

# Risk management of VP Bank Group

## 1. Year 2010: Review and current situation

Again in 2010, the world economy suffered from the financial and credit crisis. This is demonstrated clearly through the state aid programs which have heavily burdened government budgets and have driven up the level of debt. This has exposed the structural imbalances of several countries. Not only the bond markets of the countries in question were shaken by the debt crisis, it also led to a flight into safe currencies which, in turn, provoked exceptionally large fluctuations on currency markets. Again in 2010, central banks had an important role to play. The Swiss National Bank intervened in an attempt to stave off a revaluation of the Swiss franc. The US Federal Reserve Bank and the Bank of England both resorted to quantitative easing measures to be able to further expand the money supply.

In this economic environment characterized by volatile financial markets and a continuing low level of interest rates, VP Bank pursued a prudent risk policy and consistently hedged the balance sheet against rising interest rates and declining foreign exchange rates, in particular against the Euro. Risk exposures in its own financial investments were further reduced in 2010. Thus, at the end of the business year, financial investments totaled CHF 791.1 million; at the end of 2009, they were still at a level of CHF 886.2 million. The regulatory framework Basel III, which is still to be finalized, will bring about far-reaching changes for the banking world. VP Bank is in the process of preparing for the implementation of reverse repo transactions in view of the higher capital-adequacy and liquidity requirements.

## 2. Principles underlying risk management in VP Bank

Risk management of VP Bank is predicated upon the following principles relating to risk policies:

- Risk tolerance: The supreme governing body of the Bank determines the risk measure needed to cover unexpected losses arising from all relevant types of risk on the basis of the freely available equity resources of the Bank in order to ensure the risk tolerance of VP Bank Group.
- Risk appetite: From the risk coverage measure for unexpected losses, the supreme governing body of the Bank derives a risk budget which is less than the maximum acceptable potential loss which the Bank can sustain. The risk budget reflects the risk appetite of the Bank and is distributed over the

individual Group companies in the form of limits for each individual risk category. Under the management of Group Treasury, the Group companies implement the risk strategy within these limits with accountability for results. In the process, extreme risks are avoided which could jeopardize the risk tolerance and thus the very existence of the Group. The risk coverage measure, the risk budget and limits are reviewed regularly and adjusted, where necessary.

- Risks and returns: Strategic and operational decisions are taken on the basis of calculations of risks and returns and in harmony with the interests of the investors. Assuming compliance with laws and the principles underlying business and ethical policies, VP Bank takes on risks consciously so long as it is adequately

rewarded. It avoids transactions with an inadequate relationship of risks to returns.

- Segregation of duties: Risk management of VP Bank Group comprises the active and on-going management of risks as well as the monitoring thereof. Both tasks are undertaken independently of each other thus taking account of the need for a strict functional and organizational segregation of management and control over 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.

The risk policy constitutes the binding framework for risk management within VP Bank Group. In addition to the principles underlying the risk policy, it contains directives as to organizational structures and processes, clear rules governing responsibilities and powers of authority, methods and actions to be taken for risk management as well as independent control functions.

### 3. Organization and powers of authority in the risk-management process

The responsibility for risk is borne by the Board of Directors. It is its remit to ensure that an internal control system (ICS), as the basic prerequisite an effective and efficient management of risks, is established and maintained. In particular, the Board of Directors is responsible for approving the risk policy, additional guidelines relating to matters of risk policy and the risk budget for the overall bank, for overseeing the implementation of the risk policy, the effectiveness of the organization supporting the risk-management process and the risk situation of VP Bank Group. In assuming its duties, the Board of Directors is supported by the Audit & Risk Management Committee.

The Group Executive Management is responsible for the implementation of the strategies and business policies laid down by the Board of Directors. Amongst its core tasks are the management of risks and returns, the management of business and reputational risks as well as the approval of limits for the individual group companies and the respective risk categories.

It is incumbent on the Boards of Directors of the Group companies to adapt the risk policy to local circumstances and regulations specific to the respective financial markets as well ensuring compliance therewith.

Group Risk Controlling is responsible for the measurement and control of financial risks at the portfolio level, the monitoring of compliance with the risk-policy guide-

lines as well as periodic and ad-hoc reporting on all risks to the Board of Directors and Group Executive Management. In addition, Group Risk Controlling computes the overall risk budget and the risk sub-limits and submits them for approval.

Group Risk Controlling is a part of the central staff function Group Finance.

The active and on-going management of liquidity, market and credit risks within the framework of the risk tolerance of the Bank as well as compliance with the risk-policy guidelines is the responsibility of Group Treasury. Group Treasury takes responsibility for the gains and losses which were generated in respect of the risks entered into. Furthermore, Group Treasury is responsible for controlling of derivatives.

In the Group Treasury steering committee which meets each monthly or as and when the need arises, decisions are taken on issues relating to the management of liquidity and limits, the management of own investments as well as asset and liability management (ALM).

