// Clarity //

2017

Annual Report

VP BANK

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Financial report 2017 of VP Bank Ltd, Vaduz

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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Text
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Layout and realisation
VP Bank Ltd, Vaduz

Illustrations
Thomas Danthony, London · www.thomasdanthony.com

Printer
BVD Druck+Verlag AG, Schaan · www.bvd.li
Printed carbon neutral

Paper
Printed on PlanoJet 100 g/m² as well as Profibulk 300 g/m².
Chlorine-free, acid-free, wood-free, FSC-certified.

Shareholder information

VP Bank Group at a glance

- Founded in 1956
- Third-largest bank in Liechtenstein
- About 860 employees
- Listed on SIX Swiss Exchange
- "A–" rating from Standard & Poor's
- Seven locations worldwide in key financial centres (Vaduz, Zurich, Luxembourg, Singapore, Hong Kong, Moscow, Tortola/BVI)
- Focus on asset management for intermediaries and private individuals

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 2018

Media and analysts conference	6 March 2018
Annual general meeting of shareholders	27 April 2018
Dividend payment	4 May 2018
Semi-annual results	21 August 2018

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

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In 2017, as part of its digitalisation strategy and redesign of its brand identity, VP Bank totally reconfigured its website from a technical and visual standpoint. Meanwhile, we also further refined our brand strategy and derived seven brand messages. The visual representation of these messages is shown in the illustrated pages of this annual report.

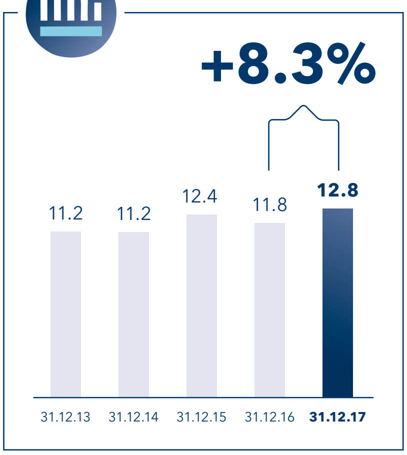
With its numerous challenges, digitalisation has helped us create a new, moving design concept for VP Bank. We have named it **"Clarity"** – we express our excellence in a fresh, modern and unique way. Here we reduce ourselves to a clear statement that is immediately understandable. The elegant and distinct design vocabulary conveys our sovereignty and exudes calm – with a precision and concision that characterises our work as consultants and administrators.

The comprehensive refresh of VP Bank's brand both in appearance and content serves as the basis for future business success. More information on the brand refresh can be found in the section "The VP Bank brand" as well as online at www.vpbank.com/brand.

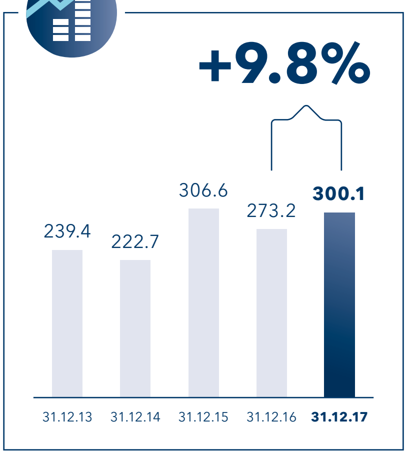
www.vpbank.com/brand

Key figures of VP Bank Group

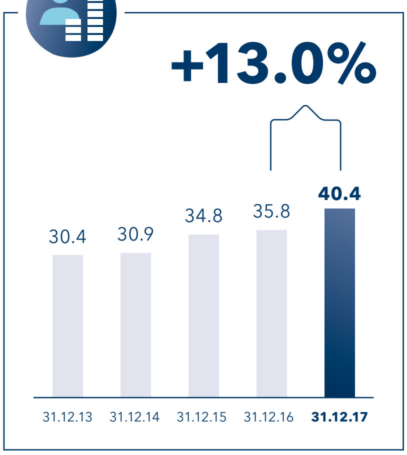
Total assets (CHF billion)



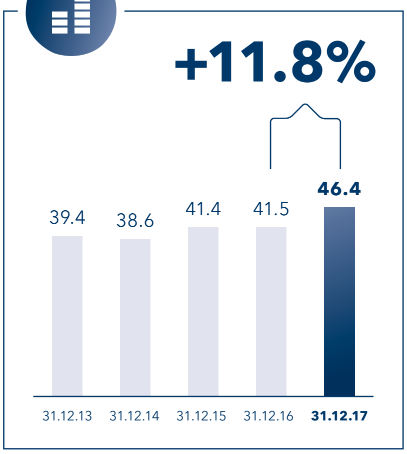
Total operating income (CHF million)



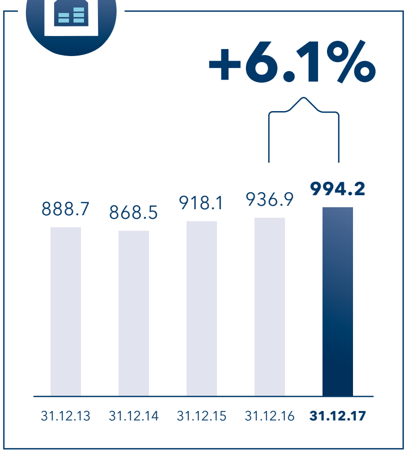
Client assets under management excl. custody assets (CHF billion)



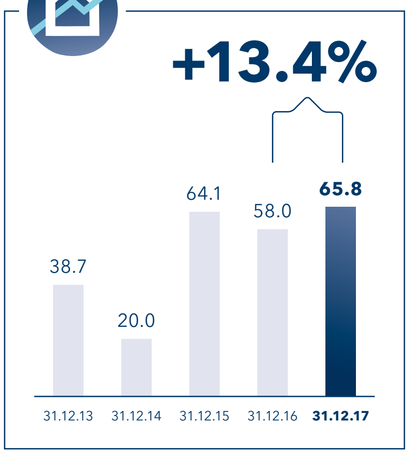
Client assets (CHF billion)



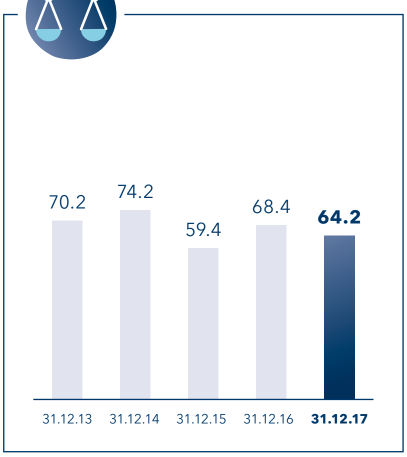
Total shareholders' equity (CHF million)



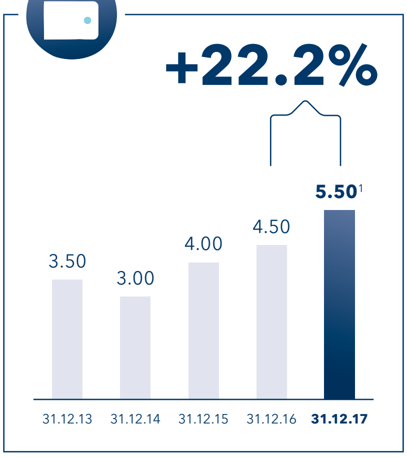
Net income (CHF million)



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

	2017	2016	Variance in %
Key income statement data in CHF million[1, 2]			
Total operating income	300.1	273.2	9.8
Total net interest income	104.4	102.4	2.0
Total net income from commission business and services	123.9	118.8	4.3
Income from trading activities	50.2	44.5	12.9
Operating expenses	229.8	212.2	8.3
Group net income	65.8	58.0	13.4
Key balance-sheet data in CHF million[1, 2]			
Total assets	12,778.1	11,793.7	8.3
Due from banks	892.6	660.8	35.1
Due from customers	5,647.6	5,248.7	7.6
Due to customers	10,559.4	9,838.9	7.3
Total shareholders' equity	994.2	936.9	6.1
Equity ratio (in %)	7.8	7.9	–2.1
Tier 1 ratio (in %)	25.7	27.1	–5.1
Leverage ratio in accordance with Basel III (in %)	7.5	7.8	–3.8
Total client assets under management in CHF billion	**40,386.3**	**35,753.9**	**13.0**
On-balance-sheet customer deposits (excluding custody assets)	10,177.0	9,712.2	4.8
Fiduciary deposits (excluding custody assets)	700.8	612.9	14.3
Client securities accounts	29,508.6	25,428.8	16.0
Custody assets in CHF billion	**6,062.0**	**5,790.4**	**4.7**
Total client assets in CHF billion	**46,448.3**	**41,544.3**	**11.8**
Business volumes[10]	**46,033.9**	**41,002.6**	**12.3**
Net new money	**1,894.3**	**7.4**	**n.a.**
Key operating indicators[2]			
Return on equity (in %)[1, 3]	6.9	6.3	
Cost/income ratio (in %)[4]	64.2	68.4	
Total operating expenses / total net operating income (in %)	76.6	77.7	
Headcount (expressed as full-time equivalents, excluding student apprentices)[5]	799.5	738.3	
Total operating income per employee (in CHF 1,000)	375.4	370.1	
Total operating expenses per employee (in CHF 1,000)[6]	240.9	253.3	
Group net income per employee (in CHF 1,000)	82.3	78.5	
Key indicators related to shares of VP Bank in CHF[1]			
Group net income per registered share A[7]	10.89	9.61	
Group net income per registered share B[7]	1.09	0.96	
Dividend per registered share A[8]	5.50	4.50	
Dividend per registered share B[8]	0.55	0.45	
Dividend yield (in %)	4.1	4.2	
Payout ratio (in %)	50.5	46.8	
Total shareholders' return on registered shares A (in %)	27.31	36.59	
Shareholders' equity per registered share A on the balance-sheet date	165.33	157.14	
Shareholders' equity per registered share B on the balance-sheet date	15.37	14.47	
Quoted price per registered share A	133.00	108.00	
Quoted price per registered share B	13.30	10.80	
Highest quoted price per registered share A	141.90	111.90	
Lowest quoted price per registered share A	105.00	78.05	
Market capitalisation (in CHF million)[9]	880	714	
Price/earnings ratio per registered share A	12.21	11.24	
Price/earnings ratio per registered share B	12.21	11.24	
Rating Standard & Poor's	**A–/Positive/A–2**	**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

Alfred W. Moeckli
Chief Executive
Officer

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

Dear shareholders,
Ladies and gentlemen,

There was hardly a cloud on the economic horizon in 2017. Robust economic growth in the euro zone helped guide the global economy into calmer waters. Financial market sentiment was therefore very positive. The Swiss franc's devaluation provided a boost to the country's economic exports.

In this environment, VP Bank was able to meet its organic growth targets at all Group locations in 2017. The broad base of net new money demonstrates the relevance of our growth strategy. The strategic and operating measures implemented during the year also had a positive impact on net income.

Satisfactory net income

In 2017 VP Bank Group recorded consolidated net income of CHF 65.8 million, up 13.4 per cent from CHF 58.0 million the previous year.

Operating income rose by 9.8 per cent from CHF 273.2 million to CHF 300.1 million.

Operating expense increased by 8.3 per cent to CHF 229.8 million.

Client assets under management increased by 13.0 per cent from CHF 35.8 billion to CHF 40.4 billion. In 2017 VP Bank Group recorded net inflow of new client money totalling CHF 1,894 million, a marked improvement over the organic growth in net new money in 2016. This improvement resulted from our intensive market development efforts, inflows from existing clients and the recruitment of new client advisors.

At 31 December 2017 the Tier 1 ratio was 25.7 per cent (31 December 2016: 27.1 per cent). The cost/income ratio was lowered by a satisfactory 4.2 percentage points to 64.2 per cent.

Dividend increase to be proposed

The Board of Directors proposes that the Annual General Meeting of 27 April 2018 approve a dividend pay-out of CHF 5.50 per registered share A (2016: CHF 4.50) and CHF 0.55 per registered share B (2016 : CHF 0.45). 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 65.8 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.

In 2017 we adapted our organisational and management structure to reflect "Strategy 2020" and redefined the functions within Group Executive Management.

As from 1 January 2017, the new organisational unit "General Counsel & Chief Risk Officer" was established at the level of Group Executive Management. Also as from this date, Monika Vicandi, who previously headed up the Group Legal, Compliance & Tax unit, was put in charge of this new "General Counsel & Chief Risk Officer" unit and appointed to VP Bank's Group Executive Management. Meanwhile, the Group Legal, Compliance & Tax as well as Group Risk units were combined into a single new unit and included in Group Executive Management. This higher-level management oversight mainly reflects steadily growing market regulations and a corresponding increase in requirements placed on internationally oriented financial services providers.

We also created the "Investment Solutions" organisational unit at the start of 2017. This new unit further strengthens Group-wide investment capabilities. Management recruited Felix Brill to head up Investment Solutions as from 1 March 2018. Felix Brill has a degree in economics and many years of experience in the financial industry. In the interim, Christoph Mauchle, the Head of Client Business and a Member of Group Executive Management, is heading up the Investment Solutions organisational unit.

To ensure the steady roll-out and further development of our Strategy 2020 plan and underscore its importance within the Group, we combined various functions relating to strategic management into a newly created Group Strategy unit as from 1 April 2017. In so doing we are firmly establishing a systematic strategic process and increasingly focusing on the overall development of VP Bank Group.

Further information on our strategic orientation, positioning and goal achievement can be found in the section "Strategic orientation of VP Bank" on pages 29 et seq.

Medium-term goals

As part of our "Strategy 2020" plan we defined our medium-term goals as follows:

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

At end-2017, assets under management totalled CHF 40.4 billion (2016: CHF 35.8 billion), consolidated net income was CHF 65.8 million (2016: CHF 58.0 million.). At 31 December 2017, the cost/income ratio was 64.2 per cent (2016: 68.4 per cent).

This most recent performance along with our strong equity position clearly show that we are on the right track.

VP Bank shares and investor relations

VP Bank's share price trended very favourably again in 2017, rising from CHF 108.00 to CHF 133.00 at year-end, with a peak of CHF 141.90 in October. Thanks to this 27.3 per cent nominal increase (including dividend) in the share price, VP Bank shares again proved to be a solid investment compared to other banks.

The Annual General Meeting approved a resolution to pay a dividend of CHF 4.50 per registered share A and CHF 0.45 per registered share B. The dividends were paid out on 5 May 2017.

Our share buy-back through open market transactions was completed at end-May 2017. On 6 June 2016 VP Bank AG had announced a share buy-back programme for up to 120,000 treasury shares A with a par value of CHF 10 per share. From 7 June 2016 through 31 May 2017, a total of 88,835 registered shares A were repurchased. As of 31 December 2017, VP Bank therefore holds, directly or indirectly, 547,320 registered treasury shares A and 131,662 registered treasury shares B (8.47 per cent of the share capital and 5.65 per cent of the voting rights). The repurchased registered shares A are to be used for future acquisitions or treasury management purposes.

In early March 2017, the rating agency Standard & Poor's confirmed VP Bank's outstanding "A–" rating and raised its outlook from stable to positive. In August 2017, Standard & Poor's again confirmed the "A–" rating and highlighted VP Bank Group's strong equity position and related ability to absorb general risks to a significant degree. The confirmed rating and improved outlook also take into account our operating improvement, low credit risk and very strong equity position.

In May 2017, under the motto "New challenges – New business opportunities", VP Bank invited investors as well as other participants in the worlds of finance, business, politics and the media to the "VP Finance Dialogue 2017" in Luxembourg. Adrian Hasler, Prime Minister of the Principality of Liechtenstein, was the keynote speaker. "VP Bank Finance Dialogue" was the third event of this type and contributed to our goal of promoting an open and ongoing dialogue on current events.

Other significant events

VP Bank's business model is based on the two strategic pillars of the intermediaries business and private banking. In 2017 we successfully expanded our range of services for intermediaries clients; our investments in this area are having the desired effect. In private banking we set new standards for client care through a new advisory concept, various advisory packages with attractive client solutions and the installation of our new advisory software.

At end-2016 we launched our "Relationship Manager Hiring" project in order to achieve our growth targets. As a result, in 2017 we were able to recruit several new client advisors for VP Bank and capture new money inflows.

We also successfully expanded our fund business. Our one-stop-shop model with a comprehensive line of fund services is especially popular. The fund business is a particularly attractive growth segment for VP Bank and nicely complements our products and services.

Last year we made some adjustments to certain items in our brand strategy. This had an impact in several areas. Refinements were made at the content level, the design of VP Bank's corporate identity was refreshed and the website was completely reconfigured from both a visual and technical standpoint. More information is available in the section "The VP Bank brand" on pages 36 et seq. The look of our new corporate identity can be seen in this annual report.

On 6 September 2017 the British Virgin Islands in the Caribbean were hit hard by Hurricane Irma. Our office in Road Town, Tortola was shut down briefly, but thanks to efficient crisis management we were able to continue operating VP Bank (BVI) Ltd as far as possible. Clients were therefore kept informed continuously and a service hotline and special e-mail address were set up. VP Bank (BVI) Ltd was able to resume normal business operations in Road Town as from 6 November 2017. The Board of Directors and Group Executive Management would like to thank all those who worked during those weeks to support our employees on site and ensure continuing operations.

In September 2017 VP Bank Group conducted a new employee survey. It showed significant improvement in the key assessment criteria areas relative to our 2015 survey, thereby proving that the measures introduced two years ago had the desired effect.

We are proud to have been recognised in the "Fuchsbriefe" rankings. In November 2017 in Berlin, VP Bank was named "Top Provider" for advisory performance. This highly regarded award put VP Bank among the top five banks in the entire German-speaking region and shows that our advisory teams perform at the highest international level.

Beginning in 2018, VP Bank Group will need to implement the enhanced investor protections ushered in by the MiFID II directive at all EU/EEA sites and for our clients with a corresponding domicile. We therefore systematically integrated MiFID II into our business processes and are well prepared to meet the coming requirements. More information on this subject can be found in the section "Investor protection through MiFID II" on page 72.

We take very seriously our duty to perform due diligence as regards tax compliance by our clients. The Automatic Exchange of Information (AEOI) serves as the international standard for information on financial accounts and administrative cooperation in tax matters. This global standard is designed to prevent cross-border tax avoidance. So far more than 100 countries have adopted the standard. Liechtenstein introduced the AEOI in 2016, and in 2017 the first AEOI reports for 2016 were submitted with 61 partner countries, a number that will increase in 2018 to 88 partner countries. Some 90 per cent of VP Bank's client relations involve AEOI countries. Moreover, in 2017 we reached an agreement with German authorities as regards untaxed assets of German clients.

Personnel changes

At the 54th Annual General Meeting on 28 April 2017, the terms of office for several members of the Board of Directors were up for renewal. Teodoro D. Cocca, Beat Graf and Michael Riesen were re-elected to another round of three-year Board terms. Daniel H. Sigg decided not to seek re-election and stepped down from the Board of Directors. He was first elected to the Board in 2008, served as Chairman of the Risk Committee and was a member of the Audit Committee. The Board of Directors would like to thank Daniel H. Sigg for his considerable contributions to VP Bank and wishes him all the best in the future.

At the Annual General Meeting of 27 April 2018, the Board of Directors will propose the re-election of Fredy Vogt and Dr Florian Marxer as members of the Board of Directors each for a term of three years.

Based on the strategic goals set, the Board of Directors has resolved, in addition, to recommend to the Annual General Meeting of 27 April 2018 that Dr Thomas R. Meier be elected as member of the Board of Directors. He possesses more than three decades of international experience in the financial sector focussing on Asia. With this appointment, the Board of Directors strengthens its own expertise as well as guaranteeing a long-term succession planning.

Chief Operating Officer (COO) Martin C. Beinhoff decided to leave VP Bank at end-June 2017. He was responsible for the Group Credit, Group Operations and Group Information Technology areas. The Board of Directors appointed Urs Monstein as the new COO and member of Group Executive Management. He will join VP Bank on 1 May 2018. Until then, CEO Alfred W. Moeckli and CFO Siegbert Näscher are handling the Information Technology and Operations units on an interim basis. The Group Credit unit was assigned to the CFO organisational unit as from 1 July 2017.

The additions of Felix Brill as Head of Investment Solutions and Urs Monstein as COO mean that VP Bank's Group Executive Management will again be fully staffed during the course of the first half of 2018.

We also made key changes at our international sites. As from 1 February 2017, Nicholas A. Clark took over the position of Chief Executive Officer of VP Bank (BVI) Ltd. Since 13 March 2017, Bruno Morel is the Chief Executive Officer of VP Bank (Singapore) Ltd. On 1 July 2017, VP Bank (Switzerland) Ltd's executive management was strengthened with the addition of Maximilian Barth, who took over the position of Head of Private Banking for Germany and Switzerland.

Outlook

Growth will remain a key topic for VP Bank Group again in 2018. We will therefore continue with the systematic improvement in the quality of our client care and build up experienced teams. Here again, our focus is on quality. We will not pursue growth at any cost, as new additions must first and foremost be a good fit with VP Bank's culture. As part of the "Relationship Manager Hiring" project, we set a goal of hiring a total of 75 client advisors in the intermediaries and private banking segments, of which around one-half in Asia.

We will also take advantage of any market opportunities that arise to invest in growth through acquisitions. VP Bank still has a very solid equity position that enables it to take advantage of changes in the financial industry.

With the move to newer and larger offices in Zurich, Luxembourg and Singapore, we created the needed infrastructure for personal growth.

2018 is an anniversary year for our sites. VP Bank has been represented with a subsidiary in Zurich for 30 years and also been active in Luxembourg since 1988. VP Fund Solutions (Luxembourg) SA, our fund competency centre, celebrates its 20-year anniversary in 2018.

In the 2016 annual report we reported on VP Bank's Asia strategy. We opened our office in Singapore in 2008 and are therefore celebrating our 10-year anniversary there in 2018. The Asia/Pacific region is one of our target markets, where we see extensive growth opportunities. VP Bank (Singapore) Ltd is a subsidiary of VP Bank Group, with a banking license and nearly 50 employees. Given the current legal structure of our Singapore entity, we would need to continuously increase our equity capital in order to meet our future growth targets. In 2017, therefore, we applied to convert its status from subsidiary to a branch. We also applied to broaden the license from merchant bank to wholesale bank. The bank targets to implement the new structure by July 2018.

Regulatory requirements will again keep us busy in 2018. The ever-increasing number of regulations leads to rising costs and narrower profit margins. We are responding to this trend through our efficiency enhancement programme as well as continued systematic efforts to control costs. We have created the right conditions thanks to skilled teams, active cooperation with the respective financial market participants and constant sharing of know-how.

In 2018 we will continue to implement our digitalisation strategy, which is already off to a good start. Under the "Next" programme, we are implementing a large number of digitalisation projects. They include modernising communications channels with our clients and expanding the range of online offerings. In the spring of 2018 we will present VP Bank's new e-banking system.

In 2018 we also expect to be able to take advantage of VP Bank's innovations and investments in advisory quality and new products initiated in 2017.

Overall, we are confident that we will be able to further strengthen the sustainable foundation for VP Bank Group's growth. Thanks to our skilled and motivated employees, we are well prepared.

A word of thanks

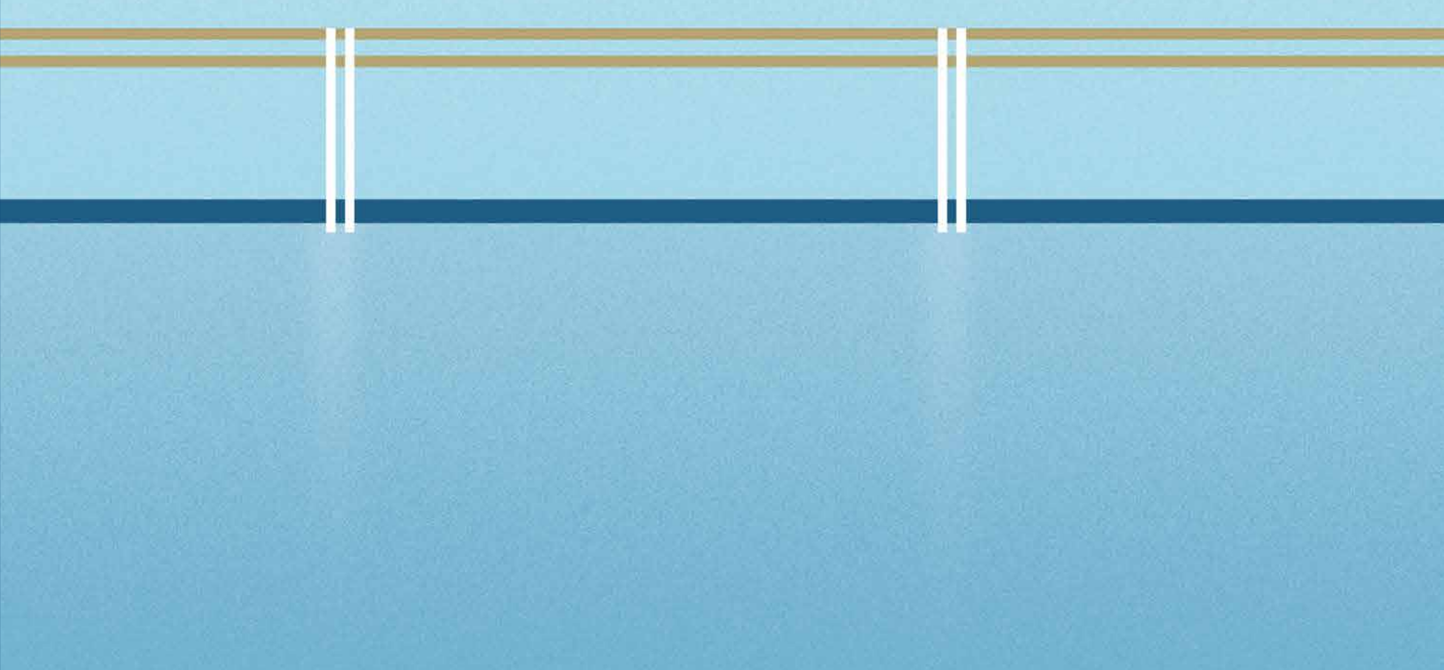
The successes of 2017 once again confirm the relevance of our strategy. We are pleased to have accomplished so much together and see this as further incentive to continue down our path of growth, focus and culture in the future. We would like to thank our employees in particular for their energetic support and will continue to count on their committed contribution to our business success.

We also offer heartfelt thanks to our clients and shareholders for their continued loyalty to VP Bank.

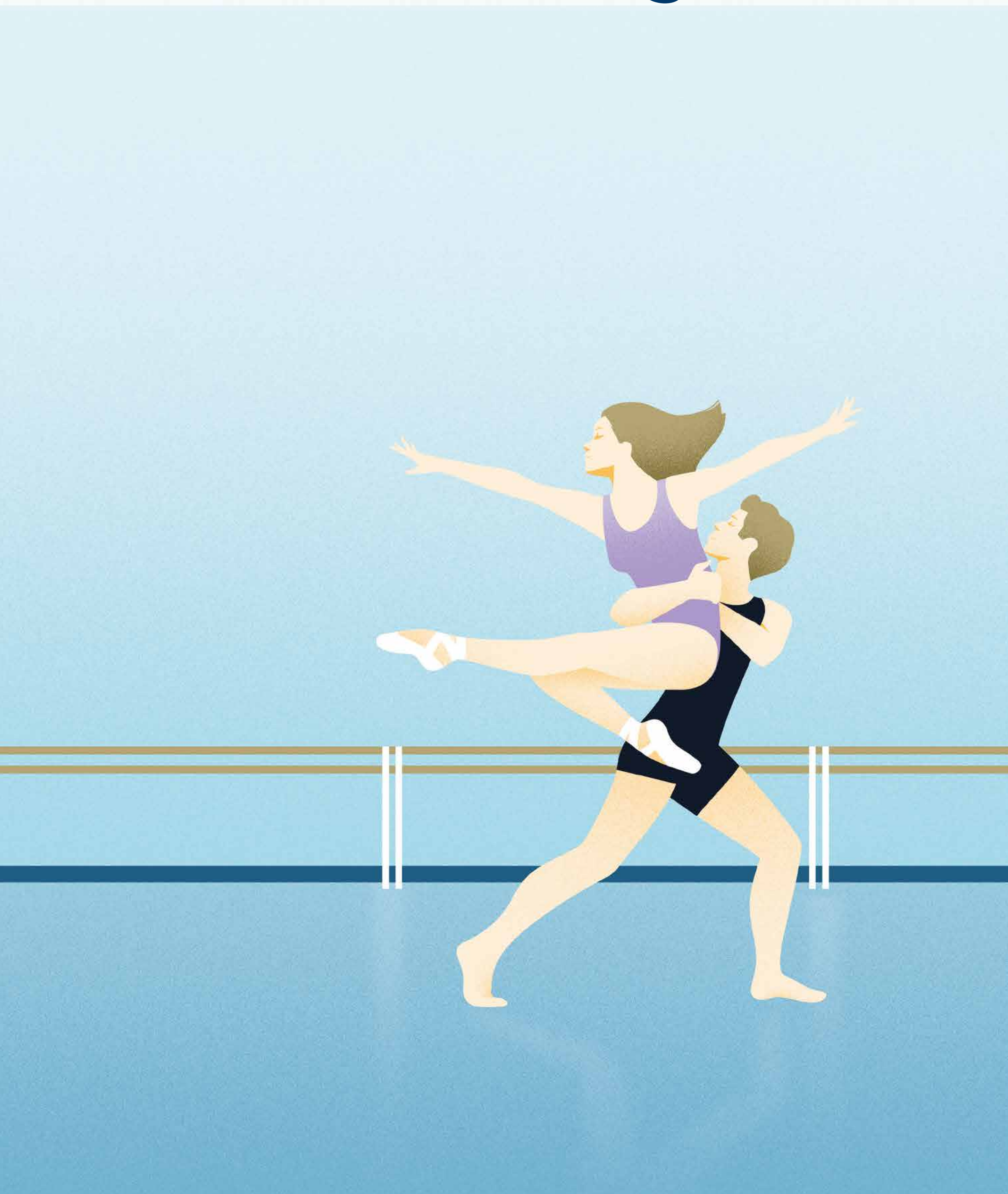
Fredy Vogt
Chairman of the
Board of Directors

Alfred W. Moeckli
Chief Executive Officer

Trust is not simply given, . . .



. . . it **grows**.



Trust comes about through positive, open contact. Trust grows as a relationship develops and deepens over many years. For me it’s important to know not just the clients but also their circumstances. That way I gain a better understanding of their needs and can create the foundations for a lasting relationship of trust, which takes time. Time I am happy to invest, because that›s the only way shared experiences become the expression of mutual appreciation.

Tobias Wehrli
Head of Intermediaries

Trust is a big factor for clients. Which makes it all the more vital to cultivate a strong personal understanding and an individual rapport that forms the springboard for cooperation built on trust. This means our advisory process is not just a question of know-how, but more a matter of engagement. Managing assets or developing investment strategies requires a different approach from one client to the next. Every case calls for particular attention. For which I take however much time is needed.

Carmen Troisio
Client Advisor Private Banking Liechtenstein & Switzerland

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 six other locations around the globe: Switzerland, Luxembourg, Singapore, Hong Kong, Russia 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 860 employees administer clients assets totalling almost CHF 46.5 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 quality 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.

To this very day, each and every employee of VP Bank Group lays claim to the ethos of quality. 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 this 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 860 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 while simultaneously gaining access to a worldwide network of specialists.

Together with its partners throughout the world, VP Bank recommends either the best traditional investment instruments to its clients or develops proprietary, innovative solutions. The global presence of VP Bank Group means that it can draw on a vast pool of expertise. Thanks to this open architecture and best manager selection, clients can always rest assured that they have the most suitable investment instruments in their portfolio.

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.

2017 highlights in retrospect

January

Expanded Group Management
Group management is expanded with the addition of the "Investment Solutions" and the "General Counsel & Chief Risk Officer" function, the latter headed by Monika Vicandi.

February

Digitalisation campaign
With the "NEXT" programme, VP Bank launches the implementation of its digitalisation strategy.

New Head of VP Bank (BVI) Ltd
Nicholas A. Clark is named CEO of the BVI office.

March

2016 results
In 2016 VP Bank generates Group net income of CHF 58.0 million. Client assets under management increase by 2.8%.

"A–" rating confirmed
The rating agency Standard & Poor's confirms VP Bank's "A–" rating and raises its outlook from "stable" to "positive".

New CEO of VP Bank (Singapore) Ltd
Bruno Morel is appointed CEO of the VP Bank office in Singapore.

New investment advisory materials
VP Bank launches new investment advisory materials with attractive client solutions in Liechtenstein, Switzerland and Luxembourg.

April

Annual General Meeting
At the 54th Annual General Meeting, all resolutions put forth by the Board of Directors are approved. Teodoro D. Cocca, Beat Graf and Michael Riesen are all re-appointed to three-year terms on the Board.

May

"Drink & Donate"

VP Bank promotes the sustainable use of tap water and supports drinking water projects in developing countries.

Finance dialogue in Luxembourg

Under the motto "New challenges – new business opportunities", VP Bank in Luxembourg sponsors the "VP Bank Finance Dialogue 2017" with Liechtenstein's Prime Minister Adrian Hasler.

Share buyback

VP Bank completes its share buy-back programme and at 31 May 2017 holds treasury shares representing 8.66% of the company's share capital.

August

2017 interim results

In the first half of 2017, VP Bank Group records Group net income of CHF 31.5 million, and client deposit inflows totalled CHF 1.1 billion.

New brand design

VP Bank refreshes its design and make it more digital friendly. Meanwhile, the new website with up-to-date portal technology is launched.

September

Improvement process

VP Bank initiates a new Group-wide electronic employee survey.

October

Agile client advisory

The introduction of tablets running investment advisory software makes it possible to provide clients with prompt, customised investment proposals during client meetings.

November

Advisory quality

The private banking audit and assessment firm Fuchsbriefe rates VP Bank among the "Top Providers". In the German-speaking countries, VP Bank is one of the top five banks, and in Liechtenstein it is ranked number 1.

Annual report receives awards

VP Bank Group's print and online annual reports once again receive numerous international awards, with a total of eight for the 2016 reports.

"Lichtblick"

As part of the VP Bank foundation's annual "Lichtblick" charitable giving event, numerous charitable organisations receive a generous donation.

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

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 in 2017

Effective 1 January 2017, the organisational units "General Counsel & Chief Risk Officer" and "Investment Solutions" were created at Group management level.

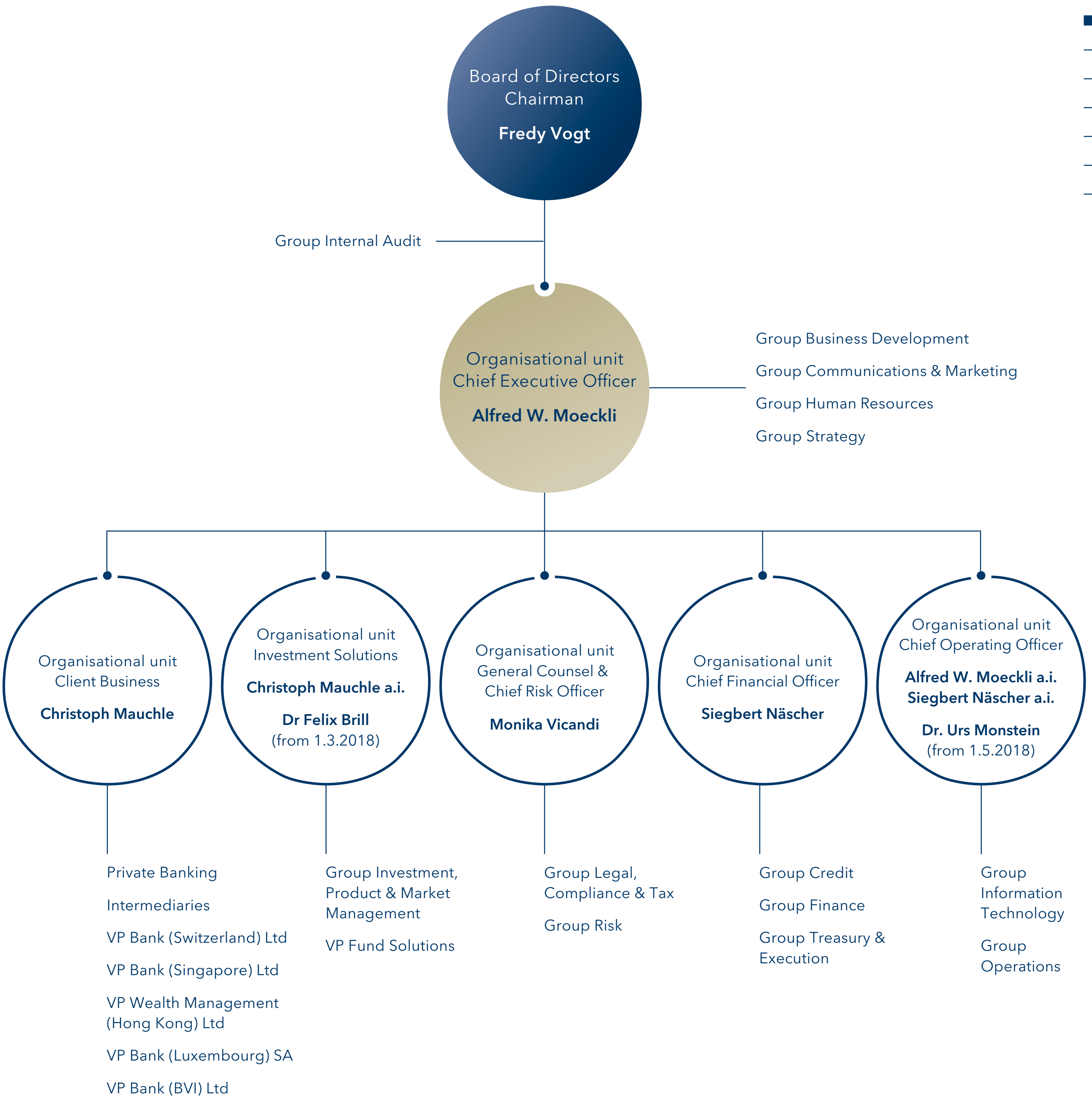
Monika Vicandi, formerly the head of the Group Legal, Compliance & Tax function, now serves as General Counsel & Chief Risk Officer and is the Group Executive Management member responsible for this area.

Felix Brill, the new Group Executive Management member responsible for "Investment Solutions", will take up his new position as from 1 March 2018.

Martin Beinhoff, who left VP Bank at end-June 2017, will be succeeded by Urs Monstein as Chief Operating Officer effective 1 May 2018. In the interim, Alfred W. Moeckli and Siegbert Näscher assumed management responsibilities for the COO areas Group Information Technology, Group Operations and Group Credit. The Group Credit area will remain a business unit under the direction of the CFO even after Urs Monstein assumes his duties.

In mid-March 2017, Bruno Morel took over the position of Chief Executive Officer at VP Bank (Singapore) Ltd, a position previously held by Rajagopal Govindarajoo. Bruno Morel has wide-ranging experience in the banking industry and has a track record of success in Asia dating back more than 20 years.

VP Bank Group's "Strategy 2020" business plan, which is based on the three action areas Growth, Focus and Culture, lays the groundwork and targets for VP Bank's long-term development. In order to ensure the on-going implementation and continued development of this strategy, Group Strategy was established as its own business unit as from 1 April 2017. This unit is managed by Patrick Bischofberger, who reports directly to the CEO.



The assignment of the organisational units in the segment reporting is set out on page 105 ff.

Organisational chart as of 31.12.2017

Effective 1 May 2017, Graziella Marok-Wachter succeeded Monika Vicandi as the Head of Group Legal, Compliance & Tax.

Michael Curschellas, the head of the Group Credit unit, took over responsibility for the Credit Risk division as from July 2017. Werner Wessner succeeded him as the head of Group Credit on an interim basis until Peter Siber was put in charge as from 1 December 2017.

Katharina Vogt-Schädler, Chief Executive Officer of VP Bank (BVI) Ltd, decided to step down from her position there. Nicholas A. Clark succeeded her as Chief Executive Officer effective 1 February 2017. The executive management of VP Bank (BVI) thus consists of Nicholas A. Clark as CEO and Sjoerd Koster as General Manager for Client Business.

As from 1 July 2017, VP Bank (Switzerland) Ltd strengthened its executive management with the addition of Maximilian Barth. He serves as Head of Private Banking for Germany and Switzerland. VP Bank (Switzerland) Ltd's executive management now comprises four members: Antony Lassanianos, Thomas Westh Olsen, Stephan Wernli and Maximilian Barth.

Rita Becker, Head of Group Human Resources, decided to leave VP Bank Group as from end-October 2017. In the interim, Reto Rentzmann, the Head of Human Resources Recruiting & Consulting, assumed the position as Head of Group Human Resources, and as from 1 March 2018 Dominique Christen will take over the position.

Anne Guidi, Head of Risk Management and a member of VP Fund Solutions (Luxembourg) SA's executive management, decided to pursue a new challenge outside of VP Bank Group. As from 1 December 2017, Uwe Stein succeeded her as the Head of Risk Management and member of executive management at VP Fund Solutions (Luxembourg) SA. The company's executive management now comprises Eduard von Kymmel, Ralf Funk and Uwe Stein.

Monika Vicandi
General Counsel &
Chief Risk Officer

Christoph Mauchle
Head of Client Business

Alfred W. Moeckli
Chief Executive Officer

Siegbert Näscher
Chief Financial Officer

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 Business Development Group Strategy	Tanja Muster a.i. Reto Rentzmann Alfred W. Moeckli Patrick Bischofberger
Chief Financial Officer	Group Finance Group Treasury & Execution Group Credit	Dr Hanspeter Kaspar Claus Hug Peter Siber
Client Business	Private Banking Intermediaries	Martin Engler Tobias Wehrli
Chief Operating Officer	Group Operations Group Information Technology	Jürg Mühlethaler Dr Andreas Benz
Investment Solutions	Group Investment, Product & Market Management	Stefan Schwitter
General Counsel & Chief Risk Officer	Group Legal, Compliance & Tax Group Risk	Dr Graziella Marok-Wachter Dr Marcel Beutler

Subsidiaries with bank status

Company	Country	City	Head
VP Bank Ltd	Liechtenstein	Vaduz	Alfred W. Moeckli, Siegbert Näscher, Christoph Mauchle, Monika Vicandi
VP Bank (Schweiz) Ltd	Switzerland	Zurich	Antony Lassanianos, Thomas Westh Olsen, Stephan Wernli, Maximilian Barth
VP Bank (Luxembourg) SA	Luxembourg	Luxembourg	Thomas Steiger, Romain Moebus
VP Bank (BVI) Ltd	British Virgin Islands	Tortola	Nicholas A. Clark, Sjoerd Koster
VP Bank (Singapore) Ltd	Singapore	Singapore	Bruno Morel

Wealth management companies

Company	Country	City	Head
VP Wealth Management (Hong Kong) Ltd	China	Hong Kong	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 (Switzerland) Ltd Moscow Representative Office	Russia	Moscow	Jean-Michel Brunie
VP Bank Ltd Hong Kong Representative Office	China	Hong Kong	Clare Lam Chan

Economic environment

There was hardly a cloud on the economic horizon in 2017. The most indebted countries of the euro zone shook off the crisis and surprised everyone with better-than-expected growth. The euro zone's GDP grew by 2.4 per cent. Another favourable result was the drop in unemployment, which fell from 9.6 per cent to 8.7 per cent thanks to the solid growth. All this happened without any measurable rise in inflation, thereby enabling the ECB to maintain its ultra-expansive monetary policy.

Measured against these extremely favourable results, the Swiss economy recorded disappointing economic growth. The 1.0 per cent growth was significantly less than the forecast level at the beginning of the year. However, the Swiss National Bank could breathe easier. On the one hand inflation trended back into positive territory and on the other the Swiss franc eased measurably against the euro. This currency trend was more a reflection of the euro's overall strength than of the Swiss franc's weakness. Economic growth in the neighbouring euro zone was stronger than expected, and the election of Emmanuel Macron as French president added further lustre to the single currency in financial markets, especially since the year had begun with a sword of Damocles hanging over the markets in the form of the anti-European French presidential candidate Marine Le Pen. In Switzerland, the SNB maintained its course thanks to the positive but still very modest inflation rate. The central bank left interest rates unchanged, although it did continue to intervene in currency markets during the first half of 2017.

The economic recovery in the United States continued apace. The Federal Reserve was able to continue its modest interest rate hikes, implementing three separate interest rate increases of 25 basis points each over the course of the year. These increases were accompanied by a shrinking bank balance sheet, as the bank began tapering its securities purchases in October by not reinvesting all proceeds from the securities reaching maturity.

Emerging countries also welcomed some good news. The rebound in oil prices helped the commodity exporting countries to halt the slide in their economies. Relative to the overall global economy, China posted still relatively high 6.9 per cent growth.

Equity markets in 2017

2017 was a markedly good year for equity investors. The global MSCI World index including reinvested dividends rose by 22.98 per cent. Europe and the emerging countries significantly outperformed the average, with respective gains of 27.63 per cent and 38.12 per cent. Swiss equities also benefited significantly from the robust global economic upturn and surpassed many forecasts with a 23.56 per cent gain.

All G20 countries made positive contributions and contributed to across-the-board global economic growth. Equity markets benefited from the continued low-interest-rate environment and expansive monetary policies from the key central banks. A combination of favourable financing costs, increased disposable household income in the leading industrial countries and further borrowing by some countries such as China drove infrastructure investments significantly higher while invigorating labour markets. The resulting productivity gains and improved retail sector performance accelerated the earnings growth of many companies.

2017 was also a year of challenges to be addressed. Donald Trump's unorthodox leadership style created geopolitical and economic tensions, and in that regard it was essential for the future of his presidency that his proposed U.S. tax reform be passed in 2017. The renunciation and repudiation of free trade agreements with Asia, Canada and Mexico meant that the affected countries and regions had to find new arrangements, with China coming out the big winner. China is also a major driver behind the very strong Asian economy; as a major supplier it benefits from the on-going global trend toward digitalisation and automation. The very high fundamental valuations remained a major hurdle, although they were mitigated to some extent by strong earnings growth in 2017.

VP Bank in capital markets

Number of shares, market capitalisation and trading volume

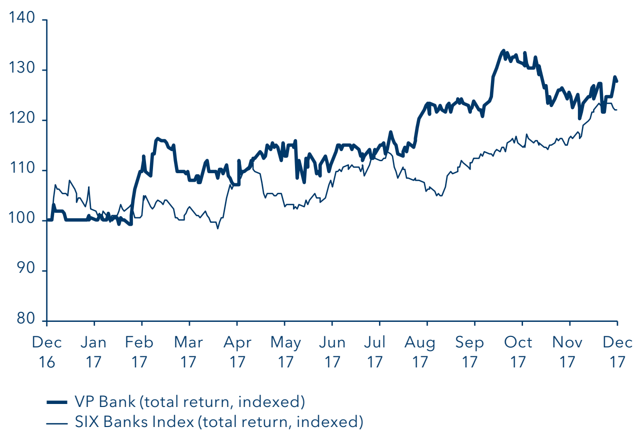
VP Bank's registered shares A are listed on the SIX Swiss Exchange; the registered shares B are not listed. The number of VP Bank's listed shares remained unchanged at 6,015,000 in 2017. The market capitalisation of registered shares A combined with the market value of registered shares B totalled CHF 879.9 million at year-end 2017, up approximately 23 per cent from the previous year (CHF 714.0 million).

