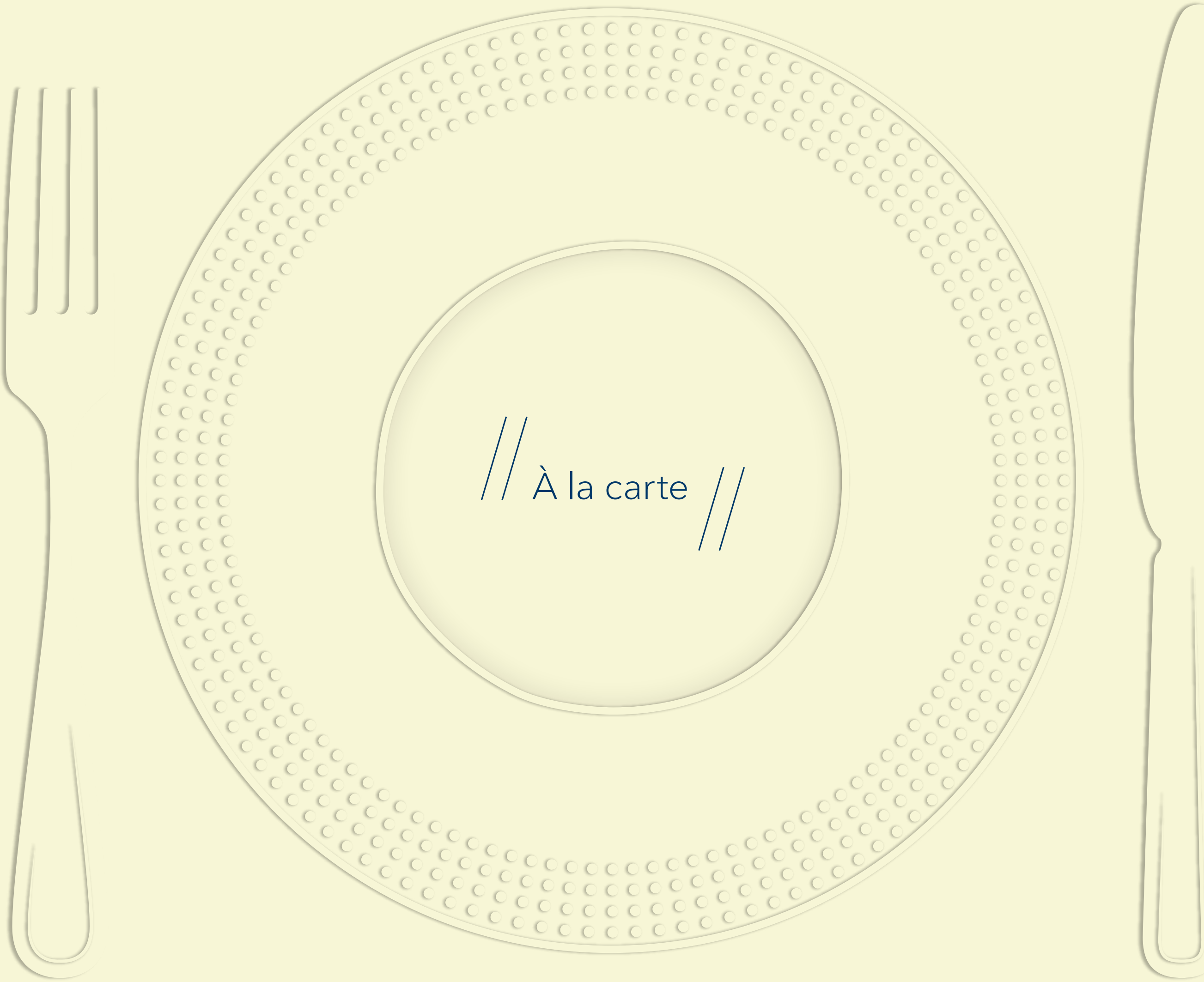
Annual Report 2018



VP BANK

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VP Bank Group at a glance

- Founded in 1956
- Third-largest bank in Liechtenstein
- About 930 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 2019

Media and analysts conference	5 March 2019
Annual general meeting of shareholders	26 April 2019
Dividend payment	3 May 2019
Semi-annual results	20 August 2019

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

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.

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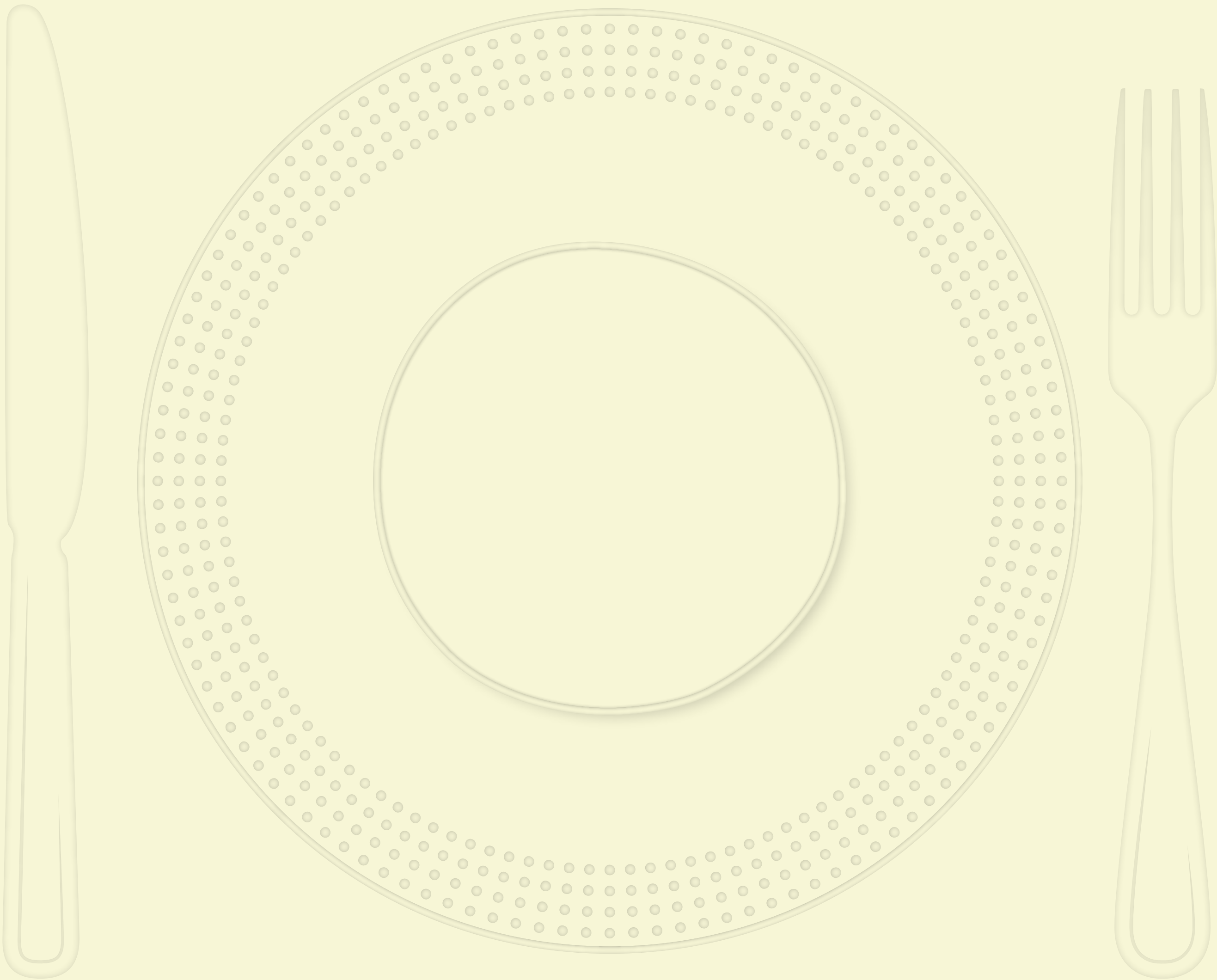


À la carte

We reveal the best recipes from VP Bank's international cuisine: "À la carte" is the design theme of our 2018 annual report.

We focus on six VP Bank Group sites, their strengths and particularities. We offer our clients a global network along with regional know-how for customised and needs-based solutions – essentially "à la carte".

VP Bank's personal advisory is like a customised menu selection from leading restaurateurs. Just as the regions where VP Bank is present are diverse, so, too, are the cooks. Yet they all have much in common: precise working methods, a passion for the product, perfect processes and successful creations. Thus we constantly surprise our clients again and again while creating unique experiences.

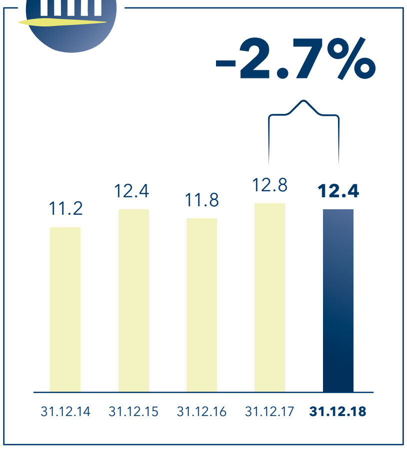
We are proud to present to you more than 60 years of "à la carte" advisory recipes for success. Come with us on this culinary trip through the world of VP Bank.

Discover succulent video footage and unusual recipes in the online annual report at report.vpbank.com

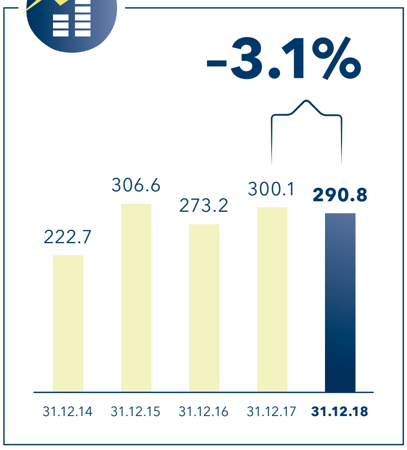
www.vpbank.com/en/alacarte

Key figures of VP Bank Group

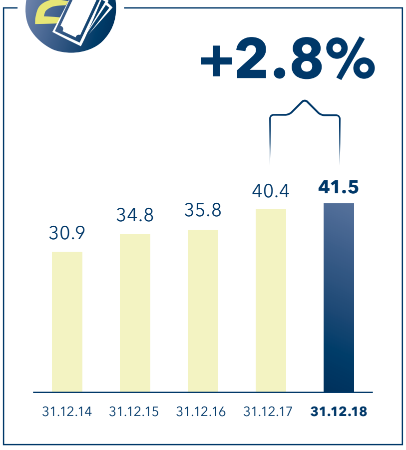
Total assets (CHF billion)



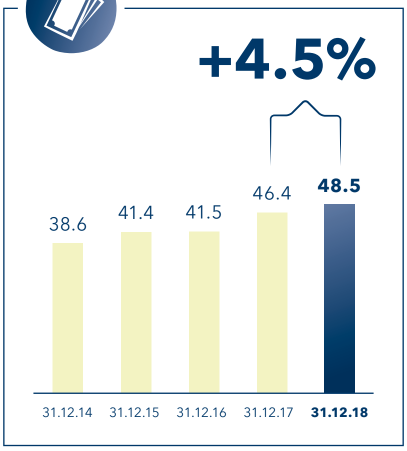
Total operating income (CHF million)



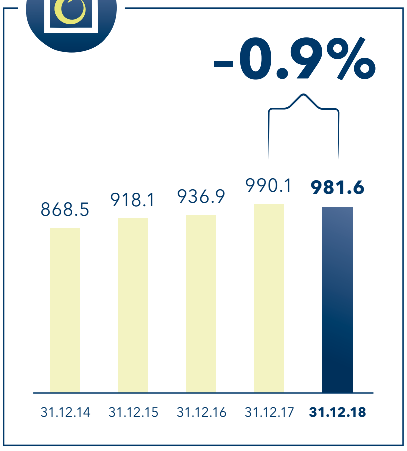
Client assets under management excl. custody assets (CHF billion)



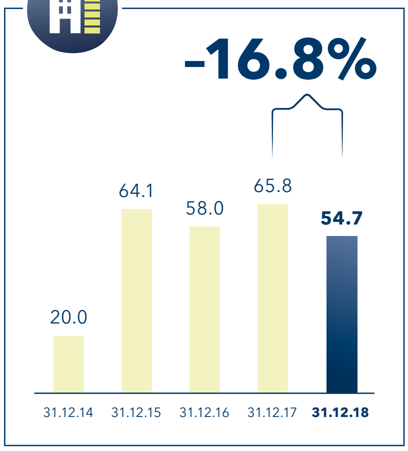
Client assets (CHF billion)



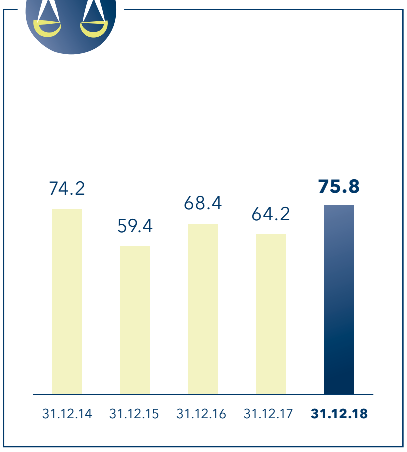
Total shareholders' equity (CHF million)



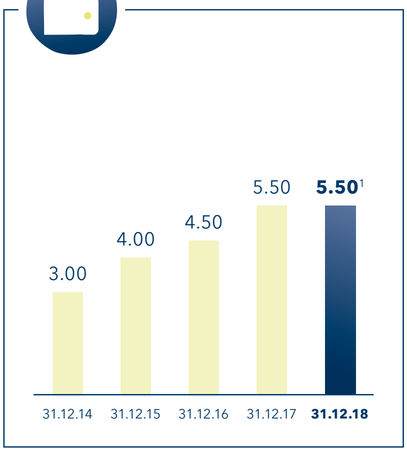
Net income (CHF million)



Cost/income ratio (in %)



Dividend (CHF)



[1] Proposal to the annual general meeting

Share price performance

VP Bank registered shares A (in CHF)

Key figures of VP Bank Group

	2018	2017	Variance in %
Key income statement data in CHF million[1, 2]			
Total net interest income	111.0	104.4	6.3
Total net income from commission business and services	124.3	123.9	0.3
Income from trading activities	55.0	50.2	9.4
Income from financial instruments	–1.6	19.2	–108.6
Total operating income	290.8	300.1	–3.1
Operating expenses	232.3	229.8	1.1
Group net income	54.7	65.8	–16.8
Key balance-sheet data in CHF million[1, 2]			
Total assets	12,428.2	12,778.1	–2.7
Due from banks	771.1	892.6	–13.6
Due from customers	6,196.3	5,647.6	9.7
Due to customers	10,334.9	10,559.4	–2.1
Total shareholders' equity	981.6	990.1	–0.9
Equity ratio (in %)	7.9	7.7	1.9
Tier 1 ratio (in %)	20.9	25.7	–18.7
Leverage ratio in accordance with Basel III (in %)	7.3	7.5	–2.7
Total client assets under management in CHF million	**41,525.9**	**40,386.3**	**2.8**
On-balance-sheet customer deposits (excluding custody assets)	10,231.3	10,177.0	0.5
Fiduciary deposits (excluding custody assets)	798.0	700.8	13.9
Client securities accounts	30,496.6	29,508.6	3.3
Custody assets in CHF million	**6,990.8**	**6,062.0**	**15.3**
Total client assets in CHF million	**48,516.7**	**46,448.3**	**4.5**
Business volumes[10]	**47,722.2**	**46,033.9**	**3.7**
Net new money	**3,196.9**	**1,894.3**	**68.8**
Key operating indicators[2]			
Return on equity (in %)[1, 3]	5.6	6.9	
Cost/income ratio (in %)[4]	75.8	64.2	
Total operating expenses / total net operating income (in %)	79.9	76.6	
Headcount (expressed as full-time equivalents, excluding student apprentices)[5]	868.4	799.5	
Total operating income per employee (in CHF 1,000)	334.9	375.4	
Total operating expenses per employee (in CHF 1,000)[6]	254.0	240.9	
Group net income per employee (in CHF 1,000)	63.0	82.3	
Key indicators related to shares of VP Bank in CHF[1]			
Group net income per registered share A[7]	9.04	10.89	
Group net income per registered share B[7]	0.90	1.09	
Dividend per registered share A[8]	5.50	5.50	
Dividend per registered share B[8]	0.55	0.55	
Dividend yield (in %)	3.9	4.1	
Payout ratio (in %)	60.8	50.5	
Total shareholders' return on registered shares A (in %)	10.45	27.31	
Shareholders' equity per registered share A on the balance-sheet date	164.80	164.65	
Shareholders' equity per registered share B on the balance-sheet date	15.69	15.30	
Quoted price per registered share A	141.40	133.00	
Quoted price per registered share B	14.20	13.30	
Highest quoted price per registered share A	202.00	141.90	
Lowest quoted price per registered share A	130.80	105.00	
Market capitalisation (in CHF million)[9]	936	880	
Price/earnings ratio per registered share A	15.64	12.21	
Price/earnings ratio per registered share B	15.71	12.21	
Rating Standard & Poor's	**A/Stable/A-1**	**A-/Positive/A-2**	

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.

Fredy Vogt
Chairman of the
Board of Directors

Statement by the Chairman of the Board

Dear shareholders,
Ladies and gentlemen

2018 was a very eventful year. Economic growth was initially solid, but concerns over rising US interest rates, trade wars, Brexit discussions and problems surrounding the Italian budget deficit all weighed on financial markets.

In this demanding economic and political environment, VP Bank was able to record solid results in 2018. The continued gains in net new money exceeded expectations and again confirm the relevance of our growth strategy.

Solid annual results

VP Bank Group recorded consolidated net income of CHF 54.7 million in 2018, compared with CHF 65.8 million the previous year. The 16.8 per cent decline was due to the persistent low interest rate environment along with fixed income and equity market trends.

Operating income contracted by 3.1 per cent from CHF 300.1 million in 2017 to CHF 290.8 million last year.

Operating expense rose by 1.1 per cent to CHF 232.3 million.

Client assets under management increased by 2.8 per cent from CHF 40.4 billion to CHF 41.5 billion. In 2018, VP Bank Group recorded net new money inflows of CHF 3,197 million, the highest organic increase in client assets in more than 10 years. We achieved this very satisfactory increase last year through intensive market development efforts, inflows from existing clients and the recruitment of new client advisors.

At 31 December 2018, the Tier 1 Ratio was 20.9 per cent (compared with 25.7 per cent one year earlier). The cost/income ratio was 75.8 per cent, compared with 64.2 per cent.

As we implement our strategic goals, we invested heavily in growth in 2018. These long-term investments come at the expense of profitability in the near term. VP Bank nevertheless demonstrated that organic growth can be achieved even in challenging market environments.

Proposed dividend

The Board of Directors proposes to the Annual General Meeting of 26 April 2019 to leave the dividend unchanged at CHF 5.50 per registered share A and CHF 0.55 per registered share B. The earnings basis shapes the dividend policy defined by the Board of Directors. VP Bank strives to maintain a constant dividend approach, with a goal of paying out 40 per cent to 60 per cent of consolidated net income to shareholders. The proposed dividend is based on consolidated net income of CHF 54.7 million.

Strategic orientation and positioning

VP Bank's business model is based on the two strategic pillars of the intermediaries business and private banking. We position ourselves as a trusted partner for a sophisticated private client base and we are a well-established partner for financial intermediaries. In addition, we offer an international fund competency centre. VP Bank's primary strategic goal is to achieve profitable and qualitative growth in the identified target markets and thereby secure its independence.

In 2015 the board of Directors and Group Executive Management developed the "Strategy 2020" plan. This strategy encompasses the key long-term priorities of growth, focus and culture. It combines a growth strategy, efficiency enhancements and the continued development of our sales and performance culture.

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

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

At end-2018, assets under management totalled CHF 41.5 billion, up from CHF 40.4 billion one year earlier. Net income for 2018 was CHF 54.7 million, compared with CHF 65.8 million the previous year. At 31 December 2018 the cost/income ratio was 75.8 per cent (2017: 64.2 per cent).

Achieving our goals will be a challenge for VP Bank in the light of the still demanding market environment. Our performance as regards client assets under management as well as our strong equity position nevertheless show that we are still on the right track.

VP Bank shares

2018 was a positive year for VP Bank's shareholders. Including the dividend of CHF 5.50 per share, VP Bank's shares delivered a nearly 10 per cent return in 2018, thereby significantly outperforming the shares of most other Swiss banks. Share price volatility was relatively high, particularly in the summer months. In 2018, the shares traded at an average price of CHF 161.91 and closed the year at CHF 141.40. More details on our share performance can be found in the section "VP Bank in capital markets".

On 27 April 2018, the Annual General Meeting authorised the payment of an increased dividend of CHF 5.50 per registered share A and CHF 0.55 per registered share B. The dividend payment date was 4 May 2018.

Under the authorisation granted by the Annual General Meeting of 24 April 2015, VP Bank decided to increase the number of treasury shares through another share buy-back of up to 10 per cent of the share capital. We are thus carrying on the successful programmes from the years 2015 and 2016. The repurchased registered shares are to be used for acquisitions or treasury management purposes.

As from 31 December 2018, VP Bank AG directly and indirectly holds 599,442 registered treasury shares A and 324,929 registered treasury shares B (9.55 per cent of the share capital and 7.70 per cent of the voting rights). Since no shares were cancelled, share capital and voting rights ratios remain unchanged.

Significant events at our sites

2018 was a major anniversary year for VP Bank Group. In the Grand Duchy of Luxembourg, we celebrated 30 years of doing business through VP Bank (Luxembourg) SA and 20 years for the fund competency centre VP Fund Solutions (Luxembourg) SA. VP Bank has also been represented by a subsidiary in Zurich since 1988, and our Singapore site celebrated its 10-year anniversary.

As mentioned already in our 2018 interim report, we marked these anniversaries through local events and other activities for employees, clients and the media.

Meanwhile, in 2018 we also made substantial investments in our future. Along with the continued development of the advisory process, we moved to larger new and prestigious office buildings in Zurich and Luxembourg while doubling the amount of office space in Singapore. At our main headquarters building in Liechtenstein, we completed a renovation project that creates a work environment offering the latest technical standards and flexibility.

Our growth objectives in Singapore required changes to the existing organisational structures. As from September 2018, VP Bank in Singapore therefore began operating as a branch instead of a subsidiary. The banking license was also upgraded from a merchant bank to a wholesale bank. The transfer process was completed on 1 September 2018.

In connection with a review of market development efforts in Russia going forward, we decided to close the representative office in Moscow. VP Bank is thereby focusing its activities in the Russian market by consolidating them mainly at its Zurich office as the competency centre for Central and Eastern European markets. The Moscow office was closed for financial and logistical reasons. This decision was based on our Strategy 2020, which revolves around a "Focus" theme aimed at productivity gains and reductions in the complexity and costs of internal processes. Russia nevertheless remains a core target market of VP Bank Group. The Moscow representative office was closed in November 2018.

Other significant events

In late 2016 we launched our "Relationship Manager Hiring" project in order to achieve our growth objectives. In 2018 we hired 24 new client advisors for VP Bank as part of this project – and were rewarded with satisfactory net new money inflows.

In May 2018, the Standard & Poor´s rating agency upgraded VP Bank's already strong "A–" rating to "A" with a stable outlook. VP Bank therefore now enjoys an "A/A–1" rating. This outstanding rating and stable outlook were confirmed on 9 August 2018 and again demonstrate our Group's solid and successful business model.

In May 2018, we launched a new e-banking service with advanced portal technology for our clients. Close attention was paid to creating a user-friendly design and satisfying the strictest security requirements. The launch was supported with extensive communications initiatives and represents a major milestone in the digitalisation of VP Bank Group.

We further expanded our service offerings for clients in autumn 2018 by launching the VP Bank newsroom on our website, which contains publications and news related to VP Bank, and by offering longer trading hours to cover the leading financial markets worldwide.

We are proud of the recognition we received from the Berlin-based Fuchsbriefe publishing firm, which ranked VP Bank "VERY GOOD" for transparency and "GOOD" in the overall assessment category. This distinguished award shows that our advisory teams perform at the highest levels in international comparisons.

In order to advance the growth strategy at the Luxembourg site and further develop the funds business, in October 2018 we successfully penetrated the Scandinavian market. At 1 October 2018, VP Fund Solutions (Luxembourg) SA acquired the management company activities of Carnegie Fund Services S.A., and VP Bank (Luxembourg) SA now acts as the custodian. Also in October 2018, we announced that VP Bank (Luxembourg) SA was acquiring the Luxembourg private banking activities of Catella Bank based in Sweden.

Personnel changes

At the 55th Annual General Meeting, elections were held to renew the terms of office of VP Bank directors. Fredy Vogt and Dr Florian Marxer, whose terms had expired, were reappointed to the Board of Directors for additional three-year terms. At the Board of Directors meeting immediately following the Annual General Meeting, Fredy Vogt was appointed Chairman of the Board.

Dr Thomas R. Meier was appointed to a new three-year term on the Board. He has more than three decades of international experience in the banking industry, with an emphasis on Asia. This appointment strengthens the Board's competencies, ensures long-term succession planning and makes a significant contribution to the successful strategic development of our Asian business.

As part of "Strategy 2020", we adapted the organisational and management structure in 2018 by redefining the tasks within Group Executive Management. Dr Felix Brill assumed the position of Chief Investment Officer as from 1 March 2018 and Dr Urs Monstein became Chief Operating Officer as from 1 May 2018, such that VP Bank's Group Executive Management is now well staffed with six members.

Significant changes were implemented at our international sites. As from 19 March 2018, Dr. Oliver Möhl assumed the position of Chief Operating Officer at VP Bank (Switzerland) Ltd. Claus Jørgensen strengthened the management ranks of VP Bank (Luxembourg) SA when he was named "Head of Client Business" as from 1 October 2018.

At the start of 2019, the Board of Directors of VP Bank Group and CEO Alfred W. Moeckli mutually agreed not to continue their collaboration. Alfred W. Moeckli resigned from all his functions as from end-January 2019 and left the Bank in order to pursue new challenges. Dr Urs Monstein assumed the position of CEO on an interim basis. Alfred W. Moeckli served as Chief Executive Officer of VP Bank Group since 2013 and substantially expanded the Bank over his nearly six-year tenure. Most notably, in the period following the financial crisis he made significant contributions that enabled the Bank to get back on its growth track.

Outlook

Several important topics are on the agenda for 2019.

Growth will remain a core theme for VP Bank Group. The "Relationship Manager Hiring" project, which has been very successful to date, will run through the end of the year. We set a goal of hiring 75 client advisors in the intermediaries and private banking segments by end-2019, with half of these new hires in Asia.

We will also take advantage of market opportunities that arise in order to invest in growth through acquisitions. VP Bank continues to enjoy a very strong equity position, which allows us to participate in financial industry consolidation.

Under the heading of "Future of Banking", we launched a strategic initiative to define the next steps for VP Bank Group following the completion of Strategy 2020. Numerous strategic planning workshops will be held.

In early February 2019, the aforementioned acquisition of the Luxembourg private banking activities of Catella Bank was completed. This acquisition opens up new business opportunities in the Scandinavian market.

2019 is an anniversary year for VP Fund Solutions (Liechtenstein) AG, as our subsidiary marks its 20th year in business. The acquisition of Luxembourg-based Carnegie investment fund supports the continued success of our fund business.

At our Singapore site, we laid the groundwork for continued dynamic growth in Asia. We would like to accomplish this goal in 2019 through an expanded private banking team and new products for our Asian clients.

Through new initiatives undertaken by the Investment Solutions and Chief Operating Officer management units, we will make further investments in our products and services, notably as part of our digitalisation strategy and to develop new asset management solutions.

Our business continues to be marked tendentially by rising costs and shrinking margins. In recent years we laid the groundwork for the planned growth of VP Bank Group. With an increasingly centralised organisation, we are now positioned to be highly efficient and take advantage of synergies throughout the Group.

For 2019 and the years ahead, we are confident in our ability to generate further income gains through the numerous investments we have made. The additions to our management team leave us very well positioned, both organisationally and as regards competencies, to overcome the challenges in our industry.

A word of thanks

In connection with the energetic performance that our committed employees contribute on a daily basis to the success of our company, I would like to emphasize in particular the substantial growth in new client business. In 2018 we took a major step toward achieving our strategic goals, for which I offer my heartfelt thanks.

We see this success as an incentive to continue down our path of growth, focus and culture.

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

Fredy Vogt
Chairman of the Board of Directors

Hubertus Real
Park Hotel Sonnenhof,
Vaduz

Dr Urs Monstein
Chief Executive Officer a.i.
& Chief Operating Officer

Relaxed at heart, **passionate** about what we do.

VP Bank in Liechtenstein

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

1

VP Bank Group

VP Bank at a glance

VP Bank Group is an internationally active private bank focused on rendering asset management services for private individuals and financial intermediaries. 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's workforce of more than 930 employees administer clients assets totalling almost CHF 48.5 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 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 930 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.

2018 highlights in retrospect

January

Advance announcement on annual results

VP Bank announced that it was expecting significantly higher Group net income.

February

Festival Next Generation / VP Bank Classic Festival

With its backing of the "Festival Next Generation / VP Bank Classic Festival" in Switzerland, VP Bank again supported the next generation of international musical talent.

March

New office in Zurich

VP Bank moved to new centrally located offices in Zurich, reflecting the strong growth in recent years.

Chief Investment Officer

Dr Felix Brill was named the new Chief Investment Officer and member of Group Executive Management.

2017 results

In 2017, VP Bank Group recorded Group net income of CHF 65.8 million. Client assets under management increased by 13.0 per cent. The tier 1 capital ratio was 25.7 per cent. The cost/income ratio was lowered by 4.2 percentage points to 64.2 per cent.

April

"Risk Indicator 1" top rating

Dun & Bradstreet Worldwide again awarded VP Bank Group its "Risk Indicator 1" top rating in 2018.

Annual General Meeting

All of the Board of Directors' proposed resolutions were approved by the 55th ordinary Annual General Meeting. Dividends were increased to CHF 5.50 per registered share A and CHF 0.55 per registered share B. Fredy Vogt and Dr Florian Marxer were reappointed to three-year terms on the Board of Directors, while Dr Thomas R. Meier was newly appointed to a three-year term. At the special Board of Directors' meeting held immediately after the Annual General Meeting, Fredy Vogt was confirmed as Chairman of the Board.

May

Chief Operating Officer

Dr Urs Monstein joined VP Bank's Group Executive Management as Chief Operating Officer.

New e-banking

VP Bank introduced a modernised e-banking application with advanced portal technology. It offers user-friendly design while time satisfying the most stringent security requirements.

Standard & Poor's rating upgrade

The rating agency Standard & Poor's upgraded VP Bank's rating from "A–" to "A", with a "stable" outlook.

VP Bank Ladies Open

VP Bank has positioned itself as the primary long-term sponsor of the VP Bank Ladies Open pro golf tournament.

June

Share buyback programme

VP Bank launched an open tender offer to repurchase up to 180,000 listed registered shares A, which may be acquired for up to one year on the ordinary trading line of the SIX Swiss Exchange.

Anniversary celebration in Luxembourg

VP Bank celebrated its 30th anniversary and VP Fund Solutions its 20th anniversary in Luxembourg at an exclusive event.

August

2018 interim results

In the first half of 2018, VP Bank Group recorded solid Group net income of CHF 29.3 million. Client assets under management increased by 1.3 per cent. The tier 1 ratio was an above-average 22.6 per cent.

September

Singapore branch

VP Bank celebrated its 10-year presence in Singapore and now does business there through a branch instead of a wholly owned subsidiary. VP Bank's Singapore banking license was also expanded from merchant bank to wholesale bank.

Website with Newsroom

With Newsroom, VP Bank's website now offers a central archive for publications and the latest developments about and involving VP Bank.

October

Scandinavian market

VP Bank entered the Nordic market when VP Fund Solutions and VP Bank acquired the fund management and custody business of Luxembourg-based Carnegie Investment Funds, and VP Bank in Luxembourg acquired the Luxembourg private banking activities of Catella Bank.

Award-winning annual report

The VP Bank Group annual report and online annual report again received multiple international awards, notably the "Best of Europe" recognition at the ARC Awards. The relaunch of the website was recognised with a Gold Award.

November

Growth in Luxembourg

VP Bank and VP Fund Solutions moved to new offices in Luxembourg with state-of-the-art infrastructure.

30 years VP Bank (Switzerland) Ltd

VP Bank (Switzerland) Ltd celebrated its 30th anniversary with a gala event.

Outstanding advisory quality

The private banking audit and assessment firm Fuchsbriefe recognised VP Bank's advisory quality, rating it "Very Good" for transparency and awarding it an overall assessment of "Good".

"Lichtblick"

As part of the annual "Lichtblick" charity campaign, numerous institutions received generous grants from the VP Bank Foundation.

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

The organisational structure of VP Bank Group

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

Changes to the organisational structure of VP Bank Group in 2018

As from 1 February 2018, the Chief Operating Officer unit created a new Group Projects & Processes unit, which was initially managed by Thomas Bühlmann.

Dr Felix Brill, the new member of Group Executive Management responsible for Investment Solutions, assumed his new duties as Chief Investment Officer as from 1 March 2018. Meanwhile, Dominique Christen also took over management responsibility for Group Human Resources as from 1 March 2018.

Tanja Muster, the former Head of Group Communications & Marketing, departed VP Bank at end-April 2018 and was succeeded by Cécile Bachmann as from 1 January 2019.

Dr Urs Monstein assumed his duties as Chief Operating Officer (COO) as from 1 May 2018. Following the departure of Thomas Bühlmann, the Group Projects & Processes unit has been managed on an interim basis by Dr Urs Monstein as from 1 July 2018.

Through its strategic positioning and planned growth in the lending business, VP Bank is looking to increase the efficiency and productivity of its Group Credit unit while combining know-how for credit products. Group Credit was therefore restructured as from 1 September 2018 under the management of Peter Siber and should thereby contribute to supporting VP Bank's credit strategy.

The Investment Solutions unit was reorganised as from 1 September 2018 under the leadership of Dr Felix Brill, who now directs the investment committee in his capacity as Chief Investment Officer. The goal of the reorganisation was to raise the unit's profile as a competency centre for investment matters while strengthening the investment and fund business.

Since 1 October 2018, Dr Marcel Beutler, formerly the head of the Group Risk unit, focused on managing a department within the Group Risk unit. Michael Rey took over management of the unit, also as from 1 October 2018.

Following the departure of Dr Graziella Marok-Wachter as Head of Group Legal, Compliance & Tax as from 31 October 2018, the General Counsel & Chief Risk Officer unit was restructured. This unit will no longer have a second tier management level in the traditional sense. The Compliance, Risk, Legal Service and Tax Center now reports directly to the General Counsel & Chief Risk Officer. With this new flatter structure, the unit can respond more quickly to on-going developments and make decisions more rapidly and efficiently.

Changes to the organisational structure of VP Bank's group companies in 2018

In March 2018, VP Bank (Switzerland) Ltd decided to create a Chief Operating Officer function to reflect the growth of the activity at the site as well as growing complexity in the banking environment. Dr Oliver Möhl was appointed to manage this function. Stephan Wernli, formerly the Head of Banking Support, exited Group Executive Management as from 1 April 2018 in order to focus on managing the Legal, Compliance & Tax teams. Maximilian Barth took early retirement and left VP Bank (Switzerland) AG as from 31 December 2018. As a result, VP Bank (Switzerland) Ltd's executive management now consists in Antony Lassanianos, Thomas Westh Olsen and Dr Oliver Möhl.

As from 1 September 2018, VP Bank conducts its Singapore banking activities through a branch instead of a wholly owned subsidiary in order to better satisfy the needs of its clients. Effective 1 September 2018, the Singapore banking license was expanded from that of a merchant bank to wholesale bank.

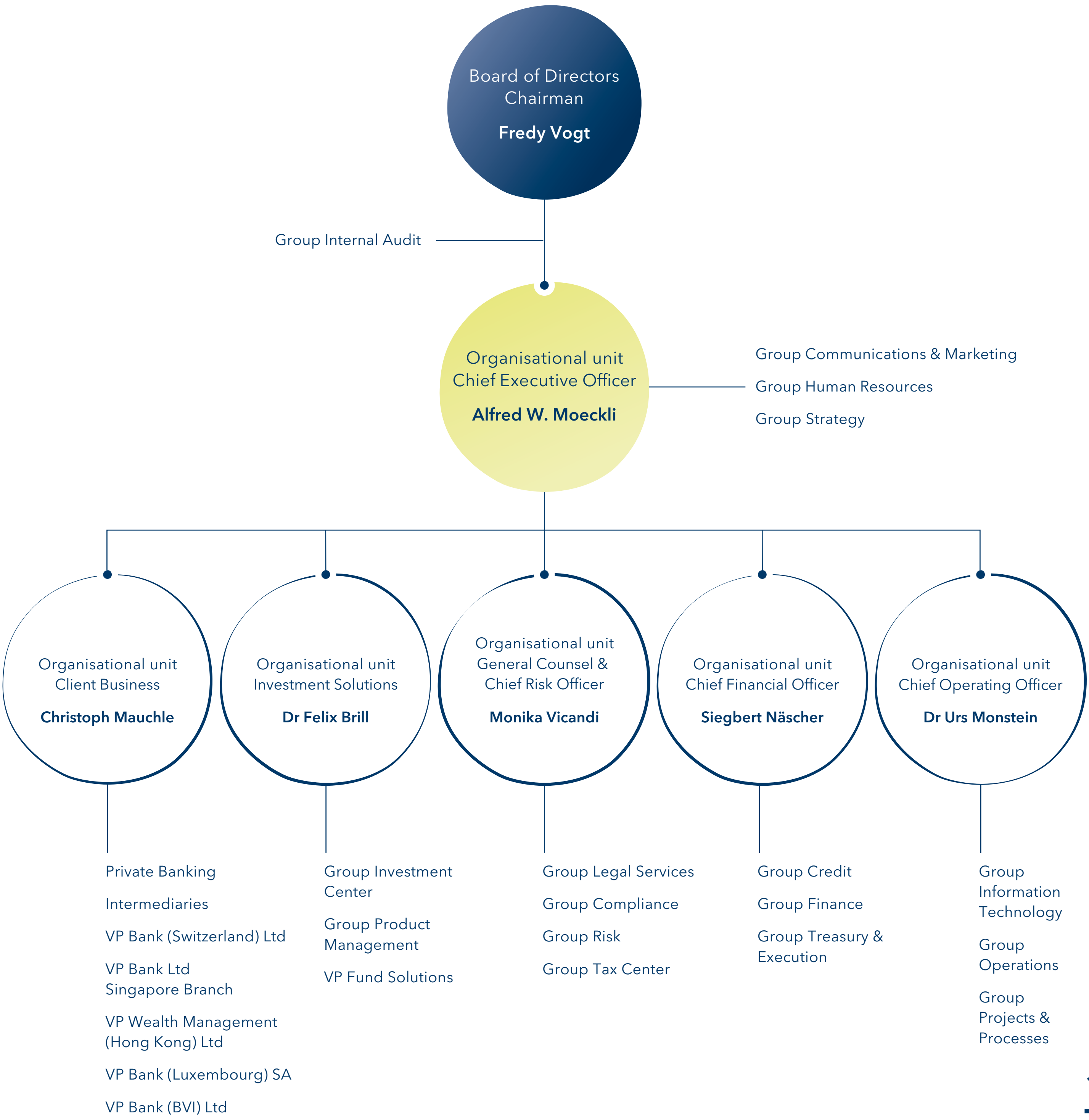
As part of its growth strategy, VP Bank (Luxembourg) SA created the new function of Head of Client Business based at the local headquarters. Claus Jørgensen assumed responsibility for this new function.

As part of its review of market development efforts in the Russian market, Group Executive Management decided to close its Moscow representative office as from end-October 2018. VP Bank is consolidating its activities for Central and Eastern European markets primarily at its Zurich office.

Changes following the end of the reporting period as from 31 December 2018

The Board of Directors and Chief Executive Officer (CEO) Alfred W. Moeckli decided not to continue their collaboration. Alfred W. Moeckli relinquished all functions at 31 January 2019 and left the Bank in order to pursue other activities. Dr Urs Monstein, the Chief Operating Officer, took over the management of VP Bank Group as interim CEO.

As part of its growth strategy, VP Bank Ltd Singapore Branch expanded its organisational and management structure by creating the new "Head of Client Business" function, which was headed up by Reto Marx as from end-January 2019. He reports directly to Bruno Morel, CEO of VP Bank Ltd Singapore Branch.



The assignment of the organisational units in the segment reporting is set out on page 89 ff.

Organisational chart as of 31.12.2018

VP Bank, Vaduz, Head Office

Segment	Area	Head
Board of Directors	Group Internal Audit	Nikolaus Blöchlinger
Chief Executive Officer	Group Communications & Marketing Group Human Resources Group Strategy	Cécile Bachmann (as of 01.01.2019) Dominique Christen Patrick Bischofberger
Client Business	Private Banking Intermediaries	Martin Engler Tobias Wehrli
Investment Solutions	Group Investment Center Group Product Management	Stefan Schwitter Marcel Fleisch
General Counsel & Chief Risk Officer	Group Legal Services Group Compliance Group Risk Group Tax Center	Stefan Zünd Markus Reinacher Michael Rey Bernhard Lochner
Chief Financial Officer	Group Finance Group Treasury & Execution Group Credit	Dr Hanspeter Kaspar Claus Hug Peter Siber
Chief Operating Officer	Group Information Technology Group Operations Group Projects & Processes	Dr Andreas Benz Jürg Mühlethaler Thomas Ludescher

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	Alfred W. Moeckli, Christoph Mauchle, Dr Felix Brill, Monika Vicandi, Siegbert Näscher, Dr Urs Monstein
VP Bank (Switzerland) Ltd	Switzerland	Zurich	Antony Lassanianos, Thomas Westh Olsen, Dr Oliver Möhl
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
VP Fund Solutions (Luxembourg) SA	Luxembourg	Luxembourg	Eduard von Kymmel, Ralf Funk, Dr Uwe Stein

Representative offices

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

F.l.t.r.: Dr Felix Brill, Monika Vicandi, Dr Urs Monstein, Alfred W. Moeckli, Siegbert Näscher, Christoph Mauchle

Economic environment

Global economy

At the start of the year, the traffic lights for the global economy were all green. Yet by the end of January, the optimistic outlook was put to the test, as interest rate fears gripped financial markets. These fears were prompted by a confident forecast from the US central bank. Investors interpreted that outlook to mean that benchmark interest rates would continue to rise. In February equity markets recorded significant price declines. As a general rule, when bearish sentiment is initially felt in the financial markets, it is only a matter of time before confidence fades at the company level. In the event, key leading economic indicators ultimately trended downward.

Over the course of the year, two other burdensome factors in the euro zone created a noticeable drag on the economy. On the one hand, a shortage of vehicle registrations based on the new Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP) emissions standard resulted in sputtering vehicle output and ultimately a decline in industrial production. On the other, the dry summer brought inland navigation to a standstill, thus disrupting key supply chains.

Switzerland was also affected both directly and indirectly. Swiss GDP contracted in the third quarter. At the end of 2018, the business climate was also unsettled by the ongoing Brexit discussions, trade wars and fears of a debt crisis in Italy.

On the other side of the planet, higher tariffs imposed by the United States weighed on economic growth, as China faced slowing growth in the second half of the year. The US economy, however, benefited from tax cuts and favourable labour market trends. The Fed was therefore able to stay the course as regards its modest monetary tightening policy. Overall, four interest rate hikes of 25 basis points each were anticipated. Meanwhile, the ECB kept its benchmark rates unchanged but halted its net purchases of securities at year-end 2018. The SNB made no changes to its monetary policy.

Equity markets in 2018

For equity markets, the initial optimistic outlook was premature. Investors had become accustomed to double-digit returns in 2017, and economic conditions also appeared favourable, as the United States enacted substantial tax cuts and global economic growth was once again in sync. But dark clouds soon appeared on an almost clear equity horizon, which weighed on both the economy and sentiment. The drop in equity prices at end-January 2018 turned out to be only the first stress test for investors.