The risk-management process of VP Bank comprises the four process phases risk identification, risk evaluation, risk management and risk monitoring. The responsibilities and powers of authority within this process as well as the methods employed and measures to be taken are laid down in detail for each individual phase and each risk category.



The knowledge of the risks inherent in the business activity forms the basis for effective risk management. The identification of risk is essential primarily in the granting of credit, the introduction of new financial instruments, the review of new strategic directions or the execution of unusual off-one transactions.

In the area of risk evaluation, a distinction is made between risk measurement and risk assessment. In the process, it is also necessary to estimate non-quantifiable risks. Quantifiable risks are measured with the aid of the three following variables: expected loss, non-expected loss and stress tests.

- The expected loss measures the risk of individual credit portfolios and computes the average expected loss inherent in each transaction.
- The non-expected loss measures the estimated deviation of the actual loss from the expected loss assuming a certain level of probability. For this, VP Bank applies the value-at-risk concept (VaR) which presently is used exclusively for the computation of market risks. The VaR model of VP Bank is based upon the method of historic simulation: the historic changes in market data of the last 260 trading days are used to value all market-risk positions. In doing so, a holding duration of 30 days is assumed.
- Stress losses are triggered by extreme market movements and measured with the aid of stress tests during which extreme fluctuations in interest rates and curves are simulated.

The goal of risk management is the optimization of the relationship between risk and income within the framework of a defined risk appetite. Active management is undertaken within the framework of the legally stipulated limits and using an internal system of limits oriented to volumes, sensitivity indicators and size of losses. The management of qualitative risks is assured through key controls on the basis of stringently defined business processes.

Active risk management is accompanied by a functionally and organizationally independent risk monitoring process which encompasses the control of risks and reporting. The extent to which overall bank limits are utilized as well as observance of sub-limits are controlled. Group Risk Controlling immediately reports all excesses to the Chief Financial Officer. Periodic reporting ensures that all relevant information on the income-risk situation of VP Bank is presented and reported in a reliable and timely manner.

As of February 1, 2011, Group Treasury was integrated into the area of Group Finance; the functional segregation continues to be ensured through the two units Risk Control (for monitoring) and Group Risk Management (for active management).

## 4. Disclosures on the Basle capital-adequacy provisions

### Capital-adequacy computation

in CHF 1,000	12/31/2010	12/31/2009
<b>Core capital (unadjusted)</b>	<b>900,767</b>	<b>910,713</b>
• Paid-in capital	59,148	59,148
• Disclosed reserves	867,859	834,629
• Consolidated net income	15,084	57,411
• Deduction for treasury shares	-38,465	-38,302
• Minority interests	17,843	18,529
• Deduction for dividend as per proposal of Board of Directors	-20,702	-20,702
Deduction for goodwill and intangible assets	-85,636	-103,699
Other deductions	-5,841	503
<b>Eligible core capital (tier 1)</b>	<b>809,290</b>	<b>807,517</b>
Other deductions from supplementary capital from additional capital and from total capital	-9,851	-4,262
<b>Eligible core capital (adjusted)</b>	<b>799,439</b>	<b>803,255</b>
Credit risk (in accordance with Liechtenstein standard approach)	273,847	269,289
thereof price risk regarding equity securities in the banking book	6,921	8,849
Risks unrelated to counterparties	10,863	11,731
Market risk (in accordance with Liechtenstein standard approach)	13,853	47,213
Operational risk (in accordance with basic indicator approach)	43,036	49,226
<b>Total required equity</b>	<b>341,599</b>	<b>377,459</b>
Ratio eligible (adjusted)/required equity <sup>1</sup>	234.0%	212.8%
Eligible (adjusted) core capital (incl. "innovative" instruments)	18.7%	17.0%
Eligible equity tier 1 <sup>2</sup>	19.0%	17.1%

<sup>1</sup> Eligible equity (as adjusted) as a percentage of required equity (net).

<sup>2</sup> Eligible core capital (tier 1) as a percentage of the risk-weighted positions plus the required equity for market risks, operational risks and for unsettled transaction positions, converted into equivalent units by multiplying by 12.5.

The required qualitative and quantitative disclosures on capital adequacy, on the strategy and processes for risk management as well as the risk situation of VP Bank are made in this chapter as well as in the commentary on the consolidated financial statements (see page 68).

For each risk category, Basle II foresees various approaches for the computation of required equity. VP Bank applies the standard approach for credit and market risks and the basis indicator approach for operational risks.

As of December 31, 2010, the business activities of VP Bank Group required equity of CHF 341.6 million (December 31, 2009: CHF 377.5 million). Adjusted eligible equity totaled CHF 799.4 million (December 31, 2009: CHF 803.3 million). The excess of equity could be increased by 7.5% to CHF 457.8 million (December 31, 2009: CHF 425.8 million) and together with a tier 1 ratio of 19.0 percent (prior year: 17.1 percent) reflects the robust equity base of the Bank. The following table shows the equity situation of the Group as of December 31, 2010.