On the Zurich exchange where they are listed, VP Bank shares had a trading volume of 1,224,226 shares in 2017, representing average daily volume of 4,877 shares.

VP Bank shares price trend

In 2017, VP Bank shares added to the previous year's strong gains and were again among the clear winners on the Swiss Stock Exchange. They rose by 27.3 per cent (including dividends), thereby outpacing the broader Swiss equity market and the Swiss banking sector. They fell to a low of CHF 105.0 in February and reached a high of CHF 141.9 in October. The registered share A closed the year at CHF 133.0 for an average price of CHF 122.28 during the year. According to a December 2017 study by Zürcher Kantonalbank (ZKB), VP Bank shares are among the favourites of Swiss equity analysts for 2018.

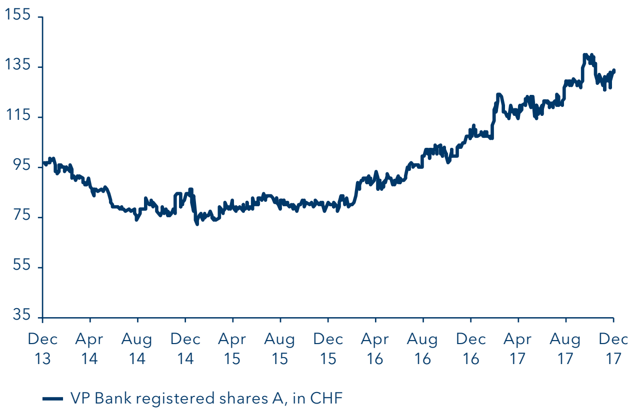
VP Bank registered share A versus the SIX Banks Index in 2017



Dividends

VP Bank strives to maintain a steady dividend approach, with a goal of paying out 40 per cent to 60 per cent of consolidated net income to shareholders. In May 2017, VP Bank paid a dividend of CHF 4.50 per registered share A, which represented a dividend yield of 4 per cent at the time. That dividend was based on 2016 consolidated net income totalling CHF 58.0 million.

Share price performance 2013 to 2017



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.

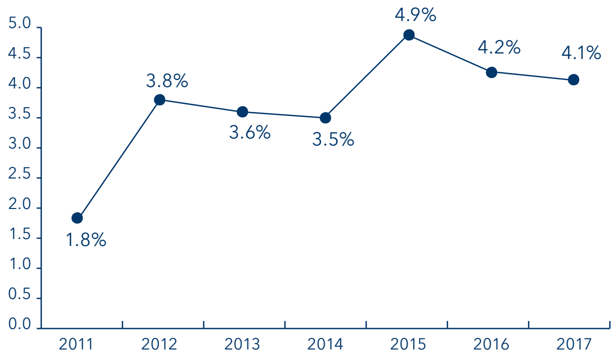
The tasks include holding discussions with analysts and investors, disclosing ad hoc information regarding business issues of relevance under securities law, producing the company's annual and interim reports, releasing the related financial results and organising the annual general meeting of shareholders.

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 2017, VP Bank's management met with analysts and investors individually and in groups, held conference calls and completed two respective road shows in the spring and autumn. Analyst meetings were held following the presentation of the annual and interim results in Zurich.

On 18 May 2017, under the motto "New challenges – New business opportunities", VP Bank invited investors as well as other participants in the worlds of finance, business, politics and the media to the "VP Finance Dialogue 2017" conference. Adrian Hasler, Prime Minister of the Principality of Liechtenstein, was the keynote speaker. "VP Bank Finance Dialogue 2017" was the third event of this type and once again contributed to our goal of promoting an open and on-going dialogue on current events.

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



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 always 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 website and reports posted online at http://report.vpbank.com along with all current information. Since 2015, the interim annual report is also available in an online version.

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 focused on "digitalisation".

VP Bank Group's 2016 annual report received a total of eight international awards, recognising the outstanding quality of the VP Bank's communications policy and again demonstrating its creative design prowess. At the "ARC Awards", VP Bank's annual report was entered alongside nearly 2,000 other submissions from 33 countries and received a gold award ("Best of Category") for the impactful illustrations. The "Arc Awards" have been handed out in the United States for more than 30 years.

The annual report won a silver medal in the "Best Annual Report – Print" category of the U.S.-based "Stevie Awards". Other awards included the "Galaxy Award" and the "Vision Award" from the League of American Communications Professionals (LACP). The outstanding design quality of VP Bank's report was also recognised in Germany in the well-known Red Dot Design Award.

The online version of the 2016 VP Bank annual report also received international recognition, including two gold medals from the LACP Vision Awards und ARC Awards, respectively. As part of the "Swiss Annual Report Ratings", a jury of communications and finance professionals again ranked VP Bank Group's print and online design in the top 15 for reports from Switzerland and Liechtenstein.

Annual general meeting

VP Bank's 54th Ordinary Annual General Meeting on 28 April 2017 in Vaduz was attended by 416 shareholders, who approved all of the resolutions proposed by the Board of Directors. Shareholders represented at the meeting accounted for 75.72 per cent of all shares outstanding.

For the first time and as part of its digitalisation strategy, VP Bank sent shareholders a notice of meeting electronically and also gave them the possibility of casting electronic votes on agenda items. Some shareholders made use of this online voting option.

The next ordinary annual general meeting will be held on 27 April 2018.

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 March 2017 Standard & Poor's confirmed VP Bank's "A–" rating and raised its outlook from "stable" to "positive". In August the rating and outlook were confirmed. This confirmation took into account prudent risk management, the stable ownership structure, sound liquidity and the very strong equity position, and it underscores VP Bank Group's solid and successful business model.

Standard & Poor's current ratings report can be downloaded from the VP Bank website in the "Investors & Media" section.

VP Bank shares are also followed by analysts from MIRABAUD Securities LLP (recommendation: buy) and Zürcher Kantonalbank (recommendation: overweight).

Agenda	
Publication of 2017 annual financial results	Tuesday, 6 March 2018
55th ordinary annual general meeting	Friday, 27 April 2018
Dividend payment	Friday, 4 May 2018
Publication of first-half 2018 financial results	Tuesday, 21 August 2018

IVP Bank share details	
Registered shares A, listed on SIX Swiss Exchange	
Number of listed shares	6,015,000
Free float	49.37%
SIX symbol	VPBN
Bloomberg ticker	VPBN
Reuters ticker	VPBN.S
Securities number	31 548 726
ISIN	LI0315487269

Share-related statistics 2017	
High (19.10.2017)	141.90
Low (20.02.2017)	105.00
Year-end close (final settlement value, 29.12.2017)	133.00
Average price	122.28
Market capitalisation in CHF million[1]	879.9
Consolidated net income per registered shares A	10.89
Price Earnings Ratio pro registered shares A	12.21
Dividend per A registered share (proposed)	5.50
Dividend yield (net) in %	4.1
Standard & Poor's rating[2]	A (A–/Positive/A–2)

[1] Including registered shares B
[2] As of 2 March 2017

Legal Entity Identifier

The Legal Entity Identifier (LEI) is a uniform global system that clearly identifies financial market participants. The 20-character code provides security and transparency for all parties. As from 3 January 2018, with the entry into force of the MiFID II directive, all companies conducting securities transactions must have an active LEI number. The code includes key reference information that makes it easy to know the participants in a transaction and represents a control mechanism to prevent market abuse and fraud.

VP Bank's LEIs	
VP Bank Ltd	MI3TLH1I0D58ORE24Q14
VP Bank (Luxembourg) SA	549300FKMQ4CQTPLCI28
VP Bank (Switzerland) Ltd	54930066YZFYEEPGIP56
VP Bank (Singapore) Ltd	549300F2SFY37JKA6E50
VP Bank (BVI) Ltd	5493006RC8WBL0CUBE87
VP Fund Solutions (Liechtenstein) AG	529900R5UQB9UVVBIM04
VP Fund Solutions (Luxembourg) SA	5493004X2QB08ZUK6V68

Further information on VP Bank's capital structure and core shareholders can be found in the section "Corporate governance", page 77 ff.

Contact

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Head of Group Communications & Marketing
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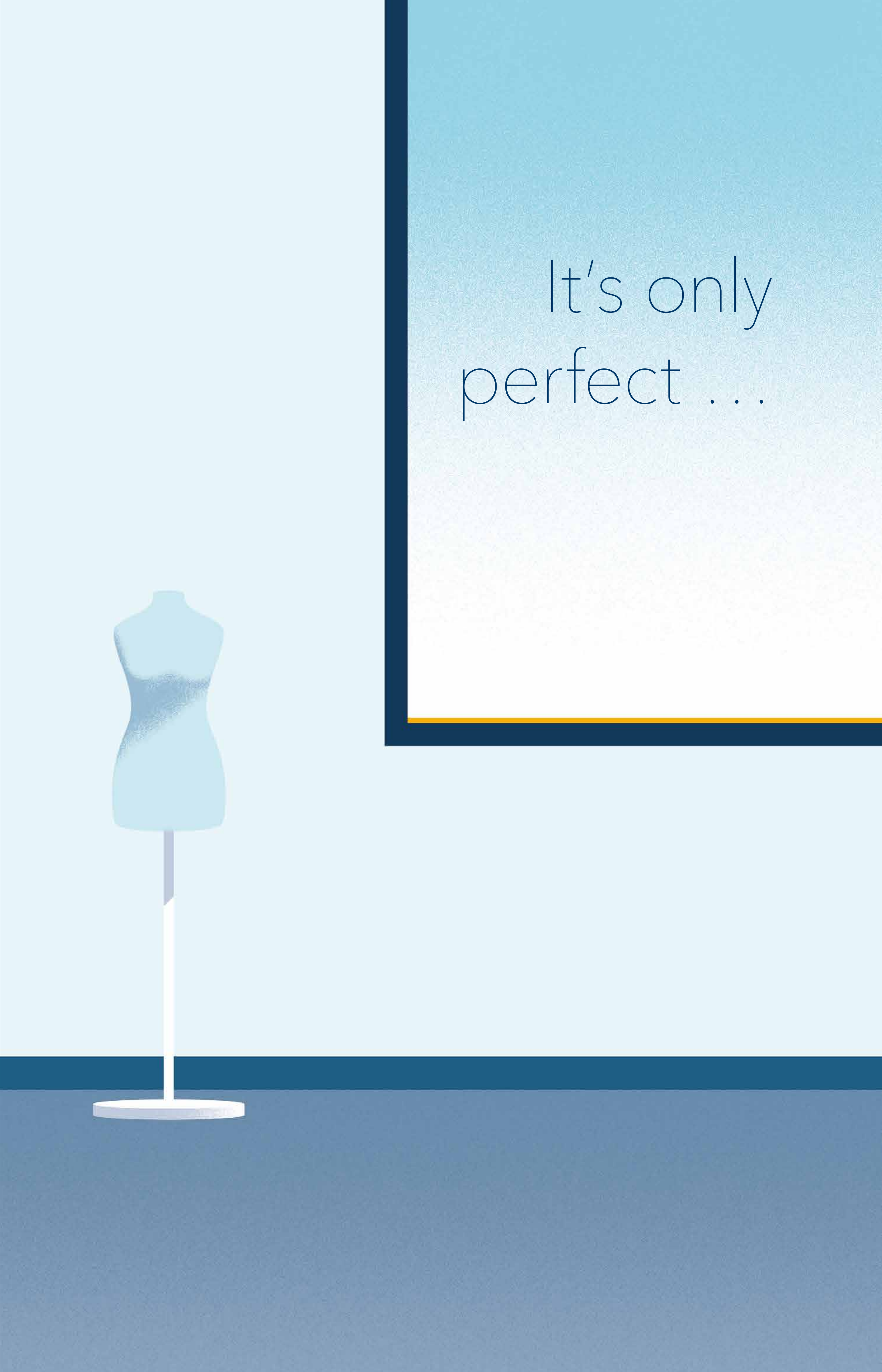
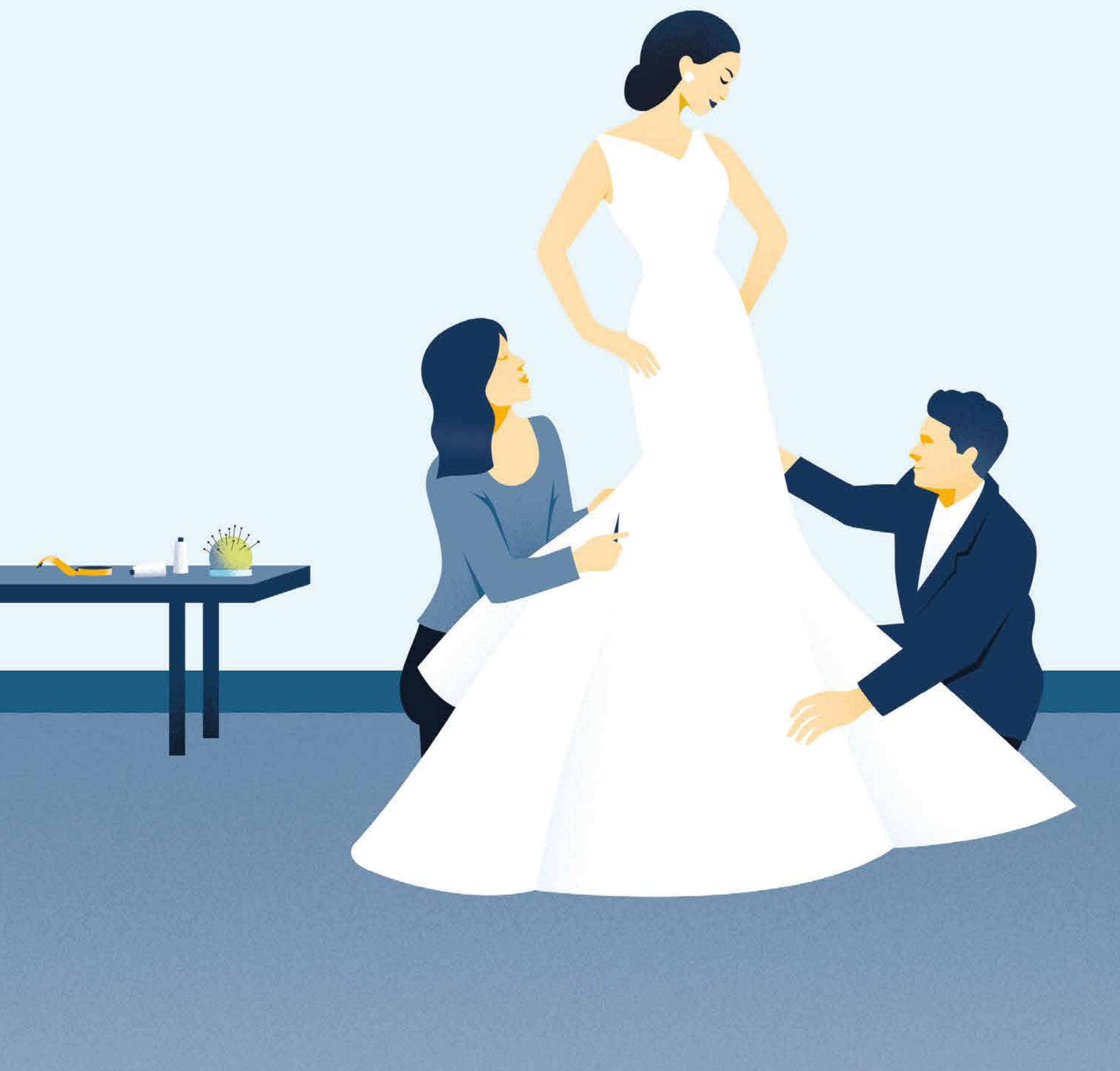
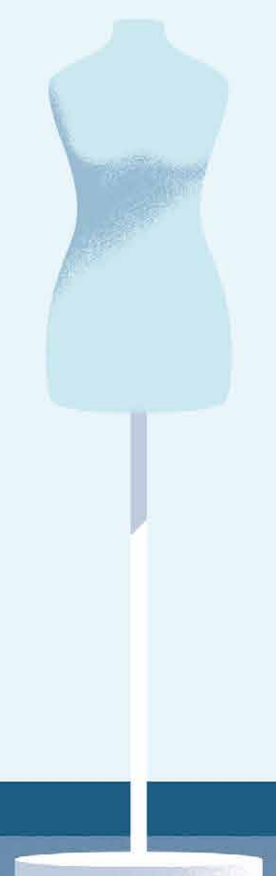
www.vpbank.com → Investors & Media


It’s only
perfect . . .

. . . if it's **perfect for you**.





“For me it’s important to work together with the client in pursuit of success. To do this I must not only know the wishes and goals of my partner, but also be certain of my own expertise and opportunities. Meeting as equals means showing not only mutual respect but also a willingness to engage with each other. For me the crucial thing is to be close to the client and fully aware of his or her needs. That’s the only way I can offer exactly the right solutions.”

Daniel Augsburger
Head of Client Advisory Funds

“It’s often the little things that make all the difference, telling us what our clients value above all else. By listening to them attentively I learn what motivates my clients, what will preoccupy them both today and tomorrow. By taking a keen interest in their current concerns and their often still vague investment plans, I am able to come up with exactly the right bespoke solution for each client. For me, it's the details that count.”

Isabella Heeb
Client Advisor

2

Corporate strategy

Strategic orientation of VP Bank

Diversified business model

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 offices in seven international financial centres: Vaduz, Zurich, Luxembourg, Singapore, Hong Kong, Moscow 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 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.

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 of three pillars with a long-term approach: growth, focus and culture.

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 advance the qualitative growth of client assets under management. This objective will be achieved by actively strengthening the bank's positioning in the all-important financial intermediaries business, expanding the private banking business and further enlarging the fund business.

Growth will also increasingly be achieved through the addition of new client advisors. With that in mind, the "Relationship Manager Hiring" project was initiated in late 2016. This project seeks to hire a total of 75 client advisors by end-2019, with roughly one half hired at the bank's Asian sites and the other half in Switzerland/Liechtenstein/Luxembourg. The project is off to a good start. In 2017, a total of 24 new client advisors joined VP Bank along with satisfactory new cash inflows. Various working projects were launched and implemented in order to optimise back-office processes with an eye toward increased growth.

Along with organic growth, VP Bank wants to use its very strong equity position to invest in growth through mergers and acquisitions.

VP Bank also aims to pursue growth by continuing its international diversification. The earnings contribution from foreign target markets will be increased to 50% of the total over the medium term.

Focus

At VP Bank, the term "focus" is understood to mean efficiency enhancement and reduced complexities and costs for internal processes. The resulting productivity gains are reinvested in the growth and digitalisation strategy. VP Bank has established cross-functional teams to ensure implementation.

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 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 the goal of further raising the advisory quality offered by employees. They receive support through advisory tools as well as training programmes. In 2017, comprehensive continuing education and training measures were implemented, which are described in the section "The employees of VP Bank – employee development" (page 56).

Last year as in 2016, broad-based management culture leadership seminars with training sessions and workshops were held for managers in all business segments and at all office locations. The leadership programme is divided into four modules, and in 2017 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.

In the corporate culture area, the focus is on promoting team spirit. Based on the findings of employee surveys conducted in 2015 and 2017 (see below), numerous measures were implemented at all levels, internal exchange programmes were stepped up and communications opportunities with senior management were expanded.

Dedicated employees

Motivated and service-oriented employees are the key to success. VP Bank again undertook numerous initiatives in 2017 in order to encourage its employees and create a positive work environment.

Every two years, VP Bank conducts a Group-wide employee survey; the most recent one was completed in September 2017. The excellent 91 per cent return rate shows the level of interest that employees have in their company. Compared to the survey conducted in 2015, VP Bank recorded strong gains in the key assessment criteria, i.e. commitment, spirit and attractive employer. The measures taken as a result of the 2015 survey had the desired effect. The most recent findings will also be used as the basis for further improvements. To achieve these goals, the respective business segments hold workshops in which employees and managers jointly define specific measures and complete them.

VP Bank's ideas and innovation management programme "myContribution" was totally reconfigured in 2015. Employees are encouraged to contribute to VP Bank's success by submitting ideas on how to improve processes and procedures. Submissions are assessed by a panel of experts, and successful ideas are rewarded. A total of 46 ideas were put forth in 2017, a 30 per cent increase relative to the previous year. Of that total, five have already been implemented, another 10 are still being reviewed or being implemented by panel of experts. With "myContribution", VP Bank taps the potential of its employees and thereby improves its competitiveness.

To promote open dialogue between Group Executive Management and employees, in 2017 VP Bank introduced the "VP Bank Journeys". By observing other companies, employees gain new insights and a fresh perspective, address VP Bank's own challenges and catch a glimpse of the other companies' innovation culture through company visits. In 2017 two groups of 30 employees from throughout the company travelled to Munich and Dublin, respectively.

A comprehensive overview of all measures for employees can be found in the section "Employees of VP Bank" on page 53 et seq.

Skilled advisors and teams

Engaged and skilled client advisors are a key factor behind VP Bank's success. In an environment marked by increasingly complex regulations, clients have a greater need for advice and competency. VP Bank must therefore support its client advisors as they expand their knowledge.

SAQ certification for client advisors begun the previous year was successfully continued in 2017. SAQ is an internationally recognised certification based on ISO standard 17024 that contains various financial and advisory components and was created with Switzerland's AKAD University of Applied Science (Höhere Fachschule Banking und Finance). It ensures that clients benefit from a high quality standard and transparency in advisory services. The training covers not only technical matters and bank-specific content but also their application in advisory discussions.

The projects implemented in previous years to improve advisory quality again bore fruit last year. In November 2017, VP Bank was recognised as the "Top Supplier in the Overall Rankings" in the highly regarded Fuchsbriefe tests in Berlin. In the German-speaking countries, VP Bank is rated as one of the top five banks, and in Liechtenstein it was ranked number 1. The Fuchsbriefe assessment shows that VP Bank satisfies the highest advisory standards in an international comparison.

New organisational structure

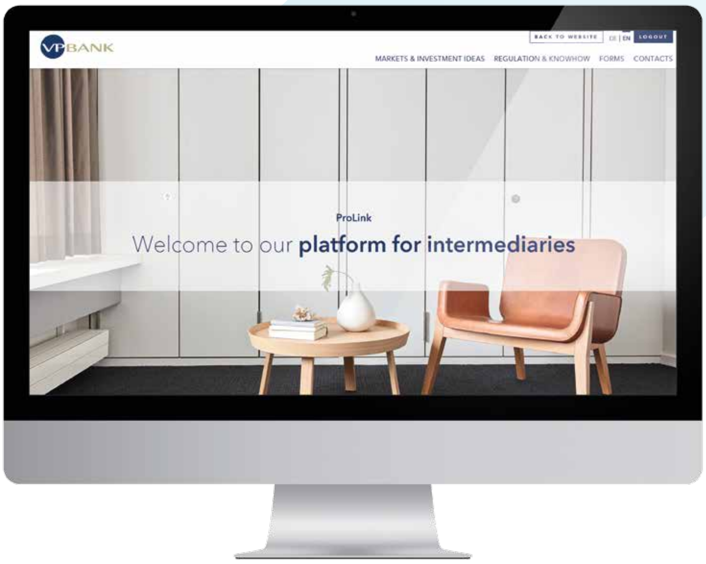
In 2017, VP Bank Group made adjustments to its organisational and management structure and focused the tasks within Group Executive Management. This on-going development was based on the Strategy 2020 and its medium-term goals.

Further information can be found in the section "The organisational structure of VP Bank Group", page 16 ff.

Group Executive Management is supported by a broad base of 19 second-tier managers.

VP Bank's intermediaries strategy

Since its founding in 1956, VP Bank prides itself in being a reliable, leading-edge partner for financial intermediaries clients. To successfully service this demanding segment requires an understanding of the different and ever-changing needs of clients in Europe and Asia, a constant eye on regulatory requirements and at the same time the ability to leverage the advantages of a digitised world.



VP Bank Group's "boutique" approach to private banking also applies to its intermediaries business. In other words, it is neither a pure online bank nor an ordinary universal bank. With its differentiated, personalised line of services, VP Bank stands out amongst its competitors.

The goal is to offer clients efficient and reliable banking services and information in a digital environment. Client segmentation helps VP Bank tailor its services accordingly. New solutions for each client segment enable VP Bank to provide these services according to need and growth potential.

In this regard, external asset managers receive specialised, proactive support from VP Bank's Active Advisory Team and benefit from specific investment recommendations, portfolio consulting and switch recommendations.

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 plus the relevant forms.

With its five international booking centres, VP Bank is one of the few banks of its size to have this unusually broad global presence.

Private banking

As an internationally active private bank, the core competencies consist in asset management, investment advisory, financing and wealth planning for demanding private clients.

In asset management, VP Bank offers delegated investment decisions as well as continuous portfolio monitoring. In the investment advisory area, clients can rely on targeted support with market and product information. Wealth planning offers comprehensive advisory and individual solutions for complex needs.

In the investment business, the proven foundation of open architecture ensures independent advisory. Together with VP Bank's Active Advisory Team and a network of worldwide partners, advisors recommend the best investment instruments or develop innovative solutions for their clients.

The fund business

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

Through its participation in several fund trade fairs and industry conferences in 2017, VP Fund Solutions continued to present its services to a receptive audience of industry professionals. It also stepped up its participation in various interest groups – notably in the private equity, real estate and infrastructure fund areas – and working groups.

In 2017, the rating agency Citywire gave an outstanding A rating to four VP Bank investment funds. After three "VP Bank Best Manager" equity funds received outstanding sustainability ratings in Liechtenstein in 2016, other VP Bank funds received favourable sustainability ratings in 2017. They are listed on the "yourSRI.com" sustainability platform. The Morningstar rating agency also gave an excellent four-star rating to four "VP Bank Best Manager" funds.

The lending business

The lending business is a constant and dependable pillar of VP Bank, and especially in the current interest rate environment it makes key earnings contributions. The lending business provide significant support to the Group's organic growth, both through an expanded range of financing services as well as through more close-knit and long-term client relations.

The orientation of the lending business is aligned with the strategic intermediaries and private banking business segments. In the Liechtenstein home market, retail and corporate lending are also offered.

The lending business is part of VP Bank's core business. It provides the bank with a major differentiation factor relative to other traditional private banks and contributes to the achievement of its medium-term goals. In order to continue the growth of the lending business, several measures are planned. They include the build-up of a product line and pricing tailored to the market, training sessions, an overhaul of the lending process through further quality improvements and the introduction of digital lending processes.

Investment advisory

Excellent client care is a top priority at VP Bank and is one of the most decisive differentiating factors. The advisory process is of utmost importance in order to offer clients tangible value-added.

To ensure that all clients receive consistently high-quality advice, new quality standards were established in such key areas as advisory concept, standards, digital and other tools, quality requirements, the definition of responsibilities and teamwork with internal and external partners. The success of these measures was demonstrated by, amongst other means, the aforementioned top ratings in the "Fuchsbriefe" TOPs 2018.

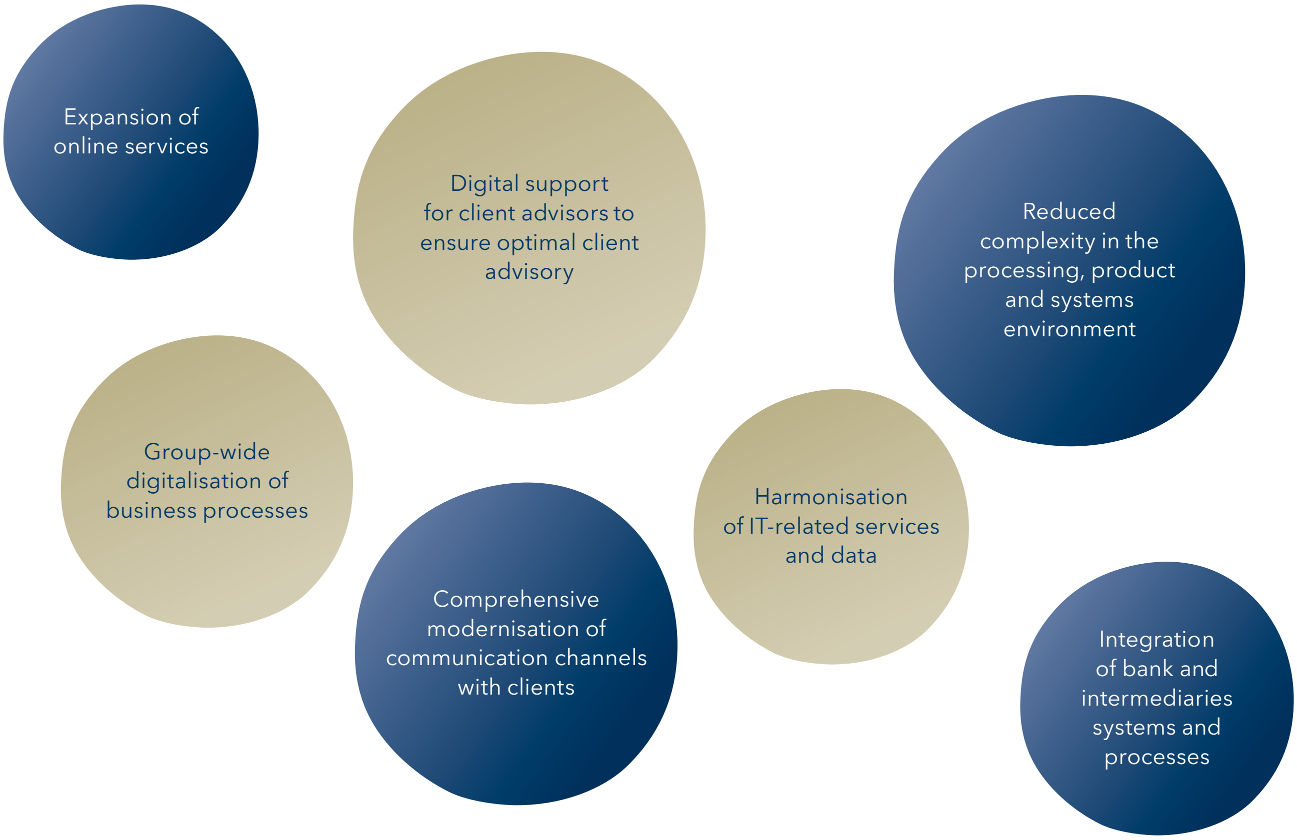
Clients benefit from the newly introduced advisory concept in multiple ways. A new software application provides clients with even more precise portfolio analyses and investment recommendations that also take into account the regulatory requirements of the respective domiciles. Comprehensive and continuous portfolio monitoring rounds out the client care services.

At the start of 2017 VP Bank launched a comprehensive new Advisory package. As part of the advisory concept, it covers the entire spectrum of professional investment advisory and offers attractive, transparent pricing.

In 2016 VP Bank installed "Finfox", a new advisory software programme, which enables a systematic and high-quality investment advice based on scientifically based financial planning and wealth optimisation. The expanded range of services includes the definition of processes for investment advisory and the optimal integration of these processes in the advisory approach. With the "Finfox Touch" tablet version, clients participate interactively in the advisory process; through an intuitive interface, clients see the investment decision implemented directly and vividly on the tablet screen.

The implementation of the digital investment advisory approach using tablets is a further milestone in VP Bank's digitalisation strategy, whereby the investment advisory software provides the client advisor with background support and makes it possible to advise clients remotely.

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



The digitalisation strategy

Today's client is mobile and connected. Technology and increased mobility have changed people's behaviour in a lasting way, as evidenced by changing communication patterns and consumer behaviour.

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 which 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. Here, the future focus will be on tools that support the client advisors and various client segments.

VP Bank is applying a trust-enhancing combination of people and technology based on client needs. The goal of all these measures is to convince new and existing clients that they are in good hands with VP Bank.

As part of this trend to digitise processes, data and communications channels, numerous measures have been introduced. Since 2016 the so-called Next project has been consistently implemented by a cross-functional project team. The main focus of all these measures 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 and will bring about noticeable 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 2017, VP Bank's client portal was reconfigured as part of the website redesign and the technical foundation of VP Bank's new e-banking was modernised.

In a second phase, VP Bank will make targeted investments in its internal systems and data. The goal is to provide client advisors with even more time to give their clients the best possible care and jointly arrive at the best possible investment decisions. The online service offering will also be further expanded.

Some of the previous year's planned and announced measures were already successfully implemented in 2017. VP Bank Group's contract management was reconfigured, with all contracts now contained in a contract management application. A new approval portal enables vendor invoice management for electronic invoice processing. The Employee Self Service offers electronic absence management. Other measures involved "WebEx", a virtual meeting room for teleconferencing and joint document editing and the installation of electronic pinboards for employees.

VP Bank's new interactive website lays the foundation for easier use of online services while paving the way for integrating third-party services and enabling more efficient communications between clients and advisors.

In November 2017, VP Bank held the "Next VP Bank Fintech Day" in Zurich. Senior management and the Board of Directors had an opportunity to discuss the latest topics involving digitalisation and thereby create the basis for further strategic decisions in the Next programme.

Innovative e-banking

For years, VP Bank has operated an e-banking platform that meets the highest standards and enables environmentally friendly sending and receiving of e-Post communications. In 2013 a new version of "e-banking mobile" was introduced that turns a smartphone into a mobile banking device.

Using their smartphones, clients can check their VP Bank accounts and portfolios as well as enter securities orders and make payments based on the latest market prices. Payment slips can be scanned with the device's on-board camera, and notifications of incoming credits to the client's account can be received via a secure mobile push channel.

The introduction of the so-called mobile token in 2016 created an alternative login process for e-banking through a special mobile app. When logging in from a personal computer, a push message is sent to the smartphone to confirm the login.

E-banking usage has been growing steadily for years. After rising by 56 per cent in 2014, it posted gains of nearly 30 per cent in the recent years through end-2017. Today, more than 72 per cent of VP Bank's payment instructions are submitted online.

In August 2017, the design of the VP Bank mobile app was updated as part of VP Bank's new corporate identity. In December of that year, an updated version of the e-banking app was installed that enabled the implementation of MiFID II regulations for those securities markets subject to the regulations.

In 2017, VP Bank worked assiduously on the planning and development of the new e-banking platform with extensive features and enhanced user-friendliness, which will be made available to VP Bank clients beginning in the second quarter of 2018. The new e-banking platform operates on all mobile devices, including smart phones, tablets and PCs. The content and presentation of market data with professional graphics was noticeably improved and other functional extensions were introduced.

Further innovative opportunities that enable interaction between advisors and clients are being created using modern communications solutions such as chat and video-supported solutions. The new e-banking platform with its totally new user interface also makes it possible to satisfy client needs faster and provide online services.

With the introduction of Electronic Banking Internet Communication Standards (EBICS), VP Bank will offer a professional solution for direct connections to clients' financial software platforms as from 2018. EBICS represents a new, multi-bank standard for the transfer of payment information over the Internet. The EBICS approach enables companies to have their global payments processed by their banks using the highest security standards.

In 2019 the replacement solution for the current payment slip, the invoice form with QR code, will be launched and implemented over a longer parallel phase.

Outlook

Growth remains a central concern for VP Bank in 2018. The "Relationship Manager Hiring" programme continues the steady expansion of the advisor teams in the intermediaries and private banking segments. Along with organic growth, the very strong equity position will also be used to invest in growth through acquisitions. The move to new and larger offices in Zurich, Luxembourg and Singapore provides the infrastructure for personal growth.

Another key project is the on-going implementation of the digitalisation strategy. In 2018 these measures will focus mainly on the client side. VP Bank will devote considerable resources to this issue in the years ahead.

As regards regulatory matters, the data protection directive, the implementation of the EU Fourth Anti-Money Laundering directive and "Basel IV" will be front and centre. Other projects include the finalisation of MiFID II and PRIIPs (Packaged Retail Investment and Insurance-Based Products) as well as the implementation of the Automatic Exchange of Information. VP Bank has created designated working groups for these matters and is providing comprehensive in-house training, thereby leaving it well prepared for these upcoming challenges.

The investments and activities in the newly equipped intermediaries business are making themselves felt. In 2017, services for intermediaries clients were further expanded; more than 60 client events were also held. These very active market development activities create growth opportunities and the bank will continue to invest in them in the coming year.

In July 2018, VP Bank (Singapore) Ltd will be converted from a subsidiary to a branch and its license will be expanded from merchant bank to wholesale bank.

VP Bank Group's outstanding results demonstrate the relevance of its strategic orientation. VP Bank will thereby continue its pursuit of broad-based growth.

VP Bank Group is very well equipped for future challenges, both strategic as well as personal and financial. That was also confirmed by the Standard & Poor's rating agency, which in March 2017 confirmed its A- rating and raised its outlook from "stable" to "positive". Following the annual meeting in August 2017, this rating was reconfirmed. The rating and improved outlook take into account VP Bank's operating gains, prudent risk management and robust capitalisation.

The VP Bank brand

A new brand strategy

The VP Bank brand comprises various elements, including overall visual appearance, name and logo, but also strategic components that serve to define the brand positioning. The goal of a strong brand is to create a clear identity for VP Bank – both the content and visual appearance – for all stakeholders.

In 2017, VP Bank worked on various elements of its brands. As regards brand content, VP Bank sought to further define the bank's principles and values. The Board of Directors therefore prepared a mission statement based on VP Bank's continuing vision that expresses how VP Bank defines and positions itself as a company.

VP Bank mission statement

Our bank

VP Bank is a profitable and independent private bank, built on a stable shareholder base. Our strength lies in the combination of regional roots and a targeted international presence. We live up to our company responsibility as first established by our founder Guido Feger.

Our clients

We specialise in serving intermediaries and private clients. We develop and maintain a long-term oriented relationship built on trust. We serve our clients skilfully, personally and directly.

Our culture

We practice a culture of commitment, entrepreneurial action and self-responsibility. Our teamwork is based on mutual respect, trust and appreciation. We confront challenges collectively, consistently and innovatively. We lead by setting clear goals and providing open feedback. We are a top employer for our committed employees.

Success drivers

Through brand strategy workshops and interviews with more than 80 employees, selected intermediaries and private bank clients, VP Bank's success drivers were identified and concrete performance indicators were defined, which are necessary to inspire our clients. Going forward these success drivers are being integrated into the development of the company strategy.

Our brand story

Based on these success drivers we have developed our brand story. In order to communicate the brand story effectively, a catchy brand video was also created that brings all of the messages to the screen. The video shows the viewer how our main focus is to put the client first.

www.vpbank.com/brand_strategy

The brand messages

In addition to the brand story, seven brand messages have been derived. These seven messages constitute the value proposition of the VP Bank brand and are used in the Group's communications functions, including for example in the advisory process or our advertising subjects. You will find the respective subjects on the first page of each chapter in this annual report.

VP Bank's seven brand messages are as follows:

Inspiring and convincing
We aim to help our clients make significant progress, creating inspiring experiences for them.

Commitment with a personal touch
As devoted personal financial advisors we stay close to the client, acting as a trustworthy companion over the years.

Where local meets global
We combine regional roots with a carefully targeted international presence. Giving our clients unique opportunities to grow their assets.

Customised and capable
We listen attentively to our clients, understand their real needs and then put together solutions tailored to their specific requirements.

An open-minded partner
We relish even the most difficult challenge, working with ourclients to formulate the right solution for them.

Quick and simple
We make sure that everything goes quickly and smoothly. The more complex banking gets, the more we get to be ourselves.

Forward-looking and safe
We take the long view, acting responsibly and offering our clients the greatest possible reliability and security.

With clarity toward a new brand design

Along with the brand strategy we also refreshed our unique design and made it compatible for the digital age. With its illustrative style, VP Bank created a signature value in its brand design. However, the design concept needed to be updated in order to achieve these same qualities in the digital space and for tangible items such as brochures, cards and client gifts.

For the development of the new "Clarity" design concept, we ensured that VP Bank's original look was preserved. We kept the designer illustrations as a means of transmitting the brand message. Meanwhile the entire appearance was modernised, simplified and made digitally friendly. VP Bank's new brand design stands for clarity, simplicity and a focus on the essentials.

The new brand enables VP Bank to use a more modular approach, communicate with target audiences and generally respond more quickly to current issues in the banking world – all in a fresh manner.

www.vpbank.com/brand_design

Digital visitor experience

For many potential clients, the www.vpbank.com website is their first contact with VP Bank and therefore our most important digital calling card.

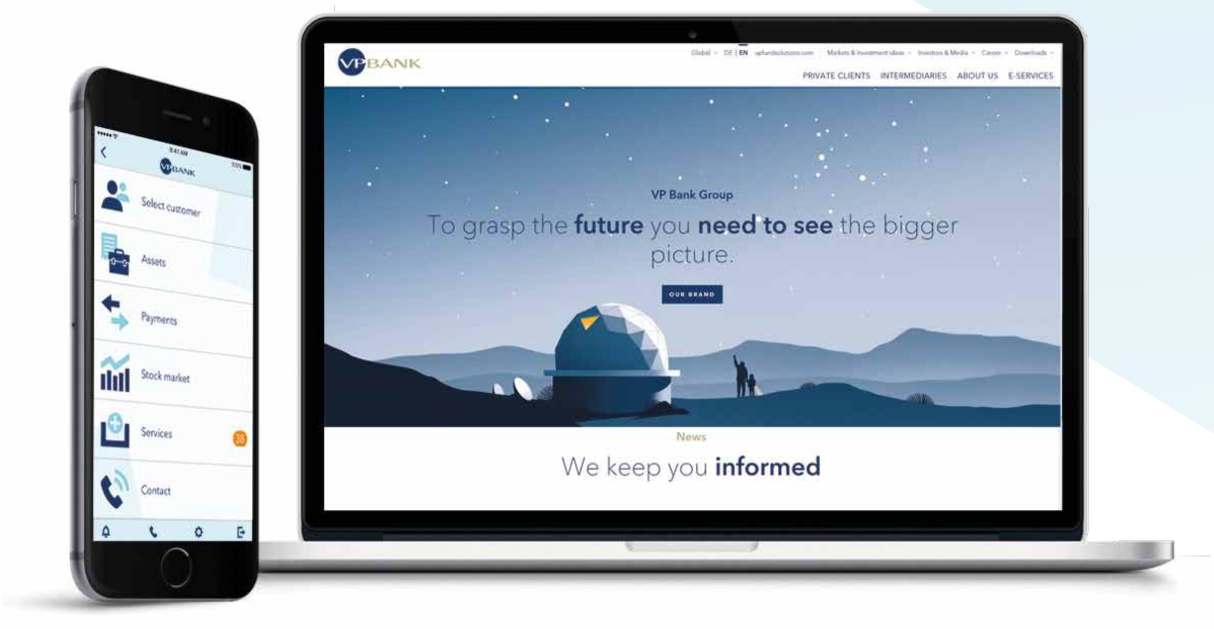
As part of its digitalisation strategy and the redesign of its brand identity, VP Bank Group totally reconfigured its website from a technical and visual standpoint and launched it in August. The transition to a modern portal technology smooths the way for a secure and flexible client portal that satisfies client needs with scalable modular services.

The focus of the reconfiguration was improving the user experience as well as refreshing the design. Users visiting the website are led to the appropriate areas through streamlined navigation, strategically embedded content and subtle animation. The high-performance and responsive website satisfies users through its clarity and fresh design, which looks good and is optimised for all types of user devices.

ProLink, the information platform for intermediaries, was also integrated into the new website. With the integration of VP Bank e-banking in the first quarter of 2018, we have taken another step toward a client portal. Our e-banking is therefore web-based and enables us to further expand our online services.

The fresh design of the website and e-banking app, which is available in the App Store and Google Play Store, vividly demonstrate the orientation of VP Bank's new brand identity.

The reconfigured website has received international recognition. At the "iNOVA Awards 2017", VP Bank's new online presence won a silver medal. The iNOVA Awards stand for "Excellence in Corporate Websites" and have been held in the United States with an international jury since 2001.



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

Last year, the Partnering Solutions department was established within the Group Investment Center in order 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.

This investment partnering concept was launched in the spring of 2017 through the new Partnering Solutions department, and the first investment programmes were implemented in autumn of that year. In 2018 the offering will be 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 in 2011 of a joint venture with LLB for financial information systems procurement.

Graphic depiction of the Partnering Solutions process

Reaching one
horizon, ...

… means opening up **another**.

Digitisation, expansion of online offerings and modernisation of communication channels – these are now irreversible trends. We aim to take advantage of all these technological advances, new developments and restructuring processes to expand the service and client experience that VP Bank offers in the future. Changes are coming rapidly, in the global finance sector as elsewhere. The best way to discover new horizons is to know what you want, where you are heading and where you belong. I am happy to accompany our clients on this journey.

Katharina Hinteregger
Junior Consultant

A fruitful, sustainable portfolio strategy is always partly the result of a bold search for innovative solutions. By analysing the financial markets based on our experience and customising our selection of investment instruments to the individual, we open up promising opportunities for our clients. At VP Bank, considering the unusual does not mean dispensing with stability.

Bernd Hartmann
Head of Group Investment Research

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. Responsible business practices are therefore a key element of VP Bank's corporate culture, internal work processes and operating business. VP Bank also maintains high corporate governance standards.

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

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

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

With its sustainability policy, VP Bank defines 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 CSR Board chaired by 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. This working group 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 and e-banking.

Compliance

Group Legal, Compliance & Tax reports to the "General Counsel & Chief Risk Officer" unit. Group Legal, Compliance & Tax supports all VP Bank employees on matters involving compliance with statutory and regulatory provisions. Compliance identifies risks and suggests various solutions that comply with these provisions, as risks can be minimised and systematically monitored. Internal rules are also established to ensure compliance with all provisions, and controls are implemented.

To prevent money-laundering, antecedent crimes to money-laundering, organised crime and terrorism financing, VP Bank uses a software-supported monitoring system to identify unusual circumstances and transactions. In this way, suspicious client activity can be analysed.

Further information on the laws and ordinances to be followed is presented in the section "Legislation and Supervisory Authorities" on pages 68 et seq.

Management of reputational risks

Group Risk is responsible for VP Bank Group's risk management. Risks related to sustainability/CSR issues are classified as "operational risks" by VP Bank. These risks for 2017 are presented in the VP Bank Group risk report and disclosure report. A comprehensive description of risk management is presented in the section "Risk management of VP Bank Group" on pages 138 et seq.

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.

This objective is accomplished on the one hand through on-going training for client advisors and on the other by monitoring internal rules.

Along with the bank's values and management principles, the Code of Conduct establishes VP Bank's binding commitment to ethically correct management and serves as a guide for good conduct. Each employee receives a copy of the Code of Conduct upon joining the company. The document is also available on the VP Bank intranet as well as on the website as a downloadable file. Breaches of the Code of Conduct are handled through strict disciplinary measures and penalties allowed by labour law.

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.

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.

In oder to preserve objectivity and avoid conflicts of interest, in connection with their professional activities VP Bank employees may not accept or receive the benefits of money, gifts or other benefits from other employees, clients, suppliers, professional market participants (banks, brokers or intermediaries) or companies of which VP Bank is a client. This applies from an amount of CHF 200 per supplier per year.

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

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.

A CSR working group was created to implement these measures. In 2017, concrete measures included participation in an internet platform to promote carpooling, support for the "Drink & Donate" drinking water project, the establishment of a CSR Board for sustainability in the investment process, the introduction of sustainability mandates at VP Bank and such internal energy conservation measures as turning off computers and reducing paper consumption.

The 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.

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, with more than 12,800 signatories in nearly 170 countries, including more than 9,700 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:

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.