Worsening international trade disputes clouded the economic environment for nearly all export-intensive countries. Similarly, rising interest rates in the United States and the strong US dollar also weighed increasingly on emerging countries. Europe, which had already come under considerable pressure from its own structural problems such as Brexit and the diesel scandal, then experienced further deterioration in new orders. The unusually steep drop in share prices in December 2018 could thus be seen as a market-cleansing correction; now the economic challenges need to be solved in 2019.

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 2018. The market capitalisation of registered shares A combined with the market value of registered shares B totalled CHF 936 million at year-end 2018, up approximately 9 per cent from the previous year (CHF 799.5 million).

On the SIX Swiss Exchange where they are listed, VP Bank shares had a trading volume of 2,209,971 shares in 2018, representing average daily volume of 8,804 shares.

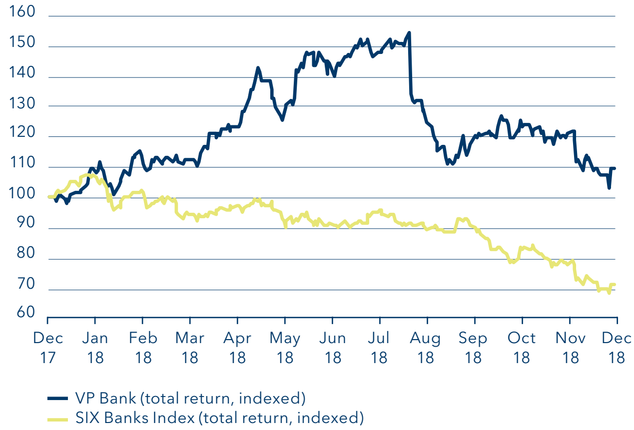
VP Bank shares price trend

VP Bank shareholders enjoyed a very solid first half in 2018. Registered shares A then reached a high of more than CHF 200 twice, once in July and again in August. Following the publication of interim results, it was apparent that a few analysts had been overly optimistic as regards the outlook, and a correction occurred in the second half of August. Share price volatility was relatively high during the summer months. The low was reached on 9 January 2018 (CHF 130.80) and the high on 20 August 2018 (CHF 202.00). The average share price was CHF 161.91 and shares closed the year at CHF 141.40. Including the dividend of CHF 5.50 per share, VP Bank's yield in 2018 was nearly 10 per cent, significantly higher than the share price gains of most other Swiss banks.

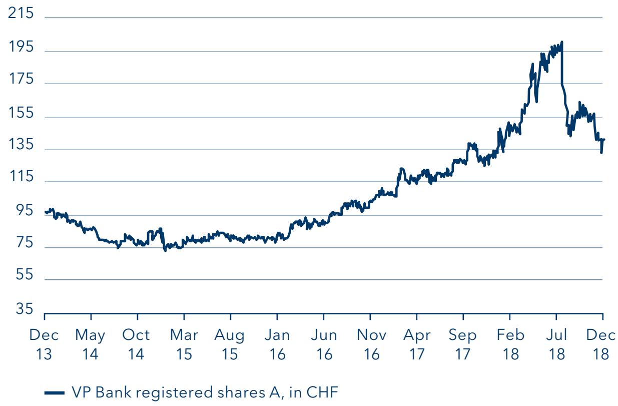
Dividends

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 2018, VP Bank paid a dividend of CHF 5.50 per registered share A, representing a dividend yield of 4.1 per cent at the time. That dividend was based on 2017 consolidated net income totalling CHF 65.8 million.

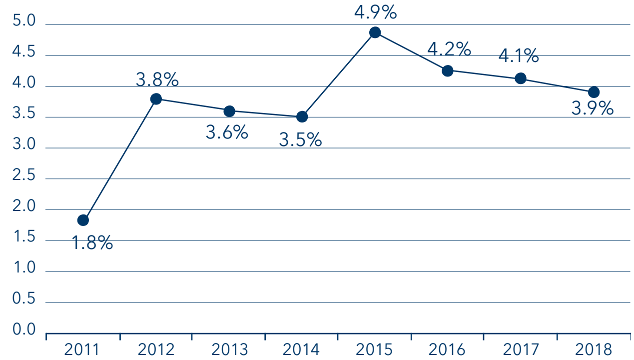
VP Bank registered share A versus the SIX Banks Index in 2018



Share price performance 2013 to 2018



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



Investor Relations

VP Bank strives to keep market participants informed of the latest developments in a timely and optimal manner. Its investor relations efforts are designed to foster an open, ongoing dialogue with shareholders and other capital markets participants by providing them with a true and fair view of VP Bank Group.

The tasks include 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.

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 2018, 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.

VP Bank provides 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 / Investors & Media. 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 & Media website and the online annual report posted online at http://report.vpbank.com/de.html along with all current information. The VP Bank interim annual report is also available in an online version at https://report.vpbank.com/de/semi2018.

The continuing development of VP Bank Group's annual and interim reports in accordance with international trends and legal requirements is taken seriously; the overarching design theme of the most recent annual report presents VP Bank under the optic of "Clarity".

VP Bank Group's 2017 annual report received a total of seven international awards, recognising the outstanding quality of the VP Bank's communications policy and again demonstrating its creative design prowess. At the "ARC Awards", VP Bank's annual report was entered alongside nearly 2,200 other submissions from 34 countries and received a "Grand Award" in the "Best of Europe" category. The Arc Awards have been handed out in the United States for more than 30 years.

The annual report won a gold medal at the "Vision Awards" sponsored by the League of American Communications Professionals" (LACP) in the United States. Other awards included the "Galaxy Award" and the "Stevie Award" in the United States.

The online version of the 2017 VP Bank annual report also received international recognition, including silver at the ARC Awards, the LACP Vision Award and the Galaxy Award. As part of the "Swiss Annual Report Ratings" sponsored by Harbour Club and Bilanz, a jury of communications and finance professionals also ranked VP Bank Group's annual report in the top 12 for reports from Switzerland and Liechtenstein.

The successful relaunch of the VP Bank website won a Gold award at the "Stevie Awards".

Annual General Meeting

VP Bank's 55th Ordinary Annual General Meeting on 27 April 2018 in Vaduz was attended by 435 shareholders, who approved all of the resolutions proposed by the Board of Directors. Shareholders represented at the meeting accounted for 73.87 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. Quite a number of shareholders made use of this online voting option once again in 2018.

The next ordinary annual general meeting will be held on 26 April 2019.

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 May 2018, Standard & Poor's upgraded VP Bank's already strong "A–" rating to "A", with a stable outlook. The ratings upgrade reflected in particular the substantial net new money inflows in 2017, progress in operations and the continued strong equity position. Standard & Poor's also highlighted the financial leeway enjoyed by VP Bank to invest in its operating business and play an active role in banking industry consolidation in Europe.

VP Bank therefore now has an "A/A–1" rating. This outstanding rating and stable outlook were confirmed by Standard & Poor's in August 2018 and underscore 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 "Investors & Media" section.

VP Bank shares are also followed by analysts from MIRABAUD Securities LLP (recommendation: buy), Research Partners AG (recommendation: buy) and Zürcher Kantonalbank (recommendation: overweight). Recommendations as from March 2019.

Calendar	
Publication of 2018 annual results	Tuesday, 5 March 2019
56th ordinary annual general meeting	Friday, 26 April 2019
Dividend payment	Friday, 3 May 2019
Publication of 2019 interim results	Tuesday, 20 August 2019

VP Bank share details	
Registered shares A, listed on the SIX Swiss Exchange	
Listed shares	6,015,000
Free float	50.62%
SIX symbol	VPBN
Bloomberg Ticker	VPBN
Reuters Ticker	VPBN.S
Securities number	31 548 726
ISIN	LI0315487269

2018 share data	
High (20 August 2018)	202.00
Low (9 January 2018)	130.80
Year-end close (31 December 2018)	141.40
Average price	161.91
Market capitalisation in CHF millions	936
Consolidated net income per registered share A	9.04
Price/earnings ratio per registered share A	15.64
Dividend per registered share A (proposed)	5.50
Net dividend yield, as a %	3.9
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 63 ff.

Contact

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Restaurant IGNIV
by Andreas Caminada,
Bad Ragaz

Antony Lassanianos
CEO VP Bank (Switzerland) Ltd

Expectations are there to be **exceeded**.

VP Bank in Switzerland

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

2

Corporate stategy

Strategic orientation of VP Bank

Diversified business model and target markets

VP Bank's business model is based on two strategic pillars: 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.

VP Bank Group has international offices in six financial centres: Vaduz, Zurich, Luxembourg, Singapore, Hong Kong and Road Town (BVI). From these locations, VP Bank actively cultivates its defined target markets and client segments, 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.

VP Bank distinguishes between three market categories. The **target markets** are relevant for the entire Group and are actively developed across all segments. **Opportunity markets** are those offering concrete growth potential and where market penetration is pursued through site-specific initiatives at reasonable cost. Clients in **Other markets** – mainly in the intermediaries area – are offered cross-border services upon request, to the extent allowed by regulations, on a passive basis.

The **target markets** for Europe include Liechtenstein, Switzerland, Germany, Luxembourg, Russia and Ukraine. In Asia, they include Singapore, Hong Kong, Indonesia, Malaysia and Thailand. Each site is responsible for the market penetration efforts, which are coordinated at Group level.

In October 2018, as part of the review of its market development strategy for the Russian market, VP Bank closed its Moscow representative office in order to generate further productivity gains while reducing the complexity and cost of internal processes. Russia remains a primary target market of VP Bank Group; the market development efforts are carried out mainly at the Zurich site as the competency centre for Central and Eastern European markets.

Strategy 2020

In 2015, the Board of Directors and Group Executive Management developed the "Strategy 2020" business plan. Based on this plan, the Board of Directors defined the medium-term goals through end-2020 as follows:

VP Bank's medium-term goals
- CHF 50 billion in client assets under management
- CHF 80 million in consolidated net income
- Cost/income ratio of less than 70 per cent

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

Profitable growth

Consistent focus

Strengthening our culture

Growth

In order to achieve its defined growth targets, VP Bank is pursuing a dual growth strategy.

Through **organic growth**, VP Bank aims to win new clients in its target markets and expand the current client base in order to further increase client assets under management. We will achieve this objective by actively strengthening the Bank's positioning in the all-important financial intermediaries business, expanding the private banking business and further building up the fund business.

Organic growth will also be supported through the addition of new client advisors. This approach was the impetus for the "Relationship Manager Hiring" project initiated in late 2016. This project seeks to hire a total of 75 new client advisors by end-2019, with roughly one half hired at the Bank's Asian sites and the other half in Switzerland/Liechtenstein/Luxembourg. In 2018, a total of 24 new client advisors joined VP Bank (2017: 24), thereby helping to generate satisfactory new cash inflows. As regards projects, we continued to optimise back-office processes in order to handle the increased growth.

Along with organic growth, VP Bank intends to use its very strong equity position to invest in growth through **acquisitions and joint ventures**.

VP Bank also aims to pursue growth through continued **international diversification**. The earnings contribution from the international sites will be increased to 50% of the total over the medium term.

Focus

We use the term "focus" to refer to productivity gains and reduced complexities and costs for internal processes. In particular we will also take advantage of changing technological capabilities. The resulting productivity gains are reinvested in the growth and digitalisation strategy. VP Bank has established cross-functional teams to carry out the implementation.

Among other factors, this approach is based on efficient and dependable core banking services at low prices, ideally on a digital and automated basis.

The identification of potential cost savings within the Group was successfully implemented in recent years. VP Bank has largely completed the necessary measures related to the various projects. The knowledge gained in this process has been applied to an on-going cost management approach and resulted in more focused product and service lines.

Culture

The third pillar of Strategy 2020 relates to VP Bank's culture. In this regard, VP Bank has identified two key areas: a sales and performance culture as well as the overall corporate culture.

The measures aimed at strengthening the **sales and performance culture** include our goal of further raising the advisory quality offered by our employees. They receive support through advisory tools such as Finfox as well as training programmes and certifications.

Last year as in 2017, broad-based **leadership seminars** with training sessions and workshops on the topic of management culture were held for managers in all business segments and at all office locations. The leadership programme is divided into four modules, and in 2018 the "Competent to lead" module was offered along with the "Lead to perform" workshop. These measures help to secure VP Bank's cultural values, foster commitment, support managers' continuing development and promote the active sharing of experiences.

Our **corporate culture** is based on skilled, motivated and service-oriented employees. VP Bank creates a good workplace and work environment, one in which employees are encouraged and can play an active role in shaping the company. In that regard, four themes emerge:
- Work and working environment
- Active participation by the Bank
- Encouraging employees
- Shared experiences

VP Bank conducts employee surveys every two years in order to stay informed about conditions for employees. Thanks to the high survey return rate, we can introduce targeted improvement measures.

Since 2015, the Bank has implemented the "myContribution" idea and innovation management policy. All employees are asked to play an active part in shaping VP Bank and to submit ideas on how to improve the Bank.

VP Bank also supports its employees in their efforts to broaden their technical skills, either through functional training such as certifications for client advisors or through continuing education on an individual level.

In order to strengthen the "team" approach, we created the "VP Bank Journeys" programme in 2017. Employees from throughout the Group get an up-close view of the innovation culture at other companies through company visits to other European cities.

A comprehensive overview of all measures for employees is provided in the section "Employees of VP Bank" on page 43.

Organisational structure

In 2018, VP Bank Group adapted its organisational and management structure and reassigned the tasks within Group Executive Management. These changes were made in accordance withJ the Strategy 2020. More detailed information is available under "The organisational structure of VP Bank Group" on page 14.

Executive management is supported by a broad second-tier management level consisting in 20 people.

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.

To be successful in this demanding segment requires the Bank to respond to changing client needs in Europe and Asia, satisfy regulatory requirements and notably take advantage of technological developments in the process.

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 advisory services for intermediaries and end clients.

Along with the traditional custody business, the bank offers end clients comprehensive investment advisory, asset management, wealth planning and lending solutions.

Specialised IT solutions such as e-banking^{plus} are offered specifically to intermediaries. With the ProLink information platform, intermediaries clients have a simple and speedy way to access the most important information and services they need for their daily work. These include extensive coverage of financial market events, regular publications on business and economic issues, the latest news on tax and regulatory developments as well as all required forms.

VP Bank also offers complete fund solutions, from advisory to risk management to fund administration. The exclusive investment and trading services complete these offerings, enabling intermediaries to make use of a variety of services. They can thus access comprehensive market research and publications, review their existing positions as part of a "Wealth Health Check" or receive investment advice or get direct access to trading experts through VP Bank's "active advisory" as needed. We also help clients select appropriate funds or structured products. Along with investment and trading services, VP Bank offers comprehensive advisory on issues such as legal, compliance and taxes.

With its five international booking centres, VP Bank is one of the few banks of its size to have this unusually broad global presence. We offer our clients substantial value-added through our comprehensive offerings.

Private banking

In private banking, VP Bank focuses mainly on the defined client segments High Net Worth Individuals (HNWI) and Ultra High Net Worth Individuals (UHNWI). In the Liechtenstein home market, the Bank also supports the Affluent Client and Retail Client segments.

VP Bank offers its clients a broad range of personalised solutions from investments to financing to wealth management and asset structuring.

Digital banking services were expanded in 2018. A new e-banking platform was launched and specific processes such as account opening and closing were automated. Client advisors were also equipped with iPads.

The advisory process was enhanced with the "Finfox" application. This tool makes it possible to perform wealth management and investment planning in a timely and efficient manner. Finfox gets the client involved interactively in the investment advisory process and enables direct implementation of investment decisions.

Fund business

The fund business plays a central role at VP Bank. It complements the private banking and intermediaries businesses and represents an attractive growth segment.

The fund business encompasses the activity with third-party funds and proprietary funds and is managed under the VP Fund Solutions umbrella. With VP Fund Solutions, VP Bank Group has an innovative and dynamic international fund competency centre and a one-stop shop for all services related to the fund business. The competency centre is comprised of VP Fund Solutions (Liechtenstein) AG and VP Fund Solutions (Luxembourg) SA, with the Group-wide management of this strategically important business based in Luxembourg.

With 20 years of experience, VP Fund Solutions offers close, cross-border teamwork with locally and internationally renowned asset managers. Through its cooperation with VP Bank, which acts as custodian bank and paying agent, VP Fund Solutions has access to VP Bank Group's international reach and cost-optimised network of depositories for the clearing and settlement of fund managers' investment decisions.

The geographic focus of VP Fund Solutions lies in Germany, Liechtenstein, Switzerland, the Benelux countries, Scandinavia, the United Kingdom and Asia. The initiators and clients consist in external asset managers and family offices.

2018 was a particularly successful year for our fund business, which confirmed the relevance of our "one stop shop" strategy. VP Fund Solutions is the number 1 private label fund manager in Liechtenstein and a recognised and sought-after third-party management company in Luxembourg. In 2018, the profit from new clients grew above the market average..

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.

The lending strategy is an integral part of VP Bank Group's service offerings. It is conceived in accordance with the strategies of the two strategic business segments, private banking and intermediaries, as well as market strategies and is aligned with them. We offer standard financing for retail and corporate clients. The lending business provides substantial support to the organic growth of the private banking and intermediaries business by expanding the financing offerings on the one hand and by fostering closer and more sustained client ties on the other.

The growth of client assets in the international business continues to trend favourably, in contrast to the situation in the saturated European markets. 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 development of the lending business is essential for VP Bank Group to achieve its medium-term goals. This development should consist in both organic growth as well as mergers and acquisitions. In that regard, we strive to provide a line of credit products tailored to the market and clients at the various booking sites.

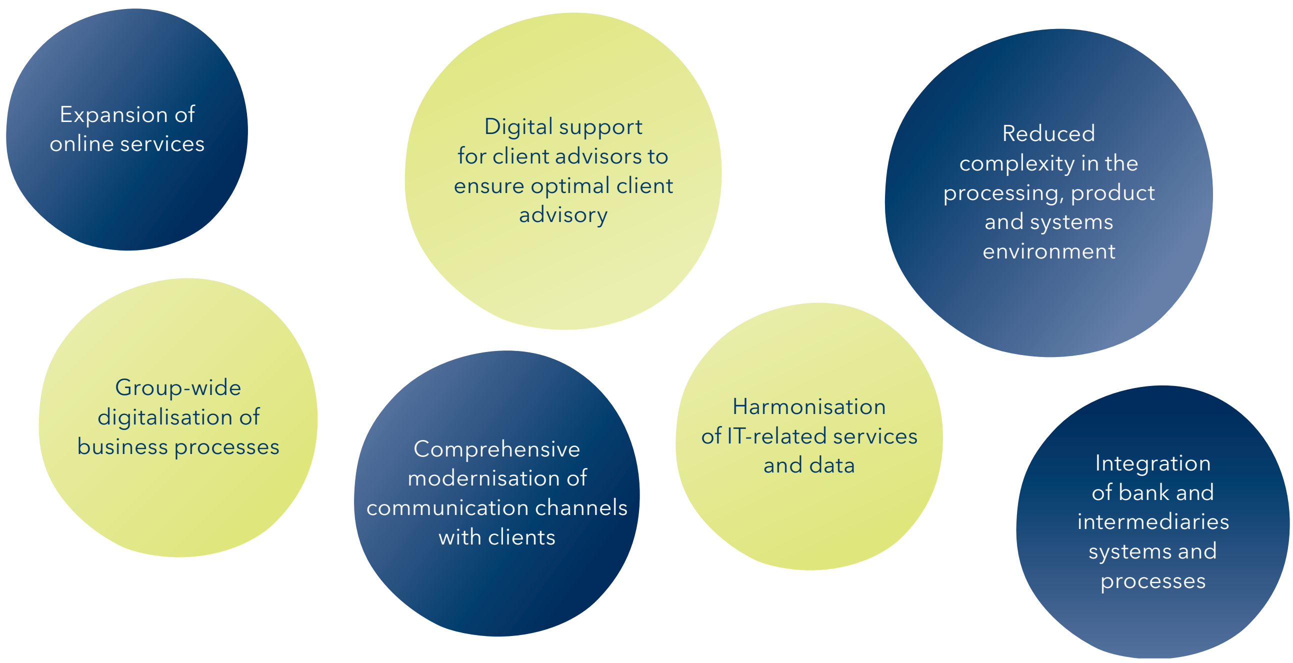
Digitalisation strategy

The relentless trend towards digitalisation and the increasing significance of IT-based processes and solutions – both in the intermediaries business and in private banking – call for a strategic approach, one that VP Bank is systematically executing within the framework of its digitalisation strategy. This involves an across-the-board modernisation of the communication channels with clients and employees as well as a broadening of the Bank's online offerings.

For example, VP Bank has started to apply 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.

As part of the trend toward digitising processes, data and communications channels, we introduced numerous measures that have been implemented steadily since 2016.

VP Bank's digitalisation strategy centres on the following major objectives:



The main focus is on solutions that can be implemented on a Group-wide basis and standardised.

VP Bank has identified concrete action fields to be implemented as part of a Group-wide programme. This will be accomplished in two phases:

The **first phase** centres on technical modernisation of the existing online services as well as specific functional improvements for all VP Bank client segments. In that regard, the use of online services will be made simpler and usability and convenience will thereby be enhanced. In the spring of 2018, the redesigned client portal combined with expanded e-banking features was launched and will continue to be expanded according to client needs.

In a **second phase**, VP Bank is making targeted investments in its internal systems and databases so that advisors have more time to support their clients and make the right decisions together. Following an extensive analysis, the number of client advisor positions will be steadily expanded in the coming two years in order to better serve the various needs of our clients.

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 80 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 with at least SGD (Singapore dollar) 1 million in assets to ultra high net worth individuals.

The growing number of intermediaries clients in Asia also creates promising opportunities. 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.

In recent years we have noticeably expanded our presence in Asia. 2018 marked VP Bank's 10 year anniversary in Singapore, and in April of that year the Bank doubled the size of its office space in order to keep pace with growth and have room for further expansion. The number of employees in Singapore rose by 49 to 72 in 2018.

We are expanding our Singapore branch by adding advisors in the investment advisory, wealth consulting and estate planning areas. In 2018 we also significantly expanded our product line with specific offers for our Asian clients.

In 2018 the subsidiary VP Bank (Singapore) Ltd was converted to a branch and the banking license was upgraded from merchant bank to wholesale bank in order to implement VP Bank's growth strategy in Asia in a more targeted and efficient manner. As from 1 September 2018, VP Bank's business in Singapore is conducted by our branch, VP Bank Ltd Singapore Branch.

Brand strategy

A good brand uses the company's strengths and potential. It creates an emotional connection by appealing to the sensibilities of the target group. A truly strong brand requires the courage to seek differentiation.

A consistent brand experience is important to convey a unified corporate identity both within the company and externally. All points of contact with VP Bank must therefore be configured to act as brand ambassadors. That way we achieve a thoroughly consistent experience, one that enables us to stand clearly apart from the competition and gain a competitive advantage.

VP Bank's brand elicits emotions, creates connections and offers guidance. It also instils a sense of identity for our employees.

VP Bank's brand is comprised of two fundamental components: the brand strategy by which our brand positioning is defined and the brand design through which a highly unique identity is achieved. The goal of our strong brand is to create a clearly recognisable image for all stakeholders from both a content and visual perspective.

VP Bank constantly develops and adjusts the brand components as needed. As regards content, the most recent change occurred in 2017 when the brand focus was refined in order to clearly define what VP Bank stands for and does.

The respective hierarchies of the VP Bank brand are shown in the brand pyramid as the basis for our common action. It includes all the components of the vision and mission up to our conduct and our promise.

More detailed information on our brand identity can be found on our website under "About us / VP Bank Brand": www.vpbank.com/brand

A look back at the successful groundwork: 2008–2018 strategy

In 2008, VP Bank conceived its "Strategy 2018". This strategy included the creation and systematic development of the "private banking clients" and "intermediaries" business units. It was made in response to a structural shift in the global distribution of assets and it substantiated the growing relevance of markets in the Near East, Eastern Europe and Asia.

We steadily and consistently implemented the 2008 strategic orientation; the core business segments "Private Banking" and "Intermediaries" have grown very successfully. Valuable progress was also made through organic growth and acquisitions. Thus in 2013 VP Bank acquired the private banking activities of HSBC Trinkaus & Burkhardt (International) SA as well as the private banking-oriented fund business of HSBC Trinkaus Investment Managers SA in Luxembourg. Then in 2015 it acquired and integrated Centrum Bank in Liechtenstein, whose former sole shareholder Marxer Stiftung für Bank- und Unternehmenswerte is now a core shareholder of VP Bank Group. In 2018, VP Bank penetrated the Scandinavian market through the acquisition of the fund management and custody activities of Luxembourg-based Carnegie Investment Funds as well as the Luxembourg private banking activities of Sweden's Catella Bank.

The continuous expansion of the Asian sites in Singapore and Hong Kong during the past 10 years shows their major importance and enables us to provide local support to clients in the Asian target markets. The business activities with Eastern European clients was also expanded steadily according to plan.

Outlook

Growth remains a central concern for VP Bank in 2019. The "Relationship Manager Hiring" programme runs through end-2019 and continues the steady expansion of the advisor teams in the intermediaries and private banking segments. Along with organic growth, we would also like to use the very strong equity position to invest in growth through acquisitions.

A key focus is the continued development of our digitalisation strategy. We will undertake the following projects in 2019:

- Implementation of the digitalisation strategy with a focus on improved service offerings for our clients
- Continuous process improvements in order to support the growth of our Bank sustainably and efficiently
- Implementation of more efficient compliance solutions in order to satisfy growing regulatory requirements
- Implementation of additional regulatory requirements such as FIDLEG in Switzerland

Under the banner of "Future of Banking" we are working to prepare the future of VP Bank Group. The corresponding themes include networking with partners, multi-channel communications and interaction as well as artificial intelligence.

The importance of our Asian business will continue to grow. We are therefore investing in this area. The Singapore branch serves as a platform for future growth in this regard.

Following the acquisition of the investment funds of the Swedish financial services group Carnegie as well as the transaction with Catella Bank S.A., we have added another focal point for the growth of our activities in the Scandinavian market in 2019.

The investment business represents a key pillar for the successful implementation of our growth strategy. The environment marked by low interest rates, persistent and significant political uncertainty and new developments in the area of big data and artificial intelligence make it necessary and possible to create new solutions that allow us to support our clients optimally as they seek to achieve their financial goals. This objective goes hand in hand with our brand strategy in order to ensure recognisability.

The implementation of sustainable products and services and the expansion of our proprietary fund products are other growth drivers for 2019.

The sharp increase in net new money inflows at VP Bank Group in 2018 confirms the relevance of our strategic orientation. VP Bank will therefore continue its pursuit of broad-based growth.

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

The "Partnering Solutions" unit, established within the Group Investment Center in the spring of 2017, seeks to work with selected asset managers on a systematic basis. 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 careful due diligence review by VP Bank investment specialists provides investors with an added level of security.

Last year, the partnering concept concentrated on building up and expanding partnerships while maintaining existing investment programmes. The main area of focus involved the investment of own funds and creation of the proprietary VP Bank private market portfolio. These moves strengthen cooperation with various managers and also serve as the foundation for market access for clients. From an organisational standpoint, the "Partnering Solutions" unit was reassigned to the CIO Office. This shift underscores its strategic importance and promotes synergies within the Bank. In 2019 the product line will be further expanded and strategically developed.

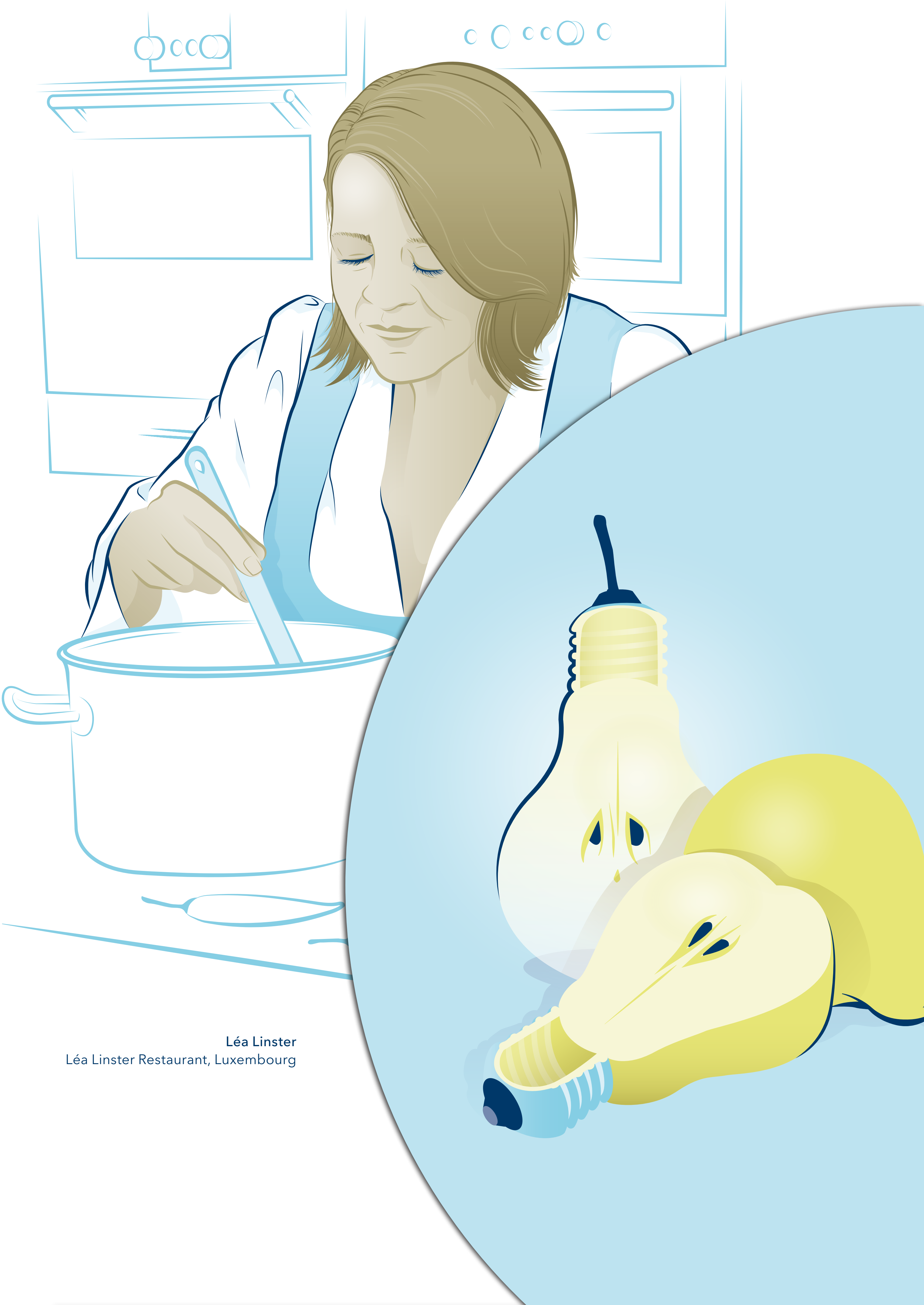
Other partnerships

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 all related processes such as operating and contract management, reporting and support while sustainably lowering costs. Among the results of this partnership was the creation of a joint venture with LLB for financial information systems procurement in 2011.

Graphic depiction of the Partnering Solutions process



Léa Linster
Léa Linster Restaurant, Luxembourg

Thomas Steiger
CEO VP Bank (Luxembourg) SA

Creativity **shared** is creativity **doubled**.

VP Bank in Luxembourg

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

3

Sustainability

VP Bank's sustainability management

VP Bank's commitment

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 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. Therefore, responsible business practices are 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.

Stifung 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 policy, 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 therefore makes every effort to keep its banking operations carbon neutral.

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, Technical Support, Facility Management & Services, Investment Management, Corporate Communications, e-banking and General Counsel & Chief Risk Officer.

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 Tax 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" on pages 118 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.

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 such areas as equal opportunity and social media. The respective provisions are communicated to all employees through continuous training initiatives.

Violations of the Code of Conduct or against VP Bank rules are penalised through uncompromising disciplinary measures and consequences as authorised by labour law.

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 – Reporting

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 policy 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 (see below), 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. Among the concrete measures taken in 2018 were the continued support of the drinking water project "Drink & Donate", the advancement of sustainability in the investment process, the expansion of sustainability mandates at VP Bank as well as internal measures relating to the topics of "Volunteering Day", saving electricity and reducing paper consumption. VP Bank's intranet provides employees with an overview of its activities.

In May 2018, VP Bank supported the Green Summit at the University of Liechtenstein. The aim is to promote the transition to sustainability. In this context, the Institute of Finance of the University of Liechtenstein organised a workshop on the topic of sustainable finance, 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 in the future 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 policy.

The United Nations Global Compact is a universal convention concluded between companies and the UN with the aim of shaping globalisation in a more social and environmentally friendly way. It is the largest sustainability initiative the world has ever seen, in excess of 13,500 signatories in nearly 160 countries, including more than 9,900 companies.

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 2018 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 – Sustainability."

www.vpbank.com/communication_on_progress

www.unglobalcompact.org

Principle 1: VP Bank pledges to respect internationally proclaimed human rights and promote them within its sphere of influence.

Principle 2: VP Bank ensures that it is not complicit in human rights abuses.

Principle 3: VP Bank respects the rights of its employees to associate freely and recognises their right to collective bargaining.

Principle 4: VP Bank prohibits all types of forced and compulsory labour.

Principle 5: VP Bank advocates for the elimination of child labour.

Principle 6: VP Bank prohibits any form of discrimination in respect of employment and occupation.

Principle 7: VP Bank supports a precautionary approach to environmental challenges.

Principle 8: VP Bank undertakes initiatives to promote greater environmental responsibility.

Principle 9: VP Bank encourages the development and diffusion of environmentally friendly technologies.

Principle 10: VP Bank works against corruption in all its forms, notably extortion and bribery.

VP Bank's stakeholders

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 interact 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.

VP Bank's client advisory

VP Bank has a diversified business model with clearly defined business segments. The core activity consists in the business with affluent private clients and financial intermediaries. 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 2018 were generated by clients across all VP Bank's segments and sites.

The quality of the customer service and support is regularly assessed by independent specialists. As part of the "Tops 2019" assessment published by Fuchsbriefe in Germany, VP Bank was rated "Very Good" for transparency and "Good" in the overall category. The ratings firm highlighted the well-informed advisory service, broadly diversified portfolio and outstanding transparency.

VP Bank markets

VP Bank's activities revolve primarily around its defined target markets (see "Strategic orientation of VP Bank" on page 25). Additional growth potential is developed in other opportunity markets – mainly other regions in Europe. In 2018, for example, we successfully penetrated the Scandinavian market through the acquisition of fund clients of Carnegie Fund Services along with private banking clients of Catella Bank in Luxembourg.

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 client 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.

In 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 Financial Market Authority (FMA) Liechtenstein.

VP Bank's services

VP Bank's strengths are its comprehensive client support and the combination of diverse services. Complex client requirements are assessed systematically 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.

A broad range of digital solutions for sharing data and information makes VP Bank a leading bank for intermediaries clients. These clients benefit in particular from the new e-banking platform, which was completely upgraded in 2018. 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. In 2019, tablets will also be provided to the client advisors in the Singapore office.

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.

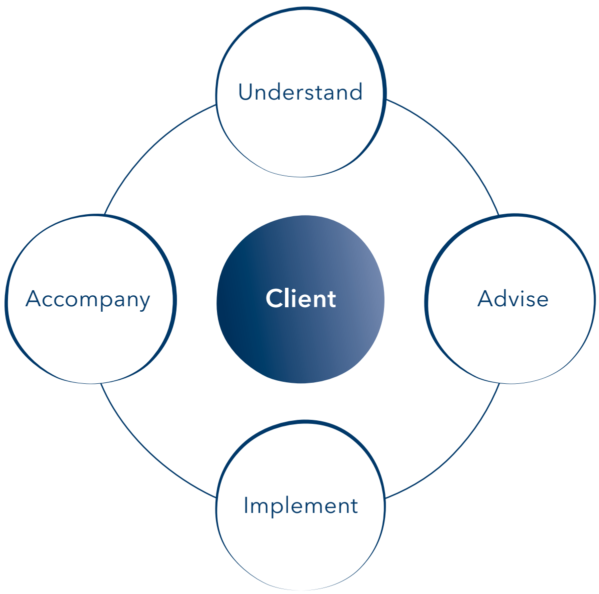
Structured advisory process

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 long-term accompanying the implementation.

In 2018 we revised our advisory process for intermediaries and implemented it at the Group's European sites. This process was then introduced in Singapore in early 2019. The on-boarding process in the intermediaries area was also restructured and standardised throughout the Group in 2018 in order to accelerate processes.

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



www.vpbank.com/advisory_process

Compliance with regulatory provisions

In 2018, new regulatory provisions were introduced or enhanced, and all client-facing employees were given appropriate training. Processes were introduced in connection with the General Data Protection Regulation (GDPR) so that clients can exercise their rights as regards data protection. At the Liechtenstein site, the expansion of the European Market Infrastructure Regulation (EMIR) to the European Economic Area was implemented. Further measures in connection with the Markets in Financial Instruments Directive (MiFID) and the Automatic Exchange of Information were also undertaken. In particular, the MiFID provisions introduced in 2017 and implemented starting in 2018 improve investment protections for clients through increased transparency on costs, product suitability and order execution.

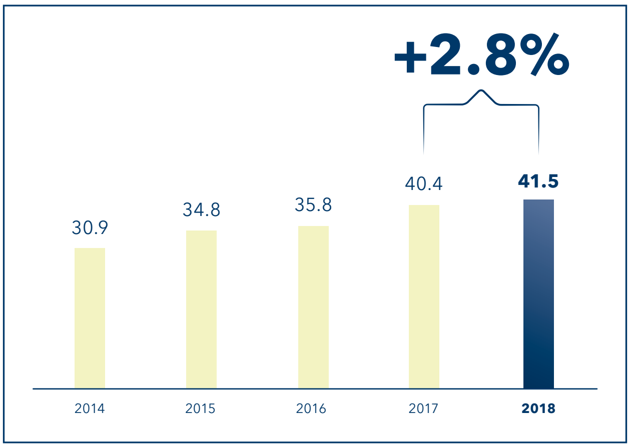
Continuous training for client advisors

Highly trained client advisors are the foundation for excellent support. VP Bank invests continuously in their training and continuing education. In 2018 several client advisors at the Liechtenstein and Swiss sites received 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.

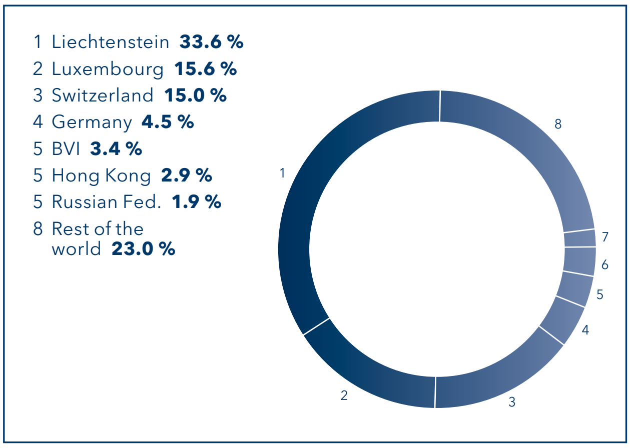
Client assets

At 31 December 2018, VP Bank had client assets totalling CHF 41.5 billion, up 2.8 per cent from the previous year. It also held another CHF 7.0 billion in custody assets, bringing total client and custody assets to CHF 48.5 billion at the end of the reporting period (2017: CHF 46.4 billion.) Overall, VP Bank Group recorded net new client money totalling CHF 3,197 million.

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



Assets under management in 2018 according to the domicile of the beneficial owners



Classification of client assets under management

in %	31.12.2018	31.12.2017
Analysis by asset class		
Liquidity	27	27
Bonds	19	19
Equities	21	22
Investment funds	28	28
Other	5	4
Total	**100**	**100**
Analysis by currency		
CHF	23	24
EUR	31	31
USD	32	33
Other	14	12
Total	**100**	**100**

Employees of VP Bank

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 2017, a Group-wide survey was conducted that received an outstanding 91 per cent response rate. The next survey is scheduled for 2019.

VP Bank is committed to providing professional training for interns in the sales and information technology areas. Highly trained instructors complement the trade schools

www.vpbank.com/generating_enthusiasm

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

www.vpbank.com/career_apprenticeship

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-2018, VP Bank had 15 apprentices (2017: 14) in the sales programme and another five studying information technology. In the summer of 2018, five apprentices (2017: eight) successfully completed their final exams and six were given fixed employment positions.

In the graduates programmes at end-2018, two students were enrolled in the work-study support model and six graduates Group-wide 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.

Management by Objectives (MbO)

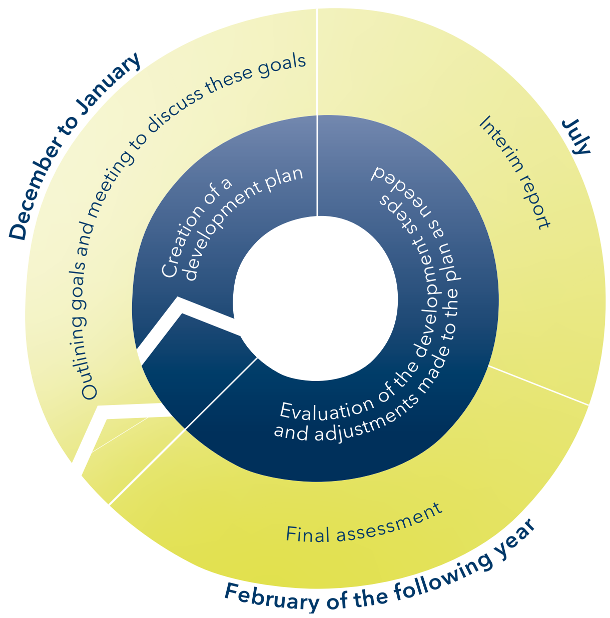
Managing by objectives is part of VP Bank Group's management approach. Each year we go through a recurring process to ensure that the objectives set by the Bank for the following year are iterated systematically throughout all levels of the organisation. At the individual level, corresponding objectives 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.

In 2018, the "VP Bank vita" application was introduced for our goal-setting and performance assessment process. VP Bank vita is the electronic version of our former MbO process. The application is being used for the first time to set the objectives for 2019.

The new application offers various features that were not previously possible in paper form. They include the use of a structured, system-driven process, the ability to get feedback electronically, the use of a goals library with predefined objectives as well as simpler ranking of objectives for teams or departments.

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 Development, HR Recruiting & Consulting and HR Compensation, Benefits & Services. 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 2018 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 were elected to a four-year term in 2017.

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 everything from employee terminations to car park operations 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 10 elected members, five of whom are permanent members and five 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 2018, VP Bank Group had 933 employees, up 72 from the start of the year. The number of employees at the Zurich site increased by 14 to 97 (full-time equivalents: +13.3). VP Bank in Singapore also saw its headcount increase by 23 employees to 72 (full-time equivalents +23). The Luxembourg site had a minor change (+7), while headcounts in Hong Kong and the British Virgin Islands were unchanged.

At end-2018, VP Bank Group had a total of 160 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	31.12.2018		31.12.2017	
	FTE	HC	FTE	HC
	156.3	160	145.7	149

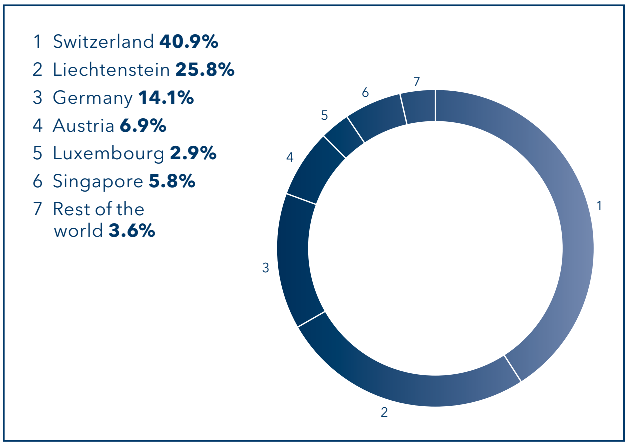
FTE = Full Time Equivalents
HC = Headcount (nominal number of employees)

The number of client advisors rose significantly. VP Bank added 11 new advisors, bringing the total number of experienced advisors up from 149 the previous year to 160. As in the previous year, client advisors make up 17 per cent of all Group employees. In Zurich, the number of client advisors rose by eight to 42, while in Singapore the number increased by nine to 23. The numbers at the other office locations remained unchanged or decreased slightly (one less client advisor at the BVI office and five fewer in Liechtenstein).

