

Risk management of VP Bank Group

1. 2009: Review and assessment of status

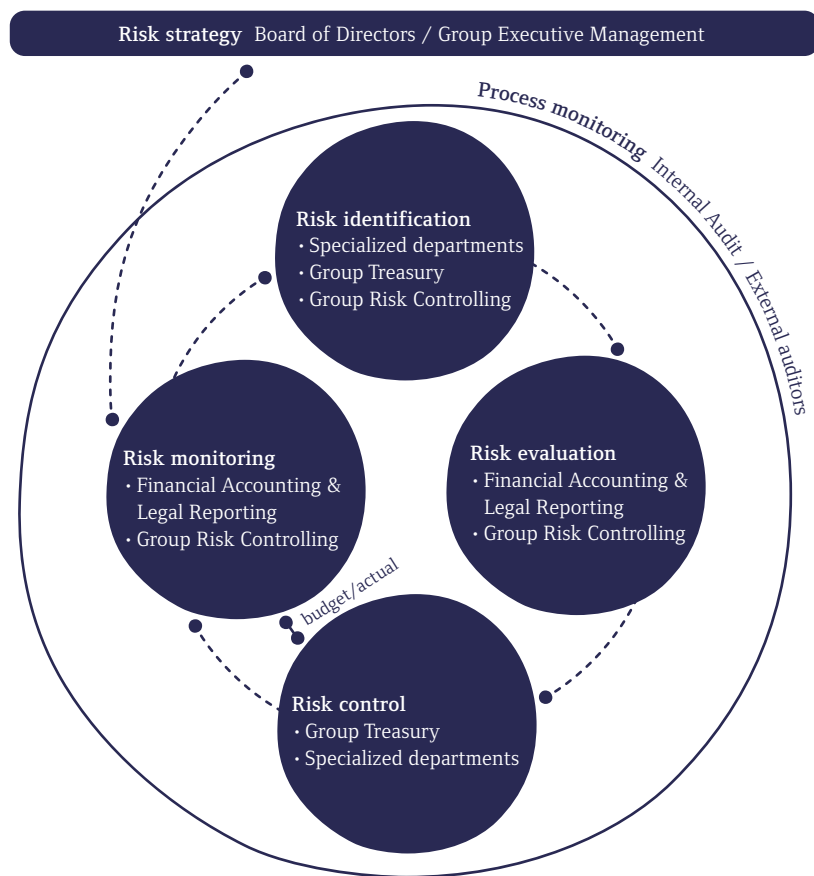
2009 was marked by lows in the business cycle and the influence exerted by governments. The global scale and severity of the present financial and economic crisis have seriously shaken the stability of the international financial architecture and required rapid and comprehensive rescue measures worldwide by governments and central banks which were thus able to break the dangerous cycle of loss of confidence, drying up of interbank markets and threatened bank insolvencies which also threatened to be amplified through the reciprocal interaction with the real economy.

Despite these difficult conditions, the risk management of VP Bank has proven itself during the past business year, as the figures listed in the paragraphs below show. The highlights in the table: the risk exposure in the Group's own financial investments was further reduced in view of the uncertain market situation (shareholders' equity was CHF 802.6 million at the end of 2008, the share of equities being 22 percent; as at the end of 2009, shareholders' equity totaled CHF 886.2 with a perceptibly lower share of equities of 10 percent); a massive shift of interbank deposits into USD-SNB bills was undertaken in order to guarantee liquidity; as of December 1, 2009, all available resources in the area of active risk management were consolidated as core activities in the risk-management process and restructured under the Group Treasury staff function. As a result of this reorganization, the strategically and tactically relevant subject areas of liquidity and refinancing management, allocation of the Bank's financial resources, assessment and management of risks as well as the active management of the assets and liabilities of the Bank's balance sheet could be optimized.

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 Board of Directors 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 Board of Directors 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, which could jeopardize the risk tolerance and hence the very existence of the Group, are avoided. 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 inline 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 ongoing management of risks as well as the monitoring thereof. Both tasks are undertaken independently from 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.



Risk management process

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 effective and efficient management of risks, is set up 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 as 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 guidelines 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 Group Finance central staff function.

As of December 1, 2009 the Bank Liquidity Management, Bank Capital Management, Asset & Liability Management, Proprietary Trading und Group Trading functions were regrouped under the Group Treasury central staff function. The active and ongoing 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 monthly or as and when the need arises, decisions on issues relating to the management of liquidity and limits, the management of own investments as well as asset and liability management (ALM) are taken.