The signatory companies must publish an annual report on compliance with these 10 principles. VP Bank's 2017 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.

www.vpbank.com/communication_on_progress

www.unglobalcompact.org

VP Bank's stakeholders

The expectations and needs of our stakeholders are a central focus. Our goal is to ensure transparency and build trust, as 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. 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

Board of Directors, Group Executive Management and employees
- Employee discussions
- In-house events

Shareholders, investors and financial analysts
- Investor meetings
- 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

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 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 Management 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's success is based on its business with sophisticated private banking clients, intermediaries and fund providers. VP Bank offers private banking clients customised asset management, investment advisory and fund solutions. It is also an established partner for financial intermediaries and fund providers, which appreciate the bank's years of experience, modern technology platforms and digital solutions.

Clients know VP Bank as a competent and reliable partner. That was amply demonstrated in 2017 when VP Bank took in substantial net new money at all sites and across all segments. The outstanding advisory quality was also confirmed by the German "Fuchsbriefe" rankings, in which VP Bank received the highest ranking of "Top Provider 2018" for its client care.

Personal contact with clients

VP Bank stresses the importance of advisors and specialists having personal contact with their clients, along with additional support from digital tools. Basic client needs are increasingly met using digital technology. For more complex client needs, the bank's experienced and knowledgeable staff are available and can propose optimal solutions with help from digital applications. Automated and digital processes also help save time so that client advisors can serve their clients even more effectively.

In 2017, client advisors at the Liechtenstein and Zurich offices were equipped with tablets. These lightweight devices enable advisors to prepare for client discussions optimally, regardless of the location, and they allow for a more dynamic discussion while facilitating follow-up measures based on the issues discussed. For clients, the tablets provide improved and more detailed communications with VP Bank. Information sources can be quickly accessed and any client needs that arise during the course of the conversation can be addressed very flexibly. Given the positive results to date, client advisors at other VP Bank sites will be equipped with tablets in 2018, thereby optimising their client relations work.

New market penetration

VP Bank is successfully developing its target markets (Liechtenstein, Switzerland, Germany, Luxembourg, Russia, Ukraine, Singapore, Hong Kong, Indonesia, Malaysia and Thailand). The bank is also penetrating a handful of so-called opportunity markets that have tangible growth potential.

VP Bank launched its "Relationship Manager Hiring" project in 2016 and was therefore able to recruit new experienced client advisors in 2017. Before recruiting the advisors, the bank first identified the markets where they are needed.

Adjustments to the services line

VP Bank clients can choose from a broad range of investment solutions, including various investment advisory or asset management services. Along with investment solutions, VP Bank also offers support for asset allocation as well as prevention and estate planning. Clients can also take advantage of various financing solutions. VP Bank is a custodian for fund providers. Basic services such as account management, custody management and payments make up the foundation of the overall services line.

VP Bank regularly reviews its services to make sure they are still compatible with client needs. In 2017, adjustments were made to the investment advisory activity in particular, along with efforts to optimise the lending strategy and offer clients excellent financing solutions in the future.

In investment advisory, clients receive value added through optimal portfolio construction developed jointly with the bank. The portfolio construction looks at performance, risk and regulatory criteria while using the client's own ideas and taking the bank's recommendations into account. The bank also provides on-going portfolio monitoring to ensure that the client's risk profile and specifications are satisfied.

The recently introduced tablet version of the advisory tools rolled out in 2016 enables even more agile investment advisory. With these tablets, different investment proposals can be simulated for the clients directly during the client meeting, with the advisors and clients then working together to make the necessary adjustments. This approach allows the advisory service to be performed from anywhere, and the user-friendly visualisation software enables clients to get an immediate look at how even the most minute adjustments will affect their portfolios and performance. Clients can therefore make an informed assessment as to the various investment choices when discussing options with their advisors, who stand by them to provide continuous support.

The services making up the investment advisory activity were reoriented to reflect adjustments to the business model, thus ensuring a transparent and fair fee structure for advisory services. VP Bank introduced special advisory

packages with clear and transparent pricing that bundle various investment advisory services for clients. The clients receive high-quality, detailed investment analyses and recommendations and can discuss them with the client advisor and carry out the recommendations transparently. Many clients therefore enjoy better performance and greater risk diversification.

The positioning of the lending business systematically follows that of the strategic businesses, i.e. intermediaries and private banking. The local lending activity offers loans to retail and corporate clients. The lending business provides VP Bank with a key differentiation factor relative to traditional private banks.

Starting in the summer of 2017, VP Bank has become an issuer of complex structured products for Asian clients in the market. These clients can therefore choose VP Bank as the issuer and counterparty for such products as forex options, securities options, accumulator and decumulator products on underlyings such as currencies, precious metals, equities and ETFs.

Focus, quality, agility and efficiency

VP Bank's client advisors focus on one of the client segments: private clients, intermediaries or corporate clients. These clearly defined roles by segment ensure excellent advisory quality and focus on the specific client needs of each segment.

In order to accompany the intermediaries clients even more closely and comprehensively, VP Bank defined clear client care standards that were rolled out in 2017. In this highly regulated area, very close personal cooperation between the intermediaries and their client advisors is essential. To provide clients with even better support, VP Bank introduced the new "ProLink" intermediaries platform, which offers extensive around-the-clock information on all investment and regulatory matters. It also makes all client documents available for downloading, and new client accounts can be opened digitally.

Consistent with the comprehensive advisory approach, the teams can use in-house competencies and external partners in order to come up with individualised solutions that satisfy all requirements. Clearly defined roles determine the interaction between client advisors and the respective specialists for investment products and services, tax, lending, funds and other units. The importance of interdisciplinary teamwork is growing steadily, as VP Bank must increasingly deal with the complex challenges of its clients.

VP Bank sets clear rules at each of its sites in order to keep legal and reputational risks in check with regulatory requirements, especially in cross-border services. During 2017, for example, regulations arising from the MiFID II directive were analysed in depth and covered in staff training sessions. VP Bank thereby ensured that all requirements can be satisfied as from the start of 2018.

VP Bank had already begun refining its advisory process in 2016 based on such core elements as the advisory philosophy, standards, digital and other support tools, quality requirements, the delineation of responsibilities and teamwork between internal and external partners. Those efforts led to further improvements in client advisory and care in 2017.

Advisory process

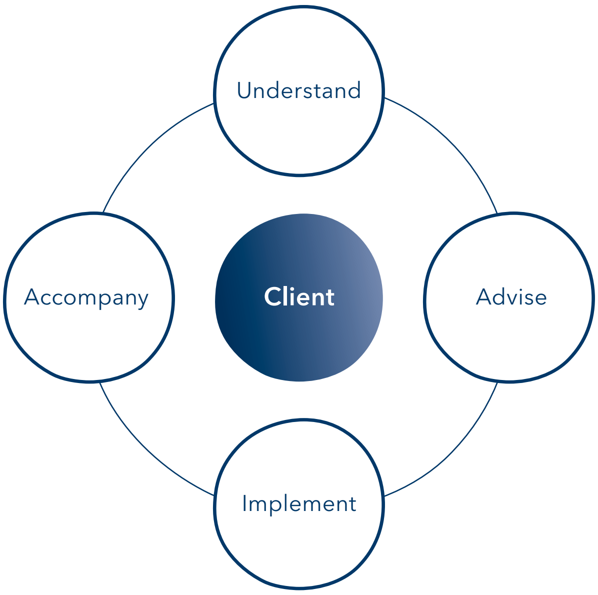
The advisory process begins with attracting new clients. Most new clients are referred by VP Bank's existing clients.

Understand clients

VP Bank seeks to get to know the client and his or her complete financial situation, since this understanding is essential for providing targeted advice. For private banking clients, that raises a series of questions:

- Who am I dealing with?
- What distinguishes this person and what motivates him?
- What are his goals?
- As a bank, how can we support him?

In the case of intermediaries, the key is to understand the business model:
- What is the intermediary's business?
- Who are its clients?
- How is the intermediary positioned?
- How does it do business?
- How does it support its clients?
- Where are its activities?



Advise clients

When proposing solutions, the bank systematically considers different alternatives and scenarios. Solutions are developed by teams made up of client advisors and specialists in direct contact with the client as needed.

Implement client preferences

The essence of VP Bank's client care consists of the timely implementation of agreed-upon solutions or a clearly defined implementation timetable that meets the client's expectations.

Accompany clients

The advisory process does not end when the agreed-upon solution has been implemented. VP Bank periodically discusses the client's preferences and profile with the client and adjusts the implementation accordingly.

Continuous education for client advisors

In order to uphold and further improve VP Bank's usual excellent client care and advisory, the bank's employees must receive continuing training and keep up with new trends and client needs. VP Bank paid very close attention to this need once again last year for both the intermediaries and private banking businesses.

VP Bank's high-quality advisory is based on a directive approved by the Liechtenstein Banking Association, which serves as a binding, uniform basic standard that builds on the quality charter of the International Capital Markets Association (ICMA) for private asset managers. The directive also focuses on the knowledge and skills required under MiFID II as from January 2018. As a member of the Liechtenstein Banking Association, VP Bank provides the appropriate training and continuing education to ensure compliance with the directive and that Liechtenstein plays a leading role among financial centres.

VP Bank's client advisors are certified by the Swiss Association for Quality (SAQ). As part of the international SAQ certification, nearly all advisors at the Liechtenstein and Swiss sites participated in extensive training and completed a professional course. In the future, specialised technical training sessions will also be offered for the services, tax, compliance and cross-border segments.

Client feedback management

VP Bank values a close client relationship and high service quality. Client feedback is therefore very important, as it enables the bank to better tailor its products and services to the needs of clients while recognising potential areas of improvement for internal processes. The bank's openness to feedback, its professional approach to handling complaints and its willingness to work tirelessly on improvements all demonstrate its clear and uncompromising client focus.

As part of its dialogue with clients, VP receives feedback directly through client advisors or by way of a contact form available on the VP Bank website. This approach ensures that the actual performance reflects the high quality sought by clients. The bank therefore not only fulfils the requirements of the Liechtenstein Financial Market Authority (FMA) on complaint management but also makes a valuable contribution toward supporting the relationship management.

Classification of client assets under management

in %	31.12.2017	31.12.2016
Analysis by asset class		
Liquidity	27	29
Bonds	19	20
Equities	22	21
Investment funds	28	27
Other	4	3
Total	**100**	**100**

in %	31.12.2017	31.12.2016
Analysis by currency		
CHF	24	26
EUR	31	28
USD	33	33
Other	12	13
Total	**100**	**100**

Investment recommendations

Under the bank's open architecture, clients benefit from a "best manager approach" when selecting third-party funds. Analysts work closely with an independent best partner in the stock and bond selection process. The asset managers and research partners selected by VP Bank are always among the best in the branch, have an outstanding reputation and are trusted by market participants. Recommendations take into account both products and services of leading financial institutions as well as the bank's own suitable investment solutions.

Looking back, 2017 was a simple year for investments. Following the Brexit referendum and US presidential elections, the markets were very fearful that in a year of major European elections another populist political movement could take power. This fear turned out to be just as unfounded as the fears of a complete shift in US policy under its new president.

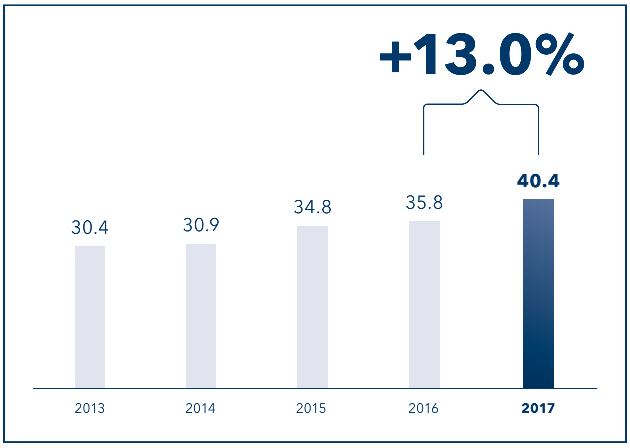
Also, global economic growth was surprisingly strong. The fact that economists and equities analysts did not have to revise their economic growth / earnings forecasts downward, in contrast to previous years, provided added momentum to markets. While central banks did not implement new stimulus measures, the improved state of the economy meant that the expansive monetary policy alone acted as a quasi-stimulus.

Given the easing of political uncertainty and a better-than-expected economic trend, almost all of the asset classes recommended by VP bank enjoyed a splendid year.

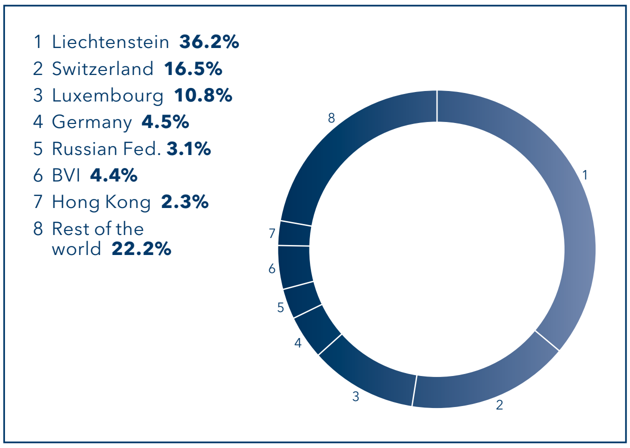
Client assets

At 31 December 2017, VP Bank had client assets under management totalling CHF 40.4 billion (13.0 per cent more than one year earlier). Meanwhile, assets held in custody totalled CHF 6.1 billion. Total client assets therefore stood at CHF 46.4 billion at the close of 2017, up from CHF 41.5 billion one year earlier. Overall, VP Bank Group recorded net inflows of client assets totalling CHF 1,894 million.

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



Assets under management in 2017 according to the domicile of the beneficial owners



Employees of VP Bank

Working on behalf of the company strategy

The financial services industry faces increasingly rapid changes. At every level, our employees must continuously adapt to changing circumstances and work in the company's best interest. They are constantly confronted with 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 September 2017, another Group-wide survey was conducted that received an outstanding 91 per cent response rate. The clear improvement in the key measures "Spirit" and "Attractive employer" and the significant increase in the "Commitment" metric demonstrate that the bank is on the right track.

www.vpbank.com/generating_enthusiasm

Training and continuing education

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

www.vpbank.com/career_apprenticeship

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

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

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

In the graduates programmes at end-2017, three students were enrolled in the work-study support model and six graduates Group-wide were in the career start programme.

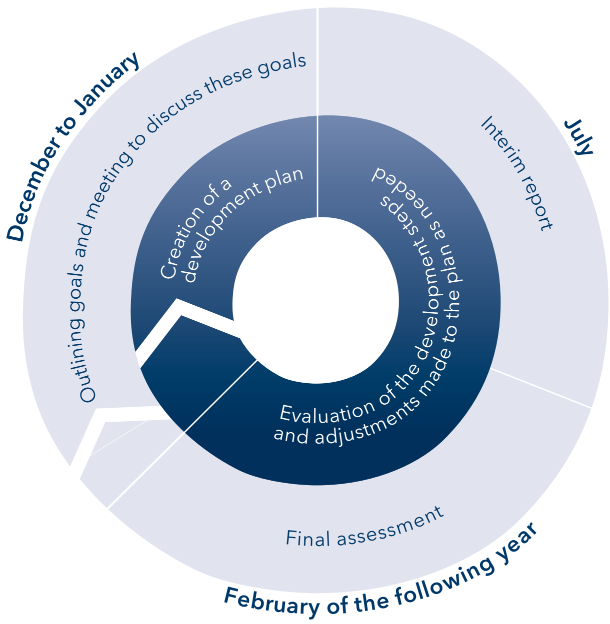
HR Strategy 2020 (Human Resources – HR)

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)

In the company management realm, the Management by Objectives (MbO) process plays a central role. VP Bank Group's goals are broken down, from the company level on down to the individual units. 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.



The Group Human Resources unit

The Human Resources department has its own staff at the Liechtenstein, Zurich, Luxembourg and Singapore sites. For certain HR functions, the department brings in external service providers. 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 heavily in the technical training of its employees and managers and in 2017 rolled out 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 2017, VP Bank Group had 861 employees, up 57 from the start of the year. The number of employees at the Zurich site increased by 23 to 83 (full-time equivalents: +21.8). VP Bank in Singapore also saw its headcount increase by nine employees to 49 (full-time equivalents +9.0). The Luxembourg site had a minor decrease (–1), while headcounts in Hong Kong and the British Virgin Islands were unchanged.

At the start of 2017, a performance-oriented remuneration model was introduced for client advisors with direct client responsibility. At end-2017, VP Bank Group had a total of 149 client advisors.

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

Client-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	31.12.2017		31.12.2016	
	FTE	HC	FTE	HC
	145.7	149	132.3	136

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

The number of client advisors rose significantly. VP Bank added 13 new advisors, bringing the total number of experienced advisors up from 136 the previous year to 149. 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 13 to 34, while the numbers at the other office locations remained unchanged.

The average length of service at VP Bank Group fell from 10 to nine years at year-end 2017. This trend was also evident at VP Bank Vaduz, where average length of service fell from 11.5 years in 2016 to 10.4 years last year.

As regards nationalities, Swiss employees continue to represent the largest group at 37.0 per cent of the total, up from 34.5 per cent last year. The relative number of Liechtenstein nationals contracted from 29.1 per cent to 25.9 per cent. German employees continue to represent the third-largest group, with 12.5 per cent in 2017, up from 12.4 per cent the previous year (see chart below).

Employee recruitment and exits

In mid-2017, VP Bank had nearly 50 job openings Group-wide, marking the high point for unfilled positions. By year-end, that number had been cut in half. 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 2017, a total of approximately 2,500 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.

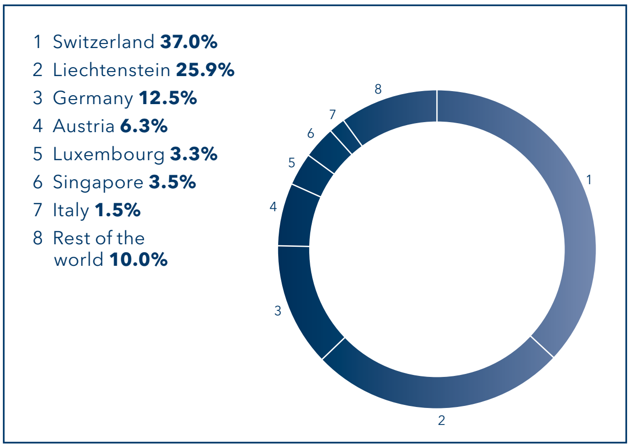
In 2017 a total of 140 people left VP Bank Group (2016: 140), resulting in a turnover ratio of 16.8 per cent.

Employee retention, remuneration and support

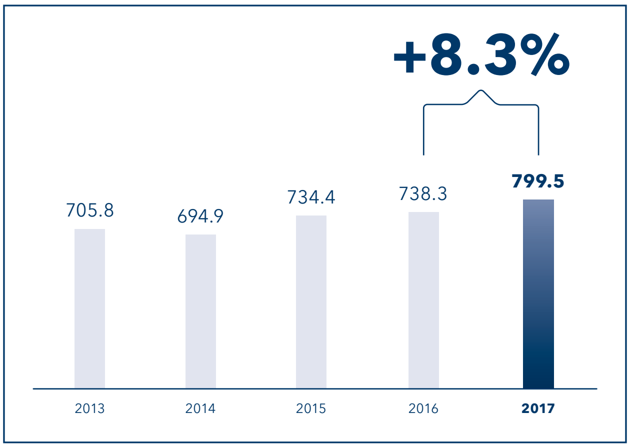
Job functions that appear meaningful and satisfying as well as a good work environment are clearly important considerations for employee well-being. Many factors can destroy a good working environment: bad influences from within the company, economic circumstances or even an employee's personal or family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

VP Bank is aware that employees should be seen as individuals with differing needs and within the context of their

Nationality of VP Bank Group's employees



Headcount of VP Bank Group (full-time equivalents)



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 (Schweiz) 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, the company once again initiated or implemented the broadest measures in training and continuing education for employees and managers in 2017. 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, notably as regards the preparation of measures related to the employee survey.

Last year close attention was once again paid to training for client advisors. VP Bank Group has quite a few very well-educated advisors, who further hone their technical and sales skills regularly. Extensive training sessions were offered in Liechtenstein, Zurich and Luxembourg in connection with the launch of new products and advisory packages.

The overhaul of the advisory process and use of new advisory support materials and tools also created additional demand for the training of client advisors.

In 2017, VP Bank renewed its client advisory certification, a step now recommended by the Liechtenstein Bankers Association and Swiss Bankers Association for their member banks. 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, 23 people completed a job-related course of studies with a recognised diploma, while another 41 people were participating in continuing education at end-2017.

Employee statistics of VP Bank Group

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

as of 31.12.2016	Men	Women	Total
Number of employees	475	329	804
Percentage share	59.1	40.9	100
Average age	42.9	41.0	42.1
Average length of service	9.9	10.0	10.0

Number of employees by location

as of 31.12.	2017		2016		Variance with previous year	
	Employees	Full-time equivalents	Employees	Full-time equivalents	Employees	Full-time equivalents
VP Bank Ltd, Vaduz	551	507.8	525	475.1	26	32.7
VP Bank (Switzerland) Ltd	83	77.2	60	55.5	23	21.8
VP Bank (Luxembourg) SA	96	87.1	95	86.6	1	0.5
VP Fund Solutions (Luxembourg) SA	29	26.9	31	29.2	–2	–2.3
VP Bank (BVI) Ltd	14	14	14	14	0	0
VP Wealth Management (Hong Kong) Ltd	8	8	8	8	0	0
VP Bank (Singapore) Ltd	49	49	40	40	9	9
VP Fund Solutions (Liechtenstein) Ltd	31	29.5	31	30	0	–0.5
Total	**861**	**799.5**	**804**	**738.3**	**57**	**61.2**

Responsibility as an employer

We also owe our success to the efforts and enthusiasm of our employees throughout the entire 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 them future prospects as well as training and continuing education possibilities. By creating and securing skilled jobs, VP Bank allows people to make a living and enjoy a high quality of life. More information is available in the section "Employees of VP Bank" on page 53.

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. Further underscoring its commitment, all shareholders at the 2017 Annual General Meeting and all VP Bank employees in the Vaduz and Zurich offices received a free "Drink & Donate" water bottle specially produced for VP Bank. Appropriately, the office buildings in Liechtenstein have water coolers installed that are hooked up to the main water lines.

9 November 2017 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 free of gender stereotypes.

In 2017, VP Bank's Vaduz site participated in National Future Day for the fifth time, while VP Bank (Switzerland) Ltd also participated for the first time. 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 socialise. The club organises numerous activities that are available either free of charge or at significantly discounted prices. These activities include spinning, skiing, tennis, nordic walking, bowling, mini-golf, hiking 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 employees needs and problems in the office.

The Volunteering Day introduced in late 2015 was continued in 2017 and keeps generating considerable interest. Since it was introduced, a total of 74 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.

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 new female Board members from the Legal/Compliance and HR/Business Development areas, these skills were expanded in optimal fashion.

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.

According to a 2017 study on gender diversity at Swiss companies, VP Bank Group was recognised as exemplary for its share of women in management. In an overall comparison of women as a percentage of the workforce and of management and the Board of Directors, VP Bank Group came in above the average for the companies surveyed.

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 31.12.2017				
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
as of 31.12.2016				
Board of Directors	2	20.0	8	80.0
Management level 1	0	0.0	4	100.0
Management level 2	5	26.0	14	74.0
Total employees	329	40.9	475	59.1

At 31.12.2017, VP Bank had 42.4 per cent female employees (2016: 40.9 per cent). As from January 2017 a woman is also part of management level 1 (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

VP Bank's purchasing department supports the specialist departments and project heads in the solicitation and evaluation of offers, as well as in the quality assessment of suppliers. It also defines the preferred partners and suppliers of VP Bank. Whenever advantageous, the purchasing department concludes framework contracts with suppliers. Working with the corresponding specialist department, it defines specific procurement criteria for selected products that may also involve sustainability considerations.

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 cases of equivalent offers (price, quality), preference is given to local suppliers and manufacturers.

In terms of printing services, VP Bank works primarily with partner companies that print in a climate-neutral way. In the procurement of shareholder gifs, 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.

Supplier relations

To optimise its supply chain, VP Bank maintains a constant dialogue with its suppliers. For larger orders, specification sheets are drawn up and discussed with the suppliers. On large-scale orders, suppliers that are not chosen are notified either in writing or by telephone, and the reasons for the negative decision given in either case.

Suppliers are periodically assessed according to the following criteria: price/performance, quality, reliability, social and environmental compatibility and observance of delivery dates and administrative processes. Upon request, the results of the assessment are discussed verbally with the supplier.

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. A member of Group Executive Management sits on the CSR Board.

The CSR Board's Investments and Products committee is responsible for investment themes. The committee directs and coordinates VP Bank Group's orientation as regards sustainable investments. The committee has the following responsibilities:

- 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

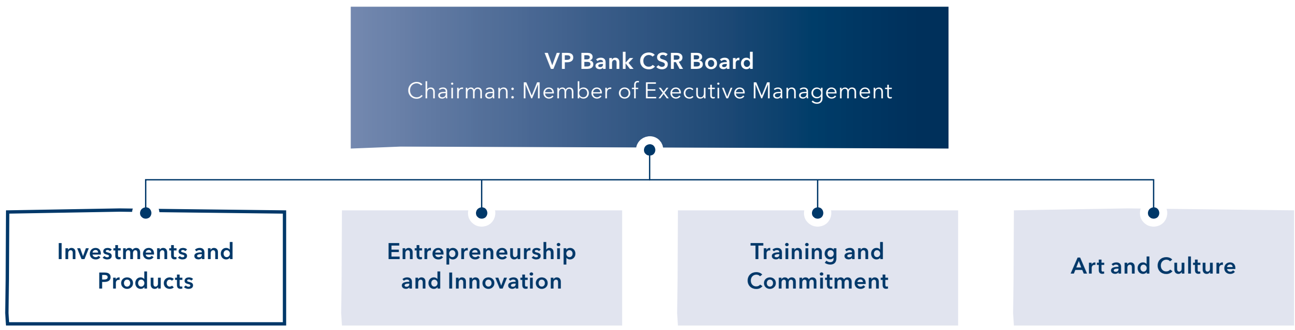
Since April 2017, VP Bank offers a flexible sustainable investment solution that can be tailored to the client's needs. The investment selection process is carried out along the lines of the ESG approach, with environmental, social and governance factors.

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

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, alternating by year, on recreational sporting associations and cultural institutions serving the general public. VP Bank Group employees who actively participate in a charitable institution also receive a supporting contribution. Numerous initiatives and projects have benefited from this commitment over many years.

Since 2012, VP Bank has also had a charitable giving agreement with the Swiss Climate Foundation. As a partner of this foundation, VP Bank provides financial support for the energy efficiency and climate protection projects of small and medium-sized companies in Switzerland and Liechtenstein. Under this arrangement, VP Bank provides financing based on the net rebate of the CO_2-incentive tax on fossil fuels.

Sponsorships

Sports and cultural sponsorships are among the most effective opportunities to position brands in an emotional environment, achieve key goals and reach target groups. Since 2017, VP Bank has actively focused its sponsorships in these two areas with a long-term focus.

A new golf sponsorship agreement was entered into with the VP Bank Ladies Open, a women's professional golf tournament at the Gams-Werdenberg course in Switzerland. In classical music, VP Bank is a Presenting Partner of the "Next Generation" festival in Switzerland, which serves as a 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 Board of Trustees. Other board members are Fredy Vogt, Chairman of the Board of VP Bank Group, and Dr Uwe Wieczorek, curator of the Hilti Art Foundation. Petra Büchel is curator of the Foundation.

In its acquisition programme, the VP Bank Art Foundation increasingly focuses on artists who have not yet gained full recognition in the art market. In 2017, three acquisitions were made thus complementing the collection and consolidating its focus on "painting".

The acquisitions were made purposefully for VP Bank's client area in Vaduz and thus help to feature art in the office space. In 2017, two newly created sitting rooms in Vaduz were adorned with works from the VP Bank Art Foundation. One painting from the Art Foundation's portfolio was made available for two exhibits in Switzerland and France. 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. In keeping with its Articles of Association, 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. In its first decade of operations, 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 300,000 to worthy causes.

On the occasion of the Foundation's 10th anniversary, the Board of Trustees published a brochure that offers a look at the Foundation's activities. The brochure can be downloaded from the VP Bank website.

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

VP Bank Foundation will support the recently established "Stiftung Zukunft.li" foundation through annual contributions in the years ahead, as scientifically-based and non-partisan analysis of important issues affecting the future is essential for Liechtenstein and will help the country overcome future challenges.

The "UFL Private University in the Principality of Liechtenstein" will also receive multi-year support from the Foundation in recognition of its services to Liechtenstein as an educational centre.

In addition to promoting university activities, VP Bank Foundation sponsors the journalistic activity of the Liechtenstein Academic Society. Its scientific papers on Liechtenstein-related issues are often connected to events and research projects of the Liechtenstein Institute and constitute a valuable source of knowledge for politics and the society.

For many years, VP Bank Foundation has supported the Gutenberg Education and Seminar Institute in the conviction that permanent education and lifelong learning are necessary not only for professional purposes but also contribute to mastering life's challenges in the private sphere.

In the cultural promotion area, in 2017 the Foundation contributed to a catalogue accompanying an exhibit at the Postal Museum of the Principality of Liechtenstein and to other cultural projects such as "Liechtenstein Literature Days" and a theatre initiative.

In the environmental area, the Foundation supported the "Stiftung pro natura – pro ski" foundation as part of a long-term commitment. This foundation works closely with the University of Natural Resources and Life Sciences in Vienna. It developed an environmental audit for ski areas, thereby making an internationally recognised contribution to ecologically sustainable development of the Alpine region through a balancing of interests. The "Stiftung pro natura – pro ski" foundation was dissolved last year and VP Bank Foundation assumed any resulting obligations over the life of its commitment.

In the coming years, VP Bank Foundation will support the Drink & Donate association's "Waterfootprint Liechtenstein" initiative with what amounts to start-up financing. The idea behind this initiative is for consumers to forgo mineral water transported by road and eliminate the resulting environmental impact. The association provides donations to projects supporting access to clean drinking water for needy people in developing countries. Promoting the consumption of tap water over bottled water helps to preserve the environment and save energy.

In connection with the "Lichtblick" campaign, VP Bank Foundation made grants to more than 30 social institutions in Liechtenstein in 2017, disbursing a total of approximately CHF 70,000 to social institutions, organisations and associations in Liechtenstein.

VP Bank Foundation is committed to supporting not only projects of larger institutions but also to promote young male and female initiators of innovative projects. With this objective in mind, last year the foundation supported personal commitments in the literary, human rights and vocational training areas.

Last year VP Bank Foundation converted its management mandate with the bank into a sustainability mandate, a structured investment process and sustainable portfolio management. The foundation's effectiveness can be improved by focusing more closely on sustainability criteria when investing the foundation's resources. The Board of Trustees therefore shifted the investment policy in this direction, and now both the foundation's contributions and its investments have an impact consistent with the foundation's Articles of Association.

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" received financial aid. As a result of this organisation's recognised accomplishments, the purpose-related funding agreement was renewed.

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 68 per cent of all employees. VP Bank plans to implement Group-wide reporting in the coming years.

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 362,600 in 2017. The number of envelopes used was reduced from von 1.5 million in 2004 to 665,816 last year.

Paper consumption decreased from 68.03 tonnes in 2004 to 42.45 tonnes in 2017, including a 4.45 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 0.08 tonnes in 2017, 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 76 per cent over the past nine 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 1,700 in 2016.

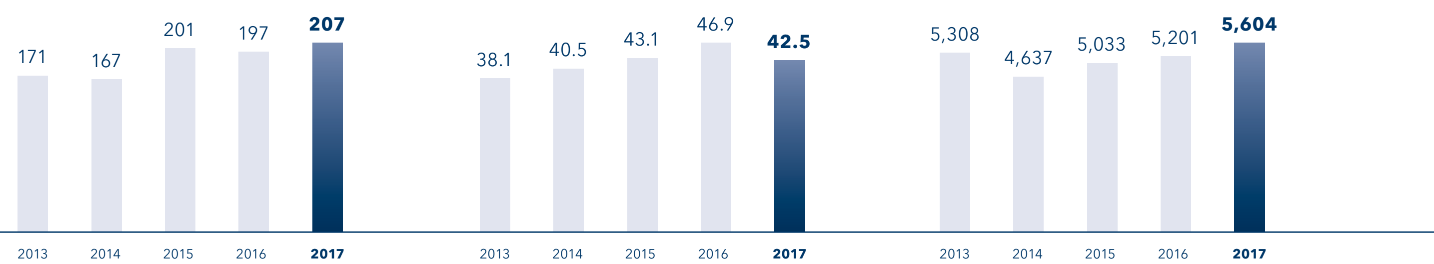
For the Vaduz and Zurich locations, the number of e-mailed digital documents has steadily increased: from approximately 130,250 in 2007 to more than 1,204,603 in 2013, then 2,060,375 in 2016 and finally 2,116,247 last year. As to the number of e-post transmissions, the 25 per cent increase recorded in 2014 was followed by further rises of 11 per cent in 2015, 23.4 per cent in 2016 and 2.7 per cent in 2017. 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 (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. 58).

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



Total waste (in tonnes)

Paper consumption (in tonnes)

Water consumption (in m³)

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 6,169 kWh currently. Power consumption at the head office has been declining since 2008 thanks to efficiency-enhancing measures. 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 23 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. 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 the years ahead, two additional solar installations will be constructed on the roof of the main building and the administrative building in Triesen. The self-generated solar power contribution will thereby increase steadily from its current level of 3.5 per cent of overall power consumption.

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.

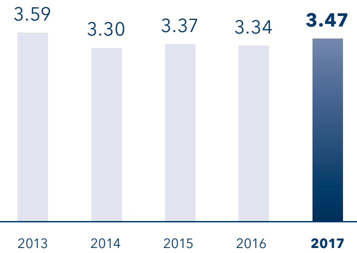
Overall concept

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.

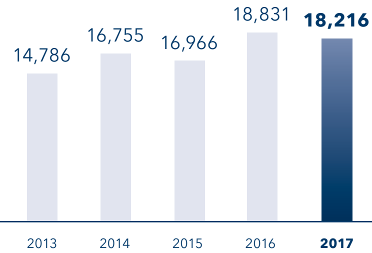
The energy supply project is also based on the use of leading-edge technologies that enable heating through heat recovery systems. A new central cooling system in operation since 2014 affords both operational safety and energy efficiency. The waste heat from this system can also be reused for heating 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; the next steps toward implementation are expected in 2018/19.

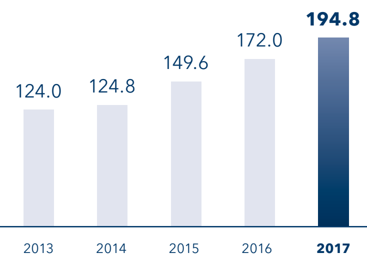
A separate, more detailed energy report for the Liechtenstein facilities is produced each year and can be accessed on the VP Bank website.



Power consumption (in million kWh)



Mobility Cars (in km)



Number of kilometres (in 1,000)

Waste reduction

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, 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.

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 is 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 is intended to encourage employees to consume less paper.

VP Bank's discarded waste paper is shredded in an in-house recycling unit and compressed into briquettes. With this process, roughly 34 tonnes of paper briquettes were produced at the Liechtenstein location in 2017. They were collected by a local recycler and put to new uses. An employee trip to this recycling facility is planned for 2018.

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

Ten years ago, VP Bank 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, among others, for bonus payments to employees who forgo the use of personal cars and therefore do not occupy parking spaces.

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 also in part used for the reimbursement of the pass. In 2017, 107 employees took advantage of this offer.

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 18,216 in 2017, or roughly the same as the18,831 km travelled in 2016. 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.

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 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 8,500 and 10,300 kilometres.

In 2017 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 2017, 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 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 Liechtenstein Financial Market Authority (FMA). As the registered shares A of the parent company are listed on the SIX Swiss Exchange, VP Bank is also subject to the rules issued by SIX on the basis of the legislation pertaining to stock exchanges, in particular the Financial Market Infrastructure Law. The business activities of VP Bank Group are supervised by the local competent authorities of each country in which the Group is active through subsidiary companies 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.

Implementation of the revised Markets in Financial Instruments Directive (MiFID II)

The revised version of MiFID (2014/65/EU), supplemented by the directly applicable Regulation No. 600/2014 (MiFIR), became law on 3 January 2018. These regulations should render financial markets more efficient, more resilient and more transparent as well as strengthen investor protection. MiFID II now encompasses the whole chain of added value from the distribution of to trading in financial instruments. In contrast to the original directive, the ESMA (European Securities and Markets Authority) has been given extensive powers of authority to issue detailed regulations, to which great importance in practice is attached. Even after the introduction of MiFID II, the powers of ESMA to issue regulations will ensure a considerably more dynamic regulatory environment than under MiFID.

MiFID II introduces the following central innovations:
- Investment advisors must decide whether they wish to profile themselves as dependent or independent investment advisors on the market. Independent investment advisors may, inter alia, no longer may accept retrocessions or similar benefits from third parties.
- In asset management, the acceptance of retrocessions or similar benefits from third parties is forbidden across the board.
- Increased duties of documentation and disclosure apply both in the areas of investment advisory services and asset management. In particular, the client must be informed as to the extent to which investment recommendations and decisions taken correspond to his/her objectives and personal circumstances.
- Issuers of financial instruments must determine a target market for their products. Distributors (investment advisors, assets managers as well as depositary banks) must take this into account and in certain cases, bring sales outside the target market to the attention of the customer and report them to the issuer.
- Additional recording duties exist for telephone conversations or other forms of electronic communications dealing with the area of investment advisory services and placing of orders in connection with financial instruments.
- The costs of the services provided to the client and the recommended or distributed financial instruments must be disclosed to the client prior to consummating the transaction.
- Notification and publication obligations regarding trading in financial instruments have been in part re-introduced or considerably expanded.

In the industry, the implementation of MiFID II has led to considerably more additional cost primarily in the area of IT infrastructure giving rise, in part, to the modification of business models.

PRIIP – Key information documents for packaged retail and insurance-based investment products

The EU Regulation No. 1286/2014 concerning key information documents (Key Information Documents, KIDs) for packaged retail and insurance-based investment products (PRIIPs) came into force on 31 December 2017. It obligates all issuers involved to prepare, maintain and distribute KIDs which, in their structure and content, are largely standardised and must be particularly easy to understand for the consumer. All financial institutions distributing products are to make these KIDs available to their retail customers from the EU/EEA in anticipation of an investment transaction. As a result, investors should be better able to understand and compare the functioning, risks and costs of the products. Affected by this regulation are particularly structured products, investment funds as well as insurance investment products.

Basic Ordinance on Data Protection (DPBO)

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 (max. penalties amounting to EUR 20 million or 4 percent of annual turnover). The DPBO is in the phase of being transposed into the EEA Agreement and it is planned to subject the existing data protection law to a total revision.

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 brings increased obligations of transparency and information requirements. Also, consumer protection and security requirements should 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. Regarding the national implementation of this EU directive, Liechtenstein has completed a consultation process at the end of 2017 concerning a new, totally revised Payment Services Act (PSA).

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 all legitimate consumers access to a payment account (keyword "financial inclusion");
- 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).

Central Securities Depositories Regulation (CSDR)

The EU Regulation No. 909/2014 on improving securities delivery and settlement in the EU and on central securities depositories (CSDR) took effect in EU member states already on 17 September 2014. With this regulation, settlement periods and settlement discipline regarding the delivery of securities should be harmonised. In addition, the regulation defines certain supervisory-law requirements for central securities depositories providing securities delivery and settlement services.

The corresponding Liechtenstein Implementing Act (EEA Implementing Act on Central Securities Depositories; EEA-CSDA) was published on 22 December 2017 and will take effect as and when the aforementioned EU Regulation is transposed into the EEA Agreement.

Benchmark Regulation

With the EU Regulation 2016/1011 concerning indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, the accuracy, robustness and integrity of the reference values used in the EU internal market (e.g. Libor, Euribor) should be guaranteed in the spirit of investor and consumer protection. The EU regulation lays down various obligations for so-called users, contributors and administrators of indices. In this manner, for instance, users may only utilise indices which originate from an authorised administrator in the EU.

This EU Regulation is still in the process of being transposed into the EEA Agreement. A consultation process was conducted at the end of 2017 concerning the Liechtenstein Implementing Act (EEA Benchmark Regulation Implementing Act; EEA-BRIA) which remains to be issued.

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 obligations are already partially in force in the EU.

However, the MCD has not yet been transposed into the EEA Agreement. For this reason, the implementation on a national level and effective date of the MCD in Liechtenstein is currently pending.

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 OTC 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 basic regulation (EMIR) was transposed into the EEA Agreement as of 1 July 2017 and thus is in effect in principle in Liechtenstein. The obligations introduced by EMIR, however, will only apply in Liechtenstein when all legal and implementing acts of law delegated to EMIR have also been adopted in the EEA Agreement. The date on which this transfer will occur and any applicable implementation deadline is currently unknown, for which reason the applicability of the obligations introduced by EMIR remains open. In all probability, the further legal acts should be adopted during the course of 2018.

Partial Revision of the Act on Due Diligence (DDA) and the Due Diligence Ordinance (DDO)

In Liechtenstein, the implementation of the 4th Money-Laundering Directive (RL 2015/849/EU) was effected through the partial revision of the Law on Professional Due Diligence to Combat Money Laundering, Organised Crime and Terrorist Financing (DDA) and the Ordinance on Professional Due Diligence to Combat Money Laundering, Organised Crime and Terrorist Financing (DDO). At the same time, the criticisms from the International Monetary Fund (IMF) and MONEYVAL from the most recent country examination were addressed.

The new law imposes more stringent requirements for determining and evaluating existing risks regarding money laundering, organised crime and the financing of terrorism. It is clearly specified that business profiles must be updated regularly. In addition, domestic politically exposed individuals have now been added as a risk category. The expanded scope of application now encompasses all investment funds, whereas in the past, only investment-fund management companies were subject to the due-diligence provisions. From now on, a member of management must be designated who shall assume responsibility for ensuring compliance with the DDA and its related ordinances.

Modification of the Law on the Enforcement of International Sanctions (ISA)

On 1 October 2017, the Act on the Enforcement of International Sanctions (ISA) was modified. In this respect, the emphasis was on enabling the unrestricted safeguarding of international-law obligations on the part of Liechtenstein. Further points of focus in these changes relate to the direct and automatic adoption of UN sanction lists into local law (without transformation). In addition, the legal protection for individuals acting in good faith as well as individuals and legal entities affected by coercive measures was reinforced. The latter may now make application to the government for the deletion of their name.

Tightening of regulations in the area of market abuse

The Market Abuse Regulation (Regulation No. 596/2014; Market Abuse Regulation/MAR) was published in the Official Journal of the European Union on 12 June 2014 and has been in force in EU countries since 3 July 2016. The goal of these reforms on a European level is the creation of a common legal framework regarding insider trades, the disclosure of insider information and market manipulation as well as measures to prevent market abuse. In this manner, the integrity of the market and the protection of investors should be reinforced.

The MAR is supplemented through the new CRIM-MAD (Market Abuse Directive; Directive on penal sanctions in case of market manipulation) as well as delegated legal acts and the technical standards of ESMA. In Liechtenstein, the MAR and the national implementing law is currently being debated in the Liechtenstein Parliament. The second reading in the Landtag should take place in March 2018. After transposition into the EEA Agreement, the regulations will be enacted probably on 1 June 2018, thereby replacing the previous law on market abuse.

The previous focus of the EU market-abuse regulations remains unchanged. They will, however, become more precise and the guidelines, in part, noticeably more stringent (e.g. insider lists, duties of documentation). New rules on market soundings and trading bans for executives within certain time windows are introduced. In future, financial penalties will be in relation to Group turnover. The public naming and shaming of the offending individuals is also new.

VP Bank has already effective measures in place to combat market abuse. The introduction of MAD/MAR will, however, entail a noticeable broadening and deepening thereof.

Changes in the Law on Value-Added Taxes

With effect from 1 January 2018, Liechtenstein has implemented the changes decided upon in Switzerland in connection with value-added taxes, leading to a lowering of the standard rate to 7.7 per cent and of the special rate to 3.7 per cent.

Double Taxation Agreements

As from 1 January 2018, double taxation agreements between Liechtenstein and Monaco as well as the United Arab Emirates entered into force. As a result, Liechtenstein has entered into double taxation agreements with 18 countries overall as from this date.

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. As from 1 January 2017, AEOI was conducted with 61 partner countries. As from 1 January 2018, the relevant data will be exchanged with 88 AEOI partner countries.

Modification of Law on Administrative Assistance in Taxation Matters

Through the changes in the Law on Administrative Assistance in Taxation Matters, the legal basis for the spontaneous exchange of information was created, which took effect as of 1 January 2018.

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.versicherungsverband.li
Liechtenstein Economics Chamber	www.wirtschaftskammer.li
Liechtenstein Association of Auditors	www.wpv.li

Investor protection through MiFID II

The EU has issued a series of new regulations in reaction to the financial crisis of 10 years ago. These are designed to prevent similar market developments in the future and in particular to protect investors from the consequences thereof. One of the most important and most comprehensive set of regulations in this respect is Directive 2014/65/EU, generally known as MiFID II ("Markets in Financial Instruments Directive"). This latter strengthens and complements MiFID I with the objective of enhancing investor protection, creating more transparency on capital markets and minimising conflicts of interest in servicing clients in the case of financial service providers.

MiFID II is to be implemented in full in all EU/EEA locations of VP Bank Group – which means for VP Bank, in Liechtenstein and Luxembourg. In Switzerland, MiFID II is to be applied only for clients domiciled in the EU/EEA.

Reinforcement of investor protection because of MiFID II

Because of MiFID II, VP Bank can further broaden the already high level of consumer protection and thus optimally service the client. A part of the advisory process, investment goals, investment horizon, risk appetite, financial circumstances as well as knowledge and experience are systematically recorded. MiFID II demands from issuers of securities that they recommend for which clients their securities (target market) are suitable. VP Bank matches this data with the client profile also ensuring technically that each investment recommendation is optimally suited to the client.

As a new service and depending on the type of mandate selected, VP Bank actively keeps its clients informed as to significant movements in their portfolios or even at the level of the positions held in the case of leveraged products. As from 1 January 2018, the client receives an advice by regular mail in the case of a decline in value of 10 per cent.

VP Bank guarantees that stock-market orders are executed in the best interest of the client. In doing so, criteria such as price, costs or rapidity of execution are carefully weighed in order to achieve the optimal result.

Regarding costs and products, small investors enjoy maximum protection and a high measure of transparency. Professional clients possess more financial knowledge and may therefore profit from quite a few simplifications which enable them to more rapidly execute orders. VP Bank carefully reviews its clients in order to select with them the optimal profile to match their needs.

MiFID II has the objective of avoiding all conflicts of interest in advisory services and disclosing monetary incentives. VP Bank implements this strategy consistently in the interests of the client.

Increase in transparency

From 2018 onwards, the client benefits from a significantly greater level of transparency in the case of security trades. The most important element is the detailed disclosure to small investors of the costs of a security transaction prior to its execution. In this manner, the client can achieve transparency in a rapid and simple manner and can decide whether the transaction in question is worth it for him/her. Both in investment advisory and the new e-banking services, VP Bank offers this functionality with immediate effect. A level of transparency is thus attained which previously was only possible with great difficulty. Professional clients obtain a standardised transparency over costs in a unique manner in line with the efficient execution of orders.