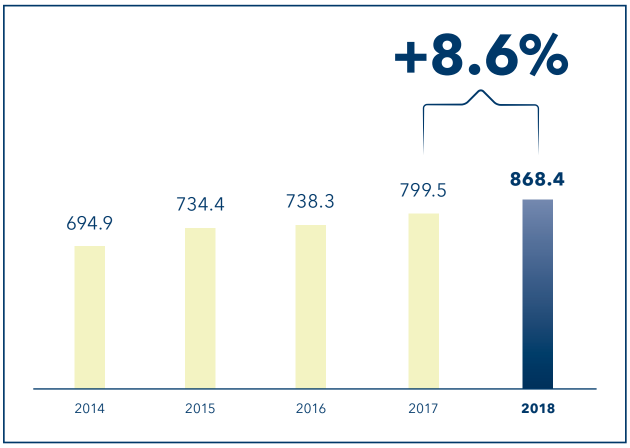
The average length of service at VP Bank Group fell slightly from nine years to 8.5 years at year-end 2018. This trend was also evident at VP Bank Vaduz, where average length of service fell from 10.4 years in 2017 to 10.2 years last year.

As regards nationalities, Swiss employees continue to represent the largest group at 40.9 per cent of the total, up from 37 per cent last year. The relative number of Liechtenstein nationals contracted slightly from 25.9 per cent to 25.8 per cent. German employees continue to represent the third-largest group, with 14.1 per cent in 2018, up from 12.5 per cent the previous year (see chart below).

Nationality of VP Bank Group's employees



Headcount of VP Bank Group (full-time equivalents)



Employee recruitment and exits

In June 2018, VP Bank had nearly 37 job openings Group-wide, marking the high point for unfilled positions. By year-end, that number had been cut nearly in half to 20. 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. In 2018, a total of approximately 1,300 job applications were managed.

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.

In 2018 a total of 128 people left VP Bank Group (2017: 140). The fluctuation rate due to employee layoffs was 6.9 per cent (2017: 7.4 per cent).

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 remuneration 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.

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 to inspire its clients with unique customer experiences and support them 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 2018. 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.

Since the summer of 2018, VP Bank (Switzerland) Ltd has supported employees who want to improve their English language skills. Business English classes at the "BEC Preliminary", "BEC Vantage" and "BEC Higher" levels are offered in-house. VP Bank AG in Liechtenstein started this initiative in March 2019.

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, 32 people (2017: 23) completed a job-related course of studies with a recognised diploma, while another 57 people (2017: 41) were participating in continuing education at end-2018.

Employee statistics of VP Bank Group

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 of 31.12.2017	Men	Women	Total
Number of employees	496	365	861
Percentage share	57.6	42.4	100
Average age	43.2	40.1	41.9
Average length of service	9.1	8.7	8.9

Number of employees by location

as of 31.12.	2018		2017		Variance with previous year	
	Employees	Full-time equivalents	Employees	Full-time equivalents	Employees	Full-time equivalents
VP Bank Ltd, Vaduz	578	530.6	551	507.8	27	22.8
VP Bank (Switzerland) Ltd	97	90.6	83	77.2	14	13.4
VP Bank (Luxembourg) SA	100	92.8	96	87.1	4	5.7
VP Fund Solutions (Luxembourg) SA	32	30.3	29	26.9	3	3.4
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	72	72.0	49	49.0	23	23.0
VP Fund Solutions (Liechtenstein) AG	32	30.2	31	29.5	1	0.7
Total	**933**	**868.4**	**861**	**799.5**	**72**	**68.9**

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.

With the move to new offices at our Zurich and Luxembourg sites and the renovation of our head office building at the corporate headquarters in Vaduz, we have created an up-to-date work environment with attractive office space for our employees in 2018. The entire workplace is equipped with first-rate infrastructure and satisfies the latest technological requirements.

More information is available in the section "Employees of VP Bank" on page 43.

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.

8 November 2018 was National Future Day in Switzerland and Liechtenstein. On this day many companies opened their doors to schoolchildren in grades 5 to 7 to give them an opportunity to discover the working world up close and in person. The National Future Day thus helps young boys and girls to broaden their horizons as regards professional choices and prospects and to chart their own futures.

In 2018, VP Bank's Vaduz site participated in National Future Day for the sixth time, while VP Bank (Switzerland) Ltd also participated for the second time. Some 36 youths between the ages of 10 and 13 had the opportunity to spend a day learning about the working world with a chaperone. They were given a lot of information about VP Bank, learned the processes in the respective departments and were very interested to learn about the different types of jobs in a bank. The high point was the visit to the vault and the trading room, the dismantling and rebuilding of a PC and a video conference between the Vaduz, Triesen and Zurich offices.

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, minigolf, ping pong, 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.

The Volunteering Day introduced in late 2015 continues to generate considerable interest. Since it was introduced, more than 100 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 the 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" ("Whirlwind") project in Liechtenstein, a children's day care centre jointly operated by Liechtenstein banks. The Whirlwind nursery provides high-quality, professional childcare, thereby creating optimal conditions for reconciling family and work life.

At Villa Whirlwind, 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. The Board of Directors has focused on this issue and prepared a skills analysis for future challenges. With two female Board members from the Legal/Compliance and HR/Business Development areas, these skills were expanded in optimal fashion in 2017.

Employees and managers are hired strictly on the basis of their qualifications without regard for age, gender 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.

VP Bank Group's employee base also includes individuals with physical and/or mental disabilities. Whenever possible, employees with long-term illnesses are reintegrated into the work flow with professional support.

Diversity at VP Bank – Proportion of women and men in management bodies

	Total number of women	Number of women in %	Total number of men	Number of men in %
as of 31.12.2018				
Board of Directors	2	20	8	80
Management level 1	1	16.66	5	83.33
Management level 2	2	11.11	16	88.88
Total employees	387	41.48	546	58.52
as of 31.12.2017				
Board of Directors	2	22.2	7	77.8
Management level 1	1	25.0	3	75.0
Management level 2	3	16.7	15	83.3
Total employees	365	42.4	496	57.6

At 31.12.2018, VP Bank had 41.48 per cent female employees (2017: 42.4 per cent). As from January 2017, a woman is also part of Group Executive Management.

VP Bank's 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 November 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 Health Education Center of the Principality of Liechtenstein (HPZ). VP Bank also uses this institution for packaging purposes. On the occasion of the 2018 Saint Nicholas Day, baked goods were 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

Sustainable investment solutions and concepts are increasingly popular. The idea behind them is to take sustainability criteria into account when selecting financial investments with an environmental or social orientation.

Greater transparency of information enables investors to consider non-financial factors when analysing investments and thereby make investment decisions in accordance with ethical and moral values.

Clearly defined responsibilities

At VP Bank, the CSR (Corporate Social Responsibility) Board is responsible for sustainability issues. These issues include such topics as the operating environment, 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

A holistic sustainability approach also entails the responsible management of the funds to be invested. In that regard, a diverse range of investment approaches and strategies exist that may be applied to varying degrees.

For the implementation of its sustainable investment strategy, VP Bank applies screening criteria (ethical and standards-based) as well as a best-in-class or best-in-sector selection process for investments that factors in environmental, social and governance (ESG) criteria. In this manner, the Bank analyses the risk exposure of companies in a sector and how they address those risks.

For its sustainability analyses, VP Bank relies on the know-how of an established sustainability specialist. This specialist covers vast segments of the asset management investment universe and, using professional research, supports VP Bank as it implements sustainability criteria in the investment process.

Offer of sustainable investment solutions

Since April 2017, VP Bank offers a flexible sustainable investment solution that can be tailored to the client's needs. The investment selection process is carried out along the lines of the ESG approach, with environmental, social and governance factors.

Impact of the expanded criteria

In addition to fulfilling one's own ethical and moral convictions, the application of sustainability criteria to investment decisions has other positive effects on the portfolio:
- Avoidance of tail risk events through the identification and exclusion of companies with the corresponding risks
- Positive influence on the company development as regards environmental, social and governance aspects
- Identification and use of investment opportunities through the expansion of analytical criteria

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

VP Bank's social engagement

Charitable donations and sponsorships

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. Since 2014 VP Bank has focused its charitable donations 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 CO_2-incentive tax on fossil fuels.

Since 2017, VP Bank has actively focused on sports and cultural sponsorships with a long-term focus.

In golf, we sponsor the "VP Bank Ladies Open", the only ladies pro golf tournament in the German-speaking part of Switzerland. 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 was appointed curator of the Foundation in 2019.

In 2018, a total of six acquisitions were made as part of the long-term collection policy, thus complementing the collection and consolidating its focus on "painting".

At the new VP Bank office in Zurich, a concept for exhibiting works from all collection periods was developed and implemented.

The VP Bank Art 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. The Foundation supports projects, individuals and institutions that have made outsized 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. The Foundation supports scientific institutions and their projects, publications, training facilities and private initiatives.

In the cultural sphere, the foundation supports not just larger institutions but also diverse projects in the areas of music, theatre and dance.

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 and a climate protection project of the myclimate foundation.

In connection with the "Lichtblick" campaign, VP Bank Foundation made grants totalling around CHF 70,000 to some 30 social institutions in Liechtenstein in 2018.

The foundation's effectiveness can be improved by focusing more closely on sustainability criteria when investing the foundation's resources. Both the foundation's contributions and its investments have an impact consistent with the foundation's Articles of Association. The Board of Trustees therefore invests the assets in keeping with a sustainable administrative mandate.

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 2018.

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.

VP Bank's business ecology

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 2020.

Paper and water 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 express request of the client. 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 323,500 in 2018. The number of envelopes used was reduced from von 1.5 million in 2004 to 638,226 last year.

Paper consumption decreased from 68.03 tonnes in 2004 to 36.78 tonnes in 2018, including a 5.67 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 2018, 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 78 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 1,500 in 2017.

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 2,116,247 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 9.3 per cent in 2018. Since 2010, all VP Bank Group communications include the tagline "Please consider the environment before printing this e-mail".

Water consumption trended steadily lower from 2008 through 2014, although in recent years it rose again slightly due to the increased number of employees. 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. The slight increase in per-employee consumption in 2017 and 2018 (10.0 m³) was due to above-average hot weather in the summer months of June through August as well as the installation of water coolers as part of the participation in the "Drink & Donate" programme (see "Responsibility as an Employer", p. 48).

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-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 2017, the company also began to replace floor lamps with LED lamps. 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 5,928 kWh currently. Power consumption at the head office had been declining from 2008 to 2017 thanks to efficiency-enhancing measures and increased in 2018 only slightly by 6,800 kWh. 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 24 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 the solar installation at the Giessen building was renovated and expanded, which increased its performance by 133 per cent compared to the old installation. In 2018, the new plant increased its output by 541 per cent. The installation of a further system on the roof of the main building is planned for 2019 and a new system on the roof of the administration building in Triesen is planned for 2020. The self-generated solar power contribution will thereby increase steadily.

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 largely 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 from 2020.

A separate, more detailed energy report for the Liechtenstein facilities is produced each year and can be accessed on the VP Bank website under "About us / Sustainability".

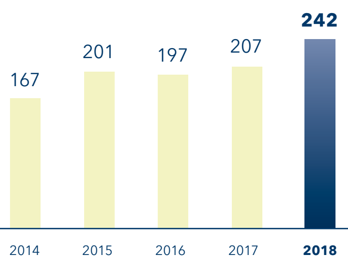
Waste reduction and paper consumption

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 242 tonnes in 2018. The renovation of the building in Vaduz in 2018 played a major role in this development, which on the one hand led to a one-off increase in the amount of hazardous waste (plus 13 tonnes) and on the other almost doubled the amount of paper waste due to archive clearance.

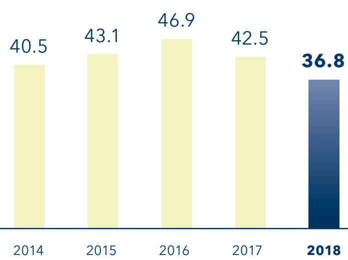
Unnecessary printing is one of the largest sources of paper waste. A majority of documents are prepared in digital form but still printed, as in the past.

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.

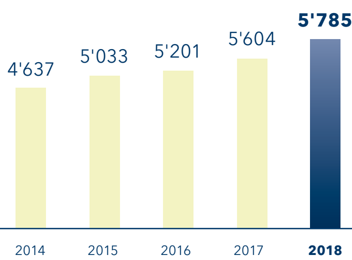
VP Bank's goal was to reduce paper consumption by 10 per cent over the course of 2018. The "think before you print" sticker was placed on printers at the Liechtenstein facility at the start of the year and was intended to encourage employees to consume less paper. We have achieved this



Total waste (in tonnes)



Paper consumption (in tonnes)



Water consumption (in m^3)

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.

VP Bank's discarded waste paper is shredded in an in-house recycling unit and compressed into briquettes. With this process, roughly 36 tonnes of paper briquettes were produced at the Liechtenstein location in 2018. 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 multifunction devices, we can reduce the existing 180 devices by half. The replacement will start in spring 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.

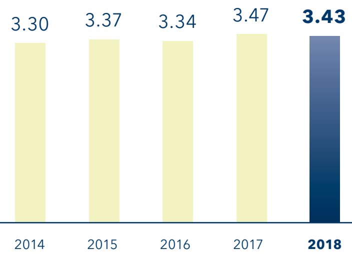
Mobility management

VP Bank's operational mobility management aims to stimulate and promote efficient and socially compatible mobility. More than ten years ago, we introduced a mobility concept at the head office in Vaduz. It features financial incentives for using public transportation, as well as a graduated fee structure for employee parking spaces. The concept is self-financing: rental proceeds from the car park are used for bonus payments to employees who forgo the use of personal cars and therefore do not occupy parking spaces.

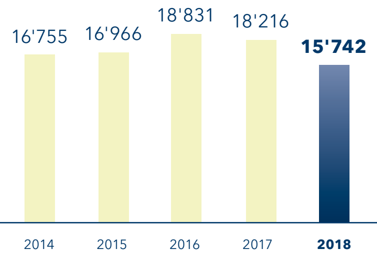
This concept motivates employees to form carpools. VP Bank also offers the free use of Mobility Cars, an arrangement that has met with an enthusiastic response. The total number of kilometres driven for business purposes with the Mobility Cars was 15,742 in 2018, slightly less than the 18,216 km travelled in 2017. The use of a videoconferencing system has helped to reduce employees' business travel to the VP Bank's international locations. In addition, every employee has the ability to organise in-house discussions with other employees using online meeting tools so that the contents of documents can be viewed and modified simultaneously on multiple screens.

Employees using public transport are also offered a free pass for bus and railway transport within Liechtenstein. The revenues from the Bank's mobility management are amongst others used for the reimbursement of the pass. In 2018, 123 employees took advantage of this offer.

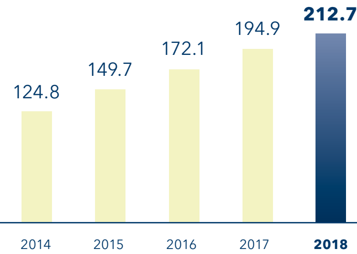
The Mobility concept is a success. It has achieved its goals of reduced automobile use, greater environmental awareness and support for public transportation. This concept



Power consumption (in million kWh)



Mobility Cars (in km)



Number of kilometres (in 1,000)

has set an example for the region, and in 2011 was awarded the "Zurich Climate Prize", which honours measures to improve energy efficiency and reduce CO_2 emissions.

In 2015, VP Bank acquired an all-electric passenger vehicle. It is available for regional trips between Zurich and Vaduz as well as for accompanying clients. Since 2015, this vehicle has logged an annual average of between 8,000 and 10,300 kilometres. Starting in 2019, charging stations for electric cars of clients and employees of VP Bank in Liechtenstein are planned.

In 2018 as in previous years, many VP Bank employees took part in the "Bike to work" event sponsored by the Liechtenstein Chamber of Commerce and Industry. In September 2018, VP Bank again participated in the European Mobility Week and in doing so supported the "Car-free – Care-free" campaign, which seeks to promote the ease of commuting to work using public transport instead of by car or motorcycle.

Through its "Tailwind" campaign, the Principality of Liechtenstein certifies bicycle-friendly businesses. VP Bank, too, endorses the use of two-wheelers as an integral part of business mobility and has received this certification on numerous occasions. Employees in Liechtenstein often travel between the buildings in the neighbouring towns of Vaduz and Triesen for meetings and training, with bus passes made available to them for this purpose. In the summer of 2016, VP Bank also acquired four electrobikes, which are available to employees at no cost and are widely used.

Ride-sharing is another means by which VP Bank seeks to further reduce automobile travel. The online platform Comovee provides contact information for all registered employees in the vicinity and enables all employees to form carpools. The smart map overview enables users to select potential ride shares on a geographic basis. VP Bank Ltd and other large companies in Liechtenstein use this platform, which thereby offers a broad range of potential ride-sharers. This initiative helps to reduce commuter traffic and parking problems and is good for the environment.

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 Financial Market Authority (FMA) Liechtenstein. 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 competent local authorities of each country in which the Group is active through subsidiary companies or representative offices.

General

In Liechtenstein, the activities of VP Bank are subject primarily to the Act on Banks and Securities Firms (Banking Act, 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 Penal 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 Law; 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.

General Data Protection Regulation (GDPR)

With its Regulation 2016/679, the EU intends to harmonise data protection in the processing of data of natural persons Europe-wide. In particular, the obligations to inform and make disclosure will be reinforced as well as new comprehensive documentation obligations introduced. The processers are to provide evidence at any time to the authorities, upon demand, that the existing guidelines are being complied with (processing lists, system and process descriptions). The powers of authority of the supervisory authorities are broadened and the threat of sanctions massively increased. The GDPR was implemented in Liechtenstein within the framework of the complete revision of the Law on Data Protection set out in LGBl. 2018 Nr. 272 (published on 7 December 2018) and took effect on 1 January 2019.

Deposit Guarantee Schemes Directive

With the Deposit Guarantee Schemes Directive, clients should gain improved access to deposit-guarantee systems thereby reinforcing their confidence in the financial stability of the European Economic Area (EEA). The Directive concerns particularly the Deposit Guarantee and Investor Compensation Foundation PCC (EAS Liechtenstein). The new prescriptions demand a more comprehensive and more precisely defined cover as well as shorter reimbursement deadlines. A significant expansion of the operations of EAS is foreseeable.

From the perspective of the bank, an information sheet with details of the deposit guarantee is to be made available to the clients annually. Also, account statements for the accounts concerned are to contain informational note disclosures thereon.

The recently created Deposit Guarantee and Investor Compensation Act (DGIA) on this subject will most probably enter into law in May 2019.

PSD 2

The previous Payment Services Directive 2007/64/EG (PSD) 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 rules provide 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.

PSD 2 is still in the process of being transposed into EEA law. In Liechtenstein, in view of the passport required for payment service providers from the EU, it should be implemented by means of the prior transposition into law at the national level and through the enactment of a new, totally revised Act on Payment Services (PSA) which in all probability will become law 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).

Blockchain Act (RTA)

In mid-November 2018, the consultation process concerning the "Creation of a Law concerning Transaction Systems based upon Reliable Technologies (RT) (Blockchain Act; RT Act; RTA)" was concluded.

The law is designed to clarify the requirements to be applied for important activities on blockchain systems in order to enhance the protection of customers, on the one hand, and to reduce possible reputational risks for Liechtenstein, on the other.

With the RTA, Liechtenstein is one of the first countries to attempt to create a regulatory framework for blockchain applications. The date of implementation is still open.

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 loans. 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 loans.

The MCD has not yet been incorporated into the EEA Agreement and is in the course of being transposed. In order to enable implementation in Liechtenstein on a timely basis, it is planned to undertake a public consultation process for the implementation of the MCD (creation of a Law on Mortgage and Housing Loans, MHLA), in all probability at the beginning of 2019. The date on which the MHLA will enter into force is scheduled for 1 January 2020.

European Market Infrastructure Regulation (EMIR)

In September 2009, the G20 countries agreed that all standardised OTC derivatives contracts are to be processed via a central counterparty and derivatives contracts are to be reported to a transaction register. The EU Commission gave recognition to this desire by issuing Regulation (EU) No. 648/2012 of 4 July 2012 concerning OTC derivatives, central counterparties and a transaction register (European Market Infrastructure Regulation, EMIR). The obligations under EMIR are already in force in the EU.

The main regulation (EMIR) was transposed into the EEA Agreement as of 1 July 2017. Based on the resolutions passed by the EEA Joint Committee on 31 May 2018 concerning the transposition, the legal bases of EMIR became largely applicable as of 1 June 2018. Following the expiry of various transitional deadlines, the various duties imposed by EMIR are, from now on, to be complied with in all EEA countries. The date on which the collateral-exchange obligations are to be adopted in the EEA Agreement (Delegated Regulation 2016/2251) is still open.

Shareholders' Directive II and Implementing Ordinance

On 3 September 2018, the EU issued the Implementing Ordinance 2018/1212 laying down minimum requirements in implementation of the Directive on shareholders' rights 2007/36/EG, the provisions of which were most recently amended on 17 May 2017. This Implementing Ordinance encompasses principally the following matters:

- Standardised formats for the transmission of information by intermediaries and issuers as well as the application for disclosure of information on the identity of shareholders; and
- Facilitation of the exercise of shareholders' rights with regard to Annual General Meetings as well as communications as to business events to the intermediary or shareholder.

The implementation needs as well as the timetable are still being investigated.

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) has been established (LGBl. 2019 Nr. 8) in implementation of Art. 30 and 31 of the 4th Money-Laundering Directive (RL 2015/849/EU).

The register which shall contain details of the beneficial owner(s) of domestic companies or other legal entities as well as trust companies within the meaning of Art. 31 of the 4th Money-Laundering Directive, is to be maintained by the Office of Justice. In addition, the law sets out the duties of domestic legal entities and those subject to due diligence requirements as well as provisions on data protection (data processing and disclosure of data). The entry into force will coincide with the incorporation of Directive (EU) 2015/849 into the EEA agreement.

Amendment of the Penal Code (PC) and Code of Criminal Procedure (CCP)

The amendment of the Penal Code and Code of Criminal Procedure was dealt with in first reading in the Liechtenstein Parliament ("Landtag") on 5 December 2018 (Reports and Motions 102/2018). This draft bill is designed to counter the shortcomings regarding effectiveness raised in the 2014 Moneyval country review. The draft encompasses in particular the broadening of the list of predicate offences to include all offences which are punishable by terms of imprisonment of at least 1 year, the increase of the range of penalties in the case of qualified offences and the extension of the list of money-laundering offences to include saved expenses. Furthermore, amendments in the code of criminal procedure are designed to enable a final hearing before the criminal court and sentencing even in the absence of the defendant.

Act on Due Diligence (DDA) and the Due Diligence Ordinance (DDO)

The 5th Money-Laundering Directive is to be implemented in 2020 on a European level. Thus provides, inter alia, for an extension of the list of persons or entities covered by the legislation as well as the scope of application of the Directive and defines enhanced duties of due diligence in relation to high-risk countries and lays down increased powers of central financial intelligence units. Centralised registers or electronic data retrieval systems are to be established which enable the timely determination of all individuals or legal entities which hold or control payment accounts or safety deposit boxes with credit institutions in an EU/EEA country. Liechtenstein, as a member of the European Economic Area (EEA), must ensure the implementation of all minimum requirements provided for in the Directive.

Market Abuse Regulation (MAR)

The Market Abuse Regulation (Regulation No. 596/2014; Market Abuse Regulation/"MAR") was published in the Official Journal of the European Union in 2014 and has been in force in EU countries since 2016. The underlying objective of this provision is the creation of a common legal framework regarding insider transactions, the disclosure of insider information and market manipulation as well as the taking of measures to prevent market abuse. In this manner, the integrity of the market and the protection of investors should be reinforced. In Liechtenstein, the MAR will become law following incorporation into the EEA Agreement most probably in 2019 together its implementation at a national level. The current Law on Market Abuse will be repealed. VP Bank has adapted its systems and processes in order to fulfil the requirements and will further optimise the measures taken.

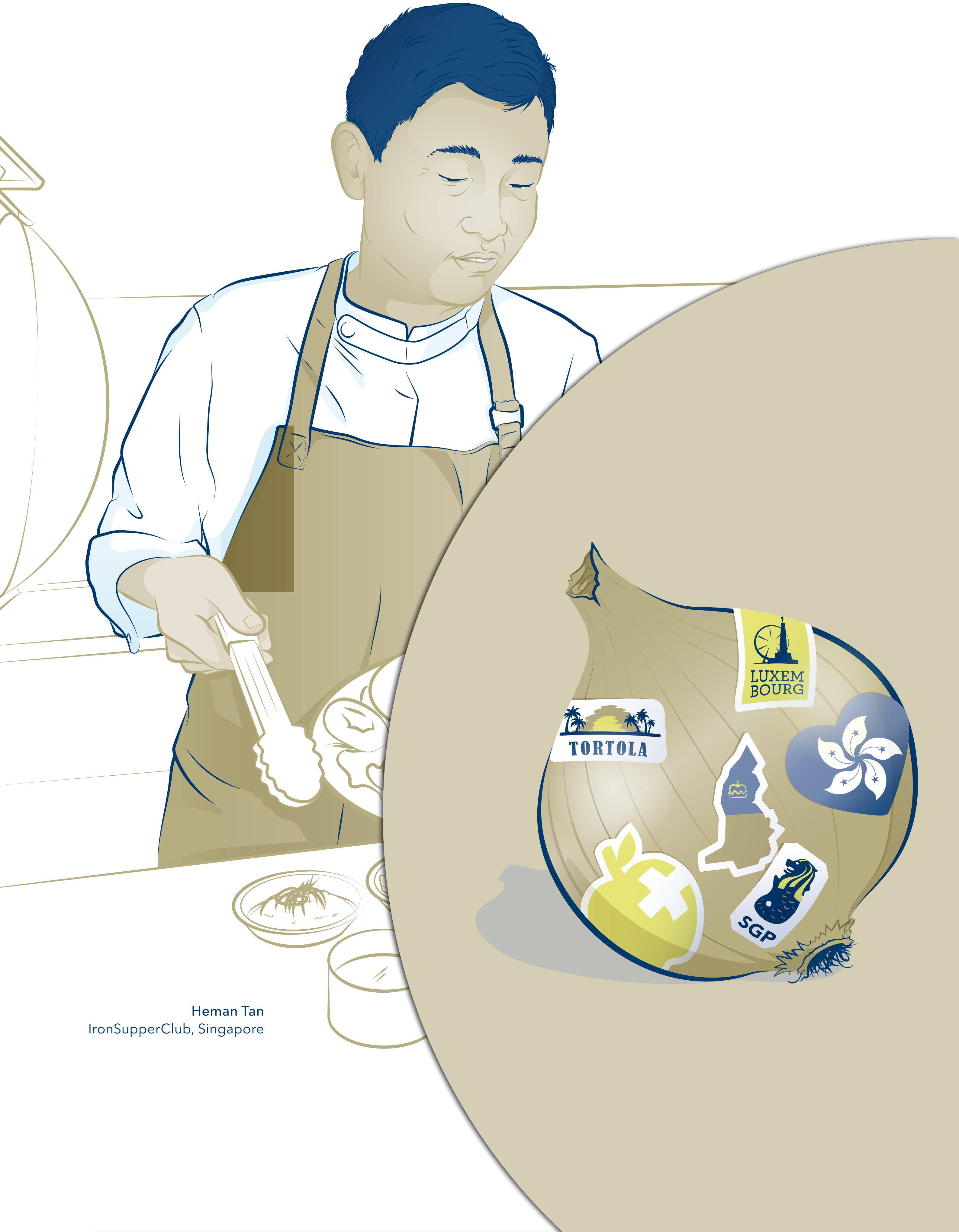
Automatic Exchange of Information

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 from 1 January 2019, the relevant data will be exchanged with 108 AEOI partner countries.

Important links to legislation and the Liechtenstein financial centre

Liechtenstein Investment Fund Association	www.lafv.li
Liechtenstein Bankers' Association	www.bankenverband.li
Deposit-Insurance 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 law	www.gesetze.li
Liechtenstein Chamber of Industry and Commerce	www.lihk.li
Liechtenstein Landesverwaltung	www.llv.li
Landtag of the Principality of Liechtenstein	www.landtag.li
Liechtenstein Chamber of Professional Trustees	www.thv.li
Association of Non-Profit Foundations in Liechtenstein	www.vlgs.li
Association of Independent Asset Managers in Liechtenstein	www.vuvl.li
Liechtenstein Insurance Association	www.lvv.li
Liechtenstein Economics Chamber	www.wirtschaftskammer.li
Liechtenstein Association of Auditors	www.wpv.li



Heman Tan
IronSupperClub, Singapore

4

Corporate governance and compensation report

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 aim 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-making 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.

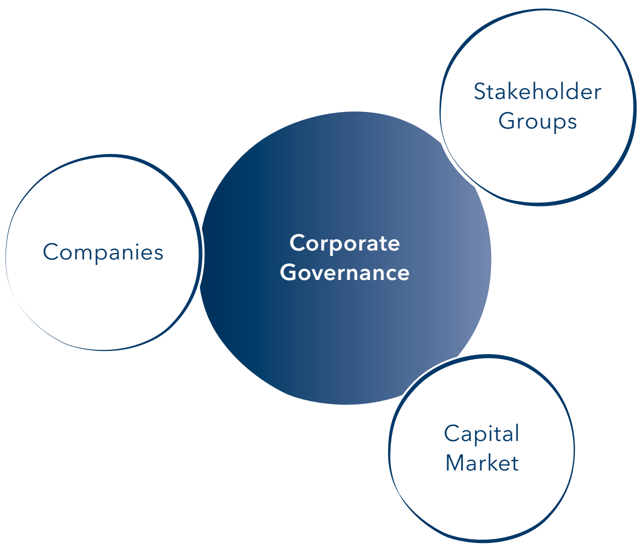
This report describes the basic principles underlying the corporate management of VP Bank Ltd[1], Vaduz as required by the revised "Directive on Information Relating to Corporate Governance" (DCG) of the Swiss Stock Exchange, SIX Swiss Exchange dated 20 March 2018 as well as the laws of Liechtenstein.

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 2018.

[1] Hereinafter referred to as VP Bank.

Equilibrium achieved through Corporate Governance



1. Group structure and shareholders

1.1 Group structure

1.1.1 Description 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 on page 15 shows the Group's operating structure and from page 89 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[2]. The members of the Executive Board are represented on the boards of directors 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	141.40	850.5[1]
Registered shares B (not listed)	LI0010737596	14.20	85.3
Total (market capitalisation of registered shares A plus market value of registered shares B)			**935.8**

[1] Stock-market capitalisation of listed registered shares A as of 31.12.2018

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 165).

1.2 Significant shareholders (anchor shareholders)

As at 31 December 2018, 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	547,170	658,370	1,205,540	10.0%	9.3%
Marxer Stiftung für Bank- und Unternehmenswerte, Vaduz	756,764	0	756,764	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.

1.3 Cross-shareholdings

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

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

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 31.12.2018 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	31.12.2016	31.12.2017	31.12.2018
Share capital	66,154	66,154	66,154
Capital reserves	47,143	47,143	47,094
Legal reserves	239,800	239,800	239,800
Other reserves	346,646	349,225	352,286
Provisions for general banking risks	63,150	63,150	63,150
Retained earnings	118,847	136,282	134,015
Total	**881,740**	**901,754**	**902,454**

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 Incorporation[3]. 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] The Articles of Incorporation in the Internet: www.vpbank.com/regulations

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 ten 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	2019	Nomination & Compensation Committee
Dr Christian Camenzind	1960	Member	2016	2019	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	2019	Audit Committee, Risk Committee[1]
Dr Florian Marxer	1976	Member	2015	2021	Strategy & Digitalisation Committee
Dr Thomas R. Meier	1962	Member	2018	2021	Strategy & Digitalisation Committee
Dr Gabriela Maria Payer	1962	Member	2016	2019	Nomination & Compensation Committee, Strategy & Digitalisation Committee
Michael Riesen	1962	Member	2014	2020	Audit Committee[1], Risk Committee

[1] Chairperson

Fredy Vogt

Born 11 September 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

Swiss Certified Public Accountant (1988); Swiss Certified Expert in Accounting and Controlling (1984).

Professional background

1987–2012 VP Bank Ltd, Vaduz: 1996–2012 member of the Executive Board (responsible for finance, corporate clients and intermediaries, trading, real estate and security) as well as 2003–2012 CFO. In addition, he held the office of CEO ad interim from 25 August 2009 to 31 March 2010. 1994–1996 Department Head of Corporate Planning and Accounting; 1990–1994 Organisation and Head of the Controlling Department; 1987–1990 Deputy Head of Internal Audit; 1985–1987 Lead Auditor Areva Allgemeine Revision und Beratungs AG, Vaduz; 1984–1985 Managing Director Revikon Revision und Beratungs AG, Vaduz; 1983–1984 Auditor Neutra Treuhand AG, St. Gallen; 1980–1983 assistant (later Department Head) in Trustee Operations Confida Treuhand- und Revisions AG, Vaduz; 1979–1980 assistant in bookkeeping department Trevisor Treuhand- und Kontrollstellen AG, Vaduz; 1979 assistant in credit department Liechtensteinische Landesbank, Vaduz.

Other activities and vested interests

Chairman of the Board of Directors of VPB Finanz Holding AG, Zurich; Chairman of the Board of Trustees of Privatbank-Personalstiftung, Vaduz; member of the Foundation Council of the VP Bank Foundation and of the VP Bank Art Foundation; member of the Foundation Council of 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 (LIHK).

Markus Thomas Hilti

Born 3 January 1951, citizen of Liechtenstein

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

Education

Lic. oec. HSG University of St. Gallen (1976).

Professional background

Since 2010 Protector of the Martin Hilti-Familientreuhänderschaft, Schaan; 1990–2010 Administrative Trustee of the Martin Hilti-Treuhänderschaft, Schaan; 1981–1990 Hilti Western Hemisphere, Tulsa, USA; 1987–1990 Member of Management and responsible for product management, procurement, development and quality control as well as the management of the Tulsa factory, USA; 1981–1987 various activities in the field of finances, product management and sales; 1977–1980 Auditor Coopers & Lybrand, White Plains, N.Y., USA.

Other activities and vested interests

Member of the Council of Trustees of U.M.M. Hilti-Stiftung, Schaan (point 1.2).

Dr Christian Camenzind

Born 10 May 1960, Swiss citizen

Dr Christian Camenzind is member of the Strategy & Digitalisation Committee.

Education
Advanced Management Program, Wharton School, University of Pennsylvania, Philadelphia, USA (1999); Dr. iur. University of Zurich (1989); lic. iur. University of Zurich (1986).

Professional background
Since 2013 independent management consultant, Zurich; 2011–2013 Chief Operating Officer, Wealth Management Asia/Pacific Deutsche Bank, Singapore; 2000–2011 Chairman of the Management, Bank Sal. Oppenheim jr. & Cie (Switzerland) AG, Zurich; 1998–1999 member of Management and Head Private Banking International, Bank Leu AG, Zurich; 1997 Head of Market and Product Management, CS Private Banking Credit Suisse, Zurich; 1994–1996 Head of Private Banking and member of the Directorate, Credit Suisse, Luxembourg; 1993–1994 Head of Financial Products Private Banking Credit Suisse, London, UK; 1989–1994 Analyst Capital Markets, Advisor Investment Advice International/CS Life Credit Suisse, Zurich; 1987–1989 Assistant to Prof. Ernst Kilgus, Institute for Swiss Banking, University of Zurich.

Other activities and vested interests
Chairman of the Board of Directors of B&I Capital AG, Zurich and Singapore; member of the Board of Directors, Swiss Cyber Gate AG, Zurich; member of the Advisory Council, Swiss Business Development Services GmbH, Zurich.

Prof. Dr Teodoro D. Cocca

Born 25 July 1972, Swiss citizen

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

Education
Dr. oec. University of Zurich (2001); lic. oec. University of Zurich (1998).

Professional background
Since 2010, Adjunct Professor at the Swiss Finance Institute in Zurich; since 2006 Johannes Kepler University Linz, Austria: since 2007 member of the Research Institute for Banking and Finance, since 2006 Professor for Asset Management; 2011–2013 Dean of the Social and Economic Sciences Faculty; 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 research activity with Prof. Ingo Walter at the Stern School of Business, New York, USA; 2001–2005 Project Associate at NCCR FINRISK (National Center of Competence in Research in Finance, Project: Financial Valuation and Risk Management); 1998–2006 Scientific Assistant and from 2001 onwards, Senior Assistant and Senior Researcher at the Swiss Banking Institute of Zurich University; 1995–1998 activities in Private Banking/Financial Control with Citibank Switzerland, Zurich; 1995–1996 President of the Organizing Committee of AIESEC Zurich.

Other activities and vested interests
Member of the investment committee of various Austrian investment funds; owner of Cocca Asset Management KG, Weisskirchen an der Traun/Austria; member of the Supervisory Council in Zertifikate Forum Austria (ZFA), Vienna.

Dr Beat Graf

Born 25 April 1964, Swiss citizen

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

Education
Master of Advanced Studies in Risk Management at Lucerne University (2007); Dr iur. University of Fribourg (1996); lic. iur. University of Fribourg (1990).

Professional background
Since 2004 Allgemeines Treuunternehmen (ATU), Vaduz: since 2015 Chairman of the Council of Trustees and member or Chairman of the Board of Directors in various ATU Group companies; 2012–2015 member of Management and responsible for compliance, personnel and marketing, 2007–2012 member responsible for the coordination of all ATU Group subsidiaries, member of Management and Head of Compliance; 2004–2007 Head of Compliance; 1999–2004 Founding Partner and Managing Director LM Legal Management AG, St. Gallen; 1991–1999 Swiss Bank Corporation/UBS, St. Gallen: 1998–1999 Deputy Head of Legal Services Eastern Switzerland; 1993–1998 assistant in Legal Services department; 1991–1993 trainee Corporate Client Advisor.

Other activities and vested interests
Member of Council of Trustees of Stiftung Fürstl. Kommerzienrat Guido Feger, Vaduz (see section 1.2); member of the Foundation Council of Privatbank Personalstiftung, Vaduz.

Ursula Lang

Born 15 February 1967, Swiss citizen

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

Education
Swiss licensed attorney (1996); lic. iur. University of Zurich (1993).

Professional background
Since 2015 independent lawyer (specialised in criminal law, commercial criminal law, compliance) Sintzel Krapf Lang Attorneys-at-Law, Zurich; 1998–2013 Credit Suisse, Zurich: 2011–2013 General Counsel for Switzerland and the business area Private Banking & Wealth Management, 2008–2011 Head of Compliance Switzerland, from 2009 additionally Co-Head of Global Compliance, 2006–2008 Global Head of Anti-Money Laundering Compliance, 2000–2006 employee Compliance Credit Suisse Private Banking and Credit Suisse Financial Services, 1998–2000 employee Legal Department; 1996–1998 Lawyer Stiffler & Nater Attorneys-at-Law, Zurich; 1994–1996 Auditor and Legal Secretary District Court of Horgen.

Other activities and vested interests
Member of the Board of Directors and Chairwoman of the Audit Committee of responsAbility Investments AG, Zurich.

Dr Florian Marxer

Born 17 August 1976, citizen of Liechtenstein

Dr Florian Marxer is a member of the Strategy & Digitalisation Committee.

Education

Admitted to the bar in Liechtenstein (2008); Dr iur. University of Zurich (2007); admitted to the bar, New York, USA; (2005); Master of Laws (LL.M.), Yale Law School, New Haven, USA (2005); Mag. iur. University of Innsbruck (2002).

Professional background

Since 2010 partner with Marxer & Partner Attorneys-at-Law, Vaduz; 2010–2015 member and during 2011–2014 Chairman of the Board of Directors Centrum Bank Ltd, Vaduz; 2009 trainee with Bank Julius Bär & Co. AG, Zurich and Singapore; 2005–2009 legal assistant with Marxer & Partner Attorneys-at-Law, Vaduz; 2003 legal trainee with the Princely Court of Justice ("Landgericht") and Public Prosecutor's Office Liechtenstein, Vaduz; 2000–2001 project assistant at the Institute for Civil Law at the University of Innsbruck, Austria; 1997–1998 Stagiaire with the Permanent Representation of Liechtenstein with the Council of Europe, Strasbourg, France.

Other activities and vested interests

Chairman of the Board of Directors of Belvédère Asset Management AG, Glarus; Chairman of the Board of Directors of Centrum Beratungs- und Beteiligungen AG, Zurich; member of the Board of Directors of Confida Holding AG, Vaduz; member of the Board of Directors, Domar Treuhand- und Verwaltungs-Anstalt, Vaduz; President of the Foundation Council of Marxer Stiftung für Bank- und Unternehmenswerte, Vaduz (see point 1.2); member of the Board of Directors of Liechtensteiner Volksblatt AG, Schaan; council and board member of various non-profit and private-benefit establishments.

Dr Thomas R. Meier

Born 22 November 1962, Swiss citizen

Dr Thomas R. Meier is a member of the Strategy & Digitalisation Committee.

Education

Programme for Board Members, Swiss Board School, IMP-HSG (2017); Advanced Management Program, Wharton School, University of Pennsylvania (2003); Dr. iur. University of Zurich (1994); lic. iur. University of Zurich (2002).

Professional background

Since 2017 Independent Advisor with TRM Consulting AG, Herrliberg; 2005–2017 Bank Julius Bär Co. Ltd., Zurich: 2015–2017 Head CSR, Chairman Julius Bär Foundation, 2007–2015 Member of the Executive Board, CEO Asia, 2015–2007 Member of the Private Management Board, CEO for Asia, Middle East, Eastern Mediterranean & Eastern Europe; 2004–2005 member of the Management and Head of Private Wealth Management with Deutsche Bank Luxembourg S.A.; 1988–2004 Credit Suisse Group: 2000–2004 CEO North Asia and Branch Manager of Credit Suisse Hongkong, 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 areas of risk management and product development, Zurich.

Other activities and vested interests

Member of the Board of Directors, of the Audit and of the Risk Committees of Leonteq AG, Zurich; Board member of the non-profit association "Smiling Gecko" (NGO).

Dr Gabriela Maria Payer

Born 14 July 1962, Swiss citizen

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

Education
Advanced HR Executive Program at the Michigan Business School, Michigan, USA (2004); Mastering Change in Financial Services at the International Institute for Management Development (IMD), Lausanne (1995); Dr. phil. University of Zurich (1990); study of languages and business management at the universities of Zurich and the Sorbonne, Paris/France (1987).

Professional background
Since 2012 Creative Business Development and Management Consulting PAYERPARTNER, St. Moritz; 2012–2017 Head of Training and Member of the Management Swiss Finance Institute, Zurich; 1993–2012 UBS AG, Zurich: 2009–2012 Founder and Head of the UBS Business University for the entire divisions of the bank, 2005–2009 Head of Personnel worldwide, Asset Management and Corporate Banking Businesses, 1998–2004 Founder and Head UBS e-banking and Marketing Technology, 1993–1998 Head of Marketing and Distribution Channels Region Switzerland; 1990–1993 marketing and project manager with American Express, Zurich, London and Frankfurt; 1988–1989 Head of Communication Scheller Informatik Gruppe, Brugg; 1984–1987 student traineeship IBM Switzerland, Zurich.

Other activities and vested interests
Member of the Board of Directors and chairwoman of the Nomination and Compensation Committee as well as member of the Investment and Risk Committee of Helvetia Group AG, St. Gallen; vice-chairwoman of the Board of Directors of the SGO Stiftung Gesundheitsversorgung Oberengadin, Samedan; vice-chairwoman of the Board of Directors, chairwoman of the Nomination and Remuneration Committee as well as member of the Audit and Risk Committee of Sygnum AG, Zurich and Singapore; Committee member of the Advisory Council "CAS in General Management for Boards of Directors", University of Berne; member of the Supervisory Council for Swiss Leadership Forum; member of the Supervisory Council Center of Human Resource Management, University of Luzern.

