 clients nationwide. The company offers high-quality asset management and estate planning solutions, as well as philanthropy services. In addition to mainland China, Hywin is also active in Great Britain and Hong Kong. The planned cooperation offers us the opportunity to build up our business activities in the Chinese market and successfully advance our Asia strategy together with a highly professional and reputable partner in China.

Private banking strategy

In private banking, VP Bank focuses mainly on the high net worth individuals (HNWI) and ultra high net worth individuals (UHNWI) client segments. VP Bank also offers broader coverage in private banking, but only in the Liechtenstein home market, where it also supports the so-called affluent client and retail client segments.

VP Bank offers its clients a broad range of personalised solutions from investment advisory to asset management and, depending on the target market, estate planning and financing. We ensure independent advisory through our open architecture platform. Working with our global partners, we recommend the best investment instruments or develop innovative solutions.

Client advisory is supported by digital banking services, the innovative VP Bank e-Banking platform and client advisors equipped with iPads. The advisory process is enhanced with the "Finfox" interactive advisory application.

The changing environment in the banking industry requires a flexible line of products and services. We are laying the foundation for the investment advisory of the future through our systematic advisory process and continuous improvements to our services.

Last year, we analysed our processes and will continue to develop them methodically. In the near term, the focus will be on a fundamental overhaul of the client on-boarding process. Thanks to its professional and efficient initial advisory conversation, VP Bank improved its ranking to

11th in the "Permanent Best List" published by the "Fuchs-briefe" private banking assessment firm, making it one of the top 20 asset managers in the European tables.

Fund business

The fund business is an eminently attractive growth segment for VP Bank. In addition to the intermediaries business and private banking, it represents a central pillar of VP Bank Group's business model.

With VP Fund Solutions, VP Bank Group has an innovative and dynamic funds competency centre at its Liechtenstein and Luxembourg sites, which acts as a one-stop shop for all services related to the fund business. The "VP Fund Solutions" brand includes not only the business with third-party funds but also proprietary VP Bank funds. The Group-wide management of this strategically important business is directed from Luxembourg, the second-largest funds centre in the world behind the United States.

With more than 20 years experience, VP Fund Solutions offers local as well as international asset managers comprehensive and high-value services. Through its cooperation with VP Bank as a custody bank, VP Fund Solutions uses the network and international know-how of VP Bank Group to process the investment decisions of fund managers.

VP Fund Solutions' geographic focus is Germany, Liechtenstein, Switzerland, the Benelux countries and Scandinavia. The client segments comprise independent asset managers, family offices, wealthy private clients and institutional clients such as banks and pension funds.

In the near term, our immediate priorities will be to maintain growth, optimise processes and ensure quality at the two sites. The reconfigured website vpfundsolutions.vpbank.com provides an overview of the services line.

Building on our successful and established activities and knowledge of fund solutions, we will focus our attention even more in the future on our positioning in the private market investment solutions business. We also intend to recruit additional staff to expand our capabilities in this area.

Lending strategy

In a competitive environment of falling earnings and rising costs, clear differentiation is a decisive factor for success. VP Bank Group's lending business is a key feature that sets it apart from other traditional private banks. It is further enhanced by the bank's flexibility, agility, short decision-making channels and trusted client advisors familiar with mind-set of the clients in the respective markets.

For many years, the lending business has served as a steady, dependable source of income for VP Bank Group; it provides a significant and stable earnings contribution.

Lending is an integral part of VP Bank Group's service offerings. It is conceived in accordance with the strategies of the two business segments, private banking and intermediaries, and their respective market strategies and is aligned with them. We offer standard financing for retail and corporate clients in Liechtenstein. The lending business provides substantial support to the organic growth of the private banking and intermediaries businesses.

The growth of client assets in the international business continues to trend favourably. We take advantage of this trend and adjust our credit offerings to the respective market and client needs while securing our position in with local businesses as a skilled and reliable financing partner.

The continued expansion and development of the lending business is essential for VP Bank Group to achieve its medium-term goals. This objective involves both organic growth as well as productivity gains achieved through the digitalisation of the lending process.

Digitalisation strategy

VP Bank Group's digitalisation strategy involves the modernisation of communication channels with clients and employees as well as broadening the Bank's online offerings.

In that regard, VP Bank applies a hybrid advisory model that combines tried and true personal financial consulting with modern technologies and digital services, in which tools that support the client advisors and various client segments play a central role.

In recent years, as part of the trend toward digitising processes, data and communications channels, we introduced and steadily implemented a variety of measures. Our main focus is on solutions that can be implemented Group-wide and standardised.

In 2019, we made substantial investments in three major areas:

Client interface

- Finalisation and rollout of the client portal for simple and professional access to banking information as well as the execution of transactions. Meanwhile, the client portal serves as the basis for further digitisation steps in the client interface.
- Introduction of an open banking interface for simplified payments with third-party providers; this interface makes it possible to integrate innovative online payments through the PSD2 interface.

Internal digitisation of processes

- With the development of a professional, digital client advisor workplace, we provide our advisors with better access to the information they need for full-service advisory.
- Meanwhile, this portal lays the foundation for a new IT architecture that will render the development and implementation of new client-oriented services more flexible as regards a speedy, lean and agile "two-speed IT" architecture and also enable open interfaces for the integration of innovative third-party systems.
- Digitisation of internal processes in order to improve processing quality and efficiency (loan application process, client on-boarding).

Maintenance

Substantial investments to ensure compliance with regulatory provisions and continue ensuring smooth operations (IT maintenance).

Outlook

Strategic groundwork

From a strategic standpoint, 2020 is a transition year. Starting in March 2020, we will roll out the new "Strategy 2025" (see above) communications initiative through in-house and external roadshows. The rigorous implementation of this strategy will also require organisational adjustments. The new strategy will focus on the development of new business segments while focusing on the continued targeted development of our existing business and the scaling and optimisation of our operating business model.

Digitisation strategy

The continued development of our digitisation strategy is another key focal point. In 2020 we will undertake the following projects:

- Finalisation of the client advisor workplace
- Digitisation of in-house research and the client relationship
- Digitisation of compliance
- Further optimisation of internal processes with an emphasis on drastically simplifying the client on-boarding process
- Enhancement and rollout of our advisory tool to our international sites

Regulatory tasks

The EU Commission wants to strengthen sustainable finance and support long-term company management practices through its “EU Action Plan on Sustainable Finance”. The implementation of sustainable products and services is therefore one of the growth drivers for 2020. For new investment themes, we are increasingly looking to focus on long-term themes and adjust our products and services to satisfy sustainability and ESG criteria.

At 1 January 2020, the so-called blockchain act took effect in Liechtenstein, establishing a legal foundation for the use of token technology. In connection with this law, we are working on the digitisation of assets in order to make corresponding products available in a timely manner. In that regard we have already initiated projects and developed know-how that will be a source of exciting opportunities in the years ahead.

Other measures

As part of our implementation of Strategy 2025, we will further delegate market development responsibilities to the respective sites and incorporate the resulting challenges and key areas of development into Group-level deliberations. The focus on the client business should also be strengthened significantly.

The importance of our Asian business will continue to grow. In Asia, we see this growth coming increasingly from the intermediaries business and the funds segment. We are looking to participate in the dynamic growth of the Chinese market through cooperations.

Following the completed acquisition of the investment fund of the Swedish financial services company Carnegie and the transaction with Catella Bank S.A. in Luxembourg, we are focusing increasingly in 2020 on building up our activities in the Scandinavian market (“Nordics”). This step already proved to be successful in 2019 and offers solid growth opportunities in the years ahead.

VP Bank’s fund business is very successful, posts steady gains and creates a stable foundation for growth over the next five years.

The results of our client survey are being input into a catalogue of measures to further optimise our product line as well as enhance the efficiency of our advisory services. In the intermediaries business, we will continue to improve our dialogue with trustees.

Following the successful completion of our relationship manager hiring programme, we will expand the existing teams at our sites in the future by adding new client advisors. We would like to reinforce the Group viewpoint through internal measures.

In the light of still narrowing margins, we need to find new areas with growth potential where we can add value while maintaining strict cost discipline. VP Bank must constantly keep up with technological change and forge new partnerships to that end. We review innovative models and cooperation with partners in order to secure new value-creating potential.

VP Bank will systematically wind down its Strategy 2020 program and start up the 2021-2025 strategic cycle to continue its broad-based growth. The bank remains well capitalised and is very well equipped to respond to market developments accordingly.

Strategic partnerships

Strategic partnerships are a key part of VP Bank's business model. Cooperative ventures are a means of combating rising costs, increasing efficiency and jointly taking advantage of market circumstances. The cooperating partners can thus use their knowledge, capabilities and information.

Through these partnerships, VP Bank strives to generate synergies for both firms and thereby develop new business models based on alliances. These partnerships also help to promote the sharing of best practices and support for innovations. VP Bank is constantly sharing experiences with other banks and service providers in order to use and optimise available resources. Sharing know-how benefits all participants and makes it possible to serve clients more effectively.

Partnering in the investment area

In spring 2017, the Group Investment Center began working systematically with selected asset managers. VP Bank thereby seeks close cooperation with targeted partners in order to offer their clients demonstrable value added in the products area. This approach provides access to attractive, institutional investment strategies that would otherwise be out of reach due to high entry barriers or not covered by the established fund selection process.

The investment partnering concept offers clients easier access, lower costs and a wider range of yield and risk profiles, and the ability to scale up as needed provides access to the most up-to-date and cutting edge market expertise. It also increases efficiency while lowering costs. The integration into the investment process of VP Bank provides investors with additional security.

Based on the partnering concept, we further expanded and broadened our partnerships last year and intensified the support of existing investment programs. The focus was primarily on the investment of our own funds and the development of VP Bank's own private market portfolio. On the one hand, this strengthens the cooperation with a wide variety of managers and, on the other, serves as a basis for market access for clients. In the future, platform solutions that are better able to manage the bundling of interests than individual managers will increasingly be taken into consideration within this concept. The range of services will be expanded and strategically developed in 2020.

Other partnerships

Since 2010 VP Bank has worked with Liechtensteinische Landesbank (LLB) on printing and mailing account and deposit statements, quarterly and annual reporting and all types of customised bulk mailing and created a joint purchasing company.

In another strategic cooperation with LLB, VP Bank's business processes are supported through flexible, stable and effective IT and logistics services. As part of this cooperation, VP Bank has leased space at LLB's data centre since 2012.

Another longstanding partnership exists with a third-party provider for the Group-wide procurement and management of financial information systems at optimised cost and performance. This partnership enables VP Bank to optimise related processes such as operating and contract management, reporting and support while sustainably lowering costs. Among the results of this partnership was the creation in 2011 of a joint venture with LLB for financial information systems procurement.

Graphic depiction of the Partnering Solutions process

Identify investment opportunities



Select providers (due diligence)



Create investment solution



Distribution





CORPORATE



RESPONSIBILITY

CORPORATE RESPONSIBILITY

We connect corporate and responsibility.

Thanks to social youth protest movements, such as Fridays for Future, discussions on the issue of corporate responsibility have gained attention. The issues of sustainability, sustainable investment decisions and the role of the financial industry and banks are coming under increased public scrutiny.

Expert **Rashila Kerai** - Head of Group Sustainability of VP Bank - describes why so-called green investments have recently become more popular with investors and explains the growing responsibility of banks for the sustainable development of the economy, environment and society.



Detailed information at
www.vpbank.com/corporateresponsibility



Sustainability management

VP Bank's role in society is guided by its sense of environmental, economic and social responsibility toward its stakeholders. For VP Bank, a management approach that embraces sustainable corporate leadership plays an essential role in its successful entrepreneurial activity.

VP Bank's commitment

VP Bank Group is committed to the principle of sustainability. It firmly believes that responsible actions and economic success go hand in hand. A bank's business model is based on the trust of its clients. VP Bank's activities in the area of sustainability foster and reinforce that trust. Responsible business practices are therefore a key element of VP Bank's corporate culture, internal work processes and operating business. VP Bank also maintains high corporate governance standards.

VP Bank maintains a constructive dialogue with its clients, employees and shareholders, as well as other constituents of broader society, and takes their feedback into account in its business decisions. By doing so, the Bank generates added value for all of its stakeholders.

Stiftung Fürstl. Kommerzienrat Guido Feger is the largest shareholder of VP Bank. Established by the Bank's founder in 1954, it supports social, charitable and cultural projects, thereby shaping the corporate culture at VP Bank Group and lending expression to the Bank's social character

VP Bank strives to be environmentally responsible by implementing targeted measures for the sustainable use of resources. Moreover, through its ordinary business activities, VP Bank has considerable interaction with society and thereby contributes to the further development and preservation of Liechtenstein as an economic and business centre.

With its sustainability activities, VP Bank strives for precise minimum standards for its products and services. This policy applies to the acceptance of client deposits, lending and the investment business. VP Bank defines minimum standards for products and services and strives to keep CO₂ emissions from its banking operations as low as possible.

Organisational roots

A Corporate Social Responsibility (CSR) Board, which is chaired by the Chief Investment Officer in his capacity as a member of VP Bank Group Executive Management, oversees the practical implementation of sustainability issues. Managing these issues is a cross-functional task that requires input from multiple VP Bank Group departments.

The CSR Board therefore interacts with many other departments and supports them by conducting pertinent surveys. These other departments include Human Resources, Product Management, IT, Facility Management & Services, Investment Management, Corporate Communications, Risk Management and Compliance. In 2019, we strengthened the CSR competence centre of VP Bank by creating a "Head of Group Sustainability".

The units of the "General Counsel & Chief Risk Officer" function support all VP Bank employees on matters involving compliance with statutory and regulatory provisions. Group Compliance, Group Legal Services and Group Risk identify risks and suggest various solutions that comply with these provisions so that risks can be minimised and systematically monitored. Internal rules are also established to ensure compliance with all provisions, and controls are implemented.

In the risk management area, VP Bank pursues long-term goals and adopts a conscientious approach.

A comprehensive description of risk management is presented in the section "Risk Management of VP Bank Group" (→ page 119 ff.).

Promoting good conduct

VP Bank promotes customer proximity and trust through voluntary commitments to ethical principles in its business practices and creates a solid foundation for operating principles.

VP Bank works actively to combat bribery, which is the basis for corruption, the granting or receiving of advantages and financial crimes in the banking business. This objective is accomplished on the one hand through on-going training for client advisors and on the other through internal monitoring measures.

The Code of Conduct, which is well established at VP Bank, as well as the bank's values and management principles underpin VP Bank's binding commitment to ethically correct management and serve as a guide for good conduct. Violations of the Code of Conduct or against VP Bank rules are penalised through uncompromising disciplinary measures and consequences as authorised by labour law. The Code of Conduct was revised in 2019 and all employees were trained on the Code of Conduct in an e-training course. In 2019, three violations of the Code of Conduct were reported; all violations were sanctioned with a reprimand.

VP Bank also has rules covering key topics such as banking secrecy, data protection, conflicts of interest, insider information and data integrity as well as areas such as equal opportunity and social media. The respective provisions are communicated to all employees through continuous training initiatives.

Conflicts of interest and anti-corruption measures

Conflicts of interest may arise between the Bank and clients, between individual clients, between the Bank, its governance bodies, employees and clients and within VP Bank Group or between VP Bank subsidiaries and other financial services companies. Such conflicts may involve traditional banking transactions as well as other business opportunities or purposes.

A comprehensive set of rules and supporting processes (e.g. with respect to benefits) exists to maintain objectivity and prevent conflicts of interest.

VP Bank acts in the best interests of its clients. To that end, a strict division of tasks exists between the asset management, investment advisory, trading, financial analysis, financing, risk monitoring and clearing departments, and Chinese walls prevent the sharing of sensitive information in this regard.

Tax compliance

VP Bank is unreservedly committed to the clean money strategy of the Liechtenstein banking centre and therefore fully implements the corresponding binding provisions of the Liechtenstein Bankers Association. Through their conduct and activities, VP Bank employees do not support any unauthorised transactions that would serve to reduce taxes or duties or conceal tax-related information.

In addition, VP Bank observes all national and international tax regulatory requirements such as QI, FATCA and the Automatic Exchange of Information.

CSR vision of VP Bank

VP Bank uses its role as an internationally operating private bank to ensure that its actions have a positive impact on society and the environment and make a positive contribution to the long-term development of the financial sector.

VP Bank's goal is to further develop and improve its work in the sustainability area. Group Executive Management promotes VP Bank's heightened commitment to sustainability and corporate social responsibility (CSR). The related measures include more active networking with the corresponding stakeholders, VP Bank's membership in the UN Global Compact, awareness-raising initiatives within the bank, integrating sustainability criteria more closely in the investment process and advisory discussions and a wide-ranging societal commitment. The CSR vision defines VP Bank's goals.

A CSR Board chaired by the Chief Investment Officer was set up in 2015 to implement this strategy. With the creation of a "Head Group Sustainability", the CSR competence centre was strengthened in 2019.

Among the concrete measures taken in 2019 were the extension of the partnership with the "Drink & Donate" drinking water project, the promotion of sustainability in the investment and advisory process, the expansion of sustainability mandates at VP Bank, donations of

office furniture to the Order of Malta, investments to increase the electricity yield from solar energy, as well as internal measures relating to the topics of "Volunteering Day", recycling at the workplace, mobility management and the reduction of paper consumption. In November 2019, an internal survey was conducted on the subject of sustainability.

In May 2019, VP Bank once again supported the organisation of the "Sustainable Finance" workshop at the University of Liechtenstein, in which academics from various universities presented their research results in the field of sustainable investing. The best work received the VP Bank Best Paper Award.

Further reports on these measures are presented in the following sections. The current target attainment figures are largely based on data from Liechtenstein. VP Bank plans to introduce Group-wide environmental reporting in the coming years.

CSR - reporting requirement

Transparency is essential for doing business and assuming corporate responsibility in a sustainable way. This means disclosing information that is important to the key interest groups/stakeholders. As a socially responsible company, VP Bank also wants to set an example through its reporting to stakeholders. The brochure "Sustainability at VP Bank" provides an overview of the measures taken.

In effort to make Europe's economy more successful and competitive, the EU has prescribed that major companies with dealings in capital markets must disclose not only financial but also non-financial key figures. In February

2014, the EU member states agreed on a reporting obligation concerning corporate social responsibility (CSR). As from 2017, large companies with more than 500 employees must report on their achievements in matters involving the environment, society, employees, human rights, the fight against corruption and diversity in management bodies. The UN Global Compact is one of the models that companies can draw on for this purpose.

UN Global Compact

VP Bank uses the 10 principles of the United Nations Global Compact as the guiding principle of its sustainability management.

The United Nations Global Compact is a worldwide initiative calling on companies to align its business to be more socially and ecologically responsible. It is the largest sustainability initiative the world has ever seen, with more than 12,000 signatories in about 160 countries.

VP Bank has been a signatory company since 2016 and thereby made a commitment to the UN Global Compact (UNGC) "Ten Principles" of responsible business. VP Bank expects its employees and management as well as its partners and suppliers to demonstrate responsible conduct under these principles.

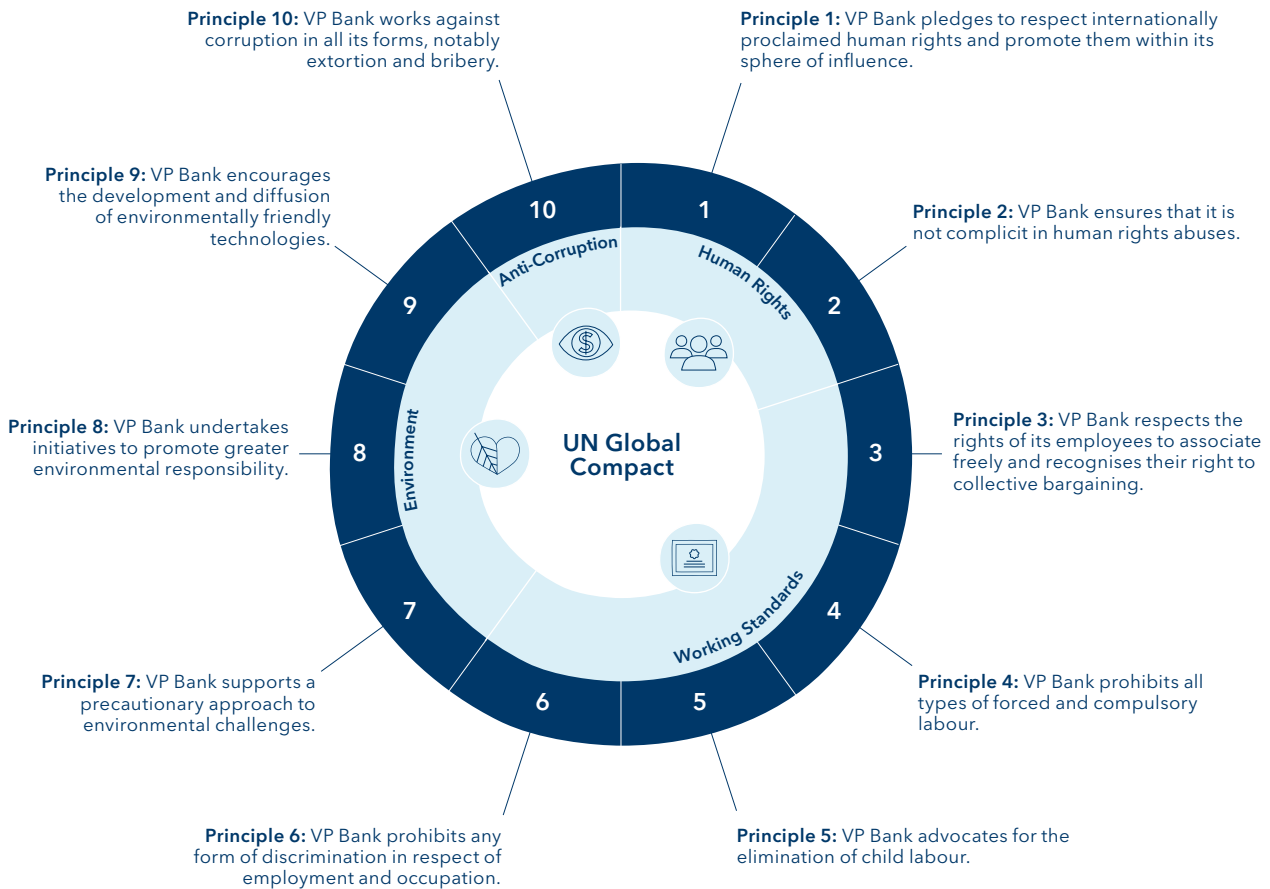
The signatory companies must publish an annual report on compliance with these 10 principles. VP Bank's 2019 UN Global Compact Communication on Progress (COP) report is available on the website of the UN Global Compact as well as that of VP Bank under "About us / Responsibility".



www.vpbank.com/fortschrittsbericht



www.unglobalcompact.org



We maintain continuous contact with our stakeholder groups and keep them informed of VP Bank's performance and activities in the corporate social responsibility area. This is how we ensure transparency and build trust.

VP Bank's stakeholders include all organisations and persons interacting with the company on financial, legal, operational and technical matters. VP Bank's main stakeholder groups are classified into six groups:

Each stakeholder group has different demands; it is therefore even more important to learn and understand their motivations. To that end, VP Bank strives to maintain an on-going dialogue and integrate the lessons learned and experiences in its activities. Through these exchanges, we can recognise trends at an early stage while furthering our corporate social responsibility initiatives.

We communicate with our stakeholders in a targeted manner and through various platforms. They include:

Regulatory authorities

- Trade organisation work and participation in interest groups

Clients

- Client discussions and feedback management

Board of Directors, Group Executive Management and employees

- Employee discussions
- In-house events
- In-house magazine and "VP Bank Journeys"

Shareholders, investors and analysts

- Investor meetings, road shows and investor's day
- Sector-specific information sharing

Media and the general public

- Press conferences
- Thematic conferences
- Trade shows
- PR work on investment, market and company subjects

Suppliers and partners

- Cooperation with schools, institutes of higher learning and universities as well as sustainable suppliers

Dialogue with rating agencies

VP Bank maintains regular contacts with rating agency analysts and informs them continuously as regards business developments in order to ensure the most accurate assessment possible.



The relative share of investors taking sustainability issues into account in investment decisions is growing steadily. The successful placement of financial products also depends on the extent to which the demands of sustainable investors are met. In recent years, therefore, the dialogue with sustainability ratings agencies has intensified. This dialogue covers the sustainability analyses for investment solutions, in particular the line of umbrella funds offered by VP Fund Solutions, which was included in a sustainability ranking in 2016.

Memberships

As a member of numerous federations and associations, VP Bank fosters a dialogue with business and society. The type of collaboration is tailored to suit the particular needs and objectives.

The dialogue with clients, media and investors is carried out on either a scheduled or as-needed basis. The relevant departments and teams, for example Legal & Compliance, Corporate Communications, Investor Relations, Human Resources Management, Investment Solutions and IT, are responsible for maintaining this interaction.

These memberships involve important business and industry federations such as the Liechtenstein Bankers Association, the Liechtenstein Chamber of Industry and Commerce and the Swiss Bankers Association.

Other memberships, such as those in the International Center for Corporate Governance, the International Capital Market Association, the Occupational Health Managers Forum and the Swiss Investor Relations Association, are excellent venues for the transfer of know-how.

Memberships in the Swiss Business Council for Sustainable Development (Öbu) and the Liechtenstein Society for Environmental Protection serve as a means of sharing best practices in the area of sustainability.

Client advisory

VP Bank has a diversified business model with clearly defined business segments. The core activity consists in the business with financial intermediaries and affluent private clients. The product line is enhanced through comprehensive fund solutions for fund providers, asset managers and management companies. In Liechtenstein and Switzerland, VP Bank offers a broad universal banking line for retail clients, small to medium-sized companies and real estate companies.

VP Bank's client advisors work with clients in the private banking, intermediaries and corporate segments. By assigning client advisors to clearly defined segments, the bank ensures the best possible advisory quality and a focus on the respective needs of clients in each segment. Thanks to numerous synergies between the respective business segments, VP Bank clients benefit from attractive value-added among the products and services.

For its advisory activity, VP Bank focuses on personalised support, quick decision-making capabilities, agility, flexible and sustainable solutions and a long-term approach. The strong net new money inflows in 2019 were generated by clients across all VP Bank's segments. The international locations in particular made a substantial contribution to this.

The quality of the customer service and support is regularly assessed by independent specialists. As part of the "Tops 2020" assessment published by Fuchsbriefe in Germany, VP Bank improved its ranking to 11th in the so-called All-Time Best list. According to the Fuchs Report, the long-term assessment shows which institutions offer their clients the highest-level advisory over the long term. The assessors emphasized the individuality, structured approach, efficient communications and the graphically well-illustrated investment process. With its satisfactory ranking of 11th in the Top 20 of the European tables, VP Bank is among the best asset managers. The independent assessment result demonstrates that we can offer our clients consistently high-quality advisory and also reflects well on the on-going certification of our client advisors.

VP Bank markets

VP Bank's activities revolve primarily around its defined target markets (see "VP Bank's strategic orientation", → page 26 ff.). Additional growth potential is developed in other opportunity markets - mainly other regions in Europe. In 2019, the Nordics (Denmark, Sweden and Norway) were identified as new target markets. Through our planned cooperation with Hywin Wealth Management, we are looking to develop our activities in the Chinese market.

Client feedback

VP Bank regularly ascertains its clients' views and assesses its advisory quality, thereby gaining continuous insight as to how it can adapt its services to satisfy client needs more effectively. Internal processes on the delivery of services are also reviewed and optimised with help from client feedback. The bank pays close attention to future needs so that we can provide services that address them now or move in that direction. We constantly solicit client feedback through personal discussions, contact forms on the website and regular client surveys.

If the event of complaint situations, the bank speaks directly with the clients to find ways to remedy the existing situation and determine the implications for managing the relationship going forward. This approach also satisfies the complaint resolution guidelines of the Liechtenstein Financial Market Authority (FMA).

In 2019, a client survey was conducted at the Liechtenstein and Swiss sites. The feedback confirmed a high level of client satisfaction, good service quality and the continued importance of personal advisory and support. The information gleaned from the survey is part of a series of measures being implemented in stages.

VP Bank services

The client survey confirmed that VP Bank's clear strengths include comprehensive client support and the combination of diverse services. Complex client requirements are systematically assessed by taking into account the economic, legal and risk aspects along with operational considerations, and clients are kept constantly informed about the status.

The bank's service offerings start with basic services for account and custody management and payments. For private clients, we offer customised asset management and investment advisory, asset structuring, prevention and estate planning, financing and fund solutions.

In the investment solutions area, VP Bank has a broad range of investment advisory and asset management options. Clients can work together with their client advisor and investment specialists to put together an optimal portfolio that combines their own ideas along with proposals from the Bank. On-going portfolio monitoring ensures compliance with the client's risk profile and specifications. A specialised advisory team offers clients support for their specific individual requirements.

In the asset management area, clients may choose between mandates for fund-based products and individual securities. They can also determine the frequency of the portfolio adjustments. VP Bank also offers a sustainability mandate that places further emphasis on environmental, social and corporate governance issues.

The lending business is aligned with the strategic business segments, i.e. intermediaries and private banking. The linkage between investment and financing solutions and the establishment of specialised solutions are key differentiation factors relative to traditional private banks. In the local lending business, VP Bank is very well positioned as a lender to retail and company clients.

In order to provide comprehensive support for our clients, VP Bank works together with outside specialists. We are thus able to recommend partners to our clients for asset structuring, prevention and estate planning, tax advisory, business advisory and business transactions.

Financial intermediaries and fund providers benefit from a diverse range of services customised just for them. Along with basic account and portfolio management, custody and order processing services, VP Bank offers special services tailored specifically to intermediaries for investment and regulatory advisory as well as fund solutions. With its "Direct Execution Service", VP Bank offers direct trading access.

A broad range of digital solutions for sharing data and information makes VP Bank a leading bank for intermediaries clients. The modern VP Bank e-banking offers independence and security as well as round-the-clock electronic access to accounts and securities accounts. The full panoply of features customised for intermediaries, such as user administration capabilities by the intermediaries themselves, was improved with optimised user navigation, new technologies and brand new layout. ProLink, the highly regarded intermediaries portal, was also enhanced with new features, such that clients can take advantage of a comprehensive, real-time information platform. A new interface compatible with the Electronic Banking Internet Communication Standard (EBICS) was also launched in order to standardise the sharing of payment transaction data.

Digitally supported client services

For client advisory, VP Bank relies on personal contacts between advisors and specialists. In so doing, the bank can recognise the more complex client needs while anticipating future ones.

Digital tools support our client advisors with this process, from the client meeting preparation phase to the execution phase following the meeting. Tablets make it possible to simulate various investment proposals directly during the advisory meeting, make adjustments jointly and place orders. Portfolio adjustments thereby become much more transparent and tangible. It becomes possible to make well-informed decisions even during the client discussions, since the client advisor can provide immediate answers to questions and clarifications.

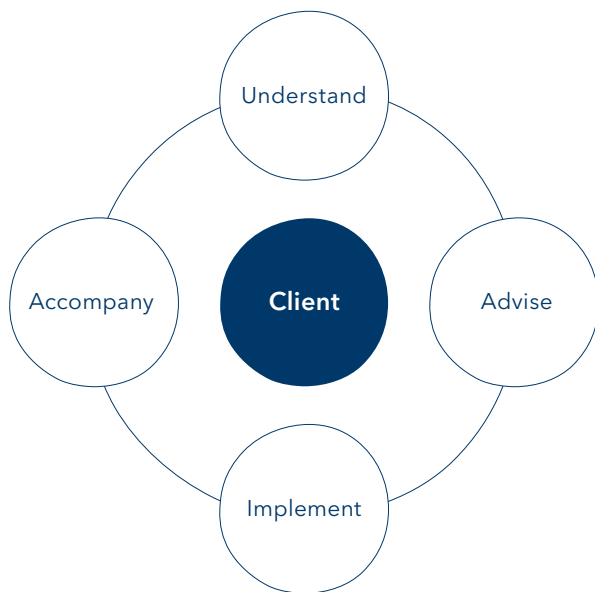
In addition to enhancing the transparency of investment proposals through simulations and adjustments, the tablets can also be used to gather the latest information during the period leading up to the client discussion, for example with the on-boarding process initiated directly on the tablets. Clients benefit from efficient communications with the bank, and it is no longer necessary to input information manually after the fact.

The use of digital tools makes it possible to resolve simple and recurring client needs efficiently, regardless of time and place. It also enables the advisors to focus on the more complex client needs during the personal discussions. VP Bank's new e-banking offers intermediaries and private clients improved and efficient user administration, greater oversight capabilities and new features such as access to market data. The groundwork was also laid for a client portal offering access to market information and services such as payments, account queries, order placement and E-post.

Structured advisory process

The ever-changing banking environment requires an optimised product and service offering. Our advisory concept therefore includes business model adjustments for traditional investment advisory. With our systematic advisory process and the continuous improvements to services, we have laid the foundation for the investment advisory of the future.

Advisory process



VP Bank's clearly defined advisory process ensures that individual client needs are implemented professionally. It also provides client advisors with guidelines based on default solutions for recurring processes and activities, digital and other resources, quality requirements, the definition of responsibilities and collaboration between internal and external partners. These tools give the client advisor more time to support clients individually.

The steps in the advisory process include new client development, understanding, advising and implementing client preferences and accompanying the implementation.

Details on the advisory process can be found in the online annual report.



[www.vpbank.com/
advisory_process](http://www.vpbank.com/advisory_process)

Continuous training for client advisors

Highly trained client advisors are the foundation for excellent support. In the light of a steady stream of new regulatory measures, VP Bank trains its client-facing employees accordingly. VP Bank therefore invests continuously in their training and continuing education. In 2019 our client advisors at the Liechtenstein and Swiss sites successfully completed their international certification from the Swiss Association for Quality (SAQ). These measures are further enhanced through on-going training on technical, economic and regulatory issues.

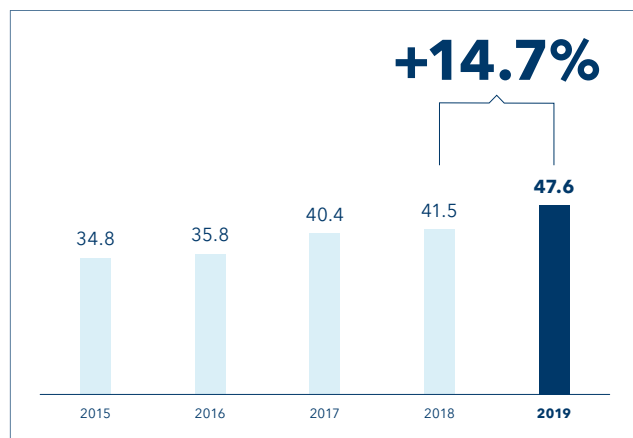
Client assets

At 31 December 2019, VP Bank had client assets totalling CHF 47.6 billion, up 14.7 per cent from the previous year. It also held another CHF 6.9 billion in custody assets, bringing total client and custody assets to CHF 54.5 billion at the end of the reporting period (2018: CHF 46.7 billion). Overall, VP Bank Group recorded net new client money totalling CHF 2,255 million.

Classification of client assets under management

in %	31.12.2019	31.12.2018
Analysis by asset class		
Liquidity	26	27
Bonds	17	19
Equities	25	21
Investment funds	27	28
Other	5	5
Total	100	100
Analysis by currency		
CHF	23	23
EUR	30	31
USD	33	32
Other	14	14
Total	100	100

Client assets under management excl. custody assets (in CHF billion)



Employees

Working on behalf of the company strategy

Our employees are continuously called upon to adapt to the rapid transformation of the financial services industry, with its new regulations and market conditions.

For VP Bank, it is essential that employees be connected and feel they belong to the company in order to overcome the challenges they face and lead the company toward a continued successful future. VP Bank therefore conducts regular surveys in order to measure employee commitment and satisfaction. The goal of the Group-wide survey is to determine areas for improvement and maintain existing strengths. In 2019, a Group-wide survey was conducted that received an outstanding 91 per cent response rate. The next survey is scheduled for 2021.

VP Bank is committed to providing professional training for interns in the sales and information technology areas. Highly trained instructors complement the trade schools and pass on their industry knowledge, thereby ensuring that trainees can apply their knowledge in practice and learn about the broadest range of work and operating areas. These efforts lay the foundation for future career moves following the training period. The bank's appeal among young employees is evidenced by the fact that more than 80 per cent of trainees continue to work at VP Bank three years after they have completed their training, and two-thirds of these young talents have already taken their first step up the ladder through either a change in position or by pursuing higher-level external training. For the bank, the development of trainees through the dual work/education system continues to represent a strategically important talent management component.

Last year, the development programme for students (support model) and university graduates (career start) was further expanded. These programmes offer attractive first-time jobs at VP Bank. In the "support model", masters-level students can combine theory and practice and gain valuable experience over a 12- to 24-month period. In the "career start" programme, graduates have the opportunity to further their knowledge in two or three selected areas as well as participate in specialised and foreign internships in preparation for a defined target function after 18 months and take their first career step.

Through the graduates programmes and apprenticeship training, VP Bank develops future talent in a targeted manner in order to secure its corresponding growth from within.

At end-2019, VP Bank had 16 apprentices (2018: 15) in the sales programme and another five studying information technology. In the summer of 2019, seven apprentices (2018: five) successfully completed their final exams and six were given fixed employment positions.

In the graduates programmes at end-2019, two students were enrolled in the work-study support model and six graduates were in the career start programme.

HR Strategy 2020 (Human Resources - HR)

VP Bank's strategy rests on three pillars: growth, focus and culture. To successfully exploit the opportunities arising from this change, ultimately it all comes down to employees. The HR vision "Safely ahead with the VP Bank spirit: grow - move - inspire. It takes inspired employees to inspire our clients." is intended to point the way forward. In order to achieve this goal, VP Bank's HR strategy focuses on three key areas: talent management, performance management and change management, all of them based on the pillars of VP Bank's strategy.

VP Bank promotes a culture of open and constructive teamwork based on mutual respect, including across borders. A strong culture lays the foundation for a successful VP Bank. Various leadership training sessions for all management levels and at all locations also contribute to that end. For example, the "VP Bank Journeys" programme enables employees to get to know companies outside of the financial industry in order to promote knowledge sharing for their own work. In 2019, two VP Bank Journeys took place with a total of 39 participants.

Management by Objectives (MbO)

Managing by objectives is part of VP Bank Group's management approach. Each year we go through a recurring process to ensure that the objectives set by the bank for the following year are iterated systematically throughout all levels of the organisation. At the individual level, corresponding objectives and primary tasks are set for individual employees. The employees' activities are thereby systematically oriented in the right direction and the achievement of the bank's objectives is coordinated with those of the individuals.

At the end of the reporting period, the manager assesses and recognises the performance of the employees when determining performance-oriented remuneration. The manager takes into account the achievement of objectives, the satisfactory completion of the principal tasks and, notably, compliance with regulatory provisions, internal rules and client-specific conditions. With the management by objectives process, superiors trust their employees, let them figure out how to do their job and recognise the required individual development measures.

Since the beginning of 2019, the electronic tool "VP Bank vita" has been in place for our target agreement and performance assessment process.

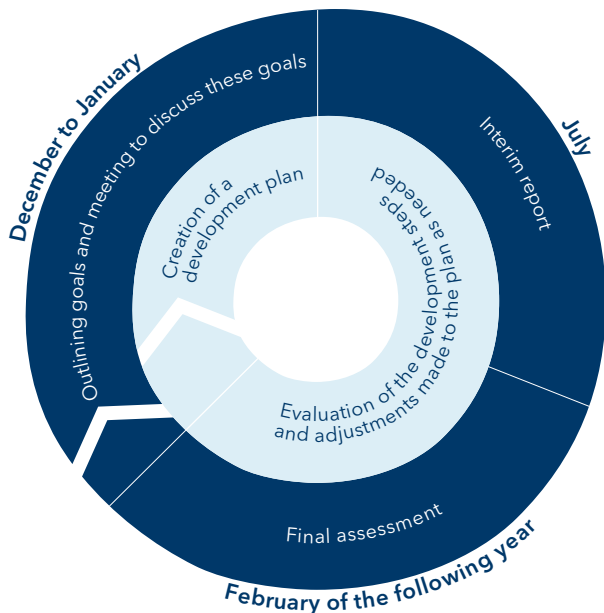


www.vpbank.com/
gemeinsam_
begeistern



www.vpbank.com/
karriere_lehre

Goal-setting and performance assessment process



The Group Human Resources unit

The Human Resources department has its own staff at the Liechtenstein, Zurich, Luxembourg and Singapore sites. Group HR manages global topics and, where necessary, includes the country companies. Along with the local HR staff, the unit is divided into three main segments: HR Consulting, HR Projects & Change Management and HR Compensation, Benefits & Services. The HR Consulting segment includes the teams HR Business Partner, Employee Services, Learning & Training and Young Talents.

Group Human Resources advises Group Executive Management, senior management and employees, provides suitable instruments and handles a number of subjects. Human Resources plays a pivotal role and ensures that tasks, skills and responsibilities are properly matched up and administered. HR also supports key processes such as recruiting, exits, wage setting, promotions and much more. Employee development is yet another key component of human resources work. VP Bank invests continuously in the technical training of its employees and managers and in 2019 again implemented various internal leadership training programmes.

Employee representation

The employee representation organisation (Arbeitnehmervertretung - ANV) was created at the Liechtenstein sites in 1998, based on the then newly enacted Employee Participation Act (Mitwirkungsgesetz). The five current members of this organisation are each elected to a four-year term of office.

The ANV’s functions are based on the Employee Participation Rules, which were issued by Executive Management. Whenever general employment conditions are amended or staff reductions are planned, Executive Management must inform the ANV and give it a chance to participate, although decision-making powers remain with Executive Management. The ANV serves as a contact point for all employees at the Liechtenstein site in order to discuss employee terminations and to defend employee interests. All proposals, complaints and personal matters are handled with utmost discretion in regularly scheduled meetings within the ANV. Regular meetings are also held between the Chairman of the ANV and the HR division’s management in order to discuss current personnel matters.

At VP Bank (Luxembourg) SA and VP Fund Solutions (Luxembourg) SA, a joint Works Council represents the employees of both companies. Given the size of the company, the employee delegation comprises 14 elected members, seven of whom are permanent members and seven are alternates.

The Works Council represents employee interests and intervenes to protect and improve working conditions, defend employment situations and jobs as well as protect employees’ social security benefits. The employer must inform the Works Council on business operations and the development of the company as well as on the most recent and probable development of its activities and its economic situation. The Works Council also has the right to request certain information at regular intervals.

Employee headcount

At 31 December 2019, VP Bank Group had 943 employees. There was a minimal increase of 5 to 102 employees (adjusted for part-time working: +5.45) at the Zurich location. At VP Bank in Singapore, there was a reduction by 5 persons to 67 employees (adjusted for part-time working: -5). At the Luxembourg location, the workforce experienced a change of +16 persons, while headcounts in Hong Kong and the British Virgin Islands were unchanged.

At end-2019, VP Bank Group had a total of 162 (FTE 157) client advisors.

At VP Bank, client advisors are defined as those employees who are customer facing with allocated assets.

Customer-facing employees such as active advisory team members, investment consultants and clerks are not considered client advisors since they do not have any allocated assets.

Number of client advisors	31.12.2019		31.12.2018	
	FTE	HC	FTE	HC
	157.0	162	156.3	160

FTE = Full Time Equivalents
 HC = Headcount (nominal number of employees)

At the end of 2019, the average length of service at VP Bank Group rose slightly from 8.5 to 9 years. At VP Bank (Luxembourg) SA, the figure declined slightly to approximately 7.8 years (prior year: 8.9 years). By contrast, VP Bank Fund Solutions (Luxembourg) SA recorded a slight increase of approximately 4.4 years (prior year: 3.3 years). The average length of service at our Singapore and Hong Kong locations declined by one year in each case (Singapore 2019: 3.5; Hong Kong 2019: 10.1).

Employee statistics of VP Bank Group

as of 31.12.2019	Men	Women	Total
Number of employees	561	382	943
Percentage share	59.5	40.5	100
Average age	43.9	40.6	42.6
Average length of service	8.7	8.7	8.7

as of 31.12.2018	Men	Women	Total
Number of employees	546	387	933
Percentage share	58.5	41.5	100
Average age	43.0	40.6	42.0
Average length of service	8.5	8.5	8.5

As regards nationalities, Swiss employees continue to represent the largest group at 37.2 per cent of the total, up from 40.9 per cent last year. The relative number of Liechtenstein nationals contracted slightly from 25.8 per cent to 21.5 per cent. German employees continue to represent the third-largest group, with 14.0 per cent in 2019, down from 14.1 per cent the previous year (→ chart below).

Employee recruitment and exits

During the year under review, VP Bank had an average of between 20 and 25 open positions. Certain job profiles such as risk or IT specialists remain hard to find in the labour market. Lately the number of applicants outside the catchment area applying for jobs has been on the rise. The applicant tracking software introduced in 2016 has proven its worth and contributed to more efficient management of job openings as well as faster responses to applicants.

The recruitment of technically and socially competent individuals who fit the needs of VP Bank is and always will be one of the primary tasks of the human resources function. VP Bank uses a standardised recruiting process based on interviews and a personality analysis.

Employees exiting the company also receive professional support. Exit interviews are conducted by both line managers and human resources staff, with exiting employees surveyed using a standardised form.

The fluctuation rate for 2019 is 7.2 per cent. Due to a change in the calculation method, this result cannot be compared with the previous year's figures.

Employee retention, remuneration and support

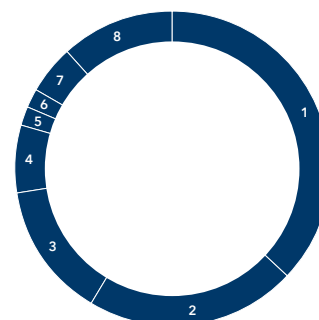
Job functions that appear meaningful and satisfying as well as a good work environment are clearly important considerations for employee well-being. Many factors can destroy a good working environment: bad influences from within the company, economic circumstances or even an employee's personal or family situation.

VP Bank is aware that employees should be seen as individuals with differing needs and within the context of their own life situations. The contact persons in the HR departments are always ready and willing to help all employees or their line managers clarify any issues that may arise. Support measures for employees and line managers include regular discussions with those involved, searching for solutions, support during situations of conflict or personal crisis and also team analyses and coaching. Employees at the Liechtenstein and Swiss locations may also take advantage of external help for work and non-work-related difficult situations. This professional service may be used around the clock with a broad range of specialists, and can be kept anonymous upon request. Individual evaluations or developmental counselling are also offered. Broad expertise is available in-house and, where required, is supplemented using external partners.

Remuneration is also essential for employee satisfaction and loyalty to the company. VP Bank is committed to paying fair and competitive compensation in line with the market. Guaranteed fixed remuneration varies according to function and related requirements, whereas variable salary components are geared to the success of the company and individual performance. Pension obligations are guaranteed by Treuhand-Personalstiftung for employees in Liechtenstein, by AXA Winterthur for employees at VP Bank (Switzerland) AG and by the statutory pension fund for employees of VP Bank (Luxembourg) SA. In addition, VP Bank (Luxembourg) SA pays into a pension scheme with the Lalux insurance company for its employees.

Nationality of VP Bank Group's employees

- 1 Switzerland **37.2%**
- 2 Liechtenstein **21.5%**
- 3 Germany **14.0%**
- 4 Austria **6.9%**
- 5 Luxembourg **2.0%**
- 6 Italy **1.9%**
- 7 Singapore **4.9%**
- 8 Rest of the world **11.6%**



In addition to financial incentives, employees also receive other attractive benefits depending on the location. These benefits range from sporting and social activities and events to the possibility of purchasing additional vacation days to length of service benefits, health offers, subsidised canteen meals, attractive offers in the mobility area and much more.

Employee development

VP Bank would like support its clients in a skilled, personalised and straightforward manner. That requires a well-developed learning and performance culture, an entrepreneurial approach and a high degree of individual responsibility. To complement its young talent development initiatives, we once again initiated or implemented the broadest measures in training and continuing education for employees and managers in 2019. Depending on the target group, choice of topics and training objective, the sessions were carried out with selected in-house technical specialists or external partners and implemented either in person or through e-learning.

In addition to traditional technical and management training sessions, the Human Resources Development unit advised employees and managers through a broad range of training and continuing education issues, and during the year it implemented diverse team-building and organisational development measures.

VP Bank has been supporting its employees in improving their English language skills for several years. As part of this initiative, in-house diploma courses at the "BEC Preliminary", "BEC Vantage" and "BEC Higher" levels were once again offered in Liechtenstein starting in March 2019. In December 2019, the first examinations took place, with 5 participants having completed them with the highest grade (A).

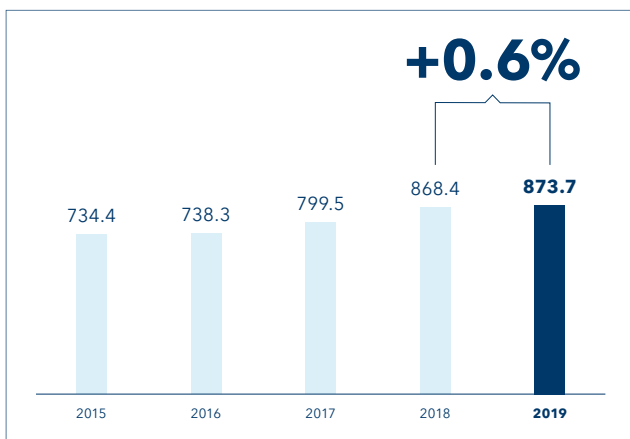
Last year close attention was once again paid to training for client advisors. VP Bank Group has very well-educated advisors, who further hone their technical and sales skills regularly. Since 2017, all client advisors undergo certification. This "bank client advisor" certification demonstrates that our advisors are professionals with a solid understanding of the banking business, comprehensive knowledge of the products and services and well developed advisory skills. The certification requirement ensures high quality standards.

With the implementation of this training initiative, VP Bank clearly demonstrates that it is on the cutting edge of strategic training programmes and invests continuously in the development of its employees.

The focus of last year's culture and management development efforts last year lay in the continued development and implementation of the multi-level leadership programme. With the "Leading@VPBank" concept, VP Bank contributes to practical management development at all levels, which represents a key component in strategic employee development. The sharing of knowledge across all management levels and active support by management make this training particularly valuable.

Last year in Liechtenstein, 24 people (2018: 32) completed a job-related course of studies with a recognised diploma, while another 40 people (2018: 57) were participating in continuing education at end-2019.

Headcount of VP Bank Group (full-time equivalents)



Number of employees by location

as of 31.12.	2019		2018		Variance with previous year	
	Employees	Full-time equivalents	Employees	Full-time equivalents	Employees	Full-time equivalents
VP Bank Ltd, Vaduz	571	521.3	578	530.6	-7	-9.3
VP Bank (Switzerland) Ltd	102	96.0	97	90.6	5	5.5
VP Bank (Luxembourg) SA	116	107.5	100	92.8	16	14.7
VP Fund Solutions (Luxembourg) SA	33	29.5	32	30.3	1	-0.8
VP Bank (BVI) Ltd	14	14.0	14	14.0	0	0.0
VP Wealth Management (Hong Kong) Ltd	8	8.0	8	8.0	0	0.0
VP Bank Ltd Singapore Branch	67	67.0	72	72.0	-5	-5.0
VP Fund Solutions (Liechtenstein) AG	32	30.4	32	30.2	0	0.2
Total	943	873.7	933	868.4	10	5.3

Responsibility as an employer

The efforts and enthusiasm of our employees are the foundation for the success of VP Bank Group. Therefore we feel it is important for us to support our employees individually.

VP Bank recognises its responsibility as an employer, as it creates modern and attractive working conditions. Each person's ability to perform depends as much on motivation and health as the work environment. VP Bank seeks to attract and retain the best talent by offering attractive career opportunities and extensive continuing education options.

Motivated and well-trained employees exhibit a service-oriented approach, competency and openness to their clients. That requires, among other factors, a work environment in which all employees feel welcome and are encouraged. VP Bank offers them the space to develop and implement their own ideas. It motivates them to perform at an above-average level while offering future prospects as well as training and continuing education possibilities. By creating and securing skilled jobs, VP Bank allows people to make a living and enjoy a high quality of life.

More information is available in the section "Employees" (→ page 46 f.).

Sustainable business activity

VP Bank promotes the sustainable use of tap water and supports drinking water projects in developing countries. "Drink & Donate" is a non-profit association that promotes consumption of tap water over bottled water. VP Bank supports the association with a substantial annual contribution.

The National Future Day was held in Switzerland and Liechtenstein again in 2019. On this day, many companies will open their doors and give pupils in the 5th to 7th grades the opportunity to discover the world of work through practical experiences. In this way, the National Future Day contributes to broadening the career choice horizon and future prospects of girls and boys and to taking their future into their own hands.

During the year under review, VP Bank participated in the National Future Day for the seventh time and opened its doors on 14 November 2019. Some 30 young people arrived in the morning with many questions and received comprehensive information about VP Bank. In the morning the students were given some interesting facts about our company by VP Bank's apprentices and were able to get to know the processes of the individual departments. In the afternoon, together with their reference person, they learned quite a bit about the daily work routine. Looking over their shoulders, they gained exciting insights into the world of banking.

The highlights in 2019 were again the tour of the vault and the trading room, the disassembly and reassembly of a PC and a video conference between the Vaduz and Triesen locations.

In Liechtenstein, the VP Bank Sport Club was founded in 1974 to encourage employees to participate in sports and socialize. The club organises numerous activities that are available either free of charge or at significantly discounted prices. These activities include spinning, alpine skiing, nordic skiing, tennis, nordic walking, bowling, golf, mini-golf, ping pong, soccer tournaments, hiking, Pilates, self-defence courses and sport weekends.

Much information is available on VP Bank's intranet on the topics "Fit in the Workplace", "Promoting Health through Movement" and "Healthy Eating". Stress checks and ergonomic tips for desk jobs with computers as well as accident prevention are among the topics. Employees receive rebates on the purchase of skis and snowboards and other outdoor gear as well as discounts on massages, fitness centres, chiropractic treatment, dance lessons and eyeglasses for the workplace. VP Bank in Liechtenstein also offers its employees the opportunity to get a massage during the workday. The massages are specifically designed to address employee needs and problems in the office. Since 2019, our employees at the Vaduz and Triesen sites have also had free fruit at their disposal.

The Volunteering Day introduced in late 2015 continues to generate considerable interest. Since it was introduced, more than 130 employees have performed charitable work in the social, educational or ecological/environmental fields. The bank gives each employee one day per year to participate in charitable work. The feedback from both the participating employees as well as the institutions on the receiving end of this volunteer work has been overwhelmingly positive.

VP Bank supports the "Villa Wirbelwind" project in Liechtenstein, a children's day care centre jointly operated by Liechtenstein banks. The "Villa Wirbelwind" provides high-quality, professional childcare, thereby creating optimal conditions for reconciling family and work life. At "Villa Wirbelwind", children between the ages of four months and the start of kindergarten whose parents are employees of member banks and the Liechtenstein Banking Association may attend the daycare centre, regardless of their hometown.



www.vpbank.com/sustainability

Diversity at VP Bank

Diversity and equal opportunity create a solid foundation for the development of closer relations between VP Bank and its employees and its external stakeholders. VP Bank affirms diversity at every employee and management level. Such diversity at the company ensures that the decision-makers are put in a position where they engage in constructive questioning are more open to innovative ideas.

Employees and managers are hired strictly on the basis of their qualifications without regard for age, gender, sexual orientation or nationality. VP Bank offers all employees equal opportunities for employment and promotions. The assessment of an employee's work performance is carried out in a fair, objective and transparent manner.

Whenever possible, employees with long-term illnesses are reintegrated into the work flow with professional support.

Diversity at VP Bank - relative number of women and men in management

	Total number of women	Number of women in %	Total number of men	Number of men in %
as of 31.12.2019				
Board of Directors	2	25	6	75
Management level 1	1	16.7	5	83.3
Management level 2	2	7.4	25	92.6
Total employees	382	40.5	561	59.5
as of 31.12.2018				
Board of Directors	2	20	8	80
Management level 1	1	16.7	5	83.3
Management level 2	2	11.1	16	88.9
Total employees	387	41.5	546	58.5

At 31.12.2019, VP Bank had 40.5 per cent female employees (2018: 41.5 per cent). Since 2017, a woman has also been represented on the Group Executive Board.

Suppliers

The procurement approach has a considerable influence on VP Bank's environmental impact, image and, not least, cost structure. When commissioning goods and services, VP Bank considers not only basic requirements but also a range of other criteria such as environmental standards, quality, energy consumption and waste disposal.

The "Procurement principles of VP Bank" establish guidelines for how VP Bank conducts its purchasing activities. Transparent ordering criteria, clearly defined requirements for suppliers and uniform supplier evaluations ensure the quality of the procurement process and supplier relationship.

Procurement

In 2018, VP Bank implemented a new policy for "procurement, investments and expenditures". A central procurement department provides Group-wide support and oversight for VP Bank's procurement, compares terms, helps to prepare tender offers and performs appraisals.

Where appropriate, the procurement department creates framework purchasing contracts. Specific purchasing criteria for selected products, which may also integrate sustainability criteria, are defined by the procurement department through discussions with the respective operating departments.

The purchasing approach adheres to the environmental principle of "avoid, reduce, recycle". If goods offer comparable characteristics at the same conditions, preference is given to those that are especially environmentally friendly or come from environmentally certified producers.

VP Bank's suppliers are urged to voluntarily propose environmentally friendly alternatives. They are also required to deliver only merchandise and goods that are in keeping with Liechtenstein's environmental laws and

come from countries that comply with the conventions of the International Labour Organisation (ILO).

These conventions establish minimum standards for the observance of human rights, equal opportunity (nationality, gender), working conditions (occupational health and safety, wages) and have clear guidelines on such issues as child labour and pollution.

Choosing suppliers

The main criteria in VP Bank's selection process are performance, product quality to specifications, price, creditworthiness, legal compliance and adherence to environmental and social standards. In this regard, VP Bank values regional procurement.