Once the order is placed, the client continues to receive a confirmation of the trade which, however, is more detailed than previously in relation to trading centres and partial executions. At the end of year, a summary of all costs and fees in addition is provided to all clients.

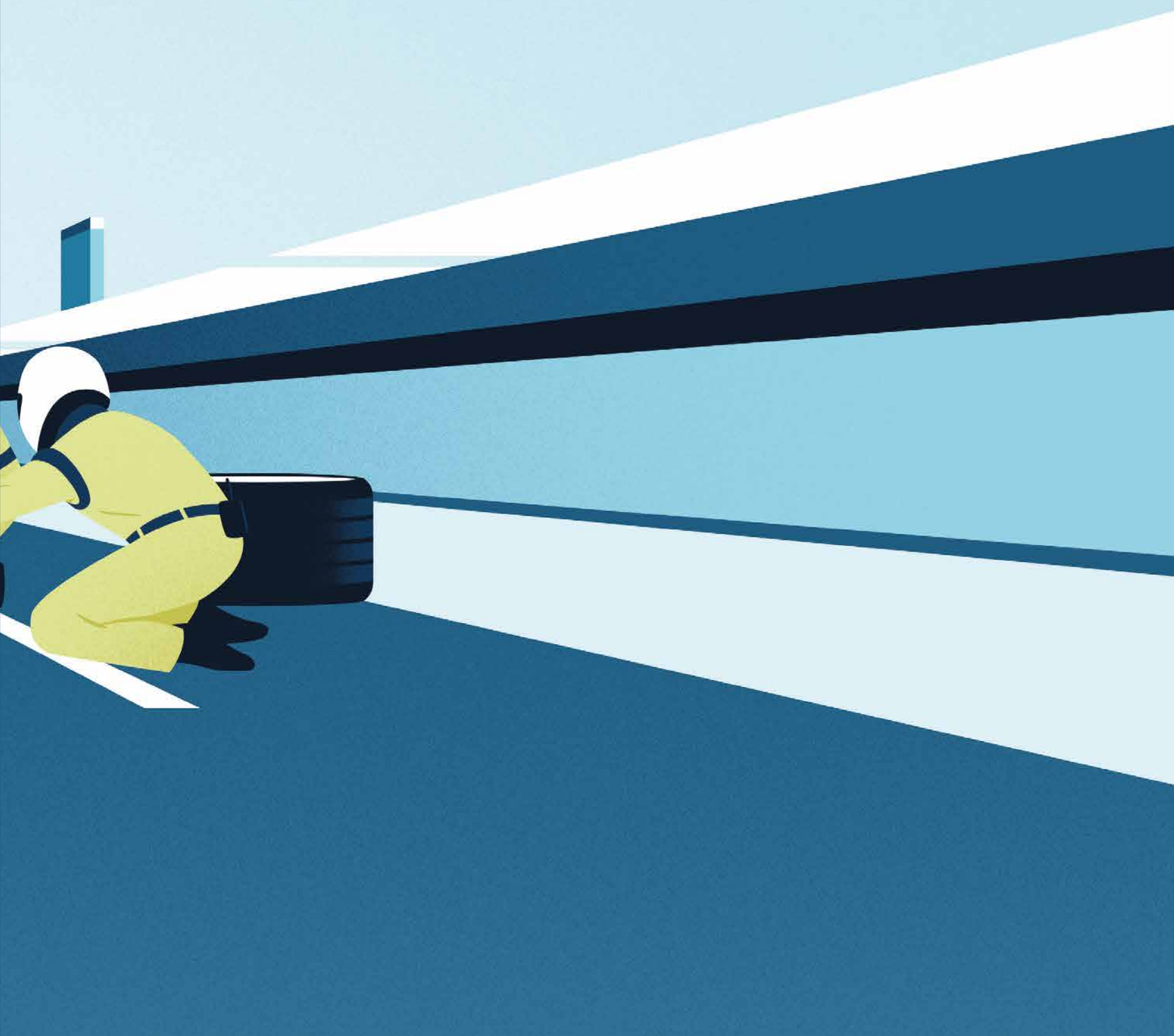
With immediate effect, VP Bank also offers key product information documents regarding structured, closed and open investment funds, insurance-based products with investment character, instruments issued by special-purpose vehicles as well as forward foreign-currency contracts and precious-metal options. These, in part, complex instruments can thus be explained in a standardised manner using the key information documents. The client can therefore be sure that he can understand correctly the risks and opportunities of the instruments.

Implementation of MiFID II for cooperation with intermediaries

In implementing MiFID II, VP Bank classifies intermediaries as professional clients. Professional clients may forego parts of the enhanced investor protection because of their experience. This enables intermediaries to continue to place their orders efficiently and to have them executed in an expeditious manner. In addition, VP Bank offers new exclusive services with which the intermediaries can fulfil their own MiFID II obligations more easily. Wherever possible and where there is interest in doing so, these services may be further upgraded.

VP Bank has consistently integrated MiFID II into business processes and thus provide its clients with the highest measure of investor protection and transparency. This is important, on the one hand, to continue to keep running costs low and, on the other hand, to follow regulations and standards in a consistent manner. As a result, it is possible for VP Bank to ensure that its business activities continue in a sustainable and profitable manner.

You don't need a lot of **experts**, ...



. . . just **the right ones**.

Helping clients to streamline their financial situation conveniently and for optimum effect, and advising them on their long-term strategies just as competently and sustainably as we do on matters requiring a dynamic, short-term response: that requires not just expertise but also plenty of shrewd instinct. VP Bank's flat hierarchies and highly qualified personnel generate a team spirit which enables us to attend to the client's wishes in a flexible and yet also carefully targeted manner.

Volker Zaworka
Senior Investment Advisor

The rapid pace of technological change calls for change in the way we think and act. As a team we are always developing new instruments and processes to help us meet the challenges posed by the markets and our clients. But, for all our dynamism and flexibility, a steady, personal dialogue with the client is still one of the keys to shared success, step by step over the long term.

Aurelia Schmitt-Marxer
Head of Classic & Special Mandates

4

Corporate governance and compensation report

Corporate governance 2017

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

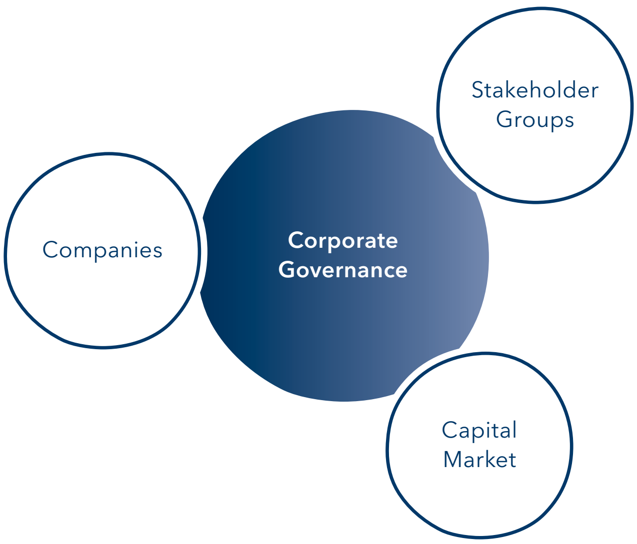
This report describes the basic principles underlying the corporate management of VP Bank Ltd, Vaduz[1], as required by the revised "Directive on Information Relating to Corporate Governance" (DCG) of the Swiss Stock Exchange, SIX Swiss Exchange dated 13 December 2016 as well as the laws of Liechtenstein.

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. As a consequence, 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 2017.

[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 organisational chart on page 17 shows the Group's operating structure.

The subsidiary companies and material shareholdings included in the scope of consolidation are listed in the Financial Report (see page 179) together with their name, registered office, share capital and percentage of share capital held.

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 the 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 registered shares B of the company are not quoted.

	ISIN	Year-end price in CHF	Market value in CHF million
Registered shares A (listed)	LI0010737216	133.00	800.0 [1]
Registered shares B (not listed)	LI0010737596	13.30	79.9
Total (market capitalisation of registered shares A plus market value of registered shares B)			**879.9**

[1] Stock-market capitalisation of listed registered shares A as of 31.12.2017

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

1.2 Significant shareholders (anchor shareholders)

As at 31 December 2017, the following shareholders and shareholder groups 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	546,963	658,370	1,205,333	10.0%	9.3%
Marxer Stiftung für Bank- und Unternehmenswerte, Vaduz	756,589	0	756,589	6.3%	11.4%

[1] incl. institutions controlled by the Foundation

During the period under review, 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-shareholding

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 169).

	Number	Balance as of 31.12.2017 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 share capital

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	31.12.2015	31.12.2016	31.12.2017
Share capital	66,154	66,154	66,154
Capital reserves	47,239	47,143	47,143
Legal reserves	239,800	239,800	239,800
Other reserves	344,481	346,646	349,225
Provisions for general banking risks	63,150	63,150	63,150
Retained earnings	77,330	118,847	136,282
Total	**838,154**	**881,740**	**901,754**

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 reporting 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 nine 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	2018	Nomination & Compensation Committee[1]
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
Ursula Lang	1967	Member	2016	2019	Audit Committee, Risk Committee[1]
Dr Florian Marxer	1976	Member	2015	2018	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] Chairman

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
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 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 USA factory, Tulsa; 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, 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, GB; 1989–1992 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.

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. Universität Zürich (2001); lic. oec. Universität Zürich (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
Deputy Chairman of the Board of Directors of Geneva Group International, Zurich; member of the investment committee of various Austrian investment funds; owner of Cocca Asset Management KG, Weisskirchen an der Traun/Austria.

Dr Beat Graf

Born 25 April 1964, Swiss citizen

Dr Beat Graf is Member of the Audit Committee and the 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 or Chairman of the Board of Directors in various ATU Group companies; 2012–2015 Member of Management and responsible for the coordination of all ATU subsidiaries, compliance and marketing; 2007–2012 Member of Management and Head of Compliance; 2004–2007 Head of Compliance; 1999–2004 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 Board of Trustees of Privatbank-Personalstiftung, Vaduz.

Ursula Lang

Born 15 February 1967, Swiss citizen

Ursula Lang is Chairman 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
Vice-Chairwoman of the Board of Directors and Member of the Audit Committee of responsAbility Investments AG, Zurich.

Dr Florian Marxer

Born 17 August 1976, citizen of Liechtenstein

Dr Florian Marxer is 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 und 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, Zurich; Chairman of the Board of Directors 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 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 of 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 American Express, Zurich – London, GB – Frankfurt, DE; 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 member of the Nomination and Compensation Committee as well as of the Investment and Risk Committee of Helvetia Group AG, St. Gallen; member of the Advisory Council of Swiss Leadership Forum; member of the Advisory Council "CAS in General Management for Boards of Directors", University of Berne; Chairwoman of the "Association of Compensation and Benefits Experts – acbe", Zurich.

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 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.

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

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 areas of responsibility of the Board committees

The tasks, powers of authority, rights and obligations of the various Committees are laid down in the Organisation and Business Regulations. 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 are kept on the meetings and the matters dealt with by the committees at their respective meetings and submitted to the Board of Directors. 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.

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 with regard to 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 matters 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 auditing firm;
- 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 the 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;
- defining 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 with regard to 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 the 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 und Dr Gabriela Maria Payer belong to the Strategy & Digitalisation Committee. The Strategy & Digitalisation Committee assists and advises the Board on strategic issues and projects. The following tasks, in particular, are incumbent on it (in accordance with OBR Section 3.5):
- preparation of strategic issues for the attention of the Board of Directors;
- in-depth handling of strategic issues (e.g. 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-taking part during which the Board of Directors arrives at its decisions. In order to be informed at first-hand, the CEO is also present during the decision-taking part of Board of Directors' meetings.

Specific topics addressed by the Board of Directors and its committees can require, when needed, that further individuals are called upon to attend (executives of VP Bank Group, representatives of the Banking-Law auditors, as well as internal or external specialists and advisors).

During 2017, the Board of Directors held nine ordinary 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 2017, the Nomination & Compensation Committee met on a total of fourteen 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 and the Head of Group Internal Audit attend the meetings. For the purpose of addressing audit-specific topics, representatives of the external auditing firm (as a general rule, the Auditor-in-Charge) attend the meetings. Last year, the Audit Committee convened for seven ordinary meetings.

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 CRO, the Head of Group Internal Audit as well as the Head of Group Risk attend the meetings. Last year, the Risk Committee met for seven ordinary meetings. At one joint meeting with the Audit Committee, an exchange of information took place with the Executive Board regarding the quality of internal control systems and other matters.

The Strategy & Digitalisation Committee usually meets on six to eight occasions per annum. The CEO and representatives of the Group Executive Board attend the meetings. In 2017, the Strategy & Digitalisation Committee met for a total of seven meetings.

Name	Board of Directors	Nomination & Compensation Committee	Audit Committee	Risk Committee	Strategy & Digitalisation Committee
Number of meetings	10	14	7	7	7
Fredy Vogt	10	14	7	6	7
Markus Thomas Hilti	10	14			
Dr Christian Camenzind	9				7
Prof. Dr.Teodoro D. Cocca	11				7
Dr Beat Graf	9		7	7	
Ursula Lang	10		7	7	
Dr Florian Marxer	10				6
Dr Gabriela Maria Payer	10	14			6
Michael Riesen	10		7	7	
Dr Daniel H. Sigg[1]	2		1	1	

[1] Member of the Board of Directors until 28 April 2017

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 (“The organisational structure of VP Bank Group” on page 17).

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, risk-controlling reports, as well as periodic reports on the quarterly, semi-annual and annual financial statements (consolidated and individual company accounts). The latter 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.

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

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

The Chairman of the Board receives all minutes of the Executive Board meetings. In addition, he exchanges information with the CEO on a weekly basis as well as 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 for the purpose of assessing the 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 2017, 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
Christoph Mauchle	1961	Head of Client Business	2013	2013
Monika Vicandi	1967	General Counsel, Chief Risk Officer (CRO)	2011	2017

As from mid-2017, the duties of the Chief Operating Officer were assumed ad interim by the CEO and CFO.

Alfred W. Moeckli

Born 2 July 1960, Swiss citizen

Alfred W. Moeckli is Chief Executive Officer (CEO) of VP Bank Group (Segment reporting, page 105 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, GB; 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, 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 105 ff).

Education
Executive Programme of the Swiss Banking School (2003); Swiss Certified Public Accountant (1996); Federal Certified Accounting and Controlling Expert (1993).

Professional background
Since 1 September 2010 with VP Bank Ltd, Vaduz: since 2013 Chief Financial Officer and Deputy to the Chief Executive Officer as well as in 2016 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 accounting 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 Insurance and Investor Protection Foundation SV; member of Specialist Group on Finances and Taxation of the Liechtenstein Chamber of Industry and Commerce, Vaduz.

Christoph Mauchle

Born 5 May 1961, Swiss citizen

Christoph Mauchle is Head of Client Business of VP Bank Group (Segment reporting, page 105 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

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 105 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 field 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 Compensation Report from page 94 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 and individual company accounts of VP Bank Ltd, Vaduz (see pages 193 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 such 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 entered 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 entered into the share register receive an invitation to the annual general meeting, including the agenda, sent to the address known to VP Bank. Upon successful registration, shareholders receive an entry pass together with the relevant voting material.

The invitation to the annual general meeting is also published in the Liechtenstein newspapers and the Swiss financial press.

7. Change of control and defensive measures

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

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

8. Auditors

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

Ernst & Young Ltd, Berne, has acted as auditor of VP Bank since 1956 (in accordance with 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.). The Auditor-in-Charge, Bruno Patusi, has been responsible for the VP Bank mandate since 2014 (annual general meeting of 25 April 2014).

8.2 Audit fee

In 2017, Ernst & Young Ltd, Berne, charged VP Bank Group fees in the amount of CHF 1.47 million (previous year: CHF 1.45 million) for services rendered in connection with the legally prescribed audits of the annual financial statements of VP Bank and its Group subsidiaries, as well as the audit of the consolidated financial statements of VP Bank Group.

8.3 Additional fees

Ernst & Young Ltd also provided audit-related as well as advisory services to VP Bank in the amount of CHF 0.24 million (previous year: CHF 0.21 million).

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 by the external auditors are reviewed at the meetings of the Audit Committee. In 2017, 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 examines 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: 27 April 2018
2018 Semi-Annual Report: 21 August 2018

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.

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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, 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 shall regulate the details of the compensation policy and practices in a related ordinance".

On the other hand, the related subject matter is clearly defined by Annex 1 and Annex 4.4 in the "Ordinance on Banks and Securities Firms" (BankO). This Ordinance took effect on 1 January 2012 and was amended as of 1 July 2017. 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.

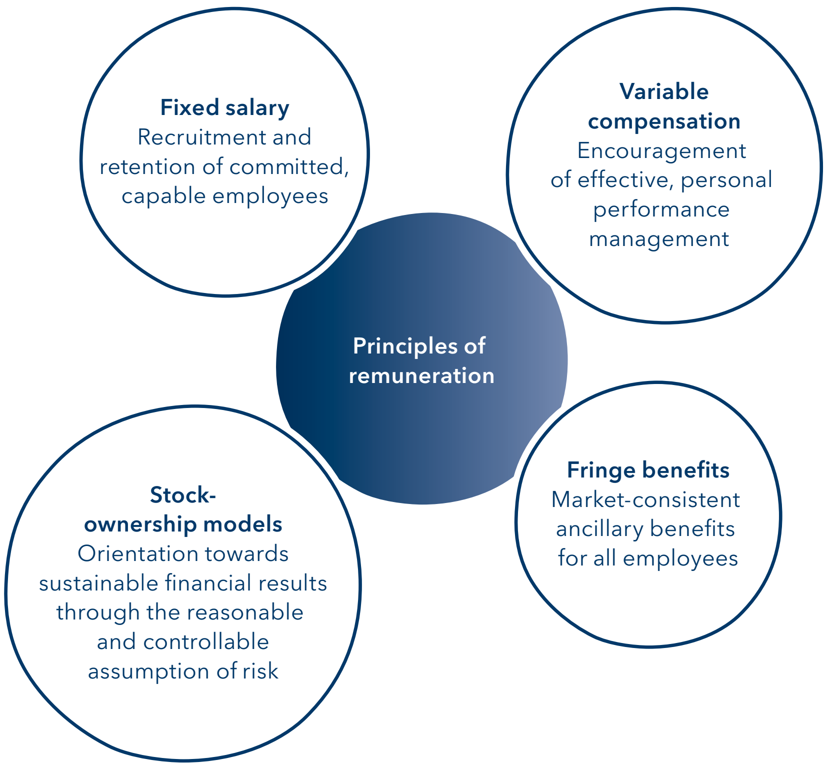
Principles of remuneration

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:

- Performance orientation and performance differentiation are substantive components of the remuneration policy and ensure the interlinking of variable compensation with the achievement of the strategic goals of the company.
- The remuneration 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 persons 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 remuneration policy renders possible a fair and attractive remuneration in line with the market 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 remuneration depends on the function. The level of variable remuneration reflects Group performance, the performance of the segment or team and/or individual performance.
- The remuneration policy is subject to regular review. Relevant legal provisions are applied and implemented in remuneration practices. Prescriptions specific to functions, in particular, those relating to identified employees, are taken into account.

With these principles, VP Bank achieves a remuneration which is in line with the market, with performance and with demands of the position. They set the right performance incentives for individual employees and management thus supporting the achievement of the goals set out in VP Bank's strategy. Remuneration-related conflicts of interest of the involved functions and/or individuals are avoided.



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 include 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 laid down 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 deriving therefrom 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 remuneration 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, 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 on a limited scale. In times of adverse operating conditions, the overall amount of variable remuneration is reduced accordingly and can even amount to zero. The level 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.

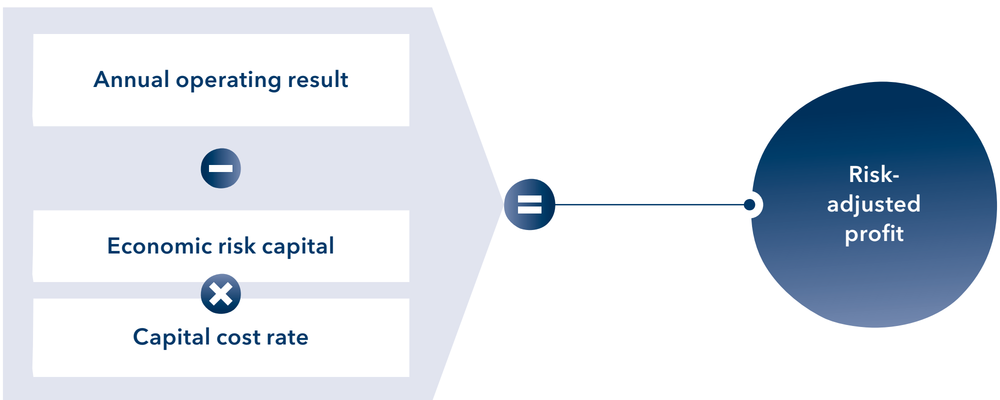
Allocation of variable remuneration

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 framework 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.

Payment of variable remuneration

- Immediately payable variable remuneration (bonus): The bonus is that part of the variable remuneration settled annually in cash as compensation for the contribution made to earnings in the previous 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.

Components of variable remuneration



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

Equity-participation programmes

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

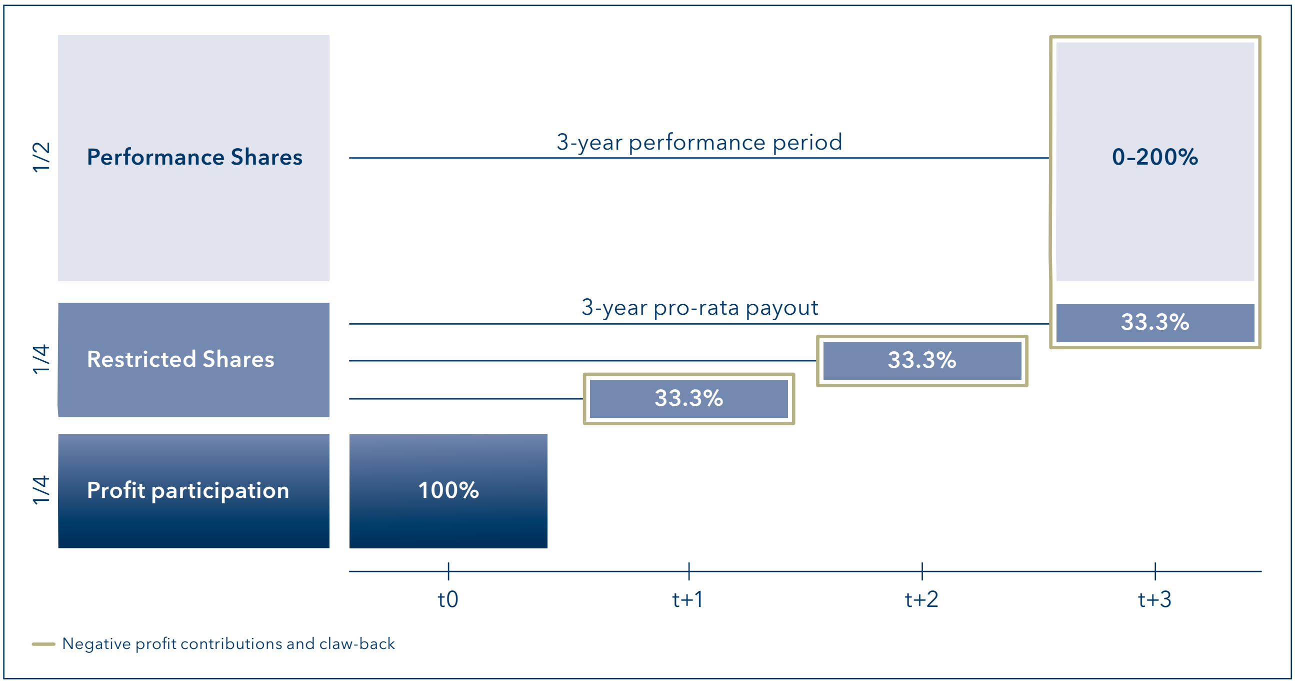
The Board of Directors modified the participation in VP Bank Ltd by members of the first- and second-levels of management and laid down two new programmes from 2014 onwards.

The Performance Share Plan (PSP) is a long-term variable management participation programme in the form of registered shares A of VP Bank Ltd. The Restricted Share Plan (RSP) is settled in equal annual instalments in the form of registered shares A over the three-year plan period.

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

The RSP programme may be also implemented in justified cases in order to settle a deferred variable salary portion or to implement particular retention measures.

Instruments of variable remuneration



Content and method of determining 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 86) makes proposals to the Board of Directors on the principles underlying compensation 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 applicable rules.

Board of Directors

The Board of Directors receives 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 in the form of freely disposable VP Bank bearer shares, 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 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 2017, the Nomination & Compensation Committee convened on fourteen 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 between 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 basis thereof is 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 or 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 or 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.

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

In 2017, 18,189 shares with a market value as of the date of allocation aggregating CHF 2,228,152.50 were transferred to the Executive Board as part of the 2014–2016 management equity-share participation plan, the RSP 2015–2017 as well as the RSP 2016–2018. The vested benefits from previous management equity-share participation plans (2015–2017, 2016–2018 as well as 2017–2019) 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 in the second management level. These are in particular the heads of the units "Group Internal Audit", "Group Legal, Compliance & Tax", "Group Finance", "Group Risk", "Group Investment, Product & Market Management", "Group Operations", "Intermediaries", "Private Banking", "Group Information Technology", "Group Human Resources", "Group Treasury & Executions", "Group Communications & Marketing", "Group Credit" 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 lies 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 portion of salary 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

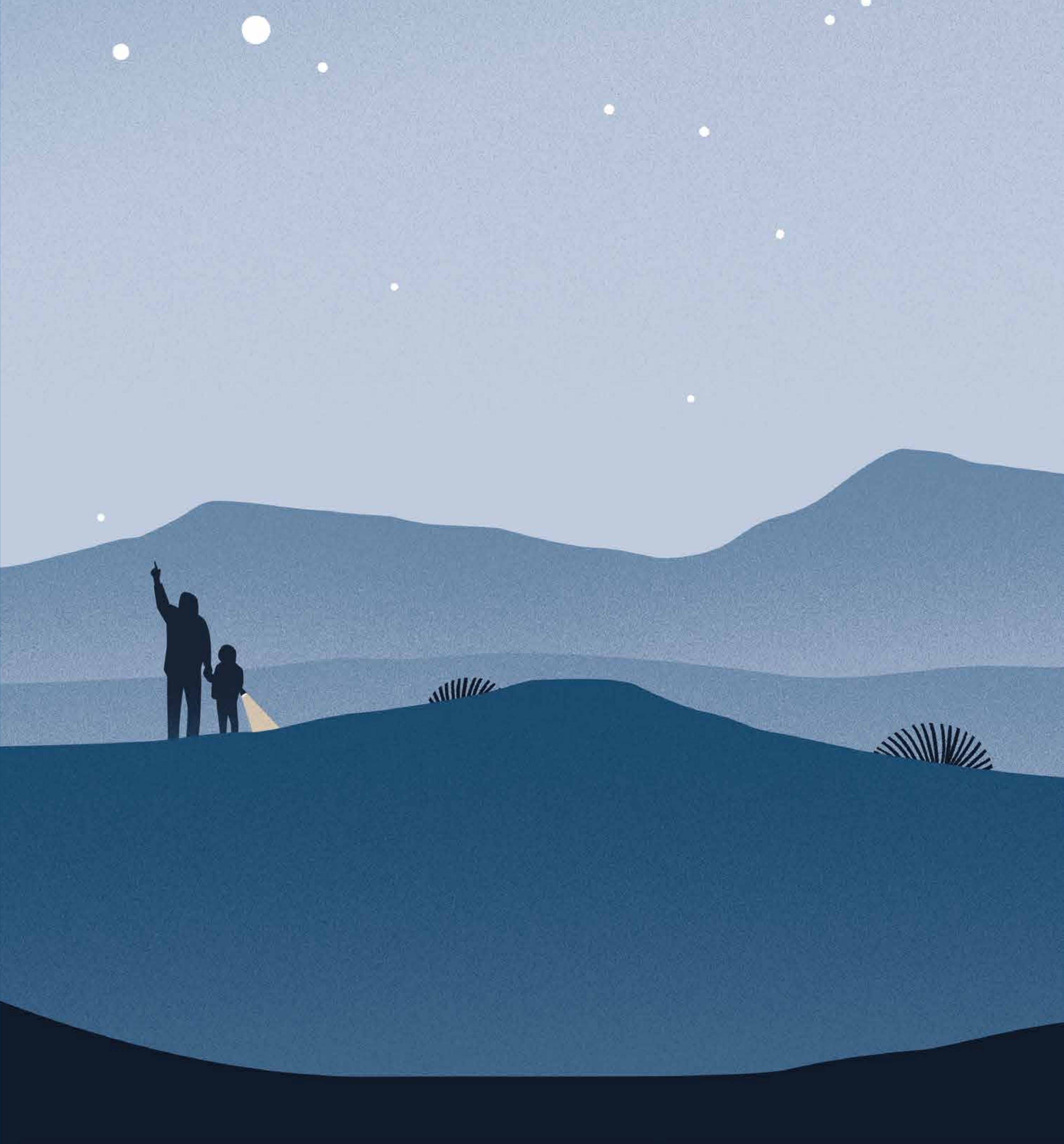
Information on the remuneration of members of the Board of Directors as well as the members of the Executive Board are to be found in the Financial Report, the stand-alone financial statements of VP Bank Ltd, Vaduz, under "Remuneration paid to Members of Governing Bodies" (page 206).

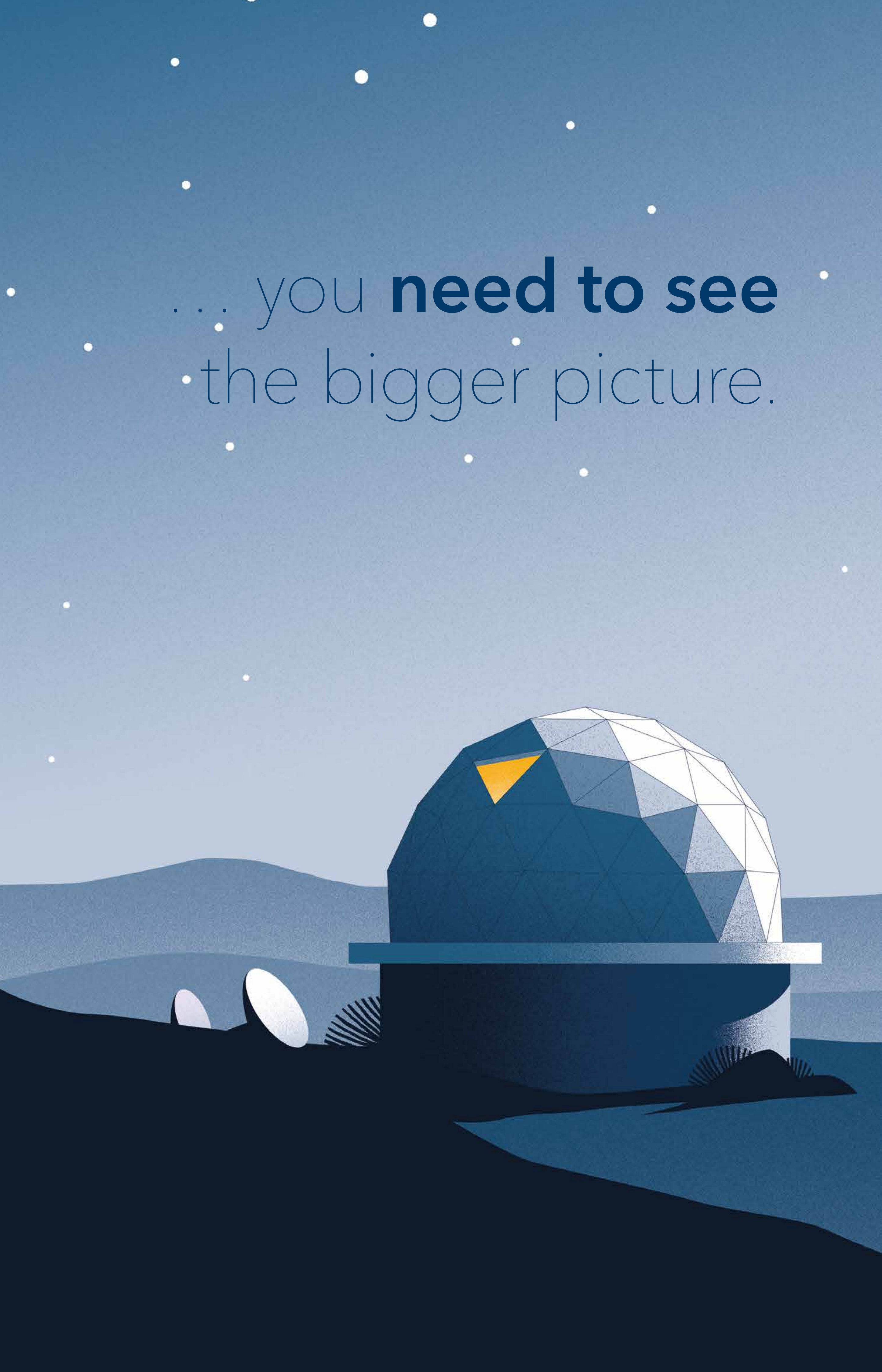
Disclosures regarding personnel expense are set out in the 2017 Financial Report of VP Bank Group under "6 Personnel Expense" (page 157).

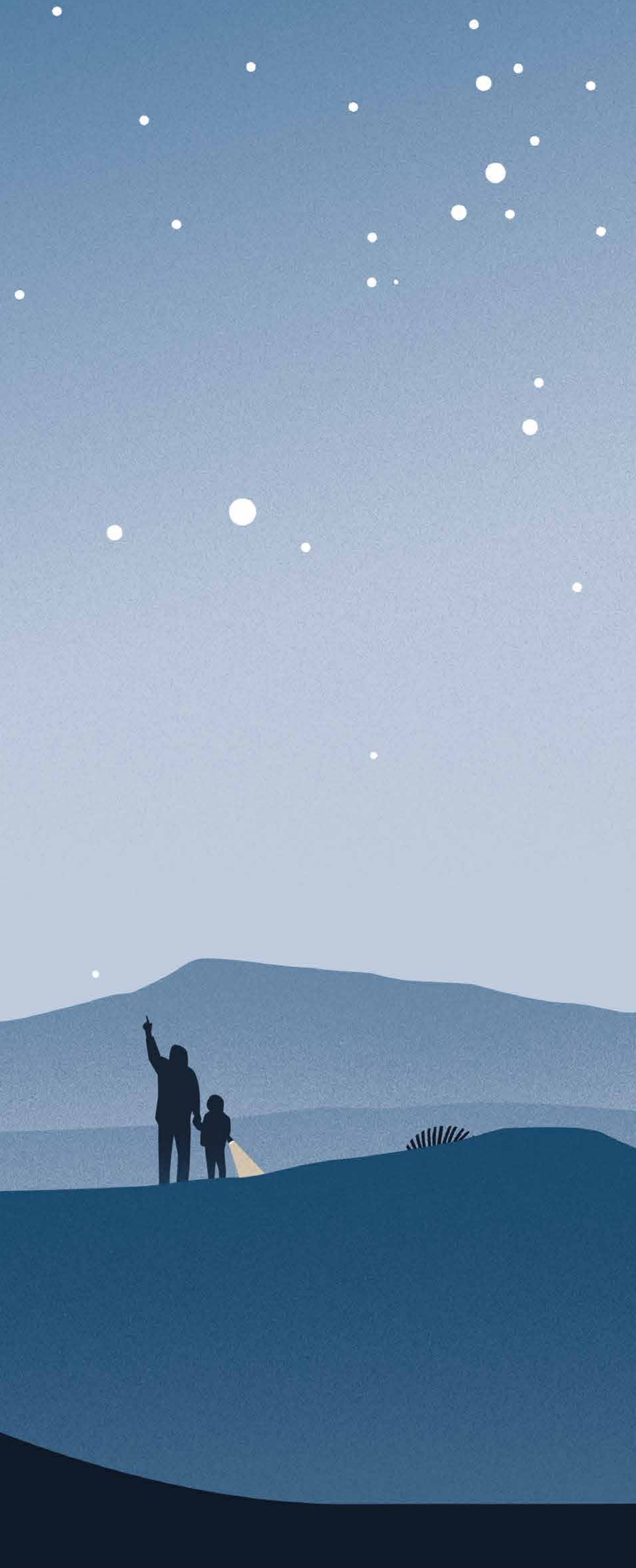
The aggregate remuneration paid to all risk takers in 2017 amounted to:

	CHF	Share of total remuneration
Fixed basic salary	8,271,303.53	54.1%
Short-Term Incentive (STI, cash) for performance year 2016	1,601,485.82	10.5%
Restricted Share Plan (RSP) Entitlement for performance year 2016	1,461,231.52	9.6%
Performance Share Plan (PSP) entitlement relating to performance 2017–2019	2,792,304.13	18.3%
Pension fund senior employees Employer contributions	1,159,245.48	7.6%
Total remuneration	**15,285,570.48**	**100.0%**
Vesting 2017, equity-share value PSP 2014–2016 / RSP 2014–2016 RSP 2015–2017 / RSP 2016-2018	3,711,137.50	

To grasp the
future, . . .




… you **need to see**
the bigger picture.



As advisors who think and act responsibly we must not only observe economic, geopolitical and social developments but also analyse them thoroughly. In this we can rely on an in-house communication culture which provides the client with maximum advisory competence while also ensuring the long-term sustainability and dependability of our solutions. Giving our clients the confidence to reach for the stars every now and then.

Daniela Walser
Senior Client Advisor Intermediaries

What do my clients wish to achieve with their money? What is their outlook and which strategies match their profile? Thanks to our network of specialists from all parts of the finance sector we can put together exactly the right portfolio for every individual client. We formulate personal, dynamic solutions that are simultaneously customised and in line with our market strategy. Our underlying planning is transparent and value-based, allowing our clients to look to the future with peace of mind.

Michael Stecher
Senior Client Advisor Private Banking International

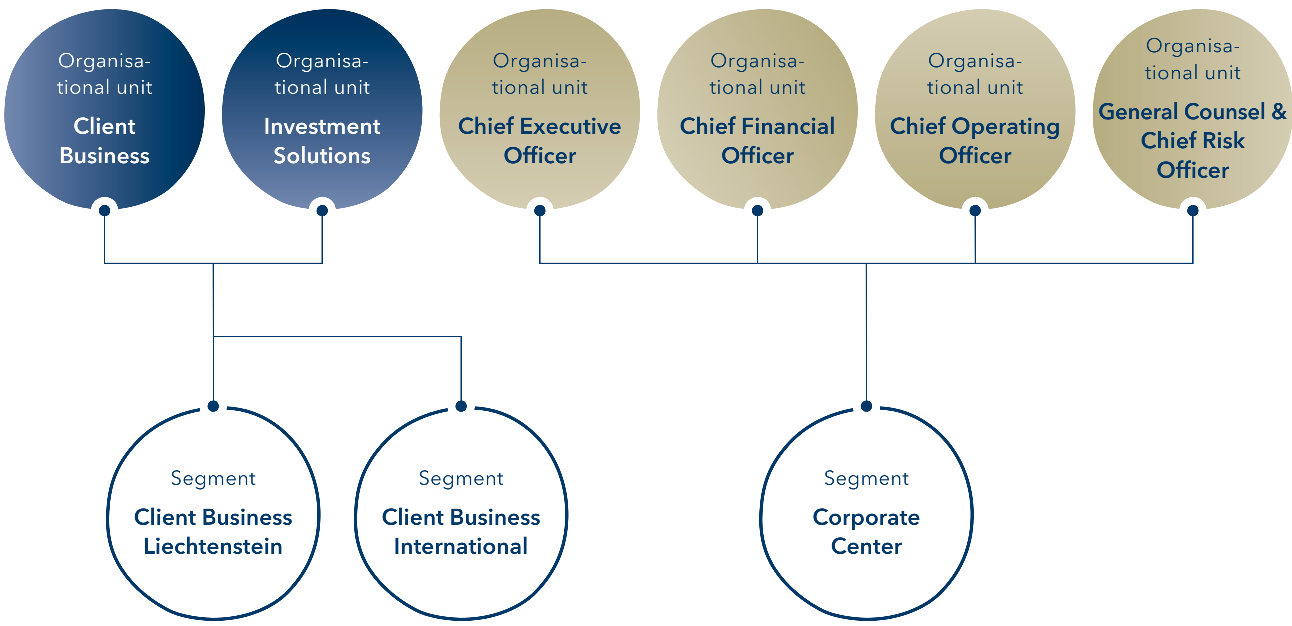
5

Segments

Segment reporting

As of 1 January 2017, VP Bank amended its organisational structure by creating a new organisational unit "General Counsel & Chief Risk Officer". As part of the process of implementation of the strategy 2020, the function of General Counsel was merged with that of the Chief Risk Officer and investment expertise was specifically reinforced.
As already communicated in the 2016 Annual Report of VP Bank Group (page 15), the management structure consists, from this date on, 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".



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).

Business segment reporting 2016

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income	67,609	24,936	9,827	102,372
Total net income from commission business and services	90,176	33,878	–5,265	118,789
Income from trading activities	20,267	6,565	17,664	44,496
Income from financial instruments	10	396	7,240	7,646
Other income	0	1,078	–1,149	–71
Total operating income	**178,062**	**66,853**	**28,317**	**273,232**
Personnel expenses	33,768	39,000	62,561	135,329
General and administrative expenses	3,292	21,544	26,839	51,675
Depreciation of property, equipment and intangible assets	3,682	3,336	15,393	22,411
Valuation allowances, provisions and losses	2,270	716	–218	2,768
Services to/from other segments	40,389	0	–40,389	0
Operating expenses	**83,401**	**64,596**	**64,186**	**212,183**
Earnings before income tax	**94,661**	**2,257**	**–35,869**	**61,049**
Taxes on income				3,063
Group net income				**57,986**
Segment assets (in CHF million)	4,108	3,581	4,106	11,794
Segment liabilities (in CHF million)	7,160	3,048	649	10,857
Client assets under management (in CHF billion)[1]	24.6	11.2	0.0	35.8
Net new money (in CHF billion)	–0.2	0.2	0.0	0.0
Headcount (number of employees)	185	248	371	804
Headcount (expressed as full-time equivalents)	174.1	233.2	331.0	738.3

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

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

Client Business Liechtenstein

Segment results

in CHF 1,000	2017	2016	Variance absolute	Variance in %
Total net interest income	74,227	67,609	6,618	9.8
Total net income from commission business and services	90,612	90,176	436	0.5
Income from trading activities	20,059	20,267	–208	–1.0
Income from financial instruments	8	10	–2	–20.0
Other income	0	0	0	0.0
Total operating income	**184,906**	**178,062**	**6,844**	**3.8**
Personnel expenses	35,216	33,768	1,448	4.3
General and administrative expenses	3,744	3,292	452	13.7
Depreciation of property, equipment and intangible assets	3,430	3,682	–252	–6.8
Valuation allowances, provisions and losses	–1,000	2,270	–3,270	–144.1
Services to/from other segments	39,689	40,389	–700	–1.7
Operating expenses	**81,079**	**83,401**	**–2,322**	**–2.8**
Segment income before income tax	**103,827**	**94,661**	**9,166**	**9.7**
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	42.5	43.5		
Operating expenses excluding valuation allowances, provisions and losses / total operating income (in %)	44.4	45.6		
Client assets under management (in CHF billion)	26.7	24.6		
Change in client assets under management compared to 31.12. prior year (in %)	8.6	1.3		
Net new money (in CHF billion)	0.4	–0.2		
Total operating income / average client assets under management (bp)[1]	72.1	72.8		
Segment result / average client assets under management (bp)[1]	40.5	38.7		
Cost/income ratio operating income (in %)[2]	42.5	43.5	–1.0	–2.2
Headcount (number of employees)	195	185	10.0	5.4
Headcount (expressed as full-time equivalents)	183.4	174.1	9.3	5.3

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

Structure

The business segment "Client Business Liechtenstein" encompasses the international private banking business and the business with intermediaries located 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, Group Investment, Product & Market Management and VP Fund Solutions (Liechtenstein) AG are allocated to this business segment.

Segment result

The pre-tax segment result in 2017 increased by CHF 9.2 million (9.7 per cent) over the prior year. In 2017, operating income could be improved by CHF 6.8 million (3.8 per cent). This growth results from interest income from clients (9.8 per cent) as well as commission and service income (0.5 per cent). Primarily developments in USD interest rates as well as margin increases in credit-granting activities contributed to this positive result. As regards commission income, both trade-related revenues from clients as well as portfolio-based revenues reported an increase year-on-year, the former because of the increased level of client activities. Operating expenses could be reduced by CHF 2.3 million (2.8 per cent) to CHF 81.1 million (prior year: CHF 83.4 million). This decrease is primarily attributable to the caption valuation allowances, provisions and losses as well as a lower level of inter-segmental recharges. In 2017, charges for valuation allowances, provisions and losses, year-on-year, declined by CHF 3.3 million to CHF minus 1.0 million (prior year period: CHF 2.3 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 caption "services to/from other segment(s)". With 72.1 basis points, the gross margin could be held at the prior-year's level (prior-year: 72.8 basis points). The cost/income ratio improved from 43.5 per cent to 42.5 per cent.

In the financial year, the segment reported net new money inflows from clients of CHF 0.4 billion. The welcome new money inflows resulting from market-development activities thereby offset money outflows resulting from the regulatory environment and taxation-related issues. Assets under management at 31 December 2017 totalled CHF 26.7 billion (31 December 2016: CHF 24.6 billion). The employee headcount rose from 174 (31 December 2016) to 183 individuals.

Client Business International

Segment results

in CHF 1,000	2017	2016	Variance absolute	Variance in %
Total net interest income	29,978	24,936	5,042	20.2
Total net income from commission business and services	37,131	33,878	3,253	9.6
Income from trading activities	8,361	6,565	1,796	27.4
Income from financial instruments	78	396	–318	–80.3
Other income	2,527	1,078	1,449	134.4
Total operating income	**78,075**	**66,853**	**11,222**	**16.8**
Personnel expenses	41,361	39,000	2,361	6.1
General and administrative expenses	22,329	21,544	785	3.6
Depreciation of property, equipment and intangible assets	3,163	3,336	–173	–5.2
Valuation allowances, provisions and losses	4,074	716	3,358	469.0
Services to/from other segments	0	0	0	0.0
Operating expenses	**70,927**	**64,596**	**6,331**	**9.8**
Segment income before income tax	**7,148**	**2,257**	**4,891**	**216.7**
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	81.6	90.6		
Operating expenses excluding valuation allowances, provisions and losses / total operating income (in %)	85.6	95.6		
Client assets under management (in CHF billion)	13.7	11.2		
Change in client assets under management compared to 31.12. prior year (in %)	22.3	6.6		
Net new money (in CHF billion)	1.5	0.2		
Total operating income / average client assets under management (bp)[1]	62.9	61.7		
Segment result / average client assets under management (bp)[1]	5.8	2.1		
Cost/income ratio operating income (in %)[2]	84.4	92.6	–8.2	–8.9
Headcount (number of employees)	279	248	31.0	12.5
Headcount (expressed as full-time equivalents)	262.2	233.2	29.0	12.4

[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 (Singapore) Ltd, VP Wealth Management (Hong Kong) Ltd and VP Fund Solutions (Luxembourg) SA are allocated to this business segment.