As VP Bank Group has used no hybrid capital in its eligible equity and because in accordance with International Financial Reporting Standards (IFRS) it does not offset assets against liabilities (reduction in gross assets), the tier 1 ratio of VP Bank is not "diluted" and may be described as solid.

## 5. Risk categories in detail

The risks to which VP Bank are exposed in the conduct of its business operations are allocated to the three risk groups: financial risks, operational risks and business risks (including strategy risks). Financial risks are further divided into market risks, liquidity risks and credit risks.



Each individual type of risk must be identified, appropriately managed and monitored. Otherwise, not only significant financial losses can arise, but damage to reputation may be suffered which may be accompanied by a loss of customers and employees, a decline in the value of the Bank's shares or even attract severe restrictions on business activities imposed by the financial-market supervisory authorities. VP Bank thus does not consider reputational risk to be a distinct risk category, but as a danger which results from the occurrence of individual types of risk or a combination thereof. The management of reputational risks is incumbent on Group Executive Management.

## Market risks

Market risk comprises the risk of a negative change in value of the overall bank's portfolio as a result of unexpected changes in market prices (interest rates, currencies, share prices and credit spreads) or price-influencing parameters such as volatility.

Within the scope of asset & liability management, market risks are entered into with positions in debt securities, equity paper, foreign currencies and derivatives. In addition, they result from trading in precious metals and precious-metal options as well as in the inter-bank business and business for customers.

In computing the capital charges to support market risks in accordance with Basle II, VP Bank applies the standard approach.

For measuring market risks, VP Bank has recourse to a comprehensive set of methods and indicators. The central measurement indicator which is applied in the case of all market risks is the historical Value-at-Risk.

The aggregate market VaR of VP Bank Group as of December 31, 2010 was CHF 27.3 million (December 31, 2009: CHF 34.1 million). The reasons for the reduction lie in the smaller risk exposures in own investments which the VP Bank consciously strove to achieve as a result of the uncertain market situation as well as through the increased deployment of hedging instruments aimed at containing interest-rate and foreign-currency risks. The following table shows the Value-at-Risk (on a monthly basis) analyzed by risk categories as well as that computed over all risk categories. The diversification effect which is to be ascribed to the correlations between the market parameters is reflected in the difference between the overall market VaR and the sum of the VaR values per type of risk. In 2010, this figure was no longer tracked.

## Value-at-Risk

in CHF million	Total	Diversification effect	Interest-rate risk	Equity price & commodity risk	Currency risk
<b>per 12/31/2010</b>					
Year-end	27.3	–	8.9	9.9	8.5
Average	27.5	–	8.8	10.7	8.1
Highest value	32.8	n.a.	13.3	11.9	8.5
Lowest value	23.3	n.a.	5.7	9.8	7.5
<b>per 12/31/2009</b>					
Year-end	34.1	–21.5	13.1	18.8	23.6
Average	37.0	–26.5	13.5	26.4	23.6
Highest value	39.6	n.a.	16.4	30.4	40.7
Lowest value	34.1	n.a.	10.7	18.8	12.5

As no maximum losses can be determined using the Value-at-Risk concept, the market-risk analysis is supplemented by stress tests. These tests enable the impact of extreme market fluctuations in the risk factors on interest income and on the net present value of shareholders' equity to be estimated.

In the area of interest and currency risks, the measurement of market risks using VaR is supplemented by various risk-sensitivity indicators. The central influencing variables on interest-rate risk are the on- and off-balance-sheet interest-rate exposures as well as changes in the respective interest-rate curves and their volatility. Thus, the key-rate duration profile shows the impact of a positive shift of one percent (+100 basis points) in the total interest-rate curve on the market value of the assets and liabilities of VP Bank Group in the respective currency.

The following table, divided into time bands and currencies, shows the results of such a scenario as of December 31, 2010 as well as the comparatives for the prior year. Negative values under this scenario indicate an excess of assets, positive values an excess of liabilities in the respective time band.

#### Key-Rate-Duration-Profil per 100 basis points increase

in CHF 1,000	within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
<b>Increase as of 12/31/2010</b>						
CHF	-706	4,370	-2,825	-25,109	-3,308	-27,578
EUR	-646	3,295	-1,029	-1,999	685	306
USD	-738	1,642	-70	-998	394	230
Other currencies	-141	505	-23	0	0	341
<b>Total</b>	<b>-2,231</b>	<b>9,812</b>	<b>-3,947</b>	<b>-28,106</b>	<b>-2,229</b>	<b>-26,701</b>

#### Increase as of 12/31/2009

CHF	-173	-284	-273	6,698	-9,050	-3,082
EUR	-402	-471	2,735	16,658	-2,575	15,945
USD	-283	-1,011	-698	11,260	-43	9,225
Other currencies	-61	-68	69	2,556	0	2,496
<b>Total</b>	<b>-919</b>	<b>-1,834</b>	<b>1,833</b>	<b>37,172</b>	<b>-11,668</b>	<b>24,584</b>