In terms of printing services, VP Bank works primarily with partner companies that print in a climate-neutral way. In the procurement of shareholder gifts, sustainable suppliers from the surrounding region are worked with - for example, the Curative Education Center of the Principality of Liechtenstein (HPZ). VP Bank also uses this institution for packaging purposes. On the occasion of the 2019 Saint Nicholas Day party, baked goods were again purchased from "Soroptimist International", an organisation dedicated to improving human rights and promoting cooperation.

Supplier relations

In order to optimise the supply chain, VP Bank maintains an on-going dialogue with its suppliers. For larger purchases, functional specifications are established and discussed with suppliers. That way each supplier receives the same documentation, which ensures the comparability of prices and services. To prevent conflicts of interest, private contacts with suppliers involved in a purchasing relationship are forbidden.

Suppliers are evaluated at regular intervals on such criteria as price/service, quality, dependability, respect for social and environmental principles, past experience and on-time delivery. Whenever possible, VP Bank also seeks to avoid entering into business relationships with companies that have a monopoly position or are the sole supplier. Quality control is based on suitability, accurate pricing and invoicing.

Approval and procurement process at VP Bank



Sustainability in the investment process

Sustainability has traditionally been of great importance to VP Bank and is enjoying increasing popularity within the investment community. VP Bank is aware of its responsibility toward society, the environment, its clients and shareholders and actively addresses the issue.

For a good three years now, VP Bank has been offering a dedicated investment solution in the area of sustainability that can be individually tailored to the client's needs. The selection of investments is carried out in a manner analogous to the ESG approach based on ecological, social and economic factors.

Clearly defined responsibilities

At VP Bank, the CSR Board is responsible for sustainability issues. These issues include such topics as the business ecology, social responsibility and investment solutions. The CSR Board is chaired by the Chief Investment Officer as a member of Group Executive Management.

The orientation of VP Bank Group in terms of sustainable investments and products is managed as follows within the CSR Board:

- Definition of the sustainability philosophy in the investment process
- Selection and retention of external partners
- Certification of the offer or investment process
- Quality assurance

Sustainable selection process

VP Bank has started to systematically integrate sustainability criteria into the investment processes and will consistently take this into account in the investment and advisory process in the current year. Among other things, this means that the investment universe will be examined and classified according to sustainability criteria. The focus will not only be on exclusion criteria, but also on identifying investment opportunities that actively make a positive contribution.

The offer of sustainable investment solutions will be further expanded in the years ahead.



Social engagement

Charitable donations

As an international bank group with regional roots, we recognise our social and environmental responsibility in the places we do business, mainly Liechtenstein but also selectively in other regions where we are represented. VP Bank focuses its charitable donations, alternating by year, on recreational sporting associations and cultural institutions serving the general public. VP Bank Group employees who actively participate in a charitable institution also receive a supporting contribution. Numerous initiatives and projects have benefited from this commitment over many years.

Since 2012, VP Bank has also had a charitable giving agreement with the Swiss Climate Foundation. As a partner of this foundation, VP Bank provides financial support for the energy efficiency and climate protection projects of small and medium-sized companies in Switzerland and Liechtenstein. Under this arrangement, VP Bank provides financing based on the net rebate of the CO₂-incentive tax on fossil fuels.

Sponsorships

Sports and cultural sponsorships are among the most effective opportunities to position brands in an emotional environment, achieve key goals and reach target groups. VP Bank actively focuses its sponsorships in these two areas with a long-term focus.

In sports, we sponsor ladies pro golf. In classical music, VP Bank is a Presenting Partner of the "VP Bank Classic Festival" in Switzerland, whose purpose is to provide an international springboard for young classical artists to develop their musical talent.

VP Bank Art Foundation

The VP Bank Art Foundation was established in 1996 and collects works of contemporary artists. Its purpose is to foster art appreciation in a targeted manner within and outside VP Bank as well as to promote visual arts by means of acquisitions and art-related publications. The purchased works are displayed in the rooms of VP Bank as well as at art exhibitions. They are also loaned to third parties for showings at other venues.

Hans Brunhart is Chairman of the foundation's Board of Trustees. The other board members are Fredy Vogt, Chairman of the Board of VP Bank Group, and Dr Uwe Wieczorek, curator of the Hilti Art Foundation. Annett Höland is the curator of the Foundation.

In 2019, the activities revolved around the care and restoration of the existing collection and included ideas on how to rearrange the works in the collection as well as an employee tour of the VP Bank site in Zurich. A painting from the foundation's collection was loaned out as part of an exhibit, and the foundation introduced itself at an event attended by people in the Munich arts and cultural scene.

Going forward, VP Bank Art Foundation will seek to raise its profile to the outside world. The foundation receives an annual financial contribution from VP Bank.

VP Bank Foundation

VP Bank Foundation was initiated in 2006 and established in 2007 to mark the 50th anniversary of VP Bank. In keeping with its Articles of Association, the Foundation supports projects, individuals and institutions that have made out-sized contributions on behalf of the environment, art, education, science or culture. Charitable activities on behalf of the general public are also supported. This patronage is intended to be connected with Liechtenstein and consistent with VP Bank's corporate values. Donations can also be made for welfare and social purposes. VP Bank Foundation has earned a well-regarded position among Liechtenstein foundations and helped to shape the philanthropic sector.

The Board of Trustees comprises Hans Brunhart and Fredy Vogt. During the year under review, VP Bank Foundation distributed around CHF 250,000 to worthy causes.

Promoting science and education has been a major part of VP Bank Foundation's activities from the outset. With this objective, the Foundation supports scientific institutions and their projects, publications, training facilities and private initiatives.

In the cultural sphere, the foundation supported diverse projects in the areas of literature, art and association activities.

In the environmental area, the Foundation supported the "Stiftung pro natura - pro ski" foundation initiated by VP Bank as part of a long-term commitment toward environmentally responsible development in alpine areas, the "Waterfootprint Liechtenstein" initiative of the Drink and Donate association, the "Lebenswertes Liechtenstein" foundation, a biodiversity project of the Liechtenstein Environmental Protection Society (Liechtensteinische Gesellschaft für Umweltschutz) and a climate protection project of the myclimate foundation.

As part of the "Lichtblick" campaign, VP Bank Foundation made grants totalling around CHF 62,000 to some 27 social institutions in Liechtenstein in 2019.

The foundation's endowment is invested through a long-term asset management contract. Last year, a portion of the Foundation's resources was again invested in the EMF Microfinance Fund AGmvK as well as in VP Bank "Balanced (CHF) Strategy Fund class C" units. Via returns from the latter exposure, the relief organisation "SolidarMed" again received earmarked financial aid in 2019.

In keeping with VP Bank's sustainability activities, in 2019 VP Bank Foundation backed a Liechtenstein University workshop on sustainable finance.

VP Bank Foundation is a member of the Liechtenstein Association of Non-profit Foundations (Vereinigung liechtensteinischer gemeinnütziger Stiftungen e.V. - VLGS) and the "SwissFoundations" association. The Foundation's Board of Trustees actively participates in the management and development of the Liechtenstein association and makes use of valuable sharing of experiences in both associations.

Business ecology data are currently compiled only for the Liechtenstein site, which represents approximately 65 per cent of all employees. In 2018, values were recorded for our locations in Zurich, Luxembourg and Singapore for the first time. Comparative figures will also be available here from 2021.

Paper consumption

As a general rule, VP Bank sends out client asset statements only once a year; daily and quarterly statements are printed and mailed only at the client's express request. In recent years, this practice has led to a considerable reduction in the use of paper for forms and vouchers. For example, the number of printed forms declined steadily from 655,000 in 2005 to 309,500 in 2019. The number of envelopes used was reduced from von 1.5 million in 2004 to 611,476 last year.

Paper consumption decreased from 68.03 tonnes in 2004 to 35.83 tonnes in 2019, including a 0.95 tonne reduction just in the past year. Electronic banking has contributed greatly to this long-term trend, thanks to its e-post functionality, which is growing in popularity even as paper use declines. Paper consumption per employee was 0.06 tonnes in 2019, the lowest amount since 2004 (0.15 tonnes).

VP Bank prints its publications - including this Annual Report - on environmentally certified paper. FSC (Forest Stewardship Council) certification guarantees that the paper is produced from wood harvested in exemplary, environmentally friendly forestry operations. Since 2010, payment order forms have also been printed on FSC-certified paper. When choosing printing firms, VP Bank gives preference to those which offer climate-neutral printing services.

The number of printed copies of the Bank's annual and semi-annual reports has declined by more than 80 per cent over the past ten years thanks to the introduction of order cards and references to digital documents. The print runs for these publications fell from 7,000 in 2007 to just 1,300 in 2019.

For the Vaduz and Zurich locations, the number of e-mailed digital documents has steadily increased: from approximately 130,250 in 2007 to more than 1,204,603 in 2013, then 2,060,375 in 2016 and finally 817,178 last year. As to the number of e-post transmissions, the 25 per cent increase recorded in 2014 was followed by further rises of 11 per cent in 2015, 23.4 per cent in 2016, 2.7 per cent in 2017 and 21.8 per cent in 2019. Since 2010, all VP Bank Group communications include the tagline "Please consider the environment before printing this e-mail".

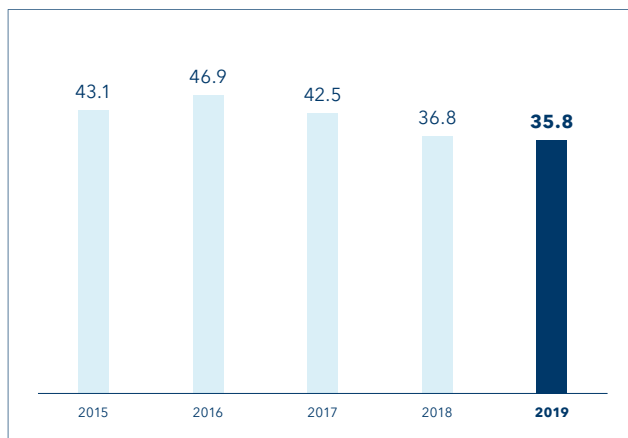
Water consumption

Water consumption trended steadily lower from 2008 through 2014, although in recent years it rose again slightly due to the increased number of employees. In 2019, a slight decline to the 2017 level was recorded. Water consumption per employee decreased continuously from 15.3 m³ in 2009 to 9.6 m³ in 2015 before posting a modest increase in the ensuing years. While a slightly higher figure of 10.0 cubic metres was achieved for 2017 and 2018, consumption in 2019 fell to 9.8 cubic metres per employee per year.

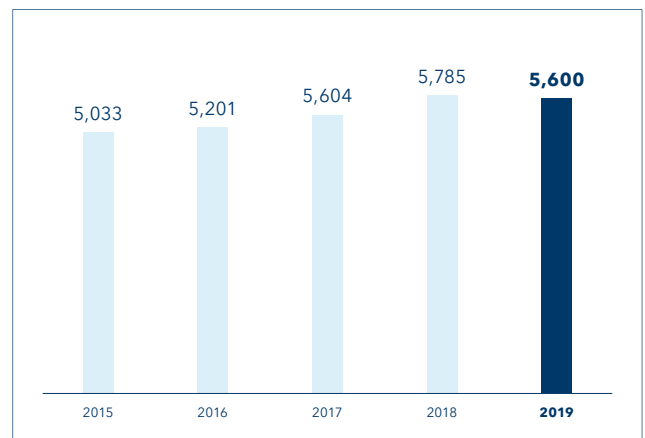
Energy

VP Bank Group has introduced numerous initiatives to promote responsible energy use. They include the environmentally friendly renovation of the Bank's headquarters in Vaduz and construction of the new service centre in Triesen, the use of geothermal energy for heating and cooling and the implementation of motion-

Paper consumption (in tonnes)



Water consumption (in m³)



activated lighting. In 2016, renovation work began on the more than 20-year-old ventilation system in the Giessen building, which was replaced by an energy-efficient installation with heat recovery in 2017.

At the Liechtenstein facilities, most of the **lighting** is regulated by a control system with motion detectors. This technology reduces power consumption by anywhere from 20 per cent to 40 per cent compared to manually activated lighting. When replacing or procuring lighting fixtures, preference is given to high-efficiency LED technology. In 2014, LED bulbs were purchased instead of the once-customary fluorescent tubes, and the old ceiling light fixtures are being gradually replaced. In 2019, the measures to replace the previous floor lamps with LED luminaires were completed. The energy savings afforded by LED lighting over traditional lighting sources amounts to roughly 75 per cent.

Total energy consumption per employee at the Bank's Liechtenstein facilities has fallen from 9,755 kWh in 2010 to 6,189 kWh currently. Power consumption at the head office had been declining from 2008 to 2017 thanks to efficiency-enhancing measures and increased only slightly in 2019. The replacement of the central heating system and renovation of the building's ventilation system also contributed to the reduced energy use. Modern ventilation systems recover and reuse waste heat from the offices and working areas.

For the past 25 years, a photovoltaic solar power generator has been in operation on the roof of the building in Vaduz. It supplies environmentally friendly energy that is fed into VP Bank's power grid (2017: 3,731 kWh, 2018: 20,181 kWh). Thanks to upgrades of the control system for this installation, solar power generation increased continually from 2009 to 2011. However, over the past five years it has declined mainly due to defective modules. In 2017/2018, the solar installation at the Giessen building was renovated and expanded, which increased its performance by 541 per

cent. In 2019, the installation of a further system on the roof of the main building was completed and the total yield from the two systems was increased to 50,051 kWh in 2019. The installation of a new system on the roof of the administration building in Triesen will be completed in 2020. With the new photovoltaic systems, the yield from solar energy can be significantly increased through in-house production.

Since January 2017, the power supplied to VP Bank by Liechtenstein utilities has come exclusively from hydro and solar power sources. The related "LiStrom Natur" energy product consists entirely of renewable Liechtenstein energy, of which 85 per cent is generated through hydro and 15 per cent through solar power sources.

Overall concept

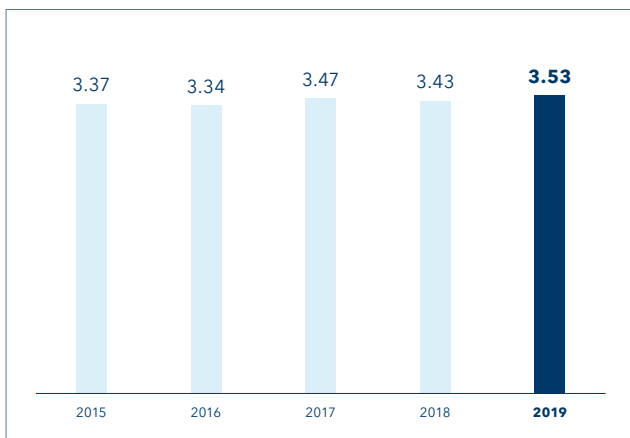
The differing types of buildings at VP Bank Group call for an overall concept that brings every one of its Liechtenstein facilities up to the same level in terms of power technology. The goal of this concept is to harmonise the existing installations, optimise the distribution of power and efficiently exploit any ambient heat loss. To that end, energy flow meters were installed in 2009 in order to record and optimise the flows of energy from heating and cooling. The evaluation is adjusted to take seasonal fluctuations into account, and the results are integrated into the measures for fine-tuning the Bank's overall energy supply. In 2017 this concept was completed following the renovation of the ventilation system at the Giessen facility.

The energy supply project is also based on the use of leading-edge technologies that enable heating through heat recovery systems. A new central cooling system in operation since 2014 affords both operational safety and energy efficiency. The waste heat from this system can also be reused for heating purposes.

With the implementation of this system, the lion's share of the overall concept has been realised. The next step is to plan for the use of groundwater in Vaduz. Through this initiative, existing groundwater can be used for cooling in summer and heating in winter. Discussions with the environmental protection agency have already been held and two pilot holes were drilled. The Environmental Protection Agency has examined the viability of the plan. Further measurements and implementation steps are planned in the years to follow.

A separate energy report for the Liechtenstein facilities is produced each year.

Power consumption (in million kWh)



Waste reduction and paper consumption

Since 2004, waste separation has been the order of the day at VP Bank in keeping with its waste disposal concept. Newspapers and magazines are collected and recycled separately from the other types of paper. Glass, cardboard, polystyrene, PET bottles and green waste each have their own receptacles. In 2014, a 167 tonnes total waste volume generated reached its lowest level since 2004 but has since increased slightly as from 2015 due to the larger number of employees and showed 183 tonnes in 2019 (→ chart below).

Unnecessary printing is one of the largest sources of paper waste. Most of the documents are prepared in digital form but still printed, as in the past.



Through measures such as digital invoicing, employee self-service for holiday planning and online boardrooms, VP Bank has already introduced key initiatives to reduce paper consumption. Currently, the volume of printouts per employee at VP Bank's Liechtenstein office is around 9,800 per year, which corresponds to 20 reams (500 sheets) of paper.

VP Bank's goal was to reduce paper consumption by 10 per cent over the course of 2018. The "think before you print" sticker was placed on printers at the Liechtenstein facility at the start of the year and was intended to encourage employees to consume less paper. We have achieved this goal: While a total of 5,968,689 sheets were printed in 2017, the consumption figure in 2018 was 10.79 per cent lower at 5,324,750 sheets. The figures for 2019 - see in the paragraph "Printing solutions" - are not comparable.

VP Bank's discarded waste paper is shredded in an in-house recycling unit and compressed into briquettes. With this process, roughly 21.6 tonnes of paper briquettes were produced at the Liechtenstein location in 2019. They were collected by a local recycler and put to new uses.

Printing solutions

The existing printers in Liechtenstein are getting outdated. We are taking this as an opportunity to replace the entire printer infrastructure and set it up again in order to ensure uniform, secure and cost-effective operation. The focus is on ease of use and efficiency.

The new printers can be managed centrally, trigger the reordering of toner cartridges independently and provide support with little effort. They also have a "follow me" function that allows employees to pick up their printouts with their badge at any printer in the future.

By using these modern multifunctional devices, we were able to reduce the existing 190 devices to 100. Due to the replacement in spring 2019, a significant reduction in printouts of about 25% was achieved. Due to the replacement of printers during the year, no comparative data is available for 2019.

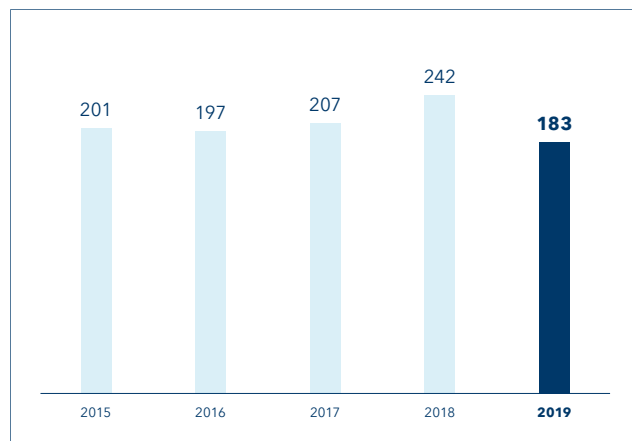
Environmental management

The Facility Management & Services unit is responsible for the Bank's environmental sustainability. VP Bank is a member of the Swiss Network for Sustainability and Management.

VP Bank also participates actively in Mobility Management working group of the Liechtenstein Chamber of Commerce and Industry (LCCI).

VP Bank is a member of Öbu, the Swiss think tank for environmental, social and management topics and network for sustainable business operations.

Total waste (in tonnes)



Mobility management

VP Bank’s operational mobility management is designed to encourage and promote efficient and socially acceptable mobility. More than a decade ago, we introduced a mobility concept in Liechtenstein that includes financial incentives for using public transport and a tiered fee system for employee car parks. The concept pays for itself, with the proceeds from rented parking spaces applied to bonuses given to employees who forgo a parking space.

Employees who use public transport are reimbursed for their actual public transport fare cards up to a maximum of CHF 1,200. The proceeds from the mobility management are also applied to these reimbursements. In 2019, 113 employees benefited from this system.

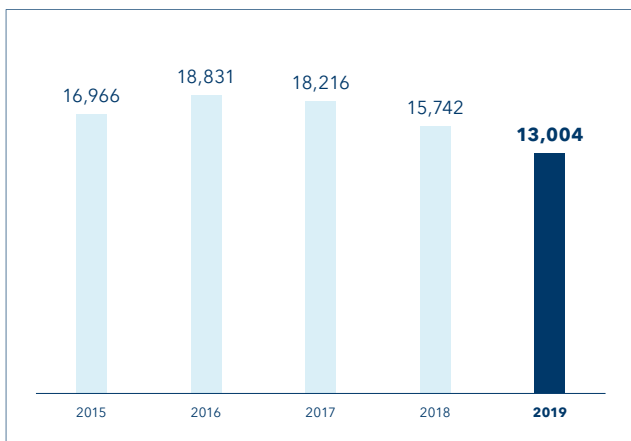
The mobility management concept also encourages employees to form car pools. It also offers free use of mobility cars, a very popular initiative. In 2019, business travel totalled 13,004 kilometres, down 17.4 per cent from 2018 (15,742 km). The use of a videoconferencing system helps reduce employee travel to both VP Bank’s regional and international sites. Every employee also has the possibility of using online meeting tools to organise in-house web conferences, at which documents can be reviewed and edited directly and simultaneously by multiple users.

The mobility concept has proven to be a success. The goals of reducing automobile traffic, creating environmental awareness and promoting the use of public transport have been achieved. The concept is exemplary for the region and earned the Zurich Climate Award in 2011. This award recognises measures aimed at promoting energy efficiency and CO₂ emissions reductions.

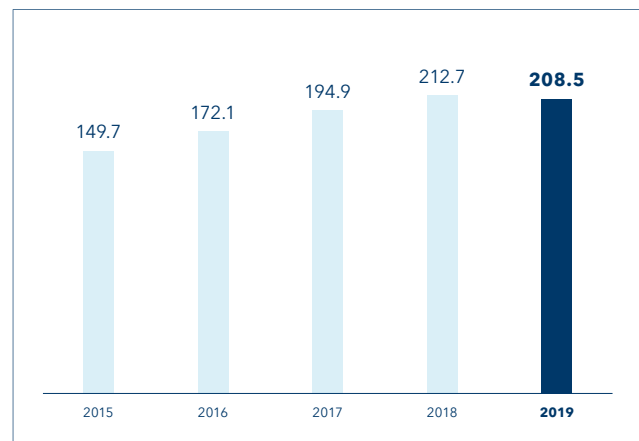
As in previous years, numerous employees participated in the 2019 “Ride to Work” challenge sponsored by the Liechtenstein Chamber of Commerce and Industry (LIHK). Employees in Liechtenstein often travel back and forth between the office buildings in Vaduz and the neighbouring town of Triesen for conferences and training. VP Bank is committed to the use of bicycles as an integral part of operational mobility. To that end, four electric bicycles were acquired in the summer of 2016 that can be used free of charge by employees and are very popular. Bus fare cards are also made available for this purpose.

Since 2019, four electric vehicle charging stations have been made available for clients and employees. In 2019 an electric vehicle was purchased for in-house travel between the office buildings in Vaduz and Triesen.

Mobility Cars (in km)



Number of kilometres (in 1,000)



Legislation and Supervisory Authorities

VP Bank Ltd, Vaduz, is constituted as a joint-stock company under Liechtenstein law. It is the parent company of VP Bank Group. The competent supervisory body in the country of its registered office is the Liechtenstein Financial Market Authority (FMA). As the registered shares A of the parent company are listed on the SIX Swiss Exchange, VP Bank is also subject to the rules and regulations issued by SIX on the basis of the legislation pertaining to stock exchanges, in particular, the Financial Market Infrastructure Law. The business activities of VP Bank Group are supervised by the local competent authorities of each country in which the Group is active through subsidiary companies, branches and/or representative offices.

General

In Liechtenstein, the activities of VP Bank are subject primarily to the Act on Banks and Securities Firms (Banking Act, FL-BankA) of 21 October 1992, as well as the Ordinance on Banks and Securities Firms (Banking Ordinance, FL-BankO) of 22 February 1994. The Banking Act lays down the framework for the supervisory activities of the FMA. The latter – together with the external banking-law auditors, who must in turn possess a licence from the FMA and are also under its supervision – constitutes the main pillar of the Liechtenstein system of supervision.

Under the Banking Act, banks and securities firms in Liechtenstein can offer a comprehensive array of financial services. The Law on Professional Due Diligence to Combat Money Laundering, Organised Crime and Terrorist Financing (Due Diligence Act, DDA) of 11 December 2008 and its related Ordinance (Due Diligence Ordinance, DDO) of 17 February 2009 – in conjunction with the article on money-laundering contained in Art. 165 of the Liechtenstein Criminal Code – constitute the relevant legal basis governing the entire financial services sector in Liechtenstein subject to the due-diligence requirements. These were revised on repeated occasions and comply with international requirements and standards.

Within the scope of its business activities, and the financial services offered by it, VP Bank must observe, in particular, the following laws and related ordinances:

- Payment Services Act (PSA);
- Law on Certain Undertakings for Collective Investments in Transferable Securities (UCITSA);
- Investment Undertakings Act, (IUA);
- Law on Alternative Investment Fund Managers (AIFMA)
- Law Governing the Disclosure of Information Relating to Issuers of Securities (Disclosure Act, DA);
- Securities Prospectus Act (SPA);
- Law Against Market Abuse in the Trading of Financial Instruments (Market Abuse Act, MAA);
- Law Governing Takeover Offers (Takeover Act, TOA);
- Act on the Recovery and Resolution of Banks and Securities Firms (Bank Recovery and Resolution Act; BRRA);
- Persons and Companies Act (PCA).

The following discusses several developments of relevance from the perspective of regulating financial markets and

related pertinent legal bases which, during the past financial year, have been revised, enacted or are likely to be of relevance in the future.

Federal Law on Financial Services (FIDLEG) as well as Federal Law on Financial Institutions (FINIG)

The FIDLEG and the FINIG entered into force on 1 January 2020, with different transition periods for different obligations. FIDLEG and FINIG represent the Swiss counterpart to the European Union's MiFID, but in many aspects, they go much less far. Among other things, they are also applicable to banks domiciled outside of Switzerland, provided that they actively serve clients in Switzerland, so that the regulation must also regularly be observed by Liechtenstein banks.

However, by complying with the MiFID provisions, Liechtenstein banks are also likely to meet the FIDLEG/FINIG requirements in most cases, so that the implementation effort is low compared to other regulations. Essential requirements are that client advisors must register in Switzerland and that banks must join an ombudsman office in Switzerland.

Deposit Protection and Investor Compensation Act (DPICA)

On 1 June 2019, the newly created Deposit Protection and Investor Compensation Act (DPICA) came into force. It implements the requirements of the Deposit Guarantee Directive, which is intended to give customers improved access to deposit guarantee schemes and thereby strengthen their confidence in financial stability in the EU and the EEA. The Directive particularly affects the Deposit Protection and Investor Compensation Foundation SV (EAS Liechtenstein). The new requirements require more comprehensive and more precisely defined coverage and shorter reimbursement periods. This results in a significant expansion of the EAS's operational activities.

From the bank's point of view, clients must be provided with an annual information sheet containing information on deposit insurance. Statements of account for the accounts concerned must also be provided with appropriate information.

Payment Services Directive 2 (PSD 2)

The previous Payment Services Directive 2007/64/EG (PSD) of the EU was repealed and replaced by the EU Directive 2015/2366 on payment services in the internal market (Payment Services Directive, PSD 2).

In comparison to the previous PSD, PSD 2 broadens the scope of application to include payments with non-EU countries as well as in foreign currencies and introduces increased obligations of transparency and informational requirements. Also, consumer protection and security requirements are to be reinforced. In addition, the Directive provides for the creation of two further types of payment

service providers and third-party providers: payment initiator service providers as well as account information service providers. If need be, banks must grant access by the latter to client accounts using special interfaces.

In view of the desired passporting for payment service providers from the EU area, the PSD 2 has already been implemented in Liechtenstein by means of national pre-adoption prior to its legally binding transposition into the EEA Agreement. The new, totally revised Payment Services Act (PSA) entered into force on 1 October 2019.

Payment Accounts Directive

On 23 July 2014, the EU issued the Directive 2014/92/EU (Payment Accounts Directive). This Directive encompasses essentially the following points:

- the right to a payment account with basic features (so-called "basic account") in order to guarantee access to a payment account (keyword "financial inclusion") by all legitimate consumers;
- transparency and comparability of fees for payment accounts (fee information and fee overview as well as a website with comparative details);
- provision of payment account exchange services by banks.

The EU Directive is still in the process of being transposed into EEA law. It should be implemented in Liechtenstein through the creation of a new Law on Payment Accounts (PAL). A corresponding Report and Motion (no. 70/2019) was published during the summer.

Blockchain Act (TVTA)

At the beginning of October 2019, the Liechtenstein Parliament passed the new Act on Token and VT Service Providers (Token and VT Service Provider Act; TVTA).

Due to the high pace of innovation in blockchain technology, the abstract term "transaction systems based on trustworthy technologies (VT systems)" was used in this Act for blockchain systems. It introduces a new legal object, the "token", to enable the mapping of the "real" world to VT systems in a legally secure manner. The law defines a legal framework for all applications of the token economy in order to ensure legal certainty for many current and future business models and to support the positive development of the token economy in Liechtenstein.

With the TVTA, Liechtenstein is one of the first countries to attempt to create a regulatory framework for Blockchain applications. The TVTA entered into force on 1 January 2020.

Mortgage Credit Directive (MCD)

The Mortgage Credit Directive (RL 2014/17/EU; "MCD") took effect in the EU on 20 March 2014 and complements the existing guidelines on consumer protection, misleading and comparative advertising as well as unfair business practices in the area of residential real-estate credits. The

Directive is designed to enhance information for consumers on mortgage and similar credit products and aims to establish a single market for residential real-estate credits.

The MCD has not yet been incorporated into the EEA Agreement and is in the final stages of the transposition process.

The Report on the public consultation process regarding the implementation of the MCD in Liechtenstein (creation of a Law on Mortgage and Housing Loans, MHLA) was published at the end of October 2019. The MHLA will most probably enter into force in Liechtenstein on 1 January 2021.

European Market Infrastructure Regulation (EMIR)/ EMIR REFIT

EMIR was incorporated into the EEA Agreement as of 1 July 2017 and the obligations arising therefrom became largely applicable in Liechtenstein as of 1 June 2018; the main exceptions are the collateral-exchange obligations for non-cleared OTC derivatives, as the incorporation of the Delegated Regulation 2016/2251 into the EEA Agreement is still pending.

EMIR REFIT (Regulatory Fitness and Performance Programmes; Regulation (EU) 2019/834) entered into force in the EU on 18 June 2019 and aims at simplifying, increasing efficiency and reducing the regulatory and administrative burden in connection with the application of EMIR. The EEA adoption of EMIR REFIT is currently pending.

Regulation on Securities Financing Transactions (SFTR)

The Regulation on the reporting of securities financing transactions and reuse thereof (SFTR, (EU) 2015/2365) is designed to enhance transparency on the market of such securities financing transactions. This applies in particular to securities lending and borrowing transactions and repo transactions. The reporting requirements for the details of securities financing transactions will begin in the EU in 2020 for the parties concerned and serve to limit risks to financial market stability. The content of SFTR reports is largely based on the reporting obligations of EMIR. The EEA adoption of the SFTR is currently pending.

Law on the Register of Beneficial Owners of Domestic Legal Entities (RBODLEA)

In order to ensure on-going compliance with guidelines and to guarantee access to international markets, the Law on the Register of Beneficial Owners of Domestic Legal Entities (RBODLEA) was enacted (LGBl. 2019 no. 8) in implementation of the 4th Money-Laundering Directive (RL 2015/849/EU).

The register, which is maintained by the Office of Justice, contains details of the beneficial owner(s) of domestic companies or other legal entities as well as trust companies within the meaning of the 4th Money-Laundering Directive.

The RBODLEA became law on the 1 August 2019 with the decision of the Joint EEA Committee concerning the transposition into law of the Directive (EU) 2015/849.

Amendment of the Criminal Code (CC) and Code of Criminal Procedure (CCP)

Due to an existing gap in criminal liability, the new offence of travelling for terrorist purposes (§ 278g Criminal Code) was introduced. In this manner, the amendment of the FATF standards was also adopted and the obligation to implement the 5th EU Money Laundering Directive was observed.

A further amendment of the Criminal Code and the Code of Criminal Procedure (LGBl. 2019 no. 122) was intended to counteract the lack of effectiveness noted in the Moneyval Country Review of Liechtenstein in 2014. The amendment includes, in particular, the extension of the list of predicate offences to all offences punishable by at least one year's imprisonment, the increase of the penal framework for qualified offences and the extension of the money laundering offences to include tax savings. In addition, amendments to the Code of Criminal Procedure have made it possible to hold a final hearing before the criminal court in the absence of the accused and to issue a conviction.

Due-Diligence Act (DDA) and Due-Diligence Ordinance (DDO)

At European level, the 5th Money Laundering Directive is due to be adopted by 2020. Amongst other things, the circle of parties subject to due-diligence obligations and the scope of application of the Directive are expanded and enhanced due diligence obligations defined with regard to high-risk countries and the use of virtual currencies. The extension of the powers of central reporting offices is also defined. Central registers or electronic data retrieval systems are to be set up to enable the prompt identification of all natural or legal persons who hold or control payment and bank accounts or safe deposit boxes at credit institutions in an EU/EEA state. As a member of the European Economic Area (EEA), Liechtenstein must ensure the implementation of all minimum requirements provided for in the Directive.

As a member of Moneyval, the Council of Europe's Committee of Experts on Combating Money Laundering and Terrorist Financing, Liechtenstein is regularly audited with respect to its compliance with international regulations, in particular the recommendations of the Financial Action Task Force (FATF) and European guidelines (directives and regulations). The next Moneyval Assessment is planned for the beginning of 2021.

Automatic Exchange of Information (AEOI)

On 1 January 2016, Liechtenstein has introduced the automatic exchange of information (AEOI). The initial AEOI reporting for the 2016 reporting period took place in 2017 and then continued accordingly in subsequent years.

As of 1 January 2020, the relevant data will be exchanged with 111 AEOI partner countries.

EU Directive of Administrative Cooperation (DAC 6)

Since Liechtenstein is not an EU member state, VP Bank Ltd is not subject to any notification obligations with respect to cross-border tax arrangements, as provided for by the sixth amendment to the EU Directive on Administrative Cooperation (DAC) effective 1 July 2020. VP Bank Ltd will closely monitor developments in this area.

Taxation of the digitised economy

On 31 May 2019, the OECD published a work programme on the tax challenges associated with the digitisation of the economy. It provides for taxation even without physical market presence (Pillar 1) and minimum taxation (Pillar 2). This work should be completed by the end of 2020. VP Bank Ltd will closely monitor developments in this area.

Guideline on Tax Compliance of the Liechtenstein Bankers' Association

On 1 November 2019, the updated directive of the Liechtenstein Bankers' Association regarding the tax compliance of its clients became effective. VP Bank Ltd has implemented this amended directive within the prescribed period.

Important links to legislation and the Liechtenstein Financial Center

Liechtenstein Investment Fund Association	www.lafv.li
Liechtenstein Bankers' Association	www.bankenverband.li
Deposit-Protection and Investor Compensation Foundation SV	www.eas-liechtenstein.li
FMA Financial Market Authority Liechtenstein	www.fma-li.li
Official Website of the Principality of Liechtenstein	www.liechtenstein.li
Body of Liechtenstein Laws	www.gesetze.li
Liechtenstein Chamber of Industry and Commerce	www.lihk.li
Liechtenstein National Administration	www.llv.li
Parliament of the Principality of Liechtenstein	www.landtag.li
Liechtenstein Chamber of Professional Trustees	www.thv.li
Association of Non-Profit Foundations and Trusts e.V.	www.vlgst.li
Association of Independent Asset Managers	www.vuvl.li
Liechtenstein Insurance Association	www.lvv.li
Liechtenstein Economics Chamber	www.wirtschaftskammer.li
Liechtenstein Association of Auditors	www.wpv.li

WORKING



ENVIRONMENT





WORKING ENVIRONMENT

We connect working and environment.

Globalisation, digitisation, demographic development and Generation Y are all familiar concepts to HR managers today. The world of work is undergoing something of a transition - one that involves a cultural shift and is redefining people's attitudes to work.

Speaking at the University of Liechtenstein, expert **Valeria Gallist** - HR Projects & Change of VP Bank - explains what the younger generation expects of the world of work, how the working environment of tomorrow is set to change and how companies will need to rethink the way they do things to remain attractive as employers.



Detailed information at
www.vpbank.com/workingenvironment

Corporate governance

Corporate Governance stands for responsible corporate management and control. The “Swiss Code of Best Practice for Corporate Governance” defines corporate governance as the entirety of principles focused on the interests of shareholders which aims to strike a healthy balance of management and control whilst maintaining decision-making capability as well as efficiency at the highest level of a company and transparency.

Good corporate governance ensures transparent management aimed at sustainable achievement. It is designed to serve not only the company but also external stakeholder groups. The overall framework of corporate governance is determined to a significant degree by the legislator and shareholders; the specific manner in which it is designed is the responsibility of the Board of Directors.

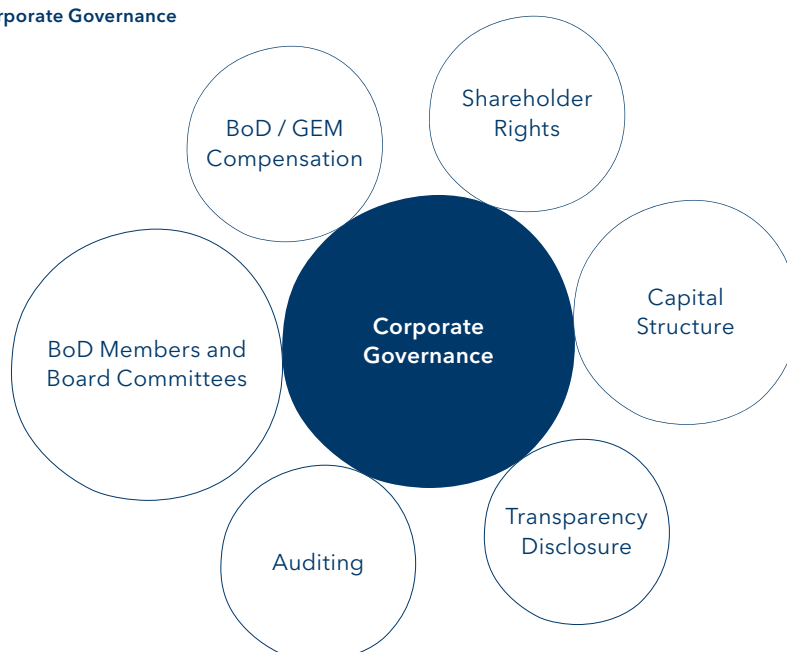
VP Bank Group strives to win the trust of all stakeholder groups. It thus acts with integrity and in a fair and transparent manner at all times and grants its stakeholder groups insight into its decision-taking and control processes. For years, it has thus published, of its own accord, information as to its strategic objectives as well as its relationships with stakeholders.

This report describes the basic principles underlying the corporate management of VP Bank Ltd, Vaduz as required by the revised “Directive on Information Relating to Corporate Governance” (DCG) of the Swiss Stock Exchange, SIX Swiss Exchange dated 20 March 2018 as well as the laws of Liechtenstein.

In Switzerland, the Ordinance against Excessive Compensation in Public Corporations (OAEC) has been in force as from 1 January 2014. It is applicable to Swiss joint-stock companies whose shares are quoted on a stock exchange in Switzerland or abroad, whereby VP Bank is not directly affected. In its Notification no. 2/2014 issued on 1 September 2014 concerning the revision of the “Directive on Information Relating to Corporate Governance” (DCG), the Regulatory Board stipulated that in principle all companies quoted on the SIX Swiss Exchange must disclose the same information concerning corporate governance. Consequently, the DCG contains in part special provisions for issuers which are not subject to the OAEC, but must apply these, in part, by analogy.

Unless otherwise indicated, all corporate-governance disclosures herein are valid as at 31 December 2019.

Functions of Corporate Governance



¹ Hereinafter referred to as VP Bank.

1. Group structure and shareholders

1.1 Group structure

1.1.1 Presentation of operating Group structure

As a joint-stock company, VP Bank is constituted in accordance with Liechtenstein law. It is the parent company of VP Bank Group. The organisation chart (→ page 16) shows the Group's operating structure and from page 92 onwards, the detailed segment reporting is set out.

The Executive Board of the parent bank is designated as "Group Executive Management (GEM)". It assumes responsibility for the operational management of the parent bank as well as assuming the function as Executive Board for VP Bank Group. The members of the Executive Board are represented on the boards of directors (BoD) of the subsidiary companies. As a general rule, either the Chief Executive Officer or another member of the Group Executive Management acts as Board Chairman of any given subsidiary company.

1.1.2 Listed companies included in the scope of consolidation

The registered shares A of VP Bank, Vaduz are listed on SIX Swiss Exchange; the B registered shares of the company are not quoted.

	ISIN	Year-end price in CHF	Market value in CHF million
Registered shares A (listed)	LI0010737216	155.00	932.3 ¹
Registered shares B (not listed)	LI0010737596	15.50	93.1
Total (market capitalisation of registered shares A plus market value of registered shares B)			1,025.4

¹ Stock-market capitalisation of listed registered shares A as of 31.12.2019

No other listed companies are included in the scope of consolidation.

1.1.3 Unlisted companies included in the scope of consolidation

Group subsidiaries and significant shareholdings included in the scope of consolidation together with their corporate name, registered office, share capital as well as the percentage of share capital held are set out in the Financial Report (→ page 163).

1.2 Significant shareholders (anchor shareholders)

As at 31 December 2019, the following shareholders have declared that they own more than 10 per cent of the share capital of VP Bank or exercise more than 5 per cent of the voting rights.

Shareholders	Registered shares A	Registered shares B	Voting rights	Voting rights as % of total	Ownership of total share capital
Stiftung Fürstl. Kommerzienrat Guido Feger, Vaduz ¹	1,066,426	4,530,047	5,596,473	46.6%	23.0%
U.M.M. Hilti-Stiftung, Schaan	577,541	658,370	1,235,911	10.3%	9.7%
Marxer Stiftung für Bank- und Unternehmenswerte, Vaduz	756,855	0	756,855	6.3%	11.4%

¹ incl. institutions controlled by the Foundation

During the financial year, no further disclosure notifications were received as foreseen by Art. 25 of the Liechtenstein Law Governing the Disclosure of Significant Shareholdings in a Listed Company and by Art. 120-124 of the Swiss Financial Market Infrastructure Act (FMIA). There exist no shareholder agreements.

² In principle, the term "Executive Board" is used in this chapter.

1.3 Cross-shareholdings

VP Bank has entered into no cross-shareholdings with other companies involving share capital or voting rights.

2. Capital structure

2.1 Share capital

The share capital of VP Bank amounts to CHF 66,154,167 and is divided into 6,015,000 fully paid-up registered shares A with a par value of CHF 10.00 each, as well as 6,004,167 registered shares B with a par value of CHF 1.00 each (see Financial Report, → page 155).

	Number	Balance as of 31.12.2019 Share capital in CHF
Registered shares A	6,015,000	60,150,000
Registered shares B	6,004,167	6,004,167
Total	12,019,167	66,154,167

2.2 Conditional and authorised capital

VP Bank has neither authorised nor conditional capital.

2.3 Changes in shareholders' equity

The total shareholders' equity of VP Bank for the past three financial years (as at the respective balance-sheet date) has developed as follows:

in CHF 1,000	31.12.2017	31.12.2018	31.12.2019
Share capital	66,154	66,154	66,154
Capital reserves	47,143	47,049	47,049
Legal reserves	239,800	239,800	239,800
Other reserves	349,225	352,286	355,667
Provisions for general banking risks	63,150	63,150	63,150
Retained earnings	136,282	134,015	156,754
Total	901,754	902,454	928,574

2.4 Shares and participation certificates

The registered shares A of VP Bank are freely tradable on SIX Swiss Exchange. The registered shares B are not listed but are widely held among the regional population. Both share categories bestow the membership rights provided for in the Liechtenstein Persons and Companies Act (PCA) and the company's Articles of Incorporation. Each registered share A (par value of CHF 10.00) and each registered share B (par value of CHF 1.00) grants the holder the right to one vote at the Annual General Meeting of VP Bank, irrespective of the par value of the share.

VP Bank has issued no participation certificates.

2.5 Profit-sharing certificates

VP Bank has issued no profit-sharing certificates.

2.6 Limitations on transferability and nominee registrations

The registration and transfer of registered shares is regulated in detail in Art. 7 of the Articles of Incorporation³. Only those shareholders entered into the share register are entitled to exercise membership rights of the company.

The Board of Directors can refuse to enter holders of registered share B into the register of shareholders on important grounds (Art. 7a of Articles of Incorporation). During the financial year, the Board of Directors did not make use of their powers of authority in this respect.

2.7 Convertible bonds and options

VP Bank has issued neither convertible bonds nor options based on its shares.

3. Board of Directors

The Board of Directors bears responsibility for the medium- to long-term strategic orientation of VP Bank Group. It is responsible for the overall management, supervision and control of the company.

Liechtenstein legislation provides for a clear separation of the overall management, supervision and control duties performed by the Board of Directors, and the duties performed by operational management. Accordingly, the Board of Directors of VP Bank consists exclusively of non-executive members (i.e. members not actively involved in management).

3.1 Members of the Board of Directors

The Board of Directors of VP Bank consists of eight members. No Board member has belonged to the Group Executive Management, the Executive Board of VP Bank or the Management of any Group company during the past three financial years.

As a bank, VP Bank maintains business relationships with numerous domestic and foreign companies. This is also true for the members of the Board of Directors as well as for individuals or legal entities that are closely related to the Board members.

The following table provides information on the names, ages, functions, joining dates and remaining terms of office of the Board members:

Name	Year of birth	Function	Joined Board of Directors in	Elected until AGM in	Committee membership
Fredy Vogt	1958	Chairman	2012	2021	Nomination & Compensation Committee ¹
Lic. oec. Markus Thomas Hilti	1951	Vice Chairman	1992	2022	Nomination & Compensation Committee
Dr Thomas R. Meier	1962	Vice Chairman	2018	2021	Strategy & Digitalisation Committee
Prof. Dr Teodoro D. Cocca	1972	Member	2011	2020	Strategy & Digitalisation Committee ¹
Dr Beat Graf	1964	Member	2014	2020	Audit Committee, Risk Committee
Lic. iur. Ursula Lang	1967	Member	2016	2022	Audit Committee, Risk Committee ¹
Dr Gabriela Maria Payer	1962	Member	2016	2022	Nomination & Compensation Committee, Strategy & Digitalisation Committee
Michael Riesen	1962	Member	2014	2020	Audit Committee ¹ , Risk Committee

¹ Chairperson

The Board members Markus Thomas Hilti, Ursula Lang and Dr Gabriela Peyer were re-elected at the Annual General Meeting of 26 April 2019 for a further term of three years. Dr Christian Camenzind no longer stood for re-election and thus retired from the Board of Directors. Dr Florian Marxer resigned from his Board membership on 20 August 2019 for personal reasons.



³ Statuten im Internet:
www.vpbank.com/
reglemente

Fredy Vogt

Born in 1958
Citizen of
Liechtenstein



Fredy Vogt is Chairman of the Board of Directors. In addition, he is Chairman of the Nomination & Compensation Committee. He participates in the meetings of the other Board Committees as a guest.

Education

1988 Swiss Certified Public Accountant
1984 Swiss Certified Expert in Accounting and Controlling

Professional background

Since 1987 VP Bank AG, Vaduz
Since 2012: Chairman of the Board of Directors
2003-2012: Chief Financial Officer (CFO) of VP Bank Group and Deputy Chief Executive Officer (CEO) of VP Bank Group, Head of the Corporate Center (Group Finance & Risk, Group Legal Services & Compliance, Group Tax Center, Group Communications & Marketing, Group Human Resources Management)
2009-2010: Chief Executive Officer (CEO) ad interim of VP Bank Group
1996-2012: Member of Group Executive Management
1994-1996: Head of the Corporate Planning and Accounting department
1990-1994: establishment and management of the Controlling department
1987-1990: Deputy Head of Internal Auditors
1985-1987 Areva Allgemeine Revisions- und Treuhand AG, Vaduz, Lead Auditor
1984-1985 Revikon Revisions- und Beratungs AG, Vaduz, Managing Director
1983-1984 Neutra Treuhand AG, St. Gallen, Auditor
1980-1983 Confida Treuhand- und Revisions AG, Vaduz, Assistant and later Department Head in the trustee operations department
1979-1980 Trevisor Treuhand- und Kontrollstellen AG, Vaduz, Assistant in the bookkeeping department
1979 Liechtensteinische Landesbank AG, Vaduz, Assistant in the credit department

Other activities and vested interests

- Chairman of the Board of Trustees of the Privatbank Personalstiftung, Vaduz
- Member of the Board of Trustees of the VP Bank Foundation, Vaduz
- Member of the Board of Trustees of the VP Bank Art Foundation, Vaduz
- Member of the Board of Trustees of the Karl Danzer Foundation, Vaduz
- Member of the Board of Directors of Helios Aviation AG, Triesen
- Member of the Executive Board of the Liechtenstein Chamber of Commerce and Industry, Vaduz

Markus Thomas Hilti

Born in 1951
Citizen of
Liechtenstein



Markus Thomas Hilti is Vice-Chairman of the Board of Directors and member of the Nomination & Compensation Committee.

Education

1976 lic. oec. degree HSG, University of St. Gallen

Professional background

Since 1990 Martin Hilti-Familientreuhänderschaft, Schaan
Since 2010: Protector of the Martin Hilti-Familientreuhänderschaft
1990-2010: Administrative Trustee of the Martin Hilti-Treuhanderschaft
1981-1990 Hilti Western Hemisphere, Tulsa (USA)
1987-1990: Member of Senior Management; responsible for product management, procurement, development and quality assurance as well as Head of the company's factory in Tulsa (USA)
1981-1987: Various posts in the fields of finance, product management and sales
1977-1980 Coopers & Lybrand, White Plains, New York (USA), Auditor

Other activities and vested interests

Trustee of U. M. M. Hilti-Stiftung, Schaan (→ point 1.2)

Dr Thomas R. Meier

Born in 1962
Citizen of
Switzerland



Dr Thomas R. Meier is Vice-Chairman of the Board of Directors and member of the Nomination & Compensation Committee and member of the Strategy & Digitalisation Committee.

Education

2017	Program for Board Members, Swiss Board School, IMP - HSG
2003	Advanced Management Program, Wharton School, University of Pennsylvania (USA)
1994	Ph.D. in Law (Dr iur.), University of Zurich
1988	Master of Laws (lic. iur.), University of Zurich

Professional background

Since 2017	TRM Consulting AG, Herrliberg, Independent Advisor
2005-2017	Bank Julius Baer & Co. Ltd., Zurich
	2015-2017: Head CSR, Chairman Julius Baer Foundation
	2007-2015: Member of the Executive Board, CEO Asia
	2005-2007: Member of the Private Banking Management Board, CEO of Asia, Middle East, Eastern Mediterranean & Eastern Europe
2004-2005	Deutsche Bank Luxembourg S.A., Luxembourg, Member of the Executive Board and Head of Private Wealth Management
1988-2004	Credit Suisse Group
	2000-2004: CEO North Asia and Branch Manager of Credit Suisse Hong Kong
	1997-1999: Market Head Private Banking Singapore
	1995-1996: Area Executive for South East Asia, Australia and New Zealand, Zurich
	1993-1994: Senior Credit Officer and Area Manager for Indonesia and Australia, Zurich
	1992-1993: Workout Specialist, Lausanne
	1988-1992: Various positions in the area of risk management and product development, Zurich

Other activities and vested interests

- Member of the Board of Directors, the Audit Committee and the Risk Committee of Leonteq AG, Zurich
- Board member of "Smiling Gecko" social enterprise (NGO), Dübendorf

Prof. Dr Teodoro D. Cocca

Born in 1972
Citizen of
Switzerland



Prof. Dr Teodoro D. Cocca is Chairman of the Strategy & Digitalisation Committee.

Education

2001	Dr oec. degree, University of Zurich
1998	lic. oec. degree, University of Zurich

Professional background

Since 2010	Swiss Finance Institute, Zurich, Adjunct Professor
Since 2006	Johannes Kepler University, Linz (Austria)
	2011-2013: Dean of the Social and Economic Sciences Faculty
	Since 2007: Member of the Research Institute for Banking and Finance
	Since 2006: Professor for Asset Management
2004-2006	University of Zurich
	2005-2006: Project Associate, Finance Group (with Prof. Thorsten Hens)
	2004-2006: Project Associate, Swiss Financial Center Watch
2003-2004	Stern School of Business, New York (USA), Research Fellow (with Prof. Ingo Walter)
2001-2005	NCCR FINRISK (National Center of Competence in Research in Finance, Project: Financial Valuation and Risk Management), Project Associate
1998-2006	Swiss Banking Institute, University of Zurich
	2001-2006: Senior Researcher
	1998-2001: Research Assistant
1995-1998	Citibank Switzerland, Zurich, Private Banking / Financial Control
1995-1996	AIIESEC Zurich, President of the Organising Committee

Other activities and vested interests

- Owner of Cocca Asset Management KG, Weisskirchen an der Traun (Austria)
- Member of the Investment Committees of various Austrian investment funds
- Member of the Advisory Board at Zertifikate Forum Austria (ZFA), Vienna (Austria)

Dr iur. Beat Graf

Born in 1964
Citizen of
Switzerland



Dr Beat Graf is a member of the Audit Committee and of the Risk Committee.

Education

- 2007 Master of Advanced Studies in Risk Management, University of Applied Sciences and Arts, Lucerne
- 1996 Dr iur. degree, University of Fribourg
- 1990 lic. iur. degree, University of Fribourg

Professional background

- Since 2004 Allgemeines Treuunternehmen (ATU), Vaduz
Since 2015: Chairman of the Council of Trustees and Board of Directors in various ATU Group companies
2012-2015: Member of management and responsible for the coordination of all ATU subsidiaries, compliance and marketing
2007-2012: Member of management and Head of Compliance
2004-2007: Head of Compliance
- 1999-2004 LM Legal Management AG, St. Gallen, Founding Partner and Managing Director
- 1991-1999 UBS AG, St. Gallen
1998-1999: Deputy Head of Legal Services Eastern Switzerland
1993-1998: Assistant in the Legal department
1991-1993: Apprenticeship as a Corporate Client Advisor

Other activities and vested interests

- Member of the Foundation Council of "Stiftung Fürstl. Kommerzienrat Guido Feger" foundation, Vaduz (→ point 1.2)
- Member of the Board of Trustees of Privatbank Personalstiftung, Vaduz

Ursula Lang

Born in 1967
Citizen of
Switzerland



Ursula Lang is Chairwoman of the Risk Committee and member of the Audit Committee.

Education

- 1996 Admission to the Swiss bar
- 1993 lic. iur. degree, University of Zurich

Professional background

- Since 2015 Self-employed attorney-at-law (specialised in Criminal Law, Commercial Criminal Law, Compliance), Zurich
- 1998-2013 Credit Suisse, Zurich
2011-2013: General Counsel for the region of Switzerland and the business area Private Banking & Wealth Management
2008-2011: Head of Compliance Switzerland and from 2009 additionally Co-Head of Global Compliance
2006-2008: Global Head of Anti-Money Laundering Compliance
2000-2006: Compliance officer at Credit Suisse Private Banking and Credit Suisse Financial Services
1998-2000: Employee of the legal department
- 1996-1998 Stiffler & Nater Rechtsanwälte, Zurich, Attorney-at-law
- 1994-1996 District Court of Horgen, Zurich, Legal trainee and clerk

Other activities and vested interests

- Member of the Board of Directors and Chairwoman of the Audit Committee of responsAbility Investments AG, Zurich

Dr Gabriela Maria Payer

Born in 1962
Citizen of
Switzerland



Dr Gabriela Maria Payer is a member of the Nomination & Compensation Committee and of the Strategy & Digitalisation Committee.

Education

- 2004** Advanced HR Executive Program at the Michigan Business School, Michigan (USA)
- 1995** Mastering Change in Financial Services at the International Institute for Management Development (IMD), Lausanne
- 1990** Dr phil. degree, University of Zurich
- 1987** Studies of Languages and Business Economics, University of Zurich (CH) and University Sorbonne, Paris (France)

Professional background

- Since 2012** PAYERPARTNER, St. Moritz, Creative Business Development, Management Consulting
- 2012-2017** Swiss Finance Institute, Zurich, Head of Education and Member of the Management Board
- 1993-2012** UBS AG, Zurich
 - 2009-2012:** Founder and Head of UBS Business University for all divisions
 - 2005-2009:** Global Head Human Resources Wealth Management & Business Banking
 - 1998-2004:** Founder and Head UBS e-banking and Marketing Technology
 - 1993-1998:** Head of Marketing and Distribution Region Switzerland
- 1990-1993** American Express, Zurich, London (England), Frankfurt (Germany), Marketing and Project Manager
- 1988-1989** Scheller Informatik Gruppe, Brugg, Head of Communication
- 1984-1987** IBM Schweiz, Zurich, student trainee

Other activities and vested interests

- Chairwoman of the Board of Directors, SGO Stiftung Gesundheitsversorgung Oberengadin, Samedan
- Vice Chairwoman of the Board of Directors, Chairwoman of Nomination and Compensation Committee and Member of Audit and Risk Committee, SYGNUM, Zurich, Switzerland and Singapore
- Member of the Board of Directors, Chairwoman of the Nomination and Compensation Committee and Member of the Investment and Risk Committee, Helvetia Group AG, St. Gallen
- Member of the Advisory Board, Swiss Leadership Forum
- Member of the Advisory Board, "CAS in General Management für Verwaltungsräte", University of Berne
- Member of the Advisory Board, Center for Human Resource Management, University of Lucerne

Michael Riesen

Born in 1962
Citizen of
Switzerland



Michael Riesen is Chairman of the Audit Committee and member of the Risk Committee.