Segment result

In 2017, the pre-tax segment result could be improved, year-on-year, by CHF 4.9 million. Operating income could be increased, year-on-year, CHF 11.2 million (16.8 per cent). This increase is attributable principally to higher interest income from clients (20.2 per cent) but also commission and service income (9.6 per cent), trading income (27.4 per cent) and other income (including the income from the sale of an associated company) contributed to this positive result.

Operating expenses rose by CHF 6.3 million, or 9.8 per cent, to CHF 70.9 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 increased. In the business segment "Client Business International", the recharging of services is based on actual invoices and recorded under general and administrative expenses.

The gross margin could be increased to 62.9 basis points (prior year: 61.7 basis points). The cost/income ratio improved from 92.6 per cent to 84.4 per cent.

Net new money developed positively in 2017 with CHF 1.5 billion. All locations reported net new client money inflows during the reporting period. The recruitment offensive at these locations give rise to the first new client money inflows already in 2017. Net new money inflows could again be achieved in the investment-fund business and in Asian markets thanks to reinforced market-development activities. Assets under management at 31 December 2017 totalled CHF 13.7 billion (31 December 2016: CHF 11.2 billion). The employee headcount rose from 233 individuals (31 December 2016) to 262 primarily because of the recruitment offensive for new senior client advisors.

Corporate Center

Segment results

in CHF 1,000	2017	2016	Variance absolute	Variance in %
Total net interest income	230	9,827	-9,597	-97.7
Total net income from commission business and services	-3,867	-5,265	1,398	26.6
Income from trading activities	21,824	17,664	4,160	23.6
Income from financial instruments	19,132	7,240	11,892	164.3
Other income	-198	-1,149	951	82.8
Total operating income	**37,121**	**28,317**	**8,804**	**31.1**
Personnel expenses	58,213	62,561	-4,348	-7.0
General and administrative expenses	31,725	26,839	4,886	18.2
Depreciation of property, equipment and intangible assets	16,971	15,393	1,578	10.3
Valuation allowances, provisions and losses	10,534	-218	10,752	n.a.
Services to/from other segments	-39,689	-40,389	700	1.7
Operating expenses	**77,754**	**64,186**	**13,568**	**21.1**
Segment income before income tax	**-40,633**	**-35,869**	**-4,764**	**-13.3**
Additional information				
Headcount (number of employees)	387	371	16.0	4.3
Headcount (expressed as full-time equivalents)	353.9	331.0	23.0	6.9

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 Credit, Group Treasury & Execution, Group Finance, Group Risk, Group Legal, Compliance & Tax, 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. Also, the effect of lowering the rate of conversion (IAS 19) flowed into the results of this segment.

Segment result

The pre-tax segment result in 2017 amounted to minus CHF 40.6 million as opposed to minus CHF 35.9 million in the prior year.

Year-on-year, operating income could be increased by CHF 8.8 million. Responsible for this is the increase is largely the income from financial investments.

Interest income declined, year-on-year by CHF 9.6 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 fall in revenues. This 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 minimize risks as well as gains/losses from balance-sheet management activities.

In 2017, income from financial investments amounted to CHF 19.1 million. This gratifying improvement of CHF 11.9 million resulted primarily from unrealised revaluation gains on financial instruments.

Operating expenses in the financial year rose by CHF 13.6 million from CHF 64.2 million to CHF 77.8 million. The reason for this is the provision established for a payment to the German authorities based upon a settlement reached with them. The settlement encompasses VP Bank Ltd and all of its subsidiary companies and is reported in full in the Corporate Center. Consequently, charges for valuation allowances, provisions and losses in the reporting period increased by CHF 10.8 million. Personnel expense was credited with an amount of CHF 10.1 million relating to the adjustment to the rate of conversion in the pension fund (IAS 19). General and administrative expense grew by CHF 4.9 million, inter alia, because of costs incurred in connection with growth initiatives as well as brand renewal costs. Depreciation and amortisation increased from CHF 15.4 million to CHF 17.0 million.

The employee headcount rose from 331 (31 December 2016) to 354 positions.

Competence is our global language, …

. . . always with a
local **accent**.

Our in-depth knowledge of the relevant local conditions, meetings with clients in person, international business trips to broaden our own horizons – all of these shape and deepen our understanding of our clients' needs. Not for nothing has "Swiss banking" become a by-word for solidity and service quality, cornerstones of our stable legal and economic environment here in Liechtenstein and Switzerland.

René Flammer
Head of Private Banking Central & Eastern Europe
VP Bank (Switzerland) Ltd

As a small but internationally active bank we offer our clients a full range of global perspectives combined with relevant local expertise. This enables us to take a highly individualised approach to the concerns of our clients. Our ability to speak the same language as you, to be globally active and yet offer you highly personalised service – that is what makes us different. We are a global player that is perfectly at home wherever the client's heart is.

Catherine Rey
Head of Client Advisory Private Banking Asia
VP Bank (Luxembourg) SA

6

Financial report 2017 of VP Bank Group

Consolidated annual report of VP Bank Group

Consolidated results

In 2017, the Group net income could be increased markedly over that of the preceding year and a very high level of net new money inflows was recorded. The interest-rate environment was characterised by on-going low to negative interest rates. A positive sentiment prevailed on stock markets and as a result, the most important stock-market indices gained appreciably during the past year. At the same time, the introduction of new regulatory provisions at home and abroad weighed on resources in the banking segment. VP Bank held its ground very well in this demanding environment.

The 2017 consolidated financial statements of VP Bank Group prepared in accordance with International Financial Reporting Standards (IFRS) reported a Group net income of CHF 65.8 million. In the prior year, an income of CHF 58.0 million had been achieved. The 2017 Group net income could thus be clearly increased by CHF 7.8 million or 13.4 per cent over that of the prior year. This result in 2017 was impacted in particular by two non-recurring items: in the first half year of 2017, a provision amounting to CHF 10.9 million was recognised for the settlement with the authorities of North Rhine-Westphalia. In the second half of the year, the earnings benefited from the lowering of the rate of conversion of the pension fund leading to a reduction of personnel expense of CHF 10.1 million. Ignoring these two non-recurring items, the 2017 Group net income was CHF 66.6 million and thus CHF 8.6 million clearly more than the prior year's Group net income (plus 14.8 per cent).

A very high level of net new client money totalling CHF 1.9 billion (prior year: CHF 0.0 billion) could be achieved for 2017, and the heartening trend of the first half year could be continued in the second half of the year. This resulted from reinforced market-development activities and implemented growth initiatives as well as the recruitment offensive of 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 27 April 2018, an increase of the dividend to CHF 5.50 (prior year CHF 4.50) per registered share A and to CHF 0.55 (prior year CHF 0.45) per registered share B.

Medium-term goals

The Board of Directors of VP Bank Group has defined the following target values for 2020:

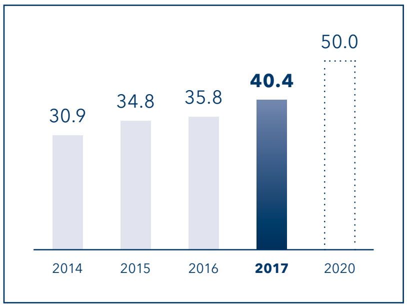
- CHF 50 billion of assets under management
- Group net income of CHF 80 million
- a cost/income ratio of under 70 per cent

VP Bank Group continued to pursue its growth strategy in 2017. Market-development activities could be further reinforced as a result of which assets under management could grow noticeably and profitability strengthened in a sustainable manner.

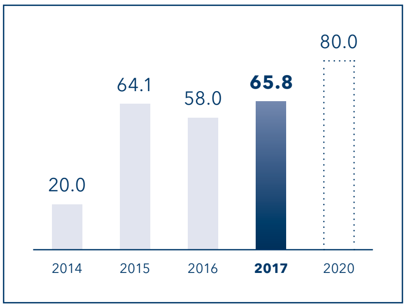
VP Bank intends to make further acquisitions of banks or whole teams which ideally complement VP Bank Group on the basis of their business model with comparable core competencies, corporate cultures, target markets and client structures. In order to advance organic growth, it is planned, as part of a recruitment offensive, to hire some 25 new senior client advisors per annum with the transfer of the assets managed by them to VP Bank. As part of this recruitment offensive, 24 new client advisors were engaged during the current financial year. 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 2017 totalled CHF 40.4 billion (prior year: CHF 35.8 billion). Group net income for the year ending 31.12.2017 amounted to CHF 65.8 million (prior year: CHF 58.0 million) and the cost/income ratio was 64.2 per cent (prior year: 68.4 per cent).

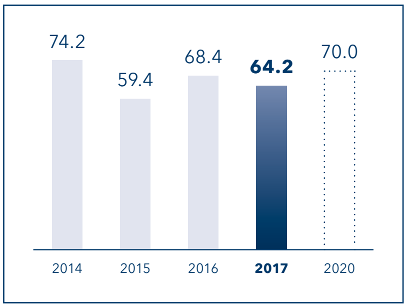
Client assets under management (in CHF billion)



Net income (in CHF million)



Cost/income ratio (in %)



The Management of VP Bank is convinced of achieving the defined goals in 2020 through the targeted exploitation of its organic and acquisition-related growth potential whilst maintaining strict management of costs at the same time. 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.

As of 31.12.2017, VP Bank Group had a tier 1 ratio of 25.7 per cent (prior year: 27.1 per cent) and thus adequate equity to support further acquisitions. At the end of August 2017, the rating agency, Standard & Poor's confirmed the very good rating of "A–" and the outlook as "positive". The high level of equity resources, the successful business model of VP Bank and the tested ability to make and integrate corporate acquisitions constitute an outstanding starting point to be able to assume an active role in future in the process of consolidation in the banking sector.

During the financial year, the cost/income ratio could be reduced by a gratifying 4.2 per cent to 64.2 per cent. The ratio of operating expenses expressed as a percentage of operating income also declined to 76.6 per cent (prior year: 77.7 per cent).

Client assets under management

As of the end of 2017, client assets under management of VP Bank Group aggregated CHF 40.4 billion. Compared with the prior year's amount of CHF 35.8 billion, this represents an increase of 13.0 per cent.

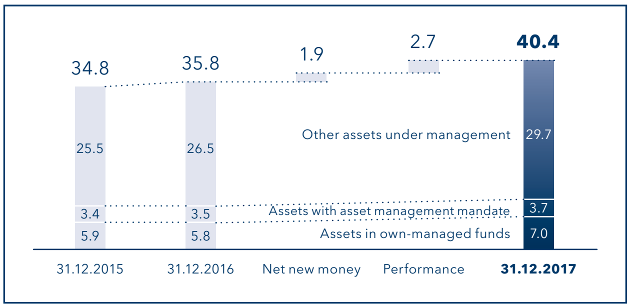
Compared to the organic development of net new client money in 2016, net new client money inflows during the year showed a marked improvement. In aggregate, VP Bank Group recorded a very high level of new client monies of CHF 1,894 million in 2017 (prior year: organic net new client assets of plus CHF 7 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 at international locations.

The performance-related increase in assets under management was CHF 2.7 billion in 2017 (prior year: increase of CHF 1.0 billion). This increase is essentially to be ascribed to rising stock-market prices and the rise in the euro and the related upward revaluation of foreign-currency denominated assets under management.

Custody assets rose by CHF 0.3 billion (4.7 per cent) to CHF 6.1 billion (prior year: CHF 5.8 billion).

As of 31 December 2017, client assets including custody assets totalled CHF 46.4 billion (prior year: CHF 41.5 billion).

Increase of client assets under management (in CHF billion)



Income statement

Operating income

Year-on-year, operating income rose by CHF 26.9 million (plus 9.8 per cent) from CHF 273.2 million to CHF 300.1 million in 2017.

In spite of the negative interest-rate environment, interest income could be increased by CHF 2.1 million or 2.0 per cent to CHF 104.4 million through the 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 (CHF 26.9 million) exceeded the expense for the SNB negative interest (CHF 15.3 million) and the reduced earnings from banks. The increase in interest income from client activities by CHF 8.7 million to CHF 87.2 million is the result of margin adjustments and volume increases; by contrast, interest expense during the year from client-related activities rose by CHF 10.4 million to CHF 14.4 million as a result of the higher USD interest rates. Interest income on financial instruments valued at amortised cost rose by CHF 1.8 million to CHF 20.4 million principally 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 1.1 million (prior year: minus CHF 2.0 million).

The income from commissions and services in the year grew by CHF 5.1 million to CHF 123.9 million (plus 4.3 per cent). The good sentiment on equity markets during the year impacted commission income positively. Brokerage fees rose in 2017 over the comparable prior-year period by CHF 1.1 million, or 3.3 per cent from CHF 32.3 million to CHF 33.3 million.

Both the positive performance of existing client assets as well as the gratifying 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 6.6 per cent from CHF 41.2 million in 2016 to CHF 43.9 million in 2017. Custodian fees also increased in 2017 from CHF 19.7 million to CHF 20.8 million.

Fund-management fees could be increased from CHF 59.4 million to CHF 64.1 million (plus 7.9 per cent).

Trading income grew by 12.9 per cent from CHF 44.5 million in 2016 to CHF 50.2 million in 2017. The income from (foreign-currency) trading on behalf of clients could be increased by a welcome 8.2 per cent to CHF 51.6 million. Realised and unrealised revaluation differences arising from hedging transactions for financial investments are recognised in securities trading. A loss of minus CHF 1.4 million (prior year: minus CHF 3.2 million) had to be recorded as a result of the market environment.

Financial investments ended the year with an income of CHF 19.2 million (prior year: CHF 7.6 million). This increase in income from financial investments of CHF 11.6 million can be ascribed principally to realised and unrealised revaluation gains on financial investments, valued at fair value (FVTPL), of CHF 11.8 million (prior year: minus CHF 0.7 million).

The increase in other income/expense is to be explained by the non-recurring impact of CHF 0.7 million arising on the disposal of an associated company in the first half of 2017.

Operating expenses

Operating expenses in the current financial year rose year-on-year by CHF 17.6 million from CHF 212.2 million to CHF 229.8 million (increase of 8.3 per cent).

As a result of the settlement reached with the authorities of North Rhine-Westphalia in connection with the untaxed assets of German clients, a non-recurring provision of CHF 10.9 million was recognised and communicated in the first half year of 2017. This settlement is a comprehensive solution and is valid for all German Federal states. A further non-recurring item led to a reduction in personnel expense of CHF 10.1 million resulting from the adjustment to the rate of conversion of the pension fund which positively impacted the 2017 annual results.

Personnel expense year-on-year declined marginally by CHF 0.5 million or 0.4 per cent to CHF 134.8 million. Excluding the one-off item of CHF 10.1 million in the second half of year, the adjusted personnel expense in the current financial year increased by CHF 9.6 million (plus 7.1 per cent). In line with the strategic growth initiatives, this adjusted increase in personnel expense resulted, inter alia, from the recruitment offensive of new senior client advisors. At the end of December 2017, VP Bank Group had 800 employees, expressed as full-time equivalents, representing an increase in employee headcount of 61 employees over the level at the end of 2016 (plus 8.3 per cent).

General and administrative expense in 2017 rose by CHF 6.1 million (plus 11.8 per cent) from CHF 51.7 million to CHF 57.8 million. This increase was recorded primarily under professional fees (plus CHF 4.3 million) due primarily to external advisory costs incurred in order to support VP Bank Group in various projects (particularly regulatory requirements, growth initiatives, digitalisation etc.).

Depreciation and amortisation as of 31.12.2017 was CHF 1.2 million or 5.1 per cent higher, year-on-year, amounting to CHF 23.6 million. This increase principally reflects the amortisation charged on investments in intangible assets (software).

Charges for valuation allowance, provisions and losses in 2017 totalled CHF 13.6 million (prior year: CHF 2.8 million). The increase is to be explained by the aforementioned settlement with the North Rhine-Westphalia authorities and the related provision of CHF 10.9 million.

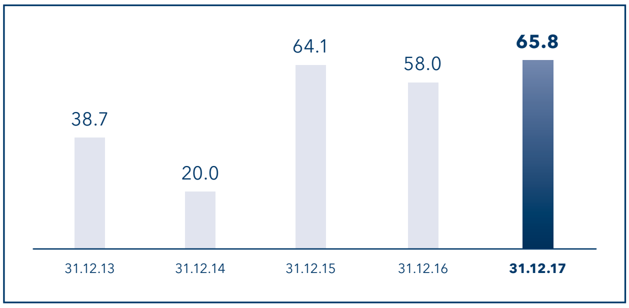
Taxes on income

Taxes on income in 2017 amounted to CHF 4.6 million which is CHF 1.5 million more than in the prior year. In spite of higher pre-tax income, total current taxes, year-on-year, were lower, as higher tax-exempt income on financial investments was realised in the financial year.

Consolidated net income

Group net income in 2017 amounted to CHF 65.8 million and rose by 13.4 per cent over that of the prior year (prior year: CHF 58.0 million). Group net earnings per registered share A were CHF 10.89 (prior year: CHF 9.61).

Net income (CHF million)



Comprehensive income

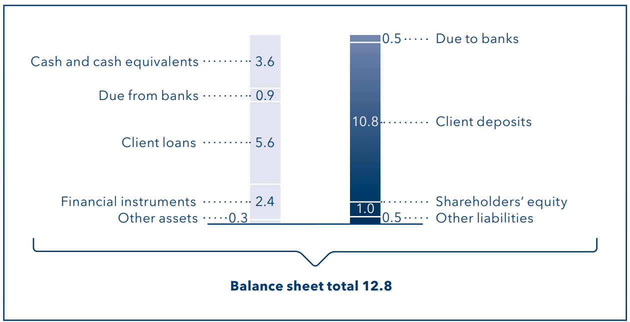
Comprehensive income comprises all revenues and expenses recognised in the income statement and in equity. Items recorded directly in equity principally concern actuarial adjustments relating to pension funds and changes in the value of financial instruments (FVTOCI). VP Bank Group generated comprehensive income in 2017 of CHF 79.5 million as against CHF 46.1 million in the preceding year.

Balance sheet

Total assets grew, in comparison to 31.12.2016, by CHF 1.0 billion to CHF 12.8 billion as of 31.12.2017. The increase in total assets is to be explained by the client deposits under "other amounts due to clients". These increased by CHF 0.8 billion to CHF 9.9 billion. On the assets' side, cash and cash equivalents remained constant at CHF 3.6 billion (31.12.2016: CHF 3.5 billion). The share of cash and cash equivalents in the balance sheet thus amounts to 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 could be reduced since 31 December 2015 from CHF 2.1 billion to CHF 0.9 billion as of 31.12.2017.

Client loans in the caption "receivables from clients" increased during the year by CHF 0.4 billion (7.6 per cent) to CHF 5.6 billion, in particular, as a result of lombard loans. In this respect, VP Bank continues its conservative credit-granting policies unchanged focusing on qualitative growth in client loans as well as a high level of discipline and control in credit-granting activities.

Sound balance sheet as at 31 December 2017 (in CHF billion)



At the same time, financial instruments valued at amortised cost of CHF 1.8 billion in the prior year increased by CHF 0.4 billion to CHF 2.2 billion in 2017 (plus 19.1 per cent).

On the liabilities' side, client deposits (amounts due to clients), savings accounts and medium-term notes rose by CHF 0.8 billion since the beginning of 2017 to CHF 10.8 billion as at 31.12.2017 (plus 7.5 per cent).

On 6 June 2016, VP Bank Ltd announced a share repurchase programme involving a maximum of 120,000 registered shares A of a nominal value of CHF 10. In total, 88,835 registered shares A were repurchased during the period from 7 June 2016 through 31 May 2017, which corresponds to 1.34 per cent of the capital inscribed in the Commercial Register and 0.74 per cent of the voting rights. The registered shares A so repurchased are to be used for future acquisitions or treasury management purposes.

Consolidated equity of VP Bank Ltd at the end of 2017 totalled CHF 994.2 million (end of 2016: CHF 936.9 million). This represents an increase of CHF 57.2 million.

The risk-weighted assets rose by CHF 0.3 billion (plus 9.7 per cent) to CHF 3.8 billion in the financial year and the tier 1 ratio at 31 December 2017 thus amounted to 25.7 per cent (31 December 2016: 27.1 per cent). In comparison with other banks, this is an outstanding value and permits VP Bank to continue to pursue an organic and acquisition-based growth strategy.

Outlook

Financial markets started the year 2018 in a very friendly and confident manner, but subsequently fell sharply. The good investor sentiment should be put to the test on several occasions during the course of the year. The market environment, the development of interest rates as well as the global political landscape will also impact business operations and the results of VP Bank Group in 2018.

With digitalisation, the financial segment faces major challenges but also very promising opportunities. VP Bank is optimally equipped to meet the challenges of the future 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 role in future in the process of consolidation of the finance industry.

Consolidated income statement

in CHF 1,000	Note	2017	2016	Variance absolute	Variance in %
Interest income		138,560	125,875	12,685	10.1
Interest expense		34,125	23,503	10,622	45.2
Total net interest income	**1**	**104,435**	**102,372**	**2,063**	**2.0**
Commission income		183,627	172,571	11,056	6.4
Commission expenses		59,751	53,782	5,969	11.1
Total net income from commission business and services	**2**	**123,876**	**118,789**	**5,087**	**4.3**
Income from trading activities	3	50,244	44,496	5,748	12.9
Income from financial instruments	4	19,218	7,646	11,572	151.3
Other income	5	2,329	–71	2,400	n.a.
Total operating income		**300,102**	**273,232**	**26,870**	**9.8**
Personnel expenses	6	134,790	135,329	–539	–0.4
General and administrative expenses	7	57,798	51,675	6,123	11.8
Depreciation of property, equipment and intangible assets	8	23,564	22,411	1,153	5.1
Valuation allowances, provisions and losses	9	13,608	2,768	10,840	391.6
Operating expenses		**229,760**	**212,183**	**17,577**	**8.3**
Earnings before income tax		**70,342**	**61,049**	**9,293**	**15.2**
Taxes on income	10	4,572	3,063	1,509	49.3
Group net income		**65,770**	**57,986**	**7,784**	**13.4**
Share information					
Undiluted group net income per registered share A		10.89	9.61		
Undiluted group net income per registered share B		1.09	0.96		
Diluted group net income per registered share A		10.89	9.61		
Diluted group net income per registered share B		1.09	0.96		

Consolidated statement of comprehensive income

in CHF 1,000	2017	2016	Variance absolute	Variance in %
Group net income	65,770	57,986	7,784	13.4
Other comprehensive income, net of tax				
Other comprehensive income which will be transferred to the income statement upon realisation				
• Changes in foreign-currency translation differences	–4,131	1,561	–5,692	–364.6
• Foreign-currency translation difference transferred to the income statement from shareholders' equity	0	537	–537	–100.0
Total other comprehensive income which will be transferred to the income statement upon realisation	**–4,131**	**2,098**	**–6,229**	**–296.9**
Other comprehensive income which will not be transferred subsequent to the income statement				
• Changes in value of FVTOCI financial instruments	–3,651	–1,904	–1,747	–91.8
• Actuarial gains/losses from defined-benefit pension plans	21,543	–12,102	33,645	278.0
Total other comprehensive income which will not be transferred subsequent to the income statement	**17,892**	**–14,006**	**31,898**	**227.7**
Total comprehensive income in shareholders' equity	**13,761**	**–11,908**	**25,669**	**215.6**
Total comprehensive income in income statement and shareholders' equity	**79,531**	**46,078**	**33,453**	**72.6**
Attributable to shareholders of VP Bank Ltd, Vaduz	79,531	46,078	33,453	72.6

Consolidated balance sheet

Assets

in CHF 1,000	Note	31.12.2017	31.12.2016	Variance absolute	Variance in %
Cash and cash equivalents	13	3,614,578	3,524,512	90,066	2.6
Receivables arising from money market papers	14	20,279	15,248	5,031	33.0
Due from banks	15/16	892,620	660,760	231,860	35.1
Due from customers	15/16	5,647,578	5,248,717	398,861	7.6
Trading portfolios	17	135	100	35	35.0
Derivative financial instruments	18	29,457	43,699	–14,242	–32.6
Financial instruments at fair value	19	200,808	280,143	–79,335	–28.3
Financial instruments measured at amortised cost	20	2,171,837	1,823,882	347,955	19.1
Associated companies	21	33	66	–33	–50.0
Property and equipment	22	79,132	82,738	–3,606	–4.4
Goodwill and other intangible assets	23	54,514	51,469	3,045	5.9
Tax receivables	10c	1,445	1,359	86	6.3
Deferred tax assets	10b	19,259	22,041	–2,782	–12.6
Accrued receivables and prepaid expenses		26,931	22,854	4,077	17.8
Other assets	24	19,464	16,138	3,326	20.6
Total assets		**12,778,070**	**11,793,726**	**984,344**	**8.3**

Liabilities and shareholders’ equity

in CHF 1,000	Note	31.12.2017	31.12.2016	Variance absolute	Variance in %
Due to banks		547,687	357,771	189,916	53.1
Due to customers – savings and deposits		652,169	705,223	–53,054	–7.5
Due to customers – other liabilities		9,907,280	9,133,724	773,556	8.5
Derivative financial instruments	18	47,184	57,178	–9,994	–17.5
Medium-term notes	25	256,155	219,823	36,332	16.5
Debentures issued	26	200,597	200,720	–123	–0.1
Tax liabilities	10c	2,007	3,892	–1,885	–48.4
Deferred tax liabilities	10b	6,458	8,204	–1,746	–21.3
Accrued liabilities and deferred items		31,207	28,509	2,698	9.5
Other liabilities	27	116,159	132,989	–16,830	–12.7
Provisions	28	16,987	8,755	8,232	94.0
Total liabilities		**11,783,890**	**10,856,788**	**927,102**	**8.5**
Share capital	29	66,154	66,154	0	0.0
Less: treasury shares	30	–47,889	–52,466	4,577	8.7
Capital reserves		24,181	21,857	2,324	10.6
Income reserves		987,551	929,428	58,123	6.3
Unrealised gains/losses on FVTOCI financial instruments		–16,374	–12,723	–3,651	–28.7
Foreign-currency translation differences		–19,443	–15,312	–4,131	–27.0
Total shareholders’ equity		**994,180**	**936,938**	**57,242**	**6.1**
Total liabilities and shareholders’ equity		**12,778,070**	**11,793,726**	**984,344**	**8.3**

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 01.01.2017	**66,154**	**–52,466**	**21,857**	**1,010,790**	**–12,723**	**–81,362**	**–15,312**	**936,938**
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**	**1,047,370**	**–16,374**	**–59,819**	**–19,443**	**994,180**
Total shareholders' equity 01.01.2016	**66,154**	**–50,499**	**22,857**	**977,101**	**–10,819**	**–69,260**	**–17,410**	**918,124**
Other comprehensive income, after income tax								
Foreign-currency translation differences							1,561	1,561
Changes in value transferred to profit reserves							537	537
Changes in value of FVTOCI financial instruments					–1,904			–1,904
Actuarial gains/losses from defined-benefit pension plans						–12,102		–12,102
Group net income				57,986				57,986
Total reported result 31.12.2016	**0**	**0**	**0**	**57,986**	**–1,904**	**–12,102**	**2,098**	**46,078**
Appropriation of profit 2015				–24,297				–24,297
Management equity participation plan (LTI)			–297					–297
Public tender own shares		–8,005						–8,005
Movement in treasury shares[1]		6,038	–703					5,335
Total shareholders' equity 31.12.2016	**66,154**	**–52,466**	**21,857**	**1,010,790**	**–12,723**	**–81,362**	**–15,312**	**936,938**

[1] Details on transactions with treasury shares can be found in note 30.

Consolidated statement of cash flow

in CHF 1,000	Note	2017	2016
Cash flow from operating activities			
Group net income		65,770	57,986
Reconciliation to cash flow from operating activities			
Non-cash-related positions in Group results			
• Depreciation of property, equipment and intangible assets	22/23	23,564	22,411
• Creation/dissolution of retirement pension provisions	40	–5,966	18,863
• Creation/dissolution of other provisions	28	8,577	–4,483
• Unrealised gains on financial instruments measured at fair value	4	–8,699	–1,780
• Unrealised gains on financial instruments measured at amortised cost	4	–16	–63
• Deferred income taxes	10b	–1,823	–5,764
Net increase/reduction in banking			
• Amounts due from/to banks		194,127	1,717,763
• Trading portfolios incl. replacement values, net		4,314	–2,726
• Amounts due from/to clients		317,369	–967,325
• Accrued receivables and other assets		–7,384	–2,843
• Accruals and other liabilities		14,163	2,655
Income taxes paid	10a	–8,419	–4,190
Foreign-currency impact on intragroup payments		–9,130	2,088
Net cash flow from operating activities		**586,447**	**832,592**
Cash flow from investment activities			
Purchase of financial instruments measured at fair value	17/19	–8,538	–8,555
Proceeds from sale of/maturing financial instruments measured at fair value	4	96,849	122,225
Purchase of financial instruments measurement at amortised cost	20	–560,907	–427,665
Proceeds from sale of/maturing financial instruments measured at amortised cost	4	241,303	275,472
Acquisition of property and equipment and intangible assets	22/23	–23,496	–9,727
Sale of property and equipment and intangible assets	22/23	0	15,000
Disposal of associated companies		149	0
Net cash flow from investment activities		**–254,640**	**–33,250**
Cash flow from financing activities			
Purchase of treasury shares	30	–829	–8,022
Proceeds from sale of treasury shares		570	512
Dividend distributions	12	–29,190	–24,297
Issuance of medium-term bonds[1]	25	113,315	89,514
Redemption of medium-term bonds[1]	25	–78,808	–85,177
Issuance of debentures	26	0	0
Redemption of debentures	26	0	–149,280
Net cash flow from financing activities		**5,058**	**–176,750**
Foreign-currency translation impact		–5,710	6,547
Net increase/reduction in cash and cash equivalents		**331,155**	**629,139**
Cash and cash equivalents at the beginning of the financial year	35	4,044,980	3,415,841
Cash and cash equivalents at the end of the financial year	35	4,376,135	4,044,980
Net increase/reduction in cash and cash equivalents		**331,155**	**629,139**

Consolidated statement of cash flow (continued)

in CHF 1,000	Note	2017	2016
Cash and cash equivalents are represented by			
Cash	35	3,614,578	3,524,512
Receivables arising from money market paper	35	20,279	15,248
Due from banks – at-sight balances	35	741,278	505,220
Total cash and cash equivalents		**4,376,135**	**4,044,980**
Consolidated statement of cash flow (summarised)			
Cash and cash equivalents at beginning of accounting period		**4,044,980**	**3,415,841**
Cash flow from operating activities, net of taxes		586,447	832,592
Cash flow from investing activities		–254,640	–33,250
Cash flow from financing activities		5,058	–176,750
Foreign-currency translation impact		–5,710	6,547
Cash and cash equivalents at end of accounting period		**4,376,135**	**4,044,980**
Cash flow from operating activities from interest and dividends			
Interest paid		–35,231	–9,216
Interest received		130,602	109,061
Dividends received		3,966	3,336

[1] Issuance and redemption of medium-term bonds are stated separatelly. The prior-year comparative figures were restated.

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 4,376.1 million (previous year: CHF 4,045.0 million).

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

in CHF 1,000	Note	31.12.2017	31.12.2016	Variance absolute	Variance from cash flows	Other variances
Medium-term notes	25	256,155	219,823	36,332	34,507	1,825
Debentures issued	26	200,597	200,720	–123	0	–123
Total variance				**36,209**	**34,507**	**1,702**

Principles underlying financial-statement reporting and notes

1. Fundamental principles underlying financial-statement reporting

VP Bank Ltd, which has its registered office in Vaduz, Liechtenstein, was established in 1956 and is one of the three largest banks in Liechtenstein. Today, VP Bank Group has subsidiaries in Zurich, Luxembourg, the British Virgin Islands, Singapore and Hong Kong, as well as representative offices in Moscow and Hong Kong. As of 31 December 2017, VP Bank Group employed 799.5 persons, expressed as full-time equivalents (as of the end of the previous year: 738.3).

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 2017 financial statements were drawn up in accordance with International Financial Reporting Standards (IFRS). IFRS contain provisions requiring the Management of VP Bank Group to make assumptions and estimates in drawing up the consolidated financial statements. The most important fundamental principles underlying financial-statement reporting are described in this section to show how their application impacts the reported results and informational disclosures of VP Bank Group.

Post-balance-sheet date events

There were no post-balance-sheet-date events that materially affect the balance sheet and income statement for 2017.

The Board of Directors reviewed and approved the consolidated financial statements in its meeting of 15 February 2018. These consolidated financial statements will be submitted for approval to the Annual General Meeting of 27 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.

Non-performing loans

A review of collectability is undertaken at least once a year for all loans of doubtful collectability. Should changes have occurred as to the amount and timing of anticipated future payment flows in comparison to previous estimates, the valuation allowance for credit risks is adjusted accordingly. The amount of the value impairment is measured essentially by reference to the difference between the carrying value and the probable amount which will be recovered, after taking into account the proceeds of realisation from the sale of any collateral. A change in the net present value of the estimated future monetary flows of +/–5 per cent increases or decreases, respectively, the amount of the valuation allowance by CHF 0.8 million (prior year: CHF 1.1 million).

Changes in estimates

No material changes in 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 associated companies

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 enterprise are accounted for at acquisition cost as of the date of acquisition. After acquisition, the carrying value of the associated company 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 associated company.

In applying the equity method, the Group ascertains whether it is necessary to recognise an additional impairment loss for its investments in associated companies. As of each balance-sheet date, the Group ascertains whether objective indications exist that the investment in an associated company may be value-impaired. Should this be the case, the difference between the realisable value of the share in the associated company and its carrying value is dealt with in the income statement.

3.2. General principles

Trade versus settlement date

The trade-date method of recording purchases or sales of financial assets and liabilities is applied. This means that transactions are recorded in the balance sheet as of the date when the trade is entered into and not on the date when trade is subsequently settled.

Revenue recognition

Revenues from services are recorded when the related service is rendered. Portfolio management fees, securities account fees and similar revenues are recorded on a pro-rata basis over the period during which the service is rendered. Interest is recorded in the period during which it accrues. Dividends are recorded as and when they are received.

Foreign-currency translation

Functional currency and reporting currency:

The consolidated financial statements are expressed in Swiss francs.

The foreign-currency translation into the functional currency is undertaken at the rate of exchange prevailing as of the date of the transaction. Translation differences arising from such transactions and gains and losses arising from translation at balance-sheet date rates for monetary financial assets and financial liabilities in foreign currencies are recognised in the income statement.

Unrealised foreign-currency translation differences in non-monetary financial assets are part of the movement in their fair value.

For the purpose of drawing up the consolidated financial statements, balance sheets of Group companies denominated in a foreign currency are translated in Swiss francs at the year-end exchange rate. Average exchange rates for the reporting period are applied for the translation of income-statement captions as well as those in the statements of other comprehensive income and of cash flows. Foreign-currency translation differences resulting from exchange rate movements between the beginning and end of the year and the difference in annual results at average and closing exchange rates are recognised in other comprehensive income.

Group companies

All balance-sheet captions (excluding shareholders' equity) are translated into the Group reporting currency at the rate of exchange prevailing as of the balance-sheet date. The individual items in the income statement are translated at average rates for the period. Foreign-currency differences arising from the translation of financial statements expressed in foreign currencies are offset against 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 via 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 will be applied for the first time from the 2018 financial year onwards (see also Chapter 4).

Trading portfolios

Trading portfolios comprise equity shares, bonds, precious metals and structured products. Financial assets held for trading purposes are valued at fair value. Short positions in securities are disclosed as liabilities arising from trading portfolios. Realised and unrealised gains and losses are recorded in income from trading activities after deduction of related transaction costs. Interest and dividends from trading activities are recorded under trading income.

Fair values are based on quoted market prices if an active market exists. Should no active market exist, the fair value is determined by reference to traders' quotes or external pricing models.

Financial instruments valued at amortised cost

Investments where the objective consists of holding the financial asset in order to realise the contractual payment flows therefrom and which are made up solely of interest as well as the redemption of parts of the nominal value are recognised at amortised cost using the effective interest method.

A financial investment recognised at amortised cost is classified as being value-impaired whenever it is probable that the total contractually agreed amount due will not be collected in full. Causes giving rise to an impairment loss can be counterparty-specific or country-specific. Whenever impairment occurs, the carrying value of the financial investment is reduced to its realisable value by charges to income and is reported under the item "income from financial investments".

Interest is recognised in the period when it accrues using the effective interest method and is reported in interest income under "interest income from financial instruments at amortised cost".

Financial instruments valued at fair value (FVTPL)

Financial instruments not meeting the aforementioned criteria are recorded at fair value. The ensuing gains/losses are reported in "income on financial instruments at fair value" under "income from financial investments".

Insofar as the criteria of IFRS 9 are met, a financial instrument may be designated and recorded under 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 granted 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 yield 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".

Value-impaired loans

Value-impaired loans are amounts outstanding from clients and banks where it is improbable that the debtor can meet its obligations. The reasons for an impairment in value are of a nature which is specific to the counterparty or country. Interest on value-impaired loans is recorded throughout the period during which the interest accrues. A valuation allowance for credit risks is recorded as a reduction in the carrying value of a receivable in the balance sheet. The amount of the reduction in value is measured essentially by reference to the difference between the carrying value and the amount which will probably be recovered after taking into account the realisable proceeds from the disposal of any available collateral. For off-balance-sheet positions, on the other hand, such as a fixed facility granted, a provision for credit risks is recorded under provisions. Global valuation allowances exist to cover latent, as yet unidentified credit risks on a portfolio basis. A collectability test is performed at least once a year for all value-impaired receivables. Should changes have occurred as to the amount and timing of anticipated future flows in comparison to previous estimates, the valuation allowance for credit risks is adjusted accordingly and charged or released to income under "valuation allowances for credit risks" or "release of valuation allowances and provisions that are no longer required", respectively.

Overdue loans

A loan is considered to be overdue or non-performing if a material contractually agreed payment remains outstanding for a period of 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.

Amounts due to banks and clients

Within the scope of micro fair-value hedge accounting, hedged 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 the swapping of two base amounts with two differing currencies and reference interest rates and encompass in general also the swapping of nominal amounts at the inception or end of the contractually stipulated duration. Currency swaps are usually traded over-the-counter.
- Forward contracts and futures: Forward contracts and futures are contractual obligations to purchase or sell a financial instrument or commodities at a future date and at a stipulated price. Forward contracts are customised agreements which are transacted between parties over-the-counter (OTC). Futures, on the other hand, are standardised contracts which are entered into on regulated exchanges.
- Options and warrants: Options and warrants are contractual agreements as part of which the seller (writer) grants the acquirer, in general, the right but not the obligation, to purchase (call option) or sell (put option) a specified quantity of a financial instrument or commodity at a price agreed in advance on or prior to a stipulated date. The acquirer pays the seller a premium for this right. There are also options with more complex payment structures. Options can be traded over-the-counter or on regulated exchanges. They may also be traded in the form of a security (warrant).

Hedge Accounting

VP Bank Group has applied IFRS 9 (2010) since 1 January 2011 and has made early application of IFRS 9 (2013) since 1 January 2015. Should the hedging conditions be met, VP Bank Group applies hedge accounting in accordance with IFRS 9 (2013).

In accordance with the Risk Policy of the Group, VP Bank deploys certain derivatives for hedging purposes. From an economic point of view, the opposing valuation effects resulting from the underlying and hedging transactions offset each other. As these transactions do not, however, correspond to the strict and specific IFRS provisions, there ensues an asymmetrical representation, in bookkeeping terms, of the changes in value of the underlying transaction and the hedge. Fair-value changes of such derivatives are reported in trading and interest income, respectively, in the appropriate period.

The rules of hedge accounting can be applied voluntarily. Under certain conditions, the use of hedge accounting enables the risk-management activities of a company to be represented in the annual financial statements. This occurs through the juxta-positioning of expenses and income from hedging instruments with those from the designated underlying transactions with regard to certain risks.

A hedging relationship qualifies for hedge accounting if all of the following qualitative attributes are fulfilled:
- the hedging relationship consists of eligible hedging instruments and eligible underlying transactions;
- at the inception of the hedging relationship, a formal designation and documentation of the hedging relationship is at hand which makes reference to the company's risk-management strategy and objective for this hedge;
- the hedging relationship meets the effectiveness requirements.

The hedging relationship must be documented at inception. The documentation must encompass, in particular, the identification of the hedging instrument and of the hedged underlying transaction as well as designating the hedged risk and the method to determine the effectiveness of the hedging relationship. In order to qualify for hedge accounting, the hedging relationship must satisfy the following effectiveness requirements at the inception of each hedging period:
- there must exist an economic relationship between the underlying transaction and the hedging instrument;
- default risk does not dominate the changes in value resulting from the economic hedge; and
- the hedge ratio accurately reflects the quantity of the underlying transaction used for the actual economic hedge as well as the quantity of the hedging instrument.

Derivative financial instruments are employed by the Group for risk management principally to 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 duration 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 in respect of which VP Bank Group appears 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 appears 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 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 and equipment

Property and equipment comprises bank premises, other real estate, furniture and equipment, as well as IT systems. Property and equipment is measured at acquisition cost less operationally necessary depreciation and amortisation.

Property 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 8 years
IT systems	3 to 7 years

The depreciation and amortisation methods and useful lives are subject to review at each year-end.

Minor purchases 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 and equipment are disclosed as other income. Losses on sale lead to additional depreciation and amortisation on property and equipment.

Goodwill

In the case of a takeover, 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 an 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 are 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.

About 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 considered by the Group are, inter alia, the expected future rate of salary increases, long-term interest earned on retirement assets, retirement patterns and life expectancy. The valuations are undertaken annually by independent actuaries. Plan assets are re-measured annually at fair values.

Pension costs comprise three components:
- service costs which are recognised in the income statement;
- net interest expense, which is also recognised in the income statement; and
- revaluation components which are recognised in the statement of comprehensive income.

Service costs encompass current service costs, past service costs and gains and losses from non-routine plan settlements. Gains and losses from plan curtailments are deemed to equate to past service costs.

Employee contributions and contributions from third parties reduce service cost expense and are deducted therefrom provided that these derive from pension plan rules or a de facto obligation.

Net interest expense corresponds to the amount derived from multiplying the discount rate with the pension liability or plan assets at the beginning of the year. In the process, capital flows of less than one year and movements thereof are taken into account on a weighted basis.

Revaluation components encompass actuarial gains and losses from the movement in the present value of pension obligations and plan assets. Actuarial gains and losses result from changes in assumptions and experience adjustments. Gains and losses on plan assets equate to the income from plan assets minus the amounts contained in net interest expense. Revaluation components also encompass movements in unrecognised assets less the effects contained in net interest expense. Revaluation components are recognised in the statement of comprehensive income and cannot be reclassified to income in future periods (recycling). The amounts recognised in the statement of comprehensive income can be reclassified within shareholders' equity. Service costs and net interest expense are recorded in the consolidated financial statements under personnel expense. Revaluation components are recognised in the statement of comprehensive income.

The pension liabilities or plan assets recognised in the consolidated financial statements correspond to the deficit or excess of funding of defined-benefit pension plans, respectively. The recognised pension assets are limited to the present value of the economic benefit of 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 commitment is recorded 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 2017, 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 7 – Statement of cash flows (amendments to IAS 7)

The amendments are aimed at clarifying IAS 7 and improving the information to be made available to users of financial statements relating to the financing activities of a company. They take effect for reporting periods beginning on or after 1 January 2017. The additional information is disclosed accordingly.

IAS 12 – Income Taxes (amendments relating to the recognition of deferred tax assets for unrealised losses)

The amendments bring clarification to the following matters:

- unrealised losses in the case of debt instruments measured at fair value but whose tax basis is acquisition cost, lead to deductible temporary differences. This applies irrespective of whether the holder expects to recover the carrying value of the asset by holding it until maturity and collecting all contractual payments due, or whether he intends to dispose of it.
- the carrying value of an asset does not represent the upper limit for estimating probable future taxable gains.
- In estimating future taxable gains, tax deductions resulting from the reversal of deductible temporary differences are to be excluded.
- an entity is to assess a deferred tax asset in combination with other deferred tax assets. Whenever tax law limits the utilisation of tax losses, an entity shall assess a deferred tax asset in combination with other deferred tax assets of the same (permitted) type.

The amendments take effect for reporting periods beginning on or after 1 January 2017. They have no material impact on the consolidated financial statements.

International Financial Reporting Standards which are to be introduced in 2018 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 2018. 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.

Application of IFRS 9 Impairment

The methodology of IFRS 9 Impairment replaces the current valuation allowances for credit risks of VP Bank. In the current Annual Report as of 31 December 2017, individual and portfolio-based valuation allowances based on IAS 39 are computed and disclosed for the last time.

On 1 January 2018, the individual and portfolio-based valuation allowances will be derecognised over equity and replaced by the estimated credit losses computed in accordance with IFRS 9 recognised in equity. Changes to expected credit losses will thereafter be recorded in the income statement.

The new standard encompasses all asset positions which are subject to a potential credit risk and are not already recorded at fair value over the income statement. This includes particularly receivables from clients and banks, financial investments (measured at amortised cost), receivables from money-market paper and cash and cash equivalents. Also affected are off-balance-sheet positions, such as credit commitments and guarantees and irrevocable lines of credit granted.

In accordance with IFRS 9, credit impairments ("expected credit loss") are to be recognised early. The amount of an expected credit loss is determined on the basis of which one of the following three stages the financial instrument is allocated to:

- In stage 1, there is no significant deterioration in credit quality; credit impairments in the amount of the net present value of an expected 12-months loss ("12-month expected credit loss") are to be recognised in income or if the remaining duration is shorter, based upon the actual duration.
- If no objective evidence of impairment is at hand, but a significant increase in the risk of default is apparent, credit impairments are to be recognised in income up to the amount of the expected losses over the entire remaining duration ("lifetime expected loss") (stage 2).
- In stage 3, if objective evidence of credit impairment is at hand, an individual credit loss allowance for the instrument is to be recognised.

All transactions falling within the scope of IFRS 9 Impairment are to be analysed to determine which of the three stages they should belong to as of the balance-sheet date. The methodology to compute the credit loss allowances under IFRS 9 Impairment uses a model-based approach in accordance with defined rules.

Credit loss allowances computed in accordance with IFRS 9 Impairment must be objective and take account of a wide range of various conditions, weighted by probability. In this process, both past and current information as well as forecasts concerning future conditions are to be considered insofar as they can be made at reasonable expense.

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.

As of the end of 2017, there exist individual valuation allowances in the amount of CHF 41.5 million and portfolio-based valuation allowances of CHF 25.4 million, or a total amount of CHF 66.9 million.

On 1 January 2018, a "netting" of both total amounts will be effected over equity. The following table shows the valuation allowances per 31.12.2017 as well as the netting as per 01.01.2018.

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 1.1.2018	**2,313**

The release to equity of CHF 2.3 million leads to no change in the tier 1-ratio of 25.7 per cent as per 01.01.2018.

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. The Standard offers in this respect 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. Based upon the current status of implementation, the introduction of IFRS 15, in general, will have only little impact on the recognition, recording, presentation and disclosure in VP Bank Group. Insofar as material in future, the inclusion of further revenue captions will lead to a more detailed presentation of the types of revenue shown under commission and service income.

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. Early adoption is possible insofar as IFRS 15 Revenues from Contracts with Customers is applied simultaneously. VP Bank Group does not intend to make early application of the Standard. The impact of this new Standard on the Group is not fully analysed.