Michael Riesen

Born 24 June 1962, Swiss citizen

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

Education
Swiss Certified Public Accountant (1992), Certified Trustee with Federal Diploma (1988), degree in Business Administration HKG (1985).

Professional background
Since 2014 independent management consultant; 1987–2013 various audit and advisory activities (as from 1998 as partner) with Ernst & Young AG, Zurich: 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 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 of Ernst & Young AG; 2004 Head of one unit of Assurance Financial Services; 2000–2003 Head Professional Practice Banking Audit of Ernst & Young AG; 1985–1987 Internal Auditor with Swiss Federal Railways, department of Organisation & Audit, Berne; 1981–1984 assistant in municipal office of the commune of Steffisburg; 1980–1981 Member of the Project Team on Conversion to Natural Gas Energy and Transport Operations Thun.

Other activities and vested interests
Member of the Board of Directors of VPB Finanz Holding AG, Zurich.

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)[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 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: the Nomination & Compensation Committee, the Audit Committee, the Risk Committee and the 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 chairmen 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 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 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 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);
- 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 (effectiveness) of risk governance as well as the cooperation between Risk Management, Risk Monitoring, Group Executive Management, Risk Committee and the Board of Directors;
- evaluating whether the incentives offered as part of the system of remuneration take into account 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 Christian Camenzind, Dr Florian Marxer, Dr Thomas R. Meier and 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. digitalisation 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-making 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-making 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 2018, the Board of Directors held eight ordinary meetings and four extraordinary meetings. In addition, the Board of Directors and Executive Board jointly conducted a full-day strategy workshop.

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 2018, the Nomination & Compensation Committee met on a total of eleven 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 nine 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 and two extraordinary 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 2018, 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	14	11	10	9	6
Fredy Vogt	14	11	10	9	6
Lic. oec. Markus Thomas Hilti	13	11			
Dr Christian Camenzind	14				6
Prof. Dr.Teodoro D. Cocca	13				6
Dr Beat Graf	13		10	9	
Lic. iur. Ursula Lang	13		10	9	
Dr Florian Marxer	14				6
Dr Thomas R. Meier[1]	10				3
Dr Gabriela Maria Payer	13	11			6
Michael Riesen	14		10	9	

[1] Board member since 27 April 2018

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 ("Structure of VP Bank Group", page 15).

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 quantitative and 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.

Twice a year, the Board of Directors reviews 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 Group 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 Group 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 2018, 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
Alfred W. Moeckli	1960	Chief Executive Officer (CEO)	2013	2013
Siegbert Näscher	1965	Chief Financial Officer (CFO), Deputy 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 Operation Officer (COO)	2018	2018
Monika Vicandi	1967	General Counsel & Chief Risk Officer	2011	2017

Alfred W. Moeckli

Born 2 July 1960, Swiss citizen

Alfred W. Moeckli is Chief Executive Officer (CEO) of VP Bank Group (segment reporting, page 89 ff.).

Education

Master of Business Administration, Kellogg School of Management, Northwestern University, Evanston, Illinois, USA (1993); Bank employee with Federal Certificate of Competence (1980).

Professional background

Since 2013 Chief Executive Officer VP Bank Ltd, Vaduz; 2008–2013 bank zweiplus ag, Zurich: 2010–2013 Chief Executive Officer; 2008–2010 member of the Board of Directors; 2008–2010 Deputy Chief Executive Officer and Chief Operating Officer Falcon Private Bank Ltd, Zurich; 2004–2010 Founder, Chief Executive Officer and Chairman of the Board of Directors Tradejet Ltd, Zurich; 2003–2008 Founder and Chief Executive Officer INIVEST AG, Zug; 1999–2002 Chief Executive Officer Swissquote Bank, Gland and Schwerzenbach; 1993–1999 Head of Capital Markets Citibank (Switzerland), Zurich and Geneva; 1987–1990 Head of Trading Banque Paribas (Suisse) S.A., Geneva; 1984–1987 Head of Trading Banque Gutzwiller, Kurz, Bungener S.A., Geneva; 1982–1984 Senior Sales Yamaichi (Switzerland) Ltd., Zurich and Geneva; 1981–1982 Stock-exchange trader/broker Carr, Sebag & Co. Geneva and London, UK; 1980–1981 Assistant in Private Banking department Credit Suisse, Zurich.

Other activities and vested interests

Member of the Board of the Liechtenstein Bankers' Association, Vaduz; member of the Board of the Financial Services Chapter of the "Swiss-American Chamber of Commerce, Financial Services Chapter", Zurich.

Siegbert Näscher

Born 25 December 1965, citizen of Liechtenstein

Siegbert Näscher is Chief Financial Officer (CFO) of VP Bank Group and Deputy Chief Executive Officer (segment reporting, page 89 ff.).

Education

Executive Programme of the Swiss Banking School (2003); Swiss Certified Public Accountant (1996); Federal Certified Expert in Financial-Statement Reporting and Controlling (1993).

Professional background

Since 2010 with VP Bank Ltd, Vaduz: since 2013 Chief Financial Officer and Deputy to the Chief Executive Officer as well as in 2016, in addition, Chief Risk Officer (CRO); 2012–2013 Chief Financial Officer and Head of the Corporate Center, Chief Executive Officer (CEO) ad interim; 2010–2012 Head of Group Finance & Risk; 2012 Chief Financial Officer and Head of Corporate Center; 1998–2010 Head of Group Finance & Risk Liechtensteinische Landesbank AG, Vaduz; 1994–1998 Head of Finance and Controlling at Schoeller Textil AG, Sevelen; 1992–1994 Controller at Maschinenfabrik Rieter AG, Winterthur; 1991–1992 Asst. Head of Finance and Accounting at Schild Mode AG, Lucerne; 1987–1991 bookkeeping and audit Revitrust Treuhand AG, Schaan; 1982–1987 bookkeeping Bank in Liechtenstein AG, Vaduz.

Other activities and vested interests

Chairman of the Board of Trustees of the Treuhand-Personalstiftung, Vaduz; member of the Board of Trustees of the Privatbank-Personalstiftung, Vaduz; Chairman of the Board of Directors of Data Info Services AG, Vaduz; Chairman of the Foundation Council of Deposit Guarantee and Investor Protection Foundation PCC; member of Specialist Group on Finances and Taxation of the Liechtenstein Chamber of Industry and Commerce, Vaduz.

Dr Felix Brill

Born 30 October 1979,
dual citizen of Germany and Switzerland

Dr Felix Brill is Chief Investment Officer (CIO) of VP Bank Group (segment reporting, page 89 ff.).

Education
Doctorate in Macroeconomics, University of Berne, and Study Center Gerzensee (2011); M.A. HSG in Economics, University of St. Gallen as well as Stockholm School of Economics (2006); Intermediate Diploma in Physics, University of Heidelberg (2001).

Professional background
Since 2018 member of Group Executive Management and Chief Investment Officer of VP Bank Ltd, Vaduz; 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 Economic Research Switzerland, 2006–2007 Graduate Trainee Program (Zurich, New York).

Other activities and vested interests
Member of the Foundation Council of Treuhand-Personalstiftung, Vaduz.

Christoph Mauchle

Born 5 May 1961, Swiss citizen

Christoph Mauchle is Head of Client Business of VP Bank Group (segment reporting, page 89 ff.).

Education
Advanced Management Program, Kellogg School of Management, Northwestern University, Evanston, Illinois, USA (2007); Certified Financial Planner CFP (1999); INSEAD Management Program Business Administration/Mgt., INSEAD, Fontainebleau, France (1998); MA Economics HWV, St. Gallen (1986).

Professional background
Since 2013 member of the Group Executive Management and Head of Client Business of VP Bank Ltd, Vaduz; 1992–2013 Credit Suisse, Switzerland: 2008–2012 Head Private Banking Germany, Austria and Luxembourg; 2001–2008 Head Private Banking and Zurich Region; 1998–2001 Head External Asset Managers; 1997–1998 Head Competence Centre Eastern Switzerland; 1995–1997 Sector Head Private Banking St. Gallen; 1992–1995 Sector Head Individual Clients Zurich; 1989–1992 Chief of Staff Private Banking Bank Vontobel, Zurich; 1986–1989 Research Analyst & Account Manager, Institutional Sales Brown Brothers Harriman & Co., New York; 1980–1983 Assistant Private Banking, Swiss Bank Corporation/UBS, St. Gallen.

Other activities and vested interests
None.

Dr Urs Monstein

Born 19 May 1962, Swiss citizen

Dr Urs Monstein is Chief Operating Officer of VP Bank Group (segment reporting, page 89 ff.).

Education

Swiss Banking School, Zurich (1996); Dr. iur. Hochschule St. Gallen (1994); lic. oec. Hochschule St. Gallen (1991); lic. iur. Hochschule St. Gallen (1988).

Professional background

Since 2018 member of Group Executive Management and Chief Operating Officer of VP Bank Ltd, Vaduz; 2006–2017 Bank Julius Bär & 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; member of Management and Chief Operating Officer with Bank Ehinger & Armand von Ernst, Zurich; 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 Swiss Bank Corporation, Zurich: 1996–1997 Chief of Staff Investment Clients and Securities' Management, 1995–1996 training programme – corporate clients, Geneva, 1993–1995 assistant to Chairman of Management Region Switzerland, 1992–1993 Controlling Region Switzerland; 1987–1997 scientific assistant (taxation law, public law) at the Hochschule St. Gallen.

Other activities and vested interests

None.

Monika Vicandi

Born 10 May 1967, Swiss citizen

Monika Vicandi is General Counsel and Chief Risk Officer (CRO) of VP Bank Group (segment reporting, page 89 ff.)

Education

Certificate of Advanced Studies FHNW Risk Management, FHNW School of Economics (2017); LL.M. in International Taxation, University of Liechtenstein (2014); Management for the Legal Profession MLP-HSG, University of St. Gallen, Advanced Training Programme HSG (2009); Master of Laws, LL.M. University of Minnesota, Minneapolis, USA (1999); Swiss licensed attorney (1996); lic. iur. University of Zurich (1992).

Professional background

Since 2011 with VP Bank Ltd, Vaduz: since 2017 Member of Group Executive Management, General Counsel as well as Chief Risk Officer, 2015–2016 Group General Counsel; 2015 by order of VP Bank Ltd: Chief Executive Officer Centrum Bank Ltd, Vaduz, 2011–2015 Head Group Legal, Compliance & Tax; 2002-2011 Head Legal & Compliance Union Bancaire Privée, Zurich; 2000–2002 Head of the Legal, Trust and Compliance Department Discount Bank and Trust Company, Zurich; 1999–2000 Legal Counsel in the area of Legal & Claims Management Winterthur International, Winterthur; 1998 Lecturer for Law, KS Management School Zurich; 1996–1998 Legal Counsel Claims Management Winterthur Insurance (International Division), Winterthur; 1994–1998 Lecturer for Law at Betriebs- und Verwaltungsschule Winterthur; 1993–1994 Court Secretary/Auditor Hinwil District Court.

Other activities and vested interests

Member of Specialist Group - Legal & Compliance in the Liechtenstein Chamber of Industry and Commerce, 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, shareholdings 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 from page 81 onwards.

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 13 December 2016, 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 179 f.).

6. Shareholders' participation rights

6.1 Voting right restrictions and proxies

Each registered share and bearer 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 share are quoted on the SIX Swiss Exchange, it also must observe several Swiss regulations, in addition to the Liechtenstein prescriptions. The former includes, 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 PCA) and since 1994 as Group auditor of VP Bank Group. In addition, Ernst & Young Ltd undertakes the mandate as Banking-Law auditor pursuant to the Liechtenstein Banking Act (BankA Art. 37 ff.). Bruno Patusi, the responsible mandate manager, has been responsible for VP Bank Group since 2014 (Annual General Meeting on 25 April 2014). Philipp de Boer has been the Auditor in charge since 2018.

8.2 Audit fee

in CHF 1,000	2018	2017
Audit fee[1]	1,255	1,474

[1] Fees for auditing services in connection with the Group and stand-alone financial statements as well as regulatory provisions

8.3 Additional fees

in CHF 1,000	2018	2017
Audit-related fees[1]	78	225
Additional fees[2]	1	20

[1] Fees for audit services regarding compliance with financial-statement reporting and regulatory provisions as well as other audit and review services
[2] Fees in connection with tax compliance and advisory services

In assigning additional tasks to the Auditors, the Bank ensures that these services are commensurate with their activities as external auditors and lead to no 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 2018, 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: 26 April 2019
Semi-Annual Report 2019: 20 August 2019

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

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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 (Liechtenstein Banking Act; BankA), 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

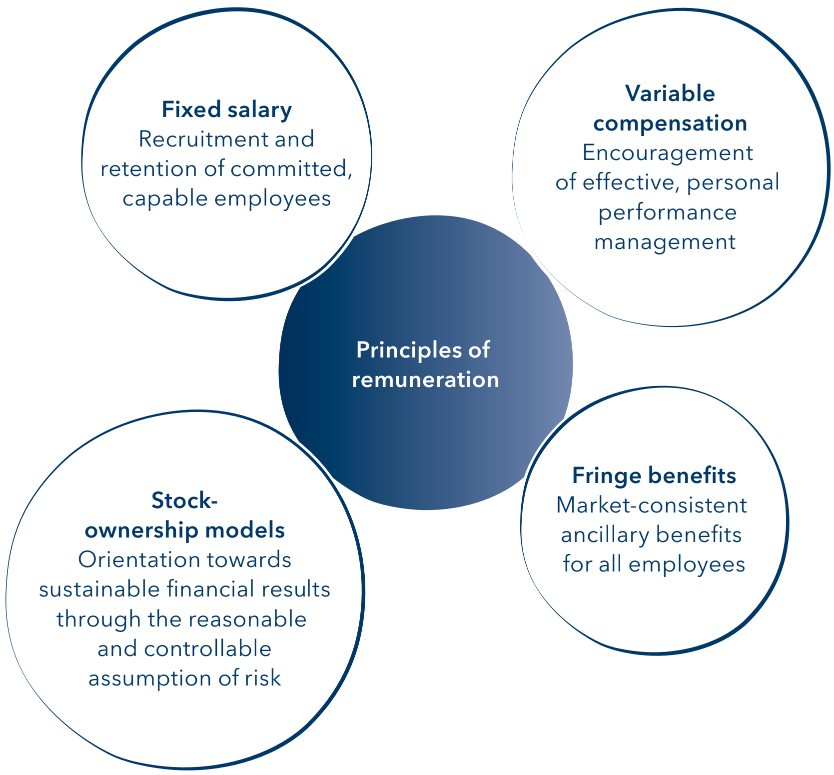
Compensation plays a central role in the recruitment and retention of employees. VP Bank subscribes to fair, performance-oriented and balanced practices in terms of compensation, one which is in keeping with the long-term interests of shareholders, employees and clients alike.

The long-standing remuneration practices of VP Bank correspond to the business model of VP Bank as 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 (risk takers), 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, performance- and earnings-related salary

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 (cf. table p. 83), 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.

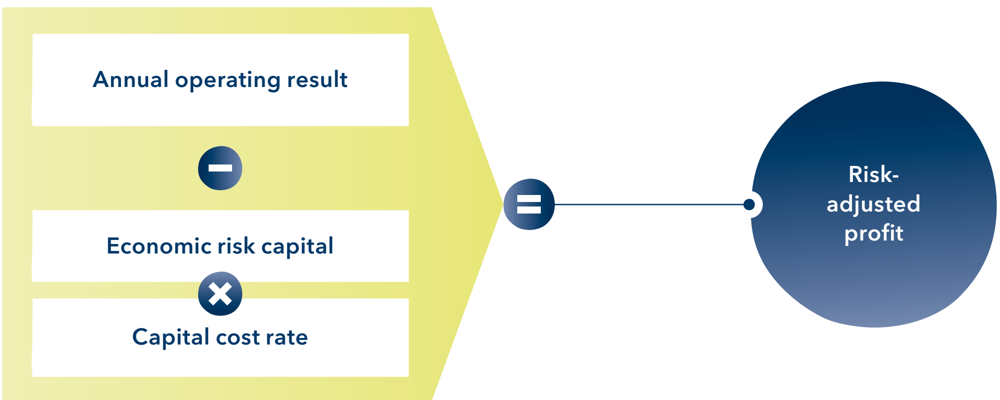
Allocation of variable remuneration

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 with legal and 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.
- 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 the 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.

Components of variable remuneration



- 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 in VP Bank Ltd by members of the first- and second-levels of management and laid down two new programmes from 2014 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 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 also 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.

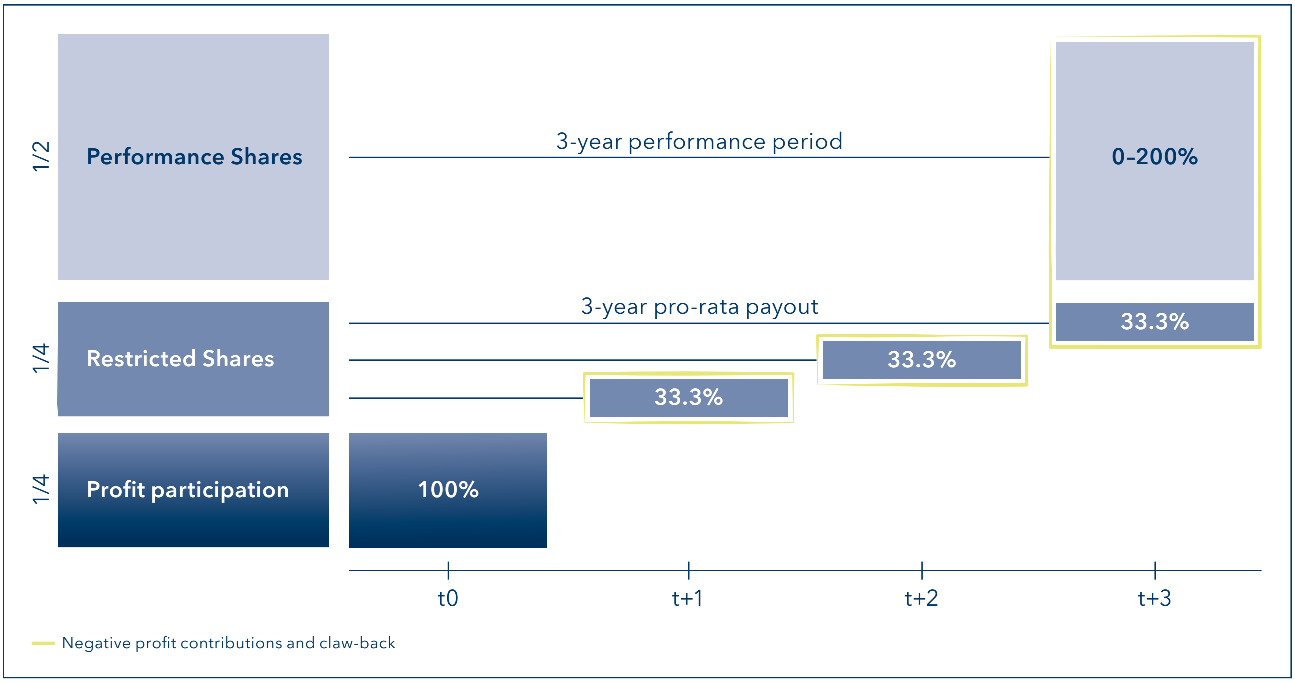
The table below gives an overview over the various instruments of variable remuneration for the members of the first and second management levels using a time axis (t).

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 72) 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.

Instruments of variable remuneration



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 and Dr. Gabriela Payer. 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 2018, the Nomination & Compensation Committee convened on eleven occasions.

Executive Board

In accordance with the model approved by the Board of Directors on 10 May 2017, the compensation payable to the Executive Board consists of the following four 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, 0–200 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 half of the total variable performance-related remuneration.
3. A Restricted Share Plan (RSP), which is based upon a risk-adjusted profit weighted over three years and is settled in equal annual instalments in the form of equity shares over a three-year plan 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 RSP amounts to approximately one quarter of the total variable remuneration.
4. 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 one quarter of the total variable performance-related remuneration.

The Board of Directors lays down each year the planning parameters of the profit-related remuneration (PSP, RSP 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 2018, 21,338 shares with a market value as of the date of allocation aggregating CHF 3,068,404.40 were transferred to the Executive Board as part of the 2015–2017 management equity-share participation plan, the RSP 2015–2017, the RSP 2016–2018 as well as the RSP 2017–2019. The vested benefits from previous management equity-share participation plans (2016–2018, 2017–2019 as well as 2018–2020) 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", "Group Strategy" 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 the annual results. It lays down the fixed and variable portion of remuneration for the members of Group Executive Management and the Executive Board. 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 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 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 192).

Disclosures regarding personnel expense are set out in the 2018 Financial Report of VP Bank Group under "6 Personnel Expenses" (page 143).

The aggregate remuneration paid to all risk takers in 2018 amounted to:

	CHF	Share of total remuneration
Fixed basic salary	8,926,443	48%
Short-Term Incentive (STI, cash) for performance year 2017	1,770,516	10%
Restricted Share Plan (RSP) Entitlement for performance year 2017	3,114,320	17%
Performance Share Plan (PSP) entitlement relating to performance 2018–2020	3,388,425	18%
Pension fund senior employees Employer contributions	1,249,168	7%
Total remuneration	**18,448,872**	**100%**

Vesting 2018, equity-share value PSP 2015–2017 / RSP 2015–2017 RSP 2016–2018 / RSP 2017–2019	4,920,548	

5

Segments

Segment reporting

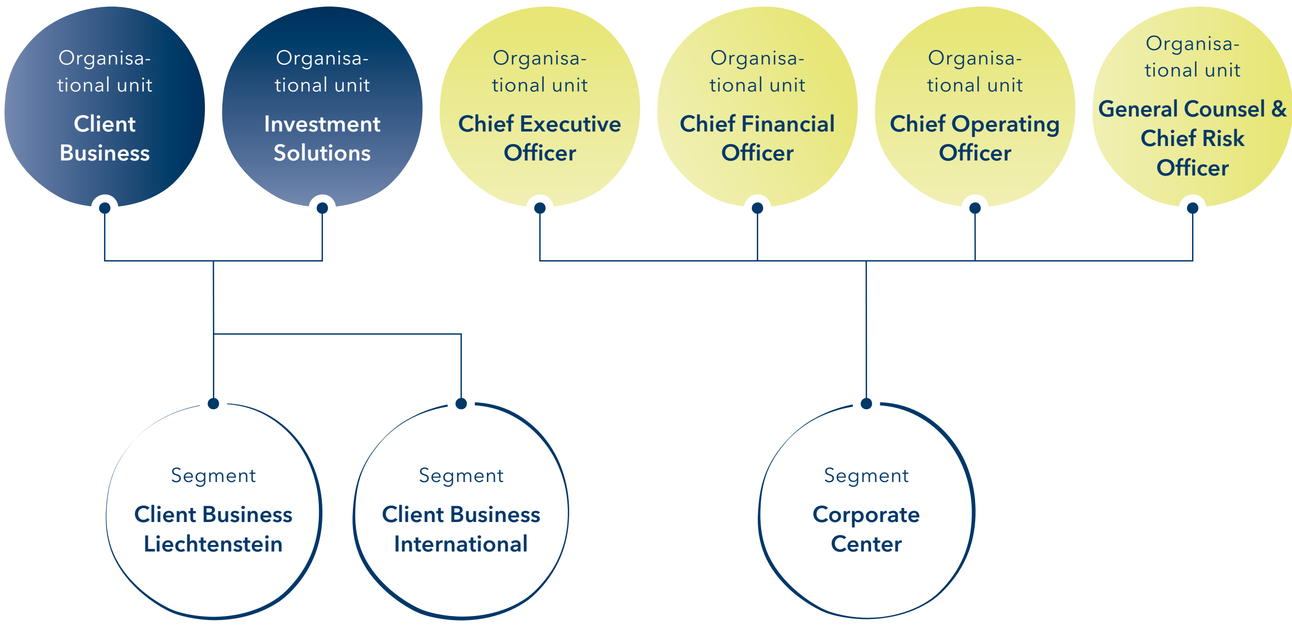
Structure

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 "Chief Executive Officer", "Client Business", "Investment Solutions", "General Counsel & Chief Risk Officer", "Chief Financial Officer" and "Chief Operating Officer".

For segment-reporting purposes, the organisational unit "Client Business" is divided into two business segments "Client Business Liechtenstein" and "Client Business International". 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 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
Valuation allowances, provisions and losses	–2,858	–11,062	557	–13,363
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).

Business segment reporting 2017

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income	74,227	29,978	230	104,435
Total net income from commission business and services	90,612	37,131	–3,867	123,876
Income from trading activities	20,059	8,361	21,824	50,244
Income from financial instruments	8	78	19,132	19,218
Other income	0	2,527	–198	2,329
Total operating income	**184,906**	**78,075**	**37,121**	**300,102**
Personnel expenses	35,216	41,361	58,213	134,790
General and administrative expenses	3,744	22,329	31,725	57,798
Depreciation of property, equipment and intangible assets	3,430	3,163	16,971	23,564
Valuation allowances, provisions and losses[1]	–1,000	4,074	10,534	13,608
Services to/from other segments	39,689	0	–39,689	0
Operating expenses	**81,079**	**70,927**	**77,754**	**229,760**
Earnings before income tax	**103,827**	**7,148**	**–40,633**	**70,342**
Taxes on income				4,572
Group net income				**65,770**
Segment assets (in CHF million)	4,151	4,111	4,516	12,778
Segment liabilities (in CHF million)	7,301	3,434	1,048	11,784
Client assets under management (in CHF billion)[2]	26.7	13.7	0.0	40.4
Net new money (in CHF billion)	0.4	1.5	0.0	1.9
Headcount (number of employees)	195	279	387	861
Headcount (expressed as full-time equivalents)	183.4	262.2	353.9	799.5

[1] The provision for a single payment of CHF 10.9 million which is to be made to the German authorities as part of an agreement is shown in corporate center.
[2] Calculation in accordance with Table P of the Guidelines to the Liechtenstein Banking Ordinance issued by the Government of Liechtenstein (FL-BankO).

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

Client Business Liechtenstein

Segment results

in CHF 1,000	2018	2017	Variance absolute	Variance in %
Total net interest income	78,876	74,227	4,649	6.3
Total net income from commission business and services	91,261	90,612	649	0.7
Income from trading activities	18,734	20,059	–1,325	–6.6
Income from financial instruments	0	8	–8	–100.0
Other income	100	0	100	0.0
Total operating income	**188,971**	**184,906**	**4,065**	**2.2**
Personnel expenses	34,383	35,216	–833	–2.4
General and administrative expenses	4,538	3,744	794	21.2
Depreciation of property, equipment and intangible assets	4,838	3,430	1,408	41.0
Valuation allowances, provisions and losses	–2,858	–1,000	–1,858	–185.8
Services to/from other segments	41,888	39,689	2,199	5.5
Operating expenses	**82,789**	**81,079**	**1,710**	**2.1**
Segment income before income tax	**106,182**	**103,827**	**2,355**	**2.3**
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	42.8	42.5		
Operating expenses excluding valuation allowances, provisions and losses / total operating income (in %)	45.3	44.4		
Client assets under management (in CHF billion)	25.0	26.7		
Change in client assets under management compared to 31.12. prior year (in %)	–6.3	8.6		
Net new money (in CHF billion)	–0.2	0.4		
Total operating income / average client assets under management (bp)[1]	73.0	72.1		
Segment result / average client assets under management (bp)[1]	41.0	40.5		
Cost/income ratio operating income (in %)[2]	42.8	42.5	0.2	0.6
Headcount (number of employees)	197	195	1.5	0.8
Headcount (expressed as full-time equivalents)	183.3	183.4	–0.2	–0.1

[1] Annualised, average values.
[2] Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / gross income less other income and income from financial instruments.

Structure

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

Segment result

At CHF 106.2 million, the pre-tax segment result in 2018 improved by CHF 2.3 million over that of the prior year (CHF 103.8 million). In 2018, operating income could be increased, year-on-year, by CHF 4.1 million (2.2 per cent). This growth results from interest income from clients (6.3 per cent) as well as commission and service income (0.7 per cent). Primarily developments in USD interest rates as well as margin increases in credit-granting activities contributed to this positive result. Operating expenses rose by CHF 1.7 million (2.1 per cent) to CHF 82.8 million (prior year: CHF 81.1 million). This increase results primarily from the caption depreciation and amortisation of property, plant & equipment and intangible assets as well as a higher level of recharges from other segments. In 2018, charges for valuation allowances, provisions and losses, year-on-year, declined by CHF 1.9 million to CHF minus 2.9 million (prior year period: minus CHF 1.0 million) due to the release of valuation allowances no longer required.

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)". With 73.0 basis points, the gross margin could be increased (prior-year: 72.1 basis points). The cost/income ratio improved marginally from 42.5 per cent to 42.8 per cent.

In the financial year, the segment reported a small outflow from client monies amounting to CHF 0.2 billion. New money inflows resulting from market-development activities could not offset money outflows resulting from the regulatory environment and taxation-related issues. Assets under management at 31 December 2018 totalled CHF 25.0 billion (31 December 2017: CHF 26.7 billion). With 183 employees, the headcount could be maintained at a stable level (31 December 2017: 183 employees).

Client Business International

Segment results

in CHF 1,000	2018	2017	Variance absolute	Variance in %
Total net interest income	39,340	29,978	9,362	31.2
Total net income from commission business and services	39,015	37,131	1,884	5.1
Income from trading activities	8,968	8,361	607	7.3
Income from financial instruments	86	78	8	10.3
Other income	2,490	2,527	–37	–1.5
Total operating income	**89,899**	**78,075**	**11,824**	**15.1**
Personnel expenses	54,313	41,361	12,952	31.3
General and administrative expenses	30,555	22,329	8,226	36.8
Depreciation of property, equipment and intangible assets	3,311	3,163	148	4.7
Valuation allowances, provisions and losses	–11,062	4,074	–15,136	–371.5
Services to/from other segments	0	0	0	0.0
Operating expenses	**77,117**	**70,927**	**6,190**	**8.7**
Segment income before income tax	**12,782**	**7,148**	**5,634**	**78.8**
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	94.4	81.6		
Operating expenses excluding valuation allowances, provisions and losses / total operating income (in %)	98.1	85.6		
Client assets under management (in CHF billion)	16.5	13.7		
Change in client assets under management compared to 31.12. prior year (in %)	20.7	22.3		
Net new money (in CHF billion)	3.4	1.5		
Total operating income / average client assets under management (bp)[1]	59.6	62.9		
Segment result / average client assets under management (bp)[1]	8.5	5.8		
Cost/income ratio operating income (in %)[2]	97.2	84.4	12.8	15.2
Headcount (number of employees)	330	279	50.5	18.1
Headcount (expressed as full-time equivalents)	313.3	262.2	51.1	19.5

[1] Annualised, average values.
[2] Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / gross income less other income and income from financial instruments.

Structure

The business segment "Client Business International" encompasses the 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

In 2018, the pre-tax segment result could be improved, year-on-year, by CHF 5.6 million. Operating income could be increased, year-on-year, by CHF 11.8 million (15.1 per cent). This increase is attributable mainly to higher interest income from clients (31.2 per cent), but also commission and service income (5.1 per cent) as well as trading income (7.3 per cent) contributed to this positive result. Commission and service income shows a positive development thanks to the recruitment offensive. Operating expenses rose by CHF 6.2 million, or 8.7 per cent, to CHF 77.1 million. This increase results, on the one hand, from personnel and general and administrative expense reflecting principally the recruitment offensive for new senior client advisors.

On the other hand, charges for valuation allowances, provisions and losses ended with a result of minus CHF 11.1 million. In the business segment "Client Business International", the recharging of services is based on actual invoices and recorded under general and administrative expenses. In 2018, intersegmental recharges increased by CHF 5.0 million.

The gross margin fell to 59.6 basis points (prior year: 62.9 basis points). The cost/income ratio increased from 84.4 per cent to 97.2 per cent.

Net new money from clients developed extremely positively in 2018 with CHF 3.4 billion. On the one hand, the recruitment offensive continued to show net new money inflows in 2018 in all locations. On the other hand, net new money from clients could again be achieved in the investment-fund business, inter alia, with the acquisition of the Luxembourg-based Carnegie Investment Fund (CHF 1.4 billion) as well as on European markets as a result of intensive market-development activities. Assets under management at 31 December 2018 aggregated CHF 16.5 billion (31 December 2017: CHF 13.7 billion). The employee headcount rose from 262 individuals (31 December 2017) to 313, primarily because of the recruitment offensive for new senior client advisors.

Corporate Center

Segment results

in CHF 1,000	2018	2017	Variance absolute	Variance in %
Total net interest income	–7,239	230	–7,469	n.a.
Total net income from commission business and services	–6,004	–3,867	–2,137	–55.3
Income from trading activities	27,282	21,824	5,458	25.0
Income from financial instruments	–1,732	19,132	–20,864	–109.1
Other income	–339	–198	–141	–71.2
Total operating income	**11,968**	**37,121**	**–25,153**	**–67.8**
Personnel expenses	68,988	58,213	10,775	18.5
General and administrative expenses	27,776	31,725	–3,949	–12.4
Depreciation of property, equipment and intangible assets	16,968	16,971	–3	–0.0
Valuation allowances, provisions and losses	557	10,534	–9,977	–94.7
Services to/from other segments	–41,888	–39,689	–2,199	–5.5
Operating expenses	**72,401**	**77,754**	**–5,353**	**–6.9**
Segment income before income tax	**–60,433**	**–40,633**	**–19,800**	**–48.7**
Additional information				
Headcount (number of employees)	407	387	20.0	5.2
Headcount (expressed as full-time equivalents)	371.9	353.9	18.0	5.1

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 & Processes, Group Credit, Group Treasury & Execution, Group Finance, Group Risk, Group Legal Services, Group Compliance, Group Tax Center, Group Human Resources Management, Group Communications & Marketing, Group Business Development and Group Strategy. In addition, those revenues and expenses of VP Bank Ltd having no direct relationship to client-oriented 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 in 2018 amounted to minus CHF 60.4 million as opposed to minus CHF 40.6 million in the prior year.

Year-on-year, operating income fell by CHF 25.2 million. Responsible for this decline is the reduction in the income from financial investments.

Interest income fell, year-on-year, by CHF 7.5 million. This is attributable, in part, to the on-going negative interest level and, consequently, to the decline in interest revenues from maturity transformation (SNB negative interest).

Commission and service income reports a reduction 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 includes the results of derivatives employed to minimise risks as well as gains/losses from balance-sheet management activities.

In 2018, income from financial investments developed negatively with CHF minus 1.7 million as a result of market developments. In the previous year, this position had reported an income of CHF 19.1 million primarily from unrealised revaluation gains on financial instruments.

Operating expenses in the financial year declined by CHF 5.4 million from CHF 77.8 million to CHF 72.4 million. The reason for this, on the one hand, is the non-recurring credit to personnel expenses in 2017 of CHF 10.1 million resulting from the adjustment to the rate of conversion in the retirement-fund plan (IAS 19). Consequently, personnel expense increased in 2018 by CHF 10.8 million. On the other hand, the charges for valuation allowances, provisions and losses in the financial year fell by CHF 10.0 million as a result of a provision raised in the prior year for a payment made in connection with a settlement with the German authorities. General and administrative expense could be reduced by CHF 3.9 million. At CHF 17.0 million, depreciation and amortisation remained at the prior-year's level.

The employee headcount rose from 354 (31 December 2017) to 372 positions.

Leung Yu King
Summer Palace at Island Shangri-La Hotel,
Hong Kong

Clare Lam
Executive Director
VP Wealth Management
(Hong Kong) Ltd

People who love **tradition** like to give it fresh **impetus**.

VP Bank in Hong Kong

Detailed information can be accessed at:
www.vpbank.com/alacarte_hong-kong

6

Financial report 2018 of VP Bank Group

Consolidated annual report of VP Bank Group

Consolidated results

During the past financial year, VP Bank reported a very satisfying amount of net new client money totalling CHF 3.2 billion. The on-going low interest-rate environment as well as developments on interest-rate and equity markets led to a 16.8 per cent lower Group net income of CHF 54.7 million over that achieved in the prior year (2017: CHF 65.8 million).

The interest-rate environment continued to be characterised by on-going low to negative interest rates. An overcast sentiment predominated on stock markets with the result that the SMI lost more than 10 per cent in the financial year. At the same time, the introduction of new regulatory provisions at home and abroad weighed heavily on resources in the banking sector. VP Bank held its ground well in this demanding environment.

The 2018 consolidated financial statements of VP Bank Group drawn up in accordance with International Financial Reporting Standards (IFRS) reported a Group net income of CHF 54.7 million. In the prior year, an income of CHF 65.8 million had been achieved. As a result of the negative market backdrop, Group net income of 2018 registered, year-on-year, a drop of CHF 11.1 million or 16.8 per cent.

The positive development of net new money carried forward into 2018. With some CHF 3.2 billion (2017: CHF 1.9 billion), VP Bank Group achieved the highest organic net new money inflow for over ten years. The Bank thus continues to view itself as being on target with its growth strategy. This outstanding growth in new client money is a result of reinforced market-development activities and implemented growth initiatives as well as the recruitment offensive for new senior client advisors.

Having 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 26 April 2019, an unchanged dividend of CHF 5.50 (prior year CHF 5.50) per registered share A and to CHF 0.55 (prior year CHF 0.55) per registered share B.

Medium-term goals

The Board of Directors of VP Bank Group has defined the following target values for 2020:
- CHF 50 billion of assets under management
- Group net income of CHF 80 million
- a cost/income ratio of under 70 per cent

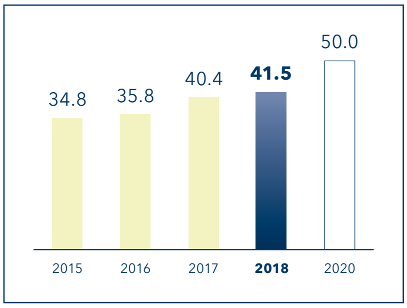
VP Bank Group continued to pursue its growth strategy in the financial year. Market-development activities were further intensified, as a result of which assets under management could be increased and the basis established for the future growth in profitability.

VP Bank intends to make further acquisitions of banks or whole teams in its target markets and which ideally complement VP Bank Group on the basis of their business model with comparable core competencies, corporate cultures, target markets and client structures. The achievement of the goals is underpinned by the robust level of VP Bank Group's equity resources which are above average compared to the norm in the industry. In order to advance organic growth, it is planned, as part of a recruitment offensive, to hire some 25 new senior client advisors per annum. As part of this recruitment offensive, 24 new client advisors were engaged during the current financial year (2017: 24). In addition, as part of the digitalisation strategy, new innovative services are being developed with urgency and targeted investments made in digital tools in order to render internal processes more efficient and to further optimise the benefit for the client.

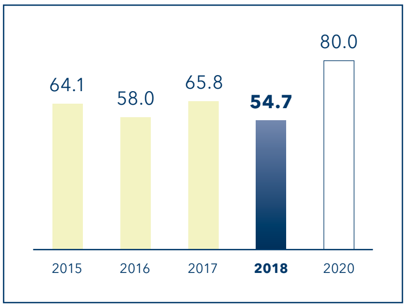
Assets under management at 31 December 2018 totalled CHF 41.5 billion (prior year: CHF 40.4 billion). Group net income for the year ending 31.12.2018 amounted to CHF 54.7 million (prior year: CHF 65.8 million) and the cost/income ratio was 75.8 per cent (prior year: 64.2 per cent).

As of 31.12.2018, VP Bank Group had a tier-1 ratio of 20.9 per cent (prior year: 25.7 per cent) and thus adequate equity to support further acquisitions.

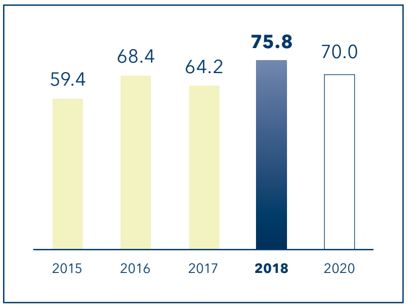
Client assets under management (in CHF billion)



Net income (in CHF million)



Cost/income ratio (in %)



In May 2018, the rating agency Standard & Poor's raised its already very good rating of „A–" for VP Bank to „A" and graded the outlook as stable. This increase in the rating takes account particularly of the substantial new client money inflows in 2017, the operational progress as well as the on-going very strong equity basis. In addition, Standard & Poor's emphasises the financial leeway enjoyed by VP Bank in order to invest in its operating business and to be able to assume an active role in future in the process of consolidation in the banking sector. VP Bank is one of the few private banks in Liechtenstein and Switzerland to be rated by an international rating agency. The rating and outlook was confirmed by Standard & Poor's on 9.8.2018.

During the financial year, the cost/income ratio increased to 75.8 per cent (2017: 64.2 per cent) as a result of the negative market conditions and investments in future growth. The ratio "operating expenses expressed as a percentage of operating income" registered a slight increase to 79.9 per cent (prior year: 76.6 per cent).

Client assets under management

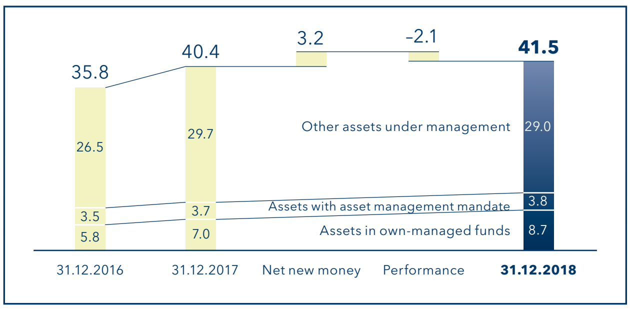
As of the end of 2018, client assets under management of VP Bank Group aggregated CHF 41.5 billion. Compared with the prior year's amount of CHF 40.4 billion, this represents an increase of CHF 1.1 billion (plus 2.8 per cent).

Compared to the organic development of net new money in 2017, net new client money inflows during the current year showed a marked improvement. In aggregate, VP Bank Group recorded a very high level of new client money inflows of CHF 3,197 million (prior year: plus CHF 1,894 million). All locations contributed to this welcome result. The inflows of client money were achieved as a result of intensive market-development activities, net new money from existing clients and the recruitment of new client advisers, in particular in international locations.

Custody assets rose by CHF 0.9 billion (15.3 per cent) to CHF 7.0 billion (prior year: CHF 6.1 billion).

As of 31 December 2018, client assets under management including custody assets totalled CHF 48.5 billion (prior year: CHF 46.4 billion).

Increase of client assets under management (in CHF billion)



Operating income

Year-on-year, operating income declined in 2018 by CHF 9.3 million (minus 3.1 per cent) from CHF 300.1 million to CHF 290.8 million.

In spite of the negative interest-rate environment, interest income increased by CHF 6.5 million or 6.3 per cent to CHF 111.0 million through active balance-sheet management, margin adjustments, increase in volumes and higher US dollar interest rates in comparison to the previous year. Based upon risk/return considerations, client deposits denominated in foreign currencies were, in part, no longer placed on the interbank market but were swapped into Swiss francs using currency swaps and deposited with the Swiss National Bank (SNB). The income from the interest component of these foreign-currency swaps could again be increased by CHF 4.2 million, or 15.6 per cent to CHF 31.1 million (prior year: CHF 26.9 million) and exceeded the expense for the SNB negative interest of CHF 16.1 million (prior year: CHF 15.3 million) and the reduced interest income from banks.

The increase in interest income from client activities of CHF 12.4 million to CHF 99.5 million is the result of margin adjustments and volume increases; by contrast, interest expense during the year from client-related activities rose by CHF 19.1 million to CHF 33.5 million as a result of the higher USD interest rates. Interest income on financial instruments valued at amortised cost rose by CHF 6.0 million to CHF 26.4 million mainly because of higher balance-sheet positions. Interest income includes also changes in the value of interest-rate hedging transactions (interest-rate derivatives) in the amount of minus CHF 1.4 million (prior year: CHF minus 1.1 million).