Education

- 1992** Swiss Certified Public Accountant
- 1988** Swiss Certified Trustee with Federal Diploma
- 1985** Swiss Certified Business Economist HKG

Professional background

- Since 2014** independent management consultant
- 1987-2013** Ernst & Young Ltd, Zurich
 - Review and advisory services for complex national and international financial institutions (since 1995 as Lead Auditor of banks and collective investments licensed by the FINMA, since 1998 as Partner of Ernst & Young).
 - 2010-2012:** Sponsoring Partner of the global programme "Assessment of Service Quality (ASQ)" of Ernst & Young EMEIA Sub-Area Financial Services
 - 2008-2012:** Managing Partner Quality & Risk Management as well as member of the Management Committee of Ernst & Young EMEIA Sub-Area Financial Services
 - 2008-2010:** Managing Partner Financial Services and a member of the Board of Management
 - 2006-2008:** Country Managing Partner Assurance Financial Services as well as member of the Board of Management
 - 2005-2006:** Head Assurance Financial Services as well as member of management
 - 2004:** Head of an Assurance Financial Services unit
 - 2000-2003:** Head Professional Practice Banking Audit
- 1985-1987** Schweizerische Bundesbahnen (Swiss Federal Railways), Organisation & Audit department, Berne, Internal Auditor
- 1981-1984** Municipality of Steffisburg, Municipal clerk
- 1980-1981** Energy- and Transport Operations, City of Thun, Member of the Natural Gas Conversion project team

Other activities and vested interests

None

3.2 Other activities and vested interests

Details of other activities of the Board members and any vested interests may be found in their biographies in section 3.1.

3.3 Number of authorised activities

VP Bank is not subject to the Swiss Ordinance against Excessive Compensation in Public Corporations (OAEC). From that point of view, it has not issued any statutory rules concerning the number of authorised activities.

3.4 Election and term of office

Details concerning the election and terms of office of the current members of the Board of Directors can be found in the analysis shown in Point 3.1. Pursuant to Art. 16 of the Articles of Incorporation, the Board of Directors shall comprise at least five members who are elected for a term of three years. The members of the Board of Directors are elected individually (re-election is permitted).

The Board of Directors elects the Chairman and Vice-Chairman from amongst its members for a term of three years (re-election is permitted).

3.5 Internal organisation

The internal organisation and modus operandi of the Board of Directors are set out in the Articles of Incorporation (Arts. 17 to 19) and in the Organisation and Business Rules (OBR Sections 2 to 4).

In collaboration with the Executive Board, the Board of Directors annually reviews the Group's strategy in keeping with the provisions of the Articles of Incorporation and OBR and establishes the medium- and long-term objectives as well as the management guidelines of VP Bank Group. The Board of Directors decides on the annual budget proposed by the Executive Board for the parent bank and Group, on strategically important projects, on consolidated and individual-company financial statements, as well as on important personnel-related issues.

3.5.1 Division of tasks within the Board of Directors

The Chairman - or, in his absence, the Vice-Chairman - conducts, in the name of the Board of Directors, the direct supervision and control of the Executive Board and Group Executive Management. To be able to fulfil its duties in an optimal manner, the Board of Directors is supported by four committees: Nomination & Compensation Committee, Audit Committee, Risk Committee and Strategy & Digitalisation Committee.

3.5.2 Composition, tasks and powers of authority of the Board committees

The tasks, powers of authority, rights and obligations of the various Committees are laid down in the Organisation and Business Rules. In addition, the functions of the Audit Committee, the Strategy & Digitalisation Committee and the Risk Committee are governed by way of separate business regulations.

Minutes for the attention of the Board of Directors are kept on the meetings and the matters dealt with by the committees at their respective meetings. In addition, the committee chairpersons inform the Board of Directors at the following Board meeting about all important matters as part of a standard agenda item

Nomination & Compensation Committee

The Nomination & Compensation Committee comprises the following members: Fredy Vogt (Chairman), Markus Thomas Hilti, Dr Thomas R. Meier and Dr Gabriela Maria Payer. Pursuant to chapter 3.2 OBR, the Committee is primarily responsible for the following tasks:

- assisting the Chairman of the Board of Directors in the fulfilment of his management and coordination duties, as well as the entire Board of Directors on matters of corporate governance, organisation and monitoring of business developments;
- defining the criteria for the election of Board members; performing the evaluation and submitting the related motions to the Board of Directors;
- submitting motions to the Board of Directors on the composition of the Committees of the Board of Directors;
- preparing and submitting motions to the Board of Directors concerning the appointment of the Chief Executive Officer and - in collaboration with the Chief Executive Officer - of the remaining members of the Executive Board;
- submitting proposals to the Board as to the compensation to be paid to the members of the Executive Board;
- dealing with fundamental issues concerning personnel policy (e.g. salary and equity-participation systems, management development, succession planning, staff welfare benefits) for the attention of the Board of Directors;
- submitting motions to the Board with regard to the compensation paid to the Chairman and other members of the Board of Directors.



⁴ The Organisation and Business Rules in the Internet: www.vpbank.com/regulations

Audit Committee

The Audit Committee comprises Michael Riesen (Chairman), Dr Beat Graf and Ursula Lang. The Audit Committee assists the Board of Directors in fulfilling the duties assigned to it under the Banking Act regarding the overall management, supervision and control of the parent bank and of VP Bank Group. The Audit Committee is responsible in particular for the following tasks (pursuant to OBR Section 3.3):

- receiving and dealing with the reports of Group Internal Audit and the Banking-Law Auditors as well as assessing the appropriateness of the procedures deployed to remedy the pending items arising from the audit;
- critically assessing financial reporting as well as discussion thereof with the CFO, the Head of Group Internal Audit and representatives of the Banking-Law Auditors;
- deciding whether the individual company and consolidated financial statements can be recommended to the Board of Directors for submission to the Annual General Meeting of shareholders;
- assessing the implementation of the tax strategy of the Bank;
- assessing the functional capability of the internal control system;
- assessing the measures taken designed to ensure compliance with and observance of legal (e.g. compliance with capital-adequacy, liquidity and risk-diversification provisions) and internal provisions (compliance);
- taking note of significant interactions with the respective supervisory authorities and assessing the measures taken to implement any conditions imposed as well as assessing the appropriateness of the procedures implemented to ensure compliance with regulatory conditions imposed and of remedial action taken;
- assessing the quality of the internal and external auditors, as well as the collaboration between the two sets of auditors;
- setting the multi-year audit plan of Group Internal Audit, as well as informing themselves as to and discussing the audit planning of the Group and Banking-Law auditors;
- assessing the performance, fees paid to and independence of the external auditors, especially in terms of the compatibility of their auditing activities with any advisory mandates they may have;
- advising the Board of Directors on the appointment and removal of external auditors;
- submitting motions to the Board of Directors for the appointment and removal of the Head of Group Internal Audit;
- advising the Board of Directors on the appointment and removal of the Chief Financial Officer.

Risk Committee

Ursula Lang (Chairwoman), Dr Beat Graf and Michael Riesen belong to the Risk Committee. The Risk Committee assists the Board of Directors in fulfilling the tasks assigned to it under the Banking Act regarding the overall management, supervision and control of the parent bank and of VP Bank Group. The Risk Committee is responsible in particular for the following tasks (pursuant to OBR Section 3.4):

- receiving and dealing with the reports of Group Risk as well as assessing the appropriateness of procedures deployed to manage and monitor risks;
- critically assessing financial, business, reputational and operational risks as well as discussing these with the Chief Risk Officer and the Head of Group Risk;
- assessing the functional capability of risk management and monitoring as well as of the internal control system;
- assessing the measures taken designed to ensure compliance with and observance of legal (e.g. compliance with capital-adequacy, liquidity and risk-diversification provisions) and internal provisions (compliance);
- assessing the quality (effectiveness) of risk governance as well as the cooperation between Risk Management, Risk Monitoring, Group Executive Management, Risk Committee and the Board of Directors;
- assessment as to whether the business model and the risk strategy of the Bank has been considered appropriately in the pricing of liabilities offered and assets and, insofar as this is not the case, the submission of a plan of remedial action;
- evaluating whether the incentives offered as part of the system of remuneration consider the risk, equity, liquidity as well as the probability and timing of revenues;
- advising the Board of Directors on the appointment or removal of the Chief Risk Officer.

Strategy & Digitalisation Committee

Prof. Dr Teodoro D. Cocca (Chairman), Dr Thomas R. Meier und Dr Gabriela Maria Payer belong to the Strategy & Digitalisation Committee. The Strategy & Digitalisation Committee assists and advises the Board on strategic issues and projects. The following tasks, in particular, are incumbent on it (in accordance with OBR Section 3.5):

- preparation of strategic issues for the attention of the Board of Directors;
- in-depth handling of strategic issues (e.g. digitisation in banking);
- ensuring on-going steering and management processes in the area of strategy;
- review (periodically and on an ad-hoc basis) of strategy (strategy review);
- review of implementation of strategic measures (strategy controlling);
- ensuring strategy is well embedded within the bank;
- examining the strategic fit of mergers, acquisitions, cooperation partnerships, business cases etc.;
- raising the outward and market orientation as well as the innovative capacity of the bank.

3.5.3 Modus operandi of the Board of Directors and its Committees

At the invitation of the Chairman, the Board of Directors normally meets eight to ten times per year as well as for one strategy meeting in camera. In principle, the meetings consist of three parts:

- a Board-internal part;
- a consultative part during which members of the Executive Board and Group Executive Management are also in attendance to present their proposals and exchange information;
- a decision-taking part during which the Board of Directors arrives at its decisions. In order to be informed at first-hand, the CEO is also present during the decision-taking part of Board of Directors' meetings.

Specific topics addressed by the Board of Directors and its committees can require, when needed, that further individuals are called upon to attend (executives of VP Bank Group, representatives of the Banking-Law Auditors, as well as internal or external specialists and advisors). During 2019, the entire Board of Directors held eight ordinary meetings and three extraordinary meetings. In addition, the Board of Directors and Executive Board jointly conducted two full-day strategy workshops.

The Nomination & Compensation Committee usually meets six to ten times per annum. When required, the CEO participates in the Nomination & Compensation Committee meetings in an advisory capacity. During 2019, the Nomination & Compensation Committee met on a total of nine occasions.

The Audit Committee usually meets on five to eight occasions per annum, with the meeting dates being set to accommodate the needs arising from specific tasks (closing of accounts, financial reporting, Auditors' reports, etc.). The CFO, the General Counsel & Chief Risk Officer and the Head of Group Internal Audit attend the meetings. For the purpose of addressing audit-specific topics, representatives of the external auditing firm (as a general rule, the Auditor-in-Charge) attend the meetings. Last year, the Audit Committee convened for seven ordinary meetings and one extraordinary meeting. At one joint meeting with the Risk Committee, an exchange of information took place with the Executive Board regarding the quality of internal control systems and other matters.

The Risk Committee usually meets on five to eight occasions per annum. The General Counsel & Chief Risk Officer, the CFO and the Head of Group Internal Audit attend the meetings. Last year, the Risk Committee met for seven ordinary meetings. At one joint meeting with the Audit Committee, an exchange of information took place with the Executive Board regarding the quality of internal control systems and other matters.

The Strategy & Digitalisation Committee usually meets on six to eight occasions per annum. The CEO, and representatives of the Group Executive Board attend the meetings. In 2019, the Strategy & Digitalisation Committee met for a total of six meetings.

Name	Board of Directors	Nomination & Compensation Committee	Audit Committee	Risk Committee	Strategy & Digitalisation Committee
Number of meetings	13	9	8	7	6
Fredy Vogt	13	9	8	6	6
Lic. oec. Markus Thomas Hilti	12	9			
Dr Thomas R. Meier	11	7			6
Dr Christian Camenzind ¹	4				1
Prof. Dr Teodoro D. Cocca	12				6
Dr Beat Graf	13		8	7	
Lic. iur. Ursula Lang	13		8	7	
Dr Florian Marxer ²	9				4
Dr Gabriela Maria Payer	11	9			6
Michael Riesen	13		8	7	

¹ Board member until 26 April 2019

² Board member until 20 August 2019

Chairman emeritus

Fürstlicher Kommerzienrat Dr Heinz Batliner, Vaduz, has been Chairman Emeritus of VP Bank since 1996. The Board of Directors bestowed this honorary title upon him for his services to VP Bank. From 1961 to 1990, Dr Heinz Batliner was Manager/General Manager and Head of the Management Board, and from 1990 through 1996, Chairman of the Board of Directors.

3.6 Regulations governing responsibilities and powers of authority

The Board of Directors is the corporate body in charge of overall management, supervision and control of the Executive Board. It bears ultimate responsibility for the strategic direction of VP Bank Group. The powers and duties of the Board of Directors are laid down in detail in Art. 17 of the Articles of Incorporation as well as in Section 2.2-2.4 OBR. The tasks and competencies of the four Board committees are described in Section 3 OBR.

The Board of Directors has delegated to the Executive Board the responsibility for the operational management of VP Bank as well as the overall management, supervision and control of the subsidiary companies of VP Bank Group. The tasks and competencies of the Executive Board are laid down in the Articles of Incorporation (Art. 21) and in the OBR. The OBR contains more detailed provisions regarding the Executive Board/Group Executive Management in Section 5 thereof.

The segregation of functions between the Board of Directors and the Executive Board / Group Executive Management is also evident in the organisational chart (→ page 16).

3.7 Information and control instruments vis-à-vis Executive Board and Group Executive Management

The Board of Directors and its committees have at their disposal various informational and control instruments for managing and supervising the activities of the Executive Board. Among those instruments are the strategy process, medium-term planning, the budgeting process and reporting.

The members of the Board of Directors regularly receive various reports: monthly financial reports (individual-company and Group basis), risk-controlling reports, as well as periodic reports on the semi-annual and annual financial statements (consolidated and individual company accounts). These also include qualitative information, as well as budget variances, period-specific and multiyear comparisons, key performance indicators and risk analyses, all of which cover the parent bank, the subsidiaries and the Group in aggregate. These reports enable the Board of Directors at all times to gain a picture of significant developments and the risk situation. Those reports that lie within the scope of tasks of the Audit or Risk Committees are dealt with by the respective committee and corresponding motions are forwarded to the Board of Directors for approval. The most recent reports undergo a comprehensive review at each Board meeting.

The Board of Directors reviews twice a year the implementation of business strategies and strategy controlling on the basis of the reporting by the Executive Board.

A further important instrument to assist the Board of Directors in fulfilling its supervisory and control function is Internal Audit which conducts its activities in compliance with the internationally recognised standards of the Swiss Association of Internal Auditors and the Institute of Internal Auditors (IIA). The duties and powers of Internal Audit are laid down in a specific set of rules. As an independent body, it examines, in particular, the internal control systems, management processes and risk management

The Chairman of the Board receives all minutes of the Executive Board meetings. In addition, he exchanges information with the CEO on a weekly basis as well as regularly with the other Executive Board members.

4. Executive Board and Group Executive Management

The Executive Board is responsible for the operational management of the parent company and, at the same time, for the management of VP Bank Group and is designated as Group Executive Management. Its tasks and competencies are specified in the OBR as well as in the functional descriptions for the individual members of the Executive Board. The head of the Executive Board (CEO) is responsible for the overall management of the Group and Group-wide coordination.

The Executive Board members generally meet every two weeks for a half-day session. Additional meetings and workshops are held on strategy and corporate developments, as well as for dealing with annual planning, budgeting and other current issues.

4.1 Members of the Executive Board and Group Executive Management

As at 31 December 2019, the Executive Board and Group Executive Management were made up of the following individuals:

Name	Year of birth	Functions	At VP Bank since	Member since
Paul H. Arni	1964	Chief Executive Officer (CEO)	2019	2019
Siegbert Näscher	1965	Chief Financial Officer (CFO), Stellvertreter des CEO	2010	2012
Dr Felix Brill	1979	Chief Investment Officer (CIO)	2018	2018
Christoph Mauchle	1961	Head of Client Business	2013	2013
Dr Urs Monstein	1962	Chief Operating Officer (COO)	2018	2018
Monica Vicandi	1967	General Counsel & Chief Risk Officer (CRO)	2011	2017

At the end of January 2019, Alfred W. Moeckli resigned his position as CEO and left VP Bank Group. As of October 1, 2019, his successor, Paul H. Arni, took up his position as CEO. In the meantime, Dr Urs Monstein had assumed the leadership ad interim of the Executive Board and Group Executive Management.

Paul H. Arni

Born in 1964
Citizen of
Switzerland



Paul H. Arni is Chief Executive Officer (CEO) of VP Bank Group (Segment reporting, → page 92 ff.).

Training

- 2006 AMP Advanced Management Program, The Wharton School at the University of Pennsylvania (USA)
- 2002 Master of Business Administration MBA, University of Berne, Switzerland and University of Rochester (USA)
- 1999 Postgraduate Diploma in Bank Management, IFZ Institute for Financial Services Zug
- 1995 Controller Diploma, Controller Academy, Zurich and SIB Swiss Institute of Economics, Zurich
- 1990 Business Economist FH, University of Applied Sciences Zurich

Professional career

- Since 2019 VP Bank Ltd, Vaduz, Chief Executive Officer
- 2017-2019 Deutsche Bank (Switzerland) AG, Zurich, Head Wealth Management Switzerland and Member of the Board of Management
- 2014-2017 Bank Julius Baer & Co. AG, Zurich, Market Head Zurich, Deputy Regional Manager Switzerland, Member of the Management Advisory Board
- 2008-2014 Credit Suisse AG, Zurich
 - 2012-2014: Global COO Private Banking
 - 2008-2012: Regional Head Zurich and Head Private Banking Switzerland for the Zurich Region
- 1993-2008 UBS AG, Zurich
 - 2007-2008: Regional Head Wealth Management & Business Banking Mittelland, Bern
 - 2003-2007: Head Management Support, Wealth Management Switzerland
 - 1999-2003: Head Controlling for various business units
 - 1998-1999: Integration Office Switzerland during the UBS/SBC merger
 - 1993-1998: Controller/Team Head Controlling Retail Banking
- 1991-1993 BMW (Switzerland) AG, Dielsdorf, Dealership Business Consultant and Sales Zone Manager for the Zurich Region
- 1985-1990 PBZ Privatbank, Zurich, Assistant to the Board of Management and employee in the Capital Markets Department

Other activities and vested interests

None

Siegbert Näscher

Born in 1965
Citizen of
Liechtenstein



Siegbert Näscher is Chief Financial Officer (CFO) of VP Bank Group and Deputy Chief Executive Officer (Segment reporting, → page 92 ff.).

Education

- 2003 Executive Programme at the Swiss Banking School
- 1996 Swiss-certified auditor
- 1993 Swiss-certified expert in accounting and controlling

Professional background

- Since 2010 VP Bank Ltd, Vaduz
 - Since 2013: Chief Financial Officer (CFO) and deputy to the Chief Executive Officer
 - 2012-2013: Chief Executive Officer (CEO) a.i., Chief Financial Officer (CFO) and Head of Corporate Center
 - 2012: Chief Financial Officer (CFO), deputy to the Chief Executive Officer and Head of Corporate Center
 - 2010-2012: Head of Group Finance & Risk
- 1998-2010 Liechtensteinische Landesbank AG, Vaduz, Head of Group Finance & Risk
- 1994-1998 Schoeller Textil AG, Sevelen, Head of Finance and Controlling
- 1992-1994 Rieter Maschinenfabrik AG, Winterthur, Controller
- 1991-1992 Schild Mode AG, Lucerne, Deputy Head of Finance and Accounting
- 1987-1991 ReviTrust Treuhand AG, Schaan, Accounting and auditing
- 1982-1987 Bank in Liechtenstein AG, Vaduz, Accounting

Other activities and vested interests

- Chairman of the Board of Trustees of Treuhand-Personalstiftung, Vaduz
- Member of the Board of Trustees of Privatbank-Personalstiftung, Vaduz
- Chairman of the Board of Data Info Services AG, Vaduz
- Chairman of the Board of Trustees of the Deposit Guarantee and Investor Compensation Foundation PCC, Vaduz
- Member of the Finance and Tax Experts' Committee of the Liechtenstein Chamber of Commerce and Industry, Vaduz

Dr Felix Brill

Born in 1979
Citizen of Germany
and Switzerland



Dr Felix Brill is Chief Investment Officer (CIO) of VP Bank Group (Segment reporting, → page 92 ff.).

Education

- 2011** PhD in Economics, University of Berne and Study Center Gerzensee
- 2006** M.A. HSG in Economics, University of St. Gallen and Stockholm School of Economics (Sweden)
- 2001** Intermediate diploma in Physics, University of Heidelberg (Germany)

Professional background

- Since 2018** VP Bank Ltd, Vaduz, Chief Investment Officer (CIO)
- 2009-2017** Wellershoff & Partners Ltd., Zurich
2015-2017: Chief Executive Officer (CEO)
2009-2015: Founding Partner and Chief Economist
- 2006-2009** UBS Wealth Management Research, Zurich
2007-2009: Head of Economic Research Switzerland
2006-2007: Graduate Trainee Program (Zurich, New York)

Other activities and vested interests

- Member of the Board of Trustees of Treuhand-Personalstiftung, Vaduz

Christoph Mauchle

Born in 1961
Citizen of
Switzerland



Christoph Mauchle is Head of Client Business of VP Bank Group (Segment reporting, → page 92 ff.).

Education

- 2007** Advanced Management Program, Kellogg School of Management, Northwestern University, Evanston (USA)
- 1999** Certified Financial Planner CFP
- 1998** INSEAD Management Program in Business Administration and Management, INSEAD, Fontainebleau (France)
- 1986** MA Economics, College of Advanced Economics and Administration (HWV) St. Gallen

Professional background

- Since 2013** VP Bank Ltd, Vaduz, Head of Client Business
- 1992-2013** Credit Suisse
2008-2012: Head Private Banking Germany, Austria and Luxembourg
2001-2008: Head Private Banking and Region Zurich
1998-2001: Head External Asset Managers
1997-1998: Head Competence Center Eastern Switzerland
1995-1997: Sector Head Private Banking St. Gallen
1992-1995: Sector Head Individual Clients Zurich
- 1989-1992** Bank Vontobel, Zurich, Chief of Staff Private Banking
- 1986-1989** Brown Brothers Harriman & Co., New York (USA), Research Analyst and Account Manager Institutional Sales
- 1980-1983** Union Bank of Switzerland, St. Gallen, Assistant Private Banking

Other activities and vested interests

None

Dr Urs Monstein

Born in 1962
Citizen of
Switzerland



Dr Urs Monstein is Chief Operating Officer of VP Bank Group (Segment reporting, → page 92 ff.).

Education

1996	Swiss Banking School, Zurich
1994	Dr iur., St. Gallen University
1991	Lic. oec., St. Gallen University
1988	Lic. iur., St. Gallen University

Professional background

Since 2018	VP Bank Ltd, Vaduz Since Oct. 2018: Chief Operating Officer (COO) Feb.-Sep. 2019: Chief Executive Officer (CEO) a.i., Chief Operating Officer (COO)
2006-2017	Bank Julius Baer & Co. AG, Zurich 2012-2017: Global Head IT / Chief Information Officer 2010-2011: Head Strategic Programs 2008-2009: COO International / Program Manager 2006-2007: Program Manager Strategic Initiatives
2004-2006	Bank Ehinger & Armand von Ernst, Zurich, Chief Operating Officer, Member of the Board of Management
1998-2003	UBS Group AG, Zurich 2001-2003: Head Strategic Project Management 2000-2001: Head Private Banking Services Switzerland 1998-1999: Project Manager Migration Private Banking Switzerland
1992-1997	Union Bank of Switzerland, Zurich 1996-1997: Head of the Investment Clients and Securities Administration Unit 1995-1996: Training placement Corporate Clients, Geneva 1993-1995: Assistant to the Chairman of the Board of Management Switzerland Region 1992-1993: Controlling Region Switzerland
1987-1990	University of St. Gallen, Research Assistant (tax law, public law)

Other activities and vested interests

None

Monika Vicandi

Born in 1967
Citizen of
Switzerland



Monika Vicandi is General Counsel and Chief Risk Officer (CRO) of VP Bank Group (Segment reporting, → page 92 ff.)

Education

2019	Certified Global Negotiator (CGN-HSG), HSG University of St. Gallen
2017	Certificate of Advanced Studies FHNW Risk Management, FHNW School of Business, Basel
2014	LL.M. in International Taxation, University of Liechtenstein
2009	Management for the Legal Profession (MLP-HSG), HSG ad-vanced studies degree, University of St. Gallen
1999	Master of Laws, LL.M., University of Minnesota, Minneapolis (USA)
1996	Admission to the Swiss bar
1992	Law studies, University of Zurich

Professional background

Since 2011	VP Bank Ltd, Vaduz, Liechtenstein Since 2017: Member of the Group Executive Management, General Counsel & Chief Risk Officer 2015-2016: Group General Counsel 2015: By order of VP Bank Ltd: Chief Executive Officer at Centrum Bank Ltd, Vaduz 2011-2015: Head of Group Legal, Compliance & Tax
2002-2011	Union Bancaire Privée, Zurich, Head of Legal & Compliance
2000-2002	Discount Bank and Trust Company, Zurich, Head of Legal, Trust and Compliance Division
1999-2000	Winterthur International, Winterthur, Legal Counsel in the Legal & Claims Management department
1998	KS Kaderschule Zürich, Lecturer in Law
1996-1998	Winterthur Versicherung (International Division), Winterthur, Legal Counsel Claims Management
1994-1998	Betriebs- und Verwaltungsschule Winterthur, Lecturer in Law
1993-1994	Hinwil District Court, Court secretary / auditor

Other activities and vested interests

- Member of the Board at Liechtenstein Bankers Association, Vaduz
- Member of the Legal & Compliance Expert Group at the Liechtenstein Chamber of Commerce and Industry, Vaduz

4.2 Other activities and vested interests

The other activities of the Executive Board members and any relevant vested interests can be found in the biographies in Point 4.1.

4.3 Number of authorised activities

VP Bank is not subject to the Swiss Ordinance against Excessive Compensation in Public Corporations (OAEC). From that point of view, it has not issued any statutory rules concerning the number of authorised activities.

4.4 Management contracts

VP Bank has no management contracts with third parties that involve the delegation of management functions.

5. Compensation, participations and loans

5.1 Content and process to determine compensation and equity-participation programmes

The details and procedures to determine compensation and of the equity-participation programmes of the Board of Directors and Executive Board are described in the Remuneration Report (→ page 84 ff.).

5.2 Transparency of compensation, shareholdings and loans from foreign-domiciled issuers

As a SIX Swiss Exchange-listed issuer domiciled outside Switzerland, VP Bank discloses information on compensation, shareholdings and loans as provided for in Article 5.3 of the Appendix to the Corporate Governance Directive dated 20 March 2018, i.e. by analogy to Art. 14-16 OAEC. The details in this regard can be found in the Financial Report, individual company accounts of VP Bank Ltd, Vaduz (→ page 178 f.).

6. Shareholders' participation rights

6.1 Voting right restrictions and proxies

Each registered share grants the holder the right to one vote at the Annual General Meeting of VP Bank, irrespective of the par value of the shares. Each shareholder may either attend in person or be represented by another shareholder by means of a written proxy. There are no voting right restrictions or statutory group clauses.

6.2 Statutory quorums

Amendments to the Articles of Incorporation regarding a change in the ratio of the registered shares A to registered shares B (Articles of Incorporation, Art. 4 par. 2) as well as to the provisions governing the restriction on registration of B registered shares (Articles of Incorporation, Art. 7a par. 1) require the approval of at least a two-thirds' majority of all shares issued by VP Bank (Articles of Incorporation, Art. 14 par. 4).

6.3 Convocation of Annual General Meeting

Convocation of the Annual General Meeting is made in accordance with the provisions of law and the Articles of Incorporation (Art. 11).

6.4 Agenda items

The agenda for the Annual General Meeting is based upon the provisions of law and those of the Articles of Incorporation (Arts. 11 to 14).

6.5 Entries in share register/invitation to the Annual General Meeting

Registered shares are inscribed into the share register with the name, citizenship, address and date of birth of the owner. Only registered shareholders are entitled to exercise shareholder rights vis-à-vis the company.

Registered shareholders who have been inscribed into the share register receive an invitation to the Annual General Meeting, including the agenda, sent to the address known to VP Bank. Upon successful registration, shareholders receive an entry pass together with the relevant voting material.

The invitation to the Annual General Meeting is also published in the Liechtenstein newspapers and the Swiss financial press.

7. Change of control and defensive measures

As VP Bank Ltd is a licensed bank domiciled in Liechtenstein whose shares are quoted on the SIX Swiss Exchange, it also must observe several Swiss regulations, in addition to the Liechtenstein prescriptions. The former include, in particular, the provisions regarding the disclosure of significant shareholders which are included in the Financial Market Infrastructure Act (FMIA) and the related Financial Market Infrastructure Ordinance (FMIO). Consequently, shareholders are to make ad-hoc notification to both the SIX Swiss Exchange and VP Bank Ltd whenever the defined thresholds are crossed.

The Articles of Incorporation of VP Bank contain no comparable regulations as to «opting-out» and «opting-in» as reflected in the Swiss regulations. Neither do any change of control clauses exist in favour of the members of the Board of Directors or the Executive Board or the Group Executive Management. The provisions of the Liechtenstein Act on Takeovers (TOA) apply.

8. Auditors

8.1 Duration of mandate and term of office of the lead auditor

Ernst & Young Ltd, Berne, has acted as auditor of VP Bank since 1956 (in accordance with PCA⁵) and since 1994 as Group auditor of VP Bank Group. In addition, Ernst & Young Ltd performs the mandate as Banking-Law auditor pursuant to the Liechtenstein Banking Act (FL-BankA Art. 37 ff.). The function of the Auditor-in-Charge has been assumed by Mr. Philipp de Boer since 2018.

The auditing mandate for Ernst & Young AG, Berne, will end after the close of the 2019 financial year. For reasons of corporate governance and with a view to the introduction of a mandatory rotation principle, PricewaterhouseCoopers AG, Zurich, were appointed as Group and statutory auditors for the 2020 financial year following the proposal of the Board of Directors at the Annual General Meeting of 26 April 2019.

8.2 Audit fee

in CHF 1,000	2019	2018
Audit of annual financial statements	945	955
Other audit-related and certification services	479	300
Total	1,424	1,255

8.3 Additional fees

in CHF 1,000	2019	2018
Tax-advisory services		
Other services	22	79
of which audit-related services	20	78
of which legal services		
of which other advisory services	2	1
Total	22	79

⁵ Persons and Companies Act of the Principality of Liechtenstein.

When assigning additional tasks to the external auditors, the Bank ensures that these services are compatible with the activities of the external auditors and do not lead to conflicts of interest.

8.4 Supervisory and control instruments in relation to the external audit

The Audit Committee reviews the multi-year audit planning as well as the planned annual auditing activities and, in a specific agenda item, discusses these with the Auditor-in-Charge from the external auditing firm as well as the Head of Group Internal Audit. The Audit Committee attaches particular importance to a risk-oriented approach in the planning and conduct of the audit, as well as appropriate coordination of the auditing activities of the external auditors with those of Internal Audit.

All reports of the external auditors are reviewed at the meetings of the Audit Committee. In 2019, the external auditors were present at all meetings of the Audit Committee in which external audit-related items were on the agenda. In addition, the Auditor-in-Charge was in attendance at the Board of Director's meeting to present and deal with the Banking-Law Auditors' Report.

Each year, the Audit Committee assesses and evaluates the effectiveness and independence of the external auditors. In this process, it bases itself on documents generated by the external auditors, such as the Auditors' Report prescribed under the Banking Act, management letters, as well as oral and written statements of position on individual issues and technical questions in connection with financial-statement reporting and the audit. Furthermore, a systematic annual assessment is made on the basis of checklists and fee comparisons within the auditing segment. Based on this evaluation, a motion is submitted to the Board of Directors for the attention of the Annual General Meeting as regards the election of the external auditors and Group auditors.

9. Information policy

All announcements of VP Bank required by law are made in a legally binding manner in the official Liechtenstein publication media (Articles of Incorporation, Art. 25 section 1).

VP Bank informs shareholders and capital-market participants in an open, comprehensive and timely manner. Its information policy is based on the principle of equal treatment of all capital-market participants. VP Bank informs shareholders and capital-market participants by means of detailed annual and semi-annual reports, which are drawn up for VP Bank Group in accordance with International Financial Reporting Standards (IFRS), as well as via media releases concerning the latest changes and developments. As a company listed on SIX Swiss Exchange, VP Bank is also subject in particular to the obligation to immediately publicise any price-sensitive events (ad hoc publicity obligation).

Agenda

Annual General Meeting: 24 April 2020

Semi-annual report 2020: 18 August 2020

Investors and other interested parties can find additional information on the Bank as well as the Articles of Incorporation, OBR, and further publications on the website www.vpbank.com.

Contact

VP Bank Ltd
 Mrs. Cécile Bachmann
 Head of Group Communications & Marketing
 Aeulestrasse 6 · LI-9490 Vaduz
 T +423 235 67 62 · F +423 235 66 20
investor.relations@vpbank.com
www.vpbank.com

Compensation Report

Regulatory framework

The basis of this compensation report of VP Bank is the implementation of the EU Regulation No. 575/2013 (with reference to EU Directive 2013/36/EU CRD IV), which, amongst other things, regulates the risks associated with compensation policies and practices.

On the one hand, Liechtenstein has implemented this Regulation in the Law on Banks and Securities Firms, in particular in Art. 7a Par. 6 thereof: «Banks and securities firms shall introduce a compensation policy and practices and shall ensure continuously that they are consistent with robust and effective risk management within the spirit of this Article. The Government has regulated the details of the compensation policy and practices in a related ordinance».

On the other hand, the related subject matter is defined in detail by Annex 1 and Annex 4.4 in the «Ordinance on Banks and Securities Firms» (BankO). The remuneration policy of VP Bank Group corresponds to the size of VP Bank and its business model. This encompasses the offering of banking services for private clients and financial intermediaries in the disclosed target markets, in Liechtenstein and at the other locations as well as services for investment funds.

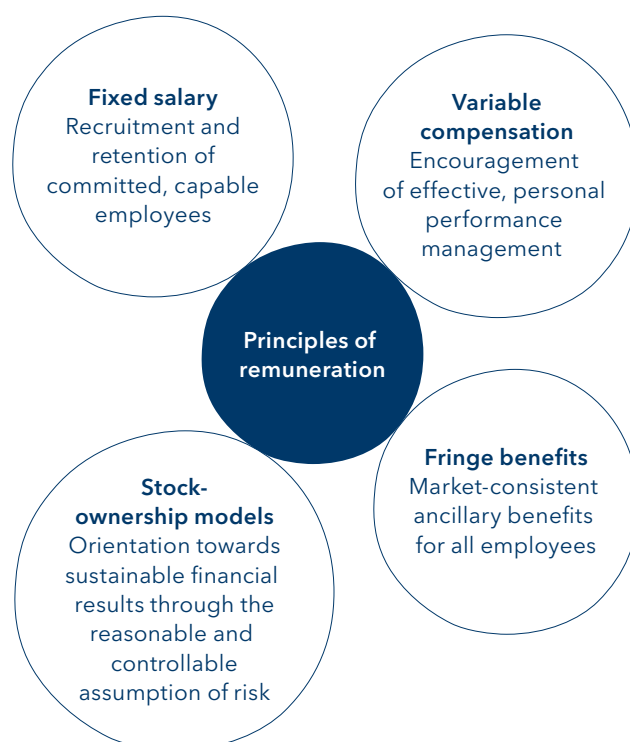
Principles of remuneration

Compensation plays a central role in the recruitment and retention of employees. VP Bank subscribes to fair, performance-oriented and balanced practices in terms of compensation, which are in keeping with the long-term interests of shareholders, employees and clients alike.

The long-standing remuneration practices of VP Bank correspond to the business model of VP Bank as an asset manager and private bank. The principles applied are laid down in the Remuneration Policy:

- A focus on performance and performance differentiation are substantive components of the compensation policy and ensure the interlinking of variable compensation with the achievement of the strategic goals of the company.
- The compensation policy is compatible with and helps foster robust and effective risk management. It makes sure that remuneration-based conflicts of interests of the functions or individuals involved are avoided. The assumption of excessive risks by employees to increase remuneration in the short term should be best prevented by setting appropriate incentives.
- The compensation policy renders possible a fair and attractive remuneration in line with the market in order to attract, motivate and tie qualified and talented employees to VP Bank Group. Conformity with market conditions is reviewed regularly.
- The remuneration system is not founded on a purely formula-based approach and therefore possesses sufficient flexibility to take account of the business performance of VP Bank Group or its subsidiary companies.

- Remuneration practices follow the principle of equal treatment. The level of fixed salary varies according to the function. The level of variable remuneration reflects Group performance, the performance of the segment or team and/or individual performance.
- The remuneration policy is subject to regular review. Relevant legal provisions are applied and implemented in remuneration practices. Prescriptions specific to functions, in particular, those relating to identified employees, are taken into account.



Components of remuneration

The total remuneration of the employees of VP Bank Group comprises a fixed remuneration, an additional variable salary, equity-share participation models as well as additional perquisites («fringe benefits»). In laying down the structure of remuneration, an appropriate relationship between the fixed components and variable remuneration as well as a function-specific compensation is taken into account. In particular, identified employees, which includes the Group Executive Management, receive a maximum variable remuneration which complies with the legal relationship to the annual salary (maximum of 1:2).

Fixed salary

The annual salary set out in the individual employment contract and payable in cash in monthly instalments forms the basis of remuneration. The level thereof varies in

accordance with the function exercised and the demands and responsibilities associated therewith which are assessed based on objective criteria. This enables internal comparability as well as the equal treatment in remuneration matters and also permits the comparison with market data. VP Bank considers the fixed salary to be compensation for the employee's activities performed in an orderly manner. The fixed salary is reviewed annually for on-going appropriateness within the scope of the salary and wage round negotiations and, where necessary, adjusted.

Variable compensation

The variable remuneration can consist of a directly paid-out portion as well as of deferred remuneration instruments. In this respect, it constitutes an additional voluntary benefit payable by VP Bank Group to which no legal entitlement exists not even after repeated, unconditional payment thereof.

Funding of variable remuneration

The overall amount of variable remuneration is determined by the Board of Directors and is based upon performance indicators as well as qualitative performance criteria. The overall amount takes into consideration the multi-annual, risk-adjusted profitability of VP Bank Group (→ table below), the sustainable level of profitability, capital costs and thus takes account of current and future risks.

The Board of Directors makes a facts-based assessment of the total amount of variable remuneration and can adapt the amount to a limited degree. In times of adverse operating conditions, the overall amount of variable remuneration is reduced accordingly and can even amount to zero.

The sum of provisions for variable remuneration must be affordable in the aggregate. Never should VP Bank Group nor any individual Group subsidiary fall into financial difficulties as a result. The impact on the Group's equity situation is taken into consideration in this process.

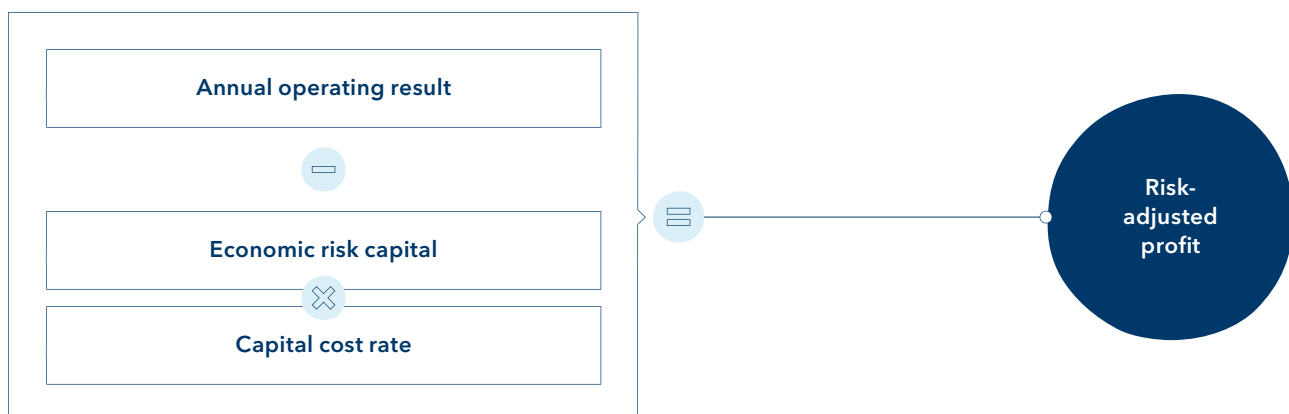
Allocation of variable remuneration

The allocation of variable payments is made on a discretionary basis and in addition to the attainment of quantitative and/or qualitative goals, takes account also of the degree of compliance with the directives of the legislator, the guidelines set by the Company including the Code of Conduct as well as any requirements defined by the client. Longer-term perspectives may also flow into the performance evaluation. The performance evaluation of identified employees is performed based upon the individual's goals as well as the goals of the team, the business segment, the subsidiary as well as the overall result of VP Bank Group. Performance is evaluated using quantitative and qualitative criteria. The variable compensation of employees in controlling functions, internal audit or compliance tasks is determined based upon the achievement of the targets related to their tasks irrespective of the results of the business units being controlled. A participation in the results of the company or of VP Bank Group is admissible within normal limits and is sensible within the spirit of equal treatment. Achievement of targets is evaluated after the end of the business year within the scope of the performance management process. The amount of the individual variable compensation is determined by the employee's superior.

Settlement of variable remuneration

- Immediately payable variable remuneration (bonus):
The bonus is that part of the variable remuneration paid annually in cash as compensation for the contribution made to earnings in the preceding business year. Should the bonus be particularly high in relation to overall remuneration, a part of the payment thereof can be withheld. Where it appears sensible and appropriate, such withheld portion can also be settled in the form of deferred remuneration instruments or in the form of equity shares which may not be disposed of during a limited period.

Calculation of the risk-adjusted profit



- **Deferred remuneration instruments:** Using deferred compensation instruments, the long-term alignment of the interests of shareholders and employees is to be achieved by a participation of the employees in the growth in the value of the Group. As deferred remuneration instruments, VP Bank deploys, in principle, equity-share and index-based schemes which are exposed to market risk. Entitlement to deferred remuneration instruments is dependent on the function exercised and the individual. It is confirmed by a certificate of allocation. Through the deployment of deferred remuneration instruments, VP Bank Group complies with the legal regulations concerning payment schemes for risk takers i.e. a minimum of 40 per cent of the variable remuneration is granted in the form of deferred remuneration instruments which are linked to a possible malus and/or claw-back rule and accordingly can be forfeited. The regulations on deferred remuneration instruments are set out in separate plan rules.
- **Malus and claw-back rules:** VP Bank, under certain conditions, may withhold, reduce or cancel variable remuneration components awarded to an employee (malus) or reclaim amounts which have already been paid (claw-back). This applies particularly in the case of the subsequently discovered fault of the employee or in the case of disproportionately high risks being entered into to increase revenues. On leaving VP Bank, entitlements to deferred, not yet disbursed variable salary components are forfeited as a rule.

Equity-participation programmes

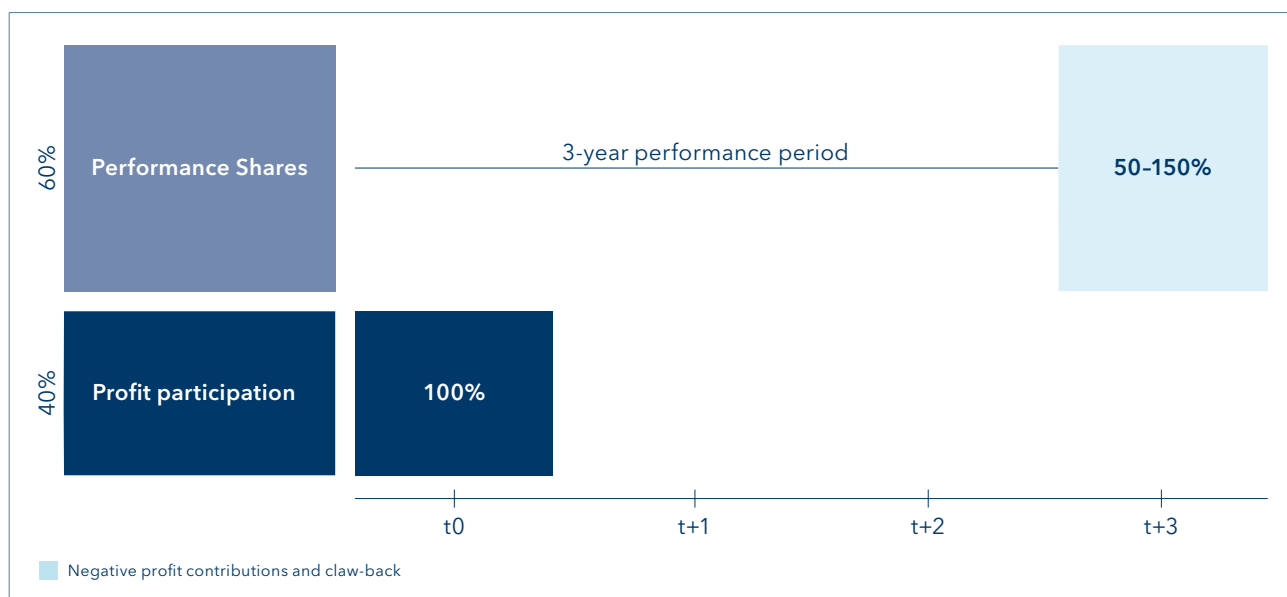
Each year, registered shares A are offered to the employees of VP Bank on preferential terms. The number thereof depends in equal shares on the level of the fixed salary and the period of employment as of the measurement date, 1 May. The shares may not be disposed of during a sales restriction period of three years.

The Board of Directors modified the participation programme in VP Bank Ltd by members of the first- and second-levels of management from 2019 onwards. The Performance Share Plan (PSP) is a long-term variable management participation programme in the form of registered shares A of VP Bank Ltd and is applied for programme participants.

The table below gives an overview over the various instruments of variable remuneration for the members of the first and second management levels using a time axis (t).

The Restricted Share Plan (RSP) is settled over the plan duration of three years in three equal instalments in the form of registered shares A. In justified cases, the RSP programme is invoked in order to compensate a deferred variable salary component, to implement special retention measures or to compensate for foregone performance with a previous employer.

Instruments of variable remuneration



Content and method of setting compensation and equity-participation programmes

The Compensation-Policy Rules as well as the Risk-Policy Rules of VP Bank stipulate that the Bank's compensation systems and human resources management are to be designed in a manner that minimises personal conflicts of interest and behavioural risks.

The Nomination & Compensation Committee (see chapter on Corporate Governance under Point 3.5.2, → page 74) makes proposals to the Board of Directors on the principles underlying remuneration as well as the level of compensation paid to the members of the Board of Directors and the Executive Board. The Board of Directors approves these principles and determines the amount of total compensation payable to itself and the members of the Executive Board in keeping with the rules.

Board of Directors

The Board of Directors receives remuneration as compensation for the duties and responsibilities conferred on them by law and pursuant to Art. 20 of the Articles of Incorporation. This is laid down annually by the Board of Directors in plenary session acting on the proposal of the Nomination & Compensation Committee. Compensation to the members of the Board of Directors is paid on a graduated basis according to their function in the Board of Directors and its committees or in other bodies (e.g. the pension fund). Three-quarters of this compensation is paid in cash and one-quarter settled in the form of freely disposable VP Bank registered shares A, the number of which is determined by the current market price at the time of receipt.

At VP Bank, there are no agreements pertaining to severance pay for members of the Board of Directors.

Nomination & Compensation Committee

The Nomination & Compensation Committee comprises the Board members Fredy Vogt (Chairman), Markus Hilti, Dr Gabriela Payer and Dr Thomas Meier. As a rule, it convenes ten to twelve times per annum. In case of need, the CEO participates in the meetings of the Nomination & Compensation Committee in an advisory capacity.

During 2019, the Nomination & Compensation Committee convened on nine occasions.

Executive Board

In accordance with the model approved by the Board of Directors on 5 July 2018, the compensation payable to the Executive Board consists of the following three components:

1. A fixed base salary that is contractually agreed by Nomination & Compensation Committee and the individual members. In addition to the base salary, VP Bank pays proportionate contributions to the management insurance scheme and the pension fund.
2. A Performance Share Plan (PSP) which is a long-term variable management participation in the form of registered shares A of VP Bank Ltd. The bases thereof are the risk-adjusted profit (operating annual result adjusted for non-recurring items, less capital costs), weighted over three years as well as the long-term commitment of management to a variable compensation component in the form of equity shares. At the end of the plan period and depending upon performance, 50-150 per cent of the allocated vested benefits are transferred in the form of equity shares. This vesting multiple is determined from the weighting of an average Group net income and the average net inflow of new client assets over a three-year period. Until the time of transfer of ownership, the Board of Directors reserves the right to reduce or suspend the allocated vested benefits in the case of defined occurrences and in extraordinary situations. The share of the PSP makes up approximately 60 per cent of the total variable performance-related remuneration.
3. A cash compensation which also depends on the risk-adjusted profit weighted over three years. The share of this profit-related participation amounts to approximately 40 per cent of the total variable performance-related remuneration.

The Board of Directors lays down each year the planning parameters of the profit-related remuneration (PSP and cash compensation) for the following three years as well as the amount thereof. The target share of total compensation varies according to function and market customs.

In 2019, 28,868 shares with a market value as of the date of allocation aggregating CHF 4,047,293.60 were transferred to the Executive Board as part of the 2016-2018 management equity-share participation plan, the RSP 2016-2018, the RSP 2017-2019 as well as the RSP 2018-2020. The vested benefits from previous management equity-share participation plans (2017-2019, 2018-2020 as well as 2019-2021) continues to run unchanged until the end of the plan period.

VP Bank has concluded no agreements on severance pay with members of the Executive Board.

An external advisor who has no other mandates from VP Bank Group was commissioned to structure the compensation model.

Fringe Benefits

Fringe benefits are ancillary benefits which VP Bank offers its employees on a voluntary basis, often as a result of practices which are customary in the given location or business segment. In principle, the benefits are only of a minor amount. They are settled and reported in accordance with local regulations.

They relate principally to the following benefits:

- insurance benefits in excess of legal prescriptions;
- retirement-benefit-related amounts, in particular voluntary employer contributions;
- preferential conditions for employees in the case of banking transactions, such as reduced-rate mortgages for an individual's own home;
- further fringe benefits which are customary in the given location.

Individuals and functions subject to particular provisions

Employees having a particularly large impact on the risk profile of the Bank are designated as "risk takers". VP Bank identifies the members of the Board of Directors and Executive Board as decision-makers and substantial "risk takers" as well as selected functions. These are in particular the heads of the units "Group Internal Audit", "Group Compliance", "Group Finance", "Group Risk", "Group Investment Center", "Group Operations", "Intermediaries", "Private Banking", "Group Information Technology", "Group Human Resources", "Group Treasury & Execution", "Group Communications & Marketing", "Group Credit", "Chief of Staff CEO" and the members of the Credit Committee as well as the CEOs of Group subsidiaries.

Individuals performing compliance and control functions are predominantly remunerated with fixed compensation components. Their variable compensation elements do not depend on the success of the business units which they verify or monitor.

Compliance with remuneration provisions

The remuneration practices of VP Bank are in compliance with appendix 4.4 of the Banking Ordinance (BankO) as well as the EU Directive and are geared to long-term success. The decision concerning the earmarking of a total amount for remuneration resides ultimately with the Board of Directors.

VP Bank does not make guaranteed payments in addition to fixed salaries such as end-of-service indemnities agreed in advance. Special payments upon commencement of employment may occur in given individual cases – as a rule, these relate to compensation for foregone benefits from the previous employer.

In application of Liechtenstein law, variable salary components, where applicable, may be cancelled, those withheld be forfeited or those already paid out reclaimed. This applies in particular in the case of proven guilt of an employee or the acceptance of excessive risk to achieve goals.

Determination of remuneration (Governance)

With the budget, the Board of Directors approves the framework for the fixed remuneration and, at the end of the year, decides on the level of provisions for the variable salary components having regard to the annual results. It lays down the fixed and variable portion of remuneration for the members of the Group Executive Management, the Head Group Compliance and the Head Group Risk. The Nomination & Compensation Committee (NCC) supports the Board of Directors in all issues involving the setting of salaries, defines, together with the Group Executive Management, those individuals designated as "risk takers" and monitors their remuneration. Together with Group Internal Audit, the NCC reviews compliance with the Remuneration Policy.

Group Executive Management is responsible for all aspects involving the implementation of compensation processes within the scope of the Policy and lays down the framework thereof for the individual companies. It specifies the fixed and variable remuneration of the second-management-level heads, including the managers in charge of subsidiary companies. Furthermore, it issues annual implementing regulations to the companies and/or supervisors for the fixing of individual variable salaries.

The individual supervisors agree tasks and goals as part of the MbO process and evaluate the achievement of goals at the end of the period. In addition to performance, particular attention is paid to the observance of all relevant regulatory provisions.

Quantitative information on remuneration

Information on the remuneration of members of the Board of Directors of VP Bank Ltd as well as the members of the Executive Board are to be found in the Financial Report, the stand-alone financial statements of VP Bank Ltd, Vaduz, under "Remuneration paid to Members of Governing Bodies" (→ page 191).

Disclosures regarding personnel expenses are set out in the 2019 Financial Report of VP Bank Group under «6 Personnel Expense» (→ page 144).

The aggregate remuneration paid to all risk takers in 2019 amounted to:

	CHF	Share of total remuneration
Fixed basic salary	8,921,040	49%
Short-Term Incentive (STI, cash) for performance year 2018	4,122,483	22%
Restricted Share Plan (RSP) entitlement for performance year 2018	-	-
Performance Share Plan (PSP) entitlement relating to performance years 2019-2021	3,650,878	20%
Pension fund senior employees employer contributions	1,645,075	9%
Total remuneration	18,339,477	100%
Vesting 2019, equity-share value PSP 2016-2018 / RSP 2016-2018 RSP 2017-2019 / RSP 2018-2020	7,033,554	

INVESTMENT



SOLUTION

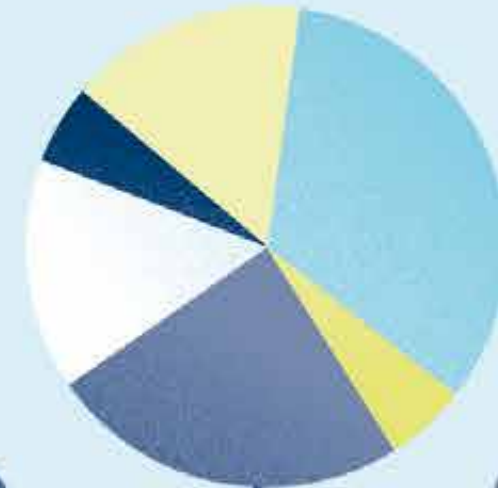
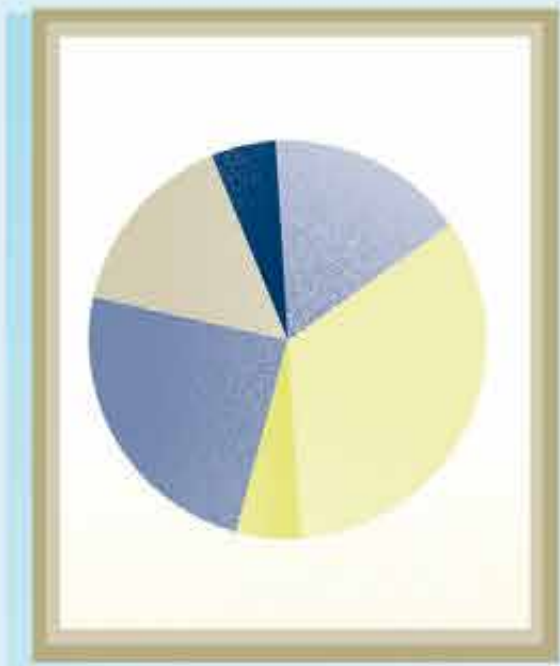


INVESTMENT SOLUTIONS

We connect investment and solutions.

In today's challenging, dynamic market environment, clients are on the lookout for new, innovative solutions that go beyond mainstream alternatives.

Dr Felix Brill - Chief Investment Officer at VP Bank - explains which topics are currently most important to investors and highlights the alternative product solutions that are in demand today. He also sheds lights on how his team of specialists develop future-oriented investment solutions and what they focus on in this respect.



Detailed information at
www.vpbank.com/investmentsolutions

Segment reporting

Structure

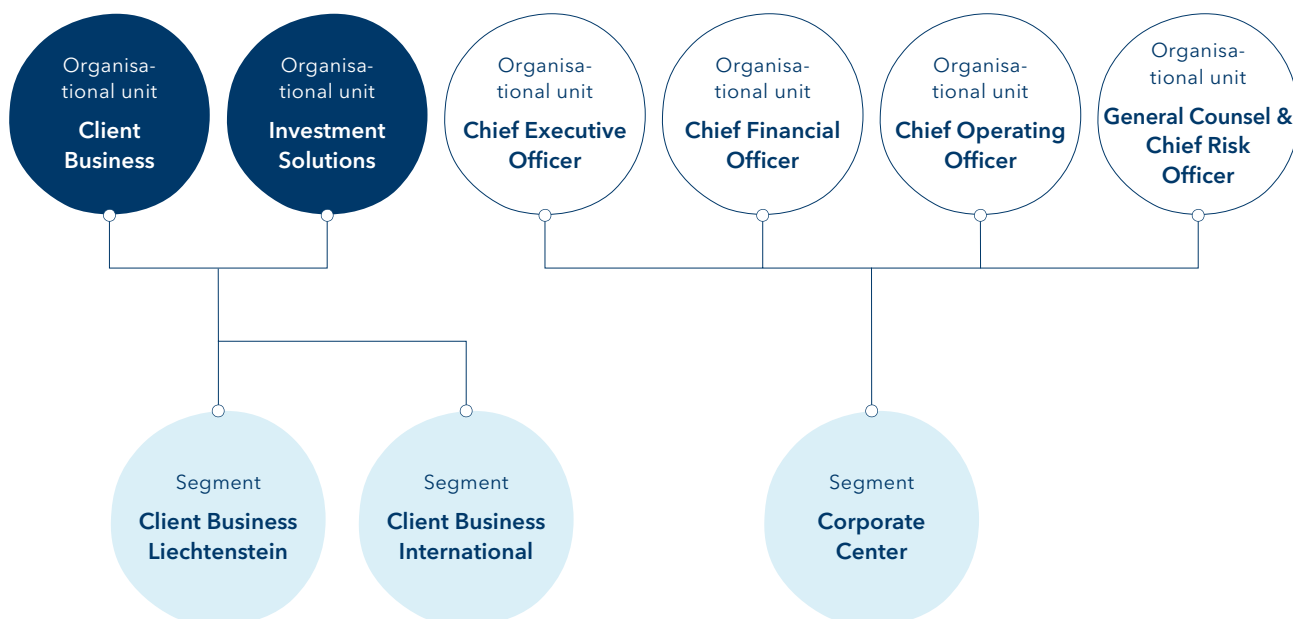
External segment reporting reflects the organisational structure of VP Bank Group and the internal reporting to Management. The latter form the basis for assessing financial performance of the segments and the allocation of resources to the segments.