The **risk-management process** of VP Bank comprises the four process phases of 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 one-off 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 following three 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 historic value-at-risk concept (HsVaR) 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 correlation 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 Board of Directors and Group Management. Reporting ensures that all relevant information on the income-risk situation of VP Bank is presented and reported in a reliable and timely manner.

4. Disclosures on the Basel capital-adequacy provisions

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 shown in this chapter as well as in the commentary on the consolidated financial statements (see page 64). For each risk category, Basel 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, 2009, the business activities of VP Bank Group required equity of CHF 377.5 million (December 31, 2008: CHF 434.5 million). Eligible equity totaled CHF 803.3 million (December 31, 2008: CHF 731.7 million). The excess of equity could be increased by 43.2 percent to CHF 425.8 million (December 31, 2008: CHF 297.3 million) and together with a tier 1 ratio of 17.1 percent (December 31, 2008: 13.6 percent) reflects the robust equity base of the Bank. The following table shows the equity situation of the Group as of December 31, 2009.

Eligible and required equity Group (Basel II)

In CHF 1,000	12/31/2009	12/31/2008
Core capital (adjusted)	911,216	830,698
of which: minority shares	18,529	17,330
of which "innovative" instruments	0	0
Net long position in own securities	-38,302	-38,521
Other items to be deducted from core capital	-69,660	-60,450
Eligible core capital (adjusted)	803,254	731,727
Upper supplementary capital	0	0
Lower supplementary capital	0	0
Additional capital	0	0
Other deduction from supplementary capital from additional capital and from total capital	4,262	7,791
Eligible equity	807,516	739,518
Credit risk (per Liechtenstein standard approach)	269,289	337,979
of which: equity price risk of equity securities in banking book	8,849	6,220
Non-counterparty-related risks	11,731	12,747
Market risk (per Liechtenstein standard approach)	47,213	33,558
Operational risk (per basis indicator approach)	49,226	50,193
Total required equity	377,459	434,477
Ratio eligible/required equity ¹	212.8%	168.4%
Eligible (adjusted) core capital (incl. "innovative" instruments)	17.0%	13.5%
Eligible equity (tier 1) ²	17.1%	13.6%

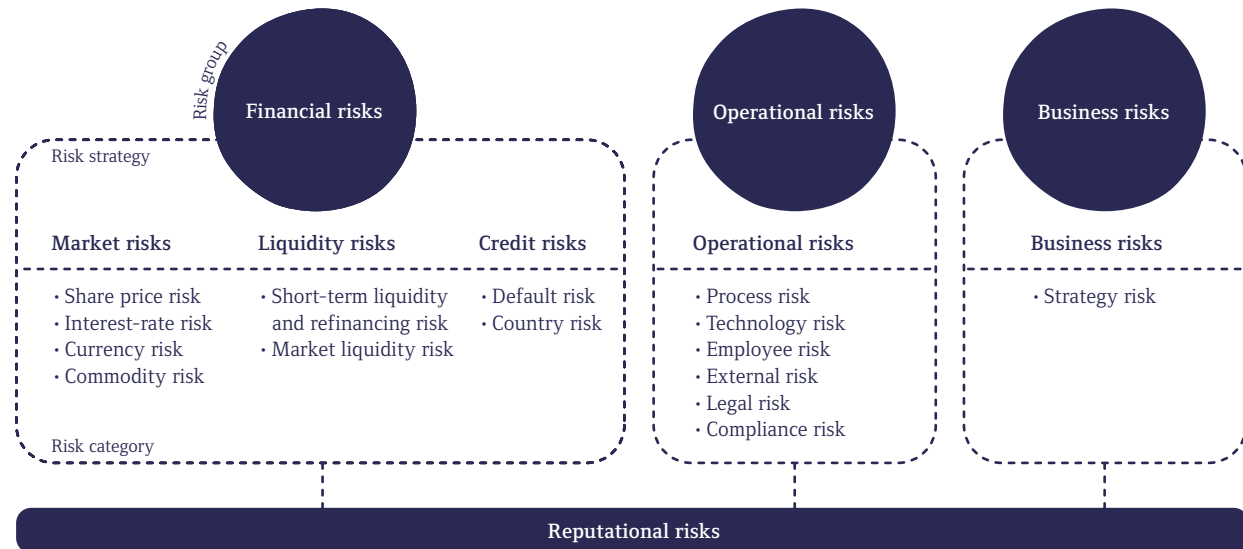
¹ Eligible core capital (adjusted) as a percentage of required equity (net).