The income from commissions and services in the year grew by CHF 0.4 million to CHF 124.3 million (plus 0.3 per cent). The troubled sentiment on equity markets during the year negatively impacted commission income. Brokerage fees in 2018 fell, year-on-year, by CHF 3.9 million, or 11.6 per cent from CHF 33.3 million to CHF 29.5 million. The welcome inflow of new client money also positively impacted portfolio-based income: as a result, commission income from portfolio management and the investment business reported a rise of plus 11.5 per cent from CHF 43.9 million in 2017 to CHF 48.9 million in 2018. The level of custodian fees in 2018 changed negligibly from that of the prior year.

Trading income grew by 9.4 per cent from CHF 50.2 million in 2017 to CHF 55.0 million in 2018. The income from (foreign-currency) trading on behalf of clients could be increased by a welcome 6.3 per cent to CHF 54.9 million. Realised and unrealised revaluation differences arising from hedging transactions for financial investments are recognised in securities trading. Income of CHF 0.1 million (prior year: minus CHF 1.4 million) could be realised as a result of the market environment.

Financial investments ended the year with an loss of CHF 1.6 million (prior year: gain of CHF 19.2 million). This decrease of CHF 20.9 million can be ascribed principally to realised and unrealised revaluation losses on financial investments valued at fair value (FVTPL), of minus CHF 8.8 million (prior year: plus CHF 11.8 million).

Operating expenses

Operating expenses in the current financial year rose year-on-year by CHF 2.6 million from CHF 229.8 million to CHF 232.3 million (increase of 1.1 per cent).

Excluding the non-recurring impact from IAS 19 resulting in the lowering of the rate of conversion in the pension fund which led to a reduction in personnel expense of CHF 10.1 million in 2017, personnel expenses, year-on-year, rose by CHF 12.8 million, or 8.8 per cent to CHF 157.7 million. This increase results principally from the 8.6 per cent higher employee headcount of 868 FTEs as at the end of 2018. In line with the strategic growth initiatives, the adjusted increase in personnel expense results, inter alia, from the recruitment offensive for new senior client advisors.

General and administrative expense in 2018 grew by CHF 5.1 million (plus 8.8 per cent) from CHF 57.8 million to CHF 62.9 million, primarily under information-procurement and IT system costs (plus CHF 2.4 million) for the most part as a result of the increase in personnel resources with corresponding higher maintenance and licence charges. In addition, occupancy costs rose by CHF 1.2 million relating primarily to new buildings and installations. Marketing expense, year-on-year, was CHF 0.8 million lower. In the previous year, non-recurring costs for our new market image were incurred. Other general and administrative expense rose by CHF 1.9 million to CHF 9.1 million as a result of increased regulatory levies and relocation costs.

Depreciation and amortisation as of 31 December 2018 was CHF 1.6 million or 6.6 per cent higher, year-on-year, amounting to CHF 25.1 million. This increase principally relates to the amortisation charged on investments in intangible assets (software) for regulatory projects and growth initiatives which are amortised systematically over several years following completion.

In 2018, a net amount of CHF 13.4 million in the caption valuation allowance, provisions and losses was released to income. The impact of the hurrican Irma on the default risk of the credit portfolio of VP Bank (BVI) Ltd could be reduced, triggering a corresponding release of valuation allowances.

Furthermore, further individual valuation allowances were released during the financial year. The change of plus CHF 27.0 million in the caption „valuation allowances, provisions and losses" in comparison to the CHF 13.6 million charged last year in the Group financial statements is based on the valuation allowances and provisions established in 2017 of a net amount of CHF 13.6 million. Of this amount, a non-recurring amount of CHF 10.9 million relates to the settlement with the North Rhine-Westphalia authorities in connection with untaxed assets of German clients and the related provision raised.

Taxes on income

Taxes on income in 2018 amounted to CHF 3.8 million which is CHF 0.8 million less than in the prior year.

Consolidated net income

Group net income in 2018 amounted to CHF 54.7 million which is 16.8 per cent less in the prior year (prior year: CHF 65.8 million). Group net earnings per registered share A were CHF 9.04 (prior year: CHF 10.89).

Comprehensive income

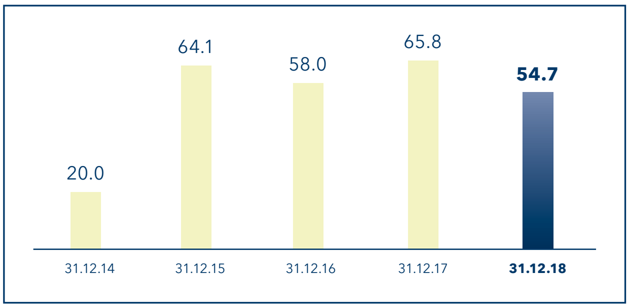
Comprehensive income comprises all revenues and expenses recognised in the income statement and in equity. Items recorded directly in equity principally concern actuarial adjustments relating to pension funds and changes in the value of financial instruments (FVTOCI). VP Bank Group generated comprehensive income in 2018 of CHF 38.7 million as against CHF 79.5 million in the preceding year.

Balance sheet

Total assets declined, in comparison to 31 December 2017, by CHF 0.3 billion to CHF 12.4 billion as of 31 December 2018. The decrease in total assets is to be explained primarily by the client deposits under „other amounts due to clients" which declined in the financial year to CHF 9.7 billion (minus CHF 0.2 billion) and „amounts due to banks" (minus CHF 0.1 billion). On the assets' side, cash and cash equivalents fell by CHF 1.1 billion to CHF 2.5 billion (31.12.2017: CHF 3.6 billion). The main reason for the decline in cash and cash equivalents is the growth in loans, the increase in financial investments and the decrease in on-balance-sheet client deposits.

The share of cash and cash equivalents in the balance sheet thus amounts to 20.3 per cent (prior year: CHF 28.3 per cent) pointing to a very comfortable level of liquidity in VP Bank. As noted under interest income, increased amounts of client monies were deposited with the SNB in order to optimise interest income through the active management of risk and returns. The consequence of this was that amounts due to banks and the related counterparty risks fell since 31 December 2015 from CHF 2.1 billion to CHF 0.8 billion as of 31 December 2018 (31 December 2017: CHF 0.9 billion).

Net income (CHF million)



Client loans in the caption „receivables from clients" increased during the year by CHF 0.5 billion (9.7 per cent) to CHF 6.2 billion, in particular as a result of lombard loans (prior year: CHF 5.6 billion). In this process, VP Bank continues unchanged its conservative credit-granting policies focusing on qualitative growth in client loans as well as a high level of discipline and control in credit-granting activities.

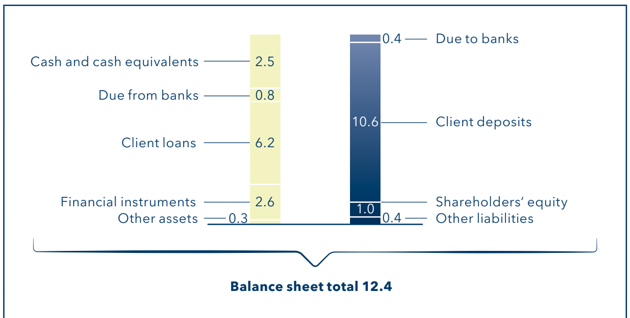
Within the scope of its ALM strategy (Asset and Liability Management), the volume of financial instruments valued at amortised cost of CHF 2.2 billion in the previous year was expanded to CHF 2.4 billion in 2018 as planned (plus 10.0 per cent).

On the liabilities' side, client deposits (amounts due to clients), savings accounts and medium-term notes fell by CHF 0.2 billion since the beginning of 2018 to CHF 10.6 billion as at 31.12.2018 (minus 2.2 per cent).

On 26 June 2018, VP Bank announced, within the framework of an authorisation granted by the Annual General Meeting of 24 April 2015, that it will increase the number of treasury shares it holds through a further share buyback programme of up to 10 per cent of the share capital. In this manner, VP Bank builds on the three successful programmes of 2015 and 2016. The registered shares A so repurchased are to be used for future acquisitions or treasury management purposes.

As part of a public share buyback programme, VP Bank is ready to repurchase a maximum of 180,000 registered shares A. The buyback period for registered shares A lasts from 27 June 2018 until 28 June 2019 at the latest and will be undertaken over the regular trading line on the SIX Swiss Exchange. At no time will VP Bank hold more of its own registered shares A than it is permitted to within the framework of afore-mentioned authorisation granted to it by the Annual General Meeting (maximum of 601,500 shares equating to 10 per cent of all registered shares A). As of the end of 2018, VP Bank held a total of 599,442 registered shares A in the treasury.

Sound balance sheet as at 31 December 2018 (in CHF billion)



The share buyback offer for the unquoted registered shares B was set at a price of CHF 21.30. This repurchase was completed successfully in August 2018. Until the expiry of the offer period, 173.067 registered shares B with a nominal value of CHF 1.00 were tendered to VP Bank. At 31 December 2018, after completion of the buyback offer, VP Bank holds a total of 324,929 registered shares B in the treasury. As no cancellation of the repurchased shares takes place, the structure of capital and voting rights remains unchanged. In computing the tier 1 ratio, the entire repurchase programme, i.e. 10 per cent of the share capital must be deducted.

Consolidated equity of VP Bank Ltd at the end of 2018 totalled CHF 981.6 million (end of 2017: CHF 990.1 million). This represents an insignificant decrease of 0.9 per cent.

The risk-weighted assets rose by CHF 0.7 billion (plus 18.7 per cent) to CHF 4.5 billion in the financial year and the tier 1 ratio at 31 December 2018 thus amounted to 20.9 per cent (31 December 2017: 25.7 per cent). In comparison with other banks, this is an outstanding value thus enabling VP Bank to continue to pursue an organic and acquisition-based growth strategy.

Outlook

With digitalisation, the financial sector is confronted with major challenges but also very promising opportunities. VP Bank is optimally equipped to meet these future challenges and has launched related projects, thus continuing to pursue its sustained growth strategy. The high level of equity resources and stable shareholder base form an excellent basis for a successful future in order to be able to assume an active future role in the process of consolidation of the finance industry.

Consolidated income statement

in CHF 1,000	Note	2018	2017	Variance absolute	Variance in %
Interest income		162,961	138,560	24,401	17.6
Interest expense		51,984	34,125	17,859	52.3
Total net interest income	1	**110,977**	**104,435**	**6,542**	**6.3**
Commission income		171,243	181,047	–9,804	–5.4
Commission expenses		46,971	57,171	–10,200	–17.8
Total net income from commission business and services	2	**124,272**	**123,876**	**396**	**0.3**
Income from trading activities	3	54,984	50,244	4,740	9.4
Income from financial instruments	4	–1,646	19,218	–20,864	–108.6
Other income	5	2,251	2,329	–78	–3.3
Total operating income		**290,838**	**300,102**	**–9,264**	**–3.1**
Personnel expenses	6	157,684	134,790	22,894	17.0
General and administrative expenses	7	62,869	57,798	5,071	8.8
Depreciation of property, equipment and intangible assets	8	25,117	23,564	1,553	6.6
Credit loss expenses	9	–12,659	1,976	–14,635	n.a.
Provisions and losses	9	–704	11,632	–12,336	–106.1
Operating expenses		**232,307**	**229,760**	**2,547**	**1.1**
Earnings before income tax		**58,531**	**70,342**	**–11,811**	**–16.8**
Taxes on income	10	3,814	4,572	–758	–16.6
Group net income		**54,717**	**65,770**	**–11,053**	**–16.8**
Share information					
Undiluted group net income per registered share A		9.04	10.89		
Undiluted group net income per registered share B		0.90	1.09		
Diluted group net income per registered share A		9.04	10.89		
Diluted group net income per registered share B		0.90	1.09		

Consolidated statement of comprehensive income

in CHF 1,000	2018	2017	Variance absolute	Variance in %
Group net income	54,717	65,770	–11,053	–16.8
Other comprehensive income, net of tax				
Other comprehensive income which will be transferred to the income statement upon realisation				
• Changes in foreign-currency translation differences	379	–4,131	4,510	109.2
• Foreign-currency translation difference transferred to the income statement from shareholders' equity	0	0	0	0.0
Total other comprehensive income which will be transferred to the income statement upon realisation	**379**	**–4,131**	**4,510**	**109.2**
Other comprehensive income which will not be transferred subsequent to the income statement				
• Changes in value of FVTOCI financial instruments	–6,330	–3,651	–2,679	–73.4
• Actuarial gains/losses from defined-benefit pension plans	–10,104	21,543	–31,647	–146.9
Total other comprehensive income which will not be transferred subsequent to the income statement	**–16,434**	**17,892**	**–34,326**	**–191.9**
Total comprehensive income in shareholders' equity	**–16,055**	**13,761**	**–29,816**	**–216.7**
Total comprehensive income in income statement and shareholders' equity	**38,662**	**79,531**	**–40,869**	**–51.4**
Attributable to shareholders of VP Bank Ltd, Vaduz	38,662	79,531	–40,869	–51.4

Consolidated balance sheet

Assets

in CHF 1,000	Note	31.12.2018	31.12.2017	Variance absolute	Variance in %
Cash and cash equivalents	13	2,521,276	3,614,578	–1,093,302	–30.2
Receivables arising from money market papers	14	67,407	20,279	47,128	232.4
Due from banks	15/16	771,107	892,620	–121,513	–13.6
Due from customers	15/16	6,196,326	5,647,578	548,748	9.7
Trading portfolios	17	123	135	–12	–8.9
Derivative financial instruments	18	42,164	29,457	12,707	43.1
Financial instruments at fair value	19	232,263	200,808	31,455	15.7
Financial instruments measured at amortised cost	20	2,389,521	2,171,837	217,684	10.0
Associated companies	21	30	33	–3	–9.1
Property and equipment	22	87,819	79,132	8,687	11.0
Goodwill and other intangible assets	23	51,454	54,514	–3,060	–5.6
Tax receivables	10c	1,407	1,445	–38	–2.6
Deferred tax assets	10b	15,581	19,259	–3,678	–19.1
Accrued receivables and prepaid expenses		28,102	26,931	1,171	4.3
Other assets	24	23,600	19,464	4,136	21.2
Total assets		**12,428,180**	**12,778,070**	**–349,890**	**–2.7**

Liabilities and shareholders' equity

in CHF 1,000	Note	31.12.2018	31.12.2017	Variance absolute	Variance in %
Due to banks		433,793	547,687	–113,894	–20.8
Due to customers – savings and deposits		638,097	652,169	–14,072	–2.2
Due to customers – other liabilities		9,696,786	9,907,280	–210,494	–2.1
Derivative financial instruments	18	59,374	47,184	12,190	25.8
Medium-term notes	25	240,616	256,155	–15,539	–6.1
Debentures issued	26	200,474	200,597	–123	–0.1
Tax liabilities[1]	10c	7,041	6,056	985	16.3
Deferred tax liabilities	10b	0	6,458	–6,458	–100.0
Accrued liabilities and deferred items		36,530	31,207	5,323	17.1
Other liabilities	27	132,680	116,159	16,521	14.2
Provisions	28	1,209	16,987	–15,778	–92.9
Total liabilities		**11,446,600**	**11,787,939**	**–341,339**	**–2.9**
Share capital	29	66,154	66,154	0	0.0
Less: treasury shares	30	–65,807	–47,889	–17,918	–37.4
Capital reserves		28,419	24,181	4,238	17.5
Income reserves[1]		994,582	983,502	11,080	1.1
Unrealised gains/losses on FVTOCI financial instruments		–22,704	–16,374	–6,330	–38.7
Foreign-currency translation differences		–19,064	–19,443	379	1.9
Total shareholders' equity		**981,580**	**990,131**	**–8,551**	**–0.9**
Total liabilities and shareholders' equity		**12,428,180**	**12,778,070**	**–349,890**	**–2.7**

[1] Prior year figures restated by CHF 4.049 million in accordance with accounting principles on page 109.

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 01.01.2018	**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								
Foreign-currency translation differences							379	379
Changes in value transferred to profit reserves								0
Changes in value of FVTOCI financial instruments					–6,330			–6,330
Actuarial gains/losses from defined-benefit pension plans						–10,104		–10,104
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		–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**
Total shareholders' equity 01.01.2017	**66,154**	**–52,466**	**21,857**	**1,010,790**	**–12,723**	**–81,362**	**–15,312**	**936,938**
Adjustment from restatement[2]				–4,049				–4,049
Total shareholders' equity 01.01.2017 adjusted	**66,154**	**–52,466**	**21,857**	**1,006,741**	**–12,723**	**–81,362**	**–15,312**	**932,889**
Other comprehensive income, after income tax								
Foreign-currency translation differences							–4,131	–4,131
Changes in value transferred to profit reserves								0
Changes in value of FVTOCI financial instruments					–3,651			–3,651
Actuarial gains/losses from defined-benefit pension plans						21,543		21,543
Group net income				65,770				65,770
Total reported result 31.12.2017	**0**	**0**	**0**	**65,770**	**–3,651**	**21,543**	**–4,131**	**79,531**
Appropriation of profit 2016				–29,190				–29,190
Management equity participation plan (LTI)			1,848					1,848
Public tender own shares		–781						–781
Movement in treasury shares[1]		5,358	476					5,834
Total shareholders' equity 31.12.2017	**66,154**	**–47,889**	**24,181**	**1,043,321**	**–16,374**	**–59,819**	**–19,443**	**990,131**

[1] Details on transactions with treasury shares can be found in note 30.
[2] See principles underlying financial-statement reporting page 109.

Consolidated statement of cash flow

in CHF 1,000	Note	2018	2017
Cash flow from operating activities			
Group net income		54,717	65,770
Reconciliation to cash flow from operating activities			
Non-cash-related positions in Group results			
• Depreciation of property, equipment and intangible assets	22/23	25,117	23,564
• Creation/dissolution of retirement pension provisions	40	18,442	–5,966
• Creation/dissolution of other provisions	28	–23,966	13,902
• Unrealised gains on financial instruments measured at fair value	4	8,540	–8,699
• Unrealised gains on financial instruments measured at amortised cost	4	–61	–16
• Deferred income taxes	10b	–567	–1,823
Net increase/reduction in banking			
• Amounts due from/to banks		–42,510	194,127
• Trading portfolios incl. replacement values, net		–371	4,314
• Amounts due from/to clients		–728,913	317,369
• Accrued receivables and other assets		–5,299	–7,384
• Accruals and other liabilities		18,550	14,163
Income taxes paid	10a	–6,296	–8,419
Used provisions		–12,898	–5,325
Foreign-currency impact on intragroup payments		–1,477	–9,130
Net cash flow from operating activities		**–696,992**	**586,447**
Cash flow from investment activities			
Purchase of financial instruments measured at fair value	17/19	–119,334	–8,538
Proceeds from sale of/maturing financial instruments measured at fair value	4	70,006	96,849
Purchase of financial instruments measurement at amortised cost	20	–655,399	–560,907
Proceeds from sale of/maturing financial instruments measured at amortised cost	4	402,945	241,303
Acquisition of property and equipment and intangible assets	22/23	–31,041	–23,496
Sale of property and equipment and intangible assets	22/23	0	0
Acquisition of investments		–39	0
Disposal of associated companies		0	149
Net cash flow from investment activities		**–332,862**	**–254,640**
Cash flow from financing activities			
Purchase of treasury shares	30	–22,741	–829
Proceeds from sale of treasury shares		987	570
Dividend distributions	12	–33,533	–29,190
Issuance of medium-term bonds	25	51,758	113,315
Redemption of medium-term bonds	25	–66,430	–78,808
Net cash flow from financing activities		**–69,959**	**5,058**
Foreign-currency translation impact		2,683	–5,710
Net increase/reduction in cash and cash equivalents		**–1,097,130**	**331,155**
Cash and cash equivalents at the beginning of the financial year	35	4,376,135	4,044,980
Cash and cash equivalents at the end of the financial year	35	3,279,005	4,376,135
Net increase/reduction in cash and cash equivalents		**–1,097,130**	**331,155**

Consolidated statement of cash flow (continued)

in CHF 1,000	Note	2018	2017
Cash and cash equivalents are represented by			
Cash	35	2,521,276	3,614,578
Receivables arising from money market paper	35	67,407	20,279
Due from banks – at-sight balances	35	690,322	741,278
Total cash and cash equivalents		**3,279,005**	**4,376,135**
Consolidated statement of cash flow (summarised)			
Cash and cash equivalents at beginning of accounting period		**4,376,135**	**4,044,980**
Cash flow from operating activities, net of taxes		–696,992	586,447
Cash flow from investing activities		–332,862	–254,640
Cash flow from financing activities		–69,959	5,058
Foreign-currency translation impact		2,683	–5,710
Cash and cash equivalents at end of accounting period		**3,279,005**	**4,376,135**
Cash flow from operating activities from interest and dividends			
Interest paid		–49,987	–35,231
Interest received		185,712	130,602
Dividends received		4,942	3,966

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 3,279.0 million (previous year: CHF 4,376.1 million).

Reconciliation between cash flow from financing activities an the balance sheet positions:

in CHF 1,000	Note	31.12.2018	31.12.2017	Variance absolute	Variance from cash flows	Other variances
Medium-term notes	25	240,616	256,155	–15,539	–14,672	–867
Debentures issued	26	200,474	200,597	–123	0	–123
Total variance				**–15,662**	**–14,672**	**–990**

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 possesses 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 2018, VP Bank Group employed 868.4 persons, expressed as full-time equivalents (as of the end of the previous year: 799.5).

Asset management and investment consulting services for private and institutional investors, as well as lending, constitute its core activities.

Values disclosed in the financial statements are expressed in thousands of Swiss francs. The 2018 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.

Restatement of the 2016 Consolidated Financial Statements

As part of the preparatory work for the 2018 annual financial statements, VP Bank Group discovered an error in the 2016 consolidated financial statements. Pursuant to IAS 8.42, material errors arising in prior financial years are to be corrected retroactively. Whenever an error occurred prior to the earliest accounting year presented, the opening balances of assets, liabilities and shareholders' equity are to be restated for the earliest prior period presented.

In computing deferred and current taxes arising in connection with the merger with Centrum Bank in 2015, a difference of CHF 4,049 million arose in 2016 because of erroneous system mapping in the consolidated financial statements. As a result, the tax expense in 2016 was understated and thus the Group net income overstated. The effect was corrected retroactively in the balance sheet as of 1 January 2017. As a result of the adjustment, the provision for tax liabilities as of 1 January 2017 was increased from CHF 3,892 million to CHF 7,941 million and as of 31 December 2017 and accordingly as of 1 January 2018 from CHF 2,007 million to CHF 6,056 million. The shareholders' equity as 1 January 2017 declined from CHF 936,938 million to CHF 932,889 million and as of 31 December 2017 and therefore as of 1 January 2018 from CHF 994,180 million to CHF 990,131 million, respectively. The undiluted and diluted earnings per registered share A for 2016 declined by CHF 0.67 and per registered share B by CHF 0.07.

Post balance-sheet date events

On 26 October 2018, VP Bank Ltd and Catella Bank S.A. entered into an agreement whereby VP Bank in Luxembourg will acquire the private-banking activities in Luxembourg of Catella Bank. The transaction was consummated on 1 February 2019. The details thereof are set out in Note 46.

The Board of Directors reviewed and approved the consolidated financial statements in its meeting of 14 February 2019. These consolidated financial statements will be submitted for approval to the Annual General Meeting of 26 April 2018.

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.

In 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 associate 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. Individual captions of the income statement are translated at average rates for the period. Foreign-currency differences arising from the translation of financial statements expressed in foreign currencies are dealt with in shareholders' equity (income reserves) 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 caption 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 in this category upon initial recognition.

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 recording of changes in value and impairment losses through other comprehensive income (FVTOCI)

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.

The OCI option is applied in the case of equity instruments with a long-term investment horizon of approx. ten years. Primarily in the case of private-equity 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

The methodology of International Financial Reporting Standard 9 Impairment to determine valuation allowances for credit risks replaces the previous methodology of individual and portfolio-based valuation allowances in accordance with IAS 39.

In contrast to the provisions of IAS 39, in addition to the already incurred loss, the concept of the expected credit loss or ECL is now introduced. In accordance with IFRS 9 Impairment, the expected credit loss must be recognised already at the time of consummation of the transaction.

To this purpose, all assets side exposed to a potential credit risk and not already measured at fair value, the changes in which are taken to income, are to be allocated to one of three stages:

- stage 1 (performing)
- stage 2 (under-performing)
- stage 3 (non-performing)

Upon settlement or purchase, the financial instruments in question are initially classified as “performing” (stage 1). Should the credit risk of the financial instrument increase significantly during its term, the position is considered as “under-performing” (stage 2). Should a counterparty be in default or a further payment appear improbable, the asset is to be classified as “non-performing” (stage 3).

For stage 1, the expected credit loss is to be computed and recognised based on credit occurrences expected over 12 months, for stages 2 and 3, on the other hand, over the remaining term of the instrument.

The expected credit loss in accordance with IFRS 9 must represent an undistorted probability-weighted amount which was determined through the evaluation of a series of possible scenarios as well as taking the time value of money into consideration. Furthermore, all available information on past events and current conditions are to be appropriately taken into account.

Implementation of IFRS 9 Impairment in VP Bank

The methodology of IFRS 9 Impairment has been applied by VP Bank since 1 January 2018 and replaces the previous approach under IAS 39 of individual and portfolio-based valuation allowances. Its implementation by VP Bank is based on internally defined models in accordance with the principles and requirements of the Standard.

All asset positions exposed to a potential credit risk and not already measured at fair value are covered. These include, in particular, amounts due from banks and clients, financial investments measured at amortised cost, money-market receivables and cash and cash equivalents. Falling under the new standard are off-balance-sheet positions such as credit and performance guarantees and irrevocable credit commitments.

In VP Bank, the modelling of expected credit losses is undertaken according to specific balance-sheet segments. During the process of segmentation, a distinction is made whether an external or internal rating exists.

In the case of positions with an external rating of Moody’s or Standard & Poor’s, the latter is used as the principal criterion for the allocation to a particular stage. In accordance with internal guidelines, positions considered as investment grade are allocated to stage 1. Should a rating move outside the investment-grade segment or should it be in non-compliance with the requirements for deposits with banks or financial investments, stage 2 shall apply. Should external rating agencies issue a default rating, the instrument drops to stage 3.

In the case of positions with an internal rating of VP Bank, the allocation is made on the basis of whether the debtor is in default of payment regarding interest and/or amortisation of capital. From the moment a payment is overdue for 31 days or more, the position falls into stage 2, and if it is more than 90 days overdue to stage 3. In addition, a deterioration of the internal rating or a classification as a credit with an enhanced risk of default is used for the stage allocation.

In the case of positions which are not internally nor externally rated to which primarily lombard loans belong, risk management is conducted primarily in relation to the collateral. Any payment default by the debtor regarding interest and/or amortisation of capital in excess of 30 and 90 days, respectively, or the classification as a credit exposed to enhanced risk serve as criterion for the stage allocation. In addition, any collateral shortfalls for these positions are taken into account.

In the case of positions for which financial collateral or a guarantee from an externally rated third party exist, the credit risk of the debtor is substituted by that of the guarantor or third party (substitution approach).

In this case, the stage allocation results from a combination of the aforementioned criteria.

In VP Bank, the modelling of the ECL is undertaken in principle at the level of the individual transaction and on the basis of various parameters (in particular, probability of default, loss given default, amount of receivable and discount rate).

Wherever possible, reference is made to external data to determine the default probabilities. This is particularly the case whenever an external rating exists. Internal ratings reproduce, to an approximate extent, external ratings. The estimation of the loss given default focusses on the value of the collateral securing the credit. In the case of unsecured receivables with an external rating, assumptions based upon market-related considerations are made.

As an alternative to a separate determination of the default probability and loss given default, a loss rate approach to compute the ECL can be applied for individual portfolios. This concerns primarily lombard credits. In such cases, VP Bank uses a combined loss rate.

In addition to the use of past and current information to estimate the ECL, VP Bank also takes into account prospective information, in particular forecasts of future economic developments.

For externally-rated positions, the ECL is initially estimated on the basis of cyclical parameters. The use of prospective information is based on existing early-warning systems and modifications to default probabilities. In addition, rating outlooks are taken into consideration.

For positions with an internal rating, the ECL is also estimated on the basis of prospective, cyclical parameters. In the case of mortgage-backed credits and related contingent liabilities, for example, this concerns primarily the loss given default. In this manner, possible movements in real-estate prices are depicted.

The computation of the ECL is based upon one base and two alternative scenarios which map differing macroeconomic conditions. The base scenario reflects the future economic development which is estimated to be the most probable whilst an up and down scenario represents a relative improvement or deterioration, respectively, of the macroeconomic situation. The assumed probabilities of occurrence of the up and down scenario are identical.

Loans from 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 reported 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 term. 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 guidelines, 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 manage 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 accounting) 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 those where 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 this 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 over-valued because of occurrences 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 expenditure benefits 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 to 9 years
IT systems	3 to 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 related 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 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; amounts are netted insofar as the maturities correspond.

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 on the basis of various economic and demographic assumptions using the projected unit credit method, which take 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 actuarial interest 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 2018, the following new or revised Standards or Interpretations have taken effect:

Changes to IFRS 2014-2016 ("Improvements to IFRS 2014–2016 Cycles")

In December 2016, the IASB published several amendments to existing IFRS as part of its annual improvement project "Improvements to IFRS 2014–2016 Cycles". These encompass both amendments to various IFRS impacting the recognition, measurement and disclosure of business transactions as well as terminological and editorial corrections. The amendments have no material impact on the consolidated financial statements.

IAS 9 – Financial Instruments

The allocation of the financial instruments is made at the time of their initial recognition in accordance with the criteria of IFRS 9. VP Bank Group has made premature application of IFRS 9 (2010) since 1 January 2011, and of IFRS 9 (2013) since 1 January 2015. If the hedging conditions are met, VP Bank Group has adopted prematurely hedge accounting in accordance with IFRS 9 (2013). The amendments between IFRS 9 (2013) and IFRS 9 (2014) concerning the classification and measurement of debt securities at fair value through OCI (FVTOCI), which did not yet exist in IFRS 9 (2013), had no impact on the preparation of financial statements. Accordingly, there is no statement of reconciliation for the new IFRS 9 (2014) concerning classification and measurement (phase 1) as well as hedge accounting (phase III).

Application of IFRS 9 – Provisions regarding impairment (phase II)

On 1 January 2018, IFRS 9 Impairment replaced the individual and portfolio-based valuation allowances computed in accordance with IAS 39. The new Standard encompasses all positions on the assets' side and off-balance-sheet positions which are exposed to a potential credit risk and not already measured at fair value, the changes in which are taken to income. On 1 January 2018, the individual and portfolio-based valuation allowances in accordance with IAS 39 were de-recognised over equity and the expected credit losses in accordance with IFRS 9 Impairment were re-recognised over equity. The resultant after-tax effect of de-recognition and re-recognition resulting from IFRS 9 Impairment amounted to CHF 0.044 million which was recorded directly over equity.

The following tables show the allocation of material balance-sheet positions falling under the scope of IFRS 9 Impairment into individual stages as well as the valuation allowances (pre-tax) as computed under the standard as of 31.12.2017.

As of 31.12.2017, the credit loss allowances of VP Bank Group, computed in accordance with IFRS 9 Impairment, amount to CHF 2.2 million for stage 1, CHF 20.7 million for stage 2 and CHF 41.7 million for stage 3, or a total amount of CHF 64.6 million.

The following table shows the valuation allowances per 31.12.2017 as well as the netting as per 01.01.2018 with IFRS 9 phase 2.

Credit loss allowances

in CHF 1,000	31.12.2017 / 01.01.2018
Individual credit loss allowances	41,543
Portfolio-based credit loss allowances	25,359
Total credit loss allowances in accordance with IAS 39	**66,902**
Total credit loss allowances in accordance with IFRS 9	**64,589**
Released to equity as of 01.01.2018	**2,313**

In accordance with IFRS 9, a restatement of the prior year's figures was dispensed with.

Supplementary information can be found in the Annual Report of VP Bank Group for 2017, Changes in Financial-Statement Reporting Principles and Comparability, in the section International Financial Reporting Standards which must be introduced in 2018 or subsequently, in the subsection Application of IFRS 9 Impairment on page 135.

IFRS 15 – Revenue from contracts with customers

IFRS 15 prescribes when and in which amount a company reporting under IFRS is to recognise revenue. In addition, it is demanded from companies preparing annual financial statements that more informative and more relevant disclosures be made available than at present. In this respect, the standard offers a single, principles-based, five-stage model which is to be applied to all contracts with clients.

IFRS 15 was issued in May 2014 and is to be applied for financial years commencing on or after 1 January 2018. The introduction of IFRS 15 had only little impact on the recognition, recording, presentation and disclosure in VP Bank Group. Insofar as material, the inclusion of further revenue captions will lead to a more detailed presentation of the types of revenue shown under commission and service income.

International Financial Reporting Standards, which are to be introduced in 2019 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 2019. 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.

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 leasing agreements 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. The effect of this new standard on VP Bank Group is not considered as material. VP Bank Group will apply the modified retrospective approach in accordance with which, at the time of initial application, the leasing liability and the right of use asset (RoU) will be recognised at the net present value of the outstanding leasing instalments on the basis of the incremental borrowing rate. Leasing arrangements for the rental of real estate, office premises as well as motor vehicles exist. Total assets will increase by some CHF 36 million. From 2019 onwards, depreciation and amortisation (approx. CHF 6 million) and interest expense (approx. CHF 0.5 million) will replace rental expense (approx. CHF 6 million) under the new standard.

IAS 19 – Employee benefits, adjustments resulting from amendment, curtailment or settlement of retirement benefit plan

The modification of the accounting provisions in IAS 19 concerns benefits payable to employees in the event of a modification, curtailment or settlement of a defined-benefit retirement-benefit plan. In future, in the case of a modification, 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 necessary revaluation of the net liability (asset). Furthermore, supplementary disclosures were incorporated which clarify the impact of a modification, curtailment or settlement on the asset ceiling requirements. The modifications take effect in respect of accounting periods beginning on or subsequent to 1 January 2019.

IFRIC 23

The Interpretation is to be applied to taxable profits (tax losses), tax assessment bases, unused tax-loss carry-forwards, unused tax credits and tax rates whenever uncertainty as to the tax treatment under IAS 12 exists. An entity shall apply discretion in determining whether each tax treatment 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 involved will accept the respective tax treatment (or combination of tax treatments) which it has applied or intends to apply in its tax declaration.

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 which method helps to better predict the 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 will not avail itself of this possibility. The amendments, once applied, will have no material impact on the consolidated financial statements of VP Bank Group.

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 abandons the goal of gaining short-term interest advantages at the expense of the security of capital. VP Bank avoids extreme risks which can jeopardise the 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 expansion 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 is 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 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 2018 aggregated CHF 4.5 billion as compared to CHF 3.8 billion in the prior year. Core capital as of 31 December 2018 was CHF 942.8 million as compared to CHF 976.6 million in the prior year. The overall equity ratio declined by 4.8 percentage points from 25.7 per cent at 31 December 2017 to 20.9 per cent at 31 December 2018. Both as at 31 December 2017 and 31 December 2018, 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

Effective capital, liquidity and risk management is an elementary prerequisite for the success and stability of a bank. VP Bank understands this term to mean the systematic process to identify, evaluate, manage and monitor the relevant risks as well as the steering of capital resources and liquidity necessary to assume risks and guarantee risk tolerance. The risk policy laid down 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). Described and clearly regulated therein are the specific goals and principles, organisational structures and processes, methods and instruments as well as target measures and limits.

In Liechtenstein, the legal regulatory requirements governing 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 Banking Act and related Ordinance. 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. As with regards to liquidity, since 1 January 2018 the Bank is required to maintain a Liquidity Coverage Ratio (LCR) of at least 100 per cent. Thanks to its solid equity basis, balance-sheet structure and comfortable liquidity position, VP Bank has constantly outperformed the regulatory requirements over the course of 2018.

In addition to quantitative measures, qualitative requirements for 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 development.

Capital and balance-sheet structure management

The regulatory minimum capital ratio of 13 per cent of risk-weighted assets consists of an 8 per cent minimum as well as additional capital conservation and systemic risk buffers of 2.5 per cent each. Furthermore, Basel III provides for an anti-cyclical capital buffer which, however, was set at 0 per cent for 2018 by the Financial Market Authority Liechtenstein.

VP Bank has observed the equity requirements during 2018 at all times. Thanks to an exceedingly robust tier-1 ratio of 20.9 per cent as at the end of 2018, VP Bank continues to enjoy ample scope for assuming risks associated with its conduct of banking operations. Even after accounting for all risks there remains potential for corporate acquisitions through free equity resources.

The Leverage Ratio (indebtedness ratio) of VP Bank amounted to 7.3 per cent at the end of 2018. Although the Financial Market Authority Liechtenstein has not yet formally established a requirement for a minimum ratio by end of 2018, VP Bank continues to disclose the Leverage Ratio in its disclosure report.

As part of the management of equity resources and the balance-sheet structure, compliance with regulatory requirements and the coverage of its business needs is monitored on an on-going basis. Using an internal process to assess the adequacy of capital resources (Internal Capital Adequacy Assessment Process), possible adverse effects on the equity and liquidity position under stress situations are simulated and analysed.

Liquidity management

Besides observing legal liquidity requirements and provisions, liquidity risks of the interbank business and credit-granting activities are monitored and managed using internal directives and limits. Maintaining sufficient liquidity at all times has utmost priority at VP Bank Group. This is assured with large cash and cash equivalent holdings as well as high-quality liquid assets (HQLA). VP Bank has observed the minimum regulatory liquidity requirements during 2018 at all times.

VP Bank Group's comfortable liquidity position is reflected with a Liquidity Coverage Ratio (LCR) of 143 per cent as at 31 December 2018, and in compliance with the minimum regulatory requirement of 100 per cent.

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 2018, the ILAAP was surveyed and assessed for the first time by the Financial Market Authority Liechtenstein using a specific questionnaire.

As part of its liquidity management process, VP Bank has established an emergency liquidity plan to ensure that VP Bank holds adequate liquidity in the event 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 subjected to on-going monitoring. Using stress tests, possible adverse scenarios are simulated and the impact on liquidity in stress situations analysed.

Credit risk

Due to the importance of the client lending business (CHF 6.2 billion as of 31 December 2018 or 50 per cent of total assets), management and monitoring of credit risks plays a central role at VP Bank. Credit risk management in the client lending business is governed – in addition to risk-policy regulations – by a set of rules for granting loans. In 2018, the volume of client loans increased by CHF 0.5 billion to CHF 6.2 billion whereas in the interbank business, the volumes fell by CHF 0.1 billion to CHF 0.8 billion.

Market risk

Given the importance of the interest-margin business, management and monitoring of market risk on the balance sheet takes on particular importance. Here, VP Bank Group is primarily exposed to interest-rate, foreign-currency and equity price risks. While short term interest rates in the US Dollar continued to increase during 2018, the interest rate environment in Switzerland and Europe was characterised by negative interest rates. This presents major challenges for balance sheet management as it remains difficult to invest client deposits at adequate yields.

Operational risks

VP Bank defines operational risk as potential losses incurred as a consequence of the inappropriateness or failure of internal processes, individuals, systems or as a result of external events. With risk assessments possible risk scenarios are identified, described and assessed. Operational risk is controlled in all organisational units of VP Bank by their respective executive management. Thanks to such uniform implementation, it is possible to provide meaningful reporting of operational risks in VP Bank Group on a quarterly basis to relevant stakeholders (Board of Directors, Group Executive Management and senior executives).

Further risks

In addition to the aforementioned risks, 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 predicated on the following principles:

Alignment of risk tolerance and risk appetite

Risk tolerance signifies the capacity of a bank to continue as a going concern or at least to fully satisfy the demands of investors and creditors, despite arising material losses. Risk appetite indicates the potential loss which the bank is prepared to bear without jeopardising the bank's ability to continue as a going concern. As a strategic success factor, risk tolerance is to be maintained and enhanced by employing a suitable process to ensure an appropriate capital and liquidity base.

Clearly defined powers of authority and responsibilities

Risk appetite is rendered operational with the aid of a comprehensive system of limits and implemented in an effective manner together with a clear set of guidelines. These guidelines govern the tasks, authorities and responsibilities of all functions and organisational units participating in the risk and capital management processes.

Conscientious handling of risks

Strategic and operational decisions are taken with risks/returns considerations and aligned with the interests of stakeholders. Besides adhering to legal and regulatory provisions as well as observing principles governing business and ethical policies, VP Bank ensures that risks are appropriately understood, rewarded and the technical prerequisites to map them available. It avoids transactions with an unbalanced relationship of risks to returns, large risks and extreme risk concentrations which could jeopardise 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 of the functions involved in the management of risks.

Transparency

The underlying principle of risk monitoring is a 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 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. Significant risks identified are based on the business model, related offerings of financial products and services of VP Bank.

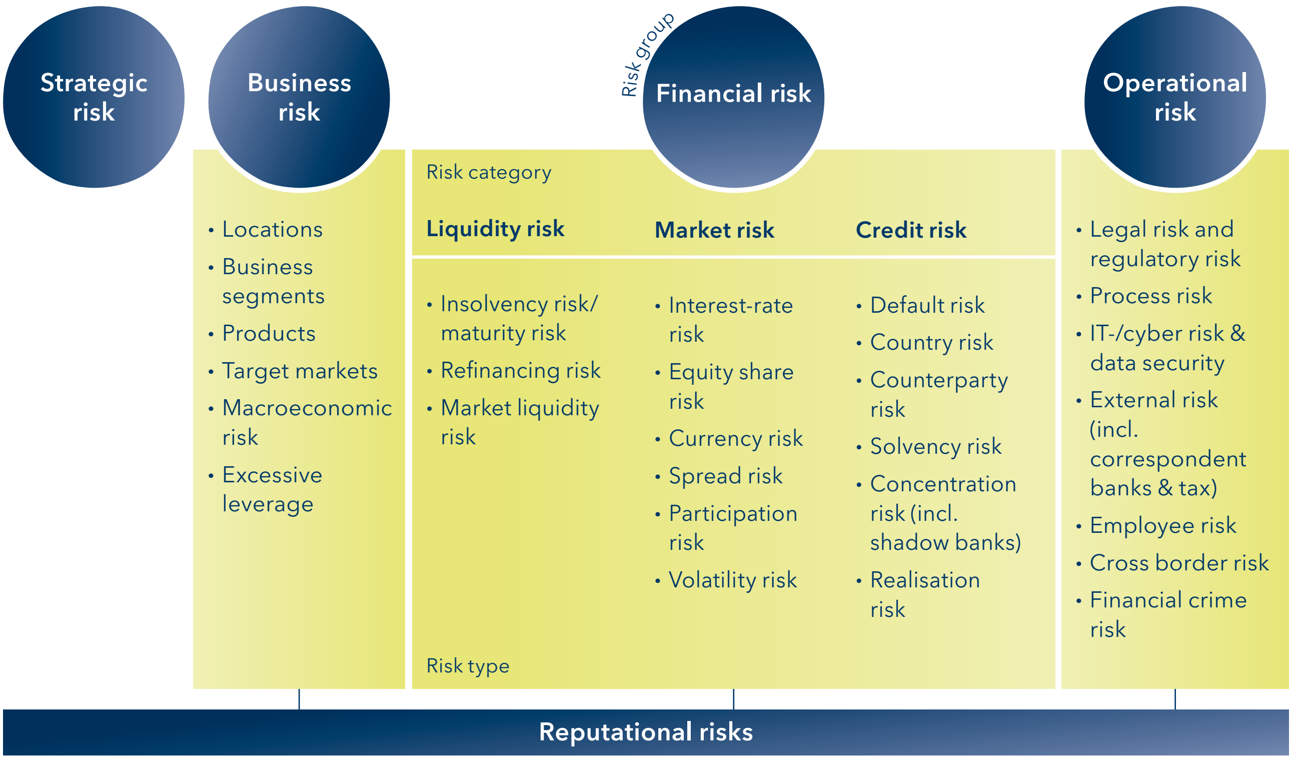
The following table gives an overview over the risks to which VP Bank is exposed in its ordinary course of business. These are allocated to five risk groups – strategy, business, financial, operational and reputational risk.