VP Bank Group consists of the six organisational units "Client Business", "Investment Solutions", "Chief Executive Officer", "Chief Financial Officer", "Chief Operating Officer" and "General Counsel & 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". The unit "Investment Solutions" is managed, for segment-reporting purposes, in "Client Business Liechtenstein" and "Client Business International". The four organisational units "Chief Executive Officer", "Chief Financial Officer", "Chief Operating Officer" and "General Counsel & Chief Risk Officer" are regrouped together, for segment reporting, under the business segment "Corporate Center".

Revenues and expenditures as well as assets and liabilities are allocated to the business segments based on the responsibilities for the clients and the principle of origination. Insofar as a direct allocation is not possible, the positions in question are reported under the Corporate Center. Furthermore, the Corporate Center includes adjustments made on consolidation.



Business segment reporting 2019

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income ¹	66,111	52,928	-3,938	115,101
Total net income from commission business and services	86,751	57,443	-7,028	137,166
Income from trading activities	16,840	13,947	30,198	60,985
Income from financial instruments	0	171	14,100	14,271
Other income	300	3,252	-3,300	252
Total operating income	170,002	127,741	30,032	327,775
Personnel expenses	34,006	62,207	69,178	165,391
General and administrative expenses	3,895	24,695	27,708	56,298
Depreciation of property, equipment and intangible assets	4,945	7,918	16,480	29,343
Credit loss expenses	-603	-6,150		-6,753
Provisions and losses	309	246		555
Services to/from other segments	43,258		-43,258	0
Operating expenses	85,810	88,916	70,108	244,834
Earnings before income tax	84,192	38,825	-40,076	82,941
Taxes on income				9,398
Group net income				73,543
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) ²	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 As of 1 January 2019, the new funds transfer pricing was introduced within the Group. With funds transfer pricing, the internal bank recharges between the Treasury department and Client Business segments are determined and computed. Funds transfer pricing is a central instrument to manage market-price and liquidity risks. With funds transfer pricing, refinancing and liquidity costs between Client Business segments and Treasury are recharged at market-oriented prices. This recharging is applied for new business and resubmissions as from 1 January 2019. The result of this change for the year 2019 amounts to CHF -10.1 million for Client Business Liechtenstein, CHF -0.1 million for Client Business International and CHF 10.2 million for the Corporate Center. The prior-year comparatives were not restated as the change for prior periods was impracticable because of the passage of time as well as the lack of an appropriate data base and the cost of assembling this data retrospectively on an individual-transaction basis would be so high that it would bear no relationship to the benefit to be derived therefrom. The introduction of funds transfer pricing has no impact on the consolidated results of VP Bank Group.

² Calculation in accordance with Table P of the Guidelines to the Liechtenstein Banking Ordinance issued by the Government of Liechtenstein (FL-BankO).

Business segment reporting 2018

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income	78,876	39,340	-7,239	110,977
Total net income from commission business and services	91,261	39,015	-6,004	124,272
Income from trading activities	18,734	8,968	27,282	54,984
Income from financial instruments	0	86	-1,732	-1,646
Other income	100	2,490	-339	2,251
Total operating income	188,971	89,899	11,968	290,838
Personnel expenses	34,383	54,313	68,988	157,684
General and administrative expenses	4,538	30,555	27,776	62,869
Depreciation of property, equipment and intangible assets	4,838	3,311	16,968	25,117
Credit loss expenses	-2,992	-11,314	1,647	-12,659
Provisions and losses	134	252	-1,090	-704
Services to/from other segments	41,888		-41,888	0
Operating expenses	82,789	77,117	72,401	232,307
Earnings before income tax	106,182	12,782	-60,433	58,531
Taxes on income				3,814
Group net income				54,717
Segment assets (in CHF million)	4,112	4,761	3,556	12,428
Segment liabilities (in CHF million)	6,961	4,102	384	11,447
Client assets under management (in CHF billion) ¹	25.0	16.5	0.0	41.5
Net new money (in CHF billion)	-0.2	3.4	0.0	3.2
Headcount (number of employees)	197	330	407	933
Headcount (expressed as full-time equivalents)	183.3	313.3	371.9	868.4

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 on prevailing market conditions. Recharged costs within the segments are subject to an annual review and are amended to reflect new economic conditions, where necessary.

Segment results

in CHF 1,000	2019	2018	Variance absolute	Variance in %
Total net interest income ¹	66,111	78,876	-12,765	-16.2
Total net income from commission business and services	86,751	91,261	-4,510	-4.9
Income from trading activities	16,840	18,734	-1,894	-10.1
Income from financial instruments	0	0	0	0.0
Other income	300	100	200	200.0
Total operating income	170,002	188,971	-18,969	-10.0
Personnel expenses	34,006	34,383	-377	-1.1
General and administrative expenses	3,895	4,538	-643	-14.2
Depreciation of property, equipment and intangible assets	4,945	4,838	107	2.2
Credit loss expenses	-603	-2,992	2,389	79.8
Provisions and losses	309	134	175	130.6
Services to/from other segments	43,258	41,888	1,370	3.3
Operating expenses	85,810	82,789	3,021	3.6
Segment income before income tax	84,192	106,182	-21,990	-20.7
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	47.7	42.8		
Operating expenses excluding valuation allowances, provisions and losses / total operating income (in %)	50.6	45.3		
Client assets under management (in CHF billion)	26.9	25.0		
Change in client assets under management compared to 31.12. prior year (in %)	7.4	-6.3		
Net new money (in CHF billion)	-0.6	-0.2		
Total operating income / average client assets under management (bp) ²	65.5	73.0		
Segment result / average client assets under management (bp) ²	32.4	41.0		
Cost/income ratio operating income (in %) ³	47.8	42.8	5.0	11.8
Headcount (number of employees)	195	197	-1.5	-0.8
Headcount (expressed as full-time equivalents)	179.5	183.3	-3.8	-2.0

¹ As of 1 January 2019, the new funds transfer pricing was introduced within the Group. The impact of this change for the segment Client Business Liechtenstein amounted to CHF -10.1 million. The prior-year comparatives were not restated as the change for prior periods was impracticable because of the passage of time as well as the lack of an appropriate data base and the cost of assembling this data retrospectively on an individual-transaction basis would be so high that it would bear no relationship to the benefit to be derived therefrom.

² Annualised, average values.

³ Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / gross income less other income and income from financial instruments.

Structure

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

Segment result

The pre-tax segment result fell from CHF 106.2 million to CHF 84.2 million (CHF -22.0 million) compared to the same period last year. In 2019, operating income year-on-year declined by CHF 19.0 million (10.0 per cent). This decline results, on the one hand, from income from interest business with clients (-16.2 per cent) and on the other, from commission and service income (-4.9 per cent). The introduction of fund-transfer pricing as of 1 January 2019, which reduced the result by CHF 10.1 million compared with the prior-year period, was the main reason for this decrease in the interest income. The declining level of client transactions on stock exchanges had a negative impact on commission and trading income.

Operating expenses rose by CHF 3.0 million (3.6 per cent) to CHF 85.8 million (prior year: CHF 82.8 million). This increase results primarily from the caption valuation allowances, provisions and losses. In 2019, this position increased, year-on-year, as a result of the release of no longer required valuation allowances.

Intersegmental recharges in the business segment Client Business Liechtenstein are based upon fixed internal transfer prices. Indirect costs for internal services are reported in the business segment in the caption "services to/from other segment(s)".

The gross margin amounted to 65.5 basis points (prior-year period: 73.0 basis points). A portion of this decline results from the introduction of fund-transfer pricing as of 1 January 2019. The cost/income ratio improved from 42.8 per cent to 47.8 per cent.

During the financial year, the segment recorded a net outflow of client money of CHF 0.6 billion which can be explained principally by the loss of one large client.

Assets under management at 31 December 2019 totalled CHF 26.9 billion (31 December 2018: CHF 25.0 billion). The employee headcount declined from 183 (31 December 2018) to 180 positions.

Client Business International

Segment results

in CHF 1,000	2019	2018	Variance absolute	Variance in %
Total net interest income ¹	52,928	39,340	13,588	34.5
Total net income from commission business and services	57,443	39,015	18,428	47.2
Income from trading activities	13,947	8,968	4,979	55.5
Income from financial instruments	171	86	85	98.8
Other income	3,252	2,490	762	30.6
Total operating income	127,741	89,899	37,842	42.1
Personnel expenses	62,207	54,313	7,894	14.5
General and administrative expenses	24,695	30,555	-5,860	-19.2
Depreciation of property, equipment and intangible assets	7,918	3,311	4,607	139.1
Credit loss expenses	-6,150	-11,314	5,164	45.6
Provisions and losses	246	252	-6	-2.4
Services to/from other segments	0	0	0	0.0
Operating expenses	88,916	77,117	11,799	15.3
Segment income before income tax	38,825	12,782	26,043	203.7
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	68.0	94.4		
Operating expenses excluding valuation allowances, provisions and losses / total operating income (in %)	74.2	98.1		
Client assets under management (in CHF billion)	20.7	16.5		
Change in client assets under management compared to 31.12. prior year (in %)	25.7	20.7		
Net new money (in CHF billion)	2.9	3.4		
Total operating income / average client assets under management (bp) ²	68.6	59.6		
Segment result / average client assets under management (bp) ²	20.9	8.5		
Cost/income ratio operating income (in %) ³	69.9	97.2	-27.3	-28.1
Headcount (number of employees)	345	330	15.5	4.7
Headcount (expressed as full-time equivalents)	326.2	313.3	12.9	4.1

¹ As of 1 January 2019, the new funds transfer pricing was introduced within the Group. The impact of this change for the segment Client Business International amounted to CHF -0.1 million. The prior-year comparatives were not restated as the change for prior periods was impracticable because of the passage of time as well as the lack of an appropriate data base and the cost of assembling this data retrospectively on an individual-transaction basis would be so high that it would bear no relationship to the benefit to be derived therefrom.

² Annualised, average values.

³ Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / gross income less other income and income from financial instruments.

Structure

The business segment "Client Business International" encompasses the business conducted 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 pre-tax segment result in 2019 rose by CHF 26.0 million over that of the prior year. Operating income year-on-year increased by CHF 37.8 million (42.1 per cent). This increase is attributable to higher interest income from client business (34.5 per cent) and higher commission and service income (47.2 per cent) as well as trading income (55.5 per cent). The recruiting drive continued to make a positive contribution to commission income. Operating expenses grew by CHF 11.8 million, or 15.3 per cent, to CHF 88.9 million. This increase is attributable to personnel expenses, mainly due to the recruitment drive for new senior relationship managers, as well as the acquisition of Catella Bank's private-banking activities. General and administrative expense could be reduced by 19.2 per cent to CHF 24.7 million (prior year: CHF 30.6 million). This reduction is to be ascribed primarily to lower occupancy expense. As a result of the adoption of IFRS 16 (Leases), the income statement, from 2019 onwards, is now charged with depreciation

and amortisation and interest expense instead of rental expense (see financial-statement reporting policies). In the business segment «Client Business International», the recharging of services is based on actual invoices and recorded under general and administrative expenses. The increase in depreciation and amortisation from CHF 3.3 million to CHF 7.9 million is a result of the adoption of IFRS 16 (Leases). The charges for valuation allowances, provisions and losses were minus CHF 5.9 million (prior year: minus CHF 11.1 million).

The gross margin increased to 68.6 basis points (prior year: 59.6 basis points). The cost/income ratio fell from 97.2 per cent to 69.9 per cent.

In 2019, net new client money developed positively with CHF 2.9 billion. The recruitment offensive in external locations continued to produce new client money inflows. Net new client money could again be achieved in 2019 in the investment-fund business as well as on European markets as a result of intensive market-development activities. As a result of the acquisition of the private-banking activities of Catella Bank, client assets totalling CHF 1.0 billion could be acquired. Assets under management at 31 December 2019 aggregated CHF 20.7 billion (31 December 2018: CHF 16.5 billion). The employee headcount rose from 313 individuals (31 December 2018) to 326, primarily because of the recruitment offensive for new senior client advisors and the acquisition of the employees arising from the Catella acquisition.

Segment results

in CHF 1,000	2019	2018	Variance absolute	Variance in %
Total net interest income ¹	-3,938	-7,239	3,301	45.6
Total net income from commission business and services	-7,028	-6,004	-1,024	-17.1
Income from trading activities	30,198	27,282	2,916	10.7
Income from financial instruments	14,100	-1,732	15,832	n.a.
Other income	-3,300	-339	-2,961	n.a.
Total operating income	30,032	11,968	18,064	150.9
Personnel expenses	69,178	68,988	190	0.3
General and administrative expenses	27,708	27,776	-68	-0.2
Depreciation of property, equipment and intangible assets	16,480	16,968	-488	-2.9
Credit loss expenses	0	1,647	-1,647	-100.0
Provisions and losses	0	-1,090	1,090	100.0
Services to/from other segments	-43,258	-41,888	-1,370	-3.3
Operating expenses	70,108	72,401	-2,293	-3.2
Segment income before income tax	-40,076	-60,433	20,357	33.7
Additional information				
Headcount (number of employees)	403	407	-4.0	-1.0
Headcount (expressed as full-time equivalents)	368.0	371.9	-3.9	-1.0

¹ As of 1 January 2019, the new funds transfer pricing was introduced within the Group. The impact of this change for the segment Corporate Center amounted to CHF 10.2 million. The prior-year comparatives were not restated as the change for prior periods was impracticable because of the passage of time as well as the lack of an appropriate data base and the cost of assembling this data retrospectively on an individual-transaction basis would be so high that it would bear no relationship to the benefit to be derived therefrom.

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, Group Communications & Marketing, Group Strategy and CEO Office. In addition, those revenues and expenses of VP Bank Ltd having no direct relationship to client-focussed business segments, as well as consolidation adjustments are reported under the Corporate Center. Revenue-generating business activities of the segment Corporate Center arise in connection with the Group Treasury function. The results of the Group's own financial investments, the structural contribution and the changes in the value of hedges are reported in this segment.

Segment result

The pre-tax segment result of 2019 was minus CHF 40.1 million compared to minus CHF 60.4 million in the comparable prior-year period.

In 2019, operating income rose by CHF 18.1 million year-on-year; income from financial investments is principally responsible for this increase.

Year-on-year, interest income fell by CHF 3.3 million. This is partly attributable to the continuing negative interest rate level and, as a result, to the decline in interest income from maturity transformation (SNB negative interest). In addition, the earnings from SNB swaps were on the decline compared with the same period last year

(CHF -12.0 million). The introduction of fund-transfer pricing as of 1 January 2019 and the development of financial instruments made a positive contribution to the interest result.

Commission and service income reported a decline in income. This caption comprises third-party bank commissions which were invoiced to front business units by the service units through internal recharging.

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

In 2019, income from financial investments aggregated CHF 14.1 million. In the prior year, this position had reported a negative result of CHF 1.7 million resulting primarily from the market developments. The increase derives mainly from revaluation gains on financial investments.

Operating expenses fell by CHF 2.3 million from CHF 72.4 million to CHF 70.1 million in the reporting period. Charges for valuation allowances, provisions and losses fell by CHF 0.6 million in the reporting period.

Personnel expenses and general and administrative expenses remained on par with those of the previous year. Depreciation and amortisation declined marginally from CHF 17.0 million to CHF 16.5 million.

The employee headcount could be reduced from 372 (31 December 2018) to 368.

FINANCIALS



STRENGTH



FINANCIAL STRENGTH

We connect financials and strength.

Governments, supervisory authorities and investors are increasingly focusing on the stability and financial strength of banks. The main question is whether banks are in a position to continue meeting their obligations in full even during times of crisis.

In order to classify the term "financial strength" and the associated expectations and influencing factors, the expert **Roger Barmettler** – Head of Group Finance at VP Bank – answered a number of questions on the subject.



Detailed information at
www.vpbank.com/financialstrength



Consolidated annual report of VP Bank Group

Consolidated results

In 2019, the Group net income significantly increased compared to the previous year due to further operational progress and the positive financial markets, and a high level of net new client money was recorded. The macro economic situation continued to be characterised by persistently low and negative interest rates. The most important stock market indices rose significantly in the past year.

The 2019 consolidated financial statements of VP Bank Group prepared in accordance with International Financial Reporting Standards (IFRS) reported a Group net profit of CHF 73.5 million. In the prior year, a net profit of CHF 54.7 million had been recorded. Group net income in 2019 increased by CHF 18.8 million, or 34.4 per cent. The positive trend in net new money inflows continued into the 2019 financial year. With CHF 2.3 billion (2018: CHF 3.2 billion), VP Bank Group achieved very good net new money inflows and demonstrates that the Bank is on track with its growth strategy. This strong growth in new client money resulted from intensive marketing efforts and growth initiatives that were implemented as well as the recruitment of client advisors.

With regard to the annual results and the balanced long-term dividend policy, the Board of Directors will propose to the Annual General Meeting to be held on 24 April 2020, a dividend of CHF 5.50 (prior year CHF 5.50) per registered share A and CHF 0.55 (prior year CHF 0.55) per registered share B.

Medium-term goals

As part of the 2015-2020 strategy cycle, the Board of Directors of VP Bank Group has defined the following target values for 2020:

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

VP Bank Group continued to pursue its growth strategy in the financial year 2019. As a result of intensified market development activities, assets under management could be increased which created the basis for future growth in profitability. During the last financial year, 14 new client advisors were hired (2018: 24) as part of our client-advisor hiring initiative.

Assets under management at 31 December 2019 amounted to CHF 47.6 billion (prior year: CHF 41.5 billion). Group net income for the financial year 2019 amounted to CHF 73.5 million (prior year: CHF 54.7 million) and the cost/income ratio was 67.6 per cent (prior year: 75.8 per cent).

On 27 August 2019, the rating agency Standard & Poor's confirmed its very good «A» rating for VP Bank and indicated its outlook as "stable". This rating reflects the good net new client money inflows of recent years, the progress made in operations as well as the very strong equity base.

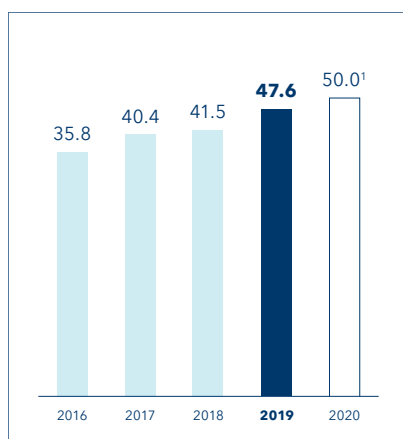
Client assets under management

As of the end of 2019, client assets under management of VP Bank Group aggregated CHF 47.6 billion. Compared to the prior year's amount of CHF 41.5 billion, this represents an increase of CHF 6.1 billion (plus 14.7 per cent).

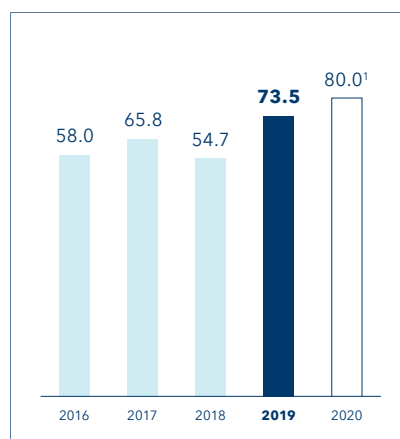
Contributing to this growth was net new client money with CHF 2.3 billion, the acquisition of Catella with CHF 1.0 billion and market performance with CHF 2.9 billion. The inflows of client money were achieved as a result of intensive market-development activities, net new money inflows from existing clients and the recruitment of new client advisers.

Custody assets rose by CHF 5.2 billion to CHF 6.9 billion. As of 31 December 2019, client assets under management including custody assets amounted to CHF 54.5 billion (prior year: CHF 46.7 billion).

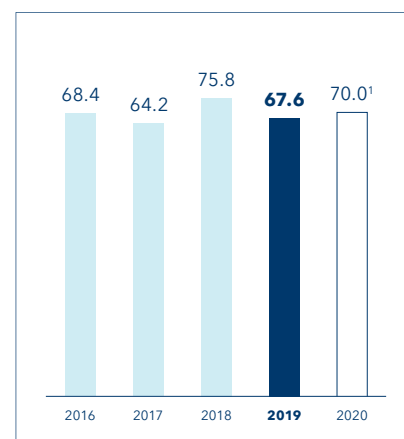
Client assets under management (in CHF billion)



Net income (in CHF million)



Cost/income ratio (in %)



¹Target value from strategy cycle 2015-2020

Income statement

Operating income

Year-on-year, operating income rose in 2019 by CHF 36.9 million, or 12.7 per cent from CHF 290.8 million to CHF 327.8 million.

Through active balance-sheet management and the growth in credit-granting activities, interest income, year-on-year, increased by CHF 4.1 million, or 3.7 per cent, to CHF 115.1 million.

With the expansion of the lending business, client-related interest income grew significantly. Customer deposits also increased, resulting in higher interest expense from client business. Net interest income from client business increased by CHF 4.6 million to CHF 73.8 million (prior year: CHF 69.2 million).

The net contribution from treasury operations declined marginally. Net interest income from treasury operations declined by CHF 0.5 million to CHF 41.3 million (prior year: CHF 41.8 million). Compared to the previous year, the individual income components developed differently as a result of the investment activities. Interest income from foreign-currency swaps decreased remarkably, with a corresponding reduction in expenses for SNB negative interest. Interest income from financial instruments measured at amortised cost increased.

Commission and fee income rose in the year under review by CHF 12.9 million, or 10.4 per cent, to CHF 137.2 million (prior year: CHF 124.3 million). Recurring income rose as a result of the net inflow of new client money, the acquisition of Catella Private Banking activities and the performance-related increase of client assets. Fees from asset management and investment activities (plus CHF 5.2 million, or 10.5 per cent) and from investment-fund management (plus CHF 7.5 million, or 14.7 per cent) increased in 2019. Due to the positive development of client activities in the second half of 2019, transaction-based revenues rose year-on-year. Brokerage income increased by 9.0 per cent to CHF 32.1 million (prior year CHF 29.5 million).

Net income from trading activities aggregated CHF 61.0 million, thus recording an increase of CHF 6.0 million, or 10.9 per cent, year on year. Income from trading increased significantly by 16.4 percent to CHF 63.9 million. Realised and unrealised revaluation differences arising from hedging transactions for financial investments are recognised in securities trading. In 2019, minus CHF 2.9 million was recorded, compared with CHF 0.1 million in the prior year.

Financial investments incurred income of CHF 14.3 million in the financial year (prior year: minus CHF 1.6 million). This sharp increase of CHF 15.9 million in income from financial investments mainly relates to revaluation gains of CHF 14.6 million on financial investments.

Operating expenses

Operating expenses in 2019 rose year-on-year by CHF 12.5 million from CHF 232.3 million to CHF 244.8 million (increase of 5.4 per cent).

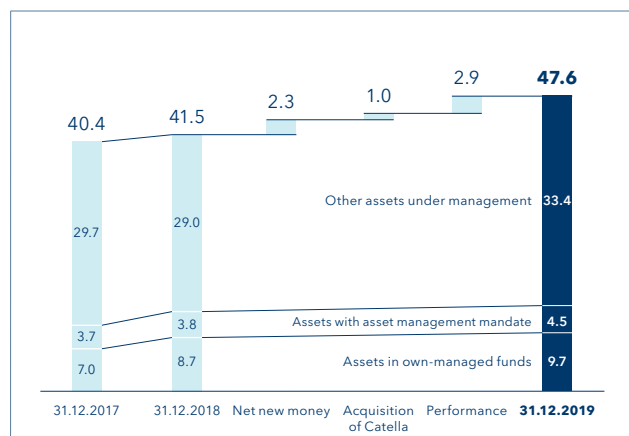
Personnel expenses rose by CHF 7.7 million, or 4.9 per cent, to CHF 165.4 million. The increase in personnel expense is in line with our growth strategy reflecting primarily the recruitment of new client advisors and growth initiatives. At the end of December 2019, VP Bank Group employed, expressed in terms of full-time equivalents, 874 individuals as opposed to 868 in the prior year.

General and administrative expenses were reduced by 10.5 per cent to CHF 56.3 million (prior year: CHF 62.9 million). This reduction is to be ascribed primarily to a decline in occupancy expenses of CHF 6.1 million. As a result of the adoption of IFRS 16 (leases), the income statement, from 2019 onwards, is now charged with depreciation and amortisation and interest expenses instead of rental expenses (see financial statement reporting policies). Information procurement expenses rose as a result of increased prices. The growth in other general and administrative expenses relates to increased regulatory levies. The largest reductions were seen in advisory fees and marketing expenses.

The 16.8 per cent increase in depreciation and amortisation from CHF 25.1 million to CHF 29.3 million relates to the adoption of IFRS 16 (Leases) resulting in a corresponding reduction in occupancy expenses (see above for further details).

In 2019, a net amount of CHF 6.2 million was released to Group net income over the caption "valuation allowance, provisions and losses" (prior-year: release of CHF 13.4 million) resulting from the reduction in valuation allowances established in the wake of hurricane Irma, as well as a reduction of individual credit provisions.

Increase of client assets under management (in CHF billion)



Taxes on income

Taxes on income in 2019 amounted to CHF 9.4 million which is CHF 5.6 million more than in the prior year. The increase is the result of higher taxable income within VP Bank Group.

Group net income

Group net income in 2019 amounted to CHF 73.5 million which constitutes a 34.4 per cent increase year on year (prior year: CHF 54.7 million). Group net earnings per registered share A were CHF 12.28 (prior year: CHF 9.04).

Comprehensive income

Comprehensive income comprises all revenues and expenses recognised in the income statement and in equity. Items recorded directly in equity concern actuarial valuation changes relating to pension funds and changes in the value of financial instruments (FVTOCI).

VP Bank Group generated comprehensive income in 2019 of CHF 87.3 million compared to CHF 38.7 million in the prior year.

Balance sheet

As per December 2019, total assets increased by CHF 1.0 billion to CHF 13.4 billion in comparison with 31 December 2018.

This increase is primarily driven by other liabilities to clients of CHF 0.8 billion (thereof Catella CHF 0.2 billion). On the assets' side, amounts due from clients rose by CHF 0.6 billion (thereof Catella CHF 0.1 billion).

VP Bank Group has a very comfortable liquidity situation with cash and cash equivalents totalling CHF 2.9 billion (CHF 2.5 billion as of 31 December 2018), which represents approximately 22 per cent of total assets.

On 28 June 2019, VP Bank completed the share buyback program launched on 27 June 2018, via the ordinary trading line. As of 31 December 2019, VP Bank Ltd held in aggregate, directly or indirectly, 598,065 registered shares A and 327,419 registered shares B (9.54 per cent of the share capital and 7.70 per cent of the voting rights). As none of the repurchased shares were cancelled, the structure of capital and voting rights remains unchanged. The purchased registered shares A in the treasury may be used for future corporate acquisitions or for treasury-management purposes.

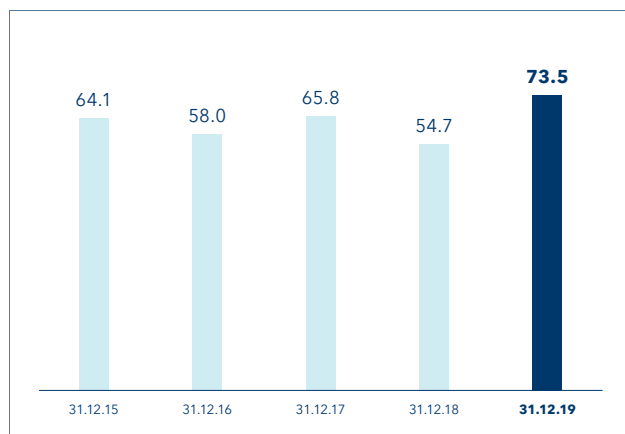
Consolidated equity at the end of December 2019 totalled CHF 1,032 million (end of 2018: CHF 981.6 million). Risk-weighted assets grew by CHF 0.3 billion (plus 7.4 per cent) to CHF 4.8 billion. The tier 1 ratio at 31 December 2019 amounted to 20.2 per cent (31 December 2018: 20.9 per cent) thus constituting a robust equity capital base.

Outlook

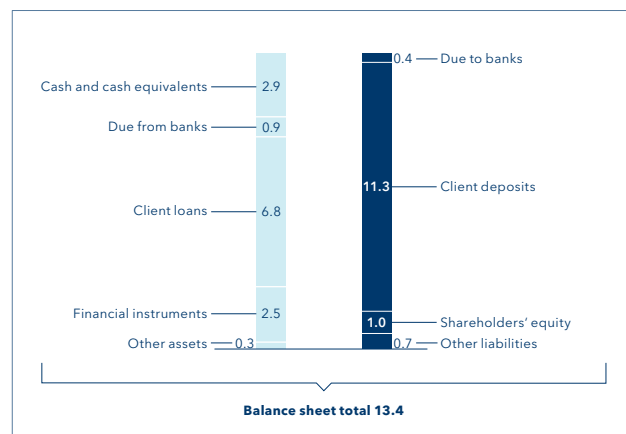
During the current financial year, numerous regulatory requirements come into effect which will keep the management of VP Bank very busy. For VP Bank Group, qualitative, profitable growth remains a core focus.

With the new "Strategy 2025 - Seizing Opportunities", VP Bank is well positioned to respond to market developments and the macroeconomic environment and to actively shape the future development of VP Bank Group.

Net income (CHF million)



Sound balance sheet as at 31 December 2019 (in CHF billion)



Consolidated income statement

in CHF 1,000	Note	2019	2018	Variance absolute	Variance in %
Interest income		173,340	162,961	10,379	6.4
Interest expense		58,239	51,984	6,255	12.0
Total net interest income	1/32	115,101	110,977	4,124	3.7
Commission income		186,653	171,243	15,410	9.0
Commission expenses		49,487	46,971	2,516	5.4
Total net income from commission business and services	2	137,166	124,272	12,894	10.4
Income from trading activities	3	60,985	54,984	6,001	10.9
Income from financial instruments	4	14,271	-1,646	15,917	n.a.
Other income	5	252	2,251	-1,999	-88.8
Total operating income		327,775	290,838	36,937	12.7
Personnel expenses	6	165,391	157,684	7,707	4.9
General and administrative expenses	7	56,298	62,869	-6,571	-10.5
Depreciation of property, equipment and intangible assets	8	29,343	25,117	4,226	16.8
Credit loss expenses	9	-6,753	-12,659	5,906	46.7
Provisions and losses	9	555	-704	1,259	178.8
Operating expenses		244,834	232,307	12,527	5.4
Earnings before income tax		82,941	58,531	24,410	41.7
Taxes on income	10	9,398	3,814	5,584	146.4
Group net income		73,543	54,717	18,826	34.4
Share information					
Undiluted group net income per registered share A		12.28	9.04		
Undiluted group net income per registered share B		1.23	0.90		
Diluted group net income per registered share A		12.28	9.04		
Diluted group net income per registered share B		1.23	0.90		

Consolidated statement of comprehensive income

in CHF 1,000	2019	2018	Variance absolute	Variance in %
Group net income	73,543	54,717	18,826	34.4
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	-2,188	379	-2,567	n.a.
• 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	-2,188	379	-2,567	n.a.
Other comprehensive income which will not be transferred subsequent to the income statement				
• Changes in value of FVTOCI financial instruments	8,052	-7,229	15,281	211.4
• Actuarial gains/losses from defined-benefit pension plans	10,495	-11,603	22,098	190.5
• Tax effects	-2,589	2,398		
Total other comprehensive income which will not be transferred subsequent to the income statement	15,958	-16,434	32,392	197.1
Total comprehensive income in shareholders' equity	13,770	-16,055	29,825	185.8
Total comprehensive income in income statement and shareholders' equity	87,313	38,662	48,651	125.8
Attributable to shareholders of VP Bank Ltd, Vaduz	87,313	38,662	48,651	125.8

Consolidated balance sheet

Assets

in CHF 1,000	Note	31.12.2019	31.12.2018	Variance absolute	Variance in %
Cash and cash equivalents	13	2,909,935	2,521,276	388,659	15.4
Receivables arising from money market papers	14	122,956	67,407	55,549	82.4
Due from banks	15/16	735,026	771,107	-36,081	-4.7
Due from customers	15/16	6,797,316	6,196,326	600,990	9.7
Trading portfolios	17	199	123	76	61.8
Derivative financial instruments	18	72,513	42,164	30,349	72.0
Financial instruments at fair value	19	215,690	232,263	-16,573	-7.1
Financial instruments measured at amortised cost	20	2,302,477	2,389,521	-87,044	-3.6
Associated companies	21	28	30	-2	-6.7
Property and equipment	22/32	115,368	87,819	27,549	31.4
Goodwill and other intangible assets	22/32	62,189	51,454	10,735	20.9
Tax receivables	10c	847	1,407	-560	-39.8
Deferred tax assets	10b	9,974	15,581	-5,607	-36.0
Accrued receivables and prepaid expenses		28,536	28,102	434	1.5
Other assets	24	26,802	23,600	3,202	13.6
Total assets		13,399,856	12,428,180	971,676	7.8

Liabilities and shareholders' equity

in CHF 1,000	Note	31.12.2019	31.12.2018	Variance absolute	Variance in %
Due to banks		401,844	433,793	-31,949	-7.4
Due to customers - savings and deposits		600,966	638,097	-37,131	-5.8
Due to customers - other liabilities		10,536,568	9,696,786	839,782	8.7
Derivative financial instruments	18	94,625	59,374	35,251	59.4
Medium-term notes	25	177,493	240,616	-63,123	-26.2
Debentures issued	26	355,327	200,474	154,853	77.2
Tax liabilities	10c	6,221	7,041	-820	-11.6
Deferred tax liabilities	10b	65	0	65	0.0
Accrued liabilities and deferred items		39,510	36,530	2,980	8.2
Other liabilities	27/32	154,250	132,680	21,570	16.3
Provisions	28	942	1,209	-267	-22.1
Total liabilities		12,367,811	11,446,600	921,211	8.0
Share capital	29	66,154	66,154	0	0.0
Less: treasury shares	30	-68,004	-65,807	-2,197	-3.3
Capital reserves		26,772	28,419	-1,647	-5.8
Income reserves		1,043,893	994,582	49,311	5.0
Unrealised gains/losses on FVTOCI financial instruments		-15,518	-22,704	7,186	31.7
Foreign-currency translation differences		-21,252	-19,064	-2,188	-11.5
Total shareholders' equity		1,032,045	981,580	50,465	5.1
Total liabilities and shareholders' equity		13,399,856	12,428,180	971,676	7.8

Consolidated changes in shareholders' equity

in CHF 1,000	Share capital	Treasury shares	Capital reserves	Income reserves	Unrealised FVTOCI gains/losses	Actuarial gains/losses from defined-benefit pension plans	Foreign-currency translation differences	Total shareholders' equity
Total shareholders' equity 01.01.2019	66,154	-65,807	28,419	1,064,505	-22,704	-69,923	-19,064	981,580
Other comprehensive income, after income tax					7,186	8,772	-2,188	13,770
Group net income				73,543				73,543
Total reported result 31.12.2019	0	0	0	73,543	7,186	8,772	-2,188	87,313
Appropriation of profit 2018				-33,004				-33,004
Management equity participation plan (LTI)			-1,379					-1,379
Public tender own shares ¹		-8,555						-8,555
Movement in treasury shares ¹		6,358	-268					6,090
Total shareholders' equity 31.12.2019	66,154	-68,004	26,772	1,105,044	-15,518	-61,151	-21,252	1,032,045
Total shareholders' equity 01.01.2018	66,154	-47,889	24,181	1,043,321	-16,374	-59,819	-19,443	990,131
Initial adoption IFRS 9, impairment (net of tax)				44				44
Total shareholders' equity 01.01.2018 adjusted	66,154	-47,889	24,181	1,043,365	-16,374	-59,819	-19,443	990,175
Other comprehensive income, after income tax					-6,330	-10,104	379	-16,055
Group net income				54,717				54,717
Total reported result 31.12.2018	0	0	0	54,717	-6,330	-10,104	379	38,662
Appropriation of profit 2017				-33,533				-33,533
Management equity participation plan (LTI)			3,196					3,196
Public tender own shares ¹		-22,026						-22,026
Movement in treasury shares ¹		4,108	1,042					5,150
Total shareholders' equity 31.12.2018	66,154	-65,807	28,419	1,064,505	-22,704	-69,923	-19,064	981,580

¹ Details on transactions with treasury shares can be found in note 30.

Consolidated statement of cash flow

in CHF 1,000	Note	2019	2018
Cash flow from operating activities			
Group net income		73,543	54,717
Reconciliation to cash flow from operating activities			
Non-cash-related positions in Group results			
• Depreciation of property, equipment and intangible assets	22/23	29,343	25,117
• Creation/dissolution of retirement pension provisions	40	-373	18,442
• Creation/dissolution of other provisions	28	-7,316	-23,966
• Unrealised gains on financial instruments measured at fair value	4	640	8,540
• Unrealised gains on financial instruments measured at amortised cost	4	7	-61
• Deferred income taxes	10b	2,257	-567
Net increase/reduction in banking			
• Amounts due from/to banks		-30,371	-42,510
• Trading portfolios incl. replacement values, net		3,933	-371
• Amounts due from/to clients		226,436	-728,913
• Accrued receivables and other assets		-3,702	-5,299
• Accruals and other liabilities		33,835	18,550
Income taxes paid	10a	-8,014	-6,296
Used provisions		-964	-12,898
Foreign-currency impact on intragroup payments		3,961	-1,477
Net cash flow from operating activities		323,215	-696,992
Cash flow from investment activities			
Purchase of financial instruments measured at fair value	17/19	-74,179	-119,334
Proceeds from sale of/maturing financial instruments measured at fair value	4	101,907	70,006
Purchase of financial instruments measurement at amortised cost	20	-403,410	-655,399
Proceeds from sale of/maturing financial instruments measured at amortised cost	4	440,348	402,945
Acquisition of property and equipment and intangible assets	22/23	-32,432	-31,041
Sale of property and equipment and intangible assets	22/23	60	0
Acquisition of investments		0	-39
Net cash flow from investment activities		32,294	-332,862
Cash flow from financing activities			
Purchase of treasury shares	30	-8,594	-22,741
Proceeds from sale of treasury shares		962	987
Cash loss due to lease liabilities	32	-5,907	0
Dividend distributions	12	-33,004	-33,533
Issuance of medium-term bonds	25	32,951	51,758
Redemption of medium-term bonds	25	-95,295	-66,430
Issuance of debentures	26	154,976	0
Net cash flow from financing activities		46,089	-69,959
Foreign-currency translation impact		8,243	2,683
Net increase/reduction in cash and cash equivalents		409,841	-1,097,130
Cash and cash equivalents at the beginning of the financial year	35	3,279,005	4,376,135
Cash and cash equivalents at the end of the financial year	35	3,688,846	3,279,005
Net increase/reduction in cash and cash equivalents		409,841	-1,097,130

Consolidated statement of cash flow (continued)

in CHF 1,000	Note	2019	2018
Cash and cash equivalents are represented by			
Cash	35	2,910,048	2,521,276
Receivables arising from money market paper	35	122,990	67,407
Due from banks - at-sight balances	35	655,808	690,322
Total cash and cash equivalents		3,688,846	3,279,005
Consolidated statement of cash flow (summarised)			
Cash and cash equivalents at beginning of accounting period		3,279,005	4,376,135
Cash flow from operating activities, net of taxes		323,215	-696,992
Cash flow from investing activities		32,294	-332,862
Cash flow from financing activities		46,089	-69,959
Foreign-currency translation impact		8,243	2,683
Cash and cash equivalents at end of accounting period		3,688,846	3,279,005
Cash flow from operating activities from interest and dividends			
Interest paid		-57,201	-49,987
Interest received		186,354	185,712
Dividends received		6,369	4,942

Demand deposits due to banks are invested or charged interest at daily rates or in short-term funds between one day and three months, depending on the VP Bank Group's liquidity needs. Interest rates are based on the corresponding market rates. Receivables arising from money-market papers have a maximum initial maturity of three months. The fair value of cash and cash equivalents amounts to CHF 3,688.8 million (previous year: CHF 3,279.0 million).

Reconciliation between cash flow from financing activities and the balance sheet positions:

in CHF 1,000	Note	31.12.2019	31.12.2018	Variance absolute	Variance from cash flows	Other variances
Medium-term notes	25	177,493	240,616	-63,123	-62,344	-779
Debentures issued	26	355,327	200,474	154,853	154,976	-123
Repayment of lease liabilities	32	30,852	0	30,852	-5,907	36,759
Total variance				122,582	86,725	35,857

Principles underlying financial-statement reporting and notes

1. Fundamental principles underlying financial statement reporting

VP Bank Ltd, which has its registered office in Vaduz, Liechtenstein, was established in 1956 and is one of the three largest banks in Liechtenstein. Today, VP Bank Group has subsidiaries in Zurich, Luxembourg, the British Virgin Islands and Hong Kong, a branch in Singapore as well as a representative office in Hong Kong. As of 31 December 2019, VP Bank Group employed 873.7 persons, expressed as full-time equivalents (as of the end of the previous year: 868.4).

Asset management and investment consulting services for private and institutional investors, as well as lending, constitute its core activities.

Amounts disclosed in the financial statements are expressed in thousands of Swiss francs. The 2019 financial statements were drawn up in accordance with International Financial Reporting Standards (IFRS). IFRS contain provisions requiring the Management of VP Bank Group to make assumptions and estimates in drawing up the consolidated financial statements. The most important fundamental principles underlying financial-statement reporting are described in this section to show how their application impacts the reported results and informational disclosures of VP Bank Group.

Post balance-sheet date events

There were no post-balance-sheet-date events that materially affect the consolidated balance sheet and Group income statement for 2019.

The Board of Directors reviewed and approved the consolidated financial statements in its meeting of 20 February 2020. These consolidated financial statements will be submitted for approval to the Annual General Meeting of 24 April 2020.

2. Assumptions and uncertainties in estimates

IFRS contain guidelines which require certain assumptions and estimates to be made by the Management of VP Bank Group in drawing up the consolidated financial statements. The assumptions and estimates are continually reviewed and are based upon historical experience and other factors, including anticipated developments arising from probable future events. Actual future occurrences may differ from these estimates.

Changes in accounting estimates

No material changes in accounting estimates were made or applied. Further details on estimates are described in the tables included in the Notes (e.g. goodwill, litigation, taxes on income, retirement-benefit schemes etc.).

3. Summary of the principal financial-statement accounting policies

3.1. Principles of consolidation

Fully consolidated companies

The consolidated financial statements encompass the financial statements of VP Bank Ltd, Vaduz, as well as those of its subsidiary companies, which are all presented as a single economic unit. Subsidiary companies which are directly or indirectly controlled by VP Bank Group are consolidated. Subsidiary companies are consolidated as of the date on which control is transferred and deconsolidated as of the date control ends.

Method of capital consolidation

Capital consolidation is undertaken in accordance with the purchase method, whereby the shareholders' equity of the consolidated company is netted against the carrying value of the shareholding in the parent company as of the date of acquisition or the date of establishment.

After initial consolidation, changes arising from business activities which are reflected in the current results of the accounting period in the consolidated financial statements are allocated to income reserves. The effects of intra-group transactions are eliminated in preparing the consolidated annual financial statements.

The share of non-controlling interests in shareholders' equity and Group net income is shown separately in the consolidated balance sheet and income statement.

Shareholdings in associates

Shareholdings on which VP Bank Group exercises a material influence are recorded using the equity method. A material influence is generally assumed to exist whenever VP Bank Group holds, directly or indirectly, 20 to 50 per cent of voting rights.

According to the equity method of accounting, the shares of an entity are accounted for at acquisition cost. After acquisition, the carrying value of the associate is increased or reduced by the Group's share of the profits or losses and

of the non-income-statement-related movements in the shareholders' equity of the associate.

After applying the equity method, the Group ascertains whether it is necessary to recognise an additional impairment loss for its investments in associates. As of each balance-sheet date, the Group determines whether objective indications exist that the investment in an associated company may be value-impaired. Should this be the case, the difference between the realisable value of the share in the associate and its carrying value is dealt with in the income statement.

3.2. General principles

Trade versus settlement date

The trade-date method of recording purchases or sales of financial assets and liabilities is applied. This means that transactions are recorded in the balance sheet as of the date when the trade is entered into and not on the date when trade is subsequently settled.

Revenue recognition

Revenues from services are recorded when the related service is rendered. Portfolio management fees, securities account fees and similar revenues are recorded on a pro-rata basis over the period during which the service is rendered. Interest is recorded in the period during which it accrues. Dividends are recorded as and when they are received.

Foreign-currency translation

Functional currency and reporting currency:

The consolidated financial statements are expressed in Swiss francs.

The foreign-currency translation into the functional currency is undertaken at the rate of exchange prevailing as of the date of the transaction. Translation differences arising from such transactions and gains and losses arising from translation at balance-sheet date rates for monetary financial assets and financial liabilities in foreign currencies are recognised in the income statement.

Unrealised foreign-currency translation differences in non-monetary financial assets are part of the movement in their fair value.

For the purpose of drawing up the consolidated financial statements, balance sheets of Group companies denominated in a foreign currency are translated in Swiss francs at the year-end exchange rate. Average exchange rates for the reporting period are applied for the translation of income-statement captions as well as those in the statements of other comprehensive income and of cash flows. Foreign-currency translation differences resulting from exchange rate movements between the beginning and end of the year and the difference in annual results at average and closing exchange rates are recognised in other comprehensive income.

Group companies

All balance-sheet captions (excluding shareholders' equity) are translated into the Group reporting currency at the rate of exchange prevailing as of the balance-sheet date. The individual items in the income statement are translated at average rates for the period. Foreign-currency translation differences arising from the translation of financial statements expressed in foreign currencies are dealt with in shareholders' equity without impacting income.

Foreign-currency translation differences arising in connection with net investments in foreign companies are reflected under shareholders' equity. Upon disposal, such foreign-currency translation differences are recorded in the income statement as a part of the gain or loss on disposal.

Goodwill and fair-value adjustments from acquisitions of foreign companies are treated as receivables and liabilities of these foreign companies and are translated at the closing rates prevailing on the balance-sheet date.

Domestic versus foreign

The term "domestic" also includes Switzerland.

Cash and cash equivalents

Cash and cash equivalents encompass the captions "cash and cash equivalents", "receivables from money-market paper" with an initial maximum term of three months as well as "sight balances due from banks".

3.3. Financial instruments

General

VP Bank Group subdivides the financial instruments, to which traditional financial assets and liabilities as well as equity capital instruments also belong, as follows:

- financial instruments to be recorded over the income statement ("fair value through profit or loss" (FVTPL)) - "trading portfolios" and "financial instruments at fair value"
- financial instruments valued at amortised cost
- financial instruments at fair value with changes in value and impairment losses recorded in other comprehensive income ("fair value through other comprehensive income" (FVTOCI)).

The classification of financial instruments is made at the time of initial recognition using the criteria set out in IFRS 9. Since 1 January 2011, VP Bank Group has applied IFRS 9 (2010), and since 1 January 2015, has made early application of IFRS 9 (2013). Should the hedging conditions be met, VP Bank Group has made early application of hedge accounting in accordance with IFRS 9 (2013). IFRS 9 (2014) including the ECL model is applied for the first time from the 2018 financial year onwards (see also Chapter 4).

Trading portfolios

Trading portfolios comprise equity shares, bonds, precious metals and structured products. Financial assets held for trading purposes are valued at fair value. Short positions in securities are disclosed as liabilities arising from trading portfolios. Realised and unrealised gains and losses are

recorded in income from trading activities after deduction of related transaction costs. Interest and dividends from trading activities are recorded under trading income.

Fair values are based on quoted market prices if an active market exists. Should no active market exist, the fair value is determined by reference to traders' quotes or external pricing models.

Financial instruments valued at amortised cost

Investments where the objective consists of holding the financial asset in order to realise the contractual payment flows therefrom and which are made up solely of interest as well as the redemption of parts of the nominal value are recognised at amortised cost using the effective interest method.

A financial investment recognised at amortised cost is classified as being value-impaired whenever it is probable that the total contractually agreed amount due will not be collected in full. Causes giving rise to an impairment loss can be counterparty-specific or country-specific. Whenever impairment occurs, the carrying value of the financial investment is reduced to its realisable value by charges to income and is reported under the item income from financial investments.

Interest is recognised in the period when it accrues using the effective interest method and is reported in interest income under "interest income from financial instruments at amortised cost".

Financial instruments valued at fair value (FVTPL)

Financial instruments not meeting the aforementioned criteria are recorded at fair value. The ensuing gains/losses are reported in "income on financial instruments at fair value" under income from financial investments.

Insofar as the criteria of IFRS 9 are met, a financial instrument may also be designated and recorded under this category upon initial recognition. Liquid equity instruments that are managed on a benchmark basis with a medium-term investment horizon are measured at fair value through profit or loss (FVTPL).

Interest and dividend income are recorded in income from financial investments under the captions "interest income from FVTPL financial instruments" and "dividend income from FVTPL financial instruments".

Financial instruments at fair value with recognition of changes in value and impairment losses through other comprehensive income (FVTOCI) for equity instruments

Investments in equity instruments are recognised in the balance sheet at fair value. Changes in value are taken to income, except in those cases for which VP Bank Group has decided that they are to be recognised at fair value through other comprehensive income.

For illiquid equity instruments (private equity) and investments in high-dividend individual shares, the OCI option is applied, resulting in a valuation at fair value (FVOCI) not affecting net income. In the case of these investments, the focus is on long-term value generation.

Dividends are reported in income from financial investments under the caption "dividend income from FVTOCI financial instruments".

Loans to banks and clients

At the time of their initial recognition, loans to banks and clients are valued at their effective cost, which equates to fair value at the time the loans are granted. Subsequent measurement thereof is made at amortised cost, with the effective interest method being applied. Interest on non-overdue loans is accounted for using the accrual method and reported under interest income using the effective interest method.

The carrying value of receivables for which micro fair-value hedge accounting is applied, is adjusted by the changes in fair value attributable to the hedged risk. In the cases when portfolio fair value hedge accounting is applied, the changes in fair value are recognised in the balance-sheet caption other assets.

Valuation allowances for credit risks pursuant to IFRS 9 Impairment

Bases of modelling expected credit losses

In accordance with the International Accounting Standard IFRS 9 Impairment for the determination of valuation allowances for credit risks, all positions on the asset side that are exposed to a potential credit risk and are not already recognised at fair value through profit or loss are allocated to one of the three stages:

- stage 1 (performing)
- stage 2 (under-performing)
- stage 3 (non-performing)

The financial instruments concerned are initially classified as "performing" (stage 1) when they are entered into or purchased. Should the credit risk of the financial instruments in question increase significantly during the term to maturity, the position is considered as "underperforming" (stage 2). If a counterparty has defaulted or a further payment unlikely, the position is classified as "non-performing" (stage 3).

For stage 1, the expected credit loss arising from credit events within the following 12 months must be computed and recorded, whereas for stages 2 and 3 it must be computed and recorded over the remaining life of the instrument.

The expected credit loss under IFRS 9 must represent an undistorted and probability-weighted amount determined by assessing a range of possible scenarios and taking into account fair value. In addition, all available information on past events and current conditions must be appropriately considered.

Implementation of IFRS 9 by VP Bank

All asset positions that are subject to potential credit risk are included, unless they are already recognised at fair value through profit or loss. These include in particular due from clients and banks, financial investments measured at amortised cost, money-market paper and cash and cash equivalents. Off-balance sheet items such as loan collateral and performance guarantees and irrevocable loan commitments are also affected.

At VP Bank, the modelling of expected credit losses is performed according to specific segments of the balance sheet. In the segmentation, a distinction is made in particular as to whether an external or internal rating is available.

In the case of positions with an external rating from Moody's or Standard & Poor's, this is used as the main criterion for the allocation to stages. Stage 1 generally applies to investment grade positions in accordance with internal guidelines. If a rating shifts outside the investment grade range or outside the specifications for banks or financial investments, stage 2 shall apply. If there is a default according to external rating agencies, the instrument falls into stage 3.

For positions with an internal rating of VP Bank, any default of the debtor with respect to interest or capital is taken into consideration. From 31 days onwards from being overdue, a position falls into stage 2, from 90 days or more into stage 3. In addition, a deterioration of the internal rating or a classification as a loan with an increased risk of default is used for the stage allocation.

In the case of positions without an internal or external rating, which primarily include lombard loans, the management of risk is primarily based on the underlying collateral. The criteria as to which stage is to be assigned are a possible default of the debtor with regard to interest or amortization over 30 or 90 days or a classification as a credit as being subjected to increased risk. In addition, any shortfalls in collateral for these positions are taken into account.

In the case of positions where financial security or a guarantee of a third party with an external rating exists, the borrower's credit risk is substituted by that of the guarantor or third party (substitution approach). In this case, the stage allocation is determined on the basis of a combination of the above criteria.

At VP Bank, the ECL is modelled, in principle, at the level of individual transactions and based on various risk parameters (in particular, probability of default, recovery rate, receivable amount and discount rate).

Wherever possible, external data is used to corroborate the probability of default. This is particularly the case if an external rating is available. Internal ratings are approximately mapped to external rating classes. In determining the recovery rate, the collateralisation of the credit is taken as the primary basis. Market-based assumptions are made for unsecured receivables with external ratings.

As an alternative to determining the probability of default and recovery rate separately, a blanket approach for individual portfolios can be used to calculate the ECL. This applies primarily to lombard loans. In such cases, VP Bank uses a combined loss rate.

In estimating the ECL, VP Bank uses not only past and present information but also forward-looking information, in particular, forecasts regarding future economic developments.

For positions with an external rating, the ECL is initially estimated on the basis of parameters that are independent of economic cycles. The inclusion of forward-looking information builds on existing early warning systems and adjustments to default probabilities. Rating outlooks are also taken into account.

For positions with an internal rating, the ECL is also calculated on the basis of forward-looking, cyclical parameters. In the case of mortgage loans and related contingent liabilities,

for example, this primarily concerns the recovery rate. In this way, possible changes in property prices are mapped.

The ECL calculation is based on a base scenario and two alternative scenarios that map different macroeconomic conditions. The base scenario reflects the future economic development that is considered most likely, whilst an up and down scenario represents a relative improvement or deterioration of the overall economic situation. The assumed probabilities of occurrence of the up and down scenarios are identical.

Loans to banks and clients

Whenever micro fair-value hedge accounting is applied, secured liabilities are adjusted by the changes in fair value attributable to the hedged risk. In the cases when portfolio fair value hedge accounting is applied, the changes in fair value are recognised in the balance-sheet caption other liabilities.

Derivative financial instruments

Derivative financial instruments are measured and disclosed in the balance sheet at their fair value. The fair value is determined on the basis of stock-exchange quotations or option pricing models. Realised and unrealized gains and losses are taken to income.

VP Bank Group deploys the following derivatives both for trading and hedging purposes. They may be sub-divided into the following categories:

- Swaps: Swaps are transactions in which two parties swap cash flows for a defined nominal amount during a period agreed in advance.
- Interest-rate swaps: Interest-rate swaps are interest-rate derivatives which protect fixed-interest-bearing instruments (e.g. non-structured, fixed-interest-bearing bonds or covered bonds) against changes in fair value as a result of changes in market interest rates.
- Currency swaps: Currency swaps comprise the swapping of interest payments which are based on two base amounts with two differing currencies and reference interest rates and encompass in general also the swapping of nominal amounts at the inception or end of the contractually stipulated duration. Currency swaps are usually traded over the counter.
- Forward contracts and futures: Forward contracts and futures are contractual obligations to purchase or sell a financial instrument or commodities at a future date and at a stipulated price. Forward contracts are customised agreements which are transacted between parties over the counter (OTC). Futures, on the other hand, are standardised contracts which are entered into on regulated exchanges.
- Options and warrants: Options and warrants are contractual agreements as part of which the seller (writer) grants the acquirer, in general, the right but not the obligation, to purchase (call option) or sell (put option) a specified quantity of a financial instrument or commodity at a price agreed in advance on or prior to a stipulated date. The acquirer pays the seller a premium for this right. There are also options with more complex payment structures. Options can be traded over the counter or on regulated exchanges. They may also be traded in the form of a security (warrant).

Hedge Accounting

VP Bank Group has applied IFRS 9 (2010) since 1 January 2011 and has made early application of IFRS 9 (2013) since 1 January 2015. Should the hedging conditions be met, VP Bank Group applies hedge accounting in accordance with IFRS 9 (2013) and IFRS 9 (2014), respectively. There were no changes between these two versions.

In accordance with the Risk Policy of the Group, VP Bank deploys certain derivatives for hedging purposes. From an economic point of view, the opposing valuation effects resulting from the underlying and hedging transactions offset each other. As these transactions do not, however, correspond to the strict and specific IFRS provisions, there ensues an asymmetrical representation, in bookkeeping terms, of the changes in value of the underlying transaction and the hedge. Fair-value changes of such derivatives are reported in trading and interest income, respectively, in the appropriate period.

The rules of hedge accounting can be applied voluntarily. Under certain conditions, the use of hedge accounting enables the risk-management activities of a company to be represented in the annual financial statements. This occurs through the juxta-positioning of expenses and income from hedging instruments with those from the designated underlying transactions with regard to certain risks.