Which effects a negative change in exchange rate has on consolidated net income and shareholders' equity are shown by the following table:

Exchange rate	Variance in %	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
<b>2010</b>			
EUR	-5	-4,273	-71
USD	-12	-6,192	-3,391
<b>2009</b>			
EUR	-5	-5,835	-210
USD	-12	-5,712	-11,340

The impact of a possible downward movement in equity markets of 10%, 20% and 30%, respectively, is illustrated by the following table:

#### Variations in the relevant stock markets

Variance by %	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
<b>2010</b>		
-10%	-1,271	-5,958
-20%	-2,210	-10,039
-30%	-3,091	-12,415
<b>2009</b>		
-10%	-509	-8,390
-20%	-2,581	-15,216
-30%	-8,638	-18,057

The central staff function Group Treasury, which reports to the Chief Financial Officer, is responsible for the active management of market risks. The steering of market risks is undertaken in the departments Asset & Liability Management, Bank Capital Management and Proprietary Trading. The department Asset & Liability Management lays down the strategy for interest-rate, currency and equity-price risks by defining the strategic risk exposure and tactical limits for the executing units Bank Capital Management and Proprietary Trading and measures the results from the operational implementation thereof. The investment guidelines for the management of equity are laid down in cooperation with the Group Treasury steering committee. The department Asset & Liability Management is also responsible for the measurement and management of the relationship of risks and returns for all on-balance-sheet and derivative transactions. In this connection, Asset & Liability Management reports to Group Executive Management and informs the individuals with product responsibilities on any matters requiring action. Amongst the main tasks of Bank Capital Management are the operational and tactical steering of the interest-rate risks over one year, the management of the Group's own investments, collateral management as well as securities' lending and borrowing.

The units Proprietary Trading and Group Trading are responsible for the active management of interest-rate and currency risks in the banking book shorter than one year, the settlement of trades in securities, foreign currencies, precious metals and forward contracts with clients, banks, brokers and similar finance companies as well as those for VP Bank Group's own account.

Asset & Liability Management is responsible for the strategic management of interest-rate and currency risks. In this process, the risk and income profile of variable transactions are mapped using replication portfolios consisting of marketable instruments.

The monitoring of the limits laid down by type of market risk is the task of Group Executive Management. In this respect, it is supported by Group Risk Controlling, which compares the current risk exposures to their respective limits. All excesses over limits are reported by Group Risk Controlling to the specialized unit(s) involved, to the member of the Group Executive Management currently responsible and to the Chief Financial Officer. The latter decides on the course of action. The Audit & Risk Management Committee is informed of any excesses.

Overall market risks are computed each month for the total balance sheet. Reporting is made each month to the Chairman of the Board of Directors, Group Executive Management as well as the Audit & Risk Management Committee. Reporting on stress tests is addressed to the Board of Directors and the Group Executive Management on a semi-annual basis.

### Liquidity risks

Liquidity risk lies in the danger that current and future payment obligations cannot be met on the due date or to the full extent. Without sufficient liquidity, VP Bank would be obligated to continually refinance itself on the market (short-term liquidity and refinancing risk) or to liquidate financial investments on the market at a discount (market liquidity risk) in order to meet its payment obligations.

Group Treasury is responsible for the active management of liquidity risks as well as the risk management of limits with banks and brokers. The unit Bank Liquidity Management ensures that VP Bank at all times possesses sufficient liquidity to fulfill its payment obligations as and when they fall due and in full. In addition, the compliance with liquidity norms imposed under supervisory law as well as the

limitation of counterparty and credit risks of all exposures of VP Bank Group to banks and brokers figure amongst the core duties of this unit.

Amongst the instruments employed for the management of liquidity are the closest possible matching of client deposits in terms of maturities on the domestic and foreign money markets, the holding of cash reserves, the conclusion of currency swaps and repurchase and reverse repurchase transactions as well as the taking up of money on the inter-bank market.

Liquidity risks are measured by computing short-term liquidity, reserve requirements as well as risk concentrations on the assets' and liabilities' side.

The monitoring of liquidity risks is incumbent on Group Risk Controlling. The object of risk monitoring is – in addition to the observance of the legal liquidity norms – the legal prescriptions on asset and liability risk concentrations as well as the internal regulations for money-market transactions, repo activities and interbank deposits. The Board of Directors and the Group Executive Management are informed monthly about liquidity risks. An important indicator for the purposes of liquidity monitoring is the relationship between liquid assets and short-term liabilities. Included in liquid assets are the following positions: balances due from banks, bonds and other assets maturing within one month, liquid assets, assets which the Swiss National Bank recognizes for monetary repo operations and those which in the home country of a foreign branch are eligible for discount, pledging or for repo operations with the central bank as well as bonds of domestic issuers and foreign states. Short-term liabilities reflect all savings and deposit accounts, sight liabilities as well as deposits from banks and customers maturing during the following month.