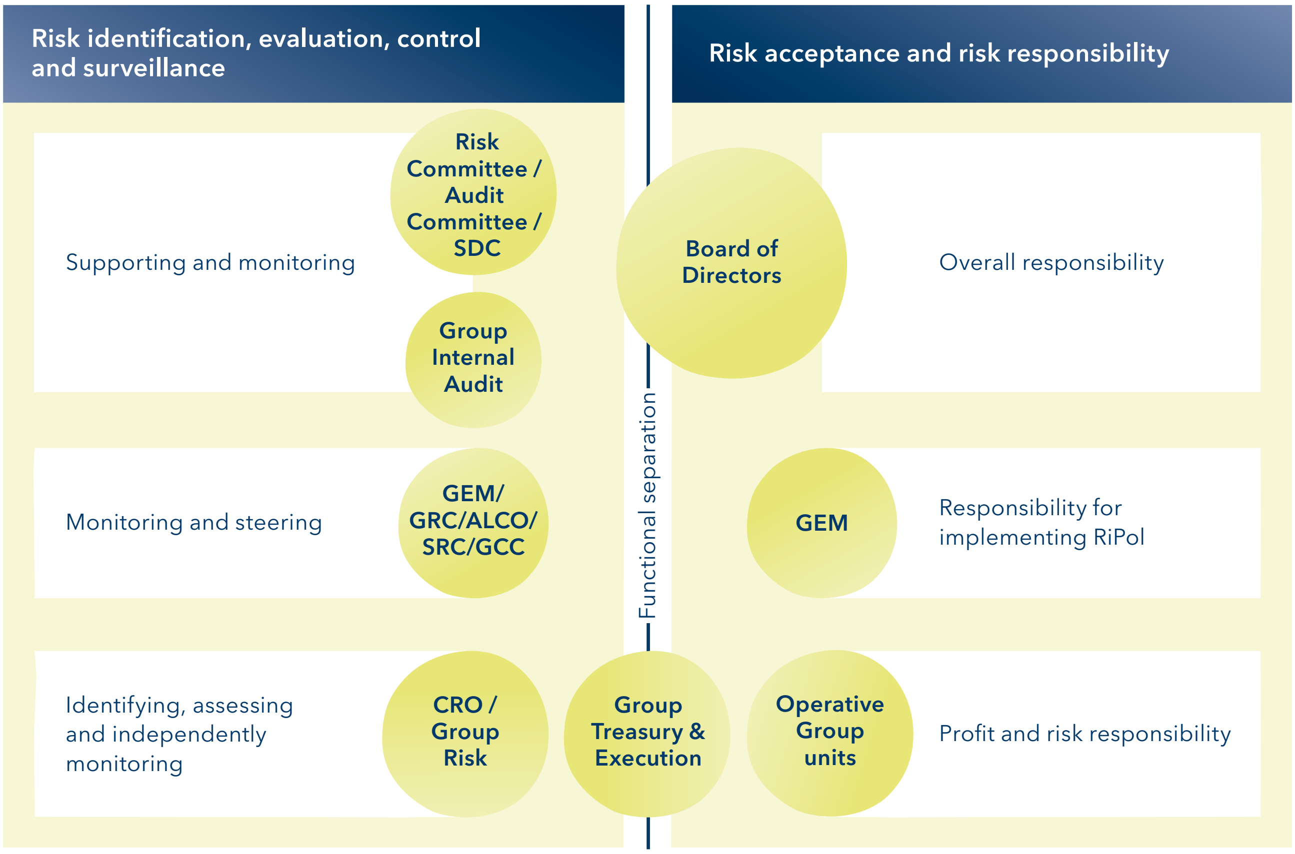
Strategy risk encompasses the risk of a potential decline in profitability as a result of an inadequate corporate orientation in relation to the market environment (political, social, technological, ecological, legal) and can arise from an unsuitable strategic positioning or absence of effective counter-measures in 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 decisively 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 expresses 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 risks express 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 expression of 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 as a result of an insufficient realisation of collateral.

Operational risk represents the danger 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 crystallise 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 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. 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 central tasks, competencies and responsibilities of those positions, organisational units and committees for the individual risk groups which are involved in the risk-management process. The imperative of the functional and organisational segregation of risk management and risk monitoring applies, thereby avoiding conflicts of interest between those units which assume risks and those which monitor them. The management, monitoring and verification of risks takes place over three lines of defence:

1. 1st line of defence: risk management
2. 2nd line of defence: risk monitoring
3. 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. It is its remit to establish and maintain suitable processes and an organisational structure as well as a system of internal control (ICS) for an effective and efficient management of equity resources, liquidity and risk, thereby ensuring the risk tolerance of the Bank. 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. Organisationally, it forms an autonomous organisational unit which is independent of operations and is responsible for the periodic audit of structures and processes of relevance in connection with the risk policy as well as compliance therewith.

Group Executive Management (GEM) is responsible for implementation and observance of the risk policy approved by the Board of Directors. Amongst its central tasks is to ensure the functional capability of the risk management process and the Internal Control System (ICS). Furthermore, it is responsible for the composition and assignment of duties, responsibilities and competencies of the Asset & Liability Committee, the allocation of objectives and limits 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) which is the supreme body to monitor and steering the risks of VP Bank, Group Executive Management assumes responsibility 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 the 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. This includes in particular dealing with credit applications within the scope of delegated competencies as well as the risk assessment of individual credits.

Group Treasury & Execution bears the responsibility for the day-to-day steering of financial risks within the target measures and limits 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 centres and regularly prepares credit reports for the attention of Group Executive Management.

The **Chief Risk Officer** (CRO) heads the risk management function. Within Group Executive Management, he/she is responsible for 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 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 tolerance

The primary objective of the Internal Capital Adequacy Assessment Process (ICAAP) is compliance with the regulatory capital-adequacy requirements and thus guaranteeing the ability to continue as a going concern. The risks of banking operations are to be borne by the freely available risk-coverage equity. The risk management process in VP Bank for all significant risks 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 serves 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 freely available risk-coverage equity, 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 identification (risk inventory): In the annual risk inventory to be undertaken as part of the review of the framework 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 on the basis of both quantitative and qualitative criteria, Significant risks are fully integrated into the risk-management cycle. Insignificant risks are reviewed and monitored at least annually 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 also includes risk types which are not covered 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 influence the Bank's risks identified as being significant. 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 both strategic and operating levels.

Based upon the juxtaposition of risks and limits on one hand, as well as of regulatory and economically required capital and risk coverage capacity on the other, counter-measures are taken in case of a negative deviation.

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 routine target to actual comparison. The target is constituted by the limits and target measures set, as well as from legal and supervisory-law prescriptions. For the review of the extent to which limits are exhausted (actual), early warning stages are deployed in addition, in order to take timely steering measures for any risks before they crystallise.

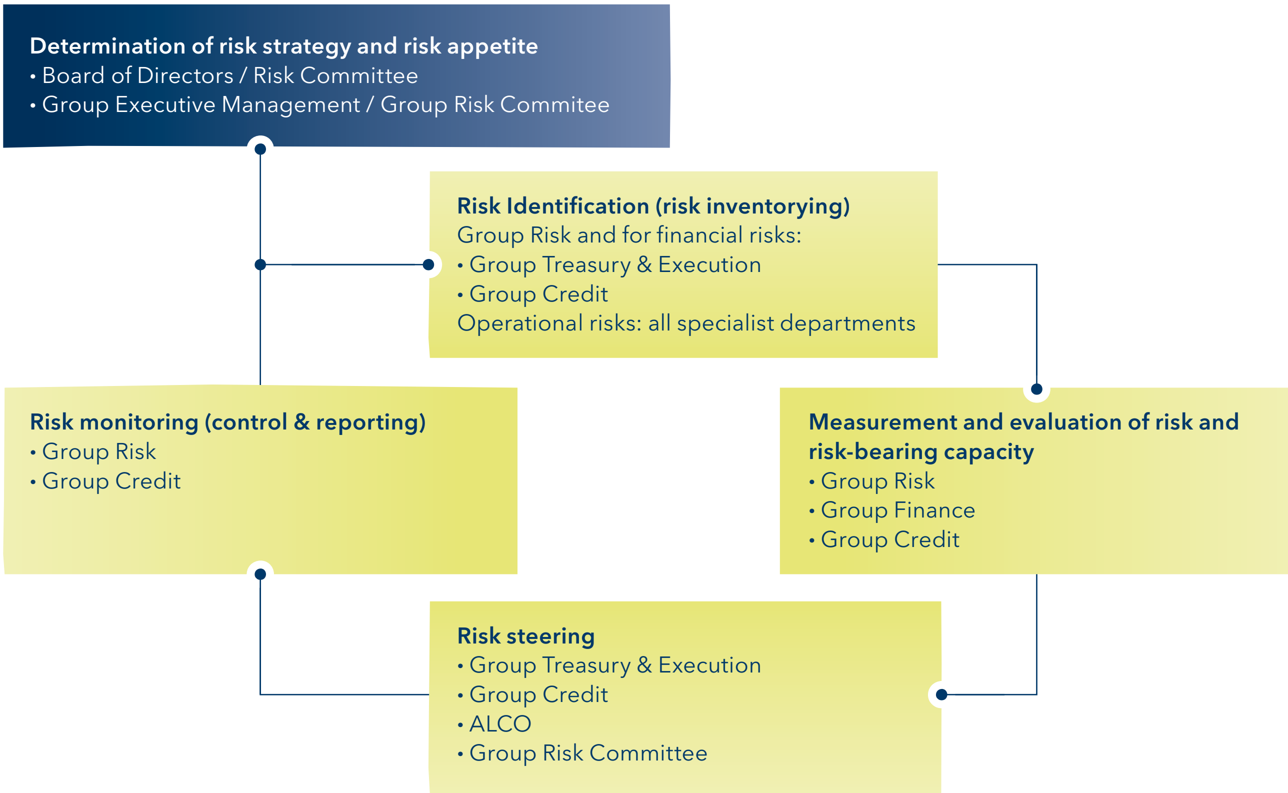
As operational risks may arise as a result of internal control failures during current business activities, control over operational risks in all organisational units of VP Bank is undertaken by the respective executive management.

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, results of monitoring are set forth in a reliable, regular, understandable and transparent manner. Reporting is made ex ante as an input for decisions and ex post for control purposes – in particular to analyse any deviation from budgeted values – as well as ad hoc in case of suddenly and unexpectedly occurring risks.

The process of ensuring the risk tolerance of VP Bank Group is presented in the following diagram:

Process supervision (Group Internal Audit, External Auditors)



4. Disclosure of required equity

The required qualitative and quantitative information on capital adequacy, the strategies and procedures for risk management as well as on the risk situation of VP Bank are set forth in the Risk Report and the commentary on the consolidated financial statements. Over and above this, VP Bank Group has drawn up a Disclosure Report for the 2018 financial year. 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 with regards to strategy, business and reputational risk, no explicit regulatory capital adequacy requirements are stipulated in the CRR.

As of 31 December 2018, the business activities of VP Bank Group required equity totalling CHF 586.3 million (prior year: CHF 493.9 million). This represents 13 per cent of the eligible assets of CHF 4,510.3 million (prior year: CHF 3,799.4 million). The excess of equity (based upon a requirement of 13.0 per cent) as at 31 December 2018 amounted to CHF 356.4 million (prior year: CHF 482.6 million). The tier-1 ratio of 20.9% (prior year: 25.7%) reflects the on-going extremely robust equity situation of VP Bank. In 2018, 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).

The following table shows the capital-adequacy situation of the Group as of 31 December 2018.

Capital-adequacy computation (Basel III)

in CHF 1,000	31.12.2018	31.12.2017
Core capital		
• Paid-in capital	66,154	66,154
• Disclosed reserves	949,220	926,519
• Group net income	54,717	65,770
• Deduction for treasury shares	–65,807	–47,889
Deduction for dividends as per proposal of Board of Directors	–36,385	–36,385
Deduction for goodwill and intangible assets	–48,749	–31,660
Other adjustments	23,633	34,044
Eligible core capital (tier 1)	**942,783**	**976,553**
Eligible core capital (adjusted)	**942,783**	**976,553**
Credit risk (in accordance with Liechtenstein standard approach)	299,785	238,765
thereof price risk regarding equity securities in the banking book	4,098	4,798
Market risk (in accordance with Liechtenstein standard approach)	17,163	15,977
Operational risk (in accordance with basic indicator approach)	43,136	48,712
Credit Value Adjustment (CVA)	742	499
Total required equity	**360,826**	**303,953**
Capital buffer	225,516	189,971
Total required equity including capital buffer	**586,342**	**493,924**
CET1 equity ratio	20.9%	25.7%
Tier 1 ratio	20.9%	25.7%
Overall equity ratio	20.9%	25.7%
Total risk-weighted assets	**4,510,319**	**3,799,412**
Return on investment (net income / average balance sheet total)	0.4%	0.5%

5. Financial risks

Whilst complying with the relevant legal and supervisory-law provisions, the monitoring and steering of financial risks is based upon internal bank target measures and limits relating to volumes and sensitivities. Scenario analyses and stress tests demonstrate in addition the effect of events which were not or not sufficiently taken into consideration within the scope of ordinary risk evaluation.

In this respect, the Board of Directors lays down strategic guard rails within which risk management is undertaken. 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 as a result of positions being entered into in debt securities, equity shares and other securities under financial investments, foreign currencies, precious metals and in related derivatives, arising both from activities for clients as well as for consolidated Group companies whose functional currency is denominated in a foreign currency.

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, analysed by 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 foreign-currency risk. An overview, analysed by currency, is to be found in appendix 34 (cf. balance sheet by currency).

The Bank employs a comprehensive set of methods and indicators for the monitoring and management of market risks. In this respect, the value-at-risk approach has established itself 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 as of the date of the evaluation. The value-at-risk indicator is computed on a Group-wide basis with the aid 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 all positions subject to market risk. The projected loss is valid for a holding period of one year and will not be exceeded with a probability of 99 per cent. To compute the value-at-risk for interest-rate risk, fixed interest-bearing positions are mapped with the interest lock-up period and variable interest positions using an internal replication model.

The market risk value-at-risk of VP Bank Group at 31 December 2018 amounted to CHF 154.7 million (prior year: CHF 122.4 million).

The following table shows the value-at-risk (on a monthly basis) analysed by types of risk and the market value-at-risk computed over all risk categories. The computation of average, highest, lowest values by risk type and aggregate values 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
2018				
Year-end	154.7	82.9	35.9	35.9
Average	143.4	78.6	33.1	31.8
Highest value	154.7	83.3	36.2	35.9
Lowest Value	119.0	69.2	19.5	30.3
2017				
Year-end	122.4	69.9	17.6	34.9
Average	123.0	70.2	17.4	35.4
Highest value	128.1	73.2	19.7	38.5
Lowest Value	117.7	67.6	15.6	32.3

As the maximum losses arising from extreme market situations cannot be determined with the value-at-risk approach, the market risk analysis is supplemented by stress tests. Such tests render possible an estimate of the effects on the net present value of equity of extreme market fluctuations in the risk factors. 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 exemplifies the results of the key rate duration process. 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 in each maturity band and per currency are then increased by one per cent (+100 basis points). 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
31.12.2018						
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**
31.12.2017						
CHF	1,100	1,851	1,179	–20,815	–16,657	–33,342
EUR	910	–62	242	–10,871	–15,043	–24,824
USD	508	–643	2,154	–10,551	–2,110	–10,642
Other currencies	230	–85	747	1,963	–87	2,768
Total	**2,748**	**1,061**	**4,322**	**–40,274**	**–33,897**	**–66,040**

In the table on the right the effects of a negative movement in the principal currencies on consolidated 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 31.12.2018 and 31.12.2017, respectively.

Movements in significant foreign currencies

Currency	Variance in %	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
2018			
EUR	–6	–2,924	0
USD	–8	–8,097	–4,115
2017			
EUR	–6	–3,516	0
USD	–8	–7,252	–8,346

The impact of a possible downturn in equity markets of 10, 20 and 30 per cent, respectively, on consolidated 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
2018		
–10%	–8,090	–5,114
–20%	–16,180	–10,227
–30%	–24,271	–15,341
2017		
–10%	–5,855	–859
–20%	–11,710	–1,717
–30%	–17,566	–2,576

For risk steering purposes, derivative financial instruments are entered into exclusively in the banking book and serve to hedge equity price, interest-rate and currency risks in the banking book. Eligible derivatives 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 with short-term client deposits and is thus subject to interest rate risk. Rising interest rates have an adverse impact on the net present value of fixed interest-bearing credits and increase refinancing costs. As part of its Asset & Liability Management, interest rate swaps measured at fair value are deployed to hedge this risk. VP Bank applies fair-value hedge accounting under IFRS in order to record the offsetting effect of changes in value of the hedged credit transactions on the balance sheet. For this purpose, a portion of the underlying transactions (fixed-interest credits) are linked to the hedging transactions (payer swaps) through hedging relationships. In the event of fair-value changes caused by interest-rate changes, the carrying value of the respective underlying transactions are adjusted and the gains/losses taken to income.

Because the unsettled fixed-interest positions are transformed into variable interest rate positions through transacting payer swaps, a close economic relationship between the underlying and hedging transactions exists 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 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 reassessed 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 on the basis of 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 in 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 arising differences 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 of significant extent 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 client-related business – whilst complying with the legal liquidity norms and provisions regarding risk concentrations on both asset and liability side.

As at the end of 2018, a lower limit of 100 per cent for the Liquidity Coverage Ratio (LCR) applies. With a value of 143 per cent for the LCR at the end of 2018, VP Bank presents a very comfortable liquidity situation.

For short-term maturity bands, the Bank refinances itself to a significant degree with sight balances from clients. The maturity structure of assets and liabilities is set out in appendix 35.

VP Bank could further rapidly procure liquidity on a secured basis through its access to the Eurex repo market. The risk of an extraordinary, nevertheless plausible event which will take place with a very small probability can be measured with stress tests. In this manner, VP Bank can take all applicable counter-measures on a timely basis and set limits where necessary.

Credit risks

Credit risks arise from all transactions for which payment obligations of third parties in favour of the bank exist or can arise. Credit risks accrue to VP Bank from client lending activities and 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 can arise through inadequate diversification of the credit portfolio. Such concentrations can constitute exposures from borrowers which are domiciled in the same countries or regions, are active in the same industry segment or possess similar collateral. Concentrations can lead to the credit-worthiness of borrowers being impacted by the same economic, political or other factors. Risk concentrations are closely monitored by VP Bank as well as being controlled with corresponding limits and operational controls.

As of 31 December 2018, total credit exposures amounted to CHF 9.6 billion without considering collateral (31 December 2017: CHF 8.9 billion). The table on the right shows the exposures for on- and off-balance sheet positions.

Credit exposures

in CHF 1,000	31.12.2018	31.12.2017
On-balance-sheet assets		
Receivables arising from money market papers	67,407	20,279
Due from banks	771,107	892,620
Due from customers	6,195,833	5,647,091
Public-law enterprises	493	487
Trading portfolios		
Derivative financial instruments	42,164	29,457
Financial instruments at fair value	112,678	133,661
Financial instruments measured at amortised cost	2,389,521	2,171,837
Total	**9,579,203**	**8,895,432**
Off-balance-sheet transactions		
Contingent liabilities	207,207	128,846
Irrevocable facilities granted	93,898	58,056
Total	**301,105**	**186,902**

The following tables show the split of the aggregate credit exposures of CHF 9.6 billion (31 December 2017: CHF 8.9 billion) by counterparty, collateral, risk-weighting classes and domicile.

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 31.12.2018							
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**
On-balance-sheet assets as of 31.12.2017							
Receivables arising from money market papers	20,279						20,279
Due from banks		892,467	153				892,620
Due from customers	5,902	13,173	78,854	2,174,247	3,374,367	548	5,647,091
Public-law enterprises			487				487
Trading portfolios							0
Derivative financial instruments		4,492	4,889	2,927	6,663	10,486	29,457
Financial instruments at fair value	6,632	51,908	40,166	34,946		9	133,661
Financial instruments measured at amortised cost	488,080	576,385	382,424	718,746		6,202	2,171,837
Total	**520,893**	**1,538,425**	**506,973**	**2,930,866**	**3,381,030**	**17,245**	**8,895,432**
Off-balance-sheet transactions as of 31.12.2017							
Contingent liabilities	12	59,838	747	29,887	18,638	19,724	128,846
Irrevocable facilities granted		59	1,666	38,124	18,207		58,056
Total	**12**	**59,897**	**2,413**	**68,011**	**36,845**	**19,724**	**186,902**

The following table shows credit exposures according to collateral. Receivables from clients are granted by default 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, as a rule, on an unsecured basis.

Primarily residential properties and mixed or commercial objects in Switzerland and Liechtenstein serve as security in the mortgage-loan business. To value and manage mortgage collateral, the prescriptions of the Liechtenstein Capital-Adequacy Ordinance apply. Lombard credits are granted, by default, against pledges on 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 on collateral as well as the eligible collateral values by type of collateral 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 31.12.2018			
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**
On-balance-sheet assets as of 31.12.2017			
Receivables arising from money market papers		20,279	20,279
Due from banks		892,620	892,620
Due from customers	5,261,477	385,614	5,647,091
Public-law enterprises		487	487
Trading portfolios			0
Derivative financial instruments	14,408	15,049	29,457
Financial instruments at fair value		133,661	133,661
Financial instruments measured at amortised cost		2,171,837	2,171,837
Total	**5,275,885**	**3,619,547**	**8,895,432**
Off-balance-sheet transactions as of 31.12.2017			
Contingent liabilities	116,552	12,294	128,846
Irrevocable facilities granted	12,985	45,071	58,056
Total	**129,537**	**57,365**	**186,902**

In case of amounts due from banks, money-market paper and nostro positions in interest-bearing securities, the valuation is based on external credit ratings. The following tables show the individual on- and off-balance-sheet positions according to rating classes, risk-weighting 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 31.12.2018									
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**
On-balance-sheet assets as of 31.12.2017									
Receivables arising from money market papers	15,262		5,017						20,279
Due from banks	395,074		497,546						892,620
Due from customers	2,179,688		10,493	2,014,649	871,556	18,458	536,488	16,246	5,647,578
Derivative financial instruments	19,089		584		155	533	9,097		29,458
Financial instruments	727,458		1,009,396		437,002		131,642		2,305,498
Total	**3,336,571**	**0**	**1,523,036**	**2,014,649**	**1,308,713**	**18,991**	**677,227**	**16,246**	**8,895,432**
Off-balance-sheet transactions as of 31.12.2017									
Contingent liabilities	70,918		465		8,332	229	48,902		128,846
Irrevocable facilities granted	7,364		1,666	140		324	48,562		58,056
Total	**78,282**	**0**	**2,131**	**140**	**8,332**	**553**	**97,464**	**0**	**186,902**

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 31.12.2018							
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**

Credit exposures by country of domicile (continued)

in CHF 1,000	Liechtenstein and Switzerland	Europe	North America[1]	South America	Asia	Other	Total
On-balance-sheet assets as of 31.12.2017							
Receivables arising from money market papers		5,017			15,262		20,279
Due from banks	710,717	172,241	4,702		4,205	755	892,620
Due from customers	3,582,294	811,664	693,347	50,630	432,542	76,614	5,647,091
Public-law enterprises			487				487
Trading portfolios							0
Derivative financial instruments	14,390	8,467	5,326	218	375	681	29,457
Financial instruments at fair value		118,810	10,578		3,555	718	133,661
Financial instruments measured at amortised cost	222,295	998,695	834,238	12,017	60,016	44,576	2,171,837
Total	**4,529,696**	**2,114,894**	**1,548,678**	**62,865**	**515,955**	**123,344**	**8,895,432**
Off-balance-sheet transactions as of 31.12.2017							
Contingent liabilities	91,251	20,998	7,486	5,788	1,341	1,982	128,846
Irrevocable facilities granted	28,802	1,279	27,901		74		58,056
Total	**120,053**	**22,277**	**35,387**	**5,788**	**1,415**	**1,982**	**186,902**

[1] As per ISO-3166 the Caribbean countries are shown under North America.

Within the scope of the client lending business, loans are granted on a regional and international basis to private and commercial clients. The focus remains on the private client business with a volume of CHF 3.2 billion of mortgage credits (31 December 2017: CHF 3.3 billion). From a regional perspective, VP Bank conducts the majority of its 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 13 per cent of total credit exposures (31 December 2017: 14 per cent). Exposures to banks relate to institutions with a high credit capacity (investment grade rating) and registered office in an OECD country.

In addition to the Risk Policy rules, the credit granting rules constitute the binding framework regulating client lending activities. Set out therein are not only the general guidelines governing credit granting and conditions for the conclusion of credit business but also the decision makers and the corresponding bandwidths within the framework of which credits may be approved (rules on powers of authority).

In principle, the exposures in the private client and commercial business must be covered by the collateral value of the security (collateral less a deduction for risk). Counterparty risks in the loan business are governed by limits which restrict the level of exposure depending on credit-worthiness, industry segment, collateral and risk domicile of the client. VP Bank employs an internal rating procedure to evaluate credit-worthiness. Deviations from credit granting principles (exceptions to policy) are dealt with as part of the credit risk management process depending on the specific risk of the transaction.

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 arising from the reverse repo business, securities & lending activities, collateral management as well as OTC derivative transactions. Repo deposits are fully secured and the collateral received serves as a reliable source of liquidity in a crisis situation. Hence, counterparty risk and 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 the 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 on both individual client level and portfolio level. At the portfolio level, VP Bank uses expected and unexpected credit loss estimates to monitor and measure credit risk. The expected credit loss calculates a loss per credit portfolio which may be anticipated within one year, based on historical loss data and estimated default probabilities. 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 contract volume of credit derivatives by type of product.

Credit derivatives (contract volume)

in CHF 1,000	Providers of collateral as of 31.12.2018	Providers of collateral as of 31.12.2017
Collateralised debt obligations	9	9
Total	**9**	**9**

The following table shows impaired and non-performing receivables, as well as specific valuation allowances, by 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
31.12.2018			
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**
31.12.2017			
Liechtenstein and Switzerland	67,092	38,877	16,537
Europe	12,803	6,749	12,684
North America	34,695	14,193	12,323
South America			
Asia			
Other			
Total	**114,590**	**59,819**	**41,544**

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 2018	24,658			1,357	26,015
Total reporting period 2017	45,627	12,836		1,356	59,819

Country risk

Country risks arise whenever political or economic conditions specific to a country impinge on the value of an exposure abroad. Monitoring and management of country risk employs 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 case of secured exposures the location of collateral is used to determine the risk domicile.

The following table shows the split of credit exposures by country rating. 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 %	31.12.2018	31.12.2017
AAA	86.5	88.6
AA	8.8	7.9
A	2.3	1.4
BBB – B	0.7	0.5
CCC – C	0.1	0.0
Not Rated	1.6	1.6
Total	**100.0**	**100.0**

IFRS 9 Impairment

The conversion to IFRS 9 Impairment results in the need to disclose information in table form which is set out on the following pages.

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 31.12.2018
Cash and cash equivalents					
Investment Grade					
• Very Low credit risk	AAA	2,507,690			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		**2,507,690**	**0**	**0**	**2,507,690**
Loss allowance		–133			–133
Carrying amount		**2,507,557**	**0**	**0**	**2,507,557**
Receivables arising from money market papers					
Investment Grade					
• Very Low credit risk	AAA	46,741			46,741
• Low credit risk	AA+, AA, AA-, A+, A, A-	19,677			19,677
• Moderate credit risk	BBB+, BBB, BBB-	1,000			1,000
Non Investment Grade	BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C				0
Default	D				0
Gross Carrying amount		**67,418**	**0**	**0**	**67,418**
Loss allowance		–11			–11
Carrying amount		**67,407**	**0**	**0**	**67,407**
Due from banks					
Investment Grade					
• Very Low credit risk	AAA	72,952			72,952
• Low credit risk	AA+, AA, AA-, A+, A, A-	458,518			458,518
• Moderate credit risk	BBB+, BBB, BBB-	22,311			22,311
Non Investment Grade	BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C	35,031	663		35,694
Default	D				0
Gross Carrying amount		**588,812**	**663**	**0**	**589,475**
Loss allowance		–92			–92
Carrying amount		**588,720**	**663**	**0**	**589,383**
Due from customers					
Low credit risk		6,067,109			6,067,109
Moderate credit risk			112,467		112,467
High Credit Risk				32,099	32,099
Doubtful				6,213	6,213
Default				22,474	22,474
Gross Carrying amount		**6,067,109**	**112,467**	**60,786**	**6,240,362**
Loss allowance		–545	–10,467	–33,024	–44,036
Carrying amount		**6,066,564**	**102,000**	**27,762**	**6,196,326**

Credit exposures by rating classes (continued)

in CHF 1,000		Carrying amount of the below financial position			
	Rating (Standard & Poor's or Equivalent)	Stage 1	Stage 2	Stage 3	Total 31.12.2018
Financial instruments measured at amortised cost					
Investment Grade					
• Very Low credit risk	AAA	550,732			550,732
• Low credit risk	AA+, AA, AA-, A+, A, A-	1,602,338			1,602,338
• Moderate credit risk	BBB+, BBB, BBB-	237,809			237,809
Non Investment Grade	BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C				0
Default	D				0
Gross Carrying amount		**2,390,879**	**0**	**0**	**2,390,879**
Loss allowance		–1,358			–1,358
Carrying amount		**2,389,521**	**0**	**0**	**2,389,521**
Exposure to credit risk on loan commitments and financial guarantee contracts					
Low credit risk		23			23
Moderate credit risk					0
High Credit Risk		287,573	181		287,754
Doubtful					0
Default					0
Gross Carrying amount		**287,596**	**181**	**0**	**287,777**
Loss allowance		–30	–1		–31
Carrying amount		**287,566**	**180**	**0**	**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 2018
Receivables arising from money market papers				
01 January 2018	4			4
New financial assets originated or purchased	11			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.	–4			–4
Changes in models/risk parameters				0
Amounts written off				0
Foreign exchange and other adjustments				0
31 December 2018	**11**	**0**	**0**	**11**

Information about amounts arising from expected credit losses (continued)

in CHF 1,000	Expected credit loss of the below financial position			
	Stage 1	Stage 2	Stage 3	Total 2018
Due from banks				
01 January 2018	22			22
New financial assets originated or purchased	18			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.	–9			–9
Changes in models/risk parameters				0
Amounts written off				0
Foreign exchange and other adjustments	61			61
31 December 2018	**92**	**0**	**0**	**92**
Due from customers - mortgage loans				
01 January 2018	107	16,132	21,553	37,792
New financial assets originated or purchased	10	419		429
Transfers				0
• to stage 1	229		–229	0
• to stage 2		257	–257	0
• to stage 3				0
Net remeasurement of loss allowance	–238	–8,142	–7,283	–15,663
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	–67	–2,076	–4,591	–6,734
Changes in models/risk parameters				0
Amounts written off				0
Foreign exchange and other adjustments	20	–61	61	20
31 December 2018	**61**	**6,529**	**9,254**	**15,844**
Due from customers - lombard loans				
01 January 2018	501	4,537	18,430	23,468
New financial assets originated or purchased	208	3,864		4,072
Transfers				0
• to stage 1				0
• to stage 2				0
• to stage 3				0
Net remeasurement of loss allowance	–55	1	476	422
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	–414	–4,469		–4,883
Changes in models/risk parameters				0
Amounts written off			–1,476	–1,476
Foreign exchange and other adjustments	1		232	233
31 December 2018	**241**	**3,933**	**17,662**	**21,836**
Due from customers - other loans				
01 January 2018	203	4	1,561	1,768
New financial assets originated or purchased	168	4		172
Transfers				0
• to stage 1	1	–1		0
• to stage 2				0
• to stage 3				0
Net remeasurement of loss allowance	–3	–1	4,604	4,600
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	–107	–2	–25	–134
Changes in models/risk parameters				0
Amounts written off			–60	–60
Foreign exchange and other adjustments	–19	1	28	10
31 December 2018	**243**	**5**	**6,108**	**6,356**

Information about amounts arising from expected credit losses (continued)

in CHF 1,000	Expected credit loss of the below financial position			
	Stage 1	Stage 2	Stage 3	Total 2018
Financial instruments - measured at amortised cost				
01 January 2018	1,202			1,202
New financial assets originated or purchased	496			496
Transfers				0
• to stage 1				0
• to stage 2				0
• to stage 3				0
Net remeasurement of loss allowance	–96			–96
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	–243			–243
Changes in models/risk parameters				0
Amounts written off				0
Foreign exchange and other adjustments	–1			–1
31 December 2018	**1,358**	**0**	**0**	**1,358**
Cash and cash equivalents (in CHF 1,000)				
01 January 2018	168			168
Net remeasurment of loss allowance	–37			–37
New financial assets originated or purchased	1			1
Foreign exchange and other movements	1			1
31 December 2018	**133**	**0**	**0**	**133**
Exposure to credit risk on loan commitments and financial guarantee contracts				
01 January 2018	9	4		13
Net remeasurment of loss allowance	–1			–1
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	–2	–3		–5
New financial assets originated or purchased	5			5
Foreign exchange and other movements	19			19
31 December 2018	**30**	**1**	**0**	**31**

The following table shows the effect on valuation allowances of significant changes in the gross carrying values of financial instruments.

Volume reduction central banks, money market instruments and banks by CHF 1.168 million	–21			–21
Volume increase of bonds amc/oci by CHF 218 million	157			157
Volume increase of customer loans by CHF 549 million	86			86
Impact of changes in volumes on loss allowances	**222**	**0**	**0**	**222**
Reassessment of mortgage claims of VP Bank (BVI) Ltd	10	–10,148	–3,337	–13,475
Reassessment of other customer loans with specific allowances	3		–584	–581
Impact of changes in the credit risk of customer loans	**13**	**–10,148**	**–3,921**	**–14,056**
Other effects	**–330**			**–330**
Total	**–95**	**–10,148**	**–3,921**	**–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 2018
Financial assets modified during the period	
Amortised cost before modification	0
Net modificaton 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	68,560

Transition of IAS 39/37 to IFRS 9 Impairment

in CHF 1,000	2018 Individual (Stage 3)	2018 ECL (Stage 1 and 2)	2017 Individual	2017 Lump-sum IAS 37/39
Balance at the beginning of the financial year	41,544	25,083	36,535	26,617
Adjustment IFRS 9 ECL		–2,051		
Amounts written off on loans / utilisation in accordance with purpose	–6,557		–870	
Creation of valuation allowances and provisions for credit risks	10,650	3,526	12,285	2,421
Release of valuation allowances and provisions for credit risks	–12,612	–14,104	–6,412	–3,951
Foreign-currency translation differences and other adjustments	–1	152	6	–4
Balance at the end of the financial year	**33,024**	**12,606**	**41,544**	**25,083**

The portfolio-based valuation allowances as of 31.12.2017 were released, without impact on income, over the equity caption "profit reserves". The new ECL valuation allowance was recorded, without impact on income, over the equity caption "profit reserves".

The following table shows the impact of IFRS 9 valuation allowances on the balance sheet. Under IAS 39/37, VP Bank Group had already general valuation allowances (prior-year comparatives).

in CHF 1,000	01.01.2018	31.12.2017	Variance
Assets			
Cash and cash equivalents	168	0	168
Receivables arising from money market papers	4	0	4
Due from banks	22	1,066	–1,044
Due from customers	63,180	65,561	–2,381
Trading portfolios	0	0	0
Derivative financial instruments	0	0	0
Financial instruments at fair value	0	0	0
Financial instruments measured at amortised cost	1,202	0	1,202
Impact on assets	**64,576**	**66,627**	**–2,051**
Provisions	14	276	–262
Impact on liabilities	**14**	**276**	**–262**

in CHF 1,000	2018			2017		
	Gross amount	ECL (IFRS 9)	Carrying amount	Gross amount	Impairment (IAS 37/39)	Carrying amount
Cash and cash equivalents	2,521,409	–133	2,521,276	3,614,578		3,614,578
Receivables arising from money market papers	67,418	–11	67,407	20,279		20,279
Due from banks	771,199	–92	771,107	893,686	–1,066	892,620
Due from customers	6,240,362	–44,036	6,196,326	5,713,139	–65,561	5,647,578
Financial instruments measured at amortised cost	2,390,879	–1,358	2,389,521	2,171,837		2,171,837
Exposure to credit risk on loan commitments and financial guarantee contracts	301,105	–31	301,074	186,902	–276	186,626

6. Operational risks

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 that enough time for the planning and realisation of counter-measures still remains, early-warning indicators are deployed.
- Significant loss occurrences are systematically recorded and evaluated centrally. The findings from the collection of loss data flow directly into the risk-management process.

The central unit Group Risk 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 leading to operational risks are assessed within the framework of periodic risk assessments. Group Executive Management decides, on the basis of these assessments, on the appropriate course of action.

Each executive is responsible for the identification and evaluation of operational risks in their respective domains as well as for the definition and performance of key controls and measures to contain 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 stakeholders (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 a further important sub-area, is systematically pursued by VP Bank with expert and specialised knowledge along the lines of the ISO norm 22301:2012. The basis thereof is the BCM strategy which has been implemented by Group Executive Management and 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 crystallise. The organisation necessary for crisis management is in place and its members are routinely trained and instructed.

7. Business risk

Business risk results on one hand from unexpected changes in market and underlying conditions with an adverse effect on profitability or equity. 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. Such risk is analysed by Group Executive Management taking into consideration the external banking sector environment as well as the internal situation of the company. Top-down scenarios are derived, and corresponding measures developed, the implementation of which are assigned to the responsible body and/or organisational units (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 risks 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 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
Valuation allowances, provisions and losses	–2,858	–11,062	557	–13,363
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).

Business segment reporting 2017

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income	74,227	29,978	230	104,435
Total net income from commission business and services	90,612	37,131	–3,867	123,876
Income from trading activities	20,059	8,361	21,824	50,244
Income from financial instruments	8	78	19,132	19,218
Other income	0	2,527	–198	2,329
Total operating income	**184,906**	**78,075**	**37,121**	**300,102**
Personnel expenses	35,216	41,361	58,213	134,790
General and administrative expenses	3,744	22,329	31,725	57,798
Depreciation of property, equipment and intangible assets	3,430	3,163	16,971	23,564
Valuation allowances, provisions and losses[1]	–1,000	4,074	10,534	13,608
Services to/from other segments	39,689	0	–39,689	0
Operating expenses	**81,079**	**70,927**	**77,754**	**229,760**
Earnings before income tax	**103,827**	**7,148**	**–40,633**	**70,342**
Taxes on income				4,572
Group net income				**65,770**
Segment assets (in CHF million)	4,151	4,111	4,516	12,778
Segment liabilities (in CHF million)	7,301	3,434	1,048	11,784
Client assets under management (in CHF billion)[2]	26.7	13.7	0.0	40.4
Net new money (in CHF billion)	0.4	1.5	0.0	1.9
Headcount (number of employees)	195	279	387	861
Headcount (expressed as full-time equivalents)	183.4	262.2	353.9	799.5

[1] The provision for a single payment of CHF 10.9 million which is to be made to the German authorities as part of an agreement is shown in corporate center.
[2] Calculation in accordance with Table P of the Guidelines to the Liechtenstein Banking Ordinance issued by the Government of Liechtenstein (FL-BankO).

The recharging of costs and revenues between the business units takes place on the basis of internal transfer prices, actual recharges or on prevailing market conditions. Recharged costs within the segments are subject to an annual review and 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
2018				
Total operating income	254,311	14,604	21,923	290,838
Total assets	10,768	913	747	12,428
2017				
Total operating income	258,889	20,720	20,493	300,102
Total assets	11,590	727	462	12,778

Segment reporting follows the principle of branch accounting.

Notes to the consolidated financial statement

1 Interest income

in CHF 1,000	2018	2017	Variance absolute	Variance in %
Interest and discount income	489	126	363	288.1
Loan commissions with the character of interest	490	588	–98	–16.7
Interest income from banks	2,818	2,267	551	24.3
Interest income from customers	99,527	87,176	12,351	14.2
Interest income from financial instruments measured at amortised cost	26,421	20,404	6,017	29.5
Interest income from financial liabilities	3,429	2,176	1,253	57.6
Total interest income from financial instruments at amortised cost	**133,174**	**112,737**	**20,437**	**18.1**
Interest-rate instruments	–1,348	–1,131	–217	–19.2
Trading derivatives (forward points)	31,068	26,883	4,185	15.6
Hedge accounting	67	71	–4	–5.6
Total other interest income	**29,787**	**25,823**	**3,964**	**15.4**
Total interest income	**162,961**	**138,560**	**24,401**	**17.6**
Interest expenses on amounts due to banks	370	2,168	–1,798	–82.9
Interest expenses on amounts due to customers	33,470	14,407	19,063	132.3
Interest expenses on medium-term notes	783	956	–173	–18.1
Interest expenses on debentures issued	1,273	1,273	0	0.0
Interest expense from financial assets	16,088	15,321	767	5.0
Total interest expenses using the effective interest method	**51,984**	**34,125**	**17,859**	**52.3**
Total net interest income	**110,977**	**104,435**	**6,542**	**6.3**
Fair-value hedges				
Movements arising from hedges	–317	1,150	–1,467	–127.6
• Micro fair-value hedges	–317	1,150	–1,467	–127.6
Movements in underlying transactions	384	–1,079	1,463	135.6
• Micro fair-value hedges	384	–1,079	1,463	135.6
Total hedge accounting[1]	**67**	**71**	**–4**	**–5.6**

[1] Hedge ineffectiveness, disclosed in the income statement; further details in note 37.

2 Income from commission business and services

in CHF 1,000	2018	2017	Variance absolute	Variance in %
Commission income from credit business	1,232	1,121	111	9.9
Asset management and investment business[1]	48,947	43,883	5,064	11.5
Brokerage fees	29,484	33,341	–3,857	–11.6
Securities account fees	20,648	20,779	–131	–0.6
Fund management fees[2]	50,681	61,526	–10,845	–17.6
Fiduciary commissions	1,916	1,398	518	37.1
Other commission and service income	18,335	18,999	–664	–3.5
Total income from commission business and services	**171,243**	**181,047**	**–9,804**	**–5.4**
Brokerage expenses	1,482	1,295	187	14.4
Other commission and services-related expenses[2]	45,489	55,876	–10,387	–18.6
Total expenses from commission business and services	**46,971**	**57,171**	**–10,200**	**–17.8**
Total net income from commission business and services	**124,272**	**123,876**	**396**	**0.3**

[1] Income from corporate actions, asset-management commissions, investment advisory services, all-in fees, securities lending and borrowing. The income includes fees for securities settlement of TCHF 7.394; administration commissions of TCHF 26.636 (of which management fees of TCHF 7.264, securities account fees of TCHF 4.176, brokerage fees of TCHF 2.116, administration fees of TCHF 13.080); all-in-fees of TCHF 11.906; miscellaneous fees of TCHF 3.012.
[2] The prior year's figure was adjusted by CHF 2.580 million because a subsidiary applied double gross accounting for internal purposes. This correction had no further impact on the financial statements.

3 Income from trading activities

in CHF 1,000	2018	2017	Variance absolute	Variance in %
Securities trading[1]	120	–1,362	1,482	108.8
Interest income from trading portfolios	0	0	0	0.0
Foreign currency	54,091	50,005	4,086	8.2
Banknotes, precious metals and other	773	1,601	–828	–51.7
Total income from trading activities	**54,984**	**50,244**	**4,740**	**9.4**

[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	2018	2017	Variance absolute	Variance in %
Income from financial instruments at fair value	–1,636	19,038	–20,674	–108.6
Income from financial instruments at amortised cost (foreign exchange)	–10	180	–190	–105.6
Total income from financial instruments	**–1,646**	**19,218**	**–20,864**	**–108.6**
Income from financial instruments at fair value				
Income from FVTPL assets	–8,812	11,753	–20,565	–175.0
Interest income from FVTPL financial instruments	2,234	3,319	–1,085	–32.7
Dividend income from FVTPL financial instruments	1,459	1,301	158	12.1
Dividend income from FVTOCI financial instruments	3,483	2,665	818	30.7
thereof from FVTOCI financial instruments sold	0	0	0	0.0
Total	**–1,636**	**19,038**	**–20,674**	**–108.6**
Income from financial instruments at amortised cost (foreign exchange)				
Revaluation gains/losses on financial instruments at amortised cost	59	14	45	321.4
Realised gains/losses on financial instruments at amortised cost	–69	166	–235	–141.6
Total	**–10**	**180**	**–190**	**–105.6**

5 Other income

in CHF 1,000	2018	2017	Variance absolute	Variance in %
Income from real estate	54	50	4	8.0
Income from associated companies	-3	722	-725	-100.4
Miscellaneous other income	2,200	1,557	643	41.3
Total other income	**2,251**	**2,329**	**-78**	**-3.3**

6 Personnel expenses

in CHF 1,000	2018	2017	Variance absolute	Variance in %
Salaries and wages	126,937	114,107	12,830	11.2
Social contributions required by law	10,688	9,618	1,070	11.1
Contributions to pension plans / defined-benefit plans[1]	11,681	3,485	8,196	235.2
Contributions to pension plans / defined-contribution plans	1,760	1,366	394	28.8
Other personnel expenses	6,618	6,214	404	6.5
Total personnel expenses	**157,684**	**134,790**	**22,894**	**17.0**

[1] Includes a result of CHF 10.1 million in 2017 from the conversion rate reduction (note 40).