IFRS 2 – Share-based payments, changes to classification and measurement

In classifying and valuing business transactions settled through share-based payments (amendments to IFRS 2), the following clarifications and amendments are included:

Recording of cash-settled share-based payments containing a performance condition:
Until now, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. The IASB has now included guidance in the Standard and introduced financial-statement accounting policies for cash-settled payments which follow the same approach as in the case of accounting for payments settled with equity securities.

Classification of share-based payments which are settled through the withholding of tax:
The IASB has included an exemption in IFRS 2 in that a share-based payment in the case of which the company settles the share-based payment agreement by the withholding of taxes, is to be classified fully as being equity-settled if the share-based payment would have been classified as being equity-settled had it not exhibited the attribute of being settled through the withholding of tax.

Accounting for modifications to share-based payment transactions from cash-settled to equity-settled transactions:
Until now, situations, in which a cash-settled payment transaction is transformed into an equity-settled payment transaction as a result of changes in the terms and conditions, are not addressed separately. The IASB has issued the following clarification:

- in the case of such modifications, the liability originally recognised for the cash-settled payment is derecognised and the equity-settled share-based payment is recognised at its fair value as of the modification date as far as benefits were provided up to the modification date.
- any differences between the carrying amount of the liability as of the modification date and the amount recognised in equity at the same date are to be taken to income for the period immediately.

The amendments take effect for accounting periods beginning on or after 1 January 2018.

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 the credit rating and continue 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 2017 aggregated CHF 3.8 billion as compared to CHF 3.5 billion in the prior year. Core capital as of 31 December 2017 was CHF 976.6 million as compared to CHF 938.5 million in the prior year. The overall equity ratio declined by 1.4 percentage points from 27.1 per cent at 31 December 2016 to 25.7 per cent at 31 December 2017. Both as at 31 December 2016 and 31 December 2017, 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 Basel III Capital Accord in the European Union. In Liechtenstein, the CRD was enacted in the BankA and BankO. VP Bank was classified by the Financial Market Authority Liechtenstein as a locally system-relevant bank and must possess in aggregate equity amounting to at least 13 per cent of its risk-weighted assets. As regards liquidity, the Bank is required to comply with the Liquidity Coverage Ratio (LCR) of 80 per cent and 100 per cent as of 31 December 2017 and 1 January 2018, respectively. Thanks to its eminently robust equity basis, its balance-sheet structure and its comfortable liquidity situation, VP Bank has always markedly over-fulfilled the 2017 regulatory limits.

In addition to quantitative measures, qualitative requirements as to the identification, measurement, steering and monitoring of financial and operational risks are imposed. These are continually reviewed for on-going effectiveness and further development.

Capital and balance-sheet structure management

The minimum capital ratio of VP Bank of 13 per cent of risk-weighted assets consists of the regulatory minimum requirement of 8 per cent as well as a capital conservation and systemic risk buffer each of 2.5 per cent. Furthermore, Basel III provides for an anti-cyclical capital buffer which, however, was set at 0 per cent for 2017 by the Financial Market Authority Liechtenstein.

Thanks to an exceedingly robust tier 1 ratio of 25.7 per cent as of the end of 2017, it continues to guarantee sufficient freedom of action. This enables VP Bank to continue to assume risks associated with the conduct of banking operations. At the same time, there remains potential for corporate acquisitions through free equity resources, even after covering all risks.

The Leverage Ratio of VP Bank amounted to 7.5 per cent at the end of 2017. As of 1 January 2017, a regulatory minimum ratio does not exist as yet in Liechtenstein. VP Bank must publish further information as to the Leverage Ratio in the Disclosure Report.

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

Liquidity management

Whilst observing the legal liquidity standards and provisions, liquidity risks are monitored and managed using internal directives and limits for the interbank business and credit-granting activities. The maintenance of liquidity at all times within VP Bank Group continues to have the highest priority. This is assured with a large holding of cash and cash equivalents and high-quality liquid assets (HQLA).

VP Bank is legally obligated to comply with the Liquidity Coverage Ratio (LCR). As of the end of 2017, a minimum ratio of 80 per cent was demanded; as from 1 January 2018, the minimum ratio is increased to 100 per cent. With a value of 161 per cent, this target value can be markedly exceeded thanks to a comfortable liquidity situation. The increase over the prior year is to be ascribed primarily to a refinement in the computation.

In future, in the area of liquidity, a so-called Net Stable Funding Ratio (NSFR) will need to be complied with, in addition to the Liquidity Coverage Ratio. It dictates the structural liquidity of credit institutions and is designed to ensure matched refinancing on a long-term basis. A time horizon of one year is considered for this ratio. Although the Net Stable Funding Ratio is only mandatory in the future, VP Bank already now monitors compliance with this ratio.

Pursuant to Art. 7a BankA, banks are to develop effective strategies and procedures to determine, manage, monitor and report, inter alia, liquidity risks. At the end of 2017, the Financial Market Authority Liechtenstein published a new notice (No. 2017/6) which gives further guidance on the requirements regarding the process to assess the adequacy of internal liquidity (Internal Liquidity Adequacy Assessment Process, ILAAP). The strategies and procedures to determine, manage and monitor liquidity risks are to be reviewed and assessed annually by the Financial Market Authority Liechtenstein using an ILAAP questionnaire. This questionnaire is already to be submitted for the first time to the Financial Market Authority Liechtenstein in 2018.

As part of its liquidity-management process, VP Bank has drawn up an emergency liquidity plan which ensures that VP Bank possesses adequate liquidity in the event of liquidity crises. Early-warning indicators are regularly monitored 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 risks

Because of the importance of the client lending business (CHF 5.6 billion as of 31 December 2017 or 44 per cent of total assets), the management and monitoring of credit risks continues to play a central role. Credit-risk management in the client lending business is governed – in addition to risk-policy regulations – by the rules on the granting of credits. In 2017, the volume of client loans increased by CHF 0.4 billion to CHF 5.6 billion. In the interbank business, the volumes in 2017 increased by CHF 0.2 billion to CHF 0.9 billion at the end of the year.

Market risks

The interest-rate environment in the Swiss franc and in the Euro in 2017 was characterised by negative interest rates for short-term maturities. The negative interest-rate environment in both principal currencies presents balance-sheet management with major challenges. The investment of client deposits still presents difficulties. VP Bank has continued to pursue the measures it took as a reaction to the abandonment by the SNB of the minimum exchange-rate policy to the Euro and the shift into negative territory of the target range. In 2018, the monitoring and management of market risks remains of central importance.

Operational risks

Knowledge and experience is exchanged within the Group to ensure a coordinated approach. Meaningful reporting on a quarterly basis to the relevant target groups (Board of Directors, Group Executive Management and senior executives) on the status of operational risks in VP Bank Group is possible thanks as a result of a uniform implementation.

2. Principles underlying the risk policy

Risk management is predicated on the following principles:

Alignment of risk tolerance and risk appetite

Risk appetite is reflected in the risk capital and indicates the maximum loss which the bank is prepared to bear arising from crystallising risks without thereby 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 and increase an appropriate capital base.

Clear 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 governing the tasks, limits of authority and responsibility of all functions, organisational units and bodies participating in risk- and capital-management processes. The risk coverage potential results from net present value of equity, less operating and risk costs as well as regulatory capital-adequacy requirements.

Conscientious handling of risks

Strategic and operational decisions are taken based on risk/return calculations and aligned with the interests of the stakeholders. Whilst complying with legal and regulatory provisions as well as the principles underlying business and ethical policies, VP Bank takes on risks consciously so long as the extent of these are known and the technical prerequisites to map them are at hand and that the bank is adequately rewarded. It avoids transactions with an unbalanced relationship of risks to returns as well as large risks and extreme risk concentrations which could jeopardise risk tolerance and thus the ability of the Group to continue as a going concern.

Segregation of functions

Risk control and risk reporting are assured by a unit (Group Risk) which is independent of those 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 following table gives an overview over the risks to which VP Bank is exposed in its ordinary course of business. These are allocated to three risk groups – financial risks, operational risks and business risks (including strategic risks).

Whilst financial risks are consciously assumed in order to generate revenues, operational risks are to be avoided through appropriate controls and measures or, if that is not possible, to be reduced to a level laid down by the bank.

Market risks express the danger that possible economic losses in value in the banking and trading books will arise from adverse changes in market prices (interest rates, currency rates, equity prices and commodities) or other price-influencing parameters such as volatility.

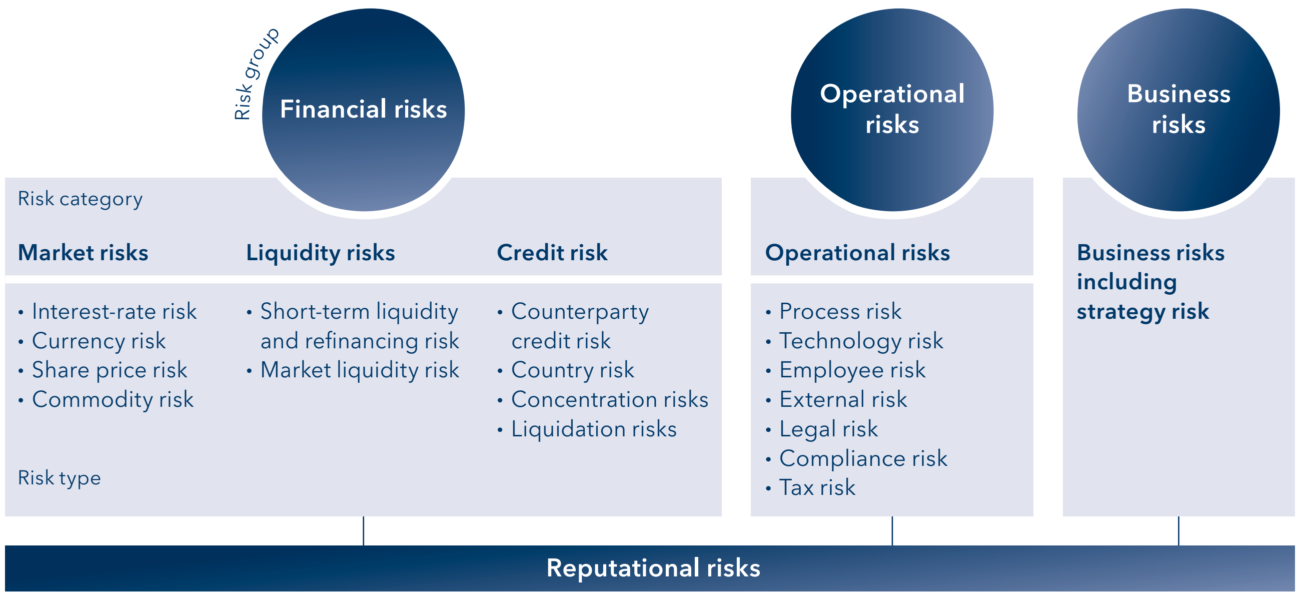
Liquidity risks comprise short-term liquidity and refinancing risks as well as market liquidity risk. Liquidity and refinancing risks express the danger that current and future payment obligations cannot be refinanced on the due date or to the full extent, not in the correct currency or not on customary market terms and conditions. Market liquidity risk includes cases where it is not possible, because of insufficient market liquidity, to liquidate or hedge positions subject to risk on a timely basis to the desired extent and on acceptable conditions.

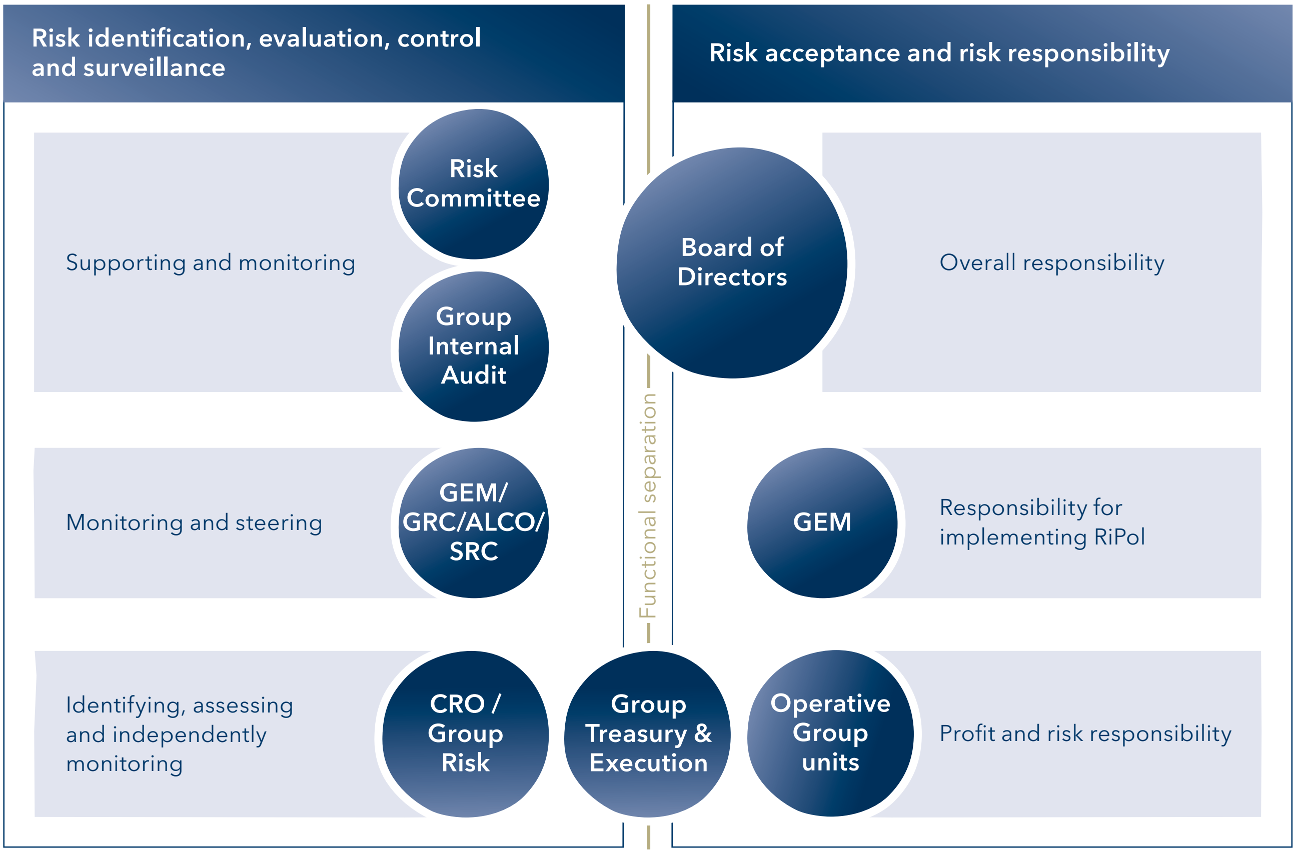
Credit risks encompass counterparty and country risk, concentrations of risk as well as residual risks deriving from the use of credit collateral (realisation or liquidation risk). Counterparty risks describe the danger of a financial loss which may arise if a counterparty of the bank cannot or does 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 risks as a further extension of credit risk arise whenever political or economic conditions specific to a country diminish the value of an exposure abroad. Concentration risks encompass potential losses accruing to the bank not through the debtor itself but as a result of an insufficient diversification of the credit portfolio. Realisation or liquidation risks encompass potential losses accruing to the bank not from the debtor itself as a result of an insufficient possibilities of realising the collateral.

Operational risks represent 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, to 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.

Business risks, on the one hand, result from unexpected changes in market and underlying conditions having an adverse impact on profitability or equity; on the other, they describe furthermore the danger of unexpected losses resulting from management decisions concerning the business policy orientation of the Group (strategic risks). The Group Executive Management (GEM) of VP Bank is responsible for managing business risks. These business risks are analysed by the Group Executive Management, taking into account the banking environment and the internal company situation, and appropriate measures are developed.

If the above-mentioned risks are not recognised, appropriately controlled, managed and monitored, this may lead – apart from financial losses – to reputation being damaged. VP Bank therefore considers reputational risk not to be a risk category in its own right but rather as the danger of incurring losses resulting from the individual risk types of other risk categories. Management of reputational risks is incumbent on Group Executive Management.





Duties, powers of authority and responsibilities

Pursuant to Art. 21d par. 4 of the Banking Ordinance (BankO), a member of Group Executive Management shall head up the risk-management function (Chief Risk Officer) who is specifically responsible for this function. Insofar as the nature, scope and complexity of business activities justify it and no conflict of interest exists, another senior executive within the bank may assume this function. In VP Bank, the role of Chief Risk Officer is embedded in the organisational unit "General Counsel & Chief Risk Officer" at the level of the Group Executive Management.

In addition to the Chief Risk Officer (CRO), a series of committees and operational units are involved in risk and capital-management processes. The following table gives an overview in diagram form of the organisational structure relating to risk management in VP Bank.

The **Board of Directors** bears the overall responsibility for capital, liquidity and risk management within the Group. It is its remit to establish and maintain an appropriate structure of business processes and organisation as well as an internal control system (ICS) for an effective and efficient management of capital, liquidity and risk thereby ensuring the risk tolerance of the bank on a sustainable basis. The Board of Directors approves the Risk Policy and monitors its implementation, lays down the risk appetite on a Group level and stipulates the target measures and limits for capital, liquidity and risk management. In assuming its duties, the Board of Directors is supported by the **Audit Committee**, the **Risk Committee** and **Group Internal Audit**.

The **Group Executive Management** (GEM) is responsible for the implementation and observance of the Risk Policy approved by the Board of Directors. Amongst its core tasks are the responsibility to ensure the effective functioning of risk management processes and the internal control system, the allocation of the target measures and limits set by the Board of Directors for the individual Group companies, the Group-wide management of credit, market, liquidity, operational, business and reputational risks as well as capital-management activities.

The **Group Risk Committee** (GRC) is the supreme authority for monitoring and steering the risks to which VP Bank is exposed. The principal tasks of the Group Risk Committee are the implementation of the risk strategy for financial and operational risks within the overall framework of the target measures and limits laid down by the Board of Directors and Group Executive Management.

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. The ALCO assesses the Group's risk situation in the area of financial risks and initiates remedial control measures, whenever necessary.

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 Board of

Directors, Group Executive Management, Group Risk Committee and the Chief Risk Officer in assuming their respective duties. A further task of Group Risk consists of ensuring that existing legal, regulatory and internal bank risk-management provisions are complied with and new risk-management prescriptions implemented. In addition thereto is the regular review and assessment of the effectiveness and appropriateness of the methods, performance indicators and systems deployed in risk management.

Group Treasury 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, whilst complying with legal and regulatory prescriptions. Part of its core tasks is the balance-sheet structure management whilst taking account of profitability, market and credit risks as well as the liquidity and equity situation of VP Bank as well as additionally, the management of equity resources, liquidity and collateral and of limits for banks and countries.

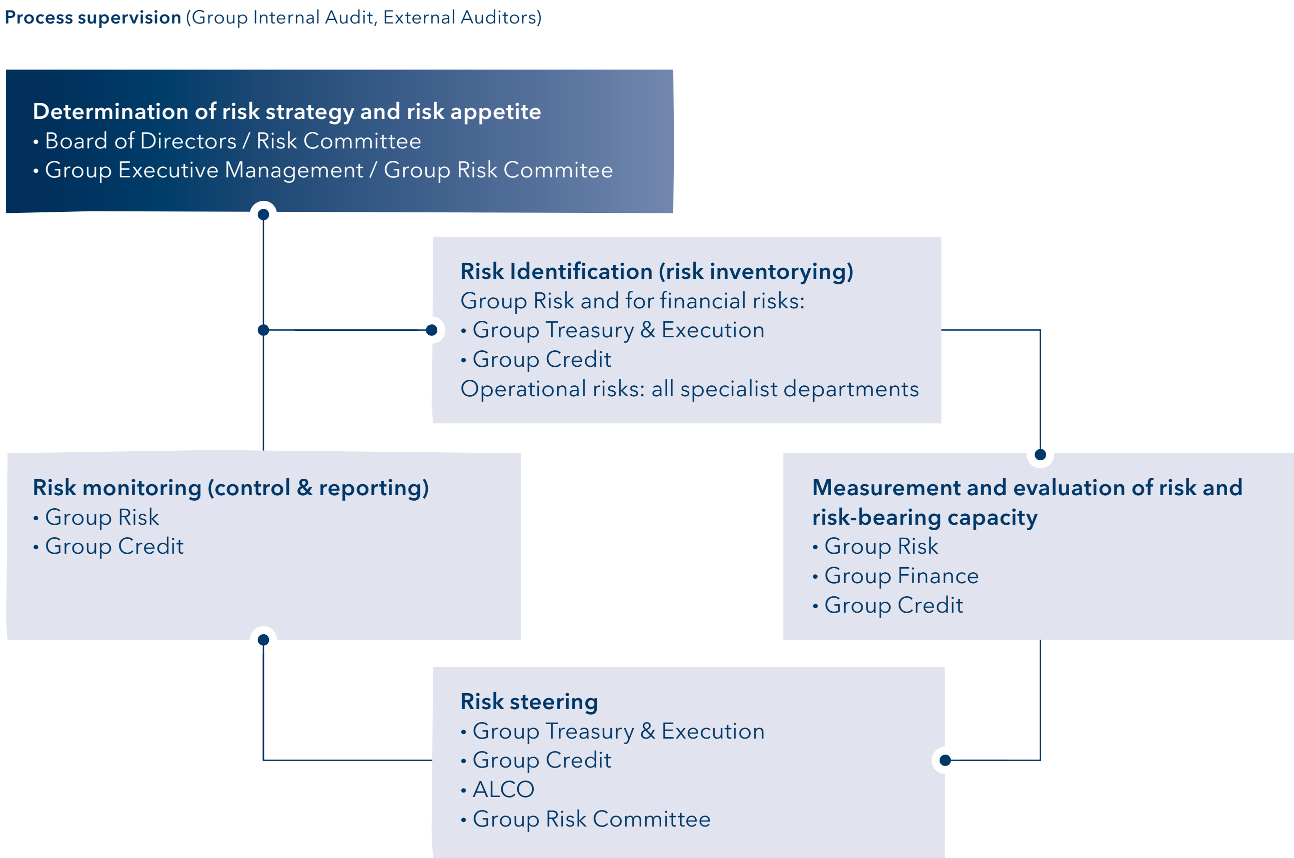
All risk-taking functions and **organisational units** are regarded as the operating units.

The **Security Risk Committee** (SRC), whose activities are oriented to coordination and strategy, is the supreme security committee of VP Bank which manages the operational implementation in the units involved by setting targets regarding the various security-related issues. The Security Risk Committee 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 awareness of the need for security and culture.

Process to ensure an appropriate capital base

The risk-adjusted capital base of VP Bank is assured by corresponding procedures and systems. The Internal Capital Adequacy Assessment Process (ICAAP) of VP Bank is briefly outlined below and presented in the following diagram:

The risk strategy and risk appetite which is derived from the global and individual limits is laid down during the annual planning process based on a risk tolerance analysis and taking into account stress scenarios, strategic initiatives and changes in regulatory directives laid down by the Board of Directors. The risk capital includes the regulatory capital required to support business activities and the economic capital for extreme unexpected losses arising from market, credit and operational risks. For the latter, the Board of Directors makes available only a part of the maximum available risk cover potential in the form of an



overall bank limit. Accordingly, not all of the freely available equity (after deducting the regulatory required capital as well as funds planned for future capital expenditure) is made available; a portion thereof is retained rather as a risk buffer for unquantifiable or not fully identified risks. To ensure that VP Bank has always enough equity available to cover all significant risks, a rolling three-year capital plan is prepared which takes into account differing distinct stress levels.

The annual identification of risks (risk inventory) ensures that all risks of relevance to the Group are identified. In addition, an identification of risks is undertaken on a mandatory basis as part of the process of introducing new financial instruments, the assumption of activities in new fields of business or geographic markets as well as in the event of changes to legal or regulatory provisions.

The risk-tolerance concept of VP Bank Group distinguishes between a regulatory and value-oriented perspective. From a regulatory perspective, the free risk-coverage potential results from the eligible equity less the regulatory required capital and an internal core-capital buffer. From a value-oriented point of view, the free risk-coverage potential results from the net present value of the equity less operating and risk costs as well as a risk buffer for other risks.

In computing the economically required equity, the risks are aggregated to form an overall assessment whereby the value-at-risk method is employed for the financial risks. Operational risks are computed using the basis indicator approach. Over and above this, VP Bank resorts to a broad panoply of methods and indicators which are described in greater detail in the sections on the individual risk groups.

Risk management is performed on a strategic level by setting goals, limits, principles of conduct as well as process guidelines. On an operating level, the diversification of risks is ensured by managing financial risks within the target measures and limits set as well by observing regulatory requirements.

Risk monitoring (control and reporting) encompasses the control of and reporting on the risk situation. The exceeding of limits highlighted by routine target-to-actual variance analyses, within the scope of controls, serves as an impetus for steering measures. The target values are derived from the internal target measures and limits set as well as legal and regulatory norms. In this respect, advance warning stages enable an early course of action in order to avoid exceeding limits. As part of reporting, the results of the review are set forth in a reliable, regular and transparent manner. Reporting is made ex ante to the preparation of decisions, ex post to control purposes as well as ad hoc in the case of suddenly and unexpectedly occurring risks.

In addition to an ICAAP report, VP Bank, as a locally system-relevant institution, is required to draw up an annual Recovery Plan at a Group level which is to be submitted to the Financial Market Authority Liechtenstein. The Recovery Plan is designed to serve as a preparation for managing crisis situations and to contribute to the marked improvement of the ability of system-relevant institutions to withstand and react to possible crisis scenarios. Central elements of the Recovery Plan, in this connection, are both the conscious approach to handling possible crisis scenarios as well as the preparation of strategic and organisational measures to be taken in the event of a crisis.

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 2017 business 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 connection, 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 Chapter 2-4 CRR
- Standard method for Credit Value Adjustment risks in accordance with Art. 384 CRR
- Comprehensive method to take account of financial collateral in accordance with Art. 223 CRR.

As of 31 December 2017, the business activities of VP Bank Group required equity totalling CHF 493.0 million (prior year: CHF 450.3 million). This represents 13 per cent of the risk-weighted assets of CHF 3,799.4 million (prior year: CHF 3,464.0 million). The excess of equity (based upon a requirement of 13.0 per cent) as at 31 December 2017 amounted to CHF 482.6 million (prior year: CHF 488.2 million). The tier 1 ratio of 25.7 per cent (prior year: 27.1 per cent) reflects the on-going extremely robust equity situation of VP Bank. In 2017, 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 2017.

Capital-adequacy computation (Basel III)

in CHF 1,000	31.12.2017	31.12.2016
Core capital		
• Paid-in capital	66,154	66,154
• Disclosed reserves	926,519	877,987
• Group net income	65,770	57,986
• Deduction for treasury shares	–47,889	–52,466
Deduction for dividends as per proposal of Board of Directors	–36,385	–29,769
Deduction for goodwill and intangible assets	–31,660	–36,454
Other adjustments	34,044	55,099
Eligible core capital (tier 1)	**976,553**	**938,537**
Eligible core capital (adjusted)	**976,553**	**938,537**
Credit risk (in accordance with Liechtenstein standard approach)	387,993	347,965
thereof price risk regarding equity securities in the banking book	7,797	8,760
Market risk (in accordance with Liechtenstein standard approach)	25,963	28,345
Operational risk (in accordance with basic indicator approach)	79,157	72,880
Credit Value Adjustment (CVA)	811	1,131
Total required equity	**493,924**	**450,321**
CET1 equity ratio	25.7%	27.1%
Tier 1 ratio	25.7%	27.1%
Overall equity ratio	25.7%	27.1%
Total risk-weighted assets	**3,799,412**	**3,464,005**
Return on investment (net income / average balance sheet total)	0.5%	0.5%

5. Financial risks

Whilst complying with the relevant legal and regulatory provisions, the monitoring and daily 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 sets 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 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 maturing-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 2017 amounted to CHF 122.4 million (prior year: CHF 119.0 million).

The table below shows the market-value-at-risk (on a monthly basis) in total and analysed by types of risk. 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
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
2016				
Year-end	119.0	65.8	17.6	35.7
Average	121.0	67.2	17.6	36.2
Highest value	125.9	70.3	19.7	38.5
Lowest Value	112.4	64.3	15.9	31.7

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.

In the following table are set out the effects of a negative movement in the principal currencies on consolidated net income and shareholders' equity. Responsible for the underlying fluctuation of the Swiss franc against the Euro and the US dollar is the implicit volatility as of 31.12.2017 and 31.12.2016, respectively.

Movements in significant foreign currencies

Currency	Variance in %	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
2017			
EUR	–6	–3,516	0
USD	–8	–7,252	–8,346
2016			
EUR	–8	–3,057	0
USD	–10	–9,401	–9,621

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
2017		
–10%	–5,855	–859
–20%	–11,710	–1,717
–30%	–17,566	–2,576
2016		
–10%	–6,020	–1,224
–20%	–12,039	–2,447
–30%	–18,059	–3,671

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
31.12.2017						
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**
31.12.2016						
CHF	1,314	2,145	984	–25,515	–14,132	–35,204
EUR	609	–585	1,842	–6,913	–7,566	–12,613
USD	737	–685	1,051	–11,306	–658	–10,861
Other currencies	90	–129	644	1,457	0	2,062
Total	**2,750**	**746**	**4,521**	**–42,277**	**–22,356**	**–56,616**

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 as well as to manage the banking book. The derivatives approved for this purpose are laid down in the Risk Policy.

VP Bank refinances its medium and long-term client loans and its nostro positions in interest-bearing debt securities primarily with short-term client deposits and thus is subject to an interest-rate risk. Rising interest rates have an adverse impact on the net present value of interest-bearing credits and increase refinancing costs. As part of its asset & liability management, mostly 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 in the balance sheet the contra effect of changes in value of the hedged credit transactions. For this, a portion of the underlying transactions (fixed-interest credits) are linked to the hedging transactions (payer swaps) in hedging relationships. In the event of fair-value changes caused by interest-rate changes, the carrying value of the underlying transactions concerned are adjusted and the gains/losses taken to income.

Because the unsettled fixed-interest positions are transformed into variable interest-rate positions through the conclusion of payer swaps, a close economic relationship exists between the underlying and hedging transactions in relation to the hedged risk. Therefore, the hedging relationship between the designated amount of the underlying transactions and the designated amount of the hedging instruments (hedge ratio) is set on a one-to-one basis. A hedging relationship is efficient and/or effective whenever the movements in the value of the underlying and hedging transactions which are induced by interest-rate changes offset each other. Ineffectiveness is a result primarily of deviations in duration e.g. as a result of differing interest rates, timing of interest payments or differing maturities.

The initial efficiency of a hedging relationship is proven with a prospective effectiveness test. For this purpose, future changes in the fair value of the underlying and hedging transactions are simulated based upon scenarios and subjected to a regression analysis. Effectiveness is assessed 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 over the foreign-currency spot market. Group Trading & Execution is responsible for the management of foreign-currency risks arising from client activities.

Liquidity risks

Liquidity risks may arise through contractual mismatches between the in- and outflows of liquidity in the individual maturity bands. Any differences arising demonstrate how much liquidity the bank must eventually procure in each maturity band should there be an outflow of all volumes at the earliest possible time. Furthermore, refinancing concentrations may lead to a liquidity risk if they are so significant that a massive withdrawal of the related funds could trigger liquidity problems.

Liquidity risks are monitored and managed using internal targets and limits for interbank and client-related business – whilst complying with the legal liquidity standards and provisions regarding risk concentrations on the assets' and liabilities' side.

As part of the introduction of the Basel III rules in Liechtenstein, the Liquidity Coverage Ratio (LCR) has been calculated since the end of June 2015 and reported to the Financial Market Authority Liechtenstein. As at the end of 2017, a lower limit of 80 per cent for the LCR applies which will be raised to 100 per cent at the beginning of 2018. At the end of 2016, VP Bank presents a comfortable liquidity situation with a value for the LCR of 161 per cent.

In future, in addition to the Liquidity Coverage Ratio, the so-called Net Stable Funding Ratio (NSFR) will need to be observed in the area of liquidity. The final guidelines regarding the Net Stable Funding Ratio (NSFR) are not yet available as at the end of 2017 so that no final value can yet be computed. VP Bank now already monitors the NSFR regularly on the basis of the already existing rules.

In the area of 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 can rapidly procure liquidity on a secured basis in case of need through its access to the Eurex repo market. The risk of an extraordinary, nevertheless plausible event which will take place with a very small degree of probability can be measured with the aid of stress tests. In this manner, VP Bank can take all applicable remedial action on a timely basis and, where necessary, set limits.

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, 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.

As of 31 December 2017, total credit exposures amounted to CHF 8.9 billion (31 December 2016: CHF 8.0 billion). The following table shows the composition thereof by on- and off-balance sheet positions.

Credit exposures

in CHF 1,000	31.12.2017	31.12.2016
On-balance-sheet assets		
Receivables arising from money market papers	20,279	15,248
Due from banks	892,620	660,760
Due from customers	5,647,091	5,248,209
Public-law enterprises	487	508
Trading portfolios		
Derivative financial instruments	29,457	43,699
Financial instruments at fair value	133,661	207,702
Financial instruments measured at amortised cost	2,171,837	1,823,882
Total	**8,895,432**	**8,000,008**
Off-balance-sheet transactions		
Contingent liabilities	128,846	114,630
Irrevocable facilities granted	58,056	45,426
Total	**186,902**	**160,056**

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 31.12.2017							
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**
On-balance-sheet assets as of 31.12.2016							
Receivables arising from money market papers	15,248						15,248
Due from banks		660,612	148				660,760
Due from customers		15,353	39,536	1,901,550	3,291,769		5,248,209
Public-law enterprises			508				508
Trading portfolios							0
Derivative financial instruments		12,405	5,252	2,003	5,281	18,758	43,699
Financial instruments at fair value	13,826	89,522	60,178	44,165		12	207,702
Financial instruments measured at amortised cost	641,192	444,546	292,644	438,196		7,304	1,823,882
Total	**670,266**	**1,222,439**	**398,267**	**2,385,913**	**3,297,051**	**26,073**	**8,000,008**
Off-balance-sheet transactions as of 31.12.2016							
Contingent liabilities		63,251		23,499	12,083	15,797	114,630
Irrevocable facilities granted			1,664	23,631	20,131		45,426
Total	**0**	**63,251**	**1,664**	**47,130**	**32,214**	**15,797**	**160,056**

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.

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 31.12.2017			
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**
On-balance-sheet assets as of 31.12.2016			
Receivables arising from money market papers		15,248	15,248
Due from banks	1,256	659,504	660,760
Due from customers	4,908,808	339,401	5,248,209
Public-law enterprises		508	508
Trading portfolios			0
Derivative financial instruments	23,150	20,549	43,699
Financial instruments at fair value		207,702	207,702
Financial instruments measured at amortised cost		1,823,882	1,823,882
Total	**4,933,213**	**3,066,795**	**8,000,008**
Off-balance-sheet transactions as of 31.12.2016			
Contingent liabilities	65,027	49,603	114,630
Irrevocable facilities granted	9,135	36,292	45,426
Total	**74,161**	**85,895**	**160,056**

In the case of amounts due from banks, money-market paper as well as nostro positions in interest-bearing securities, the valuation is based upon external ratings. The following tables show the individual on- and off-balance-sheet positions according to rating classes, risk-weighting classes and country of domicile.

Credit exposures by rating classes

in CHF 1,000	Not-value-adjusted positions				Value-adjusted positions	Total
	Investment grade (AAA to BBB–)	Safe (BB+ to BB–)	Unsafe (B+ to C)	Without external rating		
On-balance-sheet assets as of 31.12.2017						
Receivables arising from money market papers	20,279					20,279
Due from banks	878,227	1		15,458	–1,066	892,620
Due from customers				5,712,652	–65,561	5,647,091
Public-law enterprises				487		487
Trading portfolios						0
Derivative financial instruments	4,488			24,969		29,457
Financial instruments at fair value	131,741			1,920		133,661
Financial instruments measured at amortised cost	2,151,338	1,074		19,425		2,171,837
Total	**3,186,073**	**1,075**	**0**	**5,774,911**	**–66,627**	**8,895,432**
Off-balance-sheet transactions as of 31.12.2017						
Contingent liabilities	23			128,823		128,846
Irrevocable facilities granted				58,056		58,056
Total	**23**	**0**	**0**	**186,879**	**0**	**186,902**

Credit exposures by rating classes (continued)

in CHF 1,000	Not-value-adjusted positions Investment grade (AAA to BBB–)	Safe (BB+ to BB–)	Unsafe (B+ to C)	Without external rating	Value-adjusted positions	Total
On-balance-sheet assets as of 31.12.2016						
Receivables arising from money market papers	15,248					15,248
Due from banks	654,597			7,031	–868	660,760
Due from customers				5,310,493	–62,284	5,248,209
Public-law enterprises				508		508
Trading portfolios						0
Derivative financial instruments	11,748			31,951		43,699
Financial instruments at fair value	205,698			2,004		207,702
Financial instruments measured at amortised cost	1,798,871			25,011		1,823,882
Total	**2,686,162**	**0**	**0**	**5,376,999**	**–63,152**	**8,000,008**
Off-balance-sheet transactions as of 31.12.2016						
Contingent liabilities				114,630		114,630
Irrevocable facilities granted				45,426		45,426
Total	**0**	**0**	**0**	**160,056**	**0**	**160,056**

Credit exposures by risk-weighting classes[1]

in CHF 1,000	0%	10%	20%	35%	50%	75%	100%	150%	Total
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
Other assets	6,407		4,505	256	6,897	165	75,776	25	94,031
Total	**3,342,978**	**0**	**1,527,541**	**2,014,905**	**1,315,610**	**19,156**	**753,003**	**16,271**	**8,989,464**
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**
On-balance-sheet assets as of 31.12.2016									
Receivables arising from money market papers	15,248								15,248
Due from banks	207,235		453,492		33				660,760
Due from customers	1,687,830		6,711	1,997,297	952,280	13,739	568,714	22,146	5,248,717
Derivative financial instruments	23,833		11,453		365	544	7,503		43,699
Financial instruments	1,190,409		478,644		295,053		67,478		2,031,584
Other assets	6,048		2,369	410	7,243	99	69,077		85,246
Total	**3,130,603**	**0**	**952,669**	**1,997,706**	**1,254,975**	**14,383**	**712,773**	**22,146**	**8,085,255**
Off-balance-sheet transactions as of 31.12.2016									
Contingent liabilities	27,186		34	80	35,081	386	51,863		114,630
Irrevocable facilities granted			1,664				43,762		45,426
Total	**27,186**	**0**	**1,698**	**80**	**35,081**	**386**	**95,625**	**0**	**160,056**

[1] In contrast to the remaining tables in the section on credit risks, the tables regarding credit exposures by risk-weighting classes include other assets, not, however, trading portfolios.

Credit exposures by country of domicile

in CHF 1,000	Liechtenstein and Switzerland	Europe	North America[1]	South America	Asia	Other[1]	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**
On-balance-sheet assets as of 31.12.2016							
Receivables arising from money market papers					15,248		15,248
Due from banks	525,849	125,117	5,087	139	3,181	1,387	660,760
Due from customers	3,632,390	654,275	68,712	3,713	387,695	501,424	5,248,209
Public-law enterprises						508	508
Trading portfolios							0
Derivative financial instruments	28,063	13,180	448	89	91	1,829	43,699
Financial instruments at fair value		167,280	21,582		8,637	10,203	207,702
Financial instruments measured at amortised cost	143,635	823,238	758,426	13,015	45,035	40,533	1,823,882
Total	**4,329,935**	**1,783,090**	**854,255**	**16,956**	**459,887**	**555,884**	**8,000,008**
Off-balance-sheet transactions as of 31.12.2016							
Contingent liabilities	72,079	23,931	1,216	1,149	2,494	13,761	114,630
Irrevocable facilities granted	17,706		155		78	27,487	45,426
Total	**89,786**	**23,931**	**1,371**	**1,149**	**2,572**	**41,248**	**160,056**

[1] As per ISO-3166 the Caribbean countries are shown under North America. In the previous year the amounts were shown in other countries.

Within the scope of the client lending business, credits are granted on a regional and international basis to private and commercial clients whereby the focus is in the private client business with CHF 3.3 billion of mortgage credits (31 December 2016: CHF 3.3 billion). From a regional perspective, VP Bank conducts the lion's share of this business in the Principality of Liechtenstein and in the Eastern part of Switzerland. Given the broad diversification of exposures, there are no risk concentrations by industry or segment.

The ten largest single exposures encompass 14 per cent of total credit exposures (31 December 2016: 13 per cent). Exposures to banks relate to institutions with a high credit capacity (investment grade rating) and registered office in an OECD country (excluding GIIPS countries).

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 as well as the framework 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, in the area of private and commercial clients lendings exposures 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 amount 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 risk content.

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. As repo deposits are fully secured and the collateral received serves as a reliable source of liquidity in a crisis situation, not only the counterparty risk but also liquidity risk is reduced.

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 not only on an individual client level but also on a portfolio level. At the portfolio level, VP Bank uses the expected and unexpected credit loss to monitor and measure credit risk. The expected credit loss calculates – based on historical loss data and estimated default probabilities – the loss per credit portfolio which may be anticipated within one year. In addition, the results of the analysis flow into the calculation of the general lump-sum valuation allowances in the annual financial statements. The unexpected credit loss measures the deviation of the actual loss, expressed as the value-at-risk, from the expected loss assuming a defined probability.

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 31.12.2017	Providers of collateral as of 31.12.2016
Collateralised debt obligations	9	10
Total	**9**	**10**

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
31.12.2017			
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[1]			
Total	**114,590**	**59,819**	**41,544**
31.12.2016			
Liechtenstein and Switzerland	49,598	13,350	16,929
Europe	12,694	11,611	11,382
North America		1,084	
South America	87	87	87
Asia			
Other	8,760	19,069	8,136
Total	**71,140**	**45,201**	**36,535**

[1] As per ISO-3166 the Caribbean countries are shown under North America. In the previous year the amounts were shown in other countries.

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 2017	45,627	12,836		1,356	59,819
Total reporting period 2016	45,201				45,201

Country risk

Country risks arise whenever political or economic conditions specific to a country impinge on the value of an exposure abroad. The monitoring and management of country risk is undertaken using volume limits which restrict the respective aggregate exposures per country rating (Standard & Poor's and Moody's). All on- and off-balance sheet receivables are considered in this process; positions in the Principality of Liechtenstein and Switzerland do not fall under this country limit rule. The risk domicile of an exposure is the basis for recognising country risk. In the case of secured exposures, in principle the country in which the collateral is located is considered.

The following table shows the distribution 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) Ltd.

Country exposures according to rating

in %	31.12.2017	31.12.2016
AAA	88.6	90.1
AA	7.9	7.3
A	1.4	0.6
BBB – B	0.5	0.6
CCC – C	0.0	0.0
Not Rated	1.6	1.4
Total	**100.0**	**100.0**

As regards the country risk of Russia and Ukraine, VP Bank has no noteworthy risk-domicile exposures in these countries.

Financial instruments in GIIPS countries

in CHF 1,000	Valued at fair value	Valued at amortised cost	Total 31.12.2017	Total 31.12.2016
Greece				
Ireland				
Italy				
Portugal				
Spain				
Total	**0**	**0**	**0**	**0**

6. Operational risks

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.

Each person in a management position is responsible for the identification and evaluation of operational risks as well as for the definition and performance of key controls and measures to contain risks. This responsibility may not be delegated. Each person in a management position shall make a critical annual assessment of whether the key controls have on-going validity and whether key controls are missing. Each management member in levels 1 and 2 undertakes an annual self-assessment of that part of the internal control system for which he/she is responsible. The results of this self-analysis are communicated annually to the central unit Group Risk.

Within the scope of its decision-making authority, the latter makes available, on a Group-wide basis, the instruments for a systematic management of operational risks and ensures their on-going development. These include the conduct of risk assessments (scenario analyses) as part of risk identification and evaluation, the performance of key controls, the maintenance of a data bank of incidents as well as the deployment of early warning indicators. These take place, at a minimum, on an annual basis, depending on the situation.

Knowledge and experience is exchanged within the Group to ensure a coordinated approach. Thanks to a uniform implementation, it is possible to provide the relevant target groups (Board of Directors, Group Executive Management and senior management executives) with a meaningful quarterly status report on operational risks within VP Bank Group.

Business Continuity Management (BCM), as a further important sub-area, is systematically pursued by VP Bank with expert and specialised knowledge along the lines of the ISO standard 22301:2012. The basis thereof is the BCM strategy which has been implemented by Group Executive Management and 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 routinely trained and instructed.

7. Business risks

Business risks result, on the one hand, from unexpected changes in market and environmental conditions with an adverse effect on profitability or equity or, on the other hand, they indicate moreover the danger of unexpected losses resulting from management decisions concerning the business policy orientation of the Group (strategic risks). The Group Executive Management is responsible for managing business risks. Taking into account the banking environment and the internal company situation, these risks are analysed by the Group Executive Management, top-risk scenarios are derived and appropriate measures are worked out, the implementation of which is entrusted to the responsible body or organisational unit (top-down process).

Segment reporting

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).

Business segment reporting 2016

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income	67,609	24,936	9,827	102,372
Total net income from commission business and services	90,176	33,878	–5,265	118,789
Income from trading activities	20,267	6,565	17,664	44,496
Income from financial instruments	10	396	7,240	7,646
Other income	0	1,078	–1,149	–71
Total operating income	**178,062**	**66,853**	**28,317**	**273,232**
Personnel expenses	33,768	39,000	62,561	135,329
General and administrative expenses	3,292	21,544	26,839	51,675
Depreciation of property, equipment and intangible assets	3,682	3,336	15,393	22,411
Valuation allowances, provisions and losses	2,270	716	–218	2,768
Services to/from other segments	40,389	0	–40,389	0
Operating expenses	**83,401**	**64,596**	**64,186**	**212,183**
Earnings before income tax	**94,661**	**2,257**	**–35,869**	**61,049**
Taxes on income				3,063
Group net income				**57,986**
Segment assets (in CHF million)	4,108	3,581	4,106	11,794
Segment liabilities (in CHF million)	7,160	3,048	649	10,857
Client assets under management (in CHF billion)[1]	24.6	11.2	0.0	35.8
Net new money (in CHF billion)	–0.2	0.2	0.0	0.0
Headcount (number of employees)	185	248	371	804
Headcount (expressed as full-time equivalents)	174.1	233.2	331.0	738.3

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

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

Geographic segment reporting

in CHF 1,000	Liechtenstein and Switzerland	Rest of Europe	Other countries	Total Group
2017				
Total operating income	258,889	20,720	20,493	300,102
Total assets	11,590	727	462	12,778
2016				
Total operating income	233,836	20,709	18,687	273,232
Total assets	10,913	463	418	11,794

Segment reporting follows the principle of branch accounting.