The following table shows the relationship between liquid assets and short-term liabilities for 2010 and 2009 as per year end, as well as the average, highest and lowest values.

	2010	2009
As per December, 31	65%	64%
Average during year	63%	54%
Highest value	68%	64%
Lowest value	59%	44%

As of December 31, 2010 and 2009, the following cash flows on the liabilities side of the balance sheet (non-discounted capital and interest payments) were to be reported:

in CHF 1,000	At sight	Cancellable	Maturing within 3 months	Maturing after 3 months to 12 months	Maturing after 12 months to 5 years	Maturing after 5 years	Total
<b>as of 12/31/2010</b>							
Due to banks	60,912	212	127,219		817		189,160
Due to clients in the form of savings & deposits		954,218					954,218
Other liabilities to clients	4,565,140	2,001,298	955,104	231,629	2,317		7,755,488
Derivative financial instruments	70,034						70,034
Securitized liabilities			6,416	49,844	419,400	208,881	684,541
<b>Total</b>	<b>4,696,086</b>	<b>2,955,728</b>	<b>1,088,739</b>	<b>281,473</b>	<b>422,534</b>	<b>208,881</b>	<b>9,653,441</b>
<b>as of 12/31/2009</b>							
Due to banks	69,545	2,453					71,998
Due to clients in the form of savings & deposits		969,267					969,267
Other liabilities to clients	4,735,774	2,416,426	1,661,896	211,159	86	1,593	9,026,934
Derivative financial instruments	44,048						44,048
Securitized liabilities			23,252	111,846	340,315	3,452	478,865
<b>Total</b>	<b>4,849,367</b>	<b>3,388,146</b>	<b>1,685,148</b>	<b>323,005</b>	<b>340,401</b>	<b>5,045</b>	<b>10,591,112</b>

### Credit risks

Credit risk is the danger that losses will be incurred as a result of non-fulfillment of the contractual obligations of a counterparty (default risk). Concentrations of credit risks arise primarily whenever customers are active in similar industry segments or are resident in the same region. Default risks may accrue to the bank from all transactions for which payment obligations of third parties in favor of the bank exist or can arise: from the credit and money-market business, the management of own investments in securities, trading activities as well as from securities lending. In computing the capital charges to support credit risks in accordance with Basel II, VP Bank applies the standardized approach. Credit risks are evaluated both at the level of the individual exposure as well as at a portfolio level through the attribution of a rating which serves as an indicator for the probability of default. For banks, VP Bank used the rating of both rating agencies, Standard & Poors and Moody's. For non-banks, an internal rating system is used. At a portfolio level, risk management aims at avoiding existence-jeopardizing risk concentrations as well as of maximizing income within the credit-risk limits. This includes analyses by rating and classes of size, economic segments and the quality of credit collateral. Furthermore, the anticipated and non-anticipated credit losses are computed. With the active management of customer loans, VP Bank seeks to achieve a diversified credit portfolio with an optimal relationship between risk and returns. At December 31, 2010, the aggregate credit exposures amounted to CHF 10.1 billion (December 31, 2009: CHF 10.9 billion).

The following table shows the composition of the credit exposures by balance-sheet and off-balance-sheet positions. Provisions for these receivables are raised on the basis of a review for impairment in the individual credit positions. In this process, existing collateral is assessed on the basis of estimated liquidation values.

#### Credit exposures

in CHF 1,000	12/31/2010	12/31/2009
<b>On-balance-sheet assets</b>		
Receivables arising from money-market paper	439,665	777,654
Due from banks	5,622,808	6,319,844
Due from customers	3,266,402	3,026,639
Public-law enterprises	470	0
Trading portfolios	3,951	1,917
Derivative financial instruments	63,322	42,355
Financial instruments designated at-fair-value	79,107	92,174
Financial instruments available-for-sale	613,966	640,607
<b>Total</b>	<b>10,089,691</b>	<b>10,901,190</b>
<b>Off-balance-sheet transactions</b>		
Contingent liabilities	98,590	115,851
Irrevocable facilities granted	22,079	17,616
<b>Total</b>	<b>120,669</b>	<b>133,467</b>

The two following tables show the above listed credit exposures, analyzed by groups of counterparties and collateral, respectively.