A hedging relationship qualifies for hedge accounting if all of the following qualitative attributes are fulfilled:

- the hedging relationship consists of eligible hedging instruments and eligible underlying transactions;
- at the inception of the hedging relationship, a formal designation and documentation of the hedging relationship is at hand which makes reference to the company's risk-management strategy and objective for this hedge;
- the hedging relationship meets the effectiveness requirements.

The hedging relationship must be documented at inception. The documentation must encompass, in particular, the identification of the hedging instrument and of the hedged underlying transaction as well as designating the hedged risk and the method to determine the effectiveness of the hedging relationship. In order to qualify for hedge accounting, the hedging relationship must satisfy the following effectiveness requirements at the inception of each hedging period:

- there must exist an economic relationship between the underlying transaction and the hedging instrument;
- default risk does not dominate the changes in value resulting from the economic hedge; and
- the hedge ratio accurately reflects the quantity of the underlying transaction used for the actual economic hedge as well as the quantity of the hedging instrument.

Derivative financial instruments are employed by the Group for risk management principally to steer interest-rate and foreign-currency risks. Whenever derivative and non-derivative financial instruments fulfil defined criteria, they may be classified as hedging instruments and namely, to hedge fair-value changes in recognised assets and liabilities (fair-value hedge accounting), to hedge fluctuations in anticipated future cash-flows which are allocated to recognised assets and liabilities or anticipated transactions occurring with a high degree of probability (cash-flow hedge account-

ing) or to hedge a net investment in a foreign business operation (hedge of net investments).

Fair-value hedge accounting

IFRS 9 provides for the use of fair-value hedge accounting to avoid one-sided resultant effects for derivatives which serve to hedge the fair value of on-balance-sheet assets or liabilities against one or several defined risks. Exposed to market risk and/or interest-rate risk, in particular, are the Group's credit transactions and its portfolio of securities insofar as they relate to fixed interest-bearing paper. Interest-rate swaps are used primarily to hedge these risks. In accordance with fair-value hedge-accounting rules, the derivative financial instruments at fair value deployed for hedging purposes are recorded as market values from derivative hedging instruments. For the hedged asset and/or hedged liability, the opposing changes in fair value resulting from the hedged risk are also to be recognised in the balance sheet. The opposing valuation changes from the hedging instruments as well as from the hedged underlying items are recognised in the income statement as gains/losses from hedge accounting. That portion of the changes in fair value which is not related to the hedged risk is dealt with in accordance with the rules pertaining to the respective valuation category.

Cash-flow hedge accounting as well as portfolio fair-value hedges were used neither in the current financial year, nor the prior year.

Debt securities issued

Medium-term notes are recorded at their issuance price and measured subsequently at amortised cost.

At the time of their initial recording, debentures are recognised at their fair value less transaction costs. The fair value equates to the consideration received. Subsequently, they are measured at amortised cost for balance-sheet purposes. In this connection, the effective interest method is employed in order to amortise the difference between the issue price and redemption amount over the term of the debt instrument.

Treasury shares

Shares in VP Bank Ltd, Vaduz, held by VP Bank Group are disclosed as treasury shares and the acquisition cost thereof is deducted from shareholders' equity. Changes in fair value are not recognised. The difference between sales proceeds of treasury shares and the related acquisition cost is shown under capital reserves.

Repurchase and reverse-repurchase transactions

Repurchase and reverse-repurchase transactions serve to refinance or finance, respectively, or to acquire securities of a certain class. These are recorded as an advance against collateral in the form of securities or as a cash deposit with collateral in the form of own securities.

Securities received and delivered are only recorded in the balance sheet or closed out when the control over the contractual rights (risks and opportunities of ownership)

inherent in these securities has been ceded. The fair values of the securities received or delivered are monitored on an ongoing basis to provide or demand additional collateral in accordance with the contractual agreements.

Securities lending and borrowing transactions

Financial instruments which are lent out or borrowed and valued at fair value and for which VP Bank Group acts as principal, are recorded in the balance sheet under amounts due to/from customers and banks. Securities lending and borrowing transactions in which VP Bank Group acts as agent are recorded under off-balance-sheet items.

Fees received or paid are recorded under commission income.

3.4. Other principles

Provisions

Provisions are only recorded in the balance sheet if VP Bank Group has a liability to a third party which is to be attributable to an occurrence in the past, if the outflow of resources with economic benefit to fulfil this liability is probable, and if the liability can be reliably estimated. If an outflow of funds is unlikely to occur or the amount of the liability cannot be reliably estimated, a contingent liability is shown.

Impairment in the value of non-current assets

The value of property, plant and equipment is always reviewed whenever the carrying value appears to be overvalued because of events or changed circumstances. If the carrying value exceeds the realisable value, a valuation allowance is recorded. Any subsequent recovery in value is taken to income.

The intrinsic value of goodwill is reviewed at least once a year. If the carrying value exceeds the realisable value, an extraordinary write-down is made.

Property, plant and equipment

Property, plant and equipment comprises bank premises, other real estate, furniture and equipment, as well as IT systems. Property, plant and equipment is measured at acquisition cost less operationally necessary depreciation and amortisation.

Property, plant and equipment is capitalised provided its purchase or manufactured cost can be determined reliably, it exceeds a minimum limit for capitalisation and the amounts capitalised benefit future accounting periods.

Depreciation and amortisation is charged on a straight-line basis over the estimated useful lives:

Depreciation and amortisation	Estimated useful life
Bank premises and other real estate	25 years
Land	no depreciation
Furniture and equipment	5-9 years
IT systems	3-7 years

The depreciation and amortisation methods and useful lives are subject to review at each year-end.

Purchases of minor value are charged directly to general and administrative expenses. Maintenance and renovation expenses are generally recorded under general and administrative expenses. If the expense is substantial and results in a significant increase in value, the amounts are capitalised. These are depreciated or amortised over their useful lives. Gains on disposal of property, plant and equipment are disclosed as other income. Losses on sale lead to additional depreciation and amortisation on property, plant and equipment.

Goodwill

In the case of a business combination, should the acquisition costs be greater than the net assets acquired valued in accordance with uniform Group guidelines (including identifiable and capitalizable intangible assets), the remaining amount constitutes the acquired goodwill. Goodwill is capitalised and subject to annual review for any required valuation allowances. The recognition of goodwill is made in the original currency and is translated on the balance-sheet date at rates prevailing at year-end.

Intangible assets

Purchased software is capitalised and amortised over three to seven years. Minor purchases are charged directly to general and administrative expenses.

Internally generated intangible assets such as software are capitalised insofar as the prerequisites for capitalisation set forth in IAS 38 are met, i.e. it is probable that the Group will derive a future economic benefit from the asset and the costs of the asset can be both identified and measured in a reliable manner. Internally produced software meeting these criteria and purchased software are recorded in the balance sheet under software. The amounts so capitalised are amortised on a straight-line basis over their useful lives. The period of amortisation is three to seven years.

Other intangible assets include separately identifiable intangible assets arising from business combinations, as well as certain purchased client-related assets and the like and are amortised on a straight-line basis over an estimated useful life of five to ten years. Other intangible assets are recorded in the balance sheet at purchase cost at the time of acquisition.

Current and deferred taxes

Current income taxes are computed based on the applicable taxation laws in the individual countries and are booked as expense in the accounting period in which the underlying profits arise. They are shown as tax liabilities in the balance sheet.

The taxation effects of temporary differences between the values attributed to the assets and liabilities as reported in the consolidated balance sheet and their values reported for tax reporting purposes are recorded as deferred tax assets or deferred tax liabilities. Deferred tax assets arising from temporary differences or from the utilisation of tax loss carry-forwards are only recognised when it is probable that sufficient taxable profits will be available against which these temporary differences or tax loss carry-forwards can be offset.

Deferred tax assets and tax liabilities are computed using the rates of taxation which are expected to apply in the accounting period in which these tax assets will be realised, or tax liabilities will be settled.

Tax assets and tax liabilities are netted if they relate to the same taxable entity, concern the same taxing jurisdiction and an enforceable right of offset exists.

Deferred taxes are credited or charged directly to shareholders' equity if the tax relates to items which are directly credited or debited to shareholders' equity in the same or another period.

The tax savings anticipated from the utilisation of estimated future realisable loss carry-forwards are capitalised. The probability of realising expected taxation benefits is considered when valuing a capitalised asset for future taxation relief. Tax assets arising from future taxation relief encompass deferred taxes on temporary differences between the carrying values of assets and liabilities in the consolidated balance sheet and those used for taxation purposes as well as tax savings from future estimated realisable loss carry-forwards. Deferred taxation receivables in one sovereign taxation jurisdiction are offset against deferred taxation liabilities of the same jurisdiction if the enterprise has a right of offset of actual taxation liabilities and tax claims and the taxes are levied by the same taxing authorities.

Retirement pension plans

VP Bank Group maintains several retirement pension plans for employees domestically and abroad, among which there are both defined-benefit and defined-contribution plans. In addition, there are schemes for long-service anniversaries which qualify as other long-term benefits to employees.

The computation of accrued amounts and amounts due to these pension funds is based on statistical and actuarial calculations of experts.

As regards defined-benefit pension plans, pension costs are determined based on various economic and demographic assumptions using the projected unit credit method, which takes account of the number of insurance years actually earned through the date of valuation. Amongst the computational assumptions taken into account by the Group are, inter alia, the expected future rate of salary increases, long-term interest earned on retirement assets, retirement patterns and life expectancy. The valuations are undertaken annually by independent actuaries. Plan assets are re-measured annually at fair values.

Pension costs comprise three components:

- service costs which are recognised in the income statement;
- net interest expense, which is also recognised in the income statement; and
- revaluation components which are recognised in the statement of comprehensive income.

Service costs encompass current service costs, past service costs and gains and losses from non-routine plan settlements. Gains and losses from plan curtailments are deemed to equate to past service costs.

Employee contributions and contributions from third parties reduce service cost expense and are deducted therefrom provided that these derive from pension plan rules or a de facto obligation.

Net interest expense corresponds to the amount derived from multiplying the discount rate with the pension liability or plan assets at the beginning of the year. In the process, capital flows of less than one year and movements thereof are taken into account on a weighted basis.

Revaluation components encompass actuarial gains and losses from the movement in the present value of pension obligations and plan assets. Actuarial gains and losses result from changes in assumptions and experience adjustments. Gains and losses on plan assets equate to the income from plan assets minus the amounts contained in net interest expense. Revaluation components also encompass movements in unrecognised assets less the effects contained in net interest expense. Revaluation components are recognised in the statement of comprehensive income and cannot be reclassified to income in future periods (recycling). The amounts recognised in the statement of comprehensive income can be reclassified within shareholders' equity. Service costs and net interest expense are recorded in the consolidated financial statements under personnel expense. Revaluation components are recognised in the statement of comprehensive income.

The pension liabilities or plan assets recognised in the consolidated financial statements correspond to the deficit or excess of funding of defined-benefit pension plans, respectively. The recognised pension assets are limited to the present value of the economic benefit to the Group arising from the future reduction in contributions or repayments.

Liabilities arising in connection with the termination of employment are recognised at the time when the Group has no other alternative but to finance the benefits offered. In any event, the expense is to be recorded at the earliest when the other restructuring cost is also recognised.

For other long-term benefits, the present value of the acquired liability is recognised as of the balance-sheet date. Movements in present values are recorded directly in the income statement as personnel expense.

Employer contributions to defined-contribution pension plans are recognised in personnel expense at the date when the employee becomes entitled thereto.

4. Changes in financial-statement accounting policies and comparability

New and revised International Financial Reporting Standards

Since 1 January 2019, the following new or revised Standards or Interpretations have taken effect:

Changes to IFRS 2015-2017 ("Improvements to IFRS 2015-2017 Cycles")

In December 2017, the IASB published several amendments to existing IFRS as part of its annual improvement project "Improvements to IFRS 2015-2017 Cycles". These encompass both amendments to various IFRS impacting the recognition, measurement and disclosure of business transactions as well as terminological and editorial corrections. The amendments have no material impact on the consolidated financial statements.

IFRS 16 - Leases

The International Accounting Standards Board has published IFRS 16 Leases which regulates the accounting for lease arrangements. For lessees, the new Standard provides for a new accounting model which does away with a differentiation between finance leases and operating leases. In future, most leasing agreements will require to be recognised in the balance sheet. For lessors, the rules of IAS 17 Leases will continue to largely apply with the result that here the differentiation between finance leases and operating leases will continue to be made as at present with the related differing accounting consequences. IFRS 16 replaces IAS 17 as well as the related interpretations and is to be applied for the first time for accounting periods beginning on or after 1 January 2019.

At VP Bank, the implementation of the new standard is carried out according to the modified retrospective approach. As a result of the implementation, as of 1 January 2019, right-of-use assets and leasing liabilities in the amount of CHF 34.3 million were recognised. In this process, the leasing liabilities are valued at the present value of the remaining leasing payments, discounted at the marginal interest rate of the lessee as of 1 January 2019. The weighted average marginal borrowing rate in accordance with IFRS 16.C12(a) for the leasing liabilities at VP Bank recognised upon initial adoption amounts to approximately 1.1%. Lease agreements exist for rents for real estate and premises as well as motor vehicles. The balance sheet total increased by approximately CHF 34 million. As of 2019, in the place of rental expenses (approx. CHF 6 million), depreciation (approx. CHF 5.5 million) and interest expenses (approx. CHF 0.5 million) are now charged in the income statement.

The Group rents various office and warehouse buildings as well as motor vehicles. Rental agreements are generally concluded for fixed periods of 2 to 8 years but may have renewal options.

Until 31 December 2018, leasing arrangements at VP Bank were recorded on a straight-line basis over the term of the leasing arrangement with a corresponding effect on

income. As of 1 January 2019, leasing arrangements are recognised in the balance sheet at their net present value at the time at which the leased object is available for use by the Group as a right-of-use asset with a corresponding leasing liability valued at the marginal interest rate of VP Bank corresponding to the interest rate that VP Bank would have to pay if it had to borrow the funds to acquire an asset of a comparable value and on comparable conditions in a comparable economic environment. Each leasing instalment is divided into capital repayment amount and financing expenses. The finance expenses are charged to interest income over the lease term so as to produce, for each period, a constant periodic rate of interest on the remaining balance of the leasing liability. The right-of-use asset is amortised on a straight-line basis over the lease term in the income-statement caption depreciation and amortisation of property, plant and equipment. In the balance sheet, the right-of-use asset is capitalized under property, plant and equipment and the lease liabilities are included in other liabilities. The difference between the amount of CHF 34.3 million recognised in the balance sheet as of 1 January 2019 and the future obligations from operating leasing of CHF 39.6 million shown in the 2018 annual report resulted from the following net effects: the lease liabilities as of 1 January 2019 is the present value of the leasing payments and services that no longer qualify as leasing under IFRS 16 (services).

In applying IFRS 16 for the first time, VP Bank has availed itself of the following concessions:

- As of 1 January 2019, VP Bank applies the modified retrospective approach whereby, upon initial recognition, the leasing liability and the right-of-use asset are recorded at the present value of the outstanding leasing instalments on the basis of the marginal financing rate of the Group.
- Leasing contracts with a remaining term of less than 12 months as of 1 January 2019 were recognised, in accordance with IFRS16 C10(c), as current leasing arrangements and thus continue to be recorded as expense.
- Leasing contracts with a right-of-use value of less than CHF 5,000 were not capitalised but recognised in the income statement due to the small amount of underlying assets.
- In the measurement of the right-of-use assets upon initial adoption as of 1 January 2019, VP Bank, in accordance with IFRS 16.C10(d), disregarded the initial direct costs (e.g. costs for building permits) and thus did not consider them as part of the right-of-use asset.

IAS 19 - Employee benefits, adjustments resulting from amendment to, curtailment or settlement of pension plan

The modification of the accounting provision in IAS 19 concerns benefits payable to employees in the event of a change, curtailment or settlement of a defined-benefit retirement-pension plan. In future, in the case of a change, curtailment or settlement of a defined-benefit retirement-pension plan, it will be mandatory that the current service cost and net interest cost for the remaining business year be recomputed using the current actuarial assumptions which were used for the required revaluation of the net liability (asset). Furthermore, supplementary disclosures were added which clarify the impact of a change, curtailment or settlement on the asset ceiling rules. The modi-

fications take effect in respect of accounting periods beginning on or subsequent to 1 January 2019. They had no impact on the consolidated financial statements of VP Bank Group.

IFRIC 23

The Interpretation is to be applied in respect of taxable profits (tax losses), tax assessment bases, unused tax-loss carry-forwards, unused tax credits and tax rates whenever uncertainty as to the treatment for income tax purposes under IAS 12 exists. An entity shall apply discretion in determining whether each tax treatment is to be assessed individually or several tax treatments are to be assessed jointly. The decision shall be based on which approach enables a better prediction to remove the uncertainty.

An entity shall consider whether it is probable that the taxing authority in question will accept the respective tax treatment (or combination of tax treatments) which it has applied or intends to apply in its tax declaration. In assessing the probability of the competent tax authority accepting an uncertain tax treatment, an entity shall always presume that a tax authority will exercise its right to review amounts and that such review will be carried out in full knowledge of all relevant information.

If an entity concludes that it is not probable, then it shall use the most probable value for the tax treatment. The decision should be based on the method which helps to better predict a resolution of the uncertainty.

IFRIC 23 takes effect for accounting periods beginning on or after 1 January 2019. Earlier adoption is permitted but VP Bank Group did not avail itself of this possibility. The adoption of the amendments will have no material impact on the consolidated financial statements of VP Bank Group.

International Financial Reporting Standards, which are to be introduced in 2020 or later

Numerous new standards, revisions and interpretations of existing Standards were published, the application of which is mandatory for accounting periods commencing on or after 1 January 2020. The following new or amended IFRS standards and/or interpretations are currently being analysed or are without significance for VP Bank Group. VP Bank Group did not avail itself of the possibility of early adoption thereof.

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

In September 2019, the IASB published amendments to IFRS 9, IAS 39 and IFRS 7, completing the first phase of its work in response to the impact of the reform of Interbank Offered Rate (IBOR) on financial reporting.

The amendments provide for temporary relief that allows hedge accounting to continue during the period of uncertainty before an existing benchmark interest rate is replaced by an alternative, nearly risk-free rate (RFR).

The amendments contain a number of alleviations that apply to all hedging relationships directly affected by the

reform of the interest-rate benchmark. A hedging relationship is affected if the reform creates uncertainty about the timing and/or amount of the benchmark-based cash flows of the hedged item or hedging instrument.

The application of the relief is mandatory. The first three alleviations relate to:

- the assessment of whether a forecast transaction (or a component thereof) is highly probable
- the assessment as to when to reclassify the amount in the cash-flow hedge reserve to the income statement
- the assessment of the economic relationship between the hedged item and the hedging instrument

For each of these alleviations, it is assumed that they relate to the benchmark on which the hedged cash flows are based (whether or not contractually specified) and/or for alleviation three, the benchmark on which the cash flows of the hedging instrument are based, will not be changed by the IBOR reform.

The fourth alleviation provides that, for a benchmark component of interest-rate risk affected by the IBOR reform, the requirement that the risk component be separately identifiable only needs to be met at the inception of the hedging relationship. If hedging instruments and hedged items can be added to or removed from an open portfolio as part of a continuous hedging strategy, the separately identifiable requirement need only be met if hedged items are designated for the first time within the hedging relationship.

To the extent that a hedging instrument is modified so that its cash flows are based on an RFR but the hedged item continues to be based on IBOR (or vice versa), there is no relief in the measurement and recognition of ineffectiveness arising from differences in changes in fair value.

The relief will continue indefinitely provided that none of the events described in the proposed amendments have occurred. If an entity designates a group of positions as the hedged item, the requirements for the date on which the relief ends are applied separately to each item within the designated group of positions. The amendments also introduce specific disclosure requirements for hedging relationships to which the relief applies.

The project team is currently analysing the effects on VP Bank Group. The amendments are effective for reporting periods beginning on or after 1 January 2020. VP Bank Group did not make use of the possibility of early adoption.

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

In October 2018, the IASB published amendments to IAS 1 and IAS 8 to modify the definition of "material" across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality depends on the nature or scope of the information, or both. An entity must assess whether the information is material, either individually or in combination with other information, in the context of the financial statements.

The proposed amendments explain that information is considered concealed if it is provided in a manner that has

an effect similar to omitting or misstating the information. For example, material information may be obscured when information about a material item, transaction or other event is scattered throughout the financial statements or disclosed in vague or unclear language. Material information may also be obscured when different elements, transactions or other events are inappropriately aggregated, or conversely, when similar elements are inappropriately disaggregated.

The amendments have replaced the “could influence” threshold indicating that a potential influence by users must be taken into account, and in defining the term “material”, the concept of “to be expected” is to be taken into account. The amended definition therefore clarifies that in assessing materiality, only the influence on the economic decisions of the primary users which can reasonably be expected, must be considered.

The amendments take effect for reporting periods beginning on or after 1 January 2020. VP Bank Group did not avail itself of the possibility of early adoption.

5. Management of equity resources

The focus of value-oriented risk management is to achieve a sustainable return on the capital invested and one which, from the shareholders' perspective, is commensurate with the risks involved. To achieve this goal, VP Bank supports a rigorous dovetailing of profitability and risk within the scope of the management of its own equity resources; it consciously does away with the goal of gaining short-term interest advantages at the expense of the security of capital. VP Bank avoids extreme risks which can jeopardise

risk tolerance and thus the health and the very existence of the Group and manages all risks within the annual risk budget laid down by the Board of Directors. Thanks to its strong capital base, VP Bank can invest in the growth of its business. In managing the equity resources, VP Bank measures both the equity required (minimum amount of equity to cover the Bank's risks in accordance with the requirements of applicable supervisory law) and the available eligible equity (VP Bank's equity computed in accordance with the criteria of the supervisory authorities) and projects their future development. Equity resources which the Bank does not need for its growth or business activities are returned through dividend payments according to its long-term distribution policy. Thus, through active management, VP Bank is able to maintain its robust capitalisation as well as its credit rating and continues to create sustainable value for the shareholders.

Capital indicators

The determination of the required capital and tier capital pursuant to Basel III is undertaken based on the IFRS consolidated financial statements, whereby unrealised gains are deducted from core capital. Total capital (core capital and supplementary capital) must amount to a minimum of 13 per cent of the risk-weighted assets.

Risk-weighted assets as of 31 December 2019 aggregated CHF 4.8 billion as compared to CHF 4.5 billion in the prior year. Core capital as of 31 December 2019 was CHF 979.0 million as compared to CHF 942.8 million in the prior year. The overall equity ratio declined by 0.7 percentage points from 20.9 per cent at 31 December 2018 to 20.2 per cent at 31 December 2019. Both as at 31 December 2018 and 31 December 2019, VP Bank Group was adequately capitalised in accordance with the respective guidelines of the FMA and the BIS currently in force.

Risk management of VP Bank Group

1. Overview

An effective capital, liquidity and risk management is crucial for the success and stability of a bank. Therefore, VP Bank systematically identifies, evaluates, manages and monitors the relevant risks as well as the steering of capital resources and liquidity to ensure its risks bearing capacity. The risk policy as approved by the Board of Directors of VP Bank Group constitutes the mandatory operating framework in this respect.

The risk policy contains an overarching framework as well as a risk strategy for each risk group (financial risks, operational risks, business risks). Therein, the specific goals and principles, organisational structures and processes, methods and instruments as well as target measures and limits are described and regulated.

In Liechtenstein, the legal regulatory requirements regarding the Risk Management are set out primarily in the Banking Act (BankA) and the Banking Ordinance (BankO). In addition, the Capital Requirements Regulation (CRR) of the European Union was put into effect as of 1 February 2015. Together with the Capital Requirements Directive (CRD), the CRR constitutes the implementation of the currently valid Basel III Capital Accord in the European Union. In Liechtenstein, the CRD was enacted in the BankA and BankO. VP Bank was classified by the Financial Market Authority Liechtenstein as a locally system-relevant bank and must possess, in aggregate, equity amounting to at least 13 per cent of its risk-weighted assets. Since 1 January 2018, the Bank has to comply with the Liquidity Coverage Ratio (LCR) of at least 100 per cent. Due to its very robust equity basis, its balance-sheet structure and its comfortable liquidity situation, the Bank has always over-fulfilled the regulatory limits in 2019.

In addition to quantitative measures, also qualitative requirements regarding the identification, measurement, steering and monitoring of financial and operational risks are imposed. These are continually reviewed by VP Bank for on-going effectiveness and further developed.

Capital and balance-sheet structure management

The minimum capital ratio for VP Bank is 13 per cent of risk-weighted assets and consists of the regulatory minimum requirement of 8 per cent plus risk buffers for capital conservation and systemic risk of 2.5 per cent each. Furthermore, Basel III provides for an anti-cyclical capital buffer which was set at 0 per cent for 2019 by the Financial Market Authority Liechtenstein.

VP Bank has always fulfilled the minimum equity requirements during 2019. Due to a robust Tier-1 ratio of 20.2 per

cent as of the end of 2019, appropriate freedom of action is ensured. This enables VP Bank to appropriately assume risks associated with banking operations. Due to the free available equity resources, there also remains potential for corporate acquisitions.

The Leverage Ratio (indebtedness ratio) of VP Bank amounted to 7.1 per cent at the end of 2019. As of 31 December 2019, a regulatory minimum ratio does not yet exist in Liechtenstein. VP Bank must publish further information as to the Leverage Ratio in the Disclosure Report.

As part of the management of equity resources and the balance-sheet management structure, compliance with regulatory requirements and the coverage of its business needs are monitored on an on-going basis. Using an internal process to assess the adequacy of capital resources (Internal Capital and Liquidity Adequacy Assessment Process), possible adverse effects on the equity and liquidity basis in stress situations are simulated and analysed.

Liquidity management

Whilst adhering to the legal liquidity norms and provisions, liquidity risks are monitored and managed using internal directives and limits for the interbank business and credit-granting activities. The granting of liquidity within VP Bank Group at all times has highest priority and is ensured with a large holding of cash and cash equivalents and high-quality liquid assets (HQLA). VP Bank was compliant with the minimum liquidity requirements during 2019 at all times.

VP Bank is legally obligated to comply with the Liquidity Coverage Ratio (LCR). During 2019, a minimum ratio of 100 per cent was required. With a value of 213 per cent, this target value was markedly exceeded due to the comfortable liquidity situation.

With ILAAP (Internal Liquidity Adequacy Assessment Process), the Financial Market Authority imposes specific requirements concerning internal strategies and procedures to determine, manage and monitor liquidity risks. In 2019, they were surveyed and assessed by the Financial Market Authority Liechtenstein by the means of an ILAAP questionnaire.

As part of its liquidity-management process, VP Bank has drawn up an emergency liquidity plan which ensures adequate liquidity in case of a liquidity crisis. Early-warning indicators are regularly reviewed to monitor and identify, on a timely basis, any deterioration in the liquidity situation.

As part of liquidity management, compliance with regulatory requirements and the coverage of business needs is ongoingly monitored. Using stress tests, possible adverse scenarios are simulated and the impact on liquidity in stress situations analysed.

Credit risk

Because of its importance the client lending business (CHF 6.8 billion as of 31 December 2019 or 50.1 per cent of total assets), the management and monitoring of credit risks plays a central role. Credit-risk management in the client lending business is governed - in addition to risk-policy regulations - by the rules on the granting of credits. In 2019, the volume of client loans increased by CHF 0.6 billion to CHF 6.8 billion. In the interbank business, the volumes remain virtually unchanged compared to 2018 and at the end of the year, amount to CHF 0.7 billion.

Market risk

Due to the importance of the interest-bearing business activities, the management and monitoring of market risk is of particular importance. In this context, VP Bank Group is exposed to interest rate, foreign-currency and equity risk. The global interest-rate environment was characterised by very low interest rates. The negative interest-rate environment in principal currencies, the Swiss franc and Euro, continues to challenge balance-sheet management, as well as the investment of client deposits.

Operational risk

VP Bank defines operational risk as the risk of losses being incurred as a consequence of the inappropriateness or failure of internal processes, individuals, systems or as a result of external events. Through risk assessments, possible risk scenarios are identified, described and assessed. Control over operational risk is undertaken in all organisational units of VP Bank by the respective executive managers. Thanks to a uniform implementation, it is possible to provide meaningful quarterly reporting to the relevant target groups (Board of Directors, Group Executive Management and senior executives) on the status of operational risks in VP Bank Group.

Further risks

In addition to the aforementioned risks, the risk management of VP Bank Group covers strategy, business as well as reputational risk. Based on its business model and range of services, these risks are systematically analysed and reassessed on an on-going basis.

2. Principles underlying the risk policy

Risk management is based on the following principles:

Alignment of risk tolerance and risk appetite

Risk tolerance is the capacity of a bank, despite arising losses, to continue to exist on a going concern basis or at least to be able to fully satisfy the demands of investors and creditors. Risk appetite indicates the potential loss which the bank is prepared to bear arising from respective risk categories without thereby jeopardising the bank's ability to continue to exist on a going concern basis. As a strategic success factor, risk tolerance is to be ensured by applying a suitable process to ensure an appropriate capital and liquidity base.

Clearly defined powers of authority and responsibilities

Risk appetite is operationalised by a comprehensive system of limits and effectively implemented together with a clear set of guidelines governing the tasks, limits of authority and responsibilities of all functions, organisational units and bodies participating in the risk- and capital-management processes.

Conscientious handling of risks

Strategic and operational decisions are taken based on risk and return considerations and aligned with the interests of the stakeholders. Provided that legal and the regulatory provisions as well as the principles governing the business and ethical policies are observed, VP Bank accepts risks consciously as long as the extent of these risks are known and the technical prerequisites to map them are at hand and that the bank is appropriately rewarded. It avoids transactions with risks not appropriately balanced to returns as well as large risks and extreme risk concentrations which could jeopardise risk tolerance and thus the ability of the Group to continue as a going concern.

Segregation of functions

Risk control and risk reporting to Group Executive Management and the Board of Directors are assured by a unit (Group Risk) which is independent from risk management units.

Transparency

The basis of risk monitoring is the comprehensive, objective, timely and transparent disclosure of risks to Group Executive Management and the Board of Directors.

3. Organisation of capital, liquidity and risk management

Classification of banking risks

The prerequisite for the risk management and the management of equity resources of VP Bank is the identification of all significant risks and their aggregation to an overall bank risk position. Which risks are significant is derived from the business model and related offerings of financial products and services of VP Bank.

The following table gives an overview of the risks VP Bank is exposed to in the ordinary course of its business. These are allocated to five risk groups - strategy, business, financial, operational and reputational risk.

Strategic risk encompasses the risk of a potential decline in profitability as a result of an inadequate corporate orientation in relation to the market environment (political, social, technological, ecological, legal) and can arise from an unsuitable strategic positioning or absence of effective counter-measures in the case of changes.

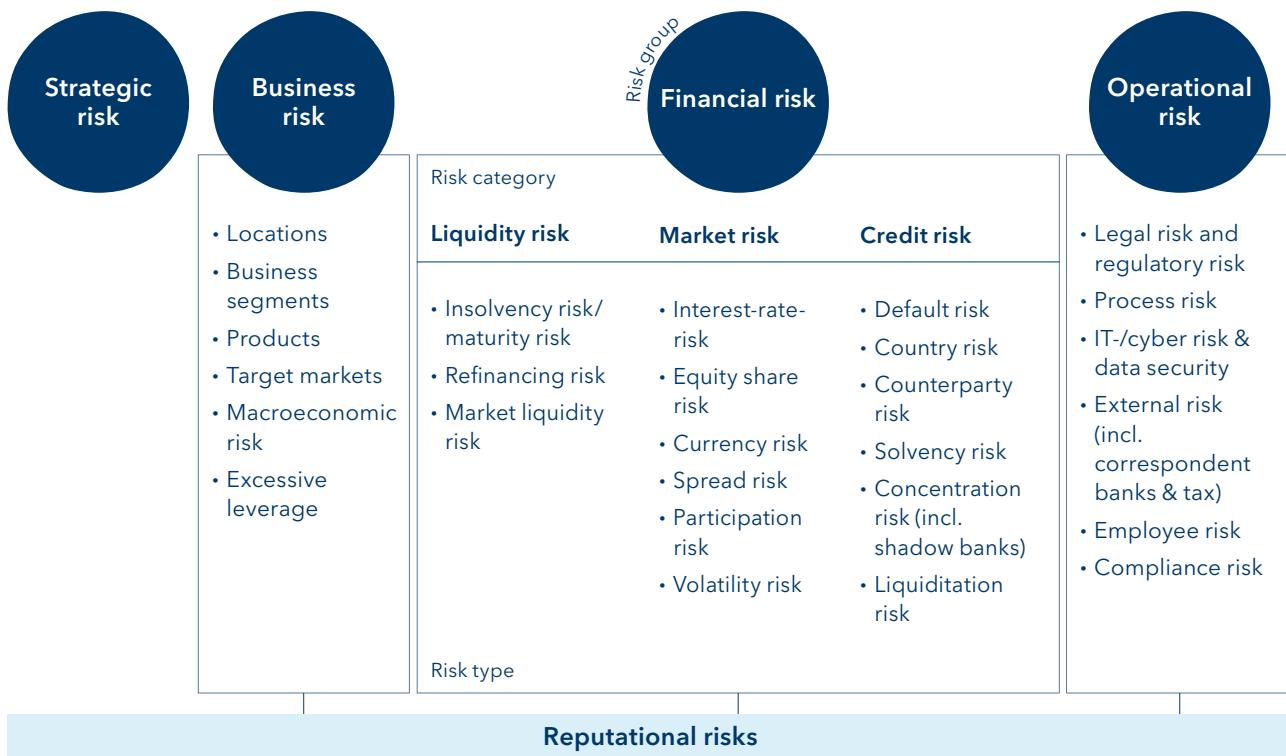
Business risk describes the risk that the attractiveness of location-related factors recedes, or the significance and/or weighting of individual business areas undergo change by virtue of external framework conditions. It also includes the risk that new product launches, market access or business processing are impeded or rendered impossible as a

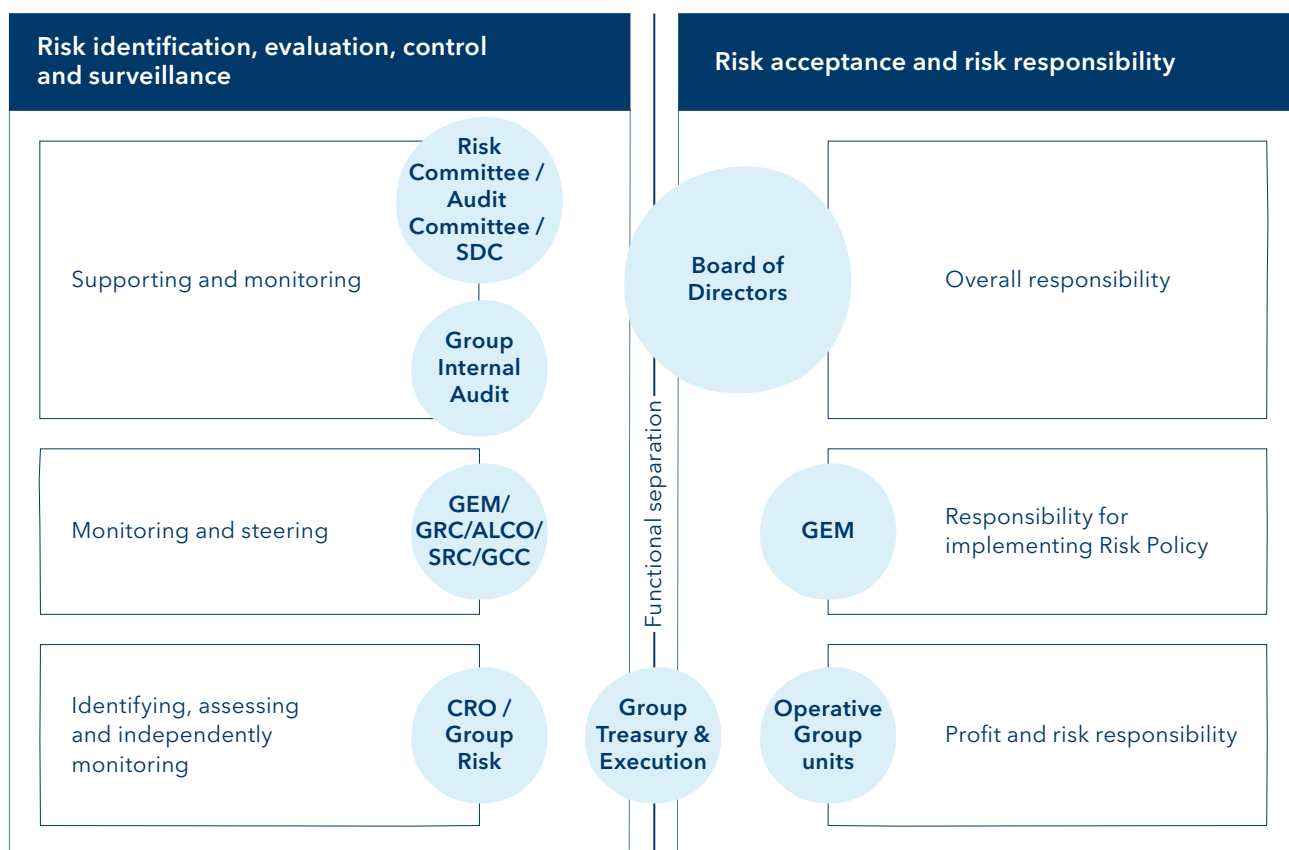
result of regulation or existing products, market access or business processing entail disproportionately high costs or are unprofitable. Finally, adverse developments may arise in connection with target markets as a result of political or geopolitical influences.

Financial risk is consciously assumed in order to generate revenues or to protect business policy interests. In this respect, liquidity risk comprises short-term liquidity and refinancing risk as well as market liquidity risk. Liquidity and refinancing risk express the danger that current and future payment obligations cannot be refinanced on the due date or to the full extent, not in the correct currency or not on customary market terms and conditions. Market liquidity risk includes cases where it is not possible, because of insufficient market liquidity, to liquidate or hedge positions subject to risk on a timely basis, to the desired extent and on acceptable conditions.

Market risk expresses the danger that possible economic losses in value in the banking and trading books arise from adverse changes in market prices (interest rates, currency rates, equity prices and commodities) or other price-influencing parameters such as volatility.

Credit risk encompasses counterparty, country, concentration risk as well as residual risk deriving from the use of credit collateral (realisation or liquidation risk). Counterparty risk describes the danger of a financial loss which may arise if a counterparty of the bank cannot or does not wish to meet its contractual commitments in full or on the due date





(default risk) or the credit-worthiness of the debtor has deteriorated (solvency risk). Country risk as a further credit risk arises whenever political or economic conditions specific to a country diminish the value of an exposure abroad. Concentration risk encompasses potential losses accruing to the bank not through the debtor itself but as a result of an insufficient diversification of the credit portfolio. Realisation risk encompasses potential losses accruing to the bank not from the debtor itself as a result of an insufficient possibilities of realising the collateral.

Operational risk is the risk of incurring losses arising from the inappropriateness or failure of internal procedures, individuals or systems or as a result of external events. These are to be avoided by appropriate controls and measures before they become effective or, if that is not possible, be reduced to a level set by the bank. Operational risks may also arise in all organisational units whereas financial risks can only arise in risk-taking units.

Reputational risk describes the risk that the trust of employees, clients, shareholders, regulatory authorities and the public in general is weakened or the public image and/or reputation of the Bank is impaired as a result of other types of risk or through various events. It can also imply that the Bank suffers monetary losses and/or a decline in earnings as a result.

Duties, powers of authority and responsibilities

The diagram above shows the core tasks, competencies and responsibilities of the positions, organisational units and committees for the individual risk groups which are involved in the risk-management process. The principle of the functional and organisational segregation of risk management and risk monitoring ensures avoiding conflicts of interest between those units which assume risks and those which monitor them. The management, monitoring and verification of risks is performed through the three lines of defence model as follows:

- 1st Line of defence: risk management
- 2nd Line of defence: risk monitoring
- 3rd Line of defence: internal/external audit.

The **Board of Directors** bears the overall responsibility for the management of equity resources, liquidity and risk management within the Group. It is its responsibility to establish and maintain suitable processes and an organisational structure as well as a system of internal control (ICS) to ensure an effective and efficient management of equity resources, liquidity and risk, thereby ensuring adherence to risk tolerance. The Board of Directors lays down directives governing the risk policy

and approves these. It monitors their implementation, sets the risk appetite on a Group level and establishes the target values and limits for the management of equity resources, liquidity and risk management. In assuming these tasks, the Board of Directors is assisted by the **Risk Committee**.

Furthermore, the Board of Directors defines procedures regarding internal and external audit. It receives reports of the internal audit and the external auditors concerning extraordinary and significant events such as significant losses, serious disciplinary errors, litigation etc. In assuming this task, the Board of Directors is supported by the **Audit Committee**.

The **Group Strategy & Digitalisation Committee (SDC)** assists and advises the Board of Directors in the case of strategic issues and projects. It prepares strategy issues for the attention of the Board of Directors, explores in-depth strategic issues, ensures an on-going steering and management process in the area of strategy and reviews the strategy both periodically and on an ad-hoc basis. Furthermore, the Committee reviews the implementation of strategic measures.

Group Internal Audit is responsible for the function of internal audit within VP Bank Group. It is an autonomous organisational unit which is independent of business processes and is responsible for the periodic audit of structures and processes relevant for the risk policy.

Group Executive Management (GEM) is responsible for implementing of and compliance with the risk policy approved by the Board of Directors. One of its core tasks is to ensure the functional capability of the risk-management process and the internal control system. Furthermore, it is responsible for the determination and assignment of duties, responsibilities and competencies of the Asset & Liability Committee, the allocation of target measures and limits, as set by the Board of Directors, to the individual Group subsidiaries as well as the Group-wide management of strategy, business, financial, operational and reputational risk.

In its function as **Group Risk Committee (GRC)** as the supreme body to monitor and steer the risks of VP Bank, the Group Executive Management assumes responsibility for implementing the risk strategy within the limits and targets set by the Board of Directors and Group Executive Management as well as dealing with overarching issues.

Whilst complying with the relevant legal and regulatory provisions, the **Asset & Liability Committee (ALCO)** is responsible for the risk and return-oriented management of the balance sheet on basis of the Economic Profit Model as well as for the steering of financial risks. It assesses the Group's risk situation in the area of financial risks and initiates remedial steering measures, whenever necessary.

The **Security Risk Committee (SRC)** is the supreme security body of VP Bank which manages the operational implementation in the participating units by setting targets

regarding the various security-related issues. It deals with all strategic security issues of VP Bank Group. This covers physical security, information security (incl. cyber-security), business continuity management as well as the related awareness of the need for security and culture.

The **Group Credit Committee (GCC)** is, inter alia, responsible for monitoring credit risks at the level of the individual credit as part of the first line of defence. This includes in particular dealing with credit applications within the scope of delegated powers of authority as well as the risk assessment of individual credits.

Group Treasury & Execution bears the responsibility for the steering and management of financial risks within the limits and target measures laid down by the Board of Directors and Group Executive Management. This is done whilst taking into account the Group's risk tolerance as well as complying with legal and regulatory prescriptions.

Group Credit is responsible for the monitoring process of credit exposures at an individual credit level with regard to collateral and limits. In addition, Group Credit ensures that credits are approved by the defined competence bodies and regularly prepares credit reports for the attention of Group Executive Management.

The **Chief Risk Officer (CRO)** is on top of the risk-management function. Within Group Executive Management, he is responsible for the independent risk monitoring of VP Bank Group and the individual Group subsidiaries. This covers all risk groups with the exception of default risk at the level of the individual exposure.

The CRO ensures that the existing legal, supervisory-law and internal bank provisions regarding risk management are complied with and new risk management provisions are implemented.

As an independent function for the centralised identification, evaluation (measurement and assessment) and monitoring (control and reporting) of the risk situation and risk tolerance of the Group, **Group Risk** supports the CRO in assuming his respective duties.

Process to ensure risk bearing capacity

The primary objective of the ICAAP is the compliance with the regulatory capital-adequacy requirements and thus the guaranteeing of the ability to continue as a going concern. The risks of banking operations are to be borne by the freely available risk capital. The following risk management process for all significant risks in VP Bank as outlined below is designed to ensure risk tolerance.

Definition of risk strategies: The risk strategies by risk group (strategy risk, business risk, financial risk and operational risk) flow from the business strategy of VP Bank and set the framework for an efficient risk management of the respective risk types. The risk policy forms the basic structure and the regulatory framework for the individual risk strategies.

Determination of the risk coverage capacity and setting the risk appetite: The concept of risk tolerance of VP Bank Group distinguishes between a regulatory and a value-oriented perspective. The findings from one perspective serve to validate and complement the other perspective and vice-versa. The determination of the freely available risk-coverage equity is made under both perspectives having regard to appropriate haircuts and risk buffers. Based on the risk-bearing capacity statement, the BoD sets limits and targets measures for a rolling risk horizon of one year. At least semi-annually, all significant risks and the available risk-covering equity are juxtaposed (risk-bearing capacity statement).

Risk identification (risk inventory): In the annual risk inventory to be undertaken as part of the review of the framework structure and risk strategies, it is ensured that all significant risks for the Group (both quantitative and qualitative) are identified. The analysis is made top-down and bottom-up based on both quantitative and qualitative criteria. Significant risks are fully integrated into the risk-management cycle. Insignificant risks are reviewed at least annually and monitored within the scope of the risk inventory. As part of the risk inventory, potential risk concentrations in all significant risk types are evaluated.

Risk measurement and evaluation: Relevant for the assessment of risk tolerance from a regulatory viewpoint is the eligible equity as well as the regulatory committed capital. From a value-oriented point of view, the risk tolerance results from the net present value of the equity after deducting operating and risk costs as well as a buffer for other risks. The economically required capital from a value-oriented point of view is measured uniformly using a confidence level of 99 per cent and a risk horizon of one year. In order to determine the economically required capital, all risk types of VP Bank classified as significant during the annual risk inventory are taken into account and possible unexpected losses in value considered. The economic risk assessment includes also such risk types which are not captured by the regulatory capital-adequacy requirements for the Bank. To determine the economically required capital, all significant risks are aggregated to form an overall assessment.

Assessment of risk tolerance: Risk tolerance is measured against the degree of utilisation of the economically required capital for all significant risks in relation to the free risk-coverage capacity as of the date of measurement. In this process, early-warning stages permit a timely change of direction in order not to endanger the continuation of the Bank as a going concern. Risk tolerance is considered as still intact as long as the degree of utilisation

of the economically required capital (from a regulatory and value-oriented viewpoint) in relation to the free risk-coverage capacity is under 100 per cent as of the date of measurement.

Risk steering encompasses all measures on all organisational levels to actively steer the Bank's significant risks. In this respect, the objective is the optimisation of the correlation of risks and returns within the limits and target measures set by the Board of Directors and Group Executive Management to ensure the risk tolerance of the Group whilst complying with legal and supervisory-law prescriptions. Risk steering takes place on a strategic as well as operating level.

Based upon the juxtaposing of risks and limits on the one hand, as well as of regulatory and economically required capital and risk coverage capacity, on the other, countermeasures are taken in the case of negative deviations.

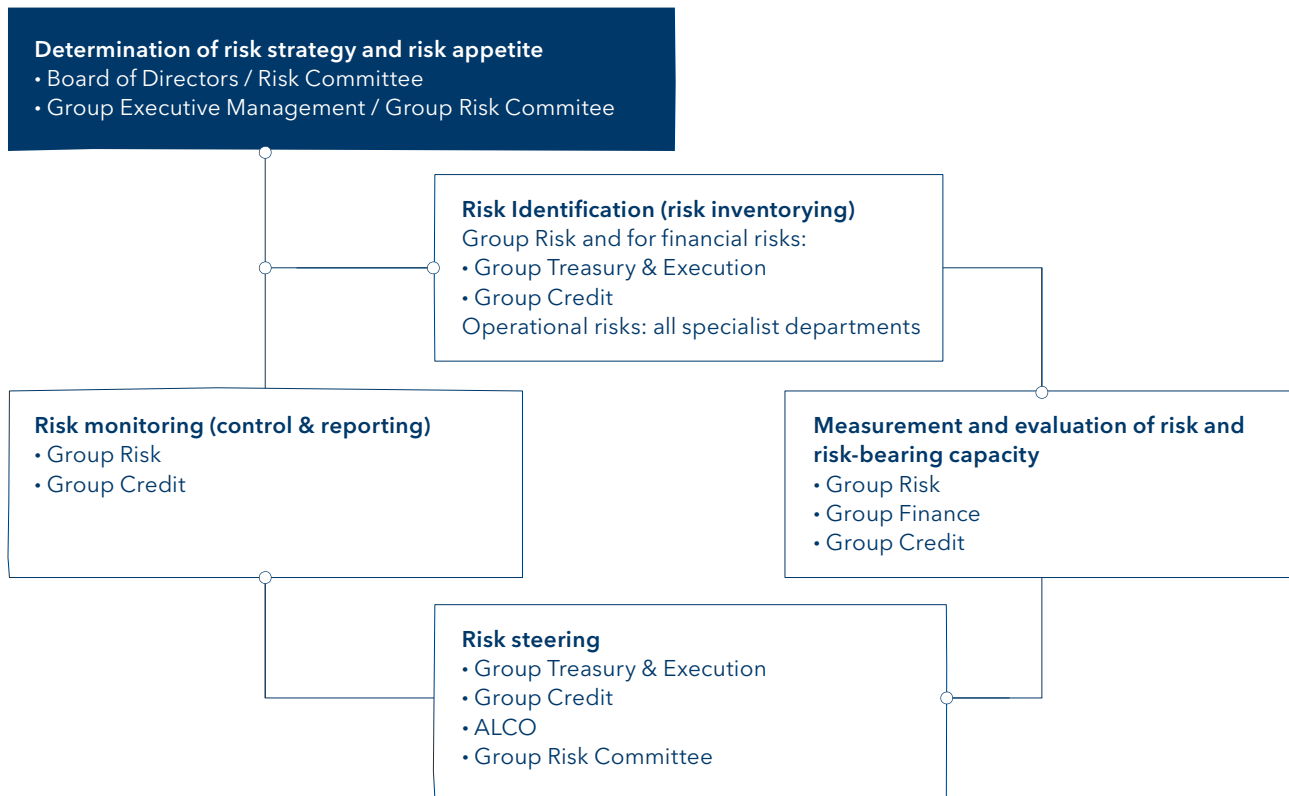
Risk monitoring (control and reporting to GEM and BoD): Risk steering is accompanied by comprehensive risk monitoring, which is functionally and organisationally independent of risk steering. Risk monitoring covers control and reporting. As part of the control over financial risks, steering impulses are derived from a comparison of target to actual numbers of figures. The target is constituted by the limits and target measures set, as well as from legal and supervisory-law prescriptions. For the review of which limits are exhausted (actual), early warning stages are additionally deployed, in order to take timely steering measures for any risks before they become effective.

As operational risks may arise as a result of internal control failures during current business activities, the control of operational risks in all organisational units of VP Bank is undertaken by the respective executive managers.

In addition to financial and operational risks, reputational risks may include also business risks (including strategy risks). Business and any reputational risks arising are monitored by Group Executive Management.

As part of reporting, the results of monitoring are set forth in a reliable, regular, understandable and transparent manner. Reporting is made ex ante to the preparation of decisions, ex post to control purposes - in particular to analyse any deviation from budgeted values - as well as ad hoc in the case of suddenly and unexpectedly occurring risks.

The process of ensuring the risk tolerance of VP Bank Group is presented in the following diagram.



4. Disclosure of required equity¹

The required qualitative and quantitative information regarding capital adequacy, strategies and procedures for risk management as well as the risk exposure of VP Bank are set forth in the Risk Report and the commentary on the consolidated financial statements. In addition, VP Bank Group has drawn up a Disclosure Report for the financial year 2019. In this manner, the Bank fulfils the regulatory requirements of the Banking Ordinance (BankO) and the Banking Act (BankA).

The capital-adequacy and liquidity requirements for credit institutions in Liechtenstein are based on the Basel III rules as implemented in the European Union. As one of the three system-relevant banks in Liechtenstein, VP Bank is to fulfil the requirement of additional capital buffers.

VP Bank computes its required equity in accordance with the provisions of the CRR. In this context, the following approaches are applied:

- Standard approach for credit risks in accordance with Part 3 Section II Chapter 2 CRR
- Basis indicator approach for operational risks in accordance with Part 3 Section III Chapter 2 CRR

- Standard method for market risks in accordance with Part 3 Section IV Chapters 2-4 CRR
- Standard method for CVA risks in accordance with Art. 384 CRR
- Comprehensive method for CRR risks to take account of financial collateral in accordance with Art. 223 CRR.

As regards strategy, business and reputational risks, no explicit regulatory capital-adequacy requirements are contained in the CRR.

As of 31 December 2019, the business activities of VP Bank Group required equity totalling CHF 629.4 million (prior year: CHF 586.3 million). This represents 13 per cent of the eligible assets of CHF 4,841.9 million (prior year: CHF 4,510.32 million). The excess of equity (based upon a requirement of 13.0 per cent) as at 31 December 2019 amounts to CHF 349.5 million (prior year: CHF 354.5 million). The Tier-1 ratio of 20.2 per cent (prior year: 20.8 per cent) reflects the on-going extremely robust equity situation of VP Bank. In 2019, VP Bank Group used no hybrid capital under eligible equity and, in accordance with International Financial Reporting Standards (IFRS), netted no assets against liabilities (balance-sheet reduction).

¹ unaudited

The following table shows the capital-adequacy situation of the Group as of 31 December 2019.

Capital-adequacy computation (Basel III)

in CHF 1,000	31.12.2019	31.12.2018
Core capital		
• Paid-in capital	66,154	66,154
• Deduction for treasury shares	-68,004	-65,807
• Retained earnings and other reserves	960,352	926,516
• Group net income	73,543	54,717
Total shareholders' equity	1,032,045	981,580
• Deduction for dividends as per proposal of Board of Directors	-36,385	-36,385
• Deduction for goodwill and intangible assets	-62,189	-51,454
• Deduction for actuarial gains/losses from IAS19	61,151	69,923
• Deduction for equity instruments as per art. 28 CRR	-8,341	-10,450
• Other regulatory adjustments (deferred tax, securitisation positions, prudential filter)	-7,319	-10,431
Total regulatory deduction	-53,083	-38,797
Eligible core capital (tier 1)	978,962	942,783
Eligible core capital (adjusted)	978,962	942,783
Credit risk (in accordance with Liechtenstein standard approach)	320,430	299,785
thereof price risk regarding equity securities in the banking book	8,265	4,098
Market risk (in accordance with Liechtenstein standard approach)	20,253	17,163
Operational risk (in accordance with basic indicator approach)	45,535	43,136
Credit Value Adjustment (CVA)	1,130	742
Total required equity	387,348	360,826
Capital buffer	242,093	225,516
Total required equity including capital buffer	629,441	586,342
CET1 equity ratio	20.2%	20.9%
Tier 1 ratio	20.2%	20.9%
Overall equity ratio	20.2%	20.9%
Total risk-weighted assets	4,841,859	4,510,319
Return on investment (net income / average balance sheet total)	0.5%	0.4%

5. Financial risks

Whilst complying with the relevant legal and regulatory provisions, the monitoring and steering of financial risks is based upon internal bank target measures and limits relating, inter alia, to volumes and sensitivities. In addition, scenario analyses and stress tests demonstrate the effect of events which were not or not sufficiently taken into consideration by the ordinary risk evaluation.

In this respect, the Board of Directors lays down strategic guard rails within which risk management is conducted. The identification, measurement, steering and monitoring of all relevant risks is handled at the operating level. Group Executive Management is responsible for the implementation and observance of the risk strategy for financial risks as approved by the Board of Directors.

Market risks

Market risks arise from positions in debt securities, equities and other financial investments, foreign currencies, precious metals and related derivatives, as well as from inter-bank and client activities.

Interest-rate risk in VP Bank's balance sheet constitutes a significant component of market risk. It arises primarily

because of differing maturities of asset and liability positions. The maturity-structure table shows the assets and liabilities of VP Bank regarding their maturity, split into sight positions, cancellable positions and those with differing maturities (cf. appendix 35). Asset and liability positions of VP Bank denominated in foreign currencies are of importance to determine the currency risk. A balance sheet overview by currency is to be found in appendix 34 (cf. balance sheet by currency).

The Bank applies a comprehensive set of methods and indicators for the monitoring and management of market risks. In this respect, the value-at-risk approach was established as the standard method to measure general market risk. The value-at-risk for market risks quantifies the negative deviation, expressed in Swiss francs, from the value of all positions exposed to market risk. The value-at-risk indicator is computed on a Group-wide basis with the method of historic simulation.

In this process, the historical movements in market data over a period of at least five years are used in order to measure value-at-risk for all positions subject to market risk. The projected loss is valid for a holding period of ten trading days and will not be exceeded with a probability

of 99 per cent. For fixed rate positions interest rate risk is calculated based on the respective fixed interest period, whereas an internal replication model is applied for floating positions.

The market value-at-risk of VP Bank Group at 31 December 2019 amounted to CHF 24.1 million (prior year scaled to a holding period of ten days CHF 30.9 million).

The table to the right shows a break down of the overall value-at-risk into different types of market risk. The computation of average, highest, lowest values by risk type and in aggregate is based on a separate year-on-year perspective; the aggregate value thus does not necessarily equate to the sum of the respective individual values by risk type.

Market-Value-at-Risk (value at end of month)

in CHF million	Total	Interest-rate risk	Equity price and commodity risk	Currency risk
2019				
Year-end	24.1	6.7	8.7	8.7
Average	28.0	10.4	8.5	9.1
Highest value	29.5	12.4	9.4	9.7
Lowest Value	24.1	6.7	6.8	8.4
2018¹				
Year-end	30.9	16.6	7.2	7.2
Average	28.7	15.7	6.6	6.4
Highest value	30.9	16.7	7.2	7.2
Lowest Value	23.8	13.8	3.9	6.1

¹ From 2019, a holding period of 10 days will be used for market risks; the previous year's figures have been adjusted accordingly.