Notes to the consolidated financial statement

1 Interest income

in CHF 1,000	2017	2016	Variance absolute	Variance in %
Interest and discount income	126	108	18	16.7
Loan commissions with the character of interest	588	1,281	–693	–54.1
Interest income from banks	2,267	3,573	–1,306	–36.6
Interest income from customers	87,176	78,452	8,724	11.1
Interest income from financial instruments measured at amortised cost	20,404	18,569	1,835	9.9
Interest income from financial liabilities	2,176	2,173	3	0.1
Total interest income from financial instruments at amortised cost	**112,737**	**104,156**	**8,581**	**8.2**
Interest-rate instruments	–1,131	–1,968	837	42.5
Trading derivatives (forward points)	26,883	23,524	3,359	14.3
Hedge accounting	71	163	–92	–56.4
Total other interest income	**25,823**	**21,719**	**4,104**	**18.9**
Total interest income	**138,560**	**125,875**	**12,685**	**10.1**
Interest expenses on amounts due to banks	2,168	743	1,425	191.8
Interest expenses on amounts due to customers	14,407	3,994	10,413	260.7
Interest expenses on medium-term notes	956	1,403	–447	–31.9
Interest expenses on debentures issued	1,273	2,958	–1,685	–57.0
Interest expense from financial assets	15,321	14,405	916	6.4
Total interest expenses using the effective interest method	**34,125**	**23,503**	**10,622**	**45.2**
Total net interest income	**104,435**	**102,372**	**2,063**	**2.0**
Fair-value hedges				
Movements arising from hedges	1,150	371	779	210.0
• Micro fair-value hedges	1,150	371	779	210.0
Movements in underlying transactions	–1,079	–208	–871	–418.8
• Micro fair-value hedges	–1,079	–208	–871	–418.8
Total hedge accounting[1]	**71**	**163**	**–92**	**–56.4**

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

2 Income from commission business and services

in CHF 1,000	2017	2016	Variance absolute	Variance in %
Commission income from credit business	1,121	862	259	30.0
Asset management and investment business[1]	43,883	41,162	2,721	6.6
Brokerage fees	33,341	32,288	1,053	3.3
Securities account fees	20,779	19,742	1,037	5.3
Fund management fees	64,106	59,399	4,707	7.9
Fiduciary commissions	1,398	1,110	288	25.9
Other commission and service income	18,999	18,008	991	5.5
Total income from commission business and services	**183,627**	**172,571**	**11,056**	**6.4**
Brokerage expenses	1,295	1,694	–399	–23.6
Other commission and services-related expenses	58,456	52,088	6,368	12.2
Total expenses from commission business and services	**59,751**	**53,782**	**5,969**	**11.1**
Total net income from commission business and services	**123,876**	**118,789**	**5,087**	**4.3**

[1] Income from corporate actions, asset management commissions, investment advisory services, all-in fees, securities lending and borrowing.

3 Income from trading activities

in CHF 1,000	2017	2016	Variance absolute	Variance in %
Securities trading[1]	–1,362	–3,219	1,857	57.7
Interest income from trading portfolios	0	0	0	0.0
Foreign currency	50,005	45,410	4,595	10.1
Banknotes, precious metals and other	1,601	2,305	–704	–30.5
Total income from trading activities	**50,244**	**44,496**	**5,748**	**12.9**

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

4 Income from financial instruments

in CHF 1,000	2017	2016	Variance absolute	Variance in %
Income from financial instruments at fair value	19,038	6,932	12,106	174.6
Income from financial instruments at amortised cost (foreign exchange)	180	714	–534	–74.8
Total income from financial instruments	**19,218**	**7,646**	**11,572**	**151.3**
Income from financial instruments at fair value				
Income from FVTPL assets	11,753	–715	12,468	n.a.
Interest income from FVTPL financial instruments	3,319	4,311	–992	–23.0
Dividend income from FVTPL financial instruments	1,301	1,051	250	23.8
Dividend income from FVTOCI financial instruments	2,665	2,285	380	16.6
thereof from FVTOCI financial instruments sold	0	0	0	0.0
Total	**19,038**	**6,932**	**12,106**	**174.6**
Income from financial instruments at amortised cost (foreign exchange)				
Revaluation gains/losses on financial instruments at amortised cost	14	61	–47	–77.0
Realised gains/losses on financial instruments at amortised cost	166	653	–487	–74.6
Total	**180**	**714**	**–534**	**–74.8**

5 Other income

in CHF 1,000	Note	2017	2016	Variance absolute	Variance in %
Income from real estate		50	186	–136	–73.1
Income from associated companies		722	10	712	n.a.
Miscellaneous other income		1,557	–267	1,824	n.a.
Total other income		**2,329**	**–71**	**2,400**	**n.a.**

6 Personnel expenses

in CHF 1,000	2017	2016	Variance absolute	Variance in %
Salaries and wages	114,107	106,559	7,548	7.1
Social contributions required by law	9,618	9,030	588	6.5
Contributions to pension plans / defined-benefit plans[1]	3,485	13,404	–9,919	–74.0
Contributions to pension plans / defined-contribution plans	1,366	1,393	–27	–1.9
Other personnel expenses	6,214	4,943	1,271	25.7
Total personnel expenses	**134,790**	**135,329**	**–539**	**–0.4**

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

7 General and administrative expenses

in CHF 1,000	2017	2016	Variance absolute	Variance in %
Occupancy expenses	7,771	7,625	146	1.9
Insurance	856	917	–61	–6.7
Professional fees	12,292	7,981	4,311	54.0
Financial information procurement	6,396	6,543	–147	–2.2
Telecommunication and postage	1,191	1,059	132	12.5
IT systems	14,909	14,760	149	1.0
Marketing and public relations	6,255	5,115	1,140	22.3
Capital taxes	837	818	19	2.3
Other general and administrative expenses	7,291	6,857	434	6.3
Total general and administrative expenses	**57,798**	**51,675**	**6,123**	**11.8**

8 Depreciation of property, equipment and intangible assets

in CHF 1,000	Note	2017	2016	Variance absolute	Variance in %
Depreciation and amortisation of property and equipment	22	8,599	9,260	–661	–7.1
Depreciation and amortisation of intangible assets	23	14,965	13,151	1,814	13.8
Total depreciation and amortisation		**23,564**	**22,411**	**1,153**	**5.1**

9 Valuation allowances, provisions and losses

in CHF 1,000	Note	2017	2016	Variance absolute	Variance in %
Credit risks[1]	16	12,478	7,325	5,153	70.3
Legal and litigation risks		596	1,219	–623	–51.1
Other[2]		11,036	576	10,460	n.a.
Release of valuation allowances and provisions no longer required		–10,502	–6,352	–4,150	–65.3
Total valuation allowances, provisions and losses		**13,608**	**2,768**	**10,840**	**391.6**

[1] Additions including currency effects.
[2] Includes a provision of CHF 10.9 million for a single payment which is to be made to the German authorities as part of an agreement (page 119).

10a Taxes on income

in CHF 1,000	2017	2016
Domestic		
Current taxes	6,403	8,888
Deferred taxes	–723	–3,913
Foreign		
Current taxes	–8	–62
Deferred taxes	–1,100	–1,850
Total current taxes	6,395	8,826
Total deferred taxes	–1,823	–5,763
Total taxes on income	4,572	3,063

Actual payments for domestic and foreign taxes made by the Group in 2017 totalled CHF 8.3 million (2015: CHF 4.2 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:

	2017	2016
Liechtenstein	12.5%	12.5%
Switzerland	25.0%	25.0%
Luxembourg	27.1%	18.2%
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	Note	2017	2016
Income before income tax			
Domestic		73,319	64,836
Foreign		–2,977	–3,787
Taxes on income using an assumed average charge		**10,551**	**9,157**
Reasons for increased/decreased taxable income			
Effect on tax free income / effect on non taxable expenses		5,022	396
Difference between actual and assumed tax rates		–1,950	–2,096
Lower tax charges as a result of changes in laws or taxation agreements		–139	–135
Tax income unrelated to accounting period		–721	0
Use of tax loss carry-forwards		–8,191	–4,259
Total income tax		**4,572**	**3,063**

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 2017
Deferred tax assets					
Real estate and property and equipment	4,800	238	0	0	5,038
Tax loss carry-forwards[1]	1,573	946	0	0	2,519
Defined-benefit pension plans	12,392	0	–2,946	0	9,446
Securities	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**
Deferred tax liabilities					
Real estate and property and equipment	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 provisions	989	334	0	0	1,323
Total deferred tax liabilities	**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.

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 2016
Deferred tax assets					
Real estate and property and equipment	4,678	122	0	0	4,800
Tax loss carry-forwards[1]	5,179	–3,606	0	0	1,573
Defined-benefit pension plans	10,082	0	2,310	0	12,392
Securities	3,939	–709	0	0	3,230
Other	0	46	0	0	46
Total deferred tax assets	**23,878**	**–4,147**	**2,310**	**0**	**22,041**
Deferred tax liabilities					
Real estate and property and equipment	5,284	–967	0	0	4,317
Financial instruments	2,439	–212	–37	0	2,190
Financial instruments directly offset within shareholders' equity	384	–39	0	0	345
Valuation allowances for credit risks	1,053	–690	0	0	363
Other provisions	4,993	–4,004	0	0	989
Total deferred tax liabilities	**14,153**	**–5,912**	**–37**	**0**	**8,204**

[1] Providing that the realisation of future tax benefits is considered probable, these must be treated as an asset. The offset of deferred tax assets and liabilities is only possible if they are due to/from the same taxing authority.

10b Deferred tax assets and liabilities (continued)

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	2017	2016
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	176	0
Total	**176**	**0**

10c Tax assets and liabilities

in CHF 1,000	Note	31.12.2017	31.12.2016
Tax assets			
Amounts receivable arising on current taxes on income		1,445	1,359
Deferred tax assets	10b	19,259	22,041
Total tax assets		**20,704**	**23,400**
Tax liabilities			
Liabilities arising on current taxes on income		2,007	3,892
Deferred tax liabilities	10b	6,458	8,204
Total tax liabilities		**8,465**	**12,096**

10d Tax effects to other comprehensive income

in CHF 1,000	Amount before tax	Tax yield/ tax expense	31.12.2017 Amount net of tax
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**

			31.12.2016
Changes in foreign-currency translation differences	1,561	0	1,561
Foreign-currency translation difference transferred to the income statement from shareholders' equity	537	0	537
Changes in value of FVTOCI financial instruments	–1,867	–37	–1,904
Actuarial gains/losses from defined-benefit pension plans	–14,412	2,310	–12,102
Total comprehensive income in shareholders' equity	**–14,181**	**2,273**	**–11,908**

11 Earnings per share

	31.12.2017	31.12.2016
Consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000)[1]	65,770	57,986
Weighted average of registered shares A	5,452,086	5,445,642
Weighted average of registered shares B	5,875,167	5,877,167
Total weighted average number of shares (registered share A)	6,039,603	6,033,359
Undiluted consolidated earnings per registered share A	10.89	9.61
Undiluted consolidated earnings per registered share B	1.09	0.96
Fully diluted consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000)[1]	65,770	57,986
Adjusted group net income (in CHF 1,000)	65,770	57,986
Number of shares used to compute the fully diluted consolidated net income	6,039,603	6,033,359
Fully diluted consolidated earnings per registered share A	10.89	9.61
Fully diluted consolidated earnings per registered share B	1.09	0.96

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

12 Dividend

	2017	2016
Approved and paid dividend of VP Bank Ltd, Vaduz		
Dividend (in CHF 1,000) for the financial year 2016 (2015)	29,769	26,462
Dividend per registered share A	4.50	4.00
Dividend per registered share B	0.45	0.40
Payout ratio (in %)	46.8	39.3
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 2017	36,385	
Dividend per bearer share	5.50	
Dividend per registered share	0.55	
Payout ratio (in %)	50.5	

13 Cash and cash equivalents

in CHF 1,000	31.12.2017	31.12.2016
Cash on hand	18,047	14,982
At-sight balances with national and central banks	3,596,531	3,509,530
Total cash and cash equivalents	**3,614,578**	**3,524,512**

14 Receivables arising from money-market paper

in CHF 1,000	31.12.2017	31.12.2016
Money-market paper (qualifying for refinancing purposes)	20,279	15,248
Other money-market paper	0	0
Total receivables arising from money-market paper	**20,279**	**15,248**

15 Due from banks and customers

in CHF 1,000	Note	31.12.2017	31.12.2016
By type of exposure			
Due from banks – at-sight balances		741,278	505,220
Due from banks – term balances		152,408	156,408
Valuation allowances for credit risks	16	–1,066	–868
Due from banks		**892,620**	**660,760**
Mortgage receivables		3,320,906	3,354,903
Other receivables		2,392,233	1,956,098
Valuation allowances for credit risks	16	–65,561	–62,284
Due from customers		**5,647,578**	**5,248,717**
Total due from banks and customers		**6,540,198**	**5,909,477**
Due from customers by type of collateral			
Mortgage collateral		3,276,163	3,323,492
Other collateral		2,170,096	1,731,564
Without collateral		266,880	255,945
Subtotal		**5,713,139**	**5,311,001**
Valuation allowances for credit risks		–65,561	–62,284
Total due from customers		**5,647,578**	**5,248,717**

16 Valuation allowances for credit risks

in CHF 1,000	Note	2017	2016
Balance at the beginning of the financial year		63,152	62,629
Amounts written off on loans / utilisation in accordance with purpose		–870	–2,213
Creation of valuation allowances and provisions for credit risks	9	14,706	7,346
Release of valuation allowances and provisions for credit risks		–10,363	–4,589
Changes in scope of consolidation		0	0
Foreign-currency translation differences and other adjustments	9	2	–21
Balance at the end of the financial year		**66,627**	**63,152**
As valuation adjustment for due from banks		1,066	868
As valuation adjustment for due from customers		65,561	62,284
Total valuation allowances for credit risks		**66,627**	**63,152**

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**

[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 2016
By type of exposure				
Balance at the beginning of the financial year	1,747	17,416	43,466	62,629
Amounts written off on loans / utilisation in accordance with purpose	0	–915	–1,298	–2,213
Creation of valuation allowances and provisions for credit risks	47	1,956	5,343	7,346
Release of valuation allowances and provisions for credit risks	–926	–1,264	–2,399	–4,589
Changes in scope of consolidation	0	0	0	0
Foreign-currency translation differences and other adjustments	0	9	–30	–21
Balance at the end of the financial year	**868**	**17,202**	**45,082**	**63,152**
of which				
Individual valuation allowances	0	10,535	26,000	36,535
Lump-sum valuation allowances	868	6,667	19,082	26,617
Total	**868**	**17,202**	**45,082**	**63,152**

in CHF 1,000	2017 Individual	2017 Lump-sum	2016 Individual	2016 Lump-sum
By type of valuation allowance				
Balance at the beginning of the financial year	36,535	26,617	38,238	24,391
Amounts written off on loans / utilisation in accordance with purpose	–870	0	–2,213	0
Creation of valuation allowances and provisions for credit risks	12,285	2,421	3,832	3,514
Release of valuation allowances and provisions for credit risks	–6,412	–3,951	–3,272	–1,317
Changes in scope of consolidation	0	0	0	0
Foreign-currency translation differences and other adjustments	6	–4	–50	29
Balance at the end of the financial year	**41,544**	**25,083**	**36,535**	**26,617**

Individual valuation allowances relate to loans that are not covered by the liquidation proceeds of collateral or unsecured loans.

16 Valuation allowances for credit risks (continued)

Value-impaired loans

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	2017	2016
Value-impaired loans[1]	114,590	71,140
Amount of valuation allowances for credit losses from non-performing loans	41,544	36,535
Net amounts due	**73,046**	**34,605**
Estimated realisable value of value-impaired loans	**83,144**	**35,673**
Average amount of value-impaired loans	**92,865**	**73,962**
Recoveries from loans already written off (other income)	12	10

[1] Interest receivable on non-performing loans in 2017 was CHF 2.790 million (2016: CHF 0.735 million).

Non-performing loans

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	2017	2016
Non-performing loans	59,819	45,201
Amount of valuation allowances for credit losses from non-performing loans	15,996	23,033
Net amounts due	**43,823**	**22,168**
Average amount of non-performing loans	**52,510**	**32,432**
Valuation allowances on non-performing loans at the beginning of the financial year	23,033	12,630
Net decrease/increase	–6,167	10,414
Amounts written off and disposals / utilisation in conformity with purpose	–870	–11
Valuation allowances on non-performing loans at the end of the financial year	**15,996**	**23,033**

in CHF 1,000	31.12.2017	31.12.2016
According to type of exposure		
Banks	**0**	**0**
Mortgage receivables	52,627	25,409
Other receivables	7,192	19,792
Customers	**59,819**	**45,201**
Total non-performing loans	**59,819**	**45,201**
According to region (domicile of debtor)		
Liechtenstein and Switzerland	38,877	13,350
Rest of Europe	6,749	11,611
North and South America	14,193	1,171
Other countries[1]	0	19,069
Total non-performing loans	**59,819**	**45,201**

[1] As per ISO-3166 the Caribbean countries are shown under North America. In the previous year the amounts were shown in other countries.

17 Trading portfolios

in CHF 1,000	31.12.2017	31.12.2016
Debt securities valued at fair value		
Total	0	0
Equity securities / investment-fund units valued at fair value		
Total	0	0
Other	135	100
Total trading portfolios	**135**	**100**

18 Derivative financial instruments

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**

The fair value of derivative financial instruments without market value is arrived at by recognised valuation models. These models take account of the relevant parameters such as contract specifications, the market price of the underlying security, the yield curve and volatility.

18 Derivative financial instruments (continued)

31.12.2016 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments			
Forward contracts			
Swaps	568	21,497	314,198
Futures			50,537
Options (OTC)			
Options (exchange-traded)			
Total interest-rate instruments 31.12.2016	**568**	**21,497**	**364,735**
Foreign currencies			
Forward contracts	3,516	8,674	480,617
Combined interest rate/currency swaps	39,188	25,237	4,516,904
Futures			
Options (OTC)	220	220	18,646
Options (exchange-traded)			
Total foreign currencies 31.12.2016	**42,924**	**34,131**	**5,016,167**
Equity securities/indices			
Forward contracts			
Futures			4,384
Options (OTC)			
Options (exchange-traded)		331	8,465
Total equity securities/indices 31.12.2016	**0**	**331**	**12,849**
Precious metals			
Forward contracts			
Swaps	56	1,068	33,584
Options (OTC)	151	151	10,044
Options (exchange-traded)			
Total precious metals 31.12.2016	**207**	**1,219**	**43,628**
Total derivative financial instruments 31.12.2016	**43,699**	**57,178**	**5,437,379**

19 Financial instruments at fair value

in CHF 1,000	31.12.2017	31.12.2016
Debt instruments		
Public-law institutions in Liechtenstein and Switzerland	0	0
Public-law institutions outside Liechtenstein and Switzerland	19,970	34,205
Exchange-listed	98,083	172,471
Non-exchange-listed	15,609	1,025
Total	**133,662**	**207,701**
Equity shares / investment fund units		
Exchange-listed	46,569	50,974
Non-exchange-listed	18,667	19,476
Total	**65,236**	**70,450**
Structured products		
Exchange-listed	0	0
Non-exchange-listed[1]	1,910	1,992
Total	**1,910**	**1,992**
Total financial instruments at fair value	**200,808**	**280,143**

[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	31.12.2017	31.12.2016
Debt instruments		
Public-law institutions in Liechtenstein and Switzerland	49,547	25,404
Public-law institutions outside Liechtenstein and Switzerland	706,323	781,225
Exchange-listed	1,374,347	988,325
Non-exchange-listed	41,620	28,928
Total	**2,171,837**	**1,823,882**
Total financial instruments at amortised cost	**2,171,837**	**1,823,882**

21 Associated companies

in CHF 1,000	2017	2016
Balance at the beginning of the financial year	**66**	**56**
Additions	–33	10
Value impairments	0	0
Balance as of balance-sheet date	**33**	**66**

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

Name	Registered office	Activity	Share capital	Capital held in %	
				31.12.2017	31.12.2016
VAM Corporate Holdings Ltd.	Mauritius	Fund promoter company	GBP 50,000	20	20
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 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.

22 Property and equipment (continued)

in CHF 1,000	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total 2016
Acquisition cost					
Balance on 01.01.2016	202,340	5,160	20,309	33,285	261,094
Additions	1,118	177	241	1,561	3,097
Disposals/derecognitions[1]	–1,616	–505	–6,315	–15,656	–24,092
Changes in scope of consolidation					0
Foreign-currency translation	15	–8	–1	–14	–8
Balance on 31.12.2016	**201,857**	**4,824**	**14,234**	**19,176**	**240,091**
Accumulated depreciation and amortisation					
Balance on 01.01.2016	–118,749	–4,661	–19,328	–28,745	–171,483
Depreciation and amortisation	–5,981	–233	–307	–2,739	–9,260
Valuation allowances					0
Disposals/derecognitions[1]	895	500	6,309	15,658	23,362
Changes in scope of consolidation					0
Foreign-currency translation	–8	13	5	18	28
Balance on 31.12.2016	**–123,843**	**–4,381**	**–13,321**	**–15,808**	**–157,353**
Net book values on 31.12.2016	**78,014**	**443**	**913**	**3,368**	**82,738**

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

Additional information regarding property and equipment

in CHF 1,000	2017	2016
Fire insurance value of real estate	180,702	180,702
Fire insurance value of other property and equipment	40,447	40,970
Fair value of other real estate	340	443

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 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**

23 Goodwill and other intangible assets (continued)

in CHF 1,000	Software	Other assets capitalised	Goodwill	Total 2016
Acquisition cost				
Balance on 01.01.2016	157,997	44,123	46,112	248,232
Additions	6,747			6,747
Disposals/derecognitions	–21,580			–21,580
Changes in scope of consolidation				0
Foreign-currency translation	59			59
Balance on 31.12.2016	**143,223**	**44,123**	**46,112**	**233,458**
Accumulated amortisation				
Balance on 01.01.2016	–147,362	–7,600	–35,302	–190,264
Depreciation and amortisation	–7,730	–5,421		–13,151
Valuation allowances				0
Disposals/derecognitions	21,485			21,485
Changes in scope of consolidation				0
Foreign-currency translation	–59			–59
Balance on 31.12.2016	**–133,666**	**–13,021**	**–35,302**	**–181,989**
Net book values on 31.12.2016	**9,557**	**31,102**	**10,810**	**51,469**

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 2015, 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	31.12.2017	31.12.2016
Value-added taxes and other tax receivables	3,087	2,090
Prepaid retirement pension contributions	0	0
Miscellaneous other assets[1]	16,377	14,048
Total other assets	**19,464**	**16,138**

[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	59,712	4,691	2,018	111	66,533
2019	88,053	5,986	1,554	0	95,594
2020	62,018	6,871	853	0	69,742
2021	5,834	1,477	1,035	0	8,345
2022	11,321	521	245	0	12,087
2023	1,684	688	0	0	2,372
2024	187	426	0	0	613
2025	159	289	53	0	501
2026	230	0	0	0	230
2027	139	0	0	0	139
Total 31.12.2017	**229,336**	**20,950**	**5,758**	**111**	**256,155**
Total 31.12.2016	**176,432**	**32,538**	**10,478**	**374**	**219,823**

The average interest rate as of 31 December 2017 was 0.34 per cent (prior year: 0.51 per cent).

26 Debentures, VP Bank Ltd, Vaduz

Year of issue	ISIN	Interest rate in %	Currency	Maturity	Nominal amount	in CHF 1,000 Total 31.12.2017	Total 31.12.2016
2015	CH0262888933	0.5	CHF	07.04.2021	100,000	100,227	100,296
2015	CH0262888941	0.875	CHF	07.10.2024	100,000	100,370	100,424
Total					**200,000**	**200,597**	**200,720**

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	31.12.2017	31.12.2016
Value-added taxes and other tax receivables	9,964	7,950
Accrued retirement pension contributions	63,401	93,856
Accrued expense for long service awards[1]	3,095	3,014
Miscellaneous other liabilities[2]	39,699	28,169
Total other liabilities	**116,159**	**132,989**

[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 2017	Total 2016
Carrying value at the beginning of the financial year	231	5,774	407	2,343	8,755	14,393
Utilisation in accordance with purpose		–3,793		–1,532	–5,325	–7,197
New provisions charged to income statement	157	596	12,192		12,945	3,359
Provisions releases to income statement	–112	–105	–30	–141	–388	–1,784
Foreign-currency translation differences and other adjustments		26	815	159	1,000	–16
Carrying value at the end of the financial year	**276**	**2,498**	**13,384**	**829**	**16,987**	**8,755**
Maturity of provisions						
• within one year					16,987	8,755
• over one year					0	0

29 Share capital

	31.12.2017 No. of shares	Nominal CHF	31.12.2016 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

	31.12.2017 No. of shares	in CHF 1,000	31.12.2016 No. of shares	in CHF 1,000
Registered shares A at the beginning of the financial year	593,777	50,559	594,774	49,443
Purchases	7,049	781	81,786	8,005
Sales	–53,506	–4,573	–82,783	–6,889
Balance of registered shares A as of balance-sheet date[1]	**547,320**	**46,767**	**593,777**	**50,559**
Registered shares B at the beginning of the financial year	127,812	1,073	125,912	1,056
Purchases	3,850	49	1,900	17
Sales	0	0	0	0
Balance of registered shares B as of balance-sheet date	**131,662**	**1,122**	**127,812**	**1,073**

[1] 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	31.12.2017		31.12.2016	
	Market value	Actual liability	Market value	Actual liability
Securities	650,127	0	665,387	0
Money-market paper	0	0	0	0
Other	0	0	0	0
Total pledged assets	**650,127**	**0**	**665,387**	**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	31.12.2017	31.12.2016
Remaining duration of up to 1 year	5,894	5,268
Remaining duration of 1 to 5 years	11,711	5,861
Remaining duration of over 5 years	8,597	3,755
Total minimum commitments under operating leases	**26,202**	**14,884**

As of 31 December 2017, general and administrative expenses include CHF 7.448 million of operating lease costs (prior year: CHF 6.412 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.

In June 2017, the Group reached an agreement with the authorities of North Rhine-Westphalia to settle the investigations in connection with untaxed assets of German clients. The agreement covers all subsidiaries of the Group possessing a banking license and includes a one-time compensation payment amounting to CHF 9.98 million for which a corresponding provision was established. The conclusion of the formal proceedings is expected in 2018.

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 a disputed amount 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 after the Federal Arbitration Court of the Moscow Region rejected the nullity appeal. Against this decision under bankruptcy law which is enforceable in Russia, VP Bank (Switzerland) Ltd lodged an extraordinary appeal to the Supreme Court without suspensive effect which was rejected. The decision as to whether to appeal to the Presidential Office of the Supreme Court is still currently pending. The Russian Agency of Deposit Insurance has attempted to obtain satisfaction of its claims directly from an account of VP Bank (Switzerland) Ltd with a Russian bank. As the Group contests the validity of this decision, it will not recognise this claim. In addition, VP Bank Group has initiated measures to protect its own interests.

The second proceedings against VP Bank Ltd with an amount in dispute of USD 15 million are similar but are not yet closed. In these proceedings, only the issue of Russian jurisdiction was decided. On 29 September 2017, the competence of Russian courts was confirmed by the Federal Arbitration Court of the Moscow Region. An extraordinary appeal against this decision under bankruptcy law, which is enforceable in Russia, was lodged with the Supreme Court without suspensive effect. The decision is still pending. Now that the issue of jurisdiction was confirmed by the Federal Arbitration Court of the Moscow Region, the decision on the case lies with the first instance, the Moscow Arbitration Court, as to the substance of the matter.

In both cases, VP Bank considers the risk of outflow of funds to be small for which reason no provision was established.

34 Balance sheet per currency

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	1,646		361		2,007
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	**4,141,153**	**3,572,793**	**3,074,597**	**995,347**	**11,783,890**
Total shareholders' equity	**888,864**	**104,326**	**0**	**990**	**994,180**
Total liabilities and shareholders' equity 31.12.2017	**5,030,017**	**3,677,119**	**3,074,597**	**996,337**	**12,778,070**

34 Balance sheet per currency (continued)

in CHF 1,000	CHF	USD	EUR	Other	Total 2016
Assets					
Cash and cash equivalents	3,508,957	650	14,310	595	3,524,512
Receivables arising from money-market paper				15,248	15,248
Due from banks	171,436	232,505	103,640	153,179	660,760
Due from customers	3,443,446	1,162,349	541,136	101,786	5,248,717
Trading portfolios				100	100
Derivative financial instruments	42,811	888			43,699
Financial instruments at fair value	123,542	100,207	54,896	1,498	280,143
Financial instruments at amortised cost	335,938	871,656	616,288		1,823,882
Associated companies	66				66
Property and equipment	81,546	1,072		120	82,738
Intangible assets	51,469				51,469
Tax receivables			1,359		1,359
Deferred tax assets	22,041				22,041
Accrued liabilities and deferred items	11,972	6,159	4,183	540	22,854
Assets held for sale					0
Other assets	12,643	764	2,357	374	16,138
Total assets 31.12.2016	**7,805,867**	**2,376,250**	**1,338,169**	**273,440**	**11,793,726**
Liabilities and shareholders' equity					
Due to banks	191,155	93,388	48,883	24,345	357,771
Due to customers – savings and deposits	704,768		455		705,223
Due to customers – other liabilities	2,327,359	3,594,011	2,466,416	745,938	9,133,724
Derivative financial instruments	52,625	3,971	582		57,178
Medium-term notes	190,780	4,972	24,071		219,823
Debenture issues	200,720				200,720
Tax liabilities	3,579		313		3,892
Deferred tax liabilities	8,204				8,204
Accrued liabilities and deferred items	22,327	1,140	2,771	2,271	28,509
Other liabilities	117,071	6,162	9,006	750	132,989
Provisions	6,035	407	2,313		8,755
Total liabilities	**3,824,623**	**3,704,051**	**2,554,810**	**773,304**	**10,856,788**
Total shareholders' equity	**839,661**	**96,212**	**0**	**1,065**	**936,938**
Total liabilities and shareholders' equity 31.12.2016	**4,664,284**	**3,800,263**	**2,554,810**	**774,369**	**11,793,726**

35 Maturity structure of assets and liabilities

in CHF 1,000	At sight	Callable	1 year	Due within 1 to 5 years	Over 5 years	Total 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	2,007					2,007
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	**8,636,505**	**2,021,220**	**695,472**	**326,469**	**104,224**	**11,783,890**

[1] Without maturity

35 Maturity structure of assets and liabilities (continued)

in CHF 1,000	At sight	Callable	1 year	Due within 1 to 5 years	Over 5 years	Total 2016
Assets						
Cash and cash equivalents	3,524,512					3,524,512
Receivables arising from money-market paper			15,248			15,248
Due from banks	505,220		155,540			660,760
Due from customers	132,196	406,460	2,768,401	1,555,037	386,623	5,248,717
Trading portfolios	100					100
Derivative financial instruments	43,699					43,699
Financial instruments at fair value	265,829		1,490	10,231	2,593	280,143
Financial instruments at amortised cost			230,012	1,279,533	314,337	1,823,882
Associated companies	66					66
Property and equipment[1]					82,738	82,738
Intangible assets					51,469	51,469
Tax receivables	1,359					1,359
Deferred tax assets				22,041		22,041
Accrued liabilities and deferred items	22,854					22,854
Assets held for sale						0
Other assets	15,950	188				16,138
Total assets 31.12.2016	**4,511,785**	**406,648**	**3,170,691**	**2,866,842**	**837,760**	**11,793,726**
Liabilities						
Due to banks	306,951		50,820			357,771
Due to customers – savings and deposits		705,223				705,223
Due to customers – other liabilities	7,538,006	853,562	732,156	10,000		9,133,724
Derivative financial instruments	57,178					57,178
Medium-term notes			77,690	138,427	3,706	219,823
Debenture issues				100,296	100,424	200,720
Tax liabilities	3,892					3,892
Deferred tax liabilities				8,204		8,204
Accrued liabilities and deferred items	28,509					28,509
Other liabilities	132,989					132,989
Provisions	8,755					8,755
Total liabilities 31.12.2016	**8,076,280**	**1,558,785**	**860,666**	**256,927**	**104,130**	**10,856,788**

[1] Without maturity

36 Classification of assets by country or groups of countries

	31.12.2017 in CHF 1,000	Proportion in %	31.12.2016 in CHF 1,000	Proportion in %
Liechtenstein and Switzerland	8,249,172	64.6	8,044,742	68.2
Rest of Europe	2,081,839	16.3	1,677,160	14.2
North America	1,071,280	8.4	789,353	6.7
Other countries	1,375,779	10.8	1,282,471	10.9
Total assets	**12,778,070**	**100.0**	**11,793,726**	**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 31.12.2017	Fair value 31.12.2017	Variance	Carrying value 31.12.2016	Fair value 31.12.2016	Variance
Assets						
Cash and cash equivalents	3,615	3,615	0	3,525	3,525	0
Receivables arising from money market paper	20	20	0	15	15	0
Due from banks	893	893	0	661	661	0
Due from customers	5,648	5,773	125	5,249	5,396	147
Trading portfolios	0	0	0	0	0	0
Derivative financial instruments	29	29	0	44	44	0
Financial instruments at fair value	201	201	0	280	280	0
of which designated on initial recognition	0	0	0	0	0	0
of which mandatory under IFRS 9	185	185	0	268	268	0
of which recognised in other comprehensive income with no effect on net income	16	16	0	12	12	0
Financial instruments at amortised cost	2,172	2,171	–1	1,824	1,843	19
Subtotal			**124**			**166**
Liabilities						
Due to banks	548	548	0	358	358	0
Due to customers	10,559	10,548	11	9,839	9,833	6
Derivative financial instruments	47	47	0	57	57	0
Medium-term notes	256	259	–3	220	224	–4
Debentures issued	201	206	–5	201	204	–3
Subtotal			**3**			**–1**
Total variance			**127**			**165**

The following valuation methods are used to determine the fair value of on-balance-sheet financial instruments:

Cash and cash equivalents, money-market paper

For the balance-sheet-items "Cash and cash equivalents" and "Receivables arising from money-market paper", which do not have a published market value on a recognised stock exchange or on a representative market, the fair value corresponds to the amount payable at the balance-sheet date.

Due from/to banks and customers, medium-term notes, debenture issues

In determining the fair value of amounts due from/to banks, due from/to customers (including mortgage receivables and due to customers in the form of savings and deposits), as well as of medium-term notes and debenture issues with a fixed maturity or a refinancing profile, the net present value method is applied (discounting of monetary flows with swap rates corresponding to the respective term). For products whose interest or payment flows cannot be determined in advance, replicating portfolios are used.

Trading portfolios, trading portfolios pledged as security, financial instruments at fair value

Fair value corresponds to market value for the majority of these financial instruments. The fair value of non-exchange-listed financial instruments (in particular for structured credit loans) is determined only on the basis of external traders' prices or pricing models which are based on prices and interest rates in an observable, active and liquid market.

Derivative financial instruments

For the majority of the positive and negative replacement values (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.

37 Financial instruments (continued)

Fair-value hedges (interest-rate hedges)

	Nominal value of hedging instruments	Book value of hedging instruments		Balance sheet position under which hedging instruments are disclosed
		Assets	Liabilities	
Interest-rate swaps	163,757	762	9,112	Derivative financial instruments

	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	165,122	0	1,368	0	Due from customers
of which closed hedging relationships (client receivables)	2,827	0	81	0	Due from customers

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 31.12.2017
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

In the financial year 2017, positions with a fair value of CHF 0.0 million (2016: CHF 0.0 million) were reclassified from Level 1 (quoted market prices) to Level 2 (valuation methods based on market data), CHF 0.0 million (2016: CHF 0.0 million) from Level 2 to Level 3 (valuation methods, based on non market-data-related assumptions) as well as CHF 0.0 million from Level 3 to Level 2 (2016: CHF 0.0 million). The reclassifications are made as of the end of the reporting period in the case of changes in the availability of market prices (market liquidity).

37 Financial instruments (continued)

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 31.12.2016
Assets				
Cash and cash equivalents	3,525			3,525
Receivables arising from money market paper	15			15
Due from banks		661		661
Due from customers		5,396		5,396
Trading portfolios				0
Derivative financial instruments		44		44
Financial instruments at fair value	258	18	4	280
Financial instruments at amortised cost	1,825	15	3	1,843
Liabilities				
Due to banks		358		358
Due to customers		9,833		9,833
Derivative financial instruments		57		57
Medium-term notes		224		224
Debentures issued	204			204

Level 3 financial instruments in CHF million	2017	2016
Balance sheet		
Holdings at the beginning of the year	6.9	4.4
Investments	1.6	3.1
Disposals	0.0	–0.1
Issues	0.0	0.0
Redemptions	0.0	0.0
Losses recognised in the income statement	–0.1	–0.4
Losses recognised as other comprehensive income	–0.1	0.0
Gains recognised in the income statement	0.1	0.0
Gains recognised as other comprehensive income	0.0	0.0
Reclassification to Level 3	0.0	0.0
Reclassification from Level 3	0.0	0.0
Translation differences	0.0	0.0
Total book value at balance-sheet date	**8.4**	**6.9**
Income on holdings at balance-sheet date		
Unrealised losses recognised in the income statement	–0.2	–0.4
Unrealised losses recognised as other comprehensive income	0.0	0.0
Unrealised gains recognised in the income statement	0.1	0.0
Unrealised gains recognised as other comprehensive income	0.0	0.0

No deferred day 1 profit or loss (difference between the transaction price and the fair value calculated on the transaction day) was reported for Level 3 positions as of 31 December 2017 or 31 December 2016.

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.

37 Financial instruments (continued)

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

31.12.2017 in CHF 1,000	Balance-sheet netting Amount prior to balance-sheet netting	Balance-sheet netting	Carrying value	Netting potential Financial liabilities	Netting potential Collateral received	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	Netting potential 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**

31.12.2016 in CHF 1,000	Balance-sheet netting Amount prior to balance-sheet netting	Balance-sheet netting	Carrying value	Netting potential Financial assets	Netting potential Collateral provided	Assets after taking account of netting potential
Financial assets						
Reverse repurchase transactions	1,256		1,256		1,145	111
Positive replacement values	43,699		43,699	25,635		18,064
Collateral deposited for transactions with derivatives	73,931		73,931	23,469		50,462
Total assets	**118,886**	**0**	**118,886**	**49,104**	**1,145**	**68,637**

31.12.2016 in CHF 1,000	Balance-sheet netting Amount prior to balance-sheet netting	Balance-sheet netting	Carrying value	Netting potential Financial assets	Netting potential Collateral provided	Liabilities after taking account of netting potential
Financial liabilities						
Repurchase transactions	50,883		50,883		50,865	18
Negative replacement values	57,178		57,178	25,659	2,385	29,134
Collateral received from transactions with derivatives			0			0
Total liabilities	**108,061**	**0**	**108,061**	**25,659**	**53,250**	**29,152**

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	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	Zurich	CHF	20,000,000	100%
• which holds the following sub-participation:				
• VP Bank (Switzerland) Ltd	Zurich	CHF	20,000,000	100%
VP Bank (BVI) Ltd	Tortola	USD	10,000,000	100%

Shareholdings excluded from the scope of consolidation	VP Verwaltung GmbH – in liquidation
Associated companies excluded from the scope of consolidation	VAM Corporate Holdings Ltd., Mauritius
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
Name changes during the financial year	none

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 Chairman of the Board and/or Chief Executive Officer in these companies, are considered to be related companies and individuals.

in CHF 1,000	2017	2016
Remuneration of the members of the Board of Directors		
Remuneration due in the short term[1, 2]	1,358	1,391
Post-employment benefits		
Other long-term remuneration due		
Remuneration due upon termination of contract of employment		
Share-based payment[1, 2, 3]	425	409
Remuneration of the members of Group Management[2]		
Remuneration due in the short term	3,947	3,306
Post-employment benefits		
Other long-term remuneration due		
Remuneration due upon termination of contract of employment	75	
Share-based payments[4]	1,856	1,600

[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 2017 was CHF 0.735 million (previous year: CHF 0.911 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 2017, held 105,857 registered shares A and 100,000 registered shares B of VP Bank Ltd, Vaduz (previous year: 87,604 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	2017	2016
Mortgages and loans at the beginning of the financial year	21,905	8,380
Additions	1,715	20,200
Repayments	–108	–6,675
Mortgages and loans at the end of the financial year	**23,512**	**21,905**

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. A guarantee of CHF 55.272 million was issued for related party. The collateral/surety for this guarantee is 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 2017 amounted to CHF 1.366 million (prior year: CHF 1.393 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 Council of the Foundation 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 Council 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 Council of the Foundation 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 Councils of the Foundations. 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 2017 by independent actuaries using the Projected Unit Credit Method. The fair value of plan assets as of 31 December 2017 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:

	31.12.2017	31.12.2016
Discount rate	0.70%	0.65%
Rate of future salary increases	1.00%	1.00%
Rate of future pension increases	0.00%	0.00%
Lump sum payments at retirement	20.00%	7.50%
Life expectancy at the age of 65, in years		
Year of birth	1952	1951
men	22.38	22.26
women	24.43	24.32
Year of birth	1972	1971
men	24.26	24.18
women	26.29	26.22

40 Retirement pension plans (continued)

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

Pension costs

in CHF 1,000	2017	2016
Pension expense recognised in income statement		
Service cost		
• current service cost	12,716	12,521
• past service cost	–10,071	0
• plan settlements	0	0
Net interest expense	560	611
Administrative costs	280	272
Total pension cost expense of the period	**3,485**	**13,404**
Revaluation components recognised in comprehensive income		
Actuarial gains/losses		
Result of changes to demographic assumptions	414	–3,720
Result of changes to economic assumptions	–10,756	11,259
Experience adjustments	–573	6,121
Return on plan assets (excluding amounts in net interest expense)	–13,574	752
Total expense recognised in comprehensive income	**–24,489**	**14,412**
Total pension cost	**–21,004**	**27,816**

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	2017	2016
Present value of defined-benefit obligations at beginning of financial year	336,533	318,078
Current service cost	12,716	12,521
Employee contributions	5,781	5,481
Interest expense on present value of pension obligations	2,220	2,791
Actuarial gains/losses	–10,915	13,660
Past service cost	–10,071	0
Acquisitions	0	0
Pension payments financed by plan assets	10,129	–15,998
Balance at end of financial year	**346,393**	**336,533**

Movement in plan assets

in CHF 1,000	2017	2016
Plan assets at beginning of financial year	242,677	243,085
Employee contributions	5,781	5,481
Employer contributions	9,451	8,953
Interest income on plan assets	1,660	2,180
Return on plan assets (excluding amounts under interest income)	13,574	–752
Acquisitions	0	0
Pension payments financed by plan assets[1]	10,129	–15,998
Administrative costs	–280	–272
Balance at end of financial year	**282,992**	**242,677**

[1] Due to new hires in 2017, entry rates were higher than retirement benefits and pension payments.

40 Retirement pension plans (continued)

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	31.12.2017	31.12.2016
Present value of pension obligations financed through a fund	346,393	336,533
Market value of plan assets	–282,992	–242,677
Under- / excess of funding	**63,401**	**93,856**
Present value of pension obligations not financed through a fund	0	0
Unrecognised assets	0	0
Recognised pension obligations	**63,401**	**93,856**

In the case of the autonomous pension plan, the Foundation Council 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 Council of the Foundation 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	31.12.2017	31.12.2016
Equity shares	74,129	47,072
thereof quoted market prices (Level 1)	74,129	47,072
Bonds	109,161	98,721
thereof quoted market prices (Level 1)	109,161	98,721
Alternative financial investments	16,134	21,165
thereof quoted market prices (Level 1)	0	5,295
Real estate	12,182	11,876
thereof quoted market prices (Level 1)	0	0
Qualifying insurance paper	45,691	39,581
Cash equivalents	17,631	24,851
Other financial investments	8,064	–589
Total	**282,992**	**242,677**
• thereof quoted market prices (Level 1)	183,290	151,088

The pension plans hold shares in VP Bank Ltd, Vaduz, with a market value totalling CHF 2.0 million (previous year: CHF 1.6 million). In 2017, the return on plan assets was CHF 15.234 million (previous year: –CHF 1.428 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	31.12.2017	31.12.2016
Current actively insured employees	247,008	245,895
Pensioners	99,385	90,638
Total	**346,393**	**336,533**

The duration of pension obligations is approximately 17 years (previous year: 18 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	31.12.2017		31.12.2016	
Variance	0.25%	–0.25%	0.25%	–0.25%
Discount rate	–12,923	13,975	–13,733	14,790
Interest on pension capital accounts	3,931	–3,776	3,935	–3,735
Development of salaries	1,373	–1,318	1,284	–1,267

40 Retirement pension plans (continued)

Other employee benefits payable in the long term

in CHF 1,000	31.12.2017	31.12.2016
Balance at the beginning of the financial year	3,014	3,258
Expenses financial year	399	216
Acquisitions	0	0
Employee payments	–319	–462
Exchange differences	1	2
Balance at end of financial year	**3,095**	**3,014**

Other employee benefits payable in the long term exist in the form of long service awards. Analogously to the defined benefit pension plans, actuarial calculations have been performed and an accrued expense recognized for these benefits. In 2015, the Group introduced a uniform regulation for the calculation of benefits from long service awards for most Group employees. For some employees abroad, separate regulations apply. These regulations qualify as plans for other employee benefits payable in the long term.

41 Significant foreign exchange rates

The following exchange rates were used for the most important currencies:

	Year-end rates		Annual average rates	
	31.12.2017	31.12.2016	2017	2016
USD/CHF	0.9745	1.0164	0.98427	0.98525
EUR/CHF	1.1702	1.0720	1.11181	1.08969
SGD/CHF	0.7292	0.7035	0.71304	0.71369
HKD/CHF	0.1247	0.1311	0.12631	0.12693
GBP/CHF	1.3183	1.2559	1.26805	1.33328

42 Employee stock-ownership plan

The stock-ownership plan enables employees to subscribe annually to a defined number of bearer shares of VP Bank Ltd, Vaduz, at a preferential price subject to a four-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. The number of bearer shares that can be subscribed to depends upon the years of service, rank and management level.

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 2017, 9,761 shares were issued at a preferential price (2016: 12,494 shares). Share issue expenses in 2017 were CHF 0.6 million (2016: CHF 0.5 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 94.