#### Credit exposures by groups of counterparties

in CHF 1,000	Central governments and central banks	Banks and securites dealers	Other institutions	Corporates	Private customers and small enterprises	Other positions	Total
<b>On-balance-sheet assets as of 12/31/2010</b>							
Receivables arising from money-market paper	439,665						439,665
Due from banks		5,622,800	8				5,622,808
Due from customers	6,857		2,872	667,280	2,589,394		3,266,402
Public-law enterprises			470				470
Trading portfolios		1,501		110		2,340	3,951
Derivative financial instruments		48,016	2	12,940	2,310	54	63,322
Financial instruments designated at-fair-value	42,133	2,624	12,809	3,032	18,163	347	79,107
Financial instruments available-for-sale	45,063	336,483	44,171	176,378		11,870	613,966
<b>Total</b>	<b>533,718</b>	<b>6,011,424</b>	<b>60,332</b>	<b>859,740</b>	<b>2,609,866</b>	<b>14,611</b>	<b>10,089,691</b>

#### Off-balance-sheet transactions as of 12/31/2010

Contingent liabilities		3,000	10	6,722	18,126	70,733	98,590
Irrevocable facilities granted		1,688			13,838	6,553	22,079
<b>Total</b>	<b>0</b>	<b>4,688</b>	<b>10</b>	<b>6,722</b>	<b>31,963</b>	<b>77,286</b>	<b>120,669</b>

#### On-balance-sheet assets as of 12/31/2009

Receivables arising from money-market paper	777,570	84					777,654
Due from banks		6,319,837	7				6,319,844
Due from customers				462,570	2,564,069		3,026,639
Public-law enterprises							0
Trading portfolios				1,917			1,917
Derivative financial instruments		14,662	168	321	16,880	10,324	42,355
Financial instruments designated at-fair-value	58,025	19,818	26	13,898		408	92,174
Financial instruments available-for-sale	51,924	328,206	31,103	197,299		32,075	640,607
<b>Total</b>	<b>887,519</b>	<b>6,682,606</b>	<b>31,304</b>	<b>676,004</b>	<b>2,580,950</b>	<b>42,807</b>	<b>10,901,190</b>

#### Off-balance-sheet transactions as of 12/31/2009

Contingent liabilities		6,242	11	11,188	97,836	574	115,851
Irrevocable facilities granted		1,400		85	10,569	5,563	17,616
<b>Total</b>	<b>0</b>	<b>7,642</b>	<b>11</b>	<b>11,273</b>	<b>108,404</b>	<b>6,137</b>	<b>133,467</b>

## Credit exposures by collateral

in CHF 1,000	Secured by recognized financial collateral	Not secured by recognized financial collateral	Total
<b>On-balance-sheet assets as of 12/31/2010</b>			
Receivables arising from money-market paper		439,665	439,665
Due from banks		5,622,808	5,622,808
Due from customers	2,741,247	525,155	3,266,402
Public-law enterprises		470	470
Trading portfolios		3,951	3,951
Derivative financial instruments	2,331	60,992	63,322
Financial instruments designated at-fair-value		79,107	79,107
Financial instruments available-for-sale		613,966	613,966
<b>Total</b>	<b>2,743,578</b>	<b>7,346,113</b>	<b>10,089,691</b>
<b>Off-balance-sheet transactions as of 12/31/2010</b>			
Contingent liabilities	98,590		98,590
Irrevocable facilities granted	13,838	8,241	22,079
<b>Total</b>	<b>112,428</b>	<b>8,241</b>	<b>120,669</b>
<b>On-balance-sheet assets as of 12/31/2009</b>			
Receivables arising from money-market paper		777,654	777,654
Due from banks		6,319,844	6,319,844
Due from customers	2,601,923	424,716	3,026,639
Public-law enterprises			0
Trading portfolios		1,917	1,917
Derivative financial instruments	22,017	20,338	42,355
Financial instruments designated at-fair-value		92,174	92,174
Financial instruments available-for-sale		640,607	640,607
<b>Total</b>	<b>2,623,940</b>	<b>8,277,250</b>	<b>10,901,190</b>
<b>Off-balance-sheet transactions as of 12/31/2009</b>			
Contingent liabilities	115,851		115,851
Irrevocable facilities granted	10,569	7,048	17,616
<b>Total</b>	<b>126,419</b>	<b>7,048</b>	<b>133,467</b>

In the case of amounts due from banks, money-market paper as well as of interest-bearing securities amongst its own investments, the valuation is based on external ratings. The following tables show the individual on- and off-balance-sheet positions by rating classes, risk-weighting classes and domicile.