7 General and administrative expenses

in CHF 1,000	2018	2017	Variance absolute	Variance in %
Occupancy expenses	9,012	7,771	1,241	16.0
Insurance	886	856	30	3.5
Professional fees	12,439	12,292	147	1.2
Financial information procurement	7,233	6,396	837	13.1
Telecommunication and postage	1,330	1,191	139	11.7
IT systems	16,456	14,909	1,547	10.4
Marketing and public relations	5,450	6,255	–805	–12.9
Capital taxes	917	837	80	9.6
Other general and administrative expenses	9,146	7,291	1,855	25.4
Total general and administrative expenses	**62,869**	**57,798**	**5,071**	**8.8**

8 Depreciation of property, equipment and intangible assets

in CHF 1,000	Note	2018	2017	Variance absolute	Variance in %
Depreciation and amortisation of property and equipment	22	8,983	8,599	384	4.5
Depreciation and amortisation of intangible assets	23	16,134	14,965	1,169	7.8
Total depreciation and amortisation		**25,117**	**23,564**	**1,553**	**6.6**

9 Valuation allowances, provisions and losses

in CHF 1,000	2018	2017	Variance absolute	Variance in %
De-/increase credit allowances	–12,659	1,976	–14,635	n.a.
Legal and litigation risks	–1,325	596	–1,921	–322.3
Other provisions and losses[2]	621	11,036	–10,415	–94.4
Total valuation allowances, provisions and losses	**–13,363**	**13,608**	**–26,971**	**–198.2**

[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.
[2] Includes a provision of CHF 10.9 million in 2017 for a single payment which is to be made to the German authorities as part of an agreement (page 105).

10a Taxes on income

in CHF 1,000	2018	2017
Domestic		
Current taxes	7,018	6,403
Deferred taxes	–1,509	–723
Foreign		
Current taxes	–31	–8
Deferred taxes	–1,664	–1,100
Total current taxes	6,987	6,395
Total deferred taxes	–3,173	–1,823
Total taxes on income	3,814	4,572

Actual payments for domestic and foreign taxes made by the Group in 2018 totalled CHF 6.3 million (2015: CHF 8.3 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:

	2018	2017
Liechtenstein	12.5%	12.5%
Switzerland	21.5%	25.0%
Luxembourg	27.1%	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	2018	2017
Income before income tax		
Domestic	51,190	73,319
Foreign	7,341	–2,977
Taxes on income using an assumed average charge	**8,780**	**10,551**
Reasons for increased/decreased taxable income		
Effect on tax free income / effect on non taxable expenses	–686	5,022
Difference between actual and assumed tax rates	–4,617	–1,950
Lower tax charges as a result of changes in laws or taxation agreements	163	–139
Use of non-capitalised losses carried forward	131	0
Tax income unrelated to accounting period	115	–721
Use of tax loss carry-forwards	–72	–8,191
Total income tax	**3,814**	**4,572**

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	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.

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 2017
Deferred tax assets					
Property, equipment and intangible assets	4,800	238	0	0	5,038
Valuation allowances for credit risks	0	0	0	0	0
Tax loss carry-forwards[1]	1,573	946	0	0	2,519
Defined-benefit pension plans	12,392	0	–2,946	0	9,446
Financial instruments	3,230	–1,027	0	0	2,203
Other	46	7	0	0	53
Total deferred tax assets	**22,041**	**164**	**–2,946**	**0**	**19,259**
Offsetting	0	0	0	0	0
Total deferred tax assets after offsetting	**22,041**	**164**	**–2,946**	**0**	**19,259**

in CHF 1'000	Stand am Anfang des Geschäfts-jahres	Erfolgs-wirksame Veränderung	Im sonstigen Gesamtergebnis erfasste Veränderung	Veränderung Konsolidie-rungskreis	Total 2017
Deferred tax liabilities					
Property, equipment and intangible assets	4,317	–619	0	0	3,698
Financial instruments	2,190	–567	–350	0	1,273
Financial instruments directly offset within shareholders' equity	345	–349	0	0	–4
Valuation allowances for credit risks	363	–195	0	0	168
Other	989	334	0	0	1,323
Total deferred tax liabilities	**8,204**	**–1,396**	**–350**	**0**	**6,458**
Offsetting	0	0	0	0	0
Total deferred tax liabilities after offsetting	**8,204**	**–1,396**	**–350**	**0**	**6,458**

[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	2018	2017
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	176
Total	**0**	**176**

10c Tax assets and liabilities

in CHF 1,000	Note	31.12.2018	31.12.2017
Tax assets			
Amounts receivable arising on current taxes on income		1,407	1,445
Deferred tax assets	10b	15,581	19,259
Total tax assets		**16,988**	**20,704**
Tax liabilities			
Liabilities arising on current taxes on income		7,041	6,056
Deferred tax liabilities	10b	0	6,458
Total tax liabilities		**7,041**	**12,514**

10d Tax effects to other comprehensive income

in CHF 1,000	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**

			31.12.2017
Changes in foreign-currency translation differences	–4,131	0	–4,131
Foreign-currency translation difference transferred to the income statement from shareholders' equity	0	0	0
Changes in value of FVTOCI financial instruments	–3,301	–350	–3,651
Actuarial gains/losses from defined-benefit pension plans	24,489	–2,946	21,543
Total comprehensive income in shareholders' equity	**17,057**	**–3,296**	**13,761**

11 Earnings per share

	31.12.2018	31.12.2017
Consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000)[1]	54,717	65,770
Weighted average of registered shares A	5,472,289	5,452,086
Weighted average of registered shares B	5,794,614	5,875,167
Total weighted average number of shares (registered share A)	6,051,750	6,039,603
Undiluted consolidated earnings per registered share A	9.04	10.89
Undiluted consolidated earnings per registered share B	0.90	1.09
Fully diluted consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000)[1]	54,717	65,770
Adjusted group net income (in CHF 1,000)	54,717	65,770
Number of shares used to compute the fully diluted consolidated net income	6,051,750	6,039,603
Fully diluted consolidated earnings per registered share A	9.04	10.89
Fully diluted consolidated earnings per registered share B	0.90	1.09

[1] On the basis of Group profits attributable to the shareholders of VP Bank Ltd, Vaduz.

12 Dividend

	2018	2017
Approved and paid dividend of VP Bank Ltd, Vaduz		
Dividend (in CHF 1,000) for the financial year 2017 (2016)	36,385	29,769
Dividend per registered share A	5.50	4.50
Dividend per registered share B	0.55	0.45
Payout ratio (in %)	50.5	46.8
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 2018	36,385	
Dividend per bearer share	5.50	
Dividend per registered share	0.55	
Payout ratio (in %)	60.8	

13 Cash and cash equivalents

in CHF 1,000	31.12.2018	31.12.2017
Cash on hand	13,719	18,047
At-sight balances with national and central banks	2,507,690	3,596,531
Expected credit loss	–133	0
Total cash and cash equivalents	**2,521,276**	**3,614,578**

14 Receivables arising from money-market paper

in CHF 1,000	31.12.2018	31.12.2017
Money-market paper (qualifying for refinancing purposes)	67,418	20,279
Other money-market paper	0	0
Expected credit loss	–11	0
Total receivables arising from money-market paper	**67,407**	**20,279**

15 Due from banks and customers

in CHF 1,000	Note	31.12.2018	31.12.2017
By type of exposure			
Due from banks – at-sight balances		690,322	741,278
Due from banks – term balances		80,877	152,408
Valuation allowances for credit risks	16	–92	–1,066
Due from banks		**771,107**	**892,620**
Mortgage receivables		3,231,706	3,320,906
Other receivables		3,008,656	2,392,233
Valuation allowances for credit risks	16	–44,036	–65,561
Due from customers		**6,196,326**	**5,647,578**
Total due from banks and customers		**6,967,433**	**6,540,198**
Due from customers by type of collateral			
Mortgage collateral		3,232,316	3,276,163
Other collateral		2,656,321	2,170,096
Without collateral		351,725	266,880
Subtotal		**6,240,362**	**5,713,139**
Valuation allowances for credit risks		–44,036	–65,561
Total due from customers		**6,196,326**	**5,647,578**

16 Valuation allowances for credit risks

in CHF 1,000	2018	2017
Balance at the beginning of the financial year	66,627	63,152
Adjustment IFRS 9 ECL	–3,425	0
Amounts written off on loans / utilisation in accordance with purpose	–6,557	–870
Creation of valuation allowances and provisions for credit risks	14,316	14,706
Release of valuation allowances and provisions for credit risks	–26,642	–10,363
Changes in scope of consolidation	0	0
Foreign-currency translation differences and other adjustments	–191	2
Balance at the end of the financial year	**44,128**	**66,627**
As valuation adjustment for due from banks	92	1,066
As valuation adjustment for due from customers	44,036	65,561
Total valuation allowances for credit risks	**44,128**	**66,627**

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 (stage 3)	0	3,630	29,394	33,024
Expected credit loss (stage 1 and 2)	92	5,667	5,345	11,104
Total	**92**	**9,297**	**34,739**	**44,128**

[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 2017
By type of exposure				
Balance at the beginning of the financial year	868	17,202	45,082	63,152
Amounts written off on loans / utilisation in accordance with purpose	0	–702	–168	–870
Creation of valuation allowances and provisions for credit risks	574	3,810	10,322	14,706
Release of valuation allowances and provisions for credit risks	–376	–1,205	–8,782	–10,363
Changes in scope of consolidation	0	0	0	0
Foreign-currency translation differences and other adjustments	0	82	–80	2
Balance at the end of the financial year	**1,066**	**19,187**	**46,374**	**66,627**
of which				
Individual valuation allowances	0	12,652	28,892	41,544
Lump-sum valuation allowances	1,066	6,535	17,482	25,083
Total	**1,066**	**19,187**	**46,374**	**66,627**

in CHF 1,000	2018 Individual	2018 ECL	2017 Individual	2017 Lump-sum
By type of valuation allowance				
Balance at the beginning of the financial year	41,544	25,083	36,535	26,617
Adjustment IFRS 9 ECL	0	–3,425	0	0
Amounts written off on loans / utilisation in accordance with purpose	–6,557	0	–870	0
Creation of valuation allowances and provisions for credit risks	10,650	3,666	12,285	2,421
Release of valuation allowances and provisions for credit risks	–12,612	–14,030	–6,412	–3,951
Changes in scope of consolidation	0	0	0	0
Foreign-currency translation differences and other adjustments	–1	–190	6	–4
Balance at the end of the financial year	**33,024**	**11,104**	**41,544**	**25,083**

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	2018	2017
Value-impaired loans[1]	60,196	114,590
Amount of valuation allowances for credit losses from non-performing loans	33,024	41,544
Net amounts due	**27,172**	**73,046**
Estimated realisable value of value-impaired loans	**47,506**	**83,144**
Average amount of value-impaired loans	**87,393**	**92,865**
Recoveries from loans already written off (other income)	90	12

[1] Interest receivable on non-performing loans in 2018 was CHF 1.637 million (2017: CHF 2.790 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	2018	2017
Non-performing loans	26,015	59,819
Amount of valuation allowances for credit losses from non-performing loans	12,056	15,996
Net amounts due	**13,959**	**43,823**
Average amount of non-performing loans	**42,917**	**52,510**
Valuation allowances on non-performing loans at the beginning of the financial year	15,996	23,033
Net decrease/increase	3,077	–6,167
Amounts written off and disposals / utilisation in conformity with purpose	–7,017	–870
Valuation allowances on non-performing loans at the end of the financial year	**12,056**	**15,996**

in CHF 1,000	31.12.2018	31.12.2017
According to type of exposure		
Banks	**0**	**0**
Mortgage receivables	16,473	52,627
Other receivables	9,542	7,192
Customers	**26,015**	**59,819**
Total non-performing loans	**26,015**	**59,819**
According to region (domicile of debtor)		
Liechtenstein and Switzerland	16,473	38,877
Rest of Europe	9,072	6,749
North and South America	0	14,193
Other countries	470	0
Total non-performing loans	**26,015**	**59,819**

17 Trading portfolios

in CHF 1,000	31.12.2018	31.12.2017
Debt securities valued at fair value		
Total	0	0
Equity securities / investment-fund units valued at fair value		
Total	0	0
Other	123	135
Total trading portfolios	**123**	**135**

18 Derivative financial instruments

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	10,662	13,450	1,434,654
Combined interest rate/currency swaps	12,501	16,624	3,464,049
Futures			
Options (OTC)	16,698	16,947	508,489
Options (exchange-traded)			
Total foreign currencies 31.12.2018	**39,861**	**47,021**	**5,407,192**
Equity securities/indices			
Forward contracts			
Futures			4,555
Options (OTC)	363	363	3,421
Options (exchange-traded)		372	15,386
Total equity securities/indices 31.12.2018	**363**	**735**	**23,362**
Precious metals			
Forward contracts	19	5	501
Swaps	1,133		37,883
Options (OTC)	315	310	81,667
Options (exchange-traded)			
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**

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.

31.12.2017 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments			
Forward contracts			
Swaps	762	15,379	301,910
Futures			
Options (OTC)			
Options (exchange-traded)			
Total interest-rate instruments 31.12.2017	**762**	**15,379**	**301,910**
Foreign currencies			
Forward contracts	2,180	1,736	317,795
Combined interest rate/currency swaps	25,001	28,628	4,334,197
Futures			
Options (OTC)	564	645	67,721
Options (exchange-traded)	0	12	507
Total foreign currencies 31.12.2017	**27,745**	**31,021**	**4,720,220**
Equity securities/indices			
Forward contracts			
Futures			3,910
Options (OTC)			
Options (exchange-traded)		554	8,866
Total equity securities/indices 31.12.2017	**0**	**554**	**12,776**
Precious metals			
Forward contracts	61	42	2,801
Swaps	747	46	42,966
Options (OTC)	142	142	34,205
Options (exchange-traded)			
Total precious metals 31.12.2017	**950**	**230**	**79,972**
Total derivative financial instruments 31.12.2017	**29,457**	**47,184**	**5,114,878**

19 Financial instruments at fair value

in CHF 1,000	31.12.2018	31.12.2017
Debt instruments		
Public-law institutions in Liechtenstein and Switzerland	0	0
Public-law institutions outside Liechtenstein and Switzerland	16,832	19,970
Exchange-listed	95,838	98,083
Non-exchange-listed	9	15,609
Total	**112,679**	**133,662**
Equity shares / investment fund units		
Exchange-listed	52,445	46,569
Non-exchange-listed	13,047	10,082
Total	**65,492**	**56,651**
Equity shares / investment fund units, through other comprehensive income (FVTOCI)		
Exchange-listed	45,666	0
Non-exchange-listed	4,354	8,585
Total	**50,020**	**8,585**
Structured products		
Exchange-listed	0	0
Non-exchange-listed[1]	4,072	1,910
Total	**4,072**	**1,910**
Total financial instruments at fair value	**232,263**	**200,808**

[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	31.12.2018	31.12.2017
Debt instruments		
Public-law institutions in Liechtenstein and Switzerland	57,357	49,547
Public-law institutions outside Liechtenstein and Switzerland	634,890	706,323
Exchange-listed	1,694,679	1,374,347
Non-exchange-listed	3,953	41,620
Expected credit loss	–1,358	0
Total	**2,389,521**	**2,171,837**
Total financial instruments at amortised cost	**2,389,521**	**2,171,837**

21 Associated companies

in CHF 1,000	2018	2017
Balance at the beginning of the financial year	33	66
Additions	–3	–33
Value impairments	0	0
Balance as of balance-sheet date	**30**	**33**

Details of material companies reflected in the consolidation using the equity method

Name	Registered office	Activity	Share capital	Capital held in % 31.12.2018	Capital held in % 31.12.2017
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	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**
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.

in CHF 1,000	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total 2017
Acquisition cost					
Balance on 01.01.2017	201,857	4,824	14,234	19,176	240,091
Additions	1,418	38	1,748	2,293	5,497
Disposals/derecognitions[1]	–1,442	–9	–849	–1,525	–3,825
Changes in scope of consolidation					0
Foreign-currency translation	–40	–8	–18	–20	–86
Other adjustments			–17		–17
Balance on 31.12.2017	**201,793**	**4,845**	**15,098**	**19,924**	**241,660**
Accumulated depreciation and amortisation					
Balance on 01.01.2017	–123,843	–4,381	–13,321	–15,808	–157,353
Depreciation and amortisation	–5,712	–134	–296	–2,457	–8,599
Valuation allowances					0
Disposals/derecognitions[1]	1,167	9	849	1,360	3,385
Changes in scope of consolidation					0
Foreign-currency translation	16	1	7	15	39
Balance on 31.12.2017	**–128,372**	**–4,505**	**–12,761**	**–16,890**	**–162,528**
Net book values on 31.12.2017	**73,421**	**340**	**2,337**	**3,034**	**79,132**

[1] Includes the derecognitions of completely depreciated and amortised assets.

Additional information regarding property and equipment

in CHF 1,000	2018	2017
Fire insurance value of real estate	173,150	180,702
Fire insurance value of other property and equipment	43,734	40,447
Fair value of other real estate	4,456	340

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 2018
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**

in CHF 1,000	Software	Other assets capitalised	Goodwill	Total 2017
Acquisition cost				
Balance on 01.01.2017	143,223	44,123	46,112	233,458
Additions	18,046			18,046
Disposals/derecognitions	–1,033			–1,033
Changes in scope of consolidation				0
Foreign-currency translation	–162			–162
Balance on 31.12.2017	**160,074**	**44,123**	**46,112**	**250,309**
Accumulated amortisation				
Balance on 01.01.2017	–133,666	–13,021	–35,302	–181,989
Depreciation and amortisation	–9,544	–5,421		–14,965
Valuation allowances				0
Disposals/derecognitions	997			997
Changes in scope of consolidation				0
Foreign-currency translation	162			162
Balance on 31.12.2017	**–142,051**	**–18,442**	**–35,302**	**–195,795**
Net book values on 31.12.2017	**18,023**	**25,681**	**10,810**	**54,514**

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 existing goodwill of CHF 10.810 million arises from the acquisition of VP Bank (Luxembourg) SA in 2001 and is allocated to the cash-generating unit Client Business International. Since 1 January 2005, this goodwill amount has no longer been subject to amortisation, but rather to an annual impairment test.

For the purposes of the impairment test carried out in 2018, 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	31.12.2018	31.12.2017
Value-added taxes and other tax receivables	3,798	3,087
Prepaid retirement pension contributions	0	0
Miscellaneous other assets[1]	19,802	16,377
Total other assets	**23,600**	**19,464**

[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
2018	90,634	5,978	1,552	0	98,164
2019	91,172	9,828	853	0	101,853
2020	16,909	1,478	1,035	0	19,422
2021	14,650	521	244	0	15,415
2022	2,315	687	0	0	3,002
2023	1,101	426	0	0	1,527
2024	309	289	53	0	651
2025	230	0	0	0	230
2026	139	0	0	0	139
2027	213	0	0	0	213
Total 31.12.2018	**217,672**	**19,207**	**3,737**	**0**	**240,616**
Total 31.12.2017	229,336	20,950	5,758	111	256,155

The average interest rate as of 31 December 2018 was 0.30 per cent (prior year: 0.34 per cent).

26 Debentures, VP Bank Ltd, Vaduz

Year of issue	ISIN	Interest rate in %	Currency	Maturity	Nominal amount	in CHF 1,000 Total 31.12.2018	Total 31.12.2017
2015	CH0262888933	0.5	CHF	07.04.2021	100,000	100,158	100,227
2015	CH0262888941	0.875	CHF	07.10.2024	100,000	100,316	100,370
Total					**200,000**	**200,474**	**200,597**

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) 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	31.12.2018	31.12.2017
Value-added taxes and other tax receivables	12,752	9,964
Accrued retirement pension contributions	69,647	63,401
Accrued expense for long service awards[1]	3,117	3,095
Miscellaneous other liabilities[2]	47,164	39,699
Total other liabilities	**132,680**	**116,159**

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 2018	Total 2017
Carrying value at the beginning of the financial year	276	2,498	13,384	829	16,987	8,755
Utilisation in accordance with purpose		–200	–12,605	–710	–13,515	–5,325
New provisions charged to income statement	32	103	284		419	12,945
Provisions releases to income statement	–14	–1,418	–936	–23	–2,391	–388
Foreign-currency translation differences and other adjustments	–263	–10	–6	–12	–291	1,000
Carrying value at the end of the financial year	**31**	**973**	**121**	**84**	**1,209**	**16,987**
Maturity of provisions						
• within one year					1,209	16,987
• over one year					0	0

29 Share capital

	31.12.2018 No. of shares	Nominal CHF	31.12.2017 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

	31.12.2018 No. of shares	31.12.2018 in CHF 1,000	31.12.2017 No. of shares	31.12.2017 in CHF 1,000
Registered shares A at the beginning of the financial year	547,320	46,767	593,777	50,559
Purchases	111,200	18,708	7,049	781
Sales	–59,078	–5,113	–53,506	–4,573
Balance of registered shares A as of balance-sheet date[1,3]	**599,442**	**60,362**	**547,320**	**46,767**
Registered shares B at the beginning of the financial year	131,662	1,122	127,812	1,073
Purchases	193,267	4,033	3,850	49
Sales	0	0	0	0
Balance of registered shares B as of balance-sheet date[2]	**324,929**	**5,155**	**131,662**	**1,122**

[1] Within the framework of the public share buyback programme, VP Bank AG is prepared to acquire a maximum of 180,000 registered shares A. However, VP Bank's holdings of registered shares A will not exceed the amount permitted under authorisation given by the annual general meeting of shareholders at any time (up to a maximum of 601,500 shares, which corresponds to 10% of all registered shares A). The buyback programme for the registered shares A on the ordinary trading line on the SIX Swiss Exchange will run from 27 June 2018 up to 28 June 2019. The maximum amount to be paid under this bid amounts to CHF 0.3 million (open permitted buyback of 2.058 registered shares A multiplied with closing price as per 31 December 2018) million and is deducted from its own shares. In the table above, these shares are not disclosed, as they are not yet in the possession of VP Bank Ltd. 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.

[3] VP Bank Ltd carried out a repurchase programme of registered shares A from 7 June 2016 to 31 May 2017. In the context of the repurchase programme, VP Bank acquired 88,835 registered shares A at a price of CHF 8.786 million. The repurchased shares are to be used for future acquisitions or for treasury management purposes. Own shares are offset against equity in line with IAS 32.

31 Assets pledged or assigned to secure own liabilities and assets subject to reservation of title

in CHF 1,000	31.12.2018 Market value	31.12.2018 Actual liability	31.12.2017 Market value	31.12.2017 Actual liability
Securities	692,752	0	650,127	0
Money-market paper	0	0	0	0
Other	0	0	0	0
Total pledged assets	**692,752**	**0**	**650,127**	**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 Future commitments under operating leases

At the end of the year, there were several operating lease contracts for real estate and other property and equipment, which are principally used for the conduct of business activities of the bank. The equipment leasing contracts contain renewal options as well as escape clauses.

in CHF 1,000	31.12.2018	31.12.2017
Remaining duration of up to 1 year	6,809	5,894
Remaining duration of 1 to 5 years	17,739	11,711
Remaining duration of over 5 years	15,083	8,597
Total minimum commitments under operating leases	**39,631**	**26,202**

As of 31 December 2018, general and administrative expenses include CHF 7.290 million of operating lease costs (prior year: CHF 7.448 million).

33 Litigation

As part of its ordinary banking activities, VP Bank Ltd is involved in various legal, regulatory and administrative 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 and profitability of VP Bank Ltd is dependent on the status of the proceedings and their outcome. VP Bank Ltd establishes provisions for on-going and threatened proceedings if it judges the probability that such proceedings will entail a financial commitment or loss to be greater than the probability of this not being the case. In isolated cases, in which the amount cannot be 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 as being 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, 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 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 required 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. After the Russian Agency of Deposit Insurance failed to obtain satisfaction of its claims directly from an account of VP Bank (Switzerland) Ltd with a Russian bank, the court bailiff commenced enforcement proceedings on 7 June 2018 against the Moscow representative office. As the Group contests the correctness of this decision, it does not recognise this claim. In addition, VP Bank Group has initiated measures to protect its own interests and those of its employees.

The second proceedings against VP Bank Ltd in an amount in dispute of USD 15 million are of a similar nature but are not yet closed. In these proceedings, only the issue of Russian jurisdiction was decided. On 16 March 2018, the competence of the Russian courts was confirmed by the Supreme Court. Following different appeals by the Bank, the decision as to the substance of the matter is still pending with the first court of instance, the Moscow Arbitration Court.

In both cases, VP Bank considers the risk of an outflow of funds as small, for which reason no provision has been constituted.

34 Balance sheet per currency

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**
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**

in CHF 1,000	CHF	USD	EUR	Other	Total 2017
Assets					
Cash and cash equivalents	3,476,074	538	137,360	606	3,614,578
Receivables arising from money-market paper	5,018			15,261	20,279
Due from banks	143,153	267,870	147,001	334,596	892,620
Due from customers	3,331,110	1,096,971	945,611	273,886	5,647,578
Trading portfolios				135	135
Derivative financial instruments	26,610	2,659		188	29,457
Financial instruments at fair value	83,381	64,439	52,860	128	200,808
Financial instruments at amortised cost	432,201	880,387	859,249		2,171,837
Associated companies	33				33
Property and equipment	78,282	789		61	79,132
Intangible assets	54,511	3			54,514
Tax receivables			1,445		1,445
Deferred tax assets	19,206			53	19,259
Accrued liabilities and deferred items	13,800	6,615	5,629	887	26,931
Assets held for sale					0
Other assets	15,425	376	3,034	629	19,464
Total assets 31.12.2017	**7,678,804**	**2,320,647**	**2,152,189**	**626,430**	**12,778,070**
Liabilities and shareholders' equity					
Due to banks	381,012	72,370	61,829	32,476	547,687
Due to customers – savings and deposits	651,660		509		652,169
Due to customers – other liabilities	2,510,941	3,472,433	2,963,920	959,986	9,907,280
Derivative financial instruments	45,654	1,102	111	317	47,184
Medium-term notes	228,016	5,270	22,869		256,155
Debenture issues	200,597				200,597
Tax liabilities	5,695		361		6,056
Deferred tax liabilities	6,458				6,458
Accrued liabilities and deferred items	26,018	1,069	1,865	2,255	31,207
Other liabilities	86,362	19,819	9,665	313	116,159
Provisions	2,789	730	13,468		16,987
Total liabilities	**4,145,202**	**3,572,793**	**3,074,597**	**995,347**	**11,787,939**
Total shareholders' equity	**884,815**	**104,326**	**0**	**990**	**990,131**
Total liabilities and shareholders' equity 31.12.2017	**5,030,017**	**3,677,119**	**3,074,597**	**996,337**	**12,778,070**

35 Maturity structure of assets and liabilities

in CHF 1,000	At sight	Callable	Due within 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

in CHF 1,000	At sight	Callable	1 year	Due within 1 to 5 years	Over 5 years	Total 2017
Assets						
Cash and cash equivalents	3,614,578					3,614,578
Receivables arising from money-market paper			20,279			20,279
Due from banks	741,278		150,928		414	892,620
Due from customers	241,860	247,145	3,205,475	1,634,482	318,616	5,647,578
Trading portfolios	135					135
Derivative financial instruments	23,448		6,009			29,457
Financial instruments at fair value	179,869			9,647	11,292	200,808
Financial instruments at amortised cost			368,543	1,307,167	496,127	2,171,837
Associated companies					33	33
Property and equipment[1]					79,132	79,132
Intangible assets					54,514	54,514
Tax receivables	1,445					1,445
Deferred tax assets	2,519			16,740		19,259
Accrued liabilities and deferred items	26,931					26,931
Assets held for sale						0
Other assets	19,223	241				19,464
Total assets 31.12.2017	**4,851,286**	**247,386**	**3,751,234**	**2,968,036**	**960,128**	**12,778,070**
Liabilities						
Due to banks	547,687					547,687
Due to customers – savings and deposits		652,169				652,169
Due to customers – other liabilities	7,873,559	1,369,051	628,939	35,731		9,907,280
Derivative financial instruments	47,184					47,184
Medium-term notes			66,533	185,768	3,854	256,155
Debenture issues				100,227	100,370	200,597
Tax liabilities	6,056					6,056
Deferred tax liabilities	1,715			4,743		6,458
Accrued liabilities and deferred items	31,207					31,207
Other liabilities	116,159					116,159
Provisions	16,987					16,987
Total liabilities 31.12.2017	**8,640,554**	**2,021,220**	**695,472**	**326,469**	**104,224**	**11,787,939**

[1] Without maturity

36 Classification of assets by country or groups of countries

	31.12.2018 in CHF 1,000	Proportion in %	31.12.2017 in CHF 1,000	Proportion in %
Liechtenstein and Switzerland	7,303,153	58.8	8,249,172	64.6
Rest of Europe	2,372,796	19.1	2,081,839	16.3
North America	1,049,819	8.4	1,071,280	8.4
Other countries	1,702,412	13.7	1,375,779	10.8
Total assets	**12,428,180**	**100.0**	**12,778,070**	**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 31.12.2018	Fair value 31.12.2018	Variance	Carrying value 31.12.2017	Fair value 31.12.2017	Variance
Assets						
Cash and cash equivalents	2,521	2,521	0	3,615	3,615	0
Receivables arising from money market paper	67	67	0	20	20	0
Due from banks	771	771	0	893	893	0
Due from customers	6,196	6,309	113	5,648	5,773	125
Trading portfolios	0	0	0	0	0	0
Derivative financial instruments	42	42	0	29	29	0
Financial instruments at fair value	232	232	0	201	201	0
of which designated on initial recognition	0	0	0	0	0	0
of which mandatory under IFRS 9	181	181	0	192	192	0
of which recognised in other comprehensive income with no effect on net income	51	51	0	9	9	0
Financial instruments at amortised cost	2,390	2,390	0	2,172	2,171	–1
Subtotal			**113**			**124**
Liabilities						
Due to banks	434	434	0	548	548	0
Due to customers	10,335	10,325	10	10,559	10,548	11
Derivative financial instruments	59	59	0	47	47	0
Medium-term notes	241	243	–2	256	259	–3
Debentures issued	200	204	–4	201	206	–5
Subtotal			**4**			**3**
Total variance			**117**			**127**

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	
Interest-rate swaps	150,844	473	7,361	Derivative financial instruments

Change of value of the hedged item used as the basis for recognising hedge ineffectiveness for the period[1]	–317

[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	168,593	0	1,836	0	Due from customers
of which active relationships	152,764	0	1,751	0	Due from customers
of which closed hedging relationships (client receivables)	15,829	0	85	0	Due from customers

Maturity of interest-rate swaps

in CHF million	1 year	Due within 1 to 5 years	Over 5 years	Total 2018
Fair value hedges				
Hedging of interest-rate risk				
Interest-rate swaps	25	94	32	151

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 instuments

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

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
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

In the financial year 2018 as well as in the financial year 2017, 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 31.12.2017
Assets				
Cash and cash equivalents	3,615			3,615
Receivables arising from money market paper	20			20
Due from banks		893		893
Due from customers		5,773		5,773
Trading portfolios				0
Derivative financial instruments		29		29
Financial instruments at fair value	165	34	2	201
Financial instruments at amortised cost	2,158	8	5	2,171
Liabilities				
Due to banks		548		548
Due to customers		10,548		10,548
Derivative financial instruments		47		47
Medium-term notes		259		259
Debentures issued	206			206

Level 3 financial instruments in CHF million	2018	2017
Balance sheet		
Holdings at the beginning of the year	8.4	6.9
Investments	0.0	1.6
Disposals	–5.2	0.0
Issues	0.0	0.0
Redemptions	0.0	0.0
Losses recognised in the income statement	0.0	–0.1
Losses recognised as other comprehensive income	–0.1	–0.1
Gains recognised in the income statement	1.0	0.1
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	**4.1**	**8.4**
Income on holdings at balance-sheet date		
Unrealised losses recognised in the income statement	0.0	–0.2
Unrealised losses recognised as other comprehensive income	–0.1	0.0
Unrealised gains recognised in the income statement	1.0	0.1
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 2018 or 31 December 2017.

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

31.12.2018 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	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**

31.12.2017 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	29,457		29,457	8,012		21,445
Collateral deposited for transactions with derivatives	89,126		89,126	31,550		57,576
Total assets	**118,583**	**0**	**118,583**	**39,562**	**0**	**79,021**

31.12.2017 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			0			0
Negative replacement values	47,184		47,184	8,012	27,059	12,113
Collateral received from transactions with derivatives			0			0
Total liabilities	**47,184**	**0**	**47,184**	**8,012**	**27,059**	**12,113**

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%
VPB Finanz Holding AG[2]	Zurich	CHF	20,000,000	100%
VP Bank (Switzerland) Ltd[2]	Zurich	CHF	20,000,000	100%
VP Bank (BVI) Ltd	Tortola	USD	10,000,000	100%

Shareholdings excluded from the scope of consolidation	none
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	VP Bank (Singapore) Ltd in VP Bank Ltd Singapore Branch[1]

[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.

[2] 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, a hundred-percent owned subsidiary of VP Bank Ltd, will be 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.

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	2018	2017
Remuneration of the members of the Board of Directors[1, 2]		
Remuneration due in the short term	1,373	1,358
Post-employment benefits		
Other long-term remuneration due		
Remuneration due upon termination of contract of employment		
Share-based payment[3]	431	425
Remuneration of the members of Group Management[2]		
Remuneration due in the short term	4,350	3,947
Post-employment benefits		
Other long-term remuneration due		
Remuneration due upon termination of contract of employment		75
Share-based payments[4]	3,425	1,856

[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 2018 was CHF 0.822 million (previous year: CHF 0.735 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 2018, held 103,025 registered shares A of VP Bank Ltd, Vaduz (previous year: 105,857 registered shares A and 100,000 registered shares B).

Loans to related companies and persons developed as follows (from an effective date perspective):

in CHF 1,000	2018	2017
Mortgages and loans at the beginning of the financial year	23,512	21,905
Additions	1,145	1,715
Repayments	–10,453	–108
Mortgages and loans at the end of the financial year	**14,204**	**23,512**

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. Guarantees of CHF 85.272 million were issued for related parties. The collateral/surety for these guarantees are considerably above the usual market requirements.

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 2018 amounted to CHF 1.760 million (prior year: CHF 1.366 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.

The latest actuarial valuation of the present value of the defined-benefit obligations and service costs was carried out as of 31 December 2018 by independent actuaries using the Projected Unit Credit Method. The fair value of plan assets as of 31 December 2018 was determined based upon information available at the time of preparation of the annual financial statements.

The most significant assumptions underlying the actuarial computations may be summarised as follows:

	31.12.2018	31.12.2017
Discount rate	0.90%	0.70%
Rate of future salary increases	1.00%	1.00%
Rate of future pension increases	0.00%	0.00%
Lump sum payments at retirement	30.00%	20.00%
Life expectancy at the age of 65, in years		
Year of birth	**1953**	**1952**
men	22.50	22.38
women	24.54	24.43
Year of birth	**1973**	**1972**
men	24.33	24.26
women	26.37	26.29

The amounts recognised in the income statement may be summarised as follows:

Pension costs

in CHF 1,000	2018	2017
Pension expense recognised in income statement		
Service cost		
• current service cost	10,907	12,716
• past service cost	170	–10,071
• plan settlements	0	0
Net interest expense	387	560
Administrative costs	217	280
Total pension cost expense of the period	**11,681**	**3,485**
Revaluation components recognised in comprehensive income		
Actuarial gains/losses		
Result of changes to demographic assumptions	0	414
Result of changes to economic assumptions	–12,252	–10,756
Experience adjustments	5,218	–573
Return on plan assets (excluding amounts in net interest expense)	18,637	–13,574
Total expense recognised in comprehensive income	**11,603**	**–24,489**
Total pension cost	**23,284**	**–21,004**

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	2018	2017
Present value of defined-benefit obligations at beginning of financial year	346,393	336,533
Current service cost	10,907	12,716
Employee contributions	6,127	5,781
Interest expense on present value of pension obligations	2,374	2,220
Actuarial gains/losses	–7,034	–10,915
Past service cost	170	–10,071
Acquisitions	0	0
Pension payments financed by plan assets	–8,264	10,129
Balance at end of financial year	**350,673**	**346,393**

Movement in plan assets

in CHF 1,000	2018	2017
Plan assets at beginning of financial year	282,992	242,677
Employee contributions	6,127	5,781
Employer contributions[1]	17,039	9,451
Interest income on plan assets	1,987	1,660
Return on plan assets (excluding amounts under interest income)	–18,637	13,574
Acquisitions	0	0
Pension payments financed by plan assets[2]	–8,264	10,129
Administrative costs	–217	–280
Balance at end of financial year	**281,027**	**282,992**

[1] In 2018, the Group transferred an extraordinary employer contribution of CHF 7.29 million to strengthen its financial situation.
[2] Due to new hires in 2017, entry rates were higher than retirement benefits and pension payments in 2017.

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	31.12.2018	31.12.2017
Present value of pension obligations financed through a fund	350,673	346,393
Market value of plan assets	–281,027	–282,992
Under- / excess of funding	**69,646**	**63,401**
Present value of pension obligations not financed through a fund	0	0
Unrecognised assets	0	0
Recognised pension obligations	**69,646**	**63,401**

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. The plan assets of collective pension foundations are invested in insurance policies with insurance companies. 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.

Plan assets primarily consist of the following categories of securities:

in CHF 1,000	31.12.2018	31.12.2017
Equity shares	71,934	74,129
thereof quoted market prices (Level 1)	71,934	74,129
Bonds	113,125	109,161
thereof quoted market prices (Level 1)	113,125	109,161
Alternative financial investments	19,805	16,134
thereof quoted market prices (Level 1)	0	0
Real estate	12,302	12,182
thereof quoted market prices (Level 1)	0	0
Qualifying insurance paper	54,896	45,691
Cash equivalents	8,461	17,631
Other financial investments	504	8,064
Total	**281,027**	**282,992**
• thereof quoted market prices (Level 1)	185,059	183,290

The pension plans hold shares in VP Bank Ltd, Vaduz, with a market value totalling CHF 2.3 million (previous year: CHF 2.0 million). In 2018, the return on plan assets was CHF 16.650 million (previous year: CHF 15.234 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	31.12.2018	31.12.2017
Current actively insured employees	251,461	247,008
Pensioners	99,212	99,385
Total	**350,673**	**346,393**

The duration of pension obligations is approximately 16 years (previous year: 17 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	31.12.2018 0.25%	 –0.25%	31.12.2017 0.25%	 –0.25%
Discount rate	–12,394	13,161	–12,923	13,975
Interest on pension capital accounts	3,005	–2,933	3,931	–3,776
Development of salaries	997	–977	1,373	–1,318

Other employee benefits payable in the long term

in CHF 1,000	31.12.2018	31.12.2017
Balance at the beginning of the financial year	3,095	3,014
Expenses financial year	423	399
Acquisitions	0	0
Employee payments	–399	–319
Exchange differences	–2	1
Balance at end of financial year	**3,117**	**3,095**

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 31.12.2018	 31.12.2017	Annual average rates 2018	 2017
USD/CHF	0.9858	0.9745	0.97878	0.98427
EUR/CHF	1.1269	1.1702	1.15478	1.11181
SGD/CHF	0.7233	0.7292	0.72527	0.71304
HKD/CHF	0.1259	0.1247	0.12488	0.12631
GBP/CHF	1.2555	1.3183	1.30565	1.26805

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 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 2018, 12,051 shares were issued at a preferential price (2017: 9,761 shares). Share issue expenses in 2018 were CHF 1.0 million (2017: CHF 0.6 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" on page 81 f.

Management equity-sharing plan (LTI)

Number	2018	2017	Variance in %
Balance of entitlements at the beginning of the year	70,334	51,587	36.3
New entitlements	61,754	52,254	18.2
Changes in entitlements as a result of allocation	–37,274	–36,646	1.7
Changes in entitlements as a result of expiry	–3,384	–10,418	–67.5
Changes in entitlements as a result of changes in factors	5,692	13,557	–58.0
Balance of calculated entitlements at the end of the year	97,122	70,334	38.1

in CHF 1,000	2018	2017	Variance in %
Personnel expense recorded over vesting period for allocated management sharing plan	3,079	3,172	–2.9
Fair value of management sharing plan at date of allocation	5,360	4,489	19.4
Personnel expense for management sharing plan (LTI) expense for reporting period	6,655	4,840	37.5
Accrual for management sharing plan (LTI) in equity at the end of the year	9,579	6,003	59.6

44 Consolidated off-balance-sheet transactions

in CHF 1,000	31.12.2018	31.12.2017
Contingent liabilities		
Credit guarantees and similar	107,700	32,634
Performance guarantees and similar	99,507	96,212
Irrevocable commitments	0	0
Other contingent liabilities	0	0
Total contingent liabilities	**207,207**	**128,846**
Credit risks		
Irrevocable facilities granted	93,898	58,056
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	**93,898**	**58,056**
Fiduciary transactions		
Fiduciary deposits[1]	994,172	839,614
Fiduciary loans	0	0
Other fiduciary financial transactions	0	0
Total fiduciary transactions	**994,172**	**839,614**

[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	Maturing within 1 year	Maturing within 1 to 5 years	Over 5 years	Total
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
31.12.2017					
Contingent liabilities	28,503	13,782	26,911	59,650	128,846
Credit risks	334	52,440	2,034	3,248	58,056

Securities lending and repurchase and reverse-repurchase transactions

in CHF 1,000	31.12.2018	31.12.2017
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	39,466	0
Securities lent out within the scope of securities lending or delivered as collateral within the scope of securities borrowing activities, as well as securities in own portfolio transferred within the framework of repurchase transactions	474,986	360,947
of which securities where the unlimited right to sell on or pledge has been granted	365,784	275,418
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	396,577	347,368
of which securities which have been resold or repledged	109,201	85,529

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	31.12.2018	31.12.2017	Variance absolute	Variance in %
Analysis of client assets under management				
Assets in self-administered investment funds	8,688.9	6,967.2	1,721.7	24.7
Assets in discretionary asset management accounts	3,772.0	3,741.4	30.6	0.8
Other client assets under management	29,065.0	29,677.7	–612.8	–2.1
Total client assets under management (including amounts counted twice)	**41,525.9**	**40,386.3**	**1,139.6**	**2.8**
of which amounts counted twice	2,171.3	2,285.6	–114.3	–5.0
Change of assets under management				
Total client assets under management (including amounts counted twice) at the beginning of the financial year	40,386.3	35,753.9	4,632.5	13.0
of which net new money	3,196.9	1,894.3	1,302.6	68.8
of which change in market value	–2,057.3	2,738.1	–4,795.5	–175.1
of which other effects	0.0	0.0	0.0	0.0
Total client assets under management (including amounts counted twice) as of balance-sheet date	**41,525.9**	**40,386.3**	**1,139.6**	**2.8**
Custody assets	**6,990.8**	**6,062.0**	**928.8**	**15.3**
Total client assets				
Total client assets under management (including amounts counted twice)	41,525.9	40,386.3	1,139.6	2.8
Custody assets	6,990.8	6,062.0	928.8	15.3
Total client assets	**48,516.7**	**46,448.3**	**2,068.4**	**4.5**
Net new money	**3,196.9**	**1,894.3**	**1,302.6**	**68.8**

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.

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

VP Bank Group continues to focus on acquisitions that fit in with its strategy and culture. VP Bank (Luxembourg) SA will acquire the private banking operations of Catella Bank S.A. in Luxembourg. This transaction in the form of an asset deal also includes the acquisition of 11 employees as well as client assets of approximately EUR 0.9 billion. The purchase price amounts to approximately EUR 9 million.