Management equity-sharing plan (LTI)

Number	2017	2016	Variance in %
Balance of entitlements at the beginning of the year	51,587	62,598	–17.6
New entitlements	52,254	37,962	37.6
Changes in entitlements as a result of allocation	–36,646	–62,102	–41.0
Changes in entitlements as a result of expiry	–10,418	6,675	–256.1
Changes in entitlements as a result of changes in factors	13,557	6,454	110.1
Balance of calculated entitlements at the end of the year	70,334	51,587	36.3

in CHF 1,000	2017	2016	Variance in %
Personnel expense recorded over vesting period for allocated management sharing plan	3,172	4,382	–27.6
Fair value of management sharing plan at date of allocation	4,489	5,587	–19.7
Personnel expense for management sharing plan (LTI) expense for reporting period	4,840	4,106	17.9
Accrual for management sharing plan (LTI) in equity at the end of the year	6,003	4,335	38.5

44 Consolidated off-balance-sheet transactions

in CHF 1,000	31.12.2017	31.12.2016
Contingent liabilities		
Credit guarantees and similar	32,634	28,842
Performance guarantees and similar	96,212	85,788
Irrevocable commitments	0	0
Other contingent liabilities	0	0
Total contingent liabilities	**128,846**	**114,630**
Credit risks		
Irrevocable facilities granted	58,056	45,426
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	**58,056**	**45,426**
Fiduciary transactions		
Fiduciary deposits[1]	839,614	728,681
Fiduciary loans	0	0
Other fiduciary financial transactions	0	0
Total fiduciary transactions	**839,614**	**728,681**

[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

		Maturing within			
in CHF 1,000	At sight	1 year	1 to 5 years	Over 5 years	Total
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
31.12.2016					
Contingent liabilities	23,816	9,658	16,270	64,886	114,630
Credit risks	2,250	39,057	2,618	1,501	45,426

Securities lending and repurchase and reverse-repurchase transactions

in CHF 1,000	31.12.2017	31.12.2016
Accounts receivable arising from cash deposits in connection with securities borrowing and reverse-repurchase transactions	0	1,256
Accounts payable arising from cash deposits in connection with securities borrowing and reverse-repurchase transactions	0	50,883
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	360,947	478,910
of which securities where the unlimited right to sell on or pledge has been granted	275,418	410,780
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	347,368	426,254
of which securities which have been resold or repledged	85,529	68,130

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	31.12.2017	31.12.2016	Variance absolute	Variance in %
Analysis of client assets under management				
Assets in self-administered investment funds	6,967.2	5,813.4	1,153.8	19.8
Assets in discretionary asset management accounts	3,741.4	3,439.1	302.3	8.8
Other client assets under management	29,677.7	26,501.4	3,176.3	12.0
Total client assets under management (including amounts counted twice)	**40,386.3**	**35,753.9**	**4,632.5**	**13.0**
of which amounts counted twice	2,285.6	1,972.4	313.2	15.9
Change of assets under management				
Total client assets under management (including amounts counted twice) at the beginning of the financial year	35,753.9	34,768.7	985.2	2.8
of which net new money	1,894.3	7.4	1,887.0	n.a.
of which change in market value	2,738.1	977.8	1,760.3	180.0
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	**40,386.3**	**35,753.9**	**4,632.5**	**13.0**
Custody assets	**6,062.0**	**5,790.4**	**271.5**	**4.7**
Total client assets				
Total client assets under management (including amounts counted twice)	40,386.3	35,753.9	4,632.5	13.0
Custody assets	6,062.0	5,790.4	271.5	4.7
Total client assets	**46,448.3**	**41,544.3**	**4,904.0**	**11.8**
Net new money	**1,894.3**	**7.4**	**1,887.0**	**n.a.**

Calculation method

All client assets that are managed or held for investment purposes for which investment-advisory and asset-management services are provided are considered as client assets under management. In principle, all amounts owed to clients, fiduciary deposits and all assets in security deposits with a value are included therein. The calculation is made on the basis of the provisions of the Liechtenstein Banking Ordinance (Note 3, Point 88a, FL-BankO) and the internal guidelines of VP Bank Group.

Assets in self-administered investment funds

This item contains the assets of all administered investment funds of VP Bank Group.

Assets in discretionary asset-management accounts

The assets in discretionary asset-management accounts encompass securities, uncertificated securities, precious metals, fiduciary deposits placed with third parties valued at market value and client deposits. The data include both assets deposited with Group companies and with third parties which are the object of a discretionary asset-management agreement with a Group company.

Other client assets under management

Other client assets under management encompass securities, uncertificated securities, precious metals, fiduciary deposits placed with third parties valued at market value and client deposits. The data encompass assets which are the object of an administration or advisory mandate.

Amounts counted twice

This item encompasses unit shares in self-administered investment funds which are in client portfolios subject to a discretionary asset-management agreement and other security deposits of clients.

Net new money inflows/outflows

This item comprises the acquisition of new clients, lost clients and inflows or outflows from existing clients. Performance-related changes in assets such as share price movements, interest and dividend payments, as well as interest charged to clients, are not considered as inflows and outflows. Acquisition related changes in assets are presented separately. If the service provided changes and if assets under management are reclassified as assets held for custody purposes, or vice versa, this will generally be recognised, respectively, as an outflow or inflow of new client assets. In the year 2017, net new money does not include any reclassifications (2016: CHF 25.1 million).

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.

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 2017, including a summary of significant accounting policies (pages 121 to 185) – and the consolidated annual report (pages 117 to 120).

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 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Liechtenstein law.

Basis for opinion

We conducted our audit in accordance with Liechtenstein law and International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Liechtenstein law and the requirements of our audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Valuation of due from customers

Area of focus

As of 31 December 2017 the amount Due from customers is CHF 5.6 billion or 44% of the Group's balance sheet, of which CHF 3.3 billion relate to Mortgages and CHF 2.3 billion to Other loans.

Due from customers are valued at amortized cost, which equates to the fair value at the time the loans were granted. An allowance for credit losses is considered in case of a credit deterioration of the counterparty or country. An allowance for credit losses is reported as a decrease in carrying value of a loan on the balance sheet. Collective allowances and provisions are recorded to cover potential, yet unidentified credit risks. All impaired loans are reviewed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared with prior estimates result in a change in the allowance for credit losses. Judgment is used in making assumptions about timing and amount of impairment losses.

The magnitude of the mentioned balance sheet items involves the exercise of significant judgment and is of particular importance from an audit perspective.

The Group describes its accounting policies for the item Due from customers on page 130 and notes 15 and 16 to the consolidated financial statements.

Our audit response

We tested the design and operating effectiveness of the key controls over the process for granting and monitoring loans. We also assessed the process and controls over the identification of non-performing loans.

We selected a sample of individual loans and independently performed impairment testing and evaluated the assumptions used for the calculation of allowances for credit losses. In addition, we evaluated the appropriateness of the accounting principles used and examined the disclosure in the notes to the consolidated financial statements.

Fair value measurement of financial instruments

Area of focus

The Group recognizes financial instruments at fair value, particularly in the balance sheet items Trading portfolio, Derivative financial instruments and Financial instruments at fair value.

Fair values are based on quoted market prices if an active market exists. If no active market exists, fair values are determined by reference to listed quotes or external pricing models (level 2). The use of valuation models is highly dependent on the assumptions applied, including interest rates, forward rates, swap rates, spread curves, volatilities and estimates of future cash flows. The determination of these assumptions involves the exercise of significant judgment.

Due to the judgmental nature and the magnitude the mentioned balance sheet items are of particular importance from an audit perspective.

The Group describes its accounting policies on page 129 f. and notes 17 to 19 and note 37 to the consolidated financial statements.

Our audit response

We assessed the selection process for the key assumptions used for valuation and tested them on a sample basis with the assistance of our valuation specialists. In addition, we performed combined model and parameter tests, i.e., we validated the Group's measurements using independent valuation models and inputs. We also tested the fair values available in an active market on a sample basis, including comparing values to available market data.

Completeness and measurement of provisions for legal proceedings and other matters

Area of focus

As of 31 December 2017 the Group recognizes provisions for legal proceedings and other matters of CHF 15.9 million.

The Group is involved in various legal, regulatory and administrative proceedings arising within the course of normal business operations.

The Group establishes provisions for pending and threatened legal proceedings and other matters if the management is of the opinion that such proceedings are more likely than not to result in a financial obligation or loss, or if the dispute for economic reasons should be settled without acknowledgment of any liability on the part of the Group and if the amount of such obligation or loss can already be reasonably estimated. In isolated cases in which the amount cannot be estimated reliably due to the early stage of the proceedings, the complexity of the proceedings and/or other factors, no provision is recognised, but the case is disclosed as a contingent liability.

The recognition and measurement of provisions and the measurement and disclosure of contingent liabilities in respect of legal proceedings and other matters requires significant judgment.

The Group describes its accounting policies for legal proceedings and other matters on page 132 and notes 9, 28 and 33 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 and other matters.

On a sample basis, we evaluated the Group's analysis of pending and threatened legal proceedings and other matters. We also obtained and assessed correspondence directly from external legal counsel. In addition, we assessed the disclosure in the notes to the consolidated financial statements.

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 standalone 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 its relevant 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 its relevant 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 its relevant 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

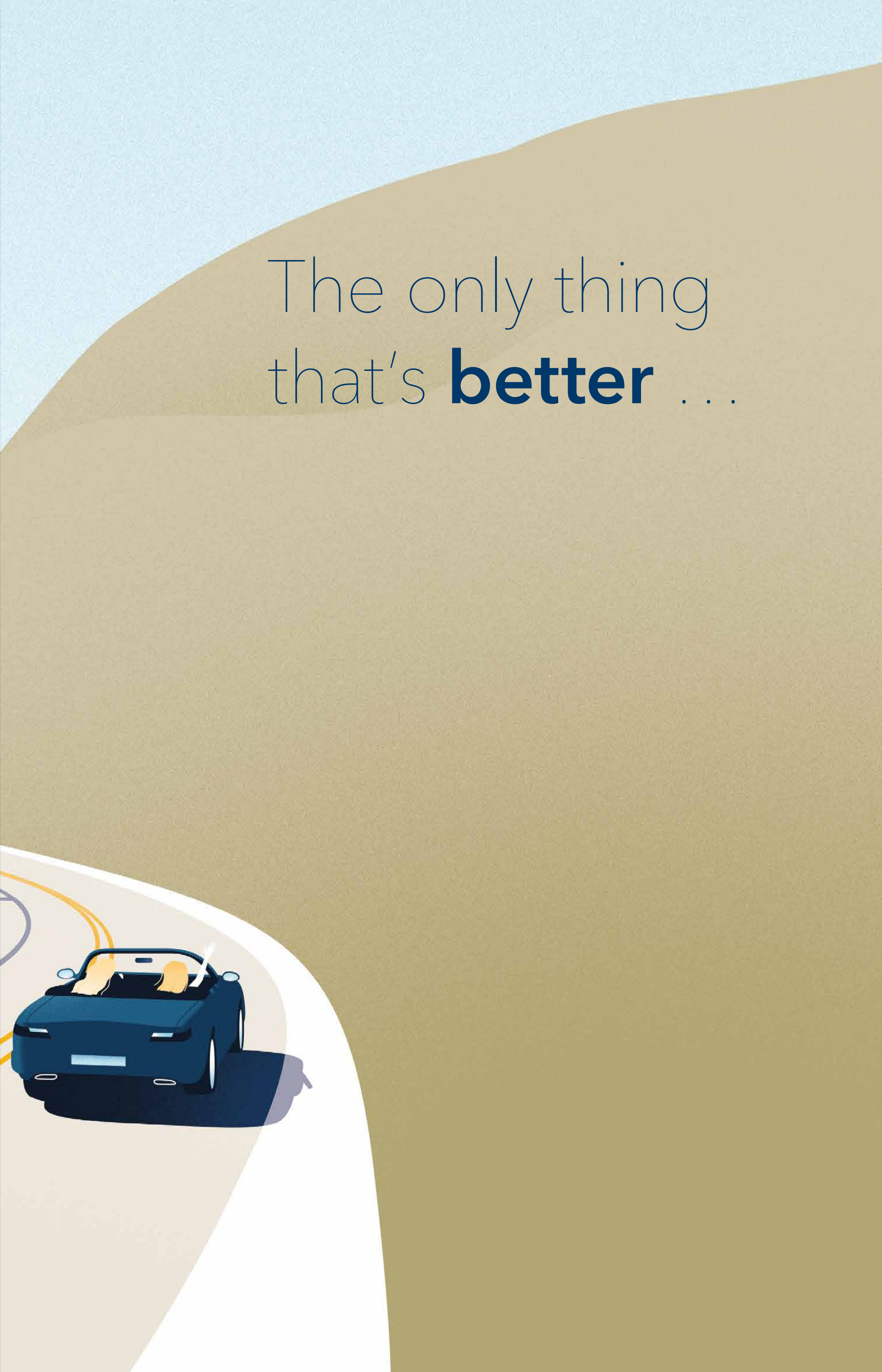
The consolidated annual report corresponds to the consolidated financial statements and contains no significant incorrect information according to our assessment.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Moreno Halter Certified Accountant (Auditor in charge)	Bruno Patusi Swiss Certified Accountant

Berne, 28 February 2018


The only thing
that's **better** …

… is what still lies **ahead**.

To live means to change. And change means pushing ahead to realise wishes and achieve objectives, searching for unusual solutions – and staying curious. For us this attitude is crucial, not only in our work within the team but also in our contacts with our clients. In the rapidly evolving world of finance we will be an experienced, dynamic partner on whom you can rely. We see your needs and goals as our challenges. Which continually strengthens our resolve to forge ahead with you, sometimes even into uncharted waters.

Dolores Hoop
Assistant to the Chief Executive Officer

To shape financial transactions of the highest quality in terms of service, products and solutions – and to do so every day – is not just our bank's motto, but also my own personal ambition. I see communication with the client as especially important. To build a steady relationship of trust through proactive, personal contact. In this way, success becomes a shared experience. Motivating us and making us curious about further goals we can achieve together.

Andreas Meier
Client Advisor

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Financial report 2017 of VP Bank Ltd, Vaduz

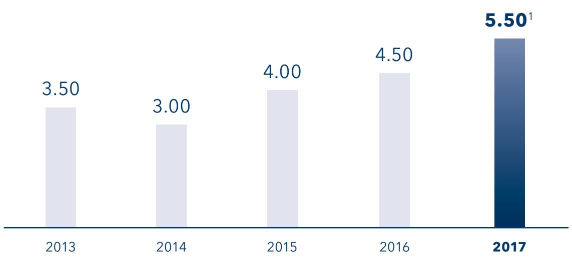
Annual report of VP Bank Ltd, Vaduz

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 547,320 registered shares A as well as 131,662 registered shares B (prior year: 593,777 registered shares A and 127,812 registered shares B). This equates to a capital share of approximately 8.5 per cent (prior year: 9.2 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 4.50 per registered share A and CHF 0.45 per registered share B) at the annual general meeting of shareholders to be held on 27 April 2018.

Dividend (in CHF)



[1] Proposal to the annual general meeting

Balance sheet

Assets

in CHF 1,000 Art. 24b FL-BankO	31.12.2017	31.12.2016	Variance absolute	Variance in %
Cash and cash equivalents	3,366,983	3,380,818	–13,835	–0.4
Due from banks	1,209,160	916,082	293,078	32.0
• maturing daily	775,169	550,569	224,600	40.8
• other receivables	433,991	365,513	68,478	18.7
Due from customers	4,544,053	4,400,435	143,618	3.3
of which mortgage receivables	3,080,115	3,098,641	–18,526	–0.6
Debentures and other interest-bearing securities	2,034,774	1,806,782	227,992	12.6
• money-market papers	5,017	0	5,017	n.a.
From public-sector issuers	5,017	0	5,017	n.a.
From other issuers	0	0	0	0.0
• debt securities	2,029,757	1,806,782	222,975	12.3
from public-sector issuers	591,716	715,547	–123,831	–17.3
from other issuers	1,438,041	1,091,235	346,806	31.8
Equity shares and other non-interest-bearing securities	51,024	62,911	–11,887	–18.9
Participations	35	35	0	0.0
Shares in affiliated companies	138,881	124,155	14,726	11.9
Intangible assets	16,233	7,632	8,601	112.7
Property and equipment	74,855	79,168	–4,313	–5.4
Treasury shares	47,895	51,559	–3,664	–7.1
Other assets	49,172	67,155	–17,983	–26.8
Accrued receivables and prepaid expenses	21,175	21,268	–93	–0.4
Total assets	**11,554,240**	**10,918,000**	**636,240**	**5.8**

Liabilities and shareholders› equity

in CHF 1,000 Art. 24b FL-BankO	31.12.2017	31.12.2016	Variance absolute	Variance in %
Due to banks	2,460,472	2,265,523	194,949	8.6
• maturing daily	1,748,935	1,474,568	274,367	18.6
• with agreed duration or term of notice	711,537	790,955	–79,418	–10.0
Due to customers	7,617,629	7,230,224	387,405	5.4
• savings deposits	650,117	702,634	–52,517	–7.5
• other liabilities	6,967,512	6,527,590	439,922	6.7
maturing daily	6,635,252	6,057,804	577,448	9.5
with agreed duration or term of notice	332,260	469,786	–137,526	–29.3
Securitised liabilities	460,655	424,323	36,332	8.6
• debentures issued	460,655	424,323	36,332	8.6
of which medium-term notes	260,655	224,323	36,332	16.2
Other liabilities	70,056	81,074	–11,018	–13.6
Accrued liabilities and deferred items	17,813	17,131	682	4.0
Provisions	25,861	17,984	7,877	43.8
• tax provisions	5,300	7,217	–1,917	–26.6
• other provisions	20,561	10,767	9,794	91.0
Provisions for general banking risks	63,150	63,150	0	0.0
Share capital	66,154	66,154	0	0.0
Capital reserves	47,143	47,143	0	0.0
Income reserves	589,025	586,446	2,579	0.4
• legal reserves	239,800	239,800	0	0.0
• reserves for treasury shares	47,895	51,559	–3,664	–7.1
• other reserves	301,330	295,087	6,243	2.1
Balance brought forward	87,078	50,868	36,210	71.2
Net income for the year	49,204	67,980	–18,776	–27.6
Total liabilities and shareholders’ equity	**11,554,240**	**10,918,000**	**636,240**	**5.8**

Off-balance-sheet transactions

in CHF 1,000 Art. 24b FL-BankO	31.12.2017	31.12.2016	Variance absolute	Variance in %
Contingent liabilities	**55,871**	**100,344**	**–44,473**	**–44.3**
Credit risks	**23,064**	**17,543**	**5,521**	**31.5**
• irrevocable facilities granted	23,064	17,543	5,521	31.5
Derivative financial instruments				
• positive replacement values	29,469	43,593	–14,124	–32.4
• negative replacement values	47,317	58,154	–10,837	–18.6
• contract volumes	5,130,072	5,452,567	–322,495	–5.9
Fiduciary transactions	**468,319**	**416,867**	**51,452**	**12.3**

Income statement

in CHF 1,000 Art. 24c FL-BankO	2017	2016	Variance absolute	Variance in %
Interest income	70,143	64,348	5,795	9.0
of which from interest-bearing securities	21,294	20,961	333	1.6
of which from trading transactions	0	25	–25	–99.3
Interest expense	19,260	8,904	10,356	116.3
Net interest income	50,883	55,444	–4,561	–8.2
Current income from securities	8,873	7,566	1,307	17.3
• shares and other non-interest-bearing securities	3,966	3,336	630	18.9
of which from trading transactions	0	0	0	0.0
• participations	2	2	0	0.0
• shares in affiliated companies	4,905	4,228	677	16.0
Income from commission business and services	96,797	94,370	2,427	2.6
• commission income from credit business	585	450	135	30.1
• commission income from securities and investment business	81,735	79,694	2,041	2.6
• commission income from other services	14,477	14,226	251	1.8
Commission expense	17,854	16,831	1,023	6.1
Net income from commission business and services	78,943	77,539	1,404	1.8
Income from financial transactions	72,865	61,513	11,352	18.5
of which from trading transactions	68,959	61,760	7,199	11.7
Other ordinary income	3,973	3,489	484	13.9
• income from real estate	158	176	–18	–9.8
• other ordinary income	3,815	3,313	502	15.1
Total net operating income	**215,537**	**205,551**	**9,986**	**4.9**
Operating expenses	135,869	122,677	13,192	10.8
• personnel expenses	97,616	89,516	8,100	9.0
• general and administrative expenses	38,253	33,161	5,092	15.4
Gross income	**79,668**	**82,874**	**–3,206**	**–3.9**
Depreciation and amortisation of intangible assets and property and equipment	17,068	14,035	3,033	21.6
Other ordinary expenses	389	1,552	–1,163	–74.9
Valuation allowances on receivables and increases in provisions for contingent liabilities and credit risks	16,676	5,652	11,024	195.0
Income from release of valuation allowances on receivables and from the release of provisions for contingent liabilities and credit risks	9,440	10,404	–964	–9.3
Write-offs on participations, shares in affiliated companies and securities dealt with as non-current assets	0	0	0	0.0
Gains from appreciations on participations, shares in affiliated companies and securities dealt with as non-current assets	0	0	0	0.0
Income from normal business operations	**54,975**	**72,039**	**–17,064**	**–23.7**
Extraordinary income	0	1	–1	–100.0
Extraordinary expenses	0	0	0	0.0
Taxes on income	5,771	4,057	1,714	42.3
Other taxes if not included in above items	0	3	–3	–100.0
Net income for the year	**49,204**	**67,980**	**–18,776**	**–27.6**

Appropriation of profit

in CHF 1,000 **Art. 24c FL-BankO**	**2017**	**2016**	**Variance absolute**	**Variance in %**
Net income for the year	49,204	67,980	–18,776	–27.6
Retained earnings brought forward	87,078	50,868	36,210	71.2
Retained earnings	136,282	118,847	17,435	14.7
Appropriation of profit				
Appropriation to other reserves	0	0	0	0.0
Distribution on the basis of company capital	36,385	29,769	6,616	22.2
Other appropriation of profit	0	2,000	–2,000	–100.0
Retained earnings to be carried forward	**99,897**	**87,078**	**12,819**	**14.7**

The Board of Directors proposes that the profit be distributed as follows:

At the disposal of the annual general meeting	136,281,687.12
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	99,896,895.27

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.

As of 31 December 2016, VP Bank Group owns subsidiary companies in Zurich, Luxembourg, the British Virgin Islands, Singapore and Hong Kong, as well as representative offices in Moscow and Hong Kong. Adjusted to reflect full-time equivalents, at year-end 2017 VP Bank Ltd had 507.8 individuals under its employment (previous year: 475.1).

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 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 converted into Swiss francs at their respective daily rates; assets and liabilities are converted at the rates prevailing at year-end. Foreign-exchange gains and losses resulting from revaluation 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 taking into account 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 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 classified as current assets are valued at the lower of cost and market. Interest on interest-bearing securities is reflected in the interest income items, dividend income in the current income from securities items. Gains and losses from revaluation are disclosed in the item gains/losses arising from financial 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 service life of three to seven years. Self-developed intangible assets are not capitalised. Minor purchases are charged directly to general and administrative expenses.

Property and equipment

Property 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 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 (buildings used by the Bank and other real estate: 25 years; furniture and equipment: 8 years; computer hardware: 3 years; software: 3 to 7 years). The property 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 on 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 2017 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 138 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	15,634	1,165,445	282,859	1,463,938
Mortgage receivables	3,015,617	48,375	16,123	3,080,115
• Residential property	1,971,038	38,091	7,539	2,016,668
• Office and business premises	140,790	0	0	140,790
• Commercial and industrial premises	796,022	962	4,202	801,186
• Other	107,767	9,322	4,382	121,471
Total loans, 31.12.2017	**3,031,251**	**1,213,820**	**298,982**	**4,544,053**
Total loans, 31.12.2016	3,066,460	1,075,193	258,782	4,400,435
Off-balance-sheet transactions				
Contingent liabilities	1,466	43,767	10,638	55,871
Irrevocable facilities granted	5,038	1,376	16,650	23,064
Total off-balance-sheet transactions, 31.12.2017	**6,504**	**45,143**	**27,288**	**78,935**
Total off-balance-sheet transactions, 31.12.2016	5,328	95,828	16,731	117,887

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, 31.12.2017	**79,617**	**49,455**	**30,162**	**30,162**
Total value-impaired loans, 31.12.2016	63,748	33,100	30,648	30,648

Trading portfolios of securities and precious metals

in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankO	Carrying value 31.12.2017	Carrying value 31.12.2016	Acquisition cost 31.12.2017	Acquisition cost 31.12.2016	Market value 31.12.2017	Market value 31.12.2016
Trading portfolios of securities and precious metals						
Equity shares	40	33	26	26	40	33
of which equity shares in the treasury	40	33	26	26	40	33
Precious metals	135	100	131	104	135	100
Total	**175**	**133**	**157**	**130**	**175**	**133**
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)	28,707	43,025			28,707	43,025
Negative replacement values of derivative financial instruments in trading portfolios (other liabilities)	31,938	36,657			31,938	36,657
Total	**60,645**	**79,682**			**60,645**	**79,682**
Portfolios of securities and precious metals in current assets (excluding trading portfolios)						
Debt securities	2,034,774	1,806,782	2,001,004	1,798,726	2,055,855	1,835,287
Equity shares	98,879	114,437	131,929	146,872	141,651	138,614
of which equity shares in the treasury	47,855	51,526	47,855	51,527	74,504	65,476
Total	**2,133,653**	**1,921,219**	**2,132,933**	**1,945,598**	**2,197,506**	**1,973,901**
of which repo-eligible securities	800,611	755,422	792,507	780,753	812,045	772,470
of which exchange-listed securities	2,112,513	1,886,563	2,094,408	1,882,314	2,174,823	1,934,973

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 2017	2016	Carrying value 2017	2016
Registered shares A				
Balance at the beginning of the year	593,777	594,774	50,478	48,771
Purchase	7,049	81,786	781	8,005
Disposals	–53,506	–82,783	–6,525	–7,392
Valuation allowances				
Appreciation			2,024	1,094
Balance at the end of the year	**547,320**	**593,777**	**46,758**	**50,478**
Registered shares B				
Balance at the beginning of the year	124,780	124,280	1,048	1,019
Purchase	3,850	500	49	5
Disposals				
Valuation allowances				
Appreciation				24
Balance at the end of the year	**128,630**	**124,780**	**1,097**	**1,048**

Participations and shares in affiliated companies

in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankO	Carrying value 31.12.2017	Carrying value 31.12.2016
Participations		
without quoted market value	35	35
Total participations	**35**	**35**
Shares in affiliated companies		
without quoted market value[1]	138,881	124,155
Total shares in affiliated companies	**138,881**	**124,155**

[1] In 2017, 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	31.12.2017 Corporate capital	Percentage ownership	Currency	31.12.2016 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 Verwaltung GmbH, Munich – in liquidation (management company)				EUR	500	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 (bank)	SGD	102,000	100%	SGD	81,000	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 133.5 million including subordinated loans (previous year: CHF 118.8 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 31.12.2016	Financial year 2017 Investments	Divestments	Depr. and amortisation	Depr. and amort. on disposal	Carrying value 31.12.2017
Total participations (minority participations)	163	–128	35					35
Total shares in affiliated companies	175,391	–51,236	124,155	14,726				138,881
Total intangible assets (excluding goodwill)	134,080	–126,448	7,632	17,972	–235	–9,371	235	16,233
Real estate								
• bank premises	200,889	–124,058	76,831	1,418	–1,442	–5,614	1,178	72,371
• other real estate			0					0
Other property and equipment	28,588	–26,251	2,337	2,285	–894	–2,083	839	2,484
Total property and equipment	229,477	–150,309	79,168	3,703	–2,336	–7,697	2,017	74,855
Fire-insurance values of real estate			171,500					171,500
Fire-insurance values of other property and equipment			28,200					28,200

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	31.12.2017	31.12.2016
Total minimum commitments arising from operating leases	**7,578**	**8,619**

Operating expenses as of 31 December 2017 include CHF 1.806 million arising from operating leases (previous year: CHF 1.946 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	31.12.2017	31.12.2016
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	639,652	650,478
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	1,256
Amounts payable arising from cash deposits in connection with securities lending and repurchase transactions	0	50,883
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	360,947	478,910
of which securities for which an unconditional right has been granted to sell on or repledge	275,418	410,780
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	347,368	426,254
of which securities repledged or sold on	85,529	68,130

Liabilities to own retirement pension plans

in CHF 1,000 Art. 24e Par. 1 Point 3.7 FL-BankO	31.12.2017	31.12.2016
Due to customers	25,060	29,677
Securitised liabilities	150	150
Other liabilities	1,033	53
Total liabilities to own retirement pension plans	**26,243**	**29,880**

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 31.12.2017	Nominal amount 31.12.2016
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 01.01.2017**	**Utilisation in accordance with purpose**	**Recoveries, overdue interest, forex diff.**	**Releases to income statement**	**Provisions released to income statement**	**Balance on 31.12.2017**
Valuation allowances for default risks						
• Individual valuation allowances	30,648	817	1,303	5,856	6,828	30,162
• Lump-sum valuation allowances	22,116			1,753	2,476	21,393
Provisions for contingent liabilities and credit risks	245			10	111	144
Provisions for taxes and deferred taxes	7,217	7,688		5,771		5,300
Other provisions	10,522	7,770	672	17,049	56	20,417
Total valuation allowances and provisions	**70,748**	**16,275**	**1,975**	**30,439**	**9,471**	**77,416**
minus: valuation allowances	52,764					51,555
Total provisions as per balance sheet	**17,984**					**25,861**
Provisions for general banking risks	**63,150**					**63,150**

Company capital

in CHF 1,000 **Art. 24e Par. 1 Point 3.10 FL-BankO**	**31.12.2017** **Total par value**	**Number**	**Capital entitled to dividends**	**31.12.2016** **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**	**31.12.2017** **Par value**	**Share in % of par value**	**Share of voting rights in %**	**31.12.2016** **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	6,128	9.3	10.0	6,126	9.3	10.0
Marxer Stiftung für Bank- und Unternehmenswerte, Vaduz	7,566	11.4	6.3	7,564	11.4	6.3

Statement of changes in shareholders' equity

in CHF 1,000 **Art. 24e Par. 1 Point 3.11 FL-BankO**	**2017**
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	51,559
Other reserves	295,087
Provisions for general banking risks	63,150
Retained earnings	118,848
Total shareholders' equity at the beginning of the financial year	**881,741**
Other appropriations / releases from reserves (–)	2,578
Dividends and other distributions from net income of the previous year[1]	–31,769
Net income/loss for the financial year	49,204
Total shareholders' equity at the end of the financial year	**901,754**
of which	
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

[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	3,366,983							3,366,983
Due from banks	775,169	107,266	292,448	33,863		414		1,209,160
Due from customers	5,676	181,086	2,141,461	458,886	1,467,066	289,878		4,544,053
of which mortgage receivables	2,276	79,615	1,070,947	262,114	1,377,762	287,401		3,080,115
Trading portfolios of securities and precious metals	175							175
Portfolios of securities and precious metals in current assets (excluding trading portfolios)	2,133,653							2,133,653
Other assets	227,350		495				72,371	300,216
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**
Total assets, 31.12.2016	6,083,453	362,666	2,040,331	522,347	1,467,308	365,064	76,831	10,918,000
Liabilities and provisions								
Due to banks	1,748,936	426,786	269,186	10,077	5,487			2,460,472
Due to customers	5,685,576	1,599,792	262,828	39,189	30,244			7,617,629
• savings deposits		650,117						650,117
• other liabilities	5,685,576	949,675	262,828	39,189	30,244			6,967,512
Securitised liabilities			10,374	56,159	290,268	103,854		460,655
• debentures issued			10,374	56,159	290,268	103,854		460,655
of which medium-term notes			10,374	56,159	190,268	3,854		260,655
Provisions (excluding provisions for general banking risks)	25,861							25,861
Other liabilities	86,992		877					87,869
Total liabilities, 31.12.2017	**7,547,365**	**2,026,578**	**543,265**	**105,425**	**325,999**	**103,854**		**10,652,486**
Total liabilities, 31.12.2016	7,217,623	1,610,105	702,728	153,670	248,427	103,706		10,036,259

Debentures and other interest-bearing securities which mature in the following financial year	422,553
Issued debentures which mature in the following financial year	66,533

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**	**31.12.2017**	**31.12.2016**
Receivables from and payables to participations, affiliated companies and qualifying participants		
Receivables from participations	0	0
Payables to participations	73	253
Receivables from affiliated companies	397,800	351,892
Payables to affiliated companies	1,932,280	1,918,949
Receivables from qualifying participants	20,052	20,025
Payables to qualifying participants	92,508	76,451
Loans to governing bodies		
Members of the Executive Board and parties related thereto	2,750	1,135
Members of the Board of Directors and parties related thereto[1]	20,762	20,770

[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 2017 totalled CHF 0.735 million (prior year: CHF 0.911 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, 3] Fixed 2017	Fixed 2016	thereof in registered shares A (market value) 2017	thereof in registered shares A (market value) 2016	Retirement benefit plans 2017	Retirement benefit plans 2016	Total remuneration 2017	Total remuneration 2016
Board of Directors									
Fredy Vogt	Chairman[A]	560	560	140	140	85	84	645	644
Markus Thomas Hilti	Vice Chairman[B]	130	123	33	31			130	123
Dr Christian Camenzind	BoD[H, K]	110	84	28	18			110	84
Prof. Dr Teodoro D. Cocca	BoD[G]	130	132	33	33			130	132
Dr Beat Graf	BoD[D, F]	135	120	34	26			135	120
Ursula Lang	BoD[D, E, K]	143	84	36	18			143	84
Dr Florian Marxer	BoD[H]	110	105	28	26			110	105
Dr Guido Meier	BoD[I]		58		14			0	58
Dr Gabriela Payer	BoD[B, H, K]	140	107	35	23			140	107
Michael Riesen	BoD[C, F]	160	183	40	40			160	183
Dr Daniel H. Sigg	BoD[L]	80	160	20	40			80	160
Total Board of Directors		**1,698**	**1,716**	**425**	**409**	**85**	**84**	**1,783**	**1,800**

[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 29 April 2016
[K] Member of the Board of Directors as from 29 April 2016
[L] Member of the Board of Directors up to 28 April 2017
[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.
[3] Including withholding tax contributions taken over by VP Bank.

in CHF 1,000 Art. 14-16 Ordinance against Excessive Compensation with respect to Listed Stock Corporations (Switzerland)	Remuneration[1] Fixed basic salary[2] 2017	Fixed basic salary[2] 2016	Short Term Incentive (STI) 2017	Short Term Incentive (STI) 2016	Performance Share Plan (PSP) 2017	Performance Share Plan (PSP) 2016	Restricted Share Plan (RSP) 2017	Restricted Share Plan (RSP) 2016	Retirement benefit plans 2017	Retirement benefit plans 2016	Total remuneration 2017	Total remuneration 2016
Executive Management	**2,828**	**2,380**	**694**	**500**	**1,237**	**1,100**	**619**	**500**	**500**	**426**	**5,878**	**4,906**
Highest remuneration												
Alfred W. Moeckli	700	700	250	250	500	500	250	250	148	148	1,848	1,848

[1] Compensation for out-of-pocket expenses is not included.
[2] Gifts for length of service and termination pay are included.

The compensation model described in the compensation report (pages 94 et seq.) 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 2017–2019 plan, Group Executive Management received 12,046 performance units (prior year: 13,647) from the PSP and 6,023 restricted units (prior year: 6,204) 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 2017 financial year, 18,189 performance shares (prior year: 23,477) with a market value of CHF 2,228,152.50 on the date of allocation (prior year: CHF 2,098,843.80) were transferred from the Management Plan 2014–2016 and the RSP 2015–2017 and RSP 2016–2018.

Shareholdings and loans to governing bodies and related parties

in CHF 1,000	Shareholdings in VP Bank				Loans and credits		Related parties[1]			
Art. 14-16 Ordinance against Excessive Compensation with respect to Listed Stock Corporations (Switzerland)	Number of shares (including related parties, excluding qualifying participants)						Loans and credits		Remuneration for service provided	
	Registered shares A		Registered shares B							
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Board of Directors										
Fredy Vogt	21,840	20,784			762	770				
Markus Thomas Hilti	6,254 [2]	6,009 [2]								
Dr Christian Camenzind[A]	392	184								
Prof. Dr Teodoro D. Cocca	1,989	1,744								
Dr Beat Graf	961 [2]	706 [2]							500	500
Ursula Lang[A]	455	184								
Dr Florian Marxer	634 [2]	426 [2]					20,000	20,000	235	411
Dr Gabriela Payer[A]	498	234								
Michael Riesen	1,417	1,115								
Dr Daniel H. Sigg		4,630								
Total Board of Directors	**34,440**	**36,016**	**0**	**0**	**762**	**770**	**20,000**	**20,000**	**735**	**911**
Executive Management										
Alfred W. Moeckli, CEO	24,742	19,639			975	200				
Siegbert Näscher, CFO	19,933	15,883			400	500				
Martin C. Beinhoff, COO[C]		1,400								
Christoph Mauchle	16,982	11,706			435	435				
Monika Vicandi, CRO[B]	4,760				940					
Total Executive Management	**66,417**	**48,628**	**0**	**0**	**2,750**	**1,135**	**0**	**0**	**0**	**0**

[A] Member of the Board of Directors as from 29 April 2016
[B] Member of the Executive Management as from 1 January 2017
[C] Member of the Executive Management up to 30 June 2017
[1] Individual or legal entities which are economically, legally or de facto closely related to a member of one of the governing bodies.
[2] Excluding the number of shares of the significant shareholders (qualifying participants).

Assets and liabilities by domestic and foreign origin

in CHF 1,000 Art. 24e Par. 1 Point 3.14 FL-BankO	31.12.2017 Domestic	Foreign	31.12.2016 Domestic	Foreign
Assets				
Cash and cash equivalents	3,366,983		3,380,818	
Due from banks	732,908	476,252	579,751	336,331
Due from customers	3,625,533	918,520	3,601,498	798,937
of which mortgage receivables	3,014,319	65,796	3,035,812	62,829
Debentures and other interest-bearing securities	185,593	1,849,181	99,393	1,707,389
Equity shares and other non-interest-bearing securities	27,057	23,967	24,913	37,998
Participations	35		35	
Shares in affiliated companies	4,600	134,281	4,600	119,555
Intangible assets	16,233		7,632	
Property and equipment	74,855		79,168	
Treasury shares	47,895		51,559	
Other assets	37,240	11,932	53,117	14,038
Accrued receivables and prepaid expenses	10,850	10,325	12,289	8,979

Assets and liabilities by domestic and foreign origin (continued)

in CHF 1,000 **Art. 24e Par. 1 Point 3.14 FL-BankO**	**31.12.2017** **Domestic**	**Foreign**	**31.12.2016** **Domestic**	**Foreign**
Total assets	**8,129,782**	**3,424,458**	**7,894,773**	**3,023,227**
Liabilities and shareholders' equity				
Due to banks	1,335,517	1,124,955	1,186,878	1,078,645
Due to customers	5,251,257	2,366,372	4,681,239	2,548,985
• savings deposits	521,481	128,636	572,718	129,916
• other liabilities	4,729,776	2,237,736	4,108,521	2,419,069
Securitised liabilities	460,655		424,323	
Other liabilities	56,624	13,432	66,276	14,798
Accrued liabilities and deferred items	17,154	659	16,759	372
Provisions	25,861		17,984	
Provisions for general banking risks	63,150		63,150	
Share capital	66,154		66,154	
Capital reserves	47,143		47,143	
Income reserves	589,025		586,446	
• legal reserves	239,800		239,800	
• reserves for treasury shares	47,895		51,559	
• other reserves	301,330		295,087	
Balance brought forward	87,078		50,868	
Net income for the year	49,204		67,980	
Total liabilities and shareholders' equity	**8,048,822**	**3,505,418**	**7,275,200**	**3,642,800**

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**	**31.12.2017** **Absolute**	**Share in %**	**31.12.2016** **Absolute**	**Share in %**
Assets				
Liechtenstein/Switzerland	8,129,782	70.4	7,894,773	72.3
Europe (excluding Liechtenstein/Switzerland)	1,535,662	13.3	1,403,806	12.9
North America	685,674	5.9	652,555	6.0
Asia	682,079	5.9	605,144	5.5
Caribbean	426,567	3.7	289,194	2.6
Other	94,476	0.8	72,528	0.7
Total assets	**11,554,240**	**100.0**	**10,918,000**	**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	3,359,720	355	6,421	487	3,366,983
Due from banks	180,988	346,976	179,446	501,750	1,209,160
Due from customers	3,236,472	664,793	554,294	88,494	4,544,053
of which mortgage receivables	2,962,086	24,371	66,485	27,173	3,080,115
Debentures and other interest-bearing securities	458,063	761,936	814,775		2,034,774
Equity shares and other non-interest-bearing securities	18,436	15,515	16,979	94	51,024
Participations	35				35
Shares in affiliated companies	138,881				138,881
Intangible assets	16,233				16,233
Property and equipment	74,855				74,855
Treasury shares	47,895				47,895
Other assets	47,490	871	397	414	49,172
Accrued receivables and prepaid expenses	11,461	5,086	4,253	375	21,175
Total on-balance-sheet assets	**7,590,529**	**1,795,532**	**1,576,565**	**591,614**	**11,554,240**
Delivery claims arising from foreign-exchange spot, forward and option transactions	204,523	2,303,751	1,584,093	723,018	4,815,385
Total Assets, 31.12.2017	**7,795,052**	**4,099,283**	**3,160,658**	**1,314,632**	**16,369,625**

Balance sheet by currency (continued)

in CHF 1,000 Art. 24e Par. 1 Point 3.16 FL-BankO	CHF	USD	EUR	Other	Total
Total Assets, 31.12.2016	7,916,930	3,769,787	3,192,989	1,113,277	15,992,983
Liabilities and shareholders' equity					
Due to banks	552,219	1,104,842	434,356	369,055	2,460,472
Due to customers	2,931,485	2,039,487	2,042,011	604,646	7,617,629
• savings deposits	649,609		508		650,117
• other liabilities	2,281,876	2,039,487	2,041,503	604,646	6,967,512
Securitised liabilities	432,516	5,270	22,869		460,655
Other liabilities	57,806	8,143	3,592	515	70,056
Accrued liabilities and deferred items	17,000	739	18	56	17,813
Provisions	15,817		10,044		25,861
Provisions for general banking risks	63,150				63,150
Share capital	66,154				66,154
Capital reserves	47,143				47,143
Income reserves	589,025				589,025
• legal reserves	239,800				239,800
• reserves for treasury shares	47,895				47,895
• other reserves	301,330				301,330
Balance brought forward	87,078				87,078
Net income for the year	49,204				49,204
Total on-balance-sheet liabilities	**4,908,597**	**3,158,481**	**2,512,890**	**974,272**	**11,554,240**
Delivery obligations arising from foreign-exchange spot, forward and option transactions	2,869,738	944,968	665,043	338,312	4,818,061
Total liabilities, 31.12.2017	**7,778,335**	**4,103,449**	**3,177,933**	**1,312,584**	**16,372,301**
Total liabilities, 31.12.2016	7,897,485	3,952,049	3,023,560	1,113,192	15,986,286
Net position per currency	**16,717**	**-4,166**	**-17,275**	**2,048**	

Contingent liabilities

in CHF 1,000 Art. 24e Par. 1 Point 4.1 FL-BankO	31.12.2017	31.12.2016	Variance absolute	Variance in %
Contingent liabilities				
Credit guarantees and similar	24,265	21,129	3,136	14.8
Performance guarantees and similar	31,606	79,215	–47,609	–60.1
Other contingent liabilities	0	0	0	0.0
Total contingent liabilities	**55,871**	**100,344**	**–44,473**	**–44.3**

Unsettled derivative financial instruments

in CHF 1,000 Art. 24e Par. 1 Point 4.3 FL-BankO	Trading instruments Positive replacement values	Trading instruments Negative replacement values	Trading instruments Contract volumes	Hedging instruments Positive replacement values	Hedging instruments Negative replacement values	Hedging instruments Contract volumes
Interest-rate instruments						
Swaps				762	15,379	301,910
Foreign exchange / precious metals						
Forward contracts	9,473	3,836	831,469			
Combined interest-rate/currency swaps	18,435	26,748	3,876,938			
Options (OTC)	799	799	106,980			
Equity instruments/Indices						
Futures						3,910
Options (exchange-traded)		555	8,866			
Total prior to consideration of netting agreements, 31.12.2017	**28,707**	**31,938**	**4,824,252**	**762**	**15,379**	**305,820**
Total prior to consideration of netting agreements, 31.12.2016	43,025	36,657	5,083,449	568	21,497	369,119

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 175 ff).

Fiduciary transactions

in CHF 1,000 Art. 24e Par. 1 Point 4.2 FL-BankO	31.12.2017	31.12.2016	Variance absolute	Variance in %
Fiduciary transactions				
Fiduciary deposits	468,319	416,867	51,452	12.3
• Fiduciary deposits with third-party banks	462,879	415,088	47,791	11.5
• Fiduciary deposits with affiliated banks and finance companies	5,440	1,779	3,661	n.a.
Fiduciary loans	0	0	0	0.0
Other fiduciary transactions of financial nature	0	0	0	0.0
Total fiduciary transactions	**468,319**	**416,867**	**51,452**	**12.3**

Information regarding the income statement

in CHF 1,000 Art. 24e Par. 1 Point 5.2 FL-BankO	2017	2016	Variance absolute	Variance in %
Income from trading activities				
Gains from securities	45	24	21	85.9
Gains from foreign-exchange derivatives	–1,447	–3,203	1,756	–54.8
Gains from foreign-exchange transactions	68,956	62,687	6,269	10.0
Gains from trading in banknotes	1,149	1,982	–833	–42.0
Gains from precious metals	256	270	–14	–5.5
Total income from trading activities	**68,959**	**61,760**	**7,199**	**11.7**

in CHF 1,000 Art. 24e Par. 1 Point 5.3 FL-BankO	2017	2016	Variance absolute	Variance in %
Personnel expenses				
Salaries and wages	78,679	71,816	6,863	9.6
Social security costs and staff retirement pensions and assistance costs	14,550	14,693	–143	–1.0
of which for staff retirement pensions	13,090	13,319	–229	–1.7
Other personnel expenses	4,387	3,007	1,380	45.9
Total personnel expenses	**97,616**	**89,516**	**8,100**	**9.0**

Salaries of members of the Board of Directors and the Executive Board are disclosed under "Remuneration paid to members of governing bodies" (pages 206 f).

in CHF 1,000 Art. 24e Par. 1 Point 5.4 FL-BankO	2017	2016	Variance absolute	Variance in %
General and administrative expenses				
Occupancy expenses	2,421	2,600	–179	–6.9
Expenses for IT, equipment, furniture, motor vehicles and other installations	11,794	9,907	1,887	19.0
Other operating expenses	24,038	20,654	3,384	16.4
Total general and administrative expenses	**38,253**	**33,161**	**5,092**	**15.4**

in % Art. 24e Par. 1 Point 6 FL-BankO	2017	2016	Variance absolute	Variance in %
Return on capital[1]	**0.44**	**0.62**	**–0.18**	**–29.0**

[1] Net income/average balance sheet total.

in CHF 1,000 Art. 24e Par. 2 Point 6e FL-BankO	2017	2016	Variance absolute	Variance in %
Other ordinary income				
Income from real estate	158	176	–18	–9.8
Other ordinary income[1]	3,815	3,313	502	15.1
Total other ordinary income	**3,973**	**3,489**	**484**	**13.9**

[1] 2017: thereof CHF 2.083 million resulting from service level agreements within the Group.
2016: thereof CHF 2.601 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	31.12.2017	31.12.2016	Variance absolute	Variance in %
Other assets				
Precious metals	135	100	35	35.3
Unsettled derivative financial instruments (positive replacement values)	29,469	43,593	–14,124	–32.4
• Trading positions	28,707	43,025	–14,318	–33.3
• Liquidity positions	762	568	194	34.1
Compensation accounts	13,163	19,107	–5,944	–31.1
Settlement accounts	5,667	3,688	1,979	53.7
Miscellaneous other assets	738	667	71	10.6
Total other assets	**49,172**	**67,155**	**–17,983**	**–26.8**
Other liabilities				
Accounts for disbursement of taxes and fees	3,775	3,998	–223	–5.6
Unsettled derivative financial instruments (negative replacement values)	47,317	58,154	–10,837	–18.6
• Trading positions	31,938	36,657	–4,719	–12.9
• Liquidity positions	15,379	21,497	–6,118	–28.5
Compensation accounts	766	571	195	34.0
Settlement accounts	17,848	18,434	–586	–3.2
Miscellaneous other liabilities	350	–83	433	n.a.
Total other liabilities	**70,056**	**81,074**	**–11,018**	**–13.6**

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 194 to 211) and the annual report (page 193) of VP Bank Ltd for the year ended 31 December 2017.

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 evidence supporting the amounts and disclosures in the financial statements on a test basis. 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

Moreno Halter
Certified Accountant
(Auditor in charge)

Bruno Patusi
Swiss Certified Accountant

Berne, 28 February 2018

VP Bank Group

VP Bank Ltd is a bank domiciled in Liechtenstein and is subject to supervision by the Liechtenstein Financial Market Authority (FMA), Landstrasse 109, 9490 Vaduz, Liechtenstein, www.fma-li.li

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