## Credit exposures by rating classes

in CHF 1,000	Not-value-adjusted positions			Without external rating	Value-adjusted positions	Total
	Investment grade (AAA to BBB)	Safe (BB+ to BB-)	Unsafe (B- to C)			
<b>On-balance-sheet assets as of 12/31/2010</b>						
Receivables arising from money-market paper	439,665					439,665
Due from banks	5,434,073			196,139	7,404	5,622,808
Due from clients				3,313,011	46,609	3,266,402
Public-law enterprises				470		470
Trading portfolios	1,611			2,340		3,951
Derivative financial instruments	36,727			26,595		63,322
Financial instruments designated at-fair-value	78,760			347		79,107
Financial instruments available-for-sale	603,593			10,372		613,966
<b>Total</b>	<b>6,594,430</b>	<b>0</b>	<b>0</b>	<b>3,549,275</b>	<b>54,013</b>	<b>10,089,691</b>
<b>Off-balance-sheet transactions as of 12/31/2010</b>						
Contingent liabilities	131			98,460		98,590
Irrevocable facilities granted				22,079		22,079
<b>Total</b>	<b>131</b>	<b>0</b>	<b>0</b>	<b>120,539</b>	<b>0</b>	<b>120,669</b>
<b>On-balance-sheet assets as of 12/31/2009</b>						
Receivables arising from money-market paper	777,654					777,654
Due from banks	6,156,430			170,715	7,301	6,319,844
Due from clients				3,067,548	40,909	3,026,639
Public-law enterprises						0
Trading portfolios				1,917		1,917
Derivative financial instruments	11,493			30,862		42,355
Financial instruments designated at-fair-value	89,809			2,365		92,174
Financial instruments available-for-sale	621,139			19,468		640,607
<b>Total</b>	<b>7,656,525</b>	<b>0</b>	<b>0</b>	<b>3,292,876</b>	<b>48,210</b>	<b>10,901,190</b>
<b>Off-balance-sheet transactions as of 12/31/2009</b>						
Contingent liabilities	284			115,566		115,851
Irrevocable facilities granted				17,616		17,616
<b>Total</b>	<b>284</b>	<b>0</b>	<b>0</b>	<b>133,183</b>	<b>0</b>	<b>133,467</b>

## Credit exposures by risk-weighting classes

in CHF 1,000	0%	10%	20%	35%	50%	75%	100%	150%	Total
<b>On-balance-sheet assets as of 12/31/2010</b>									
Receivables arising from money-market paper	439,665								439,665
Due from banks	571,672		4,603,128		443,791		4,216		5,622,808
Due from customers	443,713		48,051	1,551,117	209,390	54,505	925,213	34,883	3,266,872
Derivative financial instruments	13,177		20,681		19,850	14	9,599	1	63,322
Financial instruments	87,672		411,155		159,165		127,825	7,957	793,775
Other assets	1,199		12,805	1	2,246		32,680	2	48,934
<b>Total</b>	<b>1,557,097</b>	<b>0</b>	<b>5,095,821</b>	<b>1,551,119</b>	<b>834,443</b>	<b>54,519</b>	<b>1,099,534</b>	<b>42,843</b>	<b>10,235,376</b>
<b>Off-balance-sheet transactions as of 12/31/2010</b>									
Contingent liabilities	92,121		286	886	1,931		3,366		98,590
Irrevocable facilities granted	2,483			7,130	2,374		10,092		22,079
<b>Total</b>	<b>94,604</b>	<b>0</b>	<b>286</b>	<b>8,016</b>	<b>4,305</b>	<b>0</b>	<b>13,458</b>	<b>0</b>	<b>120,669</b>
<b>On-balance-sheet assets as of 12/31/2009</b>									
Receivables arising from money-market paper	777,654								777,654
Due from banks	168,596		5,463,728		680,712		6,808		6,319,844
Due from customers	478,229		11,731	1,541,580	42,835	94,364	845,181	12,720	3,026,639
Derivative financial instruments	2,935		10,769		8,170	2,390	18,091		42,355
Financial instruments	106,528		380,102		218,078		173,044	8,013	885,765
Other assets	739		1,678	1	13,539	1,910	37,133		55,000
<b>Total</b>	<b>1,534,681</b>	<b>0</b>	<b>5,868,007</b>	<b>1,541,581</b>	<b>963,334</b>	<b>98,665</b>	<b>1,080,257</b>	<b>20,733</b>	<b>11,107,257</b>
<b>Off-balance-sheet transactions as of 12/31/2009</b>									
Contingent liabilities	104,519		5,324	553	669	3,436	1,350		115,851
Irrevocable facilities granted	1,128			6,732	1,400	1,000	7,357		17,616
<b>Total</b>	<b>105,647</b>	<b>0</b>	<b>5,324</b>	<b>7,285</b>	<b>2,069</b>	<b>4,436</b>	<b>8,707</b>	<b>0</b>	<b>133,467</b>