The former Private Banking clients of Catella Bank S.A., who are almost exclusively European clients, will continue to be served by their trusted personal advisor in Luxembourg and will at the same time be able to benefit from the strengths of the international VP Bank Group. The private banking business of Catella Bank S.A. in Sweden is excluded from the acquisition. In addition, VP Bank Group will enter into a distribution partnership with the Catella Group in the funds and real estate sector.

The following assets and liabilities were acquired as part of the acquisition (provisionally):

in CHF million	Fair value
Other intangible assets	4.7
Total assets	**4.7**
Deferred tax liabilities	–1.3
Total liabilities	**–1.3**
Total net assets	**3.4**
Net assets acquired[1]	**3.4**
Purchase price settled in cash and cash equivalents	10.4
Purchase consideration	**10.4**
Goodwill arising from acquisition	**7.0**
Purchase consideration settled in cash and cash equivalents	10.4
Cash inflow arising from the transaction	0.0

The other intangible assets listed relate to existing client securities accounts. These assets will be amortised over 10 years.

[1] The determination of the fair values of assets acquired, in particular of the intangible assets, as well as of liabilities assumed, could not yet be definitively completed as of the balance-sheet date.

Statutory auditor's report on the audit of the consolidated financial statements

To the General Meeting of VP Bank Ltd, Vaduz

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 2018, including a summary of significant accounting policies (pages 101 to 172), and the consolidated annual report (pages 97 to 100).

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 2018, 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.

Implementation of Impairment according to IFRS 9 "Financial Instruments" as of 1 January 2018

Area of focus

Effective on 1 January 2018, the Group applied the first-time adoption of the impairment of financial instruments in accordance with IFRS 9. The first-time adoption resulted in a CHF 2.3m (pre-taxes) in credit risk impairment, which was reversed to equity as of 1 January 2018.

In implementing the revised standard, the Group introduced the model of expected credit loss ("ECL"), which records all expected losses from credit risks for the next twelve months (stage 1) or the entire lifetime (stage 2 and 3) of the financial instruments concerned. The calculation of the ECL depends on model assumptions for default probability, loss rate and discount rate as well as the allocation to the stage 1 to 3. IFRS 9 also requires that information about past events, current and future economic conditions that are available at the balance sheet date without excessive effort shall be taken into account when measuring the ECL.

The new impairment provisions affect assets and off-balance sheet items that are subject to potential credit risk and are not already recognised at fair value through profit or loss. As of 1 January 2018, this includes cash and cash equivalents (CHF 3.6b), amounts due from banks and customers (CHF 6.5b), financial instruments measured at amortized cost (CHF 2.2b) and other assets and off-balance sheet items (CHF 0.2b).

Due to the inherent uncertainties about future events, estimates and judgments made by Group Executive Management have a material impact on the results of the ECL model. Due to the discretionary scope and the complexity of the initial application, this is of particular importance from an audit perspective. With regard to the valuation of due from customers, we refer to the following particularly important audit matter.

The Group describes its accounting policies for impairment of financial instruments in accordance with IFRS 9 on page 110 to 111 of this annual report. We also refer to disclosure on page 137 of the notes to the consolidated financial statements.

Our audit response

As part of the implementation of the revised provisions on the recognition of impairment of financial assets in accordance with IFRS 9, we assessed whether the ECL model used to calculate expected credit losses is appropriate to reflect the Group's credit risk under the Standard. We also analysed the initial calculation of the ECL model and the reconciliations and disclosures in the notes to the consolidated financial statements.

We also assessed the processes and controls associated with the regular reviews of the model parameters. We also analyzed the Group Executive Management's assumptions regarding economic scenarios and their probability weighting.

Our procedures did not give rise to any exceptions with regard to the first-time adoption of impairment in accordance with IFRS 9 “Financial Instruments”.

Valuation of due from customers

Area of focus

As at 31 December 2018, the amount due from customers is CHF 6.2b or 50% of the Group's balance sheet, of which CHF 3.2b related to mortgages receivables and CHF 3.0b 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 110 to 111 of this annual report. In addition, we refer to the notes on credit risks in the section “Risk management” (pages 133 to 136) 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 measurement of provisions for legal proceedings

Area of focus

As part of its ordinary banking activities, the Group is involved in various legal, regulatory and administrative 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 113. We also are refer to the notes 9 (page 144) and 33 (pages 156 and 157) 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 measurement 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 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.

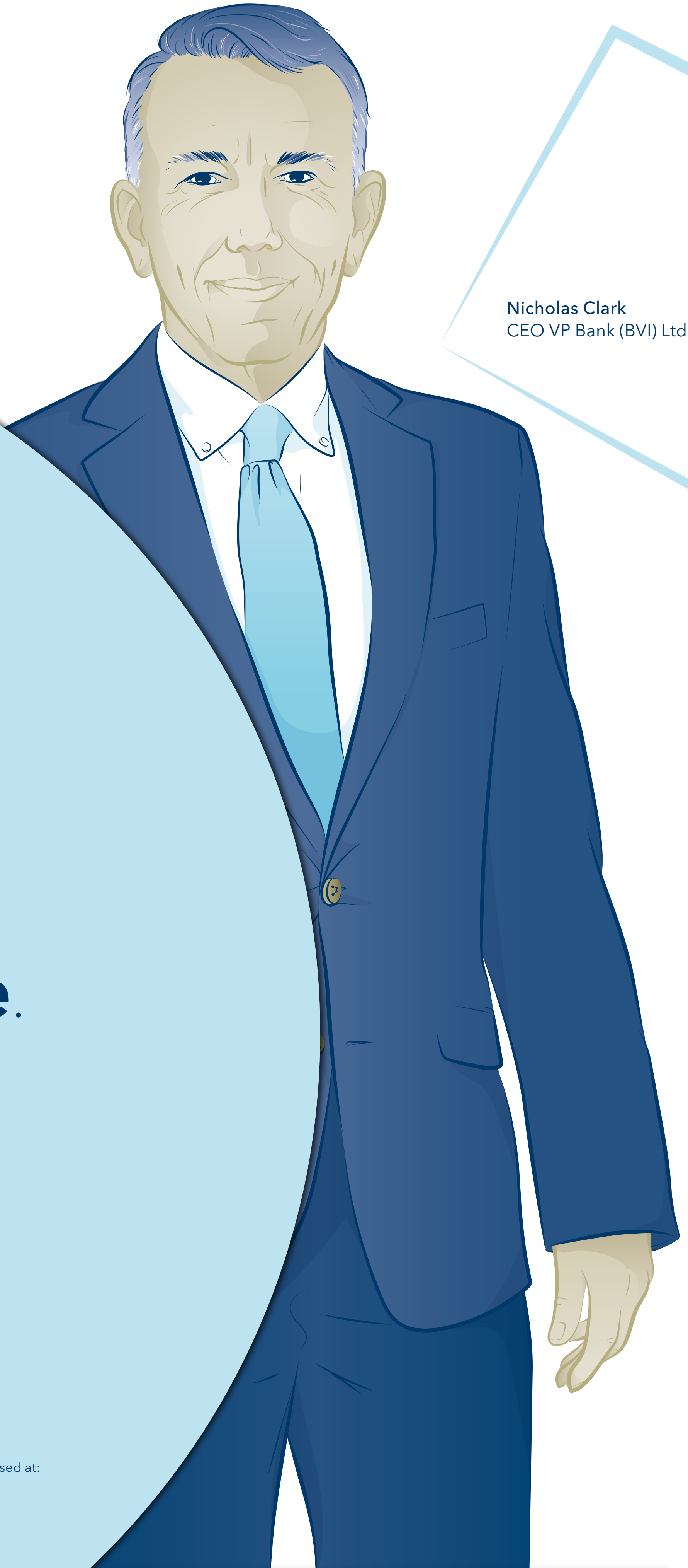
Ernst & Young Ltd

Philipp de Boer
Certified Accountant
(Auditor in charge)

Bruno Patusi
Swiss Certified Accountant

Berne, 28 February 2019

Kenneth Molyneaux
Tropical Fusion, Tortola



Nicholas Clark
CEO VP Bank (BVI) Ltd

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VP Bank in the
British Virgin Islands

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

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Financial report 2018 of VP Bank Ltd, Vaduz

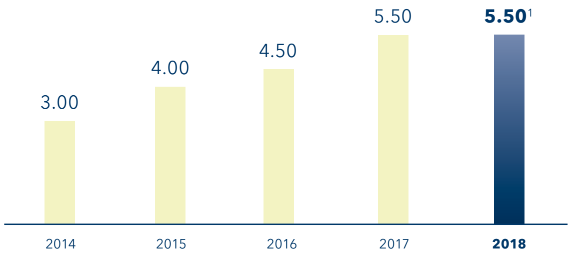
Annual report of VP Bank Ltd, Vaduz

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 599,442 registered shares A as well as 324,929 registered shares B (prior year: 547,320 registered shares A and 131,662 registered shares B). This equates to a capital share of approximately 9.6 per cent (prior year: 8.5 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 26 April 2019.

Dividend (in CHF)



[1] Proposal to the annual general meeting

Balance sheet

Assets

in CHF 1,000 Art. 24b FL-BankO	31.12.2018	31.12.2017	Variance absolute	Variance in %
Cash and cash equivalents	2,321,257	3,366,983	–1,045,726	–31.1
Due from banks	941,029	1,209,160	–268,131	–22.2
• maturing daily	786,942	775,169	11,773	1.5
• other receivables	154,087	433,991	–279,904	–64.5
Due from customers	4,984,102	4,544,053	440,049	9.7
of which mortgage receivables	2,977,726	3,080,115	–102,389	–3.3
Debentures and other interest-bearing securities	2,292,462	2,034,774	257,688	12.7
• money-market papers	57,585	5,017	52,568	n.a.
from public-sector issuers	56,585	5,017	51,568	n.a.
from other issuers	1,000	0	1,000	n.a.
• debt securities	2,234,877	2,029,757	205,120	10.1
from public-sector issuers	696,075	591,716	104,359	17.6
from other issuers	1,538,802	1,438,041	100,761	7.0
Equity shares and other non-interest-bearing securities	110,787	51,024	59,763	117.1
Participations	74	35	39	111.0
Shares in affiliated companies	204,227	138,881	65,346	47.1
Intangible assets	18,615	16,233	2,382	14.7
Property and equipment	78,409	74,855	3,554	4.7
Treasury shares	61,396	47,895	13,501	28.2
Other assets	65,615	49,172	16,443	33.4
Accrued receivables and prepaid expenses	24,761	21,175	3,586	16.9
Total assets	**11,102,734**	**11,554,240**	**–451,506**	**–3.9**

Liabilities and shareholders' equity

in CHF 1,000 Art. 24b FL-BankO	31.12.2018	31.12.2017	Variance absolute	Variance in %
Due to banks	2,242,115	2,460,472	–218,357	–8.9
• maturing daily	1,413,503	1,748,935	–335,432	–19.2
• with agreed duration or term of notice	828,612	711,537	117,075	16.5
Due to customers	7,370,454	7,617,629	–247,175	–3.2
• savings deposits	636,202	650,117	–13,915	–2.1
• other liabilities	6,734,252	6,967,512	–233,260	–3.3
maturing daily	6,174,116	6,635,252	–461,136	–6.9
with agreed duration or term of notice	560,136	332,260	227,876	68.6
Securitised liabilities	443,616	460,655	–17,039	–3.7
• debentures issued	443,616	460,655	–17,039	–3.7
of which medium-term notes	243,616	260,655	–17,039	–6.5
Other liabilities	101,730	70,056	31,674	45.2
Accrued liabilities and deferred items	26,122	17,813	8,309	46.6
Provisions	16,243	25,861	–9,618	–37.2
• tax provisions	4,410	5,300	–890	–16.8
• other provisions	11,833	20,561	–8,728	–42.4
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	47,143	–94	–0.2
Income reserves	592,086	589,025	3,061	0.5
• legal reserves	239,800	239,800	0	0.0
• reserves for treasury shares	61,396	47,895	13,501	28.2
• other reserves	290,890	301,330	–10,440	–3.5
Balance brought forward	99,897	87,078	12,819	14.7
Net income for the year	34,118	49,204	–15,086	–30.7
Total liabilities and shareholders' equity	**11,102,734**	**11,554,240**	**–451,506**	**–3.9**

Off-balance-sheet transactions

in CHF 1,000 Art. 24b FL-BankO	31.12.2018	31.12.2017	Variance absolute	Variance in %
Contingent liabilities	202,853	55,871	146,982	n.a.
Credit risks	68,446	23,064	45,382	196.8
• irrevocable facilities granted	68,446	23,064	45,382	196.8
Derivative financial instruments				
• positive replacement values	42,040	29,469	12,571	42.7
• negative replacement values	59,529	47,317	12,212	25.8
• contract volumes	5,798,969	5,130,072	668,897	13.0
Fiduciary transactions	979,139	468,319	510,820	109.1

Income statement

in CHF 1,000 Art. 24c FL-BankO	2018	2017	Variance absolute	Variance in %
Interest income	85,435	70,143	15,292	21.8
of which from interest-bearing securities	26,063	21,294	4,769	22.4
of which from trading transactions	0	0	0	–100.0
Interest expense	42,746	19,260	23,486	121.9
Net interest income	42,689	50,883	–8,194	–16.1
Current income from securities	6,944	8,873	–1,929	–21.7
• shares and other non-interest-bearing securities	4,942	3,966	976	24.6
of which from trading transactions	0	0	0	0.0
• participations	2	2	0	–4.1
• shares in affiliated companies	2,000	4,905	–2,905	–59.2
Income from commission business and services	91,804	96,797	–4,993	–5.2
• commission income from credit business	984	585	399	68.2
• commission income from securities and investment business	77,370	81,735	–4,365	–5.3
• commission income from other services	13,450	14,477	–1,027	–7.1
Commission expenses	13,838	17,854	–4,016	–22.5
Net income from commission business and services	77,966	78,943	–977	–1.2
Income from financial transactions	63,102	72,865	–9,763	–13.4
of which from trading transactions	77,455	68,959	8,496	12.3
Other ordinary income	5,881	3,973	1,908	48.1
• income from real estate	162	158	4	2.3
• other ordinary income	5,719	3,815	1,904	50.0
Total net operating income	**196,582**	**215,537**	**–18,955**	**–8.8**
Operating expenses	152,597	135,869	16,728	12.3
• personnel expenses	112,300	97,616	14,684	15.0
• general and administrative expenses	40,297	38,253	2,044	5.3
Gross income	**43,985**	**79,668**	**–35,683**	**–44.8**
Depreciation and amortisation of intangible assets and property and equipment	18,591	17,068	1,523	8.9
Other ordinary expenses	2,164	389	1,775	455.5
Valuation allowances on receivables and increases in provisions for contingent liabilities and credit risks	6,496	16,676	–10,180	–61.0
Income from release of valuation allowances on receivables and from the release of provisions for contingent liabilities and credit risks	31,988	9,440	22,548	238.8
Write-offs on participations, shares in affiliated companies and securities dealt with as non-current assets	9,654	0	9,654	n.a.
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	**39,068**	**54,975**	**–15,907**	**–28.9**
Extraordinary income	0	0	0	0.0
Extraordinary expenses	1	0	1	n.a.
Taxes on income	4,543	5,771	–1,228	–21.3
Other taxes if not included in above items	406	0	406	n.a.
Net income for the year	**34,118**	**49,204**	**–15,086**	**–30.7**

Appropriation of profit

in CHF 1,000 Art. 24c FL-BankO	2018	2017	Variance absolute	Variance in %
Net income for the year	34,118	49,204	–15,086	–30.7
Retained earnings brought forward	99,897	87,078	12,819	14.7
Retained earnings	134,015	136,282	–2,267	–1.7
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	**97,630**	**99,897**	**–2,267**	**–2.3**

The Board of Directors proposes that the profit be distributed as follows (in CHF):

At the disposal of the annual general meeting	134,014,966.99
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	97,630,175.14

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 2018 VP Bank Ltd had 602.6 individuals under its employment (previous year: 507.8).

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 intangible 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. 24l 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 2018 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 set out on pages 118 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	15,071	1,662,602	328,703	2,006,376
Mortgage receivables	2,950,031	20,570	7,125	2,977,726
• Residential property	2,054,373	20,462	7,125	2,081,960
• Office and business premises	118,837	0	0	118,837
• Commercial and industrial premises	708,489	0	0	708,489
• Other	68,332	108	0	68,440
Total loans, 31.12.2018	**2,965,102**	**1,683,172**	**335,828**	**4,984,102**
Total loans, 31.12.2017	3,031,251	1,213,820	298,982	4,544,053
Off-balance-sheet transactions				
Contingent liabilities	26,496	107,990	68,367	202,853
Irrevocable facilities granted	5,999	10,476	51,971	68,446
Total off-balance-sheet transactions, 31.12.2018	**32,495**	**118,466**	**120,338**	**271,299**
Total off-balance-sheet transactions, 31.12.2017	6,504	45,143	27,288	78,935

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, 31.12.2018	**36,748**	**15,976**	**20,772**	**20,772**
Total value-impaired loans, 31.12.2017	79,617	49,455	30,162	30,162

Trading portfolios of securities and precious metals

in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankO	Carrying value 31.12.2018	 31.12.2017	Acquisition cost 31.12.2018	 31.12.2017	Market value 31.12.2018	 31.12.2017
Trading portfolios of securities and precious metals						
Equity shares	43	40	26	26	43	40
of which equity shares in the treasury	43	40	26	26	43	40
Precious metals	123	135	116	131	123	135
Total	**166**	**175**	**142**	**157**	**166**	**175**
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)	41,567	28,707			41,567	28,707
Negative replacement values of derivative financial instruments in trading portfolios (other liabilities)	48,226	31,938			48,226	31,938
Total	**89,793**	**60,645**			**89,793**	**60,645**
Portfolios of securities and precious metals in current assets (excluding trading portfolios)						
Debt securities	2,292,462	2,034,774	2,288,517	2,001,004	2,324,463	2,055,855
Equity shares	172,140	98,879	217,962	131,929	209,030	141,651
of which equity shares in the treasury	61,353	47,855	65,626	47,855	89,332	74,504
Total	**2,464,602**	**2,133,653**	**2,506,479**	**2,132,933**	**2,533,493**	**2,197,506**
of which repo-eligible securities	705,562	800,611	709,472	792,507	713,230	812,045
of which exchange-listed securities	2,273,614	2,112,513	2,284,724	2,094,408	2,297,005	2,174,823

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 2018	2017	Carrying value 2018	2017
Registered shares A				
Balance at the beginning of the year	547,320	593,777	46,758	50,478
Purchase	111,200	7,049	18,708	781
Disposals	–59,078	–53,506	–8,775	–6,525
Valuation allowances				
Appreciation			822	2,024
Balance at the end of the year	**599,442**	**547,320**	**57,512**	**46,758**
Registered shares B				
Balance at the beginning of the year	128,630	124,780	1,097	1,048
Purchase	193,267	3,850	4,033	49
Disposals				
Valuation allowances			–1,289	
Appreciation				
Balance at the end of the year	**321,897**	**128,630**	**3,841**	**1,097**

Participations and shares in affiliated companies

in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankO	Carrying value 31.12.2018	Carrying value 31.12.2017
Participations		
without quoted market value	74	35
Total participations	**74**	**35**
Shares in affiliated companies		
without quoted market value[1]	204,227	138,881
Total shares in affiliated companies	**204,227**	**138,881**

[1] In 2018, 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	31.12.2018 Corporate capital	Percentage ownership	Currency	31.12.2017 Corporate capital	Percentage ownership
Shares in affiliated companies						
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[1] (holding company)	CHF	20,000	100%	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%			
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%

[1] There is a subordinated loan of CHF 10 million in favour of VPB Finanz Holding AG.

The carrying value of affiliated banks included under shares in affiliated companies amounts to CHF 198.9 million including subordinated loans (previous year: CHF 133.5 million).

Overview of investments

in CHF 1,000 Art. 24e Par.1 Point 3.4 FL-BankO	Acquisition cost	Cumulative depreciation to date	Carrying value 31.12.2017	Financial year 2018 Investments/ Additions	Divestments	Depr. and amortisation	Foreign-currency translation	Carrying value 31.12.2018
Total participations (minority participations)	163	–128	35	39	0	0	0	74
Total shares in affiliated companies	190,117	–51,236	138,881	75,000	–15,244	5,590	0	204,227
Total intangible assets (excluding goodwill)	151,817	–135,584	16,233	12,889	0	–10,510	3	18,615
Real estate								
• bank premises	200,865	–128,494	72,371	3,696	0	–5,476	0	70,591
• other real estate	0	0	0	2,994	0	–33	10	2,971
Other property and equipment	29,979	–27,495	2,484	4,931	–2,930	358	4	4,847
Total property and equipment	230,844	–155,989	74,855	11,621	–2,930	–5,151	14	78,409
Fire-insurance values of real estate			171,500					152,650
Fire-insurance values of other property and equipment			28,200					31,170

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	31.12.2018	31.12.2017
Total minimum commitments arising from operating leases	**7,561**	**7,578**

Operating expenses as of 31 December 2018 include CHF 1.716 million arising from operating leases (previous year: CHF 1.806 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	31.12.2018	31.12.2017
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	685,213	639,652
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	39,466	0
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	474,986	360,947
of which securities for which an unconditional right has been granted to sell on or repledge	365,784	275,418
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	396,577	347,368
of which securities repledged or sold on	109,201	85,529

Liabilities to own retirement pension plans

in CHF 1,000 Art. 24e Par. 1 Point 3.7 FL-BankO	31.12.2018	31.12.2017
Due to customers	12,877	25,060
Securitised liabilities	150	150
Other liabilities	675	1,033
Total liabilities to own retirement pension plans	**13,702**	**26,243**

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 31.12.2018	Nominal amount 31.12.2017
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

Valuation allowances / provisions for general banking risks

in CHF 1,000 Art. 24e Par. 1 Point 3.9 FL-BankO	Balance on 01.01.2018	Utilisation in accordance with purpose	Recoveries, overdue interest, forex diff.	Releases to income statement	Provisions released to income statement	Balance on 31.12.2018
Valuation allowances for default risks						
• Individual valuation allowances	30,162	6,075	–21	5,867	9,161	20,772
• Lump-sum valuation allowances[1]	21,393		131	870	21,679	715
Provisions for contingent liabilities and credit risks[2]	144			17	143	18
Provisions for taxes and deferred taxes	5,300	5,433		4,543		4,410
Other provisions	20,417	14,860	49	7,815	1,606	11,815
Total valuation allowances and provisions	**77,416**	**26,368**	**159**	**19,112**	**32,589**	**37,730**
minus: valuation allowances	51,555					21,487
Total provisions as per balance sheet	**25,861**					**16,243**
Provisions for general banking risks	**63,150**					**63,150**

[1] The provisions released to income statement include CHF 20.902 million from the new calculation basis based on the expected credit loss method.
[2] The provisions released to income statement include CHF 0.136 million from the new calculation basis based on the expected credit loss method.

Company capital

in CHF 1,000 Art. 24e Par. 1 Point 3.10 FL-BankO	31.12.2018 Total par value	Number	Capital entitled to dividends	31.12.2017 Total par value	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 Abs. 1 Ziff. 3.10.1 FL-BankO	31.12.2018 Par value	Share in % of par value	Share of voting rights in %	31.12.2017 Par value	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	6,130	9.3	10.0	6,128	9.3	10.0
Marxer Stiftung für Bank- und Unternehmenswerte, Vaduz	7,568	11.4	6.3	7,566	11.4	6.3

Statement of changes in shareholders' equity

in CHF 1,000 Art. 24e Par. 1 Point 3.11 FL-BankO	2018
Shareholders' equity at the beginning of the financial year	
Subscribed and paid-up capital	66,154
Capital reserves	47,143
Legal reserves	239,800
Reserve for treasury shares	47,895
Other reserves	301,330
Provisions for general banking risks	63,150
Retained earnings	136,282
Total shareholders' equity at the beginning of the financial year	**901,754**
Other appropriations / releases from reserves (–)	2,967
Dividends and other distributions from net income of the previous year[1]	–36,385
Net income/loss (–) for the financial year	34,118
Total shareholders' equity at the end of the financial year	**902,454**
of which	
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

[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	2,321,257							2,321,257
Due from banks	786,942		153,668			419		941,029
Due from customers	6,545	279,228	2,510,145	626,936	1,300,901	260,347		4,984,102
of which mortgage receivables	938	50,684	1,091,539	408,826	1,166,992	258,747		2,977,726
Trading portfolios of securities and precious metals	166							166
Portfolios of securities and precious metals in current assets (excluding trading portfolios)	2,416,744							2,416,744
Portfolios of securities and precious metals in fixed assets	47,858							47,858
Other assets	317,554		462				73,562	391,578
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**
Total assets, 31.12.2017	6,509,006	288,352	2,434,404	492,749	1,467,066	290,292	72,371	11,554,240
Liabilities and provisions								
Due to banks	1,413,502	432,957	310,312	80,344	5,000			2,242,115
Due to customers	5,522,495	1,287,822	514,560	45,281	296			7,370,454
• savings deposits		636,202						636,202
• other liabilities	5,522,495	651,620	514,560	45,281	296			6,734,252
Securitised liabilities			11,027	87,137	242,692	102,760		443,616
• debentures issued			11,027	87,137	242,692	102,760		443,616
of which medium-term notes			11,027	87,137	142,692	2,760		243,616
Provisions (excluding provisions for general banking risks)	16,243							16,243
Other liabilities	126,996		856					127,852
Total liabilities, 31.12.2018	**7,079,236**	**1,720,779**	**836,755**	**212,762**	**247,988**	**102,760**		**10,200,280**
Total liabilities, 31.12.2017	7,547,365	2,026,578	543,265	105,425	325,999	103,854		10,652,486

Debentures and other interest-bearing securities which mature in the following financial year	453,010
Issued debentures which mature in the following financial year	98,164

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	31.12.2018	31.12.2017
Receivables from and payables to participations, affiliated companies and qualifying participants		
Receivables from participations	0	0
Payables to participations	64	73
Receivables from affiliated companies	195,143	397,800
Payables to affiliated companies	1,867,364	1,932,280
Receivables from qualifying participants	10,615	20,052
Payables to qualifying participants	122,133	92,508
Loans to governing bodies		
Members of the Executive Board and parties related thereto	2,947	2,750
Members of the Board of Directors and parties related thereto[1]	11,257	20,762

[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 2018 totalled CHF 0.822 million (prior year: CHF 0.735 million).

Remuneration paid to members of governing bodies

in CHF 1,000 Art. 14-16 Ordinance against Excessive Compensation with respect to Listed Stock Corporations (Switzerland)		Remuneration[1, 2] Fixed		thereof in registered shares A (market value)		Retirement benefit plans		Total remuneration	
		2018	2017	2018	2017	2018	2017	2018	2017
Board of Directors									
Fredy Vogt	Chairman[A]	560	560	140	140	85	85	645	645
Markus Thomas Hilti	Vice Chairman[B]	130	130	33	33			130	130
Dr Christian Camenzind	BoD[H]	110	110	28	28			110	110
Prof. Dr Teodoro D. Cocca	BoD[G]	130	130	33	33			130	130
Dr Beat Graf	BoD[D, F]	145	135	36	34			145	135
Ursula Lang	BoD[D, E]	160	143	40	36			160	143
Dr Florian Marxer	BoD[H]	110	110	28	28			110	110
Dr Thomas R. Meier	BoD[H, K]	73		18				73	0
Dr Gabriela Payer	BoD[B, H]	140	140	35	35			140	140
Michael Riesen	BoD[C, F]	160	160	40	40			160	160
Dr Daniel H. Sigg	BoD[I]		80		20			0	80
Total Board of Directors		**1,718**	**1,698**	**430**	**425**	**85**	**85**	**1,803**	**1,783**

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 up to 28 April 2017
K Member of the Board of Directors as from 27 April 2018
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.

in CHF 1,000 Art. 14-16 Ordinance against Excessive Compensation with respect to Listed Stock Corporations (Switzerland)	Remuneration[1] Fixed basic salary[2]		Short Term Incentive (STI)		Performance Share Plan (PSP)		Restricted Share Plan (RSP)[3]		Retirement benefit plans		Total remuneration	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Executive Management	**3,102**	**2,828**	**700**	**694**	**1,400**	**1,237**	**2,025**	**619**	**548**	**500**	**7,775**	**5,878**
Highest remuneration												
Alfred W. Moeckli	687	700	275	250	550	500	275	250	156	148	1,943	1,848

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 compensation report (pages 81 ff.) includes both the fixed basic salary and the cash compensation (STI), and the entitlement to performance and restricted shares. The number of registered shares A (entitlement from the Performance Share Plan) as well as the related monetary benefit are only definitively fixed at the end of the respective planning period (or at the time of transferring the registered shares A). As part of the 2018–2020 plan, Group Executive Management received 10,526 performance units (prior year: 12,046) from the PSP and 5,264 restricted units (prior year: 6,023) from the Restricted Share Plan (RSP). 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 2018 financial year, 21,338 performance shares (prior year: 18,189) with a market value of CHF 3,068,404.40 on the date of allocation (prior year: CHF 2,228,152.50) were transferred from the Management Plan 2015–2017 and the RSP 2016–2018 and RSP 2017–2019.

Shareholdings and loans to governing bodies and related parties

in CHF 1,000 Art. 14-16 Ordinance against Excessive Compensation with respect to Listed Stock Corporations (Switzerland)	Shareholdings in VP Bank Number of shares (including related parties, excluding qualifying participants)				Loans and credits		Related parties[1]			
							Loans and credits[2]		Remuneration for service provided[2]	
	Registered shares A		Registered shares B							
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Board of Directors										
Fredy Vogt	9,599	21,840			1,257	762				
Markus Thomas Hilti	6,461	6,254								
Dr Christian Camenzind	567	392								
Prof. Dr Teodoro D. Cocca	2,196	1,989								
Dr Beat Graf	1,192	961							539	500
Ursula Lang	709	455								
Dr Florian Marxer	809	634					10,000	20,000	283	235
Dr Thomas R. Meier[A]	117									
Dr Gabriela Payer	1,121	498								
Michael Riesen	1,671	1,417								
Total Board of Directors	**24,442**	**34,440**	**0**	**0**	**1,257**	**762**	**10,000**	**20,000**	**822**	**735**
Executive Management										
Alfred W. Moeckli, CEO	27,000	24,742			957	975				
Siegbert Näscher, CFO	6,738	19,933			1,050	400				
Dr Felix Brill, CIO[B]										
Christoph Mauchle	23,345	16,982				435				
Dr Urs Monstein, COO[C]										
Monika Vicandi, CRO	5,000	4,760			940	940				
Total Executive Management	**62,083**	**66,417**	**0**	**0**	**2,947**	**2,750**	**0**	**0**	**0**	**0**

[A] Member of the Board of Directors as from 27 April 2018
[B] Member of the Executive Management as from 1 March 2018
[C] Member of the Executive Management as from 1 May 2018
[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	31.12.2018 Domestic	Foreign	31.12.2017 Domestic	Foreign
Assets				
Cash and cash equivalents	2,321,257		3,366,983	
Due from banks	583,333	357,696	732,908	476,252
Due from customers	3,621,193	1,362,909	3,625,533	918,520
of which mortgage receivables	2,900,652	77,074	3,014,319	65,796
Debentures and other interest-bearing securities	288,006	2,004,456	185,593	1,849,181
Equity shares and other non-interest-bearing securities	53,686	57,101	27,057	23,967
Participations	35	39	35	
Shares in affiliated companies	79,600	124,627	4,600	134,281
Intangible assets	18,494	121	16,233	
Property and equipment	77,706	703	74,855	
Treasury shares	61,396		47,895	
Other assets	39,762	25,853	37,240	11,932
Accrued receivables and prepaid expenses	11,794	12,967	10,850	10,325
Total assets	**7,156,262**	**3,946,472**	**8,129,782**	**3,424,458**

Assets and liabilities by domestic and foreign origin (continued)

in CHF 1,000 Art. 24e Par. 1 Point 3.14 FL-BankO	31.12.2018 Domestic	 Foreign	31.12.2017 Domestic	 Foreign
Liabilities and shareholders' equity				
Due to banks	1,300,782	941,333	1,335,517	1,124,955
Due to customers	4,866,978	2,503,476	5,251,257	2,366,372
• savings deposits	512,119	124,083	521,481	128,636
• other liabilities	4,354,859	2,379,393	4,729,776	2,237,736
Securitised liabilities	443,616		460,655	
Other liabilities	54,681	47,049	56,624	13,432
Accrued liabilities and deferred items	22,158	3,964	17,154	659
Provisions	16,231	12	25,861	
Provisions for general banking risks	63,150		63,150	
Share capital	66,154		66,154	
Capital reserves	47,049		47,143	
Income reserves	592,086		589,025	
• legal reserves	239,800		239,800	
• reserves for treasury shares	61,396		47,895	
• other reserves	290,890		301,330	
Balance brought forward	99,897		87,078	
Net income for the year	34,118		49,204	
Total liabilities and shareholders' equity	**7,606,900**	**3,495,834**	**8,048,822**	**3,505,418**

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	31.12.2018 Absolute	 Share in %	31.12.2017 Absolute	 Share in %
Assets				
Liechtenstein/Switzerland	7,156,262	64.5	8,129,782	70.4
Europe (excluding Liechtenstein/Switzerland)	1,637,788	14.7	1,535,662	13.3
North America	776,127	7.0	685,674	5.9
Asia	780,300	7.0	682,079	5.9
Caribbean	629,894	5.7	426,567	3.7
Other	122,363	1.1	94,476	0.8
Total assets	**11,102,734**	**100.0**	**11,554,240**	**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	2,315,798	373	4,704	382	2,321,257
Due from banks	135,062	205,774	328,062	272,131	941,029
Due from customers	3,259,934	761,165	541,086	421,917	4,984,102
of which mortgage receivables	2,828,152	24,659	59,869	65,046	2,977,726
Debentures and other interest-bearing securities	530,803	894,528	820,397	46,734	2,292,462
Equity shares and other non-interest-bearing securities	42,033	21,098	45,713	1,943	110,787
Participations	35		39		74
Shares in affiliated companies	204,227				204,227
Intangible assets	18,494	121			18,615
Property and equipment	77,706	703			78,409
Treasury shares	61,396				61,396
Other assets	46,503	3,052	190	15,870	65,615
Accrued receivables and prepaid expenses	12,296	7,354	4,220	891	24,761
Total on-balance-sheet assets	**6,704,287**	**1,894,168**	**1,744,411**	**759,868**	**11,102,734**
Delivery claims arising from foreign-exchange spot, forward and option transactions	341,384	2,039,426	1,897,998	1,248,334	5,527,142
Total Assets, 31.12.2018	**7,045,671**	**3,933,594**	**3,642,409**	**2,008,202**	**16,629,876**
Total Assets, 31.12.2017	7,795,052	4,099,283	3,160,658	1,314,632	16,369,625

in CHF 1,000 Art. 24e Par. 1 Point 3.16 FL-BankO	CHF	USD	EUR	Other	Total
Liabilities and shareholders' equity					
Due to banks	439,932	1,064,724	380,329	357,130	2,242,115
Due to customers	2,887,039	1,693,619	2,069,919	719,877	7,370,454
• savings deposits	635,645		557		636,202
• other liabilities	2,251,394	1,693,619	2,069,362	719,877	6,734,252
Securitised liabilities	414,835	3,852	24,929		443,616
Other liabilities	48,117	24,505	11,868	17,240	101,730
Accrued liabilities and deferred items	21,309	2,739	1	2,073	26,122
Provisions	16,232	10	1		16,243
Provisions for general banking risks	63,150				63,150
Share capital	66,154				66,154
Capital reserves	47,049				47,049
Income reserves	592,086				592,086
• legal reserves	239,800				239,800
• reserves for treasury shares	61,396				61,396
• other reserves	290,890				290,890
Balance brought forward	99,897				99,897
Net income for the year	34,118				34,118
Total on-balance-sheet liabilities	**4,729,918**	**2,789,449**	**2,487,047**	**1,096,320**	**11,102,734**
Delivery obligations arising from foreign-exchange spot, forward and option transactions	2,312,280	1,155,426	1,153,754	911,719	5,533,179
Total liabilities, 31.12.2018	**7,042,198**	**3,944,875**	**3,640,801**	**2,008,039**	**16,635,913**
Total liabilities, 31.12.2017	7,778,335	4,103,449	3,177,933	1,312,584	16,372,301
Net position per currency	**3,473**	**–11,281**	**1,608**	**163**	

Contingent liabilities

in CHF 1,000 Art. 24e Par. 1 Point 4.1 FL-BankO	31.12.2018	31.12.2017	Variance absolute	Variance in %
Contingent liabilities				
Credit guarantees and similar	172,786	24,265	148,521	n.a.
Performance guarantees and similar	30,067	31,606	–1,539	–4.9
Other contingent liabilities	0	0	0	0.0
Total contingent liabilities	**202,853**	**55,871**	**146,982**	**n.a.**

Unsettled derivative financial instruments

in CHF 1,000 Art. 24e Par. 1 Point 4.3 FL-BankO	Trading instruments Positive replacement values	Negative replacement values	Contract volumes	Hedging instruments Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments						
Swaps				473	11,303	231,110
Futures						17,355
Foreign exchange / precious metals						
Forward contracts	11,244	15,054	1,675,214			
Combined interest-rate/currency swaps	12,945	15,180	3,261,771			
Options (OTC)	17,015	17,257	590,157			
Equity instruments/Indices						
Futures						4,555
Options (OTC)	363	363	3,421			
Options (exchange-traded)		371	15,386			
Total prior to consideration of netting agreements, 31.12.2018	**41,567**	**48,226**	**5,545,949**	**473**	**11,303**	**253,020**
Total prior to consideration of netting agreements, 31.12.2017	28,707	31,938	4,824,252	762	15,379	305,820

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 161 ff.).

Fiduciary transactions

in CHF 1,000 Art. 24e Par. 1 Point 4.4 FL-BankO	31.12.2018	31.12.2017	Variance absolute	Variance in %
Fiduciary transactions				
Fiduciary deposits	979,139	468,319	510,820	109.1
• Fiduciary deposits with third-party banks	644,252	462,879	181,373	39.2
• Fiduciary deposits with affiliated banks and finance companies	334,887	5,440	329,447	n.a.
Fiduciary loans	0	0	0	0.0
Other fiduciary transactions of financial nature	0	0	0	0.0
Total fiduciary transactions	**979,139**	**468,319**	**510,820**	**109.1**

Information regarding the income statement

in CHF 1,000 Art. 24e Par. 1 Point 5.2 FL-BankO	2018	2017	Variance absolute	Variance in %
Income from trading activities				
Gains from securities	22	45	–23	–50.8
Gains from trading derivatives	798	–1,447	2,245	–155.1
Gains from foreign-exchange transactions	75,942	68,956	6,986	10.1
Gains from trading in banknotes	525	1,149	–624	–54.3
Gains from precious metals	168	256	–88	–34.4
Total income from trading activities	**77,455**	**68,959**	**8,496**	**12.3**

in CHF 1,000 Art. 24e Par. 1 Point 5.3 FL-BankO	2018	2017	Variance absolute	Variance in %
Personnel expenses				
Salaries and wages	85,046	78,679	6,367	8.1
Social security costs and staff retirement pensions and assistance costs	22,524	14,550	7,974	54.8
of which for staff retirement pensions	20,901	13,090	7,811	59.7
Other personnel expenses	4,730	4,387	343	7.8
Total personnel expenses	**112,300**	**97,616**	**14,684**	**15.0**

Salaries of members of the Board of Directors and the Executive Board are disclosed under "Remuneration paid to members of governing bodies" (pages 192 f.).

in CHF 1,000 Art. 24e Par. 1 Point 5.4 FL-BankO	2018	2017	Variance absolute	Variance in %
General and administrative expenses				
Occupancy expenses	2,719	2,421	298	12.3
Expenses for IT, equipment, furniture, motor vehicles and other installations	13,314	11,794	1,520	12.9
Other operating expenses	24,264	24,038	226	0.9
Total general and administrative expenses	**40,297**	**38,253**	**2,044**	**5.3**

in % Art. 24e Par. 1 Point 6 FL-BankO	2018	2017	Variance absolute	Variance in %
Return on capital[1]	**0.30**	**0.44**	**-0.14**	**-31.8**

[1] Net income/average balance sheet total.

in CHF 1,000 Art. 24e Par. 2 Point 6e FL-BankO	2018	2017	Variance absolute	Variance in %
Other ordinary income				
Income from real estate	162	158	4	2.3
Other ordinary income[1]	5,719	3,815	1,904	50.0
Total other ordinary income	**5,881**	**3,973**	**1,908**	**48.1**

[1] 2018: thereof CHF 3.703 million resulting from service level agreements within the Group.
2017: thereof CHF 2.083 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	31.12.2018	31.12.2017	Variance absolute	Variance in %
Other assets				
Precious metals	123	135	–12	–8.8
Unsettled derivative financial instruments (positive replacement values)	42,040	29,469	12,571	42.7
• Trading positions	41,567	28,707	12,860	44.8
• Liquidity positions	473	762	–289	–38.0
Compensation accounts	9,960	13,163	–3,203	–24.3
Settlement accounts	12,437	5,667	6,770	119.5
Miscellaneous other assets	1,055	738	317	43.0
Total other assets	**65,615**	**49,172**	**16,443**	**33.4**
Other liabilities				
Accounts for disbursement of taxes and fees	4,069	3,775	294	7.8
Unsettled derivative financial instruments (negative replacement values)	59,529	47,317	12,212	25.8
• Trading positions	48,226	31,938	16,288	51.0
• Liquidity positions	11,303	15,379	–4,076	–26.5
Compensation accounts	459	766	–307	–40.1
Settlement accounts	36,295	17,848	18,447	103.4
Miscellaneous other liabilities	1,378	350	1,028	293.7
Total other liabilities	**101,730**	**70,056**	**31,674**	**45.2**

Income and expense analysed by permanent establishment

in CHF 1,000 Art. 24e Par. 1 Point 5.6 FL-BankO	2018 Domestic	 Foreign	2017 Domestic	 Foreign
Interest income	83,612	3,673	70,143	
Interest expense	42,701	1,897	19,260	
Current income from securities	6,944		8,873	
Income from commission business and services	89,724	2,267	96,797	
Commission expense	13,386	506	17,854	
Income from financial transactions	62,311	791	72,865	
Other ordinary income	6,109	0	3,973	
Operating expenses	147,880	5,077	135,869	
Other ordinary expenses	2,160	4	389	

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 since 01.09.2018 operative VP Bank Ltd Singapore Branch in Singapore (business activity: bank). As per 31.12.2018, this unit employs 72 individuals, expressed in terms of full-time equivalents. In 2018, total operating income on a consolidated basis amounts to an equivalent of CHF 5,367 million and the pre-tax net income CHF 0.801 million. During 2018, the unit received an equivalent of CHF 0.002 million in state subsidies.

Report of the statutory auditor on the financial statements

To the General Meeting of VP Bank Ltd, Vaduz

As statutory auditor, we have audited the accounting records, the financial statements (balance sheet, income statement and notes, pages 180 to 197) and the annual report (page 179) of VP Bank Ltd for the year ended 31 December 2018.

Board of Directors' responsibility

These financial statements and the annual report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Auditor's responsibility

Our audit was conducted in accordance with auditing standards promulgated by the Liechtenstein profession, which require that an audit be planned and performed to obtain reasonable assurance that the financial statements and annual report are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position, the result of operations and the cash flows in accordance with Liechtenstein law. Furthermore, the accounting records, the financial statements and the annual report as well as the proposed appropriation of available earnings comply with Liechtenstein law and the Company's articles of incorporation.

Report on other legal requirements

The annual report corresponds to the annual financial statements and contains no significant incorrect information according to our assessment.

We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Philipp de Boer
Certified Accountant
(Auditor in charge)

Bruno Patusi
Swiss Certified Accountant

Berne, 28 February 2019

VP Bank Group

VP Bank Ltd is a bank domiciled in Liechtenstein and is subject to supervision by the Financial Market Authority (FMA) Liechtenstein , Landstrasse 109, 9490 Vaduz, Liechtenstein, www.fma-li.li

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