² Eligible equity as a percentage of the risk-weighted positions plus required equity for market risks, operational risks and positions arising from unsettled transactions converted into equivalent units with a multiplier of 12.5.

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 can be described as solid.

5. Risk categories in detail

The risks to which VP Bank is 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 controlled and monitored. Otherwise, not only can significant financial losses arise, but damage to reputation may be incurred 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 bank's overall 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. Market risks are entered into with positions in debt securities, equity paper, foreign currencies, derivatives within the scope of asset & liability management, 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 Basel 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, 2009 was CHF 34.1 million (December 31, 2008: CHF 65.4 million). The lower value reflects the conscious reduction of risk exposures in its own investments as a result of the uncertain market situation. 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.

Value-at-risk in CHF million per 31/12/2009	Total	Diversification effect	Interest-rate risk	Equity price & commodity risk	Currency risk
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

Value-at-risk in CHF million per 31/12/2008	Total	Diversification effect	Interest-rate risk	Equity price & commodity risk	Currency risk
Year-end	65.4	-15.3	6.8	42.5	31.4
Average	49.1	-18.0	5.8	39.9	21.4
Highest value	65.4	n.a.	9.0	46.1	31.4
Lowest value	34.6	n.a.	4.1	24.7	17.5

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 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, 2009 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.

In CHF 1,000, per 100 basis points increase as of 12/31/2009	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
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
Total as of 12/31/2009	-919	-1,834	1,833	37,172	-11,668	24,584
In CHF 1,000 per 100 basis points as of 12/31/2008	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
CHF	-66	-245	-1,275	-3,952	-10,592	-16,129
EUR	-355	-663	1,142	3,796	-4,383	-463
USD	-408	-678	-735	5,413	-73	3,518
Other currencies	-42	-105	41	1,678	0	1,572
Total as of 12/31/2008	-871	-1,691	-827	6,935	-15,048	-11,502

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	Effect on	Effect on	Effect on
		net income in CHF 1,000, 2009	equity in CHF 1,000, 2009	net income in CHF 1,000, 2008	equity in CHF 1,000, 2008
EUR	-5	-5'835	-210	-5'438	-76
USD	-12	-5'712	-11'340	-8'096	-9'499

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

Variations in the relevant stock markets by	Effect on net income in CHF 1,000, 2009	Effect on equity in CHF 1,000, 2009	Effect on net income in CHF 1,000, 2008	Effect on equity in CHF 1,000, 2008
-10%	-509	-8'390	-6'234	-11'639
-20%	-2'581	-15'216	-17'873	-17'873
-30%	-8'638	-18'057	-33'263	-20'357

The Group Treasury central staff function, 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 Asset & Liability Management, Bank Capital Management and Proprietary Trading departments.

The Asset & Liability Management department lays down the strategy for interest-rate, currency and equity-price risks by defining the strategic risk exposure and tactical limits for the Bank Capital Management and Proprietary Trading executing units and measures the result from the operational implementation thereof. The investment guidelines for the management of equity are laid down in cooperation with the Group Treasury steering committee. In managing the Group's own investments, the focus continued to be on the maintenance of capital security and liquidity in view of the continuing financial and economic crisis. The Asset & Liability Management department 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, ALM 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 longer than one year, the management of the Group's own investments, collateral management as well as securities lending and borrowing.

The Proprietary Trading and Group Trading units 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 the 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 units 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 within Group Treasury; during 2009, the Bank Liquidity Management unit was specifically created within Group Treasury for this purpose. It 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, 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 interbank market.

Liquidity risks are assessed by computing short-term liquidity, minimum 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 on 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 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, at-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 2009 and 2008 as of year end, as well as the average, highest and lowest values.