## Credit exposures by domicile

in CHF 1,000	Liechtenstein and Switzerland	Europe	North America	South America	Asia	Others	Total
<b>On-balance-sheet assets as of 12/31/2010</b>							
Receivables arising from money-market paper	439,665						439,665
Due from banks	1,899,207	3,578,702	139,560		870	4,469	5,622,808
Due from customers	2,502,493	375,424	21,439	12,420	15,055	339,571	3,266,402
Public-law enterprises						470	470
Trading portfolios		3,951					3,951
Derivative financial instruments	56,480	2,926	114	195	209	3,398	63,322
Financial instruments designated at-fair-value		65,882	12,878			347	79,107
Financial instruments available-for-sale	4,788	446,888	92,767		19,397	50,125	613,966
<b>Total</b>	<b>4,902,633</b>	<b>4,473,773</b>	<b>266,759</b>	<b>12,615</b>	<b>35,532</b>	<b>398,381</b>	<b>10,089,691</b>
<b>Off-balance-sheet transactions as of 12/31/2010</b>							
Contingent liabilities	34,579	26,594	695	913	804	35,005	98,590
Irrevocable facilities granted	15,262	152	654		17	5,995	22,079
<b>Total</b>	<b>49,841</b>	<b>26,745</b>	<b>1,349</b>	<b>913</b>	<b>821</b>	<b>41,000</b>	<b>120,669</b>
<b>On-balance-sheet assets as of 12/31/2009</b>							
Receivables arising from money-market paper	777,570	84					777,654
Due from banks	989,230	5,026,722	294,450		2,479	6,964	6,319,844
Due from customers	2,452,528	236,761	20,928	10,869	10,241	295,311	3,026,639
Public-law enterprises							0
Trading portfolios		1,917					1,917
Derivative financial instruments	30,507	6,175	215	94	55	5,308	42,355
Financial instruments designated at-fair-value	1,019	65,186	25,536			434	92,174
Financial instruments available-for-sale	4,104	463,397	109,703		31,225	32,178	640,607
<b>Total</b>	<b>4,254,958</b>	<b>5,800,241</b>	<b>450,833</b>	<b>10,963</b>	<b>44,000</b>	<b>340,195</b>	<b>10,901,190</b>
<b>Off-balance-sheet transactions as of 12/31/2009</b>							
Contingent liabilities	82,448	12,604	945	823	813	18,217	115,851
Irrevocable facilities granted	11,514	340	90		1,112	4,561	17,616
<b>Total</b>	<b>93,962</b>	<b>12,944</b>	<b>1,035</b>	<b>823</b>	<b>1,925</b>	<b>22,778</b>	<b>133,467</b>

The following table shows the receivables vulnerable to default and overdue receivables as well as related specific valuation allowances according to domicile.

#### Credit exposures vulnerable to default by domicile

in CHF 1,000	Impaired receivables subject to default risk (gross amount)	Overdue receivables (gross amount)	Individual value adjustments
<b>as of 12/31/2010</b>			
Liechtenstein and Switzerland	35,954	14,145	10,521
Europe	1,246	1,299	1,213
South America	83	154	88
Asia		11	
Others	31,963	3,280	15,626
<b>Total</b>	<b>69,246</b>	<b>18,897</b>	<b>27,448</b>
<b>as of 12/31/2009</b>			
Liechtenstein and Switzerland	52,111	21,910	9,206
Europe	3,386	1,318	6,190
South America	73	73	81
Asia			
Others	17,705	167	8,602
<b>Total</b>	<b>73,275</b>	<b>23,468</b>	<b>24,079</b>

The ten largest individual exposures to banks aggregate CHF 2.6 billion (December 31, 2009: CHF 3.1 billion). These relate exclusively to institutions with a high credit capacity (minimum rating A) and a registered office in an OECD country. The principal focus in the traditional credit business is constituted by mortgage credits with CHF 2.2 billion (2009: CHF 2.1 billion). Viewed from a regional perspective, VP Bank conducts the largest part of this business in the Principality of Liechtenstein and the eastern part of Switzerland. As a result of the broad distribution of exposures, there exists no concentration of risks within industry segments. The ten largest single exposures to customers encompass 17 percent of total customer loans or 5 percent of total assets (December 31, 2009: 15 percent of total customer loans or 4 percent of total assets).

Within the reducing risks, the volume of credit derivatives in its own investments was cut back during last year.

The following table shows the contract values by type of product.

#### Credit derivatives (contract volumes)

in CHF 1,000	Provider of collateral per 12/31/2010	Receiver of security per 12/31/2009
Credit-linked notes	6,870	18,268
Other credit derivatives	9,865	12,299
<b>Total</b>	<b>16,735</b>	<b>30,567</b>

#### Country risk

Country risk is a further expression of credit risk and describes the danger that cross-frontier payments cannot be made as a result of transfer difficulties relating to sovereign measures taken by a foreign state.

The management of country risks is made using country-specific volume limits for foreign exposures. These are receivables from counterparties with domicile outside Liechtenstein or Switzerland. The positions which are taken into account encompass all on- and off-balance-sheet receivables. The ascertainment of country risk is effected using the principle of risk domicile; in this respect, in the case of secured exposures, in principle the country in which the collateral is located is considered.

For categorizing and estimating the risks of individual countries, VP Bank employs the ratings of Standard & Poor's and Moody's. The following table shows the distribution of credit exposures by country rating. Non-rated positions are mostly exposures from local business activities (receivables secured by mortgage) of VP Bank (BVI) Limited.

Country exposures by rating	12/31/2010	12/31/2009	12/31/2008
AAA	94.5%	94.4%	88.8%
AA	3.3%	4.0%	6.0%
A	0.3%	0.1%	4.0%
BBB – B	0.1%	0.2%	0.2%
Not Rated	1.8%	1.3%	1.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>