As maximum losses arising from extreme market situations cannot be determined by the value-at-risk approach, the market risk analysis is supplemented by stress tests. Such tests enable the Bank to estimate the effects of extreme fluctuations in market risk factors on the net present value. In this manner, the fluctuations in net present value of all balance-sheet positions and derivatives in the area of market risks are computed with the aid of sensitivity indicators based on synthetically produced market movements (parallel shift, rotation or inclination changes in interest-rate curves, exchange-rate fluctuations by a multiple of their implicit volatility, slump in equity share prices).

The following table shows the key rate duration of positions exposed to market risk. First, the present values of all asset and liability positions as well as derivative financial instruments are determined. The interest rates of the relevant interest-rate curves are then increased by one per cent (+100 basis points) in each maturity band and per currency. The respective movements represent the gain or loss of the present value resulting from the shift in the interest-rate curve. Negative values point to an excess of assets, positive values to an excess of liabilities in the maturity band.

Key rate duration profile per 100 basis increase

in CHF 1,000	within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
31.12.2019						
CHF	1,207	753	2,077	-2,330	-8,213	-6,506
EUR	701	-422	1,734	-3,332	-16,231	-17,550
USD	534	-977	1,178	-7,923	-3,312	-10,500
Other currencies	57	41	550	2,426	0	3,074
Total	2,499	-605	5,539	-11,159	-27,756	-31,482
31.12.2018						
CHF	1,197	1,439	1,262	-22,036	-19,677	-37,815
EUR	909	-194	1,019	-12,259	-14,436	-24,961
USD	769	-464	-464	-13,434	-3,552	-17,145
Other currencies	142	-54	442	1,583	0	2,113
Total	3,017	727	2,259	-46,146	-37,665	-77,808

In the table to the right the effects of a negative movement in the principal currencies on Group net income and shareholders' equity are set out. Responsible for the underlying fluctuation of the Swiss franc against the Euro and the US dollar is the implicit volatility as of 31.12.2019 and 31.12.2018, respectively.

Movements in significant foreign currencies

Currency	Variance in %	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
2019			
EUR	-5	-2,939	0
USD	-6	-6,440	-3,844
2018			
EUR	-6	-2,924	0
USD	-8	-8,097	-4,115

The impact of a potential downturn in equity markets of 10, 20 and 30 per cent, respectively, on Group net income and equity is illustrated by the following table.

Movement in relevant equity share markets

Variance	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
2019		
-10%	-3,508	-10,649
-20%	-7,015	-21,297
-30%	-10,523	-31,946
2018		
-10%	-8,090	-5,114
-20%	-16,180	-10,227
-30%	-24,271	-15,341

For risk steering purposes, derivative financial instruments are entered into in the banking book and for hedging equity, interest-rate and currency risks as well as to manage the banking book. The derivatives eligible for this purpose are laid down in the Risk Policy.

VP Bank refinances its medium- to long-term client loans and its nostro positions in interest-bearing debt securities primarily by short-term client deposits and is therefore exposed to interest-rate risk. Rising interest rates have an adverse impact on the net present value of interest-bearing credits and refinancing costs. As part of its Asset & Liability Management, mostly interest-rate swaps accounted for at fair-value are deployed to hedge this risk. VP Bank applies fair-value hedge accounting under IFRS in order to counter-balance the effect of changes in the value of the hedged items in the balance sheet. For this, the hedged items (fixed-interest credits) are linked to the hedging instrument (payer swaps) by establishing hedging relationships. In the event of fair-value changes caused by interest-rate changes, the value of the respective hedged item is adjusted and the gains/losses are accounted for as income.

Because the unsettled fixed-interest positions are transformed into variable interest-rate positions through the conclusion of payer swaps, a close economic relationship exists between the underlying and hedging transactions in relation to the hedged risk. Therefore, the hedging relationship between the designated amount of the underlying transactions and the designated amount of the hedging instruments (hedge ratio) is set on a one-to-one basis. A hedging relationship is efficient and/or effective whenever the movements in the value of the underlying and hedging transactions which are induced by interest-rate changes offset each other. Ineffectiveness is a result primarily of deviations in duration e.g. as a result of differing interest rates, timing of interest payments or differing maturities.

The initial efficiency of a hedging relationship is proven with a prospective effectiveness test. For this purpose, future changes in the fair-value of the underlying and hedging transactions are simulated based upon scenarios

and subjected to a regression analysis. Effectiveness is assessed based on the results of the analysis. Repeated reviews take place during the duration of the hedging relationship.

VP Bank has hedged its own financial investments against currency fluctuations in the main currencies through the conclusion of foreign-currency forward contracts. In principle, no currency risks should arise from client activities; residual unsettled foreign-currency positions are closed out over the foreign-currency spot market. Group Trading & Execution is responsible for the management of foreign-currency risks arising from client activities.

Liquidity risks

Liquidity risks may arise through contractual mismatches between the in- and outflows of liquidity in the individual maturity bands. Any differences arising demonstrate how much liquidity the bank must eventually procure in each maturity band should there be an outflow of all volumes at the earliest possible time. Furthermore, refinancing concentrations may lead to a liquidity risk if they are so significant that a massive withdrawal of the related funds could trigger liquidity problems.

Liquidity risks are monitored and managed using internal targets and limits for interbank and credit business – whilst complying with the legal liquidity norms and provisions regarding risk concentrations on the assets' and liabilities' side.

As at the end of 2019, a lower limit of 100 per cent for the Liquidity Coverage Ratio (LCR) applies. With a value of 213 per cent for the LCR at the end of 2019, VP Bank presents a very comfortable liquidity situation.

In the area of short-term maturity bands, the Bank refinances itself, to a significant degree, with sight deposits from clients. The maturity structure of assets and liabilities is set out in appendix 35.

VP Bank can rapidly procure liquidity on a secured basis in case of need through its access to the Eurex repo market. The risk of an extraordinary, nevertheless plausible event which will take place with a very small degree of probability can be measured with the aid of stress tests. In this manner, VP Bank can take all applicable countermeasures on a timely basis and set limits where necessary, .

Credit risks

Credit risks arise from all transactions with payment obligations of third parties in favour of the bank. Credit risks accrue from client lending activities, the money-market business including bank guarantees, correspondent and metal accounts, the reverse repo business, the Bank's own portfolio of securities, securities lending and borrowing, collateral management as well as OTC derivative trades.

Risk concentrations may arise from large loans or through inadequate diversification of the credit portfolio. They may arise because borrowers are domiciled in the same

countries or regions, are active in the same industry segment or possess similar collateral. Concentrations can lead to the creditworthiness of borrowers being impacted by the same economic, political or other factors. Risk concentrations are closely monitored and controlled by corresponding limits and operational controls.

As of 31 December 2019, the total credit exposures amounted to CHF 10.1 billion without considering collateral (31 December 2018: CHF 9.6 billion). The table to the right shows the composition thereof by on- and off-balance sheet positions.

Credit exposures

in CHF 1,000	31.12.2019	31.12.2018
On-balance-sheet assets		
Receivables arising from money market papers	122,956	67,407
Due from banks	735,026	771,107
Due from customers	6,796,832	6,195,833
Public-law enterprises	484	493
Trading portfolios		
Derivative financial instruments	72,513	42,164
Financial instruments at fair value	73,805	112,678
Financial instruments measured at amortised cost	2,302,477	2,389,521
Total	10,104,093	9,579,203
Off-balance-sheet transactions		
Contingent liabilities	143,951	207,207
Irrevocable facilities granted	97,495	93,898
Total	241,446	301,105

The following tables show the aggregate credit exposures split by counterparty, collateral, risk-weighting classes and domicile. For an analysis of financial instruments by rating, → table on page 134.

Credit exposures by counterparty

in CHF 1,000	Central governments and central banks	Banks and securities dealers	Other institutions	Corporates	Private customers and small enterprises	Other positions	Total
On-balance-sheet assets as of 31.12.2019							
Receivables arising from money market papers	122,956						122,956
Due from banks		735,026					735,026
Due from customers				2,256,590	4,540,242		6,796,832
Public-law enterprises			484				484
Trading portfolios							0
Derivative financial instruments		19,287	11	16,466	36,688	61	72,513
Financial instruments at fair value	4,175	15,898	5,458	48,274			73,805
Financial instruments measured at amortised cost	273,825	662,160	258,700	1,107,792			2,302,477
Total	400,956	1,432,371	264,652	3,429,122	4,576,930	61	10,104,093
Off-balance-sheet transactions as of 31.12.2019							
Contingent liabilities		4,407		105,646	33,899		143,951
Irrevocable facilities granted				31,297	66,198		97,495
Total	0	4,407	0	136,943	100,096	0	241,446
On-balance-sheet assets as of 31.12.2018							
Receivables arising from money market papers	66,407			1,000			67,407
Due from banks		771,107					771,107
Due from customers	3,071	22,120	312,855	1,766,980	4,090,258	549	6,195,833
Public-law enterprises			493				493
Trading portfolios							0
Derivative financial instruments		11,434	819	9,428	20,461	22	42,164
Financial instruments at fair value	8,889	28,004	22,500	53,275		9	112,678
Financial instruments measured at amortised cost	380,537	593,205	344,834	1,070,945			2,389,521
Total	458,905	1,425,870	681,502	2,901,627	4,110,719	581	9,579,203
Off-balance-sheet transactions as of 31.12.2018							
Contingent liabilities		56,688	176	120,028	30,315		207,207
Irrevocable facilities granted			1,984	30,910	48,916	12,088	93,898
Total	0	56,688	2,160	150,938	79,231	12,088	301,105

The following table shows credit exposures according to collateral. Receivables from clients are generally granted on a secured basis. This area primarily includes the mortgage business in Switzerland and Liechtenstein, the lombard credit business as well as a small number of special credits. Receivables from banks as well as financial instruments are granted on an unsecured basis.

In the mortgage-loan business, primarily residential properties, mixed or commercial objects in Switzerland and Liechtenstein serve as security. As regards the guidelines and procedures to value and manage mortgage collateral, the prescriptions of the Liechtenstein Capital-Adequacy Ordinance apply. Lombard credits are granted, by default, against pledges of liquid and diversified securities portfolios. In addition, life-assurance policies can be used as security. Pre-defined minimum requirements apply for the issuers of such policies. Each issuer is to be approved in advance.

The qualitative requirements for collateral as well as the eligible collateral types are set internally. Collateralisation policies have not varied significantly since the prior year. Risk concentrations within collateral can be avoided through a prudent credit policy. The standard collateralisation of credit exposures and conservative collateral limits lead to a significant reduction in the expected credit loss (ECL) particularly in the area of mortgage and lombard credits.

Credit exposures by collateral

in CHF 1,000	Secured by recognised financial collateral	Not secured by recognised financial collateral	Total
On-balance-sheet assets as of 31.12.2019			
Receivables arising from money market papers		122,956	122,956
Due from banks		735,026	735,026
Due from customers	6,028,571	768,261	6,796,832
Public-law enterprises		484	484
Trading portfolios			0
Derivative financial instruments	30,962	41,551	72,513
Financial instruments at fair value		73,805	73,805
Financial instruments measured at amortised cost		2,302,477	2,302,477
Total	6,059,533	4,044,560	10,104,093
Off-balance-sheet transactions as of 31.12.2019			
Contingent liabilities	133,355	10,597	143,951
Irrevocable facilities granted	47,732	49,763	97,495
Total	181,087	60,360	241,446
On-balance-sheet assets as of 31.12.2018			
Receivables arising from money market papers		67,407	67,407
Due from banks		771,107	771,107
Due from customers	5,698,639	497,194	6,195,833
Public-law enterprises		493	493
Trading portfolios			0
Derivative financial instruments	25,125	17,039	42,164
Financial instruments at fair value		112,678	112,678
Financial instruments measured at amortised cost		2,389,521	2,389,521
Total	5,723,764	3,855,439	9,579,203
Off-balance-sheet transactions as of 31.12.2018			
Contingent liabilities	202,170	5,037	207,207
Irrevocable facilities granted	16,975	76,923	93,898
Total	219,145	81,960	301,105

In the case of amounts due from banks, money-market paper as well as nostro positions in interest-bearing securities, the valuation is based upon external ratings. The following tables show the individual on- and off-balance-sheet positions according to risk-weight classes and country of domicile.

Credit exposures by risk-weighting classes

in CHF 1,000	0%	10%	20%	35%	50%	75%	100%	150%	Total
On-balance-sheet assets as of 31.12.2019									
Receivables arising from money market papers	122,956								122,956
Due from banks	217,035		511,267		6,718		7		735,026
Due from customers	2,912,406		290,683	1,970,034	780,947	10,855	797,655	34,735	6,797,316
Derivative financial instruments	34,602		19,001		1,810		17,099		72,513
Financial instruments	439,593	422,130	570,277		565,580		378,702		2,376,282
Total	3,726,591	422,130	1,391,229	1,970,034	1,355,055	10,855	1,193,463	34,735	10,104,093
Off-balance-sheet transactions as of 31.12.2019									
Contingent liabilities			2,944		901		139,745	362	143,951
Irrevocable facilities granted							97,495		97,495
Total	0	0	2,944	0	901	0	237,240	362	241,446
On-balance-sheet assets as of 31.12.2018									
Receivables arising from money market papers	19,674		46,733				1,000		67,407
Due from banks	179,505		564,777		26,796		29		771,107
Due from customers	2,711,487		39,827	2,032,767	803,498	21,568	578,449	8,730	6,196,326
Derivative financial instruments	21,592		7,254		3,427	6	9,884		42,164
Financial instruments	599,650		995,028		579,785		327,736		2,502,199
Total	3,531,908	0	1,653,620	2,032,767	1,413,505	21,574	917,099	8,730	9,579,203
Off-balance-sheet transactions as of 31.12.2018									
Contingent liabilities	65,252		573		917	779	139,687		207,207
Irrevocable facilities granted			1,984	500		1,895	89,519		93,898
Total	65,252	0	2,557	500	917	2,674	229,206	0	301,105

Credit exposures by country of domicile

in CHF 1,000	Liechtenstein and Switzerland	Europe	North America ¹	South America	Asia	Other	Total
On-balance-sheet assets as of 31.12.2019							
Receivables arising from money market papers			38,351		84,604		122,956
Due from banks	538,296	182,343	5,388		8,326	673	735,026
Due from customers	3,781,796	1,252,132	1,016,412	42,639	608,835	95,016	6,796,832
Public-law enterprises			484				484
Trading portfolios							0
Derivative financial instruments	23,276	15,861	5,296	33	27,684	364	72,513
Financial instruments at fair value		46,114	23,018		4,673		73,805
Financial instruments measured at amortised cost	326,410	1,005,862	802,196	10,974	115,590	41,446	2,302,477
Total	4,669,778	2,502,312	1,891,145	53,646	849,712	137,499	10,104,093
Off-balance-sheet transactions as of 31.12.2019							
Contingent liabilities	94,050	15,451	26,588	1,580	3,958	2,325	143,951
Irrevocable facilities granted	59,242	9,004	29,175		74		97,495
Total	153,292	24,455	55,763	1,580	4,032	2,325	241,446

in CHF 1,000	Liechtenstein and Switzerland	Europe	North America ¹	South America	Asia	Other	Total
On-balance-sheet assets as of 31.12.2018							
Receivables arising from money market papers	1,000		19,674		46,733		67,407
Due from banks	583,419	153,043	6,089		27,709	848	771,107
Due from customers	3,692,992	1,066,474	770,882	15,570	558,379	91,536	6,195,833
Public-law enterprises			493				493
Trading portfolios							0
Derivative financial instruments	13,891	10,223	3,921	151	13,708	271	42,164
Financial instruments at fair value		77,153	29,085		6,440		112,678
Financial instruments measured at amortised cost	326,919	977,641	915,540	10,967	109,207	49,248	2,389,521
Total	4,618,222	2,284,533	1,745,682	26,687	762,176	141,903	9,579,203
Off-balance-sheet transactions as of 31.12.2018							
Contingent liabilities	116,572	13,132	67,087	5,224	3,059	2,132	207,207
Irrevocable facilities granted	60,480	10,981	22,361		75		93,898
Total	177,053	24,113	89,449	5,224	3,134	2,132	301,105

¹ As per ISO-3166 the Caribbean countries are shown under North America.

Within the scope of the client lending business, credits are granted on a regional and international basis to private and commercial clients whereby the focus is on the private client business with CHF 3.4 billion of mortgage loans (31 December 2018: CHF 3.2 billion). From a regional perspective, VP Bank conducts the lion's share of this business in the Principality of Liechtenstein and in the Eastern part of Switzerland. Given the broad diversification of exposures, there are no risk concentrations by industry or segment.

The ten largest single exposures account for 11 per cent of the total credit exposure (31 December 2018: 13 per cent). Exposures to banks relate exclusively to institutions with a high credit capacity (investment grade rating) and registered office in an OECD country.

In addition to the Risk Policy, the Credit-Granting Rules constitute the binding framework regulating client-risk management. They set out the general guidelines governing credit granting, the framework conditions for the conclusion of credit business and the decision makers powers including corresponding band widths for credit approvals (rules on powers of authority).

In principle, the exposures in the private-client and commercial business must be covered by the collateral value (collateral less a deduction for risk). Counterparty risks in the loan business are governed by limits which restrict the level of exposure depending on creditworthiness, industry segment, collateral and risk domicile of the client. VP Bank employs an internal rating procedure to evaluate creditworthiness. Deviations from credit-granting principles (exceptions to policy) are dealt with appropriately as part of the credit-risk management process.

VP Bank enters into both secured and unsecured positions in the interbank business. Unsecured positions result from money-market activities (including bank guarantees, correspondent and metal accounts), secured positions

arise from the reverse repo business, securities & lending activities, collateral management as well as OTC derivative transactions. As repo deposits are fully secured and the collateral received serves as a reliable source of liquidity in a crisis, not only counterparty risk but also liquidity risk is reduced with reverse-repo transactions.

Counterparty risks in the interbank business may only be entered into in approved countries and with approved counterparties. A comprehensive system of limits contains the level of exposure depending on the duration, rating, risk domicile and collateral of the counterparty. In this regard, VP Bank uses for banks the ratings of two rating agencies, Standard & Poor's and Moody's. OTC derivative transactions may only be concluded with counterparties with whom a netting contract has been agreed.

Credit risks are managed and monitored not only on an individual client level but also on a portfolio level. At the portfolio level, VP Bank uses the expected and unexpected credit loss to monitor and measure credit risk. The expected credit loss calculates - based on historical loss data and estimated default probabilities - the loss per credit portfolio which is to be expected within one year. The unexpected credit loss measures the deviation of the actual loss based on a confidence level of 99 per cent over a risk horizon of one year.

During the past financial year, VP Bank has further reduced the volume of credit derivatives in its own portfolio. The following table shows the valuation by type of product.

Credit derivatives (contract volume)

in CHF 1,000	Providers of collateral as of 31.12.2019	Providers of collateral as of 31.12.2018
Collateralised debt obligations	0	9
Total	0	9

The following table shows impaired and non-performing receivables, as well as specific valuation allowances, by country of domicile.

Impaired, non-performing and valuation-adjusted credit exposures by country of domicile

in CHF 1,000	Impaired receivables subject to default risk (gross amount)	Overdue receivables (gross amount)	Individual value adjustments
31.12.2019			
Liechtenstein and Switzerland	22,386	18,066	7,550
Europe	11,148	11,148	11,124
North America	23,167	23,167	13,080
South America			
Asia			
Other			
Total	56,701	52,381	31,754
31.12.2018			
Liechtenstein and Switzerland	25,224	16,473	7,950
Europe	15,817	9,072	15,684
North America	19,155		9,390
South America			
Asia			
Other		470	
Total	60,196	26,015	33,024

Non-interest-bearing receivables according to remaining duration

in CHF 1,000	Due within 3 months	Due within 3 to 6 months	Due within 6 to 12 months	Due after 12 months	Total
Total reporting period 2019	39,758			12,623	52,381
Total reporting period 2018	24,658			1,357	26,015

Country risk

Country risks arise whenever political or economic conditions specific to a country impinge on the value of an exposure abroad. The monitoring and management of country risk is undertaken using volume limits which restrict the respective aggregate exposures per country rating (Standard & Poor's and Moody's). All on- and off-balance sheet receivables are considered in this process; positions in the Principality of Liechtenstein and Switzerland do not fall under this country limit rule. The risk domicile of an exposure is the basis for recognising country risk. In the case of secured exposures, in principle the country in which the collateral is located is considered.

Country risks are monitored and limited according to their country rating. The following table shows the split of credit exposures by rating classes. Non-rated country exposures are mostly exposures from local business activities (receivables secured by mortgage) of VP Bank (BVI) Limited.

Country exposures according to rating

in %	31.12.2019	31.12.2018
AAA	84.9	86.5
AA	12.0	8.8
A	0.6	2.3
BBB - B	0.9	0.7
CCC - C	0.1	0.1
Not Rated	1.5	1.6
Total	100.0	100.0

IFRS 9 Impairment

On the following pages the additional tables to be disclosed in connection with IFRS 9 Impairment are set out.

Credit exposures by rating classes

in CHF 1,000		Carrying amount of the below financial position				
	Rating (Standard & Poor's or Equivalent)	Stage 1	Stage 2	Stage 3	Total 31.12.2019	Total 31.12.2018
Cash and cash equivalents						
Investment Grade						
• Very Low credit risk	AAA	2,896,279			2,896,279	2,507,690
• Low credit risk	AA+, AA, AA-, A+, A, A-				0	
• Moderate credit risk	BBB+, BBB, BBB-				0	
Non Investment Grade	BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C				0	
Default	D				0	
Gross Carrying amount		2,896,279	0	0	2,896,279	2,507,690
Loss allowance		-113			-113	-133
Carrying amount		2,896,166	0	0	2,896,166	2,507,557
Receivables arising from money market papers						
Investment Grade						
• Very Low credit risk	AAA	84,626			84,626	46,741
• Low credit risk	AA+, AA, AA-, A+, A, A-	38,365			38,365	19,677
• Moderate credit risk	BBB+, BBB, BBB-				0	1,000
Non Investment Grade	BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C				0	
Default	D				0	
Gross Carrying amount		122,990	0	0	122,990	67,418
Loss allowance		-34			-34	-11
Carrying amount		122,956	0	0	122,956	67,407
Due from banks						
Investment Grade						
• Very Low credit risk	AAA	105,842			105,842	72,952
• Low credit risk	AA+, AA, AA-, A+, A, A-	333,932			333,932	458,518
• Moderate credit risk	BBB+, BBB, BBB-	75,309			75,309	22,311
Non Investment Grade	BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C				0	35,694
Default	D				0	
Gross Carrying amount		515,083	0	0	515,083	589,475
Loss allowance		-86			-86	-92
Carrying amount		514,997	0	0	514,997	589,383
Due from customers						
Low credit risk		6,703,401			6,703,401	6,067,109
Moderate credit risk		13,790	65,333		79,123	112,467
High Credit Risk				22,216	22,216	32,099
Doubtful				5,577	5,577	6,213
Default				23,070	23,070	22,474
Gross Carrying amount		6,717,191	65,333	50,863	6,833,386	6,240,362
Loss allowance		-1,879	-2,438	-31,754	-36,071	-44,036
Carrying amount		6,715,312	62,895	19,109	6,797,316	6,196,326

Credit exposures by rating classes (continued)

in CHF 1,000		Rating (Standard & Poor's or Equivalent)	Carrying amount of the below financial position			
			Stage 1	Stage 2	Stage 3	Total 31.12.2018
Financial instruments measured at amortised cost						
Investment Grade						
• Very Low credit risk	AAA	577,239			577,239	550,732
• Low credit risk	AA+, AA, AA-, A+, A, A-	1,453,358			1,453,358	1,602,338
• Moderate credit risk	BBB+, BBB, BBB-	273,188			273,188	237,809
Non Investment Grade						
Default	D				0	0
Gross Carrying amount		2,303,785	0	0	2,303,785	2,390,879
Loss allowance		-1,308			-1,308	-1,358
Carrying amount		2,302,477	0	0	2,302,477	2,389,521

in CHF 1,000		Exposure to credit risk on loan commitments and financial guarantee contracts				
		Stage 1	Stage 2	Stage 3	Total 31.12.2019	Total 31.12.2018
Exposure to credit risk on loan commitments and financial guarantee contracts						
Low credit risk		11,453			11,453	23
Moderate credit risk					0	
High Credit Risk		220,254	160		220,414	287,754
Doubtful					0	
Default					0	
Gross Carrying amount		231,707	160	0	231,867	287,777
Loss allowance		-295			-295	-31
Carrying amount		231,412	160	0	231,572	287,746

Information about amounts arising from expected credit losses

in CHF 1,000		Expected credit loss of the below financial position				
		Stage 1	Stage 2	Stage 3	Total 2019	Total 2018
Receivables arising from money market papers						
01 January		11			11	4
New financial assets originated or purchased		34			34	11
Transfers					0	
• to stage 1					0	
• to stage 2					0	
• to stage 3					0	
Net remeasurement of loss allowance					0	
Financial assets derecognised during period (not written off i.e., repayments, modifications, sales, etc.)		-11			-11	-4
Changes in models/risk parameters					0	
Amounts written off on loans / utilisation in accordance with purpose					0	
Foreign exchange and other adjustments					0	
31 December		34	0	0	34	11

Information about amounts arising from expected credit losses (continued)

in CHF 1,000	Expected credit loss of the below financial position				Total 2019	Total 2018
	Stage 1	Stage 2	Stage 3			
Due from banks						
01 January	92				92	22
New financial assets originated or purchased	12				12	18
Transfers					0	
• to stage 1					0	
• to stage 2					0	
• to stage 3					0	
Net remeasurement of loss allowance					0	
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	-17				-17	-9
Changes in models/risk parameters					0	
Amounts written off on loans / utilisation in accordance with purpose					0	
Foreign exchange and other adjustments	-1				-1	61
31 December	86	0	0		86	92
Due from customers - mortgage loans¹						
01 January	61	6,529	9,254		15,844	37,792
New financial assets originated or purchased	15	188			203	429
Transfers					0	
• to stage 1	6,419	-4,135	-2,284		0	
• to stage 2					0	
• to stage 3		-431	431		0	
Net remeasurement of loss allowance	-6,423	292	2,600		-3,531	-15,663
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	-13	-1,097	-394		-1,504	-6,734
Changes in models/risk parameters					0	
Amounts written off on loans / utilisation in accordance with purpose			-332		-332	
Foreign exchange and other adjustments	-2	63	-313		-252	20
31 December	57	1,409	8,962		10,428	15,844
Due from customers - lombard loans¹						
01 January	241	3,933	17,662		21,836	23,468
New financial assets originated or purchased	1,281	137			1,418	4,072
Transfers					0	
• to stage 1			0		0	
• to stage 2					0	
• to stage 3		-1	1		0	
Net remeasurement of loss allowance	137		-94		43	422
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	-140	-3,049	-473		-3,662	-4,883
Changes in models/risk parameters					0	
Amounts written off on loans / utilisation in accordance with purpose					0	-1,476
Foreign exchange and other adjustments	1	1	658		660	233
31 December	1,520	1,021	17,754		20,295	21,836

¹ By type of collateral.

Information about amounts arising from expected credit losses (continued)

in CHF 1,000	Expected credit loss of the below financial position				Total 2019	Total 2018
	Stage 1	Stage 2	Stage 3			
Due from customers - other loans¹						
01 January	243	5	6,108	6,356		1,768
New financial assets originated or purchased	130	7		137		172
Transfers				0		
• to stage 1				0		
• to stage 2				0		
• to stage 3			0	0		
Net remeasurement of loss allowance	12		20	32		4,600
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	-83	-4	-693	-780		-134
Changes in models/risk parameters				0		
Amounts written off on loans / utilisation in accordance with purpose				0		-60
Foreign exchange and other adjustments			-398	-398		10
31 December	302	8	5,038	5,348		6,356
¹ By type of collateral.						
Financial instruments - measured at amortised cost						
01 January	1,358			1,358		1,202
New financial assets originated or purchased	355			355		496
Transfers				0		
• to stage 1				0		
• to stage 2				0		
• to stage 3				0		
Net remeasurement of loss allowance	-175			-175		-96
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	-232			-232		-243
Changes in models/risk parameters				0		
Amounts written off on loans / utilisation in accordance with purpose				0		
Foreign exchange and other adjustments	2			2		-1
31 December	1,308	0	0	1,308		1,358
Cash and cash equivalents (in CHF 1,000)						
01 January	133			133		168
Net remeasurement of loss allowance				0		-37
New financial assets originated or purchased	6			6		1
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	-26			-26		1
31 December	113	0	0	113		133
Exposure to credit risk on loan commitments and financial guarantee contracts						
01 January	30	1		31		13
Net remeasurement of loss allowance	8			8		-1
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	-4	-1		-5		-5
New financial assets originated or purchased	263			263		5
Foreign exchange and other movements	-2			-2		19
31 December	295	0	0	295		31

The following table shows the effect on valuation allowances of significant changes in the gross carrying values of financial instruments.

in CHF 1,000	Impact: increase/decrease				Total 2019	Total 2018
	Stage 1	Stage 2	Stage 3			
Volume change of central banks, money market instruments and banks by CHF 371 million (prior year: - CHF 1.168 million)	1				1	-21
Volume change of bonds amc/oci by CHF 79 million (prior year: CHF 218 million)	-51				-51	157
Volume change of customer loans by CHF 572 million (prior year: CHF 549 million)	1,340				1,340	86
Impact of changes in volumes on loss allowances	1,290	0	0		1,290	222
Mortgage claims at VP Bank (BVI) Ltd	2	-4,214			-4,212	-13,475
Loans with special collateral at VP Bank (Luxembourg) SA		-2,907			-2,907	0
Reassessment of other customer loans with specific allowances					0	-581
Impact of changes in customer loans with additional risk provisions	2	-7,121	0		-7,119	-14,056
Other effects	265	-3			262	-330
Total	1,557	-7,124	0		-5,567	-14,164

The following table provides disclosures on assets which were modified and at the same time have a stage 2 and 3 valuation allowance.

Information about the nature and effect of modifications on the measurement of provision for doubtful debts (Stage 2 and 3) in CHF 1,000	Total 2019	Total 2018
Financial assets modified during the period		
Amortised cost before modification	0	
Net modification loss	0	
Financial assets modified since initial recognition		
Gross carrying amount at 31 December of financial assets for which loss allowance has changed from stage 2 or stage 3 to stage 1 during the period	24,634	68,560

6. Operational risk

Whilst financial risks are assumed consciously in order to earn revenues, operational risk should be avoided by suitable controls and measures or, should this not be possible, be reduced to a level set by the Bank.

The causes for operational risks are multiple. Individuals make mistakes, IT systems fail, or business processes are inoperative. It is therefore necessary to determine the factors which trigger important risk events and their impact in order to contain them with suitable preventive measures.

The management of operational risks is understood in VP Bank to be an integral cross-divisional function which is to be implemented on a uniform Group-wide basis over all business units and processes.

The following methods are deployed:

- The internal control system of VP Bank encompasses all process-integrated and process-independent measures, functions and controls which assure the orderly conduct of business operations.
- In order to recognise potential losses on a timely basis and in order to ensure sufficient time for the planning and realisation of countermeasures, early-warning indicators are deployed.
- Significant loss occurrences are systematically recorded and evaluated centrally. The findings from the collection of loss data are applied directly in the risk-management process.

The Group Risk unit is responsible for the group-wide implementation, monitoring and further development of the risk-management methods deployed and bears specialist responsibility for the related IT application.

The risk factors resulting in operational risks are assessed within a framework of periodic risk assessments. Group Executive Management decides, based on these assessments, on the handling thereof.

Each person in an executive position is responsible for the identification and evaluation of operational risks as well as for the definition and performance of key controls and measures to address risk. This responsibility may not be delegated.

Knowledge and experience are exchanged within the Group to ensure a coordinated approach. Thanks to a uniform implementation, it is possible to provide the relevant target groups (Board of Directors, Group Executive Management and senior management executives) with a meaningful quarterly status report on operational risks within VP Bank Group.

Business Continuity Management (BCM), as an additional important sub-area, is systematically pursued by VP Bank with expert and specialised knowledge along the lines of the ISO standard 22301:2012. The basis thereof is the BCM strategy which has been implemented by Group Executive Management and is reviewed on an on-going basis for effectiveness and accuracy. Operationally critical processes are reviewed in detail, discussed and, where necessary, documented with a clear course of action whenever risks become effective. The organisation necessary for crisis management is in place and its members routinely trained and instructed.

7. Business risk

Business risk results, on the one hand, from unexpected changes in market and ambient conditions with an adverse effect on profitability or equity or, on the other, they indicate the danger of unexpected losses resulting from management decisions regarding the business policy orientation of the Group (strategic risk). The Group Executive Management is responsible for managing business risk. The latter is analysed by Group Executive Management taking into consideration the environment in the banking sector and the internal situation of the company. Top-down scenarios are deduced, and corresponding measures developed, the implementation of which is assigned to the responsible body and/or organisational unit (top-down process).

8. Reputational risk

Reputational risk includes the risk that the confidence of employees, clients, shareholders, regulatory authorities and the public in general is weakened or the public image and/or reputation of the Bank is impaired as a result of other types of risk or through various events.

In addition to financial and operational risks, reputational risks may also include business risks (including strategy risk). These can lead to losses of assets and/or declines in earnings.

Business risks and any reputational risks are monitored by Group Executive Management.

Segment reporting

Business segment reporting 2019

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income ¹	66,111	52,928	-3,938	115,101
Total net income from commission business and services	86,751	57,443	-7,028	137,166
Income from trading activities	16,840	13,947	30,198	60,985
Income from financial instruments	0	171	14,100	14,271
Other income	300	3,252	-3,300	252
Total operating income	170,002	127,741	30,032	327,775
Personnel expenses	34,006	62,207	69,178	165,391
General and administrative expenses	3,895	24,695	27,708	56,298
Depreciation of property, equipment and intangible assets	4,945	7,918	16,480	29,343
Credit loss expenses	-603	-6,150		-6,753
Provisions and losses	309	246		555
Services to/from other segments	43,258		-43,258	0
Operating expenses	85,810	88,916	70,108	244,834
Earnings before income tax	84,192	38,825	-40,076	82,941
Taxes on income				9,398
Group net income				73,543
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) ²	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 As of 1 January 2019, the new funds transfer pricing was introduced within the Group. With funds transfer pricing, the internal bank recharges between the Treasury department and Client Business segments are determined and computed. Funds transfer pricing is a central instrument to manage market-price and liquidity risks. With funds transfer pricing, refinancing and liquidity costs between Client Business segments and Treasury are recharged at market-oriented prices. This recharging is applied for new business and resubmissions as from 1 January 2019. The result of this change for the year 2019 amounts to CHF -10.1 million for Client Business Liechtenstein, CHF -0.1 million for Client Business International and CHF 10.2 million for the Corporate Center. The prior-year comparatives were not restated as the change for prior periods was impracticable because of the passage of time as well as the lack of an appropriate data base and the cost of assembling this data retrospectively on an individual-transaction basis would be so high that it would bear no relationship to the benefit to be derived therefrom. The introduction of funds transfer pricing has no impact on the consolidated results of VP Bank Group.

² Calculation in accordance with Table P of the Guidelines to the Liechtenstein Banking Ordinance issued by the Government of Liechtenstein (FL-BankO).

Business segment reporting 2018

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income	78,876	39,340	-7,239	110,977
Total net income from commission business and services	91,261	39,015	-6,004	124,272
Income from trading activities	18,734	8,968	27,282	54,984
Income from financial instruments	0	86	-1,732	-1,646
Other income	100	2,490	-339	2,251
Total operating income	188,971	89,899	11,968	290,838
Personnel expenses	34,383	54,313	68,988	157,684
General and administrative expenses	4,538	30,555	27,776	62,869
Depreciation of property, equipment and intangible assets	4,838	3,311	16,968	25,117
Credit loss expenses	-2,992	-11,314	1,647	-12,659
Provisions and losses	134	252	-1,090	-704
Services to/from other segments	41,888		-41,888	0
Operating expenses	82,789	77,117	72,401	232,307
Earnings before income tax	106,182	12,782	-60,433	58,531
Taxes on income				3,814
Group net income				54,717
Segment assets (in CHF million)	4,112	4,761	3,556	12,428
Segment liabilities (in CHF million)	6,961	4,102	384	11,447
Client assets under management (in CHF billion) ¹	25.0	16.5	0.0	41.5
Net new money (in CHF billion)	-0.2	3.4	0.0	3.2
Headcount (number of employees)	197	330	407	933
Headcount (expressed as full-time equivalents)	183.3	313.3	371.9	868.4

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 on prevailing market conditions. Recharged costs within the segments are subject to an annual review and are amended to reflect new economic conditions, where necessary.

Geographic segment reporting

in CHF 1,000	Liechtenstein and Switzerland	Rest of Europe	Other countries	Total Group
2019				
Total operating income	266,853	27,361	33,561	327,775
Total assets	11,239	931	1,230	13,400
2018				
Total operating income	254,311	14,604	21,923	290,838
Total assets	10,768	913	747	12,428

Segment reporting follows the principle of branch accounting.

Notes to the consolidated financial statement

1 Interest income

in CHF 1,000	2019	2018	Variance absolute	Variance in %
Interest and discount income	2,299	489	1,810	370.1
Loan commissions with the character of interest	1,055	490	565	115.3
Interest income from banks	1,670	2,818	-1,148	-40.7
Interest income from customers	114,661	99,527	15,134	15.2
Interest income from financial instruments measured at amortised cost	30,872	26,421	4,451	16.8
Interest income from financial liabilities	4,813	3,429	1,384	40.4
Total interest income from financial instruments at amortised cost	155,370	133,174	22,196	16.7
Interest-rate instruments	-1,099	-1,348	249	18.5
Trading derivatives (forward points)	19,066	31,068	-12,002	-38.6
Hedge accounting	3	67	-64	-95.5
Total other interest income	17,970	29,787	-11,817	-39.7
Total interest income	173,340	162,961	10,379	6.4
Interest expenses on amounts due to banks	1,243	370	873	235.9
Interest expenses on amounts due to customers	46,098	33,470	12,628	37.7
Interest expenses on medium-term notes	646	783	-137	-17.5
Interest expenses on debentures issued	1,352	1,273	79	6.2
Interest expense from financial assets	8,566	16,088	-7,522	-46.8
Interest expense on right-of-use assets	334	0	334	0.0
Total interest expenses using the effective interest method	58,239	51,984	6,255	12.0
Total net interest income	115,101	110,977	4,124	3.7
Fair-value hedges				
Movements arising from hedges	-610	-317	-293	-92.4
• Micro fair-value hedges	-610	-317	-293	-92.4
Movements in underlying transactions	613	384	229	59.6
• Micro fair-value hedges	613	384	229	59.6
Total hedge accounting¹	3	67	-64	-95.5

¹ Hedge ineffectiveness, disclosed in the income statement; further details in note 37.

2 Income from commission business and services

in CHF 1,000	2019	2018	Variance absolute	Variance in %
Commission income from credit business	1,015	1,232	-217	-17.6
Asset management and investment business	54,110	48,947	5,163	10.5
Brokerage fees	32,126	29,484	2,642	9.0
Securities account fees	20,718	20,648	70	0.3
Fund management fees	58,134	50,681	7,453	14.7
Fiduciary commissions	2,304	1,916	388	20.3
Other commission and service income	18,246	18,335	-89	-0.5
Total income from commission business and services	186,653	171,243	15,410	9.0
Brokerage expenses	1,535	1,482	53	3.6
Other commission and services-related expenses	47,952	45,489	2,463	5.4
Total expenses from commission business and services	49,487	46,971	2,516	5.4
Total net income from commission business and services	137,166	124,272	12,894	10.4

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

in CHF 1,000	2019	2018	Variance absolute	Variance in %
Fees for securities settlement	8,496	7,394	1,102	14.9
Administration commissions	29,976	26,636	3,340	12.5
Management fees	9,333	7,264	2,069	28.5
Brokerage fees	3,142	2,116	1,026	48.5
Securities account fees	4,568	4,176	392	9.4
Administration fees	12,933	13,080	-147	-1.1
All-in-fees	12,915	11,906	1,009	8.5
Miscellaneous fees	2,723	3,011	-288	-9.6
Asset management and investment business	54,110	48,947	5,163	10.5

3 Income from trading activities

in CHF 1,000	2019	2018	Variance absolute	Variance in %
Securities trading ¹	-2,878	120	-2,998	n.a.
Interest income from trading portfolios	0	0	0	0.0
Foreign currency	62,851	54,091	8,760	16.2
Banknotes, precious metals and other	1,012	773	239	30.9
Total income from trading activities	60,985	54,984	6,001	10.9

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	2019	2018	Variance absolute	Variance in %
Income from financial instruments at fair value	14,361	-1,636	15,997	n.a.
Income from financial instruments at amortised cost (foreign exchange)	-90	-10	-80	n.a.
Total income from financial instruments	14,271	-1,646	15,917	n.a.
Income from financial instruments at fair value				
Income from FVTPL assets	5,768	-8,812	14,580	165.5
Interest income from FVTPL financial instruments	2,224	2,234	-10	-0.4
Dividend income from FVTPL financial instruments	1,166	1,459	-293	-20.1
Dividend income from FVTOCI financial instruments	5,203	3,483	1,720	49.4
thereof from FVTOCI financial instruments sold	0	0	0	0.0
Total	14,361	-1,636	15,997	n.a.
Income from financial instruments at amortised cost (foreign exchange)				
Revaluation gains/losses on financial instruments at amortised cost	-7	59	-66	-111.9
Realised gains/losses on financial instruments at amortised cost	-83	-69	-14	-20.3
Total	-90	-10	-80	n.a.

5 Other income

in CHF 1,000	2019	2018	Variance absolute	Variance in %
Income from real estate	150	54	96	177.8
Income from associated companies	-2	-3	1	33.3
Miscellaneous other income	104	2,200	-2,096	-95.3
Total other income	252	2,251	-1,999	-88.8

6 Personnel expenses

in CHF 1,000	2019	2018	Variance absolute	Variance in %
Salaries and wages	135,675	126,937	8,738	6.9
Social contributions required by law	12,567	10,688	1,879	17.6
Contributions to pension plans / defined-benefit plans	9,988	11,681	-1,693	-14.5
Contributions to pension plans / defined-contribution plans	1,896	1,760	136	7.7
Other personnel expenses	5,265	6,618	-1,353	-20.4
Total personnel expenses	165,391	157,684	7,707	4.9

7 General and administrative expenses

in CHF 1,000	2019	2018	Variance absolute	Variance in %
Occupancy expenses ¹	2,941	9,012	-6,071	-67.4
Insurance	820	886	-66	-7.4
Professional fees	11,756	12,439	-683	-5.5
Financial information procurement	8,503	7,233	1,270	17.6
Telecommunication and postage	1,184	1,330	-146	-11.0
IT systems	16,118	16,456	-338	-2.1
Marketing and public relations	4,817	5,450	-633	-11.6
Capital taxes	805	917	-112	-12.2
Other general and administrative expenses ¹	9,354	9,146	208	2.3
Total general and administrative expenses	56,298	62,869	-6,571	-10.5

¹ Excluding depreciation and interest on right-of-use assets starting 1 January 2019 as per IFRS 16 (note 32).

8 Depreciation of property, equipment and intangible assets

in CHF 1,000	Note	2019	2018	Variance absolute	Variance in %
Depreciation and amortisation of property and equipment ¹	22	15,030	8,983	6,047	67.3
Depreciation and amortisation of intangible assets	23	14,313	16,134	-1,821	-11.3
Total depreciation and amortisation		29,343	25,117	4,226	16.8

¹ Including depreciation on right-of-use assets starting 1 January 2019 as per IFRS 16 (note 32).

9 Valuation allowances, provisions and losses

in CHF 1,000	2019	2018	Variance absolute	Variance in %
De-/increase credit allowances ¹	-6,753	-12,659	5,906	46.7
Legal and litigation risks	-42	-1,325	1,283	96.8
Other provisions and losses	597	621	-24	-3.9
Total valuation allowances, provisions and losses	-6,198	-13,363	7,165	53.6

¹ The impact of hurricane Irma on the default risk of the credit portfolio of VP Bank (BVI) Ltd was reduced, triggering a corresponding reversal of valuation allowances.

10a Taxes on income

in CHF 1,000	2019	2018
Domestic		
Current taxes	7,225	7,018
Deferred taxes	1,185	-1,509
Foreign		
Current taxes	-84	-31
Deferred taxes	1,072	-1,664
Total current taxes	7,141	6,987
Total deferred taxes	2,257	-3,173
Total taxes on income	9,398	3,814

Actual payments for domestic and foreign taxes made by the Group in 2019 totalled CHF 8.0 million (2018: CHF 6.3 million).

Proof - taxes on income

All anticipated liabilities arising in connection with taxes on income earned during the reporting period are reflected in the financial statements. They are computed in accordance with the laws governing taxation in the respective countries. Deferred tax liabilities arising from differences between the values in the financial statements drawn up for legal and/or tax purposes and those in the consolidation are computed using the following tax rates:

	2019	2018
Liechtenstein	12.5%	12.5%
Switzerland	19.7%	21.5%
Luxembourg	24.9%	27.1%
British Virgin Islands	0.0%	0.0%
Singapore	17.0%	17.0%
Hong Kong	16.5%	16.5%

Pre-tax results, as well as differences between the tax charge in the income statement and the tax charge arrived at on the basis of a standard assumed average rate of 15 per cent (prior year: 15 per cent), may be analysed as follows:

in CHF 1,000	2019	2018
Income before income tax		
Domestic	63,536	51,190
Foreign	19,405	7,341
Taxes on income using an assumed average charge	12,441	8,780
Reasons for increased/decreased taxable income		
Effect on tax free income / effect on non taxable expenses	-247	-686
Difference between actual and assumed tax rates	-1,395	-4,617
Lower tax charges as a result of changes in laws or taxation agreements	-173	163
Use of non-capitalised losses carried forward	-790	131
Tax income unrelated to accounting period	-293	115
Use of tax loss carry-forwards	-145	-72
Total income tax	9,398	3,814

10b Deferred tax assets and liabilities

in CHF 1,000	Balance at the beginning of the financial year	Changes affecting the income statement	Changes affecting the other comprehensive income	Changes in scope of consolidation/ Acquisitions	Total 2019
Deferred tax assets					
Property, equipment and intangible assets	5,249	297	0	0	5,546
Valuation allowances for credit risks	734	-51	0	0	683
Tax loss carry-forwards ¹	4,053	-1,348	0	0	2,705
Defined-benefit pension plans	9,993	-1,044	-1,723	0	7,226
Financial instruments	2,217	-460	-40	0	1,717
Other	282	-282	0	0	0
Total deferred tax assets	22,528	-2,888	-1,763	0	17,877
Offsetting	-6,947	0	0	0	-7,903
Total deferred tax assets after offsetting	15,581	-2,888	-1,763	0	9,974
Deferred tax liabilities					
Property, equipment and intangible assets	2,771	-341	0	0	2,430
Financial instruments	1,902	-958	-826	0	118
Financial instruments directly offset within shareholders' equity	5	111	0	0	116
Valuation allowances for credit risks	-175	13	0	0	-162
Other	2,444	1,975	0	1,047	5,466
Total deferred tax liabilities	6,947	800	-826	1,047	7,968
Offsetting	-6,947	0	0	0	-7,903
Total deferred tax liabilities after offsetting	0	800	-826	1,047	65

¹ Providing that the realisation of future tax benefits is considered probable, these must be treated as an asset. The offset of deferred tax assets and liabilities is only possible if they are due to/from the same taxing authority.

10b Deferred tax assets and liabilities (continued)

in CHF 1,000	Balance at the beginning of the financial year	Changes affecting the income statement	Changes affecting the other comprehensive income	Changes in scope of consolidation	Total 2018
Deferred tax assets					
Property, equipment and intangible assets	5,038	211	0	0	5,249
Valuation allowances for credit risks	0	734	0	0	734
Tax loss carry-forwards ¹	2,519	1,534	0	0	4,053
Defined-benefit pension plans	9,446	-952	1,499	0	9,993
Financial instruments	2,203	14	0	0	2,217
Other	53	229	0	0	282
Total deferred tax assets	19,259	1,770	1,499	0	22,528
Offsetting	0	0	0	0	-6,947
Total deferred tax assets after offsetting	19,259	1,770	1,499	0	15,581
Deferred tax liabilities					
Property, equipment and intangible assets	3,698	-927	0	0	2,771
Financial instruments	1,273	-270	899	0	1,902
Financial instruments directly offset within shareholders' equity	-4	9	0	0	5
Valuation allowances for credit risks	168	-343	0	0	-175
Other	1,323	1,121	0	0	2,444
Total deferred tax liabilities	6,458	-410	899	0	6,947
Offsetting	0	0	0	0	-6,947
Total deferred tax liabilities after offsetting	6,458	-410	899	0	0

¹ Providing that the realisation of future tax benefits is considered probable, these must be treated as an asset. The offset of deferred tax assets and liabilities is only possible if they are due to/from the same taxing authority.

Deferred taxes arise because of timing differences between the IFRS financial statements and the statutory accounts as a result of differing valuation policies.

in CHF 1,000	2019	2018
Loss carry-forwards not reflected in the balance sheet expire as follows:		
Within 1 year	0	0
Within 2 to 4 years	0	0
After 4 years	0	0
Total	0	0

10c Tax assets and liabilities

in CHF 1,000	Note	31.12.2019	31.12.2018
Tax assets			
Amounts receivable arising on current taxes on income		847	1,407
Deferred tax assets	10b	9,974	15,581
Total tax assets		10,821	16,988
Tax liabilities			
Liabilities arising on current taxes on income		6,221	7,041
Deferred tax liabilities	10b	65	0
Total tax liabilities		6,286	7,041

10d Tax effects to other comprehensive income

in CHF 1,000	Amount before tax	Tax yield/ tax expense	31.12.2019 Amount net of tax
Changes in foreign-currency translation differences	-2,188	0	-2,188
Foreign-currency translation difference transferred to the income statement from shareholders' equity	0	0	0
Changes in value of FVTOCI financial instruments	8,052	-866	7,186
Actuarial gains/losses from defined-benefit pension plans	10,495	-1,723	8,772
Total comprehensive income in shareholders' equity	16,359	-2,589	13,770

	Amount before tax	Tax yield/ tax expense	31.12.2018 Amount net of tax
Changes in foreign-currency translation differences	379	0	379
Foreign-currency translation difference transferred to the income statement from shareholders' equity	0	0	0
Changes in value of FVTOCI financial instruments	-7,229	899	-6,330
Actuarial gains/losses from defined-benefit pension plans	-11,603	1,499	-10,104
Total comprehensive income in shareholders' equity	-18,453	2,398	-16,055

11 Earnings per share

	31.12.2019	31.12.2018
Consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000) ¹	73,543	54,717
Weighted average of registered shares A	5,419,994	5,472,289
Weighted average of registered shares B	5,678,079	5,794,614
Total weighted average number of shares (registered share A)	5,987,802	6,051,750
Undiluted consolidated earnings per registered share A	12.28	9.04
Undiluted consolidated earnings per registered share B	1.23	0.90
Fully diluted consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000) ¹	73,543	54,717
Adjusted group net income (in CHF 1,000)	73,543	54,717
Number of shares used to compute the fully diluted consolidated net income	5,987,802	6,051,750
Fully diluted consolidated earnings per registered share A	12.28	9.04
Fully diluted consolidated earnings per registered share B	1.23	0.90

¹ On the basis of Group profits attributable to the shareholders of VP Bank Ltd, Vaduz.

12 Dividend

	2019	2018
Approved and paid dividend of VP Bank Ltd, Vaduz		
Dividend (in CHF 1,000) for the financial year 2018 (2017)	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 %)	60.8	50.5
Proposed dividend to be approved by the annual general meeting of VP Bank Ltd, Vaduz (not reflected as a liability as of 31 December)		
Dividend (in CHF 1,000) for the financial year 2019	36,385	
Dividend per bearer share	5.50	
Dividend per registered share	0.55	
Payout ratio (in %)	44.8	

13 Cash and cash equivalents

in CHF 1,000	31.12.2019	31.12.2018
Cash on hand	13,769	13,719
At-sight balances with national and central banks	2,896,279	2,507,690
Expected credit loss	-113	-133
Total cash and cash equivalents	2,909,935	2,521,276

14 Receivables arising from money-market paper

in CHF 1,000	31.12.2019	31.12.2018
Money-market paper (qualifying for refinancing purposes)	122,990	67,418
Other money-market paper	0	0
Expected credit loss	-34	-11
Total receivables arising from money-market paper	122,956	67,407

15 Due from banks and customers

in CHF 1,000	Note	31.12.2019	31.12.2018
By type of exposure			
Due from banks - at-sight balances		655,808	690,322
Due from banks - term balances		79,304	80,877
Valuation allowances for credit risks	16	-86	-92
Due from banks		735,026	771,107
Mortgage receivables			
Mortgage receivables		3,343,572	3,231,706
Other receivables		3,489,815	3,008,656
Valuation allowances for credit risks	16	-36,071	-44,036
Due from customers		6,797,316	6,196,326
Total due from banks and customers		7,532,342	6,967,433
Due from customers by type of collateral			
Mortgage collateral		3,377,304	3,232,316
Other collateral		2,991,609	2,656,321
Without collateral		464,474	351,725
Subtotal		6,833,387	6,240,362
Valuation allowances for credit risks		-36,071	-44,036
Total due from customers		6,797,316	6,196,326

16 Valuation allowances for credit risks

in CHF 1,000	2019	2018
Balance at the beginning of the financial year	44,128	66,627
Adjustment IFRS 9 ECL	0	-3,425
Amounts written off on loans / utilisation in accordance with purpose	-332	-6,557
Creation of valuation allowances and provisions for credit risks	9,758	14,316
Release of valuation allowances and provisions for credit risks	-16,687	-26,642
Changes in scope of consolidation	0	0
Foreign-currency translation differences and other adjustments	-710	-191
Balance at the end of the financial year	36,157	44,128
As valuation adjustment for due from banks	86	92
As valuation adjustment for due from customers	36,071	44,036
Total valuation allowances for credit risks	36,157	44,128

in CHF 1,000	Banks	Mortgage receivables	Other receivables ¹	Total 2019
By type of exposure				
Balance at the beginning of the financial year	92	9,297	34,739	44,128
Amounts written off on loans / utilisation in accordance with purpose	0	-332	0	-332
Creation of valuation allowances and provisions for credit risks	211	4,996	4,551	9,758
Release of valuation allowances and provisions for credit risks	-216	-8,482	-7,989	-16,687
Changes in scope of consolidation	0	0	0	0
Foreign-currency translation differences and other adjustments	-1	-41	-668	-710
Balance at the end of the financial year	86	5,438	30,633	36,157
of which				
Individual valuation allowances (stage 3)	0	4,115	27,639	31,754
Expected credit loss (stage 1 and 2)	86	1,323	2,994	4,403
Total	86	5,438	30,633	36,157

¹ Other receivables primarily comprise lombard loans, debit balances on accounts and unsecured loans.

in CHF 1,000	Banks	Mortgage receivables	Other receivables ¹	Total 2018
By type of exposure				
Balance at the beginning of the financial year	1,066	19,187	46,374	66,627
Adjustment IFRS 9 ECL	-1,044	7,378	-9,759	-3,425
Amounts written off on loans / utilisation in accordance with purpose	0	-2,845	-3,712	-6,557
Creation of valuation allowances and provisions for credit risks	256	3,414	10,646	14,316
Release of valuation allowances and provisions for credit risks	-254	-17,835	-8,553	-26,642
Changes in scope of consolidation	0	0	0	0
Foreign-currency translation differences and other adjustments	68	-2	-257	-191
Balance at the end of the financial year	92	9,297	34,739	44,128
of which				
Individual valuation allowances	0	3,630	29,394	33,024
Lump-sum valuation allowances	92	5,667	5,345	11,104
Total	92	9,297	34,739	44,128

in CHF 1,000	2019 Individual	2019 ECL	2018 Individual	2018 Lump-sum
By type of valuation allowance				
Balance at the beginning of the financial year	33,024	11,104	41,544	25,083
Adjustment IFRS 9 ECL	0	0	0	-3,425
Amounts written off on loans / utilisation in accordance with purpose	-332	0	-6,557	0
Creation of valuation allowances and provisions for credit risks	3,481	6,277	10,650	3,666
Release of valuation allowances and provisions for credit risks	-3,809	-12,878	-12,612	-14,030
Changes in scope of consolidation	0	0	0	0
Foreign-currency translation differences and other adjustments	-610	-100	-1	-190
Balance at the end of the financial year	31,754	4,403	33,024	11,104

Individual valuation allowances (stage 3) concern credits which are not covered by the proceeds of liquidation of the collateral, or concern credits without collateral.

Value-impaired loans (stage 3)

Value-impaired loans are amounts outstanding from customers and banks where it is improbable that the debtor can meet its obligations.

in CHF 1,000	2019	2018
Value-impaired loans ¹	56,701	60,196
Amount of valuation allowances for credit losses from non-performing loans	31,754	33,024
Net amounts due	24,947	27,172
Estimated realisable value of value-impaired loans	27,017	47,506
Average amount of value-impaired loans	58,449	87,393
Recoveries from loans already written off (other income)	45	90

¹ Interest receivable on non-performing loans in 2019 was CHF 0.904 million (2018: CHF 1.637 million).