	2009	2008
12/31	64%	59%
Average during year	54%	60%
Highest value	64%	67%
Lowest value	44%	53%

As of December 31, 2009 and 2008, 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, as of 12/31/2009	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
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
Total	4,849,367	3,388,146	1,685,148	323,005	340,401	5,045	10,591,112

In CHF 1,000, as of 12/31/2008	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
Due to banks	26,441		95,303	3,483			125,227
Due to clients in the form of savings & deposits		677,866					677,866
Other liabilities to clients	2,297,854	3,037,533	3,166,230	434,842	2,330		8,938,789
Derivative financial instruments	62,502						62,502
Securitized liabilities			68,062	121,936	455,372	5,550	650,920
Total	2,386,797	3,715,399	3,329,595	560,261	457,702	5,550	10,455,304

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 primarily arise when 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 und Moody's. For non-banks, an internal rating system is used. At a portfolio level, risk management aims to avoid existence-jeopardizing risk concentrations and to maximize 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, 2009, the aggregate credit exposures amounted to CHF 10.9 billion (December 31, 2008: CHF 10.6 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 CH 1,000	2009	2008
On-balance-sheet assets		
Receivables arising from money-market paper	777,654	109
Due from banks	6,319,844	7,023,989
Due from customers	3,026,639	2,976,188
Public-law enterprises	0	9,000
Trading portfolios	1,917	4
Derivative financial instruments	42,355	59,254
Financial instruments designated at-fair-value	92,174	49,386
Financial instruments available-for-sale	640,607	451,609
Total	10,901,190	10,569,539
Off-balance-sheet transactions		
Contingent liabilities	115,851	267,222
Irrevocable facilities granted	17,616	22,647
Total	133,467	289,869

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

Credit exposures per counterparty In CHF 1,000, as of 12/31/2009	Central governments and central banks	Banks and securities dealers	Other institutions	Corporates	Private customers and small enterprises	Other positions	Total
On-balance-sheet assets							
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
Total	887,519	6,682,606	31,304	676,004	2,580,950	42,807	10,901,190
Off-balance-sheet transactions							
Contingent liabilities		6,242	11	11,188	97,836	574	115,851
Irrevocable facilities granted		1,400		85	10,569	5,563	17,616
Total	0	7,642	11	11,273	108,404	6,137	133,467

Credit exposures per counterparty In CHF 1,000, as of 12/31/2008	Central governments and central banks	Banks and securities dealers	Other institutions	Corporates	Private customers and small enterprises	Other positions	Total
On-balance-sheet assets							
Receivables arising from money-market paper		109					109
Due from banks	197,811	6,826,178					7,023,989
Due from customers				580,661	2,395,528		2,976,188
Public-law enterprises			9,000				9,000
Trading portfolios						4	4
Derivative financial instruments		43,673	78	393	4,406	10,703	59,254
Financial instruments designated at-fair-value	18,113	19,684	27	11,236		326	49,386
Financial instruments available-for-sale	50,939	216,325	22,982	161,363			451,609
Total	266,864	7,105,968	32,087	753,653	2,399,934	11,033	10,569,539
Off-balance-sheet transactions							
Contingent liabilities	10	6,437	160	10,700	34,824	215,091	267,222
Irrevocable facilities granted			614		15,132	6,901	22,647
Total	10	6,437	774	10,700	49,956	221,992	289,869

Credit exposures by collateral In CHF 1,000, as of 12/31/2009	Secured by recognized financial collateral	Not secured by recognized financial collateral	Total
On-balance-sheet assets			
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
Total	2,623,940	8,277,250	10,901,190
Off-balance-sheet transactions			
Contingent liabilities	115,851		115,851
Irrevocable facilities granted	10,569	7,048	17,616
Total	126,419	7,048	133,467

Credit exposures by collateral In CHF 1,000, as of 12/31/2008	Secured by recognized financial collateral	Not secured by recognized financial collateral	Total
On-balance-sheet assets			
Receivables arising from money-market paper		109	109
Due from banks		7,023,989	7,023,989
Due from customers	2,651,939	324,249	2,976,188
Public-law enterprises		9,000	9,000
Trading portfolios		4	4
Derivative financial instruments	52,598	6,656	59,254
Financial instruments designated at-fair-value		49,386	49,386
Financial instruments available-for-sale		451,609	451,609
Total	2,704,537	7,865,002	10,569,539
Off-balance-sheet transactions			
Contingent liabilities	134,935	132,287	267,222
Irrevocable facilities granted	15,132	7,515	22,647
Total	150,067	139,802	289,869

In the case of amounts due from banks, public-law corporations and 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 according to ratings In CHF 1,000, as of 12/31/2009	Investment grade (AAA to BBB)	Not-value-adjusted positions			Value-adjusted positions	Total
		Safe (BB+ to BB-)	Unsafe (B- to C)	Without external rating		
On-balance-sheet assets						
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
Total	7,656,525	0	0	3,292,876	48,210	10,901,190
Off-balance-sheet transactions						
Contingent liabilities	284			115,566		115,851
Irrevocable facilities granted				17,616		17,616
Total	284	0	0	133,183	0	133,467

