VP BANK

Annual Report 2020

// Seize opportunities //

Shareholder information

VP Bank Group at a glance

- Founded in 1956
- Third-largest bank in Liechtenstein
- About 990 employees
- Listed on SIX Swiss Exchange
- "A" rating from Standard & Poor's
- Six locations worldwide in key financial centres (Vaduz, Zurich, Luxembourg, Singapore, Hong Kong, Tortola/BVI)
- Focus on asset management for intermediaries and private individuals
- International fund competency centre

Goals for the end of 2026

- Profit: Group net income of CHF 100 million
- Growth: net new money >4% p.a. over the cycle
- Profitability: profit margin >15 bps and cost/income ratio >70%
- Stability: tier 1 ratio >20%

Agenda 2021

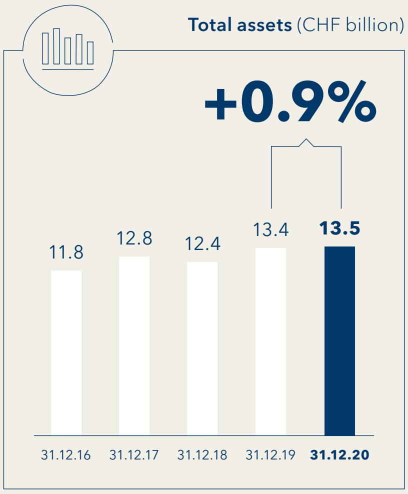
Annual results	9 March 2021
Annual general meeting of shareholders	30 April 2021
Dividend payment	30 May 2021
Semi-annual results	17 August 2021

Master Data

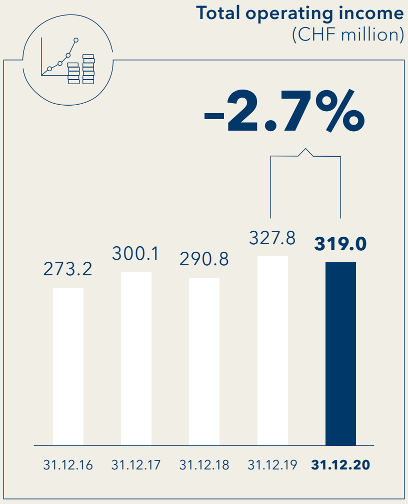
Registered shares A, listed on SIX Swiss Exchange	
SIX symbol	VPBN
Bloomberg ticker	VPBN
Reuters ticker	VPBN.S
Security number	31 548 726
ISIN	LI0315487269

Key figures of VP Bank Group