Non-performing loans (stage 3)

A loan is classified as non-performing as soon as the capital repayments and/or interest payments contractually stipulated are outstanding for 90 days or more. Such loans are not to be classified as value-impaired if it can be assumed that they are still covered by existing collateral securities.

in CHF 1,000	2019	2018
Non-performing loans	52,381	26,015
Amount of valuation allowances for credit losses from non-performing loans	30,894	12,056
Net amounts due	21,487	13,959
Average amount of non-performing loans	39,198	42,917
Valuation allowances on non-performing loans at the beginning of the financial year	12,056	15,996
Net decrease/increase	19,291	3,077
Amounts written off and disposals / utilisation in conformity with purpose	-453	-7,017
Valuation allowances on non-performing loans at the end of the financial year	30,894	12,056

in CHF 1,000	31.12.2019	31.12.2018
According to type of exposure		
Banks	0	0
Mortgage receivables	29,536	16,473
Other receivables	22,845	9,542
Customers	52,381	26,015
Total non-performing loans	52,381	26,015
According to region (domicile of debtor)		
Liechtenstein and Switzerland	18,066	16,473
Rest of Europe	11,148	9,072
North and South America	23,167	0
Other countries	0	470
Total non-performing loans	52,381	26,015

17 Trading portfolios

in CHF 1,000	31.12.2019	31.12.2018
Debt securities valued at fair value		
Total	0	0
Equity securities / investment-fund units valued at fair value		
Total	0	0
Other	199	123
Total trading portfolios	199	123

18 Derivative financial instruments

31.12.2019 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments			
Forward contracts			
Swaps	56	9,036	194,110
Futures			
Options (OTC)			
Options (exchange-traded)			
Total interest-rate instruments 31.12.2019	56	9,036	194,110
Foreign currencies			
Forward contracts	23,915	24,208	2,689,170
Combined interest rate/currency swaps	16,322	29,440	4,134,640
Futures			
Options (OTC)	30,755	30,718	1,478,665
Options (exchange-traded)			
Total foreign currencies 31.12.2019	70,992	84,366	8,302,475
Equity securities/indices			
Forward contracts			
Futures			
Options (OTC)	111	111	3,737
Options (exchange-traded)			
Total equity securities/indices 31.12.2019	111	111	3,737
Precious metals			
Forward contracts	241	0	10,427
Swaps			
Options (OTC)	1,113	1,112	44,883
Options (exchange-traded)			
Total precious metals 31.12.2019	1,354	1,112	55,310
Total derivative financial instruments 31.12.2019	72,513	94,625	8,555,632

The fair value of derivative financial instruments without market value is arrived at by recognised valuation models. These models take account of the relevant parameters such as contract specifications, the market price of the underlying security, the yield curve and volatility.

18 Derivative financial instruments (continued)

31.12.2018 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments			
Forward contracts			
Swaps	473	11,303	231,110
Futures			17,355
Options (OTC)			
Options (exchange-traded)			
Total interest-rate instruments 31.12.2018	473	11,303	248,465
Foreign currencies			
Forward contracts			
Combined interest rate/currency swaps	10,662	13,450	1,434,654
Futures	12,501	16,624	3,464,049
Options (OTC)			
Options (exchange-traded)	16,698	16,947	508,489
Total foreign currencies 31.12.2018	39,861	47,021	5,407,192
Equity securities/indices			
Forward contracts			
Futures			
Options (OTC)			4,555
Options (exchange-traded)	363	363	3,421
Total equity securities/indices 31.12.2018	363	735	23,362
Precious metals			
Forward contracts			
Swaps	19	5	501
Options (OTC)	1,133		37,883
Options (exchange-traded)	315	310	81,667
Total precious metals 31.12.2018	1,467	315	120,051
Total derivative financial instruments 31.12.2018	42,164	59,374	5,799,070

19 Financial instruments at fair value

in CHF 1,000	31.12.2019	31.12.2018
Debt instruments		
Public-law institutions in Liechtenstein and Switzerland	0	0
Public-law institutions outside Liechtenstein and Switzerland	10,006	16,832
Exchange-listed	63,799	95,838
Non-exchange-listed	0	9
Total	73,805	112,679
Equity shares / investment fund units		
Exchange-listed	12,257	52,445
Non-exchange-listed	19,358	13,047
Total	31,615	65,492
Equity shares / investment fund units, through other comprehensive income (FVTOCI)		
Exchange-listed	101,380	45,666
Non-exchange-listed	5,427	4,354
Total	106,807	50,020
Structured products		
Exchange-listed	607	0
Non-exchange-listed ¹	2,856	4,072
Total	3,463	4,072
Total financial instruments at fair value	215,690	232,263

¹ Principally structured credit notes (credit-linked notes and credit-default notes).

The fair value of non-exchange-listed financial instruments is determined exclusively on the basis of traders' quotations or external pricing models based upon prices and interest rates of a supervised, active and liquid market. Management is convinced that the prices arrived at by these techniques constitute the most appropriate value for the balance sheet as of the date of the transactions, as well as for the related revaluation entries in the income statement.

20 Financial instruments at amortised cost

in CHF 1,000	31.12.2019	31.12.2018
Debt instruments		
Public-law institutions in Liechtenstein and Switzerland	52,283	57,357
Public-law institutions outside Liechtenstein and Switzerland	490,461	634,890
Exchange-listed	1,754,534	1,694,679
Non-exchange-listed	6,507	3,953
Expected credit loss	-1,308	-1,358
Total	2,302,477	2,389,521
Total financial instruments at amortised cost	2,302,477	2,389,521

21 Associated companies

in CHF 1,000	2019	2018
Balance at the beginning of the financial year	30	33
Additions	-2	-3
Value impairments	0	0
Balance as of balance-sheet date	28	30

Details of material companies reflected in the consolidation using the equity method

Name	Registered office	Activity	Share capital	31.12.2019	Capital held in % 31.12.2018
Data Info Services AG	Vaduz	Procurement, trade and exchange of goods and services	CHF 50,000	50	50

22 Property and equipment

in CHF 1,000	Right of use assets ¹	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total 2019
Acquisition cost						
Balance on 01.01.2019	0	205,499	4,614	16,743	22,966	249,822
First adoption IFRS 16	34,308					34,308
Additions	1,920	1,780	420	1,055	4,260	9,435
Disposals/derecognitions ²	0	-11,247		-341	-1,068	-12,656
Changes in scope of consolidation	0					0
Foreign-currency translation	-57	-30	-11	-9	-11	-118
Other adjustments	0					0
Balance on 31.12.2019	36,171	196,002	5,023	17,448	26,147	280,791
Accumulated depreciation and amortisation						
Balance on 01.01.2019	0	-133,946	-158	-9,989	-17,910	-162,003
Depreciation and amortisation	-5,663	-5,017	-376	-1,103	-2,871	-15,030
Valuation allowances	0					0
Disposals/derecognitions ²	0	10,565		306	1,118	11,989
Changes in scope of consolidation	0					0
Foreign-currency translation	43	14	6	5	11	79
Other adjustments	0	-458				-458
Balance on 31.12.2019	-5,620	-128,842	-528	-10,781	-19,652	-165,423
Net book values on 31.12.2019	30,551	67,160	4,495	6,667	6,495	115,368

¹ First adoption IFRS 16 - Leases starting 1 January 2019 (Note 32).

² Includes the derecognitions of completely depreciated and amortised assets.

in CHF 1,000	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total 2018
Acquisition cost					
Balance on 01.01.2018	201,793	4,845	15,098	19,924	241,660
Additions	3,695	4,456	5,249	4,564	17,964
Disposals/derecognitions ¹		-4,696	-3,608	-1,530	-9,834
Changes in scope of consolidation					0
Foreign-currency translation	11	9	4	8	32
Other adjustments					0
Balance on 31.12.2018	205,499	4,614	16,743	22,966	249,822

in CHF 1,000	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total 2018
Accumulated depreciation and amortisation					
Balance on 01.01.2018	-128,372	-4,505	-12,761	-16,890	-162,528
Depreciation and amortisation	-5,568	-154	-802	-2,459	-8,983
Valuation allowances					0
Disposals/derecognitions ¹		4,502	3,576	1,445	9,523
Changes in scope of consolidation					0
Foreign-currency translation	-6	-1	-2	-6	-15
Balance on 31.12.2018	-133,946	-158	-9,989	-17,910	-162,003
Net book values on 31.12.2018	71,553	4,456	6,754	5,056	87,819

¹ Includes the derecognitions of completely depreciated and amortised assets.

Additional information regarding property and equipment

in CHF 1,000	2019	2018
Fire insurance value of real estate	153,922	173,150
Fire insurance value of other property and equipment	45,302	43,734
Fair value of other real estate	4,495	4,456

There is no property and equipment arising from financing leasing contracts.

23 Goodwill and other intangible assets

in CHF 1,000	Software	Other assets capitalised	Goodwill	Total 2019
Acquisition cost				
Balance on 01.01.2019	173,202	44,123	46,112	263,437
Additions	13,509	4,625	6,783	24,917
Disposals/derecognitions	-26			-26
Changes in scope of consolidation				0
Foreign-currency translation	-5			-5
Balance on 31.12.2019	186,680	48,748	52,895	288,323
Accumulated amortisation				
Balance on 01.01.2019	-152,983	-23,698	-35,302	-211,983
Depreciation and amortisation	-13,889	-424		-14,313
Valuation allowances				0
Disposals/derecognitions	26			26
Changes in scope of consolidation				0
Foreign-currency translation	136			136
Balance on 31.12.2019	-166,710	-24,122	-35,302	-226,134
Net book values on 31.12.2019	19,970	24,626	17,593	62,189
in CHF 1,000				
Acquisition cost				
Balance on 01.01.2018	160,074	44,123	46,112	250,309
Additions	13,082			13,082
Disposals/derecognitions				0
Changes in scope of consolidation				0
Foreign-currency translation	46			46
Balance on 31.12.2018	173,202	44,123	46,112	263,437
Accumulated amortisation				
Balance on 01.01.2018	-142,051	-18,442	-35,302	-195,795
Depreciation and amortisation	-10,878	-5,256		-16,134
Valuation allowances				0
Disposals/derecognitions				0
Changes in scope of consolidation				0
Foreign-currency translation	-54			-54
Balance on 31.12.2018	-152,983	-23,698	-35,302	-211,983
Net book values on 31.12.2018	20,219	20,425	10,810	51,454

There are no other capitalised intangible assets on the consolidated balance sheet of VP Bank Group with an unlimited estimated useful life.

Review of impairment in value of goodwill

The goodwill of CHF 17,593 million results from the existing goodwill of CHF 10,810 million arising on the acquisition of VP Bank (Luxembourg) Ltd in 2001 and which is allocated to the cash-generating unit Client Business International. Since 1 January 2005, this goodwill has not been amortised but subject only to an annual test for impairment in value. A further goodwill amount of CHF 6,783 million has existed since 2019 arising from the acquisition by VP Bank (Luxembourg) Ltd of the private-banking activities located in Luxembourg of Catella Bank (note 46) which was also allocated to the cash-generating unit Client Business International.

For the purposes of the impairment test carried out in 2019, the realisable amount was based upon the fair value (Level 3), minus selling costs. The level of the implicit premium (74 basis points) for client assets was computed on the basis of stock exchange quotes for enterprises which focus on the business of asset management, as well as acquisition prices paid on the occasion of corporate mergers and was used to determine the recoverable amount. The recoverable amount exceeded the book value to such an extent that a decline in the value of the goodwill could be viewed as improbable. For this reason, a supplementary computation of the recoverable amount based upon the value in use was dispensed with.

24 Other assets

in CHF 1,000	31.12.2019	31.12.2018
Value-added taxes and other tax receivables	5,905	3,798
Prepaid retirement pension contributions	0	0
Miscellaneous other assets ¹	20,897	19,802
Total other assets	26,802	23,600

¹ Compensation accounts, settlement accounts and miscellaneous other assets.

25 Medium-term notes

in CHF 1,000 Maturity	0-0.9999% Interest rate	1-1.9999% Interest rate	2-2.9999% Interest rate	3-3.9999% Interest rate	Total
2020	93,824	9,775	853	0	104,452
2021	34,065	1,483	1,395	0	36,944
2022	19,332	521	1,144	0	20,997
2023	7,860	686	0	0	8,546
2024	1,848	426	0	0	2,274
2025	2,062	289	135	0	2,485
2026	1,283	0	0	0	1,283
2027	203	0	0	0	203
2028	223	0	0	0	223
2029	86	0	0	0	86
Total 31.12.2019	160,785	13,181	3,527	0	177,493
Total 31.12.2018	217,672	19,207	3,737	0	240,616

The average interest rate as of 31 December 2019 was 0.32 per cent (prior year: 0.30 per cent).

26 Debentures, VP Bank Ltd, Vaduz

Year of issue	ISIN	Interest rate in %	Currency	Maturity	Nominal amount	in CHF 1,000 Total 31.12.2019	Total 31.12.2018
2015	CH0262888933	0.500	CHF	07.04.2021	100,000	100,088	100,158
2015	CH0262888941	0.875	CHF	07.10.2024	100,000	100,263	100,316
2019	CH0461238880	0.600	CHF	29.11.2029	155,000	154,976	0
Total					355,000	355,327	200,474

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.

27 Other liabilities

in CHF 1,000	31.12.2019	31.12.2018
Value-added taxes and other tax receivables	14,622	12,752
Accrued retirement pension contributions	44,017	69,647
Accrued expense for long service awards ¹	3,502	3,117
Miscellaneous other liabilities ²	92,109	47,164
Total other liabilities	154,250	132,680

¹ Note 40.

² Compensation accounts, settlement accounts and miscellaneous other liabilities.

28 Provisions

in CHF 1,000	Default risk	Legal and litigation risks	Other provisions	Restructuring provisions	Total 2019	Total 2018
Carrying value at the beginning of the financial year	31	973	121	84	1,209	16,987
Utilisation in accordance with purpose		-416	-163	-42	-621	-13,515
New provisions charged to income statement	290		187		477	419
Provisions releases to income statement	-22	-28	-13	-41	-104	-2,391
Foreign-currency translation differences and other adjustments	-4	-14		-1	-19	-291
Carrying value at the end of the financial year	295	515	132	0	942	1,209
Maturity of provisions						
• within one year					942	1,209
• over one year					0	0

29 Share capital

	31.12.2019 No. of shares	Nominal CHF	31.12.2018 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.

30 Treasury shares

	31.12.2019		31.12.2018	
	No. of shares	in CHF 1,000	No. of shares	in CHF 1,000
Registered shares A at the beginning of the financial year	599,442	60,362	547,320	46,767
Purchases	58,750	8,556	111,200	18,708
Sales	-60,127	-6,106	-59,078	-5,113
Balance of registered shares A as of balance-sheet date¹	598,065	62,812	599,442	60,362
Registered shares B at the beginning of the financial year	324,929	5,155	131,662	1,122
Purchases	2,490	37	193,267	4,033
Sales	0	0	0	0
Balance of registered shares B as of balance-sheet date²	327,419	5,192	324,929	5,155

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.

² On 26 June 2018, VP Bank Ltd announced a public fixed-price bid for the acquisition of a maximum of 456,554 not listed registered shares B at a price of CHF 21.30. In the context of the closed repurchase programme, VP Bank acquired 173,067 registered shares B at a price of CHF 3.7 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.

31 Assets pledged or assigned to secure own liabilities and assets subject to reservation of title

in CHF 1,000	31.12.2019		31.12.2018	
	Market value	Actual liability	Market value	Actual liability
Securities	649,493	0	692,752	0
Money-market paper	0	0	0	0
Other	0	0	0	0
Total pledged assets	649,493	0	692,752	0

The assets are pledged to limits for the repo business with national and central banks, for stock exchange deposits and to secure the business activities of overseas organisations pursuant to local legal provisions. Pledged or assigned assets within the framework of securities lending transactions or of repurchase and reverse-repurchase transactions are not reflected in the above analysis. They are shown in the table "Securities lending and repurchase and reverse-repurchase transactions with securities" (note 44).

32 Leases

The Group rents various office and warehousing buildings as well as motor vehicles. As a rule, rental agreements are entered into for fixed periods of 2 to 8 years but may have renewal options.

Leases in the balance sheet

in CHF 1,000	31.12.2019	01.01.2019	Variance absolute	Variance in %
Property and equipment				
Right of use - buildings and premises	29,549	33,866	-4,317	-12.7
Right of use - motor vehicles	1,002	442	560	126.7
Total assets	30,551	34,308	-3,757	-11.0
Other liabilities				
Short-term lease liabilities	5,264	5,518	-254	-4.6
Long-term lease liabilities	25,588	28,790	-3,202	-11.1
Total liabilities	30,852	34,308	-3,456	-10.1

Leases in the profit and loss statement

in CHF 1,000	01.01.- 31.12.2019
Net interest income	
Interest expense on right-of-use assets	334
Depreciation of property and equipment	
Depreciation on right-of-use assets	5,707

33 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 it operates conceals significant litigation, compliance, reputational and other risks in connection with legal disputes and regulatory proceedings. The impact of these proceedings on the financial strength respectively profitability of VP Bank Ltd is dependent on the status of the proceedings and their outcome. VP Bank Group has established appropriate processes, reports and committees for the monitoring and management of these risks. In addition, it establishes provisions for ongoing and threatened proceedings if it judges the probability that such proceedings will entail an outflow of funds to be greater than the probability of this not being the case. In isolated cases, in which the amount cannot be reliably estimated, as, for instance, because they are at an early stage or of the complexity of the proceedings or other factors, no provision is established but a contingent liability is disclosed.

The risks described below are, where applicable, not the only ones which VP Bank Group is exposed to. Additional, presently unknown risks or risks and proceedings currently assessed to be immaterial, may equally have an impact on future business operations, 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 differing stages of development.

In the first proceedings against VP Bank (Switzerland) Ltd involving an amount in dispute of some USD 10 million, the Ninth Arbitration Court of Appeal on 24 May 2017 upheld the nullity of the realisation pursuant to Russian Bankruptcy Law. The court demanded VP Bank (Switzerland) Ltd to pay an amount of approx. USD 10 million. The sentence became res judicata on 19 September 2017. All extraordinary appeals were dismissed without suspensive effect.

Debt-collection proceedings initiated in Moscow on 7 June 2018 have so far come to nothing. In a letter dated 31 July 2019, the DIA, in its function as insolvency administrator, made its first demand on VP Bank (Switzerland) Ltd for payment. VP Bank Group will not comply with this demand, as it disputes the correctness of this decision. Further developments will be monitored by local attorneys in Moscow. VP Bank Group has also initiated adequate measures to protect its own interests and those of its employees.

The second proceedings against VP Bank Ltd, and now against 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 competence of the Russian courts was confirmed by the Supreme Court and the case was referred to the court of first instance (Arbitration Court) for a substantive assessment. On 22 May 2019, the Arbitration Court ruled in favour of VP Bank Ltd and VP Bank (Switzerland) Ltd. On 12 August 2019, this ruling was confirmed by the Court of Appeals. On 19 November 2019, the Court of Cassation reversed the rulings of the lower instances and referred the proceedings back to the court of first instance (Arbitration Court) for a renewed ruling. VP Bank Ltd and VP Bank (Switzerland) Ltd have appealed the decision to the judicial chamber of the Supreme Court.

In both cases, VP Bank considers the risk of an outflow of funds as small, for which reason no provision has been constituted.

In another case, the High Court of Justice in London served a civil suit on VP Bank (Switzerland) Ltd in early 2020. VP Bank Ltd is also a defendant but the suit has not been served on it yet. The primary defendant is a former governing body of a foreign pension fund. In his function, this person is alleged to have unlawfully received distribution remuneration for investment funds. The lawsuit is also served on various other banks and individuals who had processed payments or paid distribution remuneration.

VP Bank Ltd and VP Bank (Switzerland) Ltd are accused of a breach of the duty of due care. They would also have participated in the settlement of the benefits in question, which amount to approximately USD 46 million, so that they would have had to assume non-contractual joint and several liability for the loss incurred. VP Bank denies the allegations. At present, it considers the risk of an outflow of assets to be low, which is why no provision has been made.

34 Balance sheet per currency

in CHF 1,000	CHF	USD	EUR	Other	Total 2019
Assets					
Cash and cash equivalents	2,748,461	489	160,473	512	2,909,935
Receivables arising from money-market paper		38,350		84,606	122,956
Due from banks	79,665	119,771	194,363	341,227	735,026
Due from customers	3,623,649	1,278,084	1,176,943	718,640	6,797,316
Trading portfolios				199	199
Derivative financial instruments	39,826	3,421	29	29,237	72,513
Financial instruments at fair value	75,267	55,999	80,034	4,390	215,690
Financial instruments at amortised cost	523,864	853,155	893,792	31,666	2,302,477
Associated companies	28				28
Property and equipment	112,811	1,884		673	115,368
Intangible assets	61,876	313			62,189
Tax receivables			14	833	847
Deferred tax assets	9,974				9,974
Accrued liabilities and deferred items	12,072	10,001	5,452	1,011	28,536
Assets held for sale					0
Other assets	10,432	8,198	7,151	1,021	26,802
Total assets 31.12.2019	7,297,925	2,369,665	2,518,251	1,214,015	13,399,856
Liabilities and shareholders' equity					
Due to banks	163,469	71,387	115,901	51,087	401,844
Due to customers - savings and deposits	600,304		662		600,966
Due to customers - other liabilities	2,669,930	3,621,798	3,028,128	1,216,712	10,536,568
Derivative financial instruments	63,184	2,010	54	29,377	94,625
Medium-term notes	157,035	4,356	16,102		177,493
Debenture issues	355,327				355,327
Tax liabilities	5,983		222	16	6,221
Deferred tax liabilities	33	6		26	65
Accrued liabilities and deferred items	28,708	4,229	2,662	3,911	39,510
Other liabilities	101,233	5,276	45,970	1,771	154,250
Provisions	661	277	4		942
Total liabilities	4,145,867	3,709,339	3,209,705	1,302,900	12,367,811
Total shareholders' equity	966,225	64,060		1,760	1,032,045
Total liabilities and shareholders' equity 31.12.2019	5,112,092	3,773,399	3,209,705	1,304,660	13,399,856
in CHF 1,000					
	CHF	USD	EUR	Other	Total 2018
Assets					
Cash and cash equivalents	2,431,604	593	88,639	440	2,521,276
Receivables arising from money-market paper	1,000	19,675	0	46,732	67,407
Due from banks	127,309	131,091	281,403	231,304	771,107
Due from customers	3,426,343	1,174,415	1,089,307	506,261	6,196,326
Trading portfolios				123	123
Derivative financial instruments	24,458	1,255	148	16,303	42,164
Financial instruments at fair value	77,128	89,558	63,512	2,065	232,263
Financial instruments at amortised cost	526,658	976,651	886,212		2,389,521
Associated companies	30				30
Property and equipment	86,676	1,103		40	87,819
Intangible assets	51,333	121			51,454
Tax receivables	1,392		15		1,407
Deferred tax assets	15,577			4	15,581
Accrued liabilities and deferred items	12,263	8,787	5,835	1,217	28,102
Assets held for sale					0
Other assets	19,496	85	3,598	421	23,600
Total assets 31.12.2018	6,801,267	2,403,334	2,418,669	804,910	12,428,180

in CHF 1,000	CHF	USD	EUR	Other	Total 2018
Liabilities and shareholders' equity					
Due to banks	222,659	84,973	68,758	57,403	433,793
Due to customers - savings and deposits	637,540		557		638,097
Due to customers - other liabilities	2,542,455	3,129,645	2,961,552	1,063,134	9,696,786
Derivative financial instruments	41,296	1,114	306	16,658	59,374
Medium-term notes	211,835	3,852	24,929		240,616
Debenture issues	200,474				200,474
Tax liabilities	6,722		319		7,041
Deferred tax liabilities	0	0	0	0	0
Accrued liabilities and deferred items	28,020	2,930	2,512	3,068	36,530
Other liabilities	86,051	23,245	22,153	1,231	132,680
Provisions	892	118	199		1,209
Total liabilities	3,977,944	3,245,877	3,081,285	1,141,494	11,446,600
Total shareholders' equity	928,579	51,434		1,567	981,580
Total liabilities and shareholders' equity 31.12.2018	4,906,523	3,297,311	3,081,285	1,143,061	12,428,180

35 Maturity structure of assets and liabilities

in CHF 1,000	At sight	Callable	1 year	Due within 1 to 5 years	Over 5 years	Total 2019
Assets						
Cash and cash equivalents	2,909,935					2,909,935
Receivables arising from money-market paper			122,956			122,956
Due from banks	655,808		79,218			735,026
Due from customers	387,656	322,146	4,603,511	1,148,347	335,656	6,797,316
Trading portfolios	199					199
Derivative financial instruments	72,513					72,513
Financial instruments at fair value	108,881				106,809	215,690
Financial instruments at amortised cost			375,158	1,370,832	556,487	2,302,477
Associated companies	28					28
Property and equipment ¹					115,368	115,368
Intangible assets					62,189	62,189
Tax receivables	847					847
Deferred tax assets				9,974		9,974
Accrued liabilities and deferred items	28,536					28,536
Assets held for sale						0
Other assets	26,047	755				26,802
Total assets 31.12.2019	4,190,450	322,901	5,180,843	2,529,153	1,176,509	13,399,856
Liabilities						
Due to banks	401,844					401,844
Due to customers - savings and deposits		600,966				600,966
Due to customers - other liabilities	7,747,445	1,028,360	1,750,921	9,842		10,536,568
Derivative financial instruments	94,625					94,625
Medium-term notes			101,452	71,761	4,280	177,493
Debenture issues				200,351	154,976	355,327
Tax liabilities	6,221					6,221
Deferred tax liabilities				65		65
Accrued liabilities and deferred items	39,510					39,510
Other liabilities	154,250					154,250
Provisions	942					942
Total liabilities 31.12.2019	8,444,837	1,629,326	1,852,373	282,019	159,256	12,367,811

¹ Without maturity.

in CHF 1,000	At sight	Callable	1 year	Due within 1 to 5 years	Over 5 years	Total 2018
Assets						
Cash and cash equivalents	2,521,276					2,521,276
Receivables arising from money-market paper			67,407			67,407
Due from banks	690,322		80,785			771,107
Due from customers	498,598	296,053	3,616,698	1,463,654	321,323	6,196,326
Trading portfolios	123					123
Derivative financial instruments	42,164					42,164
Financial instruments at fair value	232,263					232,263
Financial instruments at amortised cost			394,685	1,312,180	682,656	2,389,521
Associated companies	30					30
Property and equipment ¹					87,819	87,819
Intangible assets					51,454	51,454
Tax receivables	1,407					1,407
Deferred tax assets	1,214			14,367		15,581
Accrued liabilities and deferred items	28,102					28,102
Assets held for sale						0
Other assets	23,348	252				23,600
Total assets 31.12.2018	4,038,847	296,305	4,159,575	2,790,201	1,143,252	12,428,180
Liabilities						
Due to banks	394,366		34,427	5,000		433,793
Due to customers - savings and deposits		638,097				638,097
Due to customers - other liabilities	7,627,873	1,054,775	1,008,842	5,296		9,696,786
Derivative financial instruments	59,374					59,374
Medium-term notes			95,164	142,692	2,760	240,616
Debenture issues				100,157	100,317	200,474
Tax liabilities	7,041					7,041
Deferred tax liabilities						0
Accrued liabilities and deferred items	36,530					36,530
Other liabilities	132,680					132,680
Provisions	1,209					1,209
Total liabilities 31.12.2018	8,259,073	1,692,872	1,138,433	253,145	103,077	11,446,600

¹ Without maturity.

36 Classification of assets by country or groups of countries

	31.12.2019		31.12.2018	
	in CHF 1,000	Proportion in %	in CHF 1,000	Proportion in %
Liechtenstein and Switzerland	7,901,685	59.0	7,303,153	58.8
Rest of Europe	2,460,137	18.4	2,372,796	19.1
North America	920,979	6.9	1,049,819	8.4
Other countries	2,117,055	15.8	1,702,412	13.7
Total assets	13,399,856	100.0	12,428,180	100.0

The classification is made according to the principle of domicile of the counterparties. Diversified collateral existing in the area of lombard loans is not taken into consideration in this respect.

37 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 31.12.2019	Fair value 31.12.2019	Variance	Carrying value 31.12.2018	Fair value 31.12.2018	Variance
Assets						
Cash and cash equivalents	2,910	2,910	0	2,521	2,521	0
Receivables arising from money market paper	123	123	0	67	67	0
Due from banks	735	735	0	771	771	0
Due from customers	6,797	6,914	117	6,196	6,309	113
Trading portfolios	0	0	0	0	0	0

in CHF million	Carrying value 31.12.2019	Fair value 31.12.2019	Variance	Carrying value 31.12.2018	Fair value 31.12.2018	Variance
Derivative financial instruments	73	73	0	42	42	0
Financial instruments at fair value	216	216	0	232	232	0
of which designated on initial recognition	0	0	0	0	0	0
of which mandatory under IFRS 9	109	109	0	181	181	0
of which recognised in other comprehensive income with no effect on net income	107	107	0	51	51	0
Financial instruments at amortised cost	2,302	2,355	53	2,390	2,390	0
Subtotal			170			113
Liabilities						
Due to banks	402	402	0	434	434	0
Due to customers	11,138	11,133	5	10,335	10,325	10
Derivative financial instruments	95	95	0	59	59	0
Medium-term notes	177	179	-2	241	243	-2
Debentures issued	355	363	-8	200	204	-4
Subtotal			-5			4
Total variance			165			117

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 (see note 18), 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.

Fair-value hedges (interest-rate hedges)

in CHF 1,000	Nominal value of hedging instruments		Book value of hedging instruments		Balance sheet position under which hedging instruments are disclosed
	Assets	Liabilities	Assets	Liabilities	
Interest-rate swaps		103,518	56	5,949	Derivative financial instruments
Change of value of the hedged item used as the basis for recognising hedge ineffectiveness for the period ¹					-610

¹ Ineffectiveness mainly results from variations in duration, e.g. due to different interest rates, interest payment dates or maturities of transactions.

in CHF 1,000	Book value of underlying transactions		Accumulated valuation adjustments, included in the book value of the underlying transactions		Balance sheet position under which hedging instruments are disclosed
	Assets	Liabilities	Assets	Liabilities	
Client receivables	118,695	0	2,431	0	Due from customers
of which active relationships	105,882	0	2,364	0	Due from customers
of which closed hedging relationships (client receivables)	12,813	0	67	0	Due from customers

Maturity of interest-rate swaps

in CHF million	1 year	Due within 1 to 5 years	Over 5 years	Total 2019
Fair value hedges				
Hedging of interest-rate risk				
Interest-rate swaps	4	78	22	104

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 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

In the financial year 2019 as well as in the financial year 2018, 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 31.12.2018
Assets				
Cash and cash equivalents	2,521			2,521
Receivables arising from money market paper	67			67
Due from banks		771		771
Due from customers		6,309		6,309
Trading portfolios				0
Derivative financial instruments		42		42
Financial instruments at fair value	210	18	4	232
Financial instruments at amortised cost	2,390			2,390
Liabilities				
Due to banks		434		434
Due to customers		10,325		10,325
Derivative financial instruments		59		59
Medium-term notes		243		243
Debentures issued	204			204

Level 3 financial instruments in CHF million	2019	2018
Balance sheet		
Holdings at the beginning of the year	4.1	8.4
Investments	5.6	0.0
Disposals	-1.0	-5.2
Issues	0.0	0.0
Redemptions	0.0	0.0
Losses recognised in the income statement	0.0	0.0
Losses recognised as other comprehensive income	0.0	-0.1
Gains recognised in the income statement	0.0	1.0
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	8.6	4.1
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 31 December 2019 or 31 December 2018.

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.

Netting agreements

In order to reduce the credit risks in connection with financial derivatives, repurchase and reverse repurchase as well as securities-lending and -borrowing transactions, VP Bank Group enters into global offset agreements or similar arrangements (netting agreements) with its counter-parties. These include ISDA Master Netting Agreements, Global Master Securities Lending Agreements and Global Master Repo Agreements. Using netting agreements, VP Bank Group can protect itself against losses arising from possible insolvency proceedings or other circumstances in which the counter-party is unable to meet its obligations. In such cases, netting agreements foresee the immediate offset and/or settlement of all financial instruments falling under the related agreement. A right of offset, in principle, exists only whenever a default in payment or other circumstances occur which are not expected in the ordinary course of business. Financial instruments falling under a netting agreement do not meet the set-off requirements for balance-sheet purposes, which is why the related financial instruments are not netted in the balance sheet.

Netting agreements

31.12.2019 in CHF 1,000	Balance-sheet netting Amount prior to balance- sheet netting	Balance- sheet netting	Carrying value	Netting potential Financial liabilities	Collateral received	Assets after taking account of netting potential
Financial assets						
Reverse repurchase transactions			0			0
Positive replacement values	72,513		72,513	53,993		18,520
Collateral deposited for transactions with derivatives	66,145		66,145	39,620		26,525
Total assets	138,658	0	138,658	93,613	0	45,045
31.12.2019 in CHF 1,000						
Financial liabilities						
Repurchase transactions			0			0
Negative replacement values	94,625		94,625	53,993	17,093	23,539
Collateral received from transactions with derivatives			0			0
Total liabilities	94,625	0	94,625	53,993	17,093	23,539

31.12.2018 in CHF 1,000	Balance-sheet netting Amount prior to balance- sheet netting	Balance-sheet netting	Carrying value	Netting potential Financial assets	Collateral provided	Assets after taking account of netting potential
Financial assets						
Reverse repurchase transactions			0			0
Positive replacement values	42,164		42,164	16,621		25,543
Collateral deposited for transactions with derivatives	123,717		123,717	34,538		89,179
Total assets	165,881	0	165,881	51,159	0	114,722
31.12.2018 in CHF 1,000						
	Balance-sheet netting Amount prior to balance- sheet netting	Balance-sheet netting	Carrying value	Netting potential Financial assets	Collateral provided	Liabilities after taking account of netting potential
Financial liabilities						
Repurchase transactions	39,466		39,466		39,444	22
Negative replacement values	59,374		59,374	16,621	10,929	31,824
Collateral received from transactions with derivatives			0			0
Total liabilities	98,840	0	98,840	16,621	50,373	31,846

38 Scope of consolidation

Company	Registered office	Base currency	Capital	Group share of equity
VP Bank Ltd	Vaduz	CHF	66,154,167	100%
VP Fund Solutions (Liechtenstein) AG	Vaduz	CHF	1,000,000	100%
VP Bank (Singapore) Ltd - in liquidation ¹	Singapore	SGD	102,000,000	100%
VP Wealth Management (Hong Kong) Ltd	Hong Kong	HKD	5,000,000	100%
VP Bank (Luxembourg) SA	Luxembourg	CHF	20,000,000	100%
• which holds the following sub-participation:				
• VP Fund Solutions (Luxembourg) SA	Luxembourg	CHF	5,000,000	100%
VP Bank (Switzerland) Ltd	Zurich	CHF	20,000,000	100%
VP Bank (BVI) Ltd	Tortola	USD	10,000,000	100%
Shareholdings excluded from the scope of consolidation	As part of structural realignments, VP Bank Ltd has now decided to manage VP Bank (Switzerland) Ltd directly as fully-owned subsidiary of VP Bank Ltd, Vaduz. The related acquisition/disposal took place at the end of 2018. The previous owner, VPB Finance Holding Ltd, as a hundred-percent owned subsidiary of VP Bank Ltd, merged with VP Bank (Switzerland) in the spring of 2019 (merger of sister companies). The transaction has no impact of the consolidated financial statements of VP Bank Group.			
Associated companies excluded from the scope of consolidation	none			
Associated companies	Data Info Services AG, Vaduz			
Companies integrated during the financial year	none			
Shareholdings accounted for the first time in accordance with the equity method	none			
Asset transfer during the financial year	none			

¹ In order to serve its clients' needs even better in the future, VP Bank will be conducting its business in Singapore through a branch instead of a wholly owned subsidiary with effect from 1 September 2018. This is consistent with VP Bank's growth strategy because as a branch in Singapore, VP Bank is better positioned to expand and grow its client services in Asia. In addition, to enable VP Bank to offer a wider range of services, the licence in Singapore has been upgraded from a merchant bank licence to a wholesale banking licence with effect from 1 September 2018 as well. A wholesale banking licence provides the bank with a wider set of options to grow its product offerings. In relation to the change in the operating entity from subsidiary to a branch, VP Bank (Singapore) Ltd has transferred the assets and liabilities of its business in Singapore to the newly established Singapore branch of VP Bank on 1 September 2018.

39 Transactions with related companies and individuals

Members of the Board of Directors and Group Management as well as their next of kin, and companies which are controlled by these individuals either by virtue of a majority shareholding or as a result of their role as member of the Board and/or Executive Management in these companies, are considered to be related companies and individuals.

in CHF 1,000	2019	2018
Remuneration of the members of the Board of Directors^{1, 2}		
Remuneration due in the short term	1,376	1,373
Post-employment benefits		
Other long-term remuneration due		
Remuneration due upon termination of contract of employment		
Share-based payment ³	431	431

in CHF 1,000	2019	2018
Remuneration of the members of Group Management²		
Remuneration due in the short term	5,265	4,350
Post-employment benefits		
Other long-term remuneration due		
Remuneration due upon termination of contract of employment	1,295	
Share-based payments ⁴	1,308	3,425

¹ The social-security costs on the emoluments paid to Board members are not included.

² Compensation for out-of-pocket expenses is not included.

³ The shares are not subject to any minimum holding period (see notes 42 and 43).

⁴ Performance-related and restricted shares with conditional entitlement to receive registered shares A of VP Bank.

VP Bank Group also makes payments to related persons within the framework of brokerage services and bought-in advisory services. These correspond to customary market conditions. The aggregate amount of such payments and fees in 2019 was CHF 0.589 million (previous year: CHF 0.822 million). The Board of Directors and the Group Management as well as parties related thereto (excluding qualifying shareholders) and retirement pension plans as of 31 December 2019, held 79,725 registered shares A of VP Bank Ltd, Vaduz (previous year: 103,025 registered shares A).

Loans to related companies and persons developed as follows (from an effective date perspective):

in CHF 1,000	2019	2018
Mortgages and loans at the beginning of the financial year	14,204	23,512
Additions	100	1,145
Repayments	-11,412	-10,453
Mortgages and loans at the end of the financial year	2,892	14,204

With regard to members of the Board of Directors and Group Executive Management, basically the same conditions apply as for all other employees. They correspond to customary market conditions excluding a credit margin. Loans to related individuals and companies were granted under normal market conditions.

40 Retirement pension plans

Benefits after termination of employment

The Group maintains a number of pension plans in the Principality of Liechtenstein and abroad for employees meeting the criteria for admission to the pension plans. Amongst these are both defined-benefit and defined-contribution plans which insure most employees against the effects of death, invalidity and retirement. In addition, there are schemes for service anniversaries which qualify as other long-term employee benefits.

Defined-contribution pension plans

The Group offers defined-contribution pension plans to those employees who meet the appropriate admission criteria. The company is obligated to transfer a predetermined percentage of the annual salary to the pension plans. For certain plans, the employees are also obligated to make contributions. These contributions are deducted by the employer from the salary typically each month and also passed on to the pension plans. Apart from the payment of contributions and the transfer of employee contributions, there are presently no further obligations incumbent on the employer.

The employee contributions to contribution-defined pension plans for 2019 amounted to CHF 1.896 million (prior year: CHF 1.760 million).

Defined-benefit pension plans

The Group finances defined-benefit pension plans for employees who meet the admission criteria. The most significant of such plans are located in the Principality of Liechtenstein and Switzerland. Following the takeover of Centrum Bank, a further pension plan was added. Since then, the employees involved have been transferred into existing plans.

For employees in the Principality of Liechtenstein and Switzerland, the Group operates several pension plans with fixed, predefined admission criteria. The largest of the plans are operated using an autonomous foundation, the remaining plans are handled using collective foundations of insurance companies. In these foundations, the assets available to meet the pension obligations are segregated out.

For the pension plans which are operated using collective foundations, there are pension commissions which comprise an equal number of representatives.

The Foundation Board of the autonomous pension plan is also made up of an equal number of employer and employee representatives. On the basis of the Law and the Rules of the Pension Fund, the Foundation Board is obligated to act solely in the interests of the Foundation and of the beneficiaries (current actively insured employees and pensioners). Thus, in this plan, the employer cannot himself determine pension benefits and their financing, but resolutions are taken on an equal representation basis. The Foundation Board is responsible for setting the investment strategy, for changes to the Rules of the Pension Fund and in particular also for determining how pension benefits are to be financed.

Retirement benefits in this plan are based upon the balance of accumulated capital savings. Annual savings credits and interest (no negative interest is possible) are added to the employee's capital savings account. Upon retirement, the insured person has the option between a lifetime pension which includes a reversionary spouse's pension, or the payment of a capital sum. In addition to retirement benefits, employee benefits also include an invalidity pension and a partner pension. These are computed as a percentage of the insured annual salary. An insured person can also purchase additional benefits to improve his/her pension situation up to a maximum allowed under the pension rules.

Upon termination of employment, the accumulated savings capital is transferred to the pension plan of the new employer or to a vested benefits scheme. This form of employment benefit can lead to a situation where pension payments may vary significantly between the various years.

The minimum provisions of the Law on Occupational Pension Plans and its Implementing Provisions (BPVG) are to be observed in determining employee benefits. The minimum insurable salary and the minimum savings credits are laid down in the BPVG.

As a result of the form of the pension plan and the legal provisions of the BPVG, the employer is exposed to actuarial risks, the most significant of which are investment risk, interest-rate risk, invalidity risk and longevity risk. The employee and employer contributions are laid down by the Foundation Boards. In this connection, the employer must bear, at a minimum, half of all contributions. In the event of a funding deficit, restructuring contributions to eliminate the funding deficit may be demanded both from the employer and employees.

40 Retirement pension plans (continued)

The latest actuarial valuation of the present value of the defined-benefit obligations and service costs was carried out as of 31 December 2019 by independent actuaries using the Projected Unit Credit Method. The fair value of plan assets as of 31 December 2019 was determined based upon information available at the time of preparation of the annual financial statements.

In one defined-benefit retirement pension plan, there were, on the one hand, changes in the maximum amount of the insurable annual salary and, on the other, a portion of the benefits acquired was transferred into a defined-contribution plan. The amendments took effect as per 1 January 2020. The impact of the changes was computed as of 31 December 2019 and led to a plan amendment gain aggregating CHF 1.3 million and a plan settlement gain of CHF 0.4 million.

The most significant assumptions underlying the actuarial computations may be summarised as follows:

	31.12.2019	31.12.2018
Discount rate	0.25%	0.90%
Rate of future salary increases	1.00%	1.00%
Rate of future pension increases	0.00%	0.00%
Lump sum payments at retirement	40.00%	30.00%
Life expectancy at the age of 65, in years		
Year of birth	1954	1953
men	22.61	22.50
women	24.65	24.54
Year of birth	1974	1973
men	24.40	24.33
women	26.44	26.37

The amounts recognised in the income statement may be summarised as follows:

Pension costs

in CHF 1,000	2019	2018
Pension expense recognised in income statement		
Service cost		
• current service cost	10,977	10,907
• past service cost	-1,325	170
• plan settlements	-365	0
Net interest expense	484	387
Administrative costs	217	217
Total pension cost expense of the period	9,988	11,681
Revaluation components recognised in comprehensive income		
Actuarial gains/losses		
Result of changes to demographic assumptions	0	0
Result of changes to economic assumptions	22,024	-12,252
Experience adjustments	-1,387	5,218
Return on plan assets (excluding amounts in net interest expense)	-31,132	18,637
Total expense recognised in comprehensive income	-10,495	11,603
Total pension cost	-507	23,284

The movement in pension obligations and plan assets may be summarised as follows:

Movement in present value of defined-benefit obligations

in CHF 1,000	2019	2018
Present value of defined-benefit obligations at beginning of financial year	350,673	346,393
Current service cost	10,977	10,907
Employee contributions	6,439	6,127
Interest expense on present value of pension obligations	3,105	2,374
Actuarial gains/losses	20,637	-7,034
Transfer of assets through compensation	-1,325	170
Acquisitions	0	0
Plan settlement	-13,955	0
Pension payments financed by plan assets	-11,314	-8,264
Balance at end of financial year	365,237	350,673

Movement in plan assets

in CHF 1,000	2019	2018
Plan assets at beginning of financial year	281,027	282,992
Employee contributions	6,439	6,127
Employer contributions ¹	25,122	17,039
Interest income on plan assets	2,621	1,987
Return on plan assets (excluding amounts under interest income)	31,132	-18,637
Acquisitions	0	0
Transfer of assets through compensation	-13,590	0
Pension payments financed by plan assets	-11,314	-8,264
Administrative costs	-217	-217
Balance at end of financial year	321,220	281,027

¹ In 2019, the Group transferred an extraordinary employer contribution of CHF 14.76 million to strengthen its financial situation (prior year: CHF 7.29 million).

The net position of pension obligations recognised in the balance sheet may be summarised as follows:

Net position of pension obligations recognised in balance sheet

in CHF 1,000	31.12.2019	31.12.2018
Present value of pension obligations financed through a fund	365,237	350,673
Market value of plan assets	-321,220	-281,027
Lack / excess of funding	44,017	69,646
Present value of pension obligations not financed through a fund	0	0
Unrecognised assets	0	0
Recognised pension obligations	44,017	69,646

In the case of the autonomous pension plan, the Foundation Board issues investment guidelines for the investment of the plan's assets which contain the tactical asset allocation and the benchmarks for comparing the results with those of the general investment universe. The plan assets are well diversified and, in addition, the legal provisions of the BPVG are to be observed. In the case of collective foundations, the Board of Trustees of the collective foundation issues the investment guidelines. The Foundation Board reviews on an ongoing basis whether the investment strategy chosen is appropriate to cover the pension benefits and whether the risk budget corresponds to the demographic structure. Compliance with investment guidelines and the investment performance of investment advisors are also subject to ongoing review. Since 1 January 2019, the plan assets managed by the collective foundations are no longer fully invested in qualified insurance policies but are managed for the most part autonomously. This led to a decline of assets in this investment category.

Plan assets primarily consist of the following categories of securities:

in CHF 1,000	31.12.2019	31.12.2018
Equity shares	98,062	71,934
thereof quoted market prices (Level 1)	98,062	71,934
Bonds	131,960	113,125
thereof quoted market prices (Level 1)	131,960	113,125
Alternative financial investments	26,226	19,805
thereof quoted market prices (Level 1)	0	0
Real estate	22,738	12,302
thereof quoted market prices (Level 1)	0	0
Qualifying insurance paper	13,903	54,896
Cash equivalents	27,431	8,461
Other financial investments	900	504
Total	321,220	281,027
• thereof quoted market prices (Level 1)	230,022	185,059

The pension plans hold shares in VP Bank Ltd, Vaduz, with a market value totalling CHF 2.6 million (previous year: CHF 2.3 million). In 2019, the return on plan assets was CHF 33.753 million (previous year: CHF 16.650 million).

The defined-benefit pension obligations may be allocated as follows to the currently active insured employees, those who have left the Group with vested rights and pensioners as well as the duration of the pension obligations:

in CHF 1,000	31.12.2019	31.12.2018
Current actively insured employees	255,725	251,461
Pensioners	109,512	99,212
Total	365,237	350,673

The duration of pension obligations is approximately 16 years (previous year: 16 years).

Presented in the following table are the sensitivities for the most important factors in the computation of the present value of pension obligations. Due to the expected interest volatility in CHF, sensitivities are stated as 25 BP. In each case, only the assumption stated is changed, all other assumptions remaining unchanged.

Changes in present value of defined-benefit obligations

in CHF 1,000 Variance	31.12.2019		31.12.2018	
	0.25%	-0.25%	0.25%	-0.25%
Discount rate	-13,042	14,032	-12,394	13,161
Interest on pension capital accounts	3,061	-2,979	3,005	-2,933
Development of salaries	1,010	-994	997	-977

Other employee benefits payable in the long term

in CHF 1,000	31.12.2019	31.12.2018
Balance at the beginning of the financial year	3,117	3,095
Expenses financial year	691	423
Acquisitions	0	0
Employee payments	-305	-399
Exchange differences	-1	-2
Balance at end of financial year	3,502	3,117

Other employee benefits payable in the long term exist in the form of long service awards. Analogously to the defined benefit pension plans, actuarial calculations have been performed and an accrued expense recognized for these benefits. In 2015, the Group introduced a uniform regulation for the calculation of benefits from long service awards for most Group employees. For some employees abroad, separate regulations apply. These regulations qualify as plans for other employee benefits payable in the long term.

41 Significant foreign exchange rates

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

	Year-end rates		Annual average rates	
	31.12.2019	31.12.2018	2019	2018
USD/CHF	0.9684	0.9858	0.99382	0.97878
EUR/CHF	1.0870	1.1269	1.11247	1.15478
SGD/CHF	0.7202	0.7233	0.72855	0.72527
HKD/CHF	0.1243	0.1259	0.12683	0.12488
GBP/CHF	1.2828	1.2555	1.26881	1.30565

42 Employee stock-ownership plan

The stock-ownership plan enables employees to subscribe annually to a defined number of registered shares A of VP Bank Ltd, Vaduz, at a preferential price subject to a three-year restriction on selling. Upon expiration of the sales restriction period, or at the time of resignation from VP Bank Group, the related shares become freely available. As the employees are therefore ultimately able to take up the shares at any time and in full, the expense arising from the employee participation plans is recorded in full at the time of their respective allocation. Half of the number of registered shares A to be subscribed is based on length of service and half is proportional to the amount of the annual fixed salary, whereby fixed salary components in excess of CHF 120,000 and variable salary components are not taken into account.

The purchase price is determined annually in relation to the market value of the bearer shares on the Swiss Exchange (ex-dividend). The shares issued in this manner derive either from shareholdings of VP Bank Group or must be purchased for this purpose over the exchange. The expense thereby incurred is charged directly to personnel costs.

During 2019, 12,972 shares were issued at a preferential price (2018: 12,051 shares). Share issue expenses in 2019 were CHF 1.0 million (2018: CHF 1.0 million). There is no profit-sharing plan for the Board of Directors. Its members, however, receive a part of their remuneration/bonuses in the form of equity shares which are not subject to any lock-up period (note 39). A profit-sharing plan exists for Group Executive Management and other management members (note 43). VP Bank has defined waiting periods for the Board of Directors, Group Executive Management and selected executives and employees, during which it is forbidden to trade in the shares of VP Bank.

43 Management profit-sharing plan

A long-term and value-oriented compensation model exists for the Executive Board and second-level management. Details thereof are to be found in the "compensation report" (→ page 84 f.).

Management equity-sharing plan (LTI)

Number	2019	2018	Variance in %
Balance of entitlements at the beginning of the year	97,122	70,334	38.1
New entitlements	49,729	61,754	-19.5
Changes in entitlements as a result of allocation	-54,617	-37,274	46.5
Changes in entitlements as a result of expiry	-20,282	-3,384	499.3
Changes in entitlements as a result of changes in factors	-1,863	5,692	-132.7
Balance of calculated entitlements at the end of the year	70,089	97,122	-27.8

in CHF 1,000	2019	2018	Variance in %
Personnel expense recorded over vesting period for allocated management sharing plan	4,922	3,079	59.9
Fair value of management sharing plan at date of allocation	7,718	5,360	44.0
Personnel expense for management sharing plan (LTI) expense for reporting period	3,546	6,655	-46.7
Accrual for management sharing plan (LTI) in equity at the end of the year	8,203	9,579	-14.4

44 Consolidated off-balance-sheet transactions

in CHF 1,000	31.12.2019	31.12.2018
Contingent liabilities		
Credit guarantees and similar	34,719	107,700
Performance guarantees and similar	106,870	99,507
Irrevocable commitments	2,362	0
Other contingent liabilities	0	0
Total contingent liabilities	143,951	207,207
Credit risks		
Irrevocable facilities granted	97,495	93,898
Capital subscription and margin obligations	0	0
Commitment credits	0	0
• Liabilities arising from deferred payments	0	0
• Liabilities arising from acceptances	0	0
• Other commitment credits	0	0
Commitments arising from artificial repurchase transactions	0	0
Total credit risks	97,495	93,898
Fiduciary transactions		
Fiduciary deposits ¹	1,113,104	994,172
Fiduciary loans	0	0
Other fiduciary financial transactions	0	0
Total fiduciary transactions	1,113,104	994,172
Exposure to credit risk on loan commitments and financial guarantee contracts	-295	-31

¹ Placements that Group companies made with banks outside the scope of consolidation in their own name but at the risk and expense of the client.

Maturity structure

in CHF 1,000	At sight	1 year	Maturing within 1 to 5 years	Over 5 years	Total
31.12.2019					
Contingent liabilities	37,653	21,924	7,782	76,592	143,951
Credit risks	35,896	47,421	3,164	11,014	97,495
31.12.2018					
Contingent liabilities	22,619	72,118	5,774	106,696	207,207
Credit risks	590	48,485	32,400	12,423	93,898

Securities lending and repurchase and reverse-repurchase transactions

in CHF 1,000	31.12.2019	31.12.2018
Accounts receivable arising from cash deposits in connection with securities borrowing and reverse-repurchase transactions	0	0
Accounts payable arising from cash deposits in connection with securities-borrowing and reverse-repurchase transactions	0	39,466
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	185,729	474,986
of which securities where the unlimited right to sell on or pledge has been granted	132,084	365,784
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 resell or repledge has been granted	164,482	396,577
of which securities which have been resold or repledged	53,644	109,201

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

45 Client assets

in CHF million	31.12.2019	31.12.2018	Variance absolute	Variance in %
Analysis of client assets under management				
Assets in self-administered investment funds	9,719.7	8,688.9	1,030.7	11.9
Assets in discretionary asset management accounts	4,476.9	3,772.0	704.9	18.7
Other client assets under management	33,426.4	29,065.0	4,361.4	15.0
Total client assets under management (including amounts counted twice)	47,622.9	41,525.9	6,097.0	14.7
of which amounts counted twice	2,347.1	2,171.3	175.9	8.1
Change of assets under management				
Total client assets under management (including amounts counted twice) at the beginning of the financial year	41,525.9	40,386.3	1,139.6	2.8
of which net new money	2,254.6	3,196.9	-942.3	-29.5
of which change in market value	2,890.2	-2,057.3	4,947.5	240.5
of which other effects	952.2	0.0	952.2	0.0
Total client assets under management (including amounts counted twice) as of balance-sheet date	47,622.9	41,525.9	6,097.0	14.7
Custody assets¹	6,926.3	5,210.1	1,716.2	32.9
Total client assets				
Total client assets under management (including amounts counted twice)	47,622.9	41,525.9	6,097.0	14.7
Custody assets	6,926.3	5,210.1	1,716.2	32.9
Total client assets	54,549.2	46,736.0	7,813.2	16.7
Net new money	2,254.6	3,196.9	-942.3	-29.5

¹ 31 December 2018 restated due to amounts counted twice in the amount of CHF 1.781 billion.

Calculation method

All client assets that are managed or held for investment purposes for which investment-advisory and asset-management services are provided are considered as client assets under management. In principle, all amounts owed to clients, fiduciary deposits and all assets in security deposits with a value are included therein. The calculation is made on the basis of the provisions of the Liechtenstein Banking Ordinance (Note 3, Point 88a, FL-BankO) and the internal guidelines of VP Bank Group.

Assets in self-administered investment funds

This item contains the assets of all administered investment funds of VP Bank Group.

Assets in discretionary asset-management accounts

The assets in discretionary asset-management accounts encompass securities, uncertificated securities, precious metals, fiduciary deposits placed with third parties valued at market value and client deposits. The data include both assets deposited with Group companies and with third parties which are the object of a discretionary asset-management agreement with a Group company.

Other client assets under management

Other client assets under management encompass securities, uncertificated securities, precious metals, fiduciary deposits placed with third parties valued at market value and client deposits. The data encompass assets which are the object of an administration or advisory mandate.

Amounts counted twice

This item encompasses unit shares in self-administered investment funds which are in client portfolios subject to a discretionary asset-management agreement and other security deposits of clients.

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. In 2019, net new money includes reclassifications amounting to CHF 300.2 million (2018: CHF 0).

Custody assets

Assets held exclusively for the purposes of trading and custody for which the involvement of VP Bank Group is limited to custodian and collection activities.

46 Acquisition in 2019

As of 1 February 2019, the acquisition of the private banking activities of Catella Bank in Luxemburg by VP Bank (Luxembourg) SA has been completed. The acquisition had been announced on 26 October 2018. This transaction in the form of an asset deal has been successfully executed as scheduled on 1 February 2019. It included the takeover of eleven employees as well as the migration of CHF 952 million in client assets. 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 real-estate investment and advisory, fund management and private banking with operations in 14 countries. The group manages assets of about EUR 20 billion. Catella has about 600 employees and is listed in the mid-cap segment at Nasdaq Stockholm. It is headquartered 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 0.4 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.

Statutory auditor's report



Ernst & Young Ltd
Schanzenstrasse 41
P.O. Box
CH-3001 Berne

Phone +41 58 286 61 11
Fax +41 58 286 68 18
www.ey.com/ch

To the General Meeting of
VP Bank Ltd, Vaduz

Berne, 28 February 2020

Statutory auditor's report on the audit of the consolidated financial statements



Opinion

We have audited the consolidated financial statements of VP Bank Ltd and its subsidiaries (the Group) which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated changes in shareholders equity, consolidated statement of cash flow and notes for the year ended 31 December 2019, including a summary of significant accounting policies, and the consolidated annual report (pages 100 to 170).

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Liechtenstein law.



Basis for opinion

We conducted our audit in accordance with Liechtenstein law and International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Liechtenstein law and the requirements of our audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Valuation of due from customers

Area of focus As at 31 December 2019, the amount due from customers is CHF 6.8b or 51% of the Group's balance sheet, of which CHF 3.3b related to mortgages receivables and CHF 3.5b to other receivables.

Due from customers are initially recognised at actual cost, which corresponds to the fair value at the time the loans were granted. Subsequent measurement is at amortised cost less any recognised impairment.

The Group uses the expected credit loss (ECL) model to determine impairment, as explained in the previous area of focus. Due from customers are allocated to stage 1 of the ECL model at the time of initial recognition. If due from customers bear a significant increase in credit risk compared with the date of initial recognition, these are transferred to stage 2. If there is objective evidence of impairment, due from customers are transferred to stage 3.

When allocating to the different stages and determining the impairment, estimates must be made, that involve significant judgment and may vary depending on the assessment. Due to the magnitude and the involvement of significant judgment of the mentioned balance sheet items, this is of particular importance from an audit perspective.

The Group describes its accounting policies for the item due from customers on pages 111 to 112 of this annual report. In addition, we refer to the notes on credit risks in the section "Risk management" (pages 134 to 138) and note 16 in the consolidated financial statements (pages 148 to 150).

Our audit
response

We assessed the process and controls relating to the granting and monitoring of loans. We selected a sample of individual loans and independently performed impairment testing and evaluated the assumptions used for the calculation of impairment for credit losses. Other audit procedures included analyzing the allocation of individual loan exposures to the different stages in the ECL model, assessing the accounting policies used and examined the disclosures in the notes to the consolidated financial statements.