Credit exposures according to ratings In CHF 1,000, as of 12/31/2008	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						
Receivables arising from money-market paper				109		109
Due from banks	6,981,928			48,012	5,951	7,023,989
Due from clients				3,008,863	32,675	2,976,188
Public-law enterprises				9,000		9,000
Trading portfolios				4		4
Derivative financial instruments	41,048			18,206		59,254
Financial instruments designated at-fair-value	49,033			353		49,386
Financial instruments available-for-sale	429,287		285	22,037		451,609
Total	7,501,296	0	285	3,106,584	38,626	10,569,539
Off-balance-sheet transactions						
Contingent liabilities	182			267,040		267,222
Irrevocable facilities granted				22,647		22,647
Total	182	0	0	289,687	0	289,869

Credit exposures by classes of risk weighting In CHF 1,000, as of 12/31/2009	0%	10%	20%	35%	50%	75%	100%	150%	Total
On-balance-sheet assets									
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
Total	1,534,681	0	5,868,007	1,541,581	963,334	98,665	1,080,257	20,733	11,107,257
Off-balance-sheet transactions									
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
Total	105,647	0	5,324	7,285	2,069	4,436	8,707	0	133,467

Credit exposures by classes of risk weighting In CHF 1,000, as of 12/31/2008	0%	10%	20%	35%	50%	75%	100%	150%	Total
On-balance-sheet assets									
Receivables arising from money-market paper	109								109
Due from banks			6,057,265		961,533		3,267	1,924	7,023,989
Due from customers	225,349		2,796	1,083,339	388,757	115,697	1,162,234	7,016	2,985,188
Derivative financial instruments			41,704		3,060	1,271	13,219		59,254
Financial instruments	77,233	14,146	273,164		139,063		255,118	47,133	805,857
Other assets	17,264		634				53,001		70,899
Total	319,955	14,146	6,375,563	1,083,339	1,492,413	116,968	1,486,839	56,073	10,945,296
Off-balance-sheet transactions									
Contingent liabilities	111,159		5,526	540	11,008	8,768	130,221		267,222
Irrevocable facilities granted			7,966		5,529		9,152		22,647
Total	111,159	0	13,492	540	16,537	8,768	139,373	0	289,869

Credit exposures by geographic area In CHF 1,000, as of 12/31/2009	Liechtenstein and Switzerland	Europe	North America	South America	Asia	Others	Total
On-balance-sheet assets							
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
Total	4,254,958	5,800,241	450,833	10,963	44,000	340,195	10,901,190
Off-balance-sheet transactions							
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
Total	93,962	12,944	1,035	823	1,925	22,778	133,467

Credit exposures by geographic area In CHF 1,000, as of 12/31/2008	Liechtenstein and Switzerland	Europe	North America	South America	Asia	Others	Total
On-balance-sheet assets							
Receivables arising from money-market paper		14				95	109
Due from banks	814,152	5,983,049	206,884		11,843	8,061	7,023,989
Due from customers	2,399,028	267,753	3,497	21,501	14,701	269,708	2,976,188
Public-law enterprises	9,000						9,000
Trading portfolios	4						4
Derivative financial instruments	48,064	5,144	721	8	49	5,268	59,254
Financial instruments designated at-fair-value	16,974	23,523	5,897			2,992	49,386
Financial instruments available-for-sale	3,970	329,690	71,819		17,996	28,135	451,610
Total	3,291,192	6,609,173	288,818	21,509	44,589	314,258	10,569,539
Off-balance-sheet transactions							
Contingent liabilities	174,977	23,961	314	10,556	1,163	56,251	267,222
Irrevocable facilities granted	8,973		1,538			12,137	22,647
Total	183,949	23,961	1,852	10,556	1,163	68,388	289,869

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

In CHF 1,000 as of 12/31/2009	Impaired receivables subject to default risk (gross amount)	Overdue receivables (gross amount)	Individual value adjustments
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
Total	73,275	23,468	24,079

In CHF 1,000 as of 12/31/2008	Impaired receivables subject to default risk (gross amount)	Overdue receivables (gross amount)	Individual value adjustments
Liechtenstein and Switzerland	48,457	26,328	9,311
Europe	4,016	1,218	4,098
South America	75	75	75
Asia	34	0	27
Others	18,553	200	3,913
Total	71,134	27,820	17,423

The ten largest individual exposures to banks total CHF 3.1 billion (December 31, 2008: CHF 2.9 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 2.1 billion (2008: 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. Based upon on the broad distribution of exposures, there exists no concentration of risks within industry segments. The ten largest single exposures to customers encompass 15 percent of total customer loans or 4 percent of total assets (December 31, 2008: 16 percent of total customer loans or 4 percent of total assets). Within the framework of reducing risks, the volume of credit derivatives in its own positions was cut back during last year. The following table shows the contract values by type of product.

Credit derivatives In CHF 1,000	Provider of collateral per 12/31/2009	Receiver of security per 12/31/2009	Provider of collateral per 12/31/2008	Receiver of security per 12/31/2008
Credit-linked notes	18,268		21,507	
Other credit derivatives	12,299		28,745	
Total	30,567	0	50,252	0

Country risk

Country risk is a further reflection 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.

Country risks are controlled 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	12/31/2009	12/31/2008
AAA	94.4%	88.8%
AA	4.0%	6.0%
A	0.1%	4.0%
BBB–B	0.2%	0.2%
Not Rated	1.3%	1.0%
Total	100.0%	100.0%

Operational risks

Operational risks represent the danger of incurring losses arising as a result of the inappropriateness or failure of internal procedures, people or systems or as a result of external events. Included therein are process, technology and employee risks, external risks as well as risks resulting from violations of due-diligence obligations ("compliance risk").

In computing the capital charges to support operational risks in accordance with Basel II, VP Bank applies the basic indicator approach.

During the past year, the systematic and uniform process to identify, value, manage and monitor operational risks introduced in 2008 was developed further. The main objective here is to integrate into this process existing management checks and operational processes and to synchronize them. Thus, the existing procedures to monitor project and legal risks were centralized and simplified. The methodology to quantify IT risks (e.g. as a result of the failure of critical software) as well as the systematic surveying of compliance risks could also be standardized.

Group Risk Controlling is responsible for the uniform, Group-wide implementation of the risk management process. The management of operational risks is undertaken primarily on a decentralized basis at the second and third management level. Central staff functions take appropriate management measures for identified transverse risks, e.g. IT risks. Group Risk Controlling has an advisory capacity and is responsible for the quarterly reporting on operational risks and on the status of projects to the Board of Directors and Group Executive Management.

Business risks

VP Bank classifies as business risks those risks which are currently regarded by the Group Executive Management and Board of Directors as being highly charged. Risks that are deemed to be highly charged are those risks that could jeopardize on an ongoing basis the achievement of the long-term corporate goals as a result of the currently prevailing external and internal risk factors. The assessment of business risks is subject to continual review and they remain valid only until such time as the management bodies undertake a further revalidation and prioritization thereof.

VP Bank thus does not consider business risks to be an autonomous risk category. Those business risks which the Board of Directors and Group Executive Management have identified as important are reflected in the two risk groups of financial and operational risks.

Business risks also include strategy risks. These result from strategic decisions which were taken using estimates of future developments and therefore taken under conditions of uncertainty. Such risks jeopardize the achievement of long-term corporate objectives. They arise, for example, when a company is inadequately oriented towards the development of the business

environment, whenever unrealistic goals are set, whenever the strategy is poorly implemented or when the implementation is inadequately controlled.

VP Bank reviews the fundamental risk scenarios in a three-year cycle (last time in 2008); the validation and prioritization of business risks is undertaken annually by the Audit & Risk Management Committee and Group Executive Management. Probabilities of crystallization are given to each risk scenario and evaluated as to their impact on corporate goals. The effectiveness of existing measures to avoid risks and the effectiveness of the controls implemented are reviewed regularly. The top risk scenarios are controlled at the level of their underlying risk drivers: each risk driver underlying a scenario is influenced by target variables and suitable parameters for action. The Audit & Risk Management Committee and Group Executive Management determine who shall assume responsibility for the management of risk drivers within the scope of projects.

The negative development of the financial markets in 2008 compelled VP Bank to reassess its position. The "FOCUS" banking project sub-divides this reassessment into several phases. As a first step, immediate measures were taken to alleviate costs in 2009. In subsequent phases, all VP Bank Group organizational units and projects were analyzed in detail and cost saving opportunities in the area of general and administrative and personnel expenses were realized. Other, potential opportunities were identified and measures developed aimed at enhancing revenues. In this reassessment, the long-term strategic direction was not called into question.