Our procedures did not give rise to any exceptions with regard to the valuation of due from customers.

Completeness and valuation of provisions for legal proceedings

Area of
focus

As part of its ordinary banking activities, the Group is involved in various legal and regulatory proceedings that could have a material effect on the Group due to the nominal amount in dispute.

The Group establishes provisions for pending and threatened legal proceedings if it judges that such proceedings are more likely than not to result in a financial obligation or loss. In isolated cases, where the amount cannot be estimated reliably, for example because of the early stage or complexity of the proceedings or other factors, no provision is recognised, but a contingent liability is disclosed.

The recognition and measurement of provisions and the determination and disclosure of contingent liabilities in respect of legal proceedings requires significant judgment. The Group describes its accounting policies for legal proceedings on page 114. We also refer to the notes 9 (page 144) and 33 (page 156) to the consolidated financial statements.

Our audit
response

We assessed the processes and the controls related to the identification, evaluation and measurement of provisions for legal proceedings. Where significant judgements and legal interpretations exist, we evaluated the legal analyses and opinions of external lawyers in order to substantiate the analyses made by the Group. We also examined the disclosure of provisions and contingent liabilities.

Our procedures did not give rise to any exceptions with regard to the completeness and valuation of provisions for legal proceedings.



Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is

materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Liechtenstein law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Liechtenstein law and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Liechtenstein law and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- ▶ Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on other legal and regulatory requirements

The consolidated annual report (pages 100 to 170) as at 31 December 2019 complies with Liechtenstein law and the Company's articles of incorporation. The consolidated annual report corresponds to the consolidated financial statements and contains no significant incorrect information according to our assessment.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Philipp de Boer
Certified Accountant
(Auditor in charge)

Marcel Meier
Swiss Certified Accountant

FUNDS



EXPERTISE



FUND EXPERTISE

We connect funds and expertise.

A good idea will win through: funds as an instrument to create wealth have been around since the eighteenth century. The idea and attractiveness of funds have continued through to this day. However, it was not until the end of the last century that the funds sector scored an impressive victory.

The fund expert **Eduard von Kymmel** - Head of VP Funds Solutions Luxembourg and Liechtenstein - answers some questions about the development of the fund market, current challenges faced and new product trends.



Detailed information at
www.vpbank.com/fundexpertise



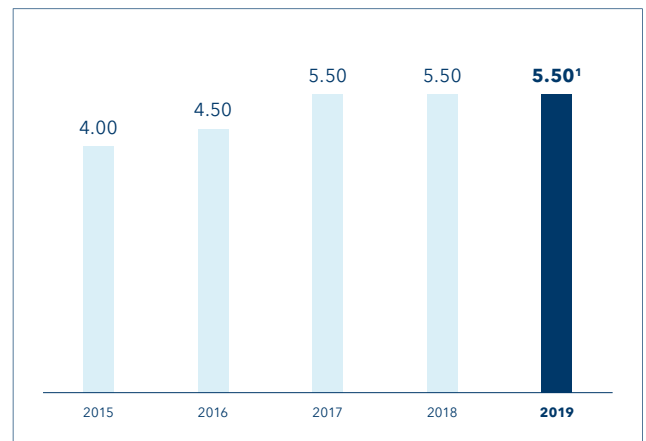
Annual report of VP Bank Ltd, Vaduz

The annual report of VP Bank Ltd is largely evident from the consolidated annual report of VP Bank Group.

As of the balance-sheet date, VP Bank Ltd, Vaduz, and its subsidiaries held in total 598,065 registered shares A as well as 327,419 registered shares B (prior year: 599,442 registered shares A and 324,929 registered shares B). This equates to a capital share of approximately 9.5 per cent (prior year: 9.6 per cent). In addition, reference is made to the notes to the relevant annual financial statements regarding the number of and changes in treasury shares in the parent company.

In keeping with the spirit of the Group's long-term dividend policy, the Board of Directors will propose a dividend of CHF 5.50 per registered share A and CHF 0.55 per registered share B (prior year: CHF 5.50 per registered share A and CHF 0.55 per registered share B) at the Annual General Meeting of shareholders to be held on 24 April 2020.

Dividend (in CHF)



¹ Proposal to the annual general meeting

Balance sheet

Assets

in CHF 1,000 Art. 24b FL-BankO	31.12.2019	31.12.2018	Variance absolute	Variance in %
Cash and cash equivalents	2,610,760	2,321,257	289,503	12.5
Due from banks	782,048	941,029	-158,981	-16.9
• maturing daily	692,783	786,942	-94,159	-12.0
• other receivables	89,265	154,087	-64,822	-42.1
Due from customers	5,493,969	4,984,102	509,867	10.2
of which mortgage receivables	3,007,197	2,977,726	29,471	1.0
Debentures and other interest-bearing securities	2,238,928	2,292,462	-53,534	-2.3
• money-market papers	122,957	57,585	65,372	113.5
from public-sector issuers	122,957	56,585	66,372	117.3
from other issuers	0	1,000	-1,000	-100.0
• debt securities	2,115,972	2,234,877	-118,905	-5.3
from public-sector issuers	563,926	696,075	-132,149	-19.0
from other issuers	1,552,046	1,538,802	13,244	0.9
Equity shares and other non-interest-bearing securities	131,311	110,787	20,524	18.5
Participations	74	74	0	-0.0
Shares in affiliated companies	204,227	204,227	0	0.0
Intangible assets	21,329	18,615	2,714	14.6
Property and equipment	75,254	78,409	-3,155	-4.0
Treasury shares	66,515	61,396	5,119	8.3
Other assets	94,225	65,615	28,610	43.6
Accrued receivables and prepaid expenses	23,224	24,761	-1,537	-6.2
Total assets	11,741,864	11,102,734	639,130	5.8

Liabilities and shareholders' equity

in CHF 1,000 Art. 24b FL-BankO	31.12.2019	31.12.2018	Variance absolute	Variance in %
Due to banks	2,523,782	2,242,115	281,667	12.6
• maturing daily	1,406,186	1,413,503	-7,317	-0.5
• with agreed duration or term of notice	1,117,596	828,612	288,984	34.9
Due to customers	7,561,767	7,370,454	191,313	2.6
• savings deposits	599,194	636,202	-37,008	-5.8
• other liabilities	6,962,573	6,734,252	228,321	3.4
maturing daily	5,916,554	6,174,116	-257,562	-4.2
with agreed duration or term of notice	1,046,019	560,136	485,883	86.7
Securitised liabilities	535,493	443,616	91,877	20.7
• debentures issued	535,493	443,616	91,877	20.7
of which medium-term notes	180,493	243,616	-63,123	-25.9
Other liabilities	149,916	101,730	48,186	47.4
Accrued liabilities and deferred items	28,639	26,122	2,517	9.6
Provisions	13,693	16,243	-2,550	-15.7
• tax provisions	4,915	4,410	505	11.5
• other provisions	8,778	11,833	-3,055	-25.8
Provisions for general banking risks	63,150	63,150	0	0.0
Share capital	66,154	66,154	0	0.0
Capital reserves	47,049	47,049	0	0.0
Income reserves	595,467	592,086	3,381	0.6
• legal reserves	239,800	239,800	0	0.0
• reserves for treasury shares	66,515	61,396	5,119	8.3
• other reserves	289,152	290,890	-1,738	-0.6
Balance brought forward	97,630	99,897	-2,267	-2.3
Net income for the year	59,124	34,118	25,006	73.3
Total liabilities and shareholders' equity	11,741,864	11,102,734	639,130	5.8

Off-balance-sheet transactions

in CHF 1,000 Art. 24b FL-BankO	31.12.2019	31.12.2018	Variance absolute	Variance in %
Contingent liabilities	119,288	202,853	-83,565	-41.2
Credit risks	82,746	68,446	14,300	20.9
• irrevocable facilities granted	82,746	68,446	14,300	20.9
Derivative financial instruments				
• positive replacement values	72,199	42,040	30,159	71.7
• negative replacement values	94,867	59,529	35,338	59.4
• contract volumes	8,544,733	5,798,969	2,745,764	47.3
Fiduciary transactions	758,593	979,139	-220,546	-22.5

Income statement

in CHF 1,000 Art. 24c FL-BankO	2019	2018	Variance absolute	Variance in %
Interest income	108,800	85,435	23,365	27.3
of which from interest-bearing securities	30,705	26,063	4,642	17.8
of which from trading transactions	0	0	0	-100.0
Interest expense	53,391	42,746	10,645	24.9
Net interest income	55,409	42,689	12,720	29.8
Current income from securities	13,904	6,944	6,960	100.2
• shares and other non-interest-bearing securities	6,369	4,942	1,427	28.9
of which from trading transactions	0	0	0	0.0
• participations	6	2	4	205.7
• shares in affiliated companies	7,529	2,000	5,529	276.4
Income from commission business and services	95,847	91,804	4,043	4.4
• commission income from credit business	969	984	-15	-1.4
• commission income from securities and investment business	82,405	77,370	5,035	6.5
• commission income from other services	12,473	13,450	-977	-7.3
Commission expenses	15,627	13,838	1,789	12.9
Net income from commission business and services	80,220	77,966	2,254	2.9
Income from financial transactions	101,588	63,102	38,486	61.0
of which from trading transactions	69,727	77,455	-7,728	-10.0
Other ordinary income	3,782	5,881	-2,099	-35.7
• income from real estate	196	162	34	20.6
• other ordinary income	3,586	5,719	-2,133	-37.3
Total net operating income	254,903	196,582	58,321	29.7
Operating expenses	170,057	152,597	17,460	11.4
• personnel expenses	127,543	112,300	15,243	13.6
• general and administrative expenses	42,514	40,297	2,217	5.5
Gross income	84,846	43,985	40,861	92.9
Depreciation and amortisation of intangible assets and property and equipment	19,299	18,591	708	3.8
Other ordinary expenses	995	2,164	-1,169	-54.0
Valuation allowances on receivables and increases in provisions for contingent liabilities and credit risks	3,289	6,496	-3,207	-49.4
Income from release of valuation allowances on receivables and from the release of provisions for contingent liabilities and credit risks	3,539	31,988	-28,449	-88.9
Write-offs on participations, shares in affiliated companies and securities dealt with as non-current assets	0	9,654	-9,654	-100.0
Gains from appreciations on participations, shares in affiliated companies and securities dealt with as non-current assets	0	0	0	0.0
Income from normal business operations	64,802	39,068	25,734	65.9
Extraordinary income	0	0	0	0.0
Extraordinary expenses	0	1	-1	-100.0
Taxes on income	5,015	4,543	472	10.4
Other taxes if not included in above items	663	406	257	63.2
Net income for the year	59,124	34,118	25,006	73.3

Appropriation of profit

in CHF 1,000 Art. 24c FL-BankO	2019	2018	Variance absolute	Variance in %
Net income for the year	59,124	34,118	25,006	73.3
Retained earnings brought forward	97,630	99,897	-2,267	-2.3
Retained earnings	156,755	134,015	22,740	17.0
Appropriation of profit				
Appropriation to other reserves	0	0	0	0.0
Distribution on the basis of company capital	36,385	36,385	0	0.0
Other appropriation of profit	0	0	0	0.0
Retained earnings to be carried forward	120,370	97,630	22,740	23.3
The Board of Directors proposes that the profit be distributed as follows (in CHF):				
At the disposal of the annual general meeting	156,754,654.45			
Distribution of a dividend of CHF 5.50 per registered share A CHF 0.55 per registered share B	36,384,791.85			
Other appropriation of profit	0.00			
Retained earnings to be carried forward	120,369,862.60			

Information regarding business activities and number of employees

Art. 24e Par. 1 Point 1 FL-BankO

VP Bank Ltd, which has its registered office in Vaduz, Liechtenstein, was established in 1956 and is one of the three largest banks in Liechtenstein. Today, VP Bank Group owns subsidiary companies in Zurich, Luxembourg, the British Virgin Islands and Hong Kong, a branch in Singapore as well as a representative office in Hong Kong. Adjusted to reflect full-time equivalents, at year-end 2019 VP Bank Ltd had 588.3 individuals under its employment (previous year: 602.6).

VP Bank's core activities consist of asset-management and investment-advisory services for private and institutional investors, as well as lending operations.

Commission business and services

In addition to general banking operations, commission and service-related business encompasses asset-management services for private clients, financial intermediaries and institutional clients, as well as investment advice, safekeeping and trustee services. VP Bank Ltd earns a significant portion of its total commission-related revenue from transactions in securities on behalf of clients.

Lending business

The credit business of the Bank is primarily geared to providing financing of residential properties for private clients, as well as asset-management and investment-advisory services for private clients. The Bank also grants commercial loans to commercial clients.

Money-market and interbank activities

To the extent that they are not used for the Bank's lending operations, client funds are invested with first-rate banks.

Trading activities

Clients are afforded a full range of execution and settlement services for all customary types of financial transaction. A significant portion of the trading activities is related to foreign exchange dealings on behalf of private clients.

For liquidity-management and investment purposes, VP Bank Ltd maintains a portfolio of interest-bearing security and equity positions.

Principles of accounting and valuation, disclosures on risk management

Art. 24e Par. 1 Point 2 FL-BankO

Principles of accounting and valuation

General principles

Accounting and valuation principles follow the prescriptions of the Liechtenstein Persons and Companies Act, as well as the Liechtenstein Banking Act and its related Ordinance.

Recording of transactions

In accordance with the valuation policies laid down, all business transactions are recorded in the Bank's accounts as of their trading date. Forward contracts are recorded under off-balance-sheet transactions as of their settlement or value date.

Income and expenditure in foreign currencies are translated into Swiss francs at their respective daily rates; assets and liabilities are translated at the rates prevailing at year-end. Foreign-exchange gains and losses resulting from translation are recorded in the income statement.

Financial statements of foreign branches expressed in a foreign currency are translated at the exchange rate prevailing at the balance-sheet date (balance-sheet positions) or at an annual average exchange rate (income-statement positions). Translation differences are recorded in the income statement.

Cash balances, public-sector debt securities and bills of exchange which are eligible for refinancing with central banks, amounts due from banks, liabilities

Recording is made at nominal values minus any applicable unearned discount in the case of money-market paper. Valuation allowances are established to cover identifiable risks following the principle of prudence. Individual and lump-sum valuation allowances are deducted directly from the related balance-sheet positions.

Interest overdue for more than 90 days is provided for and recorded in the income statement as and when received.

Amounts due from clients

Receivables from clients are recorded in the balance sheet at their nominal values minus any applicable valuation allowances. A receivable is considered as being value-impaired when there is a probability that the total contractually owed amount is no longer recoverable.

A valuation allowance is recorded in the balance sheet as a reduction of the carrying value of the receivable to its probable realisable value. On the other hand, provisions for credit risks are established for off-balance-sheet positions.

In addition to individual valuation allowances, VP Bank Ltd creates lump-sum individual valuation allowances as well as general lump-sum valuation allowances to cover latent credit risks.

A review of collectability is undertaken at least annually for all non-performing loans.

Debentures and other interest-bearing securities, equity shares and other non-interest-bearing securities

Trading portfolios of securities and precious metals are valued at the quoted market price as of the balance-sheet date.

Portfolios of securities and precious metals are valued at the lower of cost or market and interest-bearing securities, in part, also in accordance with the accrual method.

In accordance with the accrual method, the premium or discount on acquisition is deferred and accreted or amortised, respectively, over the term of the security until maturity. The interest portion of realised gains or losses from premature disposal or redemptions are deferred and released to income over the remaining term (i.e. until the original final maturity). Interest income arising on interest-bearing securities is reflected in the caption "interest income", and dividend income in the caption "current income from securities". Price gains/losses are reported in the caption "income from finance transactions".

Participations

Equity shareholdings in companies owned by the Bank representing a non-controlling interest held on a long-term basis are recorded as participations. Participations are valued at acquisition cost minus economically required valuation allowances.

Shares in affiliated companies

The existing majority shareholdings of VP Bank Ltd are recorded as shares in affiliated companies. Shares in affiliated companies are valued at acquisition cost minus economically required valuation allowances.

These affiliated companies are fully consolidated for the purposes of the published consolidated financial statements.

Intangible assets

Value-enhancing expenditures in connection with the acquisition and installation of software are capitalised and amortised on a straight-line basis over the estimated useful life of three to seven years. Self-developed intang-

ible assets are not capitalised. Minor purchases are charged directly to general and administrative expenses.

Property, plant and equipment

Property, plant and equipment encompasses buildings used by the Bank, other real estate, furniture and equipment as well as IT installations. Investments in new and existing property, plant and equipment are capitalised and valued at acquisition cost. Minor purchases are charged directly to general and administrative expenses.

In subsequent valuations, property and equipment is recorded at acquisition cost, minus accumulated depreciation and amortisation. Depreciation and amortisation is charged on a systematic basis over the estimated useful lives (bank buildings and other real estate: 25 years; furniture and equipment: 8 years; IT installations: 3 years; software: 3 to 7 years). The property, plant and equipment is reviewed annually for impairment in value.

Other assets, other liabilities

Other assets and liabilities include the positive and negative replacement values, respectively, of all financial derivative instruments open at the balance-sheet date arising from nostro transactions as well as over-the-counter contracts (OTC) arising from transactions on behalf of clients. In addition, these positions include balances of various settlement and clearing accounts.

Valuation allowances and provisions

Valuation allowances and provisions are established to reflect identifiable risks, as dictated by the principle of prudence. Individual and lump-sum valuation allowances for receivables from banks and clients as well as for mortgage receivables are deducted directly from the corresponding asset position. Provisions can be raised for receivables subject to a country risk as dictated by the principle of prudence.

Provisions for general banking risks

Provisions for general banking risks are prudently established reserves to cover latent risks arising from the normal course of business of the Bank. As required by the prescriptions governing financial statement reporting, they are shown as a separate item in the balance sheet. Changes thereto are disclosed separately in the income statement.

Contingent liabilities, irrevocable facilities granted, capital subscription and margin obligations

Amounts disclosed as off-balance-sheet items are stated at nominal values. Lump-sum provisions exist in the balance sheet for latent default risks.

Statement of cash flow

VP Bank Ltd is exempted from drawing up a statement of cash flow as a result of the obligation to prepare consolidated financial statements (Art. 241 FL-BankO). The consolidated statement of cash flow of VP Bank Group is a part of the consolidated financial statements.

Post-balance-sheet-date events

There were no material occurrences having an impact on the balance sheet and income statement to be reported for the 2019 financial year.

Commentaries on risk management

Appropriate risk management is the basic prerequisite for the sustainable development and continuing success of VP Bank Ltd, Vaduz. By "appropriate" it is to be understood that VP Bank Ltd, as a value-oriented enterprise, although it takes on financial, operational and business risks in a conscious manner, does not hinder growth through innovation and initiatives, but realistically evaluates and realises profit opportunities.

The principles for identifying, evaluating, controlling and monitoring financial, operational and business risks apply to VP Bank Ltd to the same extent as to the subsidiary companies and exactly mirror the risk management and control framework of VP Bank Group, for which reason reference is made at this point to the commentaries on risk management of VP Bank Group (→ page 119 ff.).

Notes regarding balance sheet and income statement

Analysis of collateral

in CHF 1,000 Art. 24e Par. 1 Point 3.1 FL-BankO	Mortgage collateral	Other collateral	Without collateral	Total
Loans				
Due from customers	14,680	2,061,275	410,817	2,486,772
Mortgage receivables	2,986,977	16,274	3,946	3,007,197
• Residential property	2,138,948	16,086	3,946	2,158,980
• Office and business premises	95,153	0	0	95,153
• Commercial and industrial premises	670,608	77	0	670,685
• Other	82,268	111	0	82,379
Total loans, 31.12.2019	3,001,657	2,077,549	414,763	5,493,969
Total loans, 31.12.2018	2,965,102	1,683,172	335,828	4,984,102
Off-balance-sheet transactions				
Contingent liabilities	430	51,038	67,820	119,288
Irrevocable facilities granted	21,983	25,285	35,478	82,746
Total off-balance-sheet transactions, 31.12.2019	22,413	76,323	103,298	202,034
Total off-balance-sheet transactions, 31.12.2018	32,495	118,466	120,338	271,299

Value-impaired loans

in CHF 1,000	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
Total value-impaired loans, 31.12.2019	28,830	9,210	19,620	19,620
Total value-impaired loans, 31.12.2018	36,748	15,976	20,772	20,772

Trading portfolios of securities and precious metals

in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankO	Carrying value		Acquisition cost		Market value	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Trading portfolios of securities and precious metals						
Equity shares	47	43	26	26	47	43
of which equity shares in the treasury	47	43	26	26	47	43
Precious metals	198	123	193	116	198	123
Total	245	166	219	142	245	166

Material receivables and liabilities included in other balance-sheet positions which are marked to market value and whose revaluation is recorded in the item "gains/losses from trading transactions":

Positive replacement values of derivative financial instruments in trading portfolios (other assets)	72,143	41,567			72,143	41,567
Negative replacement values of derivative financial instruments in trading portfolios (other liabilities)	85,832	48,226			85,832	48,226
Total	157,975	89,793			157,975	89,793

Portfolios of securities and precious metals in current assets (excluding trading portfolios)

Debt securities	2,238,928	2,292,462	2,266,390	2,288,517	2,288,350	2,324,463
Equity shares	197,779	172,140	235,841	217,962	239,238	209,030
of which equity shares in the treasury	66,468	61,353	69,161	65,626	97,728	89,332
Total	2,436,707	2,464,602	2,502,231	2,506,479	2,527,588	2,533,493
of which repo-eligible securities	704,127	705,562	711,164	709,472	719,127	713,230
of which exchange-listed securities	2,400,236	2,273,614	2,438,706	2,284,724	2,488,627	2,297,005

Disclosures on treasury shares included in current assets (excluding trading portfolios)

in numbers / in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankO	Number 2019	2018	Carrying value 2019	2018
Registered shares A				
Balance at the beginning of the year	599,442	547,320	57,512	46,758
Purchase	58,750	111,200	8,556	18,708
Disposals	-60,127	-59,078	-8,565	-8,775
Valuation allowances				
Appreciation			4,838	822
Balance at the end of the year	598,065	599,442	62,341	57,512
Registered shares B				
Balance at the beginning of the year	321,897	128,630	3,841	1,097
Purchase	2,490	193,267	37	4,033
Disposals				
Valuation allowances				-1,289
Appreciation			248	
Balance at the end of the year	324,387	321,897	4,127	3,841

Participations and shares in affiliated companies

in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankO	Carrying value 31.12.2019	Carrying value 31.12.2018
Participations		
without quoted market value	74	74
Total participations	74	74
Shares in affiliated companies		
without quoted market value ¹	204,227	204,227
Total shares in affiliated companies	204,227	204,227

¹ In 2019, no recoveries in value pursuant to Art. 1090 PGR were recorded (prior year: CHF 0.0 million).

in CHF 1,000 Art. 24e Par. 1 Point 3.3 FL-BankO	Currency	31.12.2019 Corporate capital	Percentage ownership	Currency	31.12.2018 Corporate capital	Percentage ownership
Participations						
Data Info Services AG, Vaduz (procurement, trade and exchange of goods and services)	CHF	50	50%	CHF	50	50%
Shares in affiliated companies						
VP Fund Solutions (Liechtenstein) AG (fund management company)	CHF	1,000	100%	CHF	1,000	100%
VPB Finanz Holding AG, Zurich (holding company)				CHF	20,000	100%
VP Bank (Luxembourg) SA, Luxembourg (bank)	CHF	20,000	100%	CHF	20,000	100%
VP Bank (Switzerland) Ltd, Zurich (bank)	CHF	20,000	100%	CHF	20,000	100%
VP Wealth Management (Hong Kong) Ltd, Hong Kong (asset management company)	HKD	5,000	100%	HKD	5,000	100%
VP Bank (Singapore) Ltd, Singapore - in liquidation (bank)	SGD	102,000	100%	SGD	102,000	100%
VP Bank (BVI) Ltd, Tortola (bank)	USD	10,000	100%	USD	10,000	100%

The carrying value of affiliated banks included under shares in affiliated companies amounts to CHF 202.4 million including subordinated loans (previous year: CHF 198.9 million).

Overview of investments

in CHF 1,000 Art. 24e Par. 1 Point 3.4 FL-BankO	Acqui- sition cost	Cumulative deprecia- tion to date	Carrying value 31.12.2018	Financial year 2019				Carrying value 31.12.2019
				Invest- ments/ Additions	Divest- ments	Depr. and amort- isation	Foreign- currency translation	
Total participations (minority participations)	126	-52	74	0	0	0	0	74
Total shares in affiliated companies	249,873	-45,646	204,227	0	0	0	0	204,227
Total intangible assets (excluding goodwill)	168,532	-149,917	18,615	13,547	0	-10,828	-5	21,329
Real estate								
• bank premises	204,560	-133,969	70,591	1,406	-11,247	5,528	0	66,278
• other real estate	3,101	-130	2,971	44	0	-181	-4	2,830
Other property and equipment	32,319	-27,472	4,847	4,563	-1,352	-1,909	-3	6,146
Total property and equipment	239,980	-161,571	78,409	6,013	-12,599	3,438	-7	75,254
Fire-insurance values of real estate			152,650					152,400
Fire-insurance values of other property and equipment			31,170					32,761

Future commitments under operating leases

At year-end, there were various operating lease contracts for real estate and other property and equipment which are principally used to conduct the business activities of the Bank. The material lease contracts include renewal options as well as escape clauses.

in CHF 1,000	31.12.2019	31.12.2018
Total minimum commitments arising from operating leases	8,096	7,561

Operating expenses as of 31 December 2019 include CHF 1.541 million arising from operating leases (previous year: CHF 1.716 million).

Assets pledged or assigned to secure own or third-party liabilities and assets subject to reservation of title

in CHF 1,000 Art. 24e Par. 1 Point 3.6 FL-BankO	31.12.2019	31.12.2018
Assets pledged or assigned to secure own or third-party liabilities and assets subject to reservation of title excluding securities lending/borrowing and repo transactions		
Carrying value of assets pledged or assigned as security	635,236	685,213
Effective liabilities	0	0
Securities lending/borrowing and repurchase transactions		
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	0	39,466
Securities owned by the Bank lent out within the scope of securities lending or delivered as collateral within the scope of securities borrowing or transferred within the scope of repurchase transactions	185,729	474,986
of which securities for which an unconditional right has been granted to sell on or repledge	132,084	365,784
Securities received as collateral within the scope of securities lending or borrowed within the scope of securities borrowing or received within the scope of reverse repurchase transactions in the case of which the unconditional right to sell on or repledge was granted	164,482	396,577
of which securities repledged or sold on	53,644	109,201

Liabilities to own retirement pension plans

in CHF 1,000 Art. 24e Par. 1 Point 3.7 FL-BankO	31.12.2019	31.12.2018
Due to customers	32,730	12,877
Securitised liabilities	0	150
Other liabilities	1,434	675
Total liabilities to own retirement pension plans	34,163	13,702

Outstanding debenture issues

in CHF 1,000 Art. 24e Par. 1 Point 3.8 FL-BankO	Interest rate in %	Year of issue	Maturity	Nominal amount 31.12.2019	Nominal amount 31.12.2018
VP Bank debenture issue	0.875	2015	07.10.2024	100,000	100,000
VP Bank debenture issue	0.500	2015	07.04.2021	100,000	100,000
VP Bank debenture issue	0.600	2019	29.11.2029	155,000	

Valuation allowances / provisions for general banking risks

in CHF 1,000 Art. 24e Par. 1 Point 3.9 FL-BankO	Balance on 01.01.2019	Utilisation in accordance with purpose	Recoveries, overdue interest, forex diff.	Provisions charged to income statement	Provisions released to income statement	Balance on 31.12.2019
Valuation allowances for default risks						
• Individual valuation allowances	20,772		-269	1,529	2,412	19,620
• Lump-sum valuation allowances	715		-11	1,457	1,059	1,102
Provisions for contingent liabilities and credit risks	18		-4	285	18	281
Provisions for taxes and deferred taxes	4,410	4,510		5,015		4,915
Other provisions	11,815	6,555	-13	3,249		8,496
Total valuation allowances and provisions	37,730	11,064	-298	11,536	3,489	34,414
minus: valuation allowances	21,487					20,721
Total provisions as per balance sheet	16,243					13,693
Provisions for general banking risks	63,150					63,150

Company capital

in CHF 1,000 Art. 24e Par. 1 Point 3.10 FL-BankO	Total par value	31.12.2019 Number	Capital entitled to dividends	Total par value	31.12.2018 Number	Capital entitled to dividends
Registered shares A	60,150	6,015,000	60,150	60,150	6,015,000	60,150
Registered shares B	6,004	6,004,167	6,004	6,004	6,004,167	6,004
Total company capital	66,154	12,019,167	66,154	66,154	12,019,167	66,154

Significant shareholders and groups of shareholders with interlinking voting rights

in CHF 1,000 Art. 24e Par. 1 Point 3.10.1 FL-BankO	Par value	31.12.2019 Share in % of par value	Share of voting rights in %	Par value	31.12.2018 Share in % of par value	Share of voting rights in %
With voting rights						
Stiftung Fürstl. Kommerzienrat Guido Feger, Vaduz	15,194	23.0	46.6	15,194	23.0	46.6
U.M.M. Hilti-Stiftung, Schaan	6,434	9.7	10.3	6,130	9.3	10.0
Marxer Stiftung für Bank- und Unternehmenswerte, Vaduz	7,569	11.4	6.3	7,568	11.4	6.3

Statement of changes in shareholders' equity

in CHF 1,000 Art. 24e Par. 1 Point 3.11 FL-BankO	2019
Shareholders' equity at the beginning of the financial year	
Subscribed and paid-up capital	66,154
Capital reserves	47,049
Legal reserves	239,800
Reserve for treasury shares	61,396
Other reserves	290,890
Provisions for general banking risks	63,150
Retained earnings	134,015
Total shareholders' equity at the beginning of the financial year	902,454

in CHF 1,000 Art. 24e Par. 1 Point 3.11 FL-BankO	2019
Other appropriations / releases from reserves (-)	3,381
Dividends and other distributions from net income of the previous year ¹	-36,385
Net income/loss (-) for the financial year	59,124
Total shareholders' equity at the end of the financial year	928,574
of which	
Subscribed and paid-up capital	66,154
Capital reserves	47,049
Legal reserves	239,800
Reserve for treasury shares	66,515
Other reserves	289,152
Provisions for general banking risks	63,150
Retained earnings	156,754

¹ Only dividends to third parties.

Maturity structure of assets as well as liabilities and provisions

in CHF 1,000 Art. 24e Par. 1 Point 3.12 FL-BankO	Sight	Callable	Due within 3 months	Due within 3 to 12 months	Due within 1 year to 5 years	Due after 5 years	Without maturity	Total
Assets								
Cash and cash equivalents	2,610,760							2,610,760
Due from banks	692,787		88,850		411			782,048
Due from customers	30,302	292,560	3,109,237	761,821	1,032,491	267,558		5,493,969
of which mortgage receivables	680	40,072	1,304,515	447,516	947,856	266,558		3,007,197
Trading portfolios of securities and precious metals	245							245
Portfolios of securities and precious metals in current assets (excluding trading portfolios)	2,363,128							2,363,128
Portfolios of securities and precious metals in fixed assets	73,579							73,579
Other assets	348,471		556				69,108	418,135
Total assets, 31.12.2019	6,119,272	292,560	3,198,643	761,821	1,032,902	267,558	69,108	11,741,864
Total assets, 31.12.2018	5,897,066	279,228	2,664,275	626,936	1,300,901	260,766	73,562	11,102,734
Liabilities and provisions								
Due to banks	1,406,185	181,448	719,832	206,475	9,842			2,523,782
Due to customers	5,143,201	1,372,547	990,247	55,772				7,561,767
• savings deposits		599,194						599,194
• other liabilities	5,143,201	773,353	990,247	55,772				6,962,573
Securitised liabilities			11,435	93,017	271,761	159,280		535,493
• debentures issued			11,435	93,017	271,761	159,280		535,493
of which medium-term notes			11,435	93,017	71,761	4,280		180,493
Provisions (excluding provisions for general banking risks)	13,693							13,693
Other liabilities	177,674		881					178,555
Total liabilities, 31.12.2019	6,740,753	1,553,995	1,722,395	355,264	281,603	159,280		10,813,290
Total liabilities, 31.12.2018	7,079,236	1,720,779	836,755	212,762	247,988	102,760		10,200,280
Debentures and other interest-bearing securities which mature in the following financial year								448,865
Issued debentures which mature in the following financial year								104,452

Receivables from and payables to participations, affiliated companies and qualifying participants, as well as loans to governing bodies and material transactions with related persons

in CHF 1,000 Art. 24e Par. 1 Point 3.13 FL-BankO	31.12.2019	31.12.2018
Receivables from and payables to participations, affiliated companies and qualifying participants		
Receivables from participations	0	0
Payables to participations	59	64
Receivables from affiliated companies	83,663	195,143
Payables to affiliated companies	2,130,240	1,867,364
Receivables from qualifying participants	0	10,615
Payables to qualifying participants	110,563	122,133
Loans to governing bodies		
Members of the Executive Board and parties related thereto	2,090	2,947
Members of the Board of Directors and parties related thereto ¹	802	11,257

¹ Excluding receivables from related qualifying participants.

VP Bank also makes payments to related persons within the framework of brokerage services and bought-in advisory services. These correspond to customary market conditions. The aggregate amount of such payments and fees in 2019 totalled CHF 0.589 million (prior year: CHF 0.822 million).

Remuneration paid to members of governing bodies

in CHF 1,000		Remuneration ^{1,2}						Total remuneration	
Art. 14-16 Ordinance against Excessive Compensation with respect to Listed Stock Corporations (Switzerland)		Fixed		thereof in registered shares A (market value)		Retirement benefit plans			
		2019	2018	2019	2018	2019	2018	2019	2018
Board of Directors									
Fredy Vogt	Chairman ^A	560	560	140	140	82	85	642	645
Markus Thomas Hilti	Vice Chairman ^B	130	130	33	33			130	130
Dr Thomas R. Meier	BoD ^{B, H, I}	190	73	48	18			190	73
Dr Christian Camenzind	BoD ^{H, J}	37	110	9	28			37	110
Prof. Dr Teodoro D. Cocca	BoD ^G	130	130	33	33			130	130
Dr Beat Graf	BoD ^{D, F}	145	145	36	36			145	145
Ursula Lang	BoD ^{D, E}	160	160	40	40			160	160
Dr Florian Marxer	BoD ^{H, K}	73	110	18	28			73	110
Dr Gabriela Payer	BoD ^{B, H}	140	140	35	35			140	140
Michael Riesen	BoD ^{C, F}	160	160	40	40			160	160
Total Board of Directors		1,725	1,718	431	430	82	85	1,807	1,803

^A Chairman of the Nomination & Compensation Committee

^B Member of the Nomination & Compensation Committee

^C Chairman of the Audit Committee

^D Member of the Audit Committee

^E Chairwoman of the Risk Committee

^F Member of the Risk Committee

^G Chairman of the Strategy & Digitalisation Committee

^H Member of the Strategy & Digitalisation Committee

^I Member of the Board of Directors as from 27 April 2018

^J Member of the Board of Directors up to 26 April 2019

^K Member of the Board of Directors up to 20 August 2019

¹ Social-security costs on the emoluments paid to the Board members are borne by VP Bank.

² Compensation for out-of-pocket expenses is not included.

Remuneration paid to members of governing bodies (continued)

in CHF 1,000	Remuneration ^{1, 2}										Total remuneration		
	Fixed basic salary		Short Term Incentive (STI)		Performance Share Plan (PSP)		Restricted Share Plan (RSP) ³		Retirement benefit plans		2019	2018	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018			
Art. 14-16 Ordinance against Excessive Compensation with respect to Listed Stock Corporations (Switzerland)													
Executive Management	3,386	3,102	2,167	700	1,308	1,400		2,025	1,007	548	7,868	7,775	
Highest remuneration													
Alfred W. Moeckli	408	687	1,295	275	0	550		275	552	156	2,255	1,943	

¹ Compensation for out-of-pocket expenses is not included.

² Gifts for length of service and termination pay are included.

³ Compensation for former employments is included.

The compensation model described in the section on corporate governance (→ page 84 ff.), both the fixed basic salary and the cash compensation (STI), and the entitlement to performance shares are disclosed. In 2018 the variable compensation included the cash compensation (STI) as well as the entitlement to performance and restricted shares. The number of registered shares A (entitlement to the performance share plan) as well as the related monetary benefit are fixed definitively only at the end of the respective planning period (or at the time of transferring the registered shares A). As part of the 2019-2021 plan, Group Executive Management received 8,493 performance shares (prior year: 15,790 performance and restricted shares). The computation of the number of shares transferred upon expiry of the plan period is dependent upon the achievement of the targets (return on equity and cost income ratio). The monetary benefit from the respective PSP and RSP programmes will by definition be determined by the equity share price at the time of transfer of title to the shares. In the 2019 financial year, 28,868 performance shares (prior year: 21,338) with a market value of CHF 4,047,293.60 on the date of allocation (prior year: CHF 3,068,404.40) were transferred from the Management Plan 2016-2018 and the RSP 2016-2018, 2017-2019 and 2018-2020.

Shareholdings and loans to governing bodies and related parties

in CHF 1,000	Shareholdings in VP Bank				Loans and credits		Related parties ¹			
	Art. 14-16 Ordinance against Excessive Compensation with respect to Listed Stock Corporations (Switzerland)				Number of shares (including related parties, excluding qualifying participants)		Loans and credits ²		Remuneration for service provided ²	
	Registered shares A		Registered shares B		2019	2018	2019	2018	2019	2018
Board of Directors										
Fredy Vogt	4,868	9,599			802	1,257				
Markus Thomas Hilti	6,675	6,461								
Dr Thomas R. Meier ^A	430	117								
Dr Christian Camenzind ^B		567								
Prof. Dr Teodoro D. Cocca	2,410	2,196								
Dr Beat Graf	1,431	1,192								539
Ursula Lang	973	709								
Dr Florian Marxer ^C		809						10,000	50	283
Dr Gabriela Payer	1,652	1,121								
Michael Riesen	1,935	1,671								
Total Board of Directors	20,374	24,442	0	0	802	1,257	0	10,000	589	822
Executive Management										
Paul H. Arni, CEO ^G										
Alfred W. Moeckli, CEO ^F		27,000						957		
Siegbert Näscher, CFO	11,173	6,738			1,150	1,050				
Dr Felix Brill, CIO ^D	1,504									
Christoph Mauchle	22,000	23,345								
Dr Urs Monstein, COO ^E	1,817									
Monika Vicandi, CRO	6,357	5,000			940	940				
Total Executive Management	42,851	62,083	0	0	2,090	2,947	0	0	0	0

^A Member of the Board of Directors as from 27 April 2018

^B Member of the Board of Directors up to 25 April 2019

^C Member of the Board of Directors up to 20 August 2019

^D Member of the Executive Management as from 1 March 2018

^E Member of the Executive Management as from 1 May 2018

^F Member of the Executive Management up to 31 January 2019

^G Member of the Executive Management as from 1 October 2019

¹ Individual or legal entities which are economically, legally or de facto closely related to a member of one of the governing bodies.

² At arm's length conditions

Assets and liabilities by domestic and foreign origin

in CHF 1,000 Art. 24e Par. 1 Point 3.14 FL-BankO	31.12.2019		31.12.2018	
	Domestic	Foreign	Domestic	Foreign
Assets				
Cash and cash equivalents	2,610,760		2,321,257	
Due from banks	548,197	233,851	583,333	357,696
Due from customers	3,662,270	1,831,699	3,621,193	1,362,909
of which mortgage receivables	2,921,377	85,820	2,900,652	77,074
Debentures and other interest-bearing securities	300,363	1,938,566	288,006	2,004,456
Equity shares and other non-interest-bearing securities	62,016	69,295	53,686	57,101
Participations	35	39	35	39
Shares in affiliated companies	79,600	124,627	79,600	124,627
Intangible assets	21,016	313	18,494	121
Property and equipment	74,797	457	77,706	703
Treasury shares	66,515		61,396	
Other assets	45,526	48,699	39,762	25,853
Accrued receivables and prepaid expenses	10,713	12,511	11,794	12,967
Total assets	7,481,808	4,260,057	7,156,262	3,946,472
Liabilities and shareholders' equity				
Due to banks	1,166,111	1,357,671	1,300,782	941,333
Due to customers	4,982,179	2,579,588	4,866,978	2,503,476
• savings deposits	483,930	115,264	512,119	124,083
• other liabilities	4,498,249	2,464,324	4,354,859	2,379,393
Securitised liabilities	535,493		443,616	
Other liabilities	83,347	66,569	54,681	47,049
Accrued liabilities and deferred items	21,068	7,571	22,158	3,964
Provisions	13,205	488	16,231	12
Provisions for general banking risks	63,150		63,150	
Share capital	66,154		66,154	
Capital reserves	47,049		47,049	
Income reserves	595,467		592,086	
• legal reserves	239,800		239,800	
• reserves for treasury shares	66,515		61,396	
• other reserves	289,152		290,890	
Balance brought forward	97,630		99,897	
Net income for the year	59,124		34,118	
Total liabilities and shareholders' equity	7,729,977	4,011,887	7,606,900	3,495,834

In accordance with the Banking Ordinance (Art. 24e Par. 1), Switzerland counts as domestic.

Total assets by country or group of countries (domicile principle)

in CHF 1,000 Art. 24e Par. 1 Point 3.15 FL-BankO	31.12.2019		31.12.2018	
	Absolute	Share in %	Absolute	Share in %
Assets				
Liechtenstein/Switzerland	7,481,808	63.7	7,156,262	64.5
Europe (excluding Liechtenstein/Switzerland)	1,646,350	14.0	1,637,788	14.7
North America	700,850	6.0	776,127	7.0
Asia	970,608	8.3	780,300	7.0
Caribbean	831,768	7.1	629,894	5.7
Other	110,480	0.9	122,363	1.1
Total assets	11,741,864	100.0	11,102,734	100.0

Balance sheet by currency

in CHF 1,000 Art. 24e Par. 1 Point 3.16 FL-BankO	CHF	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	2,606,446	252	3,628	434	2,610,760
Due from banks	116,206	118,963	193,694	353,185	782,048
Due from customers	3,338,625	812,605	734,248	608,491	5,493,969
of which mortgage receivables	2,827,807	29,437	61,239	88,714	3,007,197
Debentures and other interest-bearing securities	512,123	807,767	834,431	84,608	2,238,928
Equity shares and other non-interest-bearing securities	54,916	12,826	59,468	4,101	131,311
Participations	35		39		74
Shares in affiliated companies	204,227				204,227
Intangible assets	21,016	313			21,329
Property and equipment	74,797	457			75,254
Treasury shares	66,515				66,515
Other assets	48,657	12,003	2,970	30,595	94,225
Accrued receivables and prepaid expenses	11,001	6,760	4,564	899	23,224
Total on-balance-sheet assets	7,054,564	1,771,946	1,833,042	1,082,313	11,741,864
Delivery claims arising from foreign-exchange spot, forward and option transactions	354,991	2,970,423	2,563,645	2,457,825	8,346,884
Total Assets, 31.12.2019	7,409,555	4,742,369	4,396,687	3,540,138	20,088,748
Total Assets, 31.12.2018	7,045,671	3,933,594	3,642,409	2,008,202	16,629,876
Liabilities and shareholders' equity					
Due to banks	349,821	1,240,462	550,199	383,300	2,523,782
Due to customers	2,906,171	1,981,083	1,918,268	756,245	7,561,767
• savings deposits	598,532		662		599,194
• other liabilities	2,307,639	1,981,083	1,917,606	756,245	6,962,573
Securitised liabilities	515,034	4,356	16,103		535,493
Other liabilities	78,309	4,941	36,073	30,593	149,916
Accrued liabilities and deferred items	20,226	4,319	45	4,049	28,639
Provisions	13,426	266	1		13,693
Provisions for general banking risks	63,150				63,150
Share capital	66,154				66,154
Capital reserves	47,049				47,049
Income reserves	595,467				595,467
• legal reserves	239,800				239,800
• reserves for treasury shares	66,515				66,515
• other reserves	289,152				289,152
Balance brought forward	97,630				97,630
Net income for the year	59,124				59,124
Total on-balance-sheet liabilities	4,811,561	3,235,427	2,520,689	1,174,187	11,741,864
Delivery obligations arising from foreign-exchange spot, forward and option transactions	2,615,461	1,510,025	1,871,189	2,363,915	8,360,590
Total liabilities, 31.12.2019	7,427,022	4,745,452	4,391,878	3,538,102	20,102,454
Total liabilities, 31.12.2018	7,042,198	3,944,875	3,640,801	2,008,039	16,635,913
Net position per currency	-17,467	-3,083	4,809	2,036	

Contingent liabilities

in CHF 1,000 Art. 24e Par. 1 Point 4.1 FL-BankO	31.12.2019	31.12.2018	Variance absolute	Variance in %
Contingent liabilities				
Credit guarantees and similar	96,176	172,786	-76,610	-44.3
Performance guarantees and similar	23,112	30,067	-6,955	-23.1
Other contingent liabilities	0	0	0	0.0
Total contingent liabilities	119,288	202,853	-83,565	-41.2

Unsettled derivative financial instruments

in CHF 1,000 Art. 24e Par. 1 Point 4.3 FL-BankO	Trading instruments		Contract volumes	Hedging instruments		Contract volumes
	Positive replacement values	Negative replacement values		Positive replacement values	Negative replacement values	
Interest-rate instruments						
Swaps				56	9,036	194,110
Futures						
Foreign exchange / precious metals						
Forward contracts	25,782	29,668	3,129,947			
Combined interest-rate/currency swaps	14,382	24,187	3,670,805			
Options (OTC)	31,868	31,866	1,546,134			
Equity instruments/Indices						
Futures						
Options (OTC)	111	111	3,737			
Options (exchange-traded)						
Total prior to consideration of netting agreements, 31.12.2019	72,143	85,832	8,350,623	56	9,036	194,110
Total prior to consideration of netting agreements, 31.12.2018	41,567	48,226	5,545,949	473	11,303	253,020

Financial instruments falling under a netting agreement do not meet the requirements for offsetting for balance-sheet purposes, which is why the carrying values of the related financial instruments are not netted in the balance sheet (Group financial statements, note 37, → page 159 ff.).

Fiduciary transactions

in CHF 1,000 Art. 24e Par. 1 Point 4.4 FL-BankO	31.12.2019	31.12.2018	Variance absolute	Variance in %
Fiduciary transactions				
Fiduciary deposits	758,593	979,139	-220,546	-22.5
• Fiduciary deposits with third-party banks	580,277	644,252	-63,975	-9.9
• Fiduciary deposits with affiliated banks and finance companies	178,316	334,887	-156,571	-46.8
Fiduciary loans	0	0	0	0.0
Other fiduciary transactions of financial nature	0	0	0	0.0
Total fiduciary transactions	758,593	979,139	-220,546	-22.5

Information regarding the income statement

in CHF 1,000 Art. 24e Par. 1 Point 5.2 FL-BankO	2019	2018	Variance absolute	Variance in %
Income from trading activities				
Gains from securities	94	22	72	325.2
Gains from trading derivatives	-782	798	-1,580	-198.0
Gains from foreign-exchange transactions	69,543	75,942	-6,399	-8.4
Gains from trading in banknotes	533	525	8	1.3
Gains from precious metals	339	168	171	102.5
Total income from trading activities	69,727	77,455	-7,728	-10.0

in CHF 1,000 Art. 24e Par. 1 Point 5.3 FL-BankO	2019	2018	Variance absolute	Variance in %
Personnel expenses				
Salaries and wages	91,498	85,046	6,452	7.6
Social security costs and staff retirement pensions and assistance costs	32,225	22,524	9,701	43.1
of which for staff retirement pensions	30,302	20,901	9,401	45.0
Other personnel expenses	3,820	4,730	-910	-19.2
Total personnel expenses	127,543	112,300	15,243	13.6

Salaries of members of the Board of Directors and the Executive Board are disclosed under "Remuneration paid to members of governing bodies" (→ page 191 f.).

Information regarding the income statement (continued)

in CHF 1,000 Art. 24e Par. 1 Point 5.4 FL-BankO	2019	2018	Variance absolute	Variance in %
General and administrative expenses				
Occupancy expenses	3,540	2,719	821	30.2
Expenses for IT, equipment, furniture, motor vehicles and other installations	14,140	13,314	826	6.2
Other operating expenses	24,834	24,264	570	2.3
Total general and administrative expenses	42,514	40,297	2,217	5.5

in % Art. 24e Par. 1 Point 6 FL-BankO	2019	2018	Variance absolute	Variance in %
Return on capital¹	0.52	0.30	0.22	73.3

¹ Net income/average balance sheet total.

in CHF 1,000 Art. 24e Par. 2 Point 6e FL-BankO	2019	2018	Variance absolute	Variance in %
Other ordinary income				
Income from real estate	196	162	34	20.6
Other ordinary income ¹	3,586	5,719	-2,133	-37.3
Total other ordinary income	3,782	5,881	-2,099	-35.7

¹ 2019: thereof CHF 3.183 million resulting from service level agreements within the Group.
2018: thereof CHF 3.703 million resulting from service level agreements within the Group.

Other assets and liabilities

in CHF 1,000 Art. 24e Par. 2 Point 6 a+b FL-BankO	31.12.2019	31.12.2018	Variance absolute	Variance in %
Other assets				
Precious metals	198	123	75	61.3
Unsettled derivative financial instruments (positive replacement values)	72,199	42,040	30,159	71.7
• Trading positions	72,143	41,567	30,576	73.6
• Liquidity positions	56	473	-417	-88.2
Compensation accounts	7,848	9,960	-2,112	-21.2
Settlement accounts	11,280	12,437	-1,157	-9.3
Miscellaneous other assets	2,700	1,055	1,645	155.9
Total other assets	94,225	65,615	28,610	43.6
Other liabilities				
Accounts for disbursement of taxes and fees	4,286	4,069	217	5.3
Unsettled derivative financial instruments (negative replacement values)	94,867	59,529	35,338	59.4
• Trading positions	85,832	48,226	37,606	78.0
• Liquidity positions	9,035	11,303	-2,268	-20.1
Compensation accounts	52	459	-407	-88.6
Settlement accounts	41,819	36,295	5,524	15.2
Miscellaneous other liabilities	8,892	1,378	7,514	n.a.
Total other liabilities	149,916	101,730	48,186	47.4

Income and expense analysed by permanent establishment

in CHF 1,000 Art. 24e Par. 1 Point 5.6 FL-BankO	2019		2018	
	Domestic	Foreign	Domestic	Foreign
Interest income	94,540	21,003	83,612	3,673
Interest expenses	49,374	10,885	42,701	1,897
Current income from securities	13,904		6,944	
Income from commission business and services	86,306	10,100	89,724	2,267
Commission expenses	14,385	1,403	13,386	506
Income from financial transactions	97,035	4,676	62,311	791
Other ordinary income	4,551	1	6,109	0
Operating expenses	152,955	18,146	147,880	5,077
Other ordinary expenses	991	4	2,160	4

The split between domestic and foreign is based upon the domicile of the branch recording the transactions.

The values reported under foreign relate to the VP Bank Ltd Singapore Branch in Singapore (business activity: bank). As per 31.12.2019, this unit employs 67 individuals, expressed in terms of full-time equivalents. In 2019, total operating income on a consolidated basis amounts to an equivalent of CHF 26,849 million and the pre-tax net income CHF 9.876 million. During 2019, the unit received an equivalent of CHF 0.060 million in state subsidies.

Auditor's report



Ernst & Young Ltd
Schanzenstrasse 4A
P.O. Box
CH-3001 Berne

Telefon +41 58 286 61 11
Fax +41 58 286 68 18
www.ey.com/ch

To the General Meeting of
VP Bank Ltd, Vaduz

Berne, 28 February 2020

Report of the statutory auditor on the financial statements



Opinion

We have audited the financial statements of VP Bank Ltd (the Company), which comprise the statement of financial position as at 31 December 2019, the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 178 to 196) give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance for the year then ended in accordance with Liechtenstein law and the Company's articles of incorporation.



Basis for Opinion

We conducted our audit in accordance with Liechtenstein law and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the provisions of Liechtenstein law and the requirements of our audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Valuation of due from customers

Area of focus

As at 31 December 2019, the amount due from customers is CHF 5.5b or 47% of the Company's balance sheet, of which CHF 3.0b related to mortgages receivables and CHF 2.5b to other receivables.

Receivables from clients are recorded in the balance sheet at their nominal values minus any applicable valuation allowances. A receivable is considered as being value-impaired when there is a probability that the total contractually owed amount is no longer recoverable. In addition to individual valuation allowances, the Company creates lump-sum individual valuation allowances as well as general lump-sum valuation allowances to cover latent credit risks. When determining the impairment, estimates must be made that involve significant judgment and may vary depending on the assessment.

Due to the magnitude and the involvement of significant judgment of the mentioned balance sheet items, this is of particular importance from an audit perspective. The Company describes its accounting policies for the item due from clients on page 184 of this annual report. In addition, we refer to section "Valuation allowances" (page 189) in the notes of the financial statements.

Our audit response We assessed the process and controls relating to the granting and monitoring of loans. We selected a sample of individual loans and independently performed impairment testing and evaluated the assumptions used for the calculation of impairment for credit losses. Other audit procedures included assessing the accounting policies used and examined the disclosures in the notes to the financial statements.

Our procedures did not give rise to any exceptions with regard to the valuation of due from customers.

Area of focus **Completeness and valuation of provisions for legal proceedings**

As part of its ordinary banking activities, the Company is involved in various legal and regulatory proceedings that could have a material effect on the Company due to the nominal amount in dispute.

Provisions are established to reflect identifiable risks, as dictated by the principle of prudence. The recognition and measurement of provisions and the determination and disclosure of contingent liabilities in respect of legal proceedings requires significant judgment. Due to the magnitude of the nominal value in dispute and the involvement of significant judgment, this position is of particular importance from an audit perspective.

The Company describes its accounting and valuation principles for the provisions on page 185 of the annual report. We also refer to the additional information in the section "Valuation allowances" (page 189) in the notes to the financial statements.

Our audit response We assessed the processes and the controls related to the identification, evaluation and measurement of provisions for legal proceedings. Where significant judgements and legal interpretations exist, we evaluated the legal analyses and opinions of external lawyers in order to substantiate the analyses made by the Company. We also examined the disclosure of provisions and contingent liabilities.

Our procedures did not give rise to any exceptions with regard to the completeness and valuation of provisions for legal proceedings.



Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and our auditor's reports thereon.

Our opinion on the financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibility of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with provisions of Liechtenstein law and the Company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Liechtenstein law and ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Liechtenstein law and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- ▶ Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors or Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on other legal and regulatory requirements

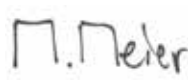
The annual report (pages 178 to 196) as at 31 December 2019 complies with Liechtenstein law and the Company's articles of incorporation. The annual report corresponds to the financial statements and contains no significant incorrect information according to our assessment.

We further confirm that the proposed appropriation of available earnings complies with Liechtenstein law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd



Philipp de Boer
Certified Accountant
(Auditor in charge)



Marcel Meier
Swiss Certified Accountant

VP Bank Group

VP Bank Ltd is a bank domiciled in Liechtenstein and is subject to supervision by the Liechtenstein Financial Market Authority (FMA), Landstrasse 109, 9490 Vaduz, Liechtenstein, www.fma-li.li

VP Bank Ltd	Aeulestrasse 6 · 9490 Vaduz · Liechtenstein T +423 235 66 55 · F +423 235 65 00 info@vpbank.com · www.vpbank.com VAT No. 51.263 · Reg. No. FL-0001.007.080-0
VP Bank (Switzerland) Ltd	Talstrasse 59 · 8001 Zurich · Switzerland T +41 44 226 24 24 · F +41 44 226 25 24 · info.ch@vpbank.com
VP Bank (Luxembourg) SA	2, rue Edward Steichen · L-2540 Luxembourg T +352 404 770-1 · F +352 481 117 · info.lu@vpbank.com
VP Bank (BVI) Ltd	VP Bank House · 156 Main Street · PO Box 2341 Road Town · Tortola VG1110 · British Virgin Islands T +1 284 494 11 00 · F +1 284 494 11 44 · info.bvi@vpbank.com
VP Bank Ltd Singapore Branch	8 Marina View · #27-03 Asia Square Tower 1 Singapore 018960 · Singapore T +65 6305 0050 · F +65 6305 0051 · info.sg@vpbank.com
VP Wealth Management (Hong Kong) Ltd	33/F · Suite 3305 · Two Exchange Square 8 Connaught Place · Central · Hong Kong T +852 3628 99 00 · F +852 3628 99 11 · info.hkwm@vpbank.com
VP Bank Ltd Hong Kong Representative Office	33/F · Suite 3305 · Two Exchange Square 8 Connaught Place · Central · Hong Kong T +852 3628 99 99 · F +852 3628 99 11 · info.hk@vpbank.com
VP Fund Solutions (Luxembourg) SA	2, rue Edward Steichen · L-2540 Luxembourg T +352 404 770-297 · F +352 404 770-283 fundclients-lux@vpbank.com · www.vpfundsolutions.com
VP Fund Solutions (Liechtenstein) AG	Aeulestrasse 6 · 9490 Vaduz · Liechtenstein T +423 235 67 67 · F +423 235 67 77 vpfundsolutions@vpbank.com · www.vpfundsolutions.com

Imprint

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

Media & Investor Relations

VP Bank Ltd · Cécile Bachmann · Head of Group Communications & Marketing
Aeulestrasse 6 · 9490 Vaduz · Liechtenstein · T +423 235 67 62 · F +423 235 66 20
corporate.communications@vpbank.com · www.vpbank.com

Text, layout and realisation

VP Bank AG, Vaduz

Illustrations

Stephan Schmitz, Zurich · www.stephan-schmitz.ch

Printer

BVD Druck+Verlag AG, Schaan · www.bvd.li · Printed carbon neutral

Paper

Printed on PlanoJet 100 g/m² as well as creative paper 300 g/m² · Chlorine-free, acid-free, wood-free · FSC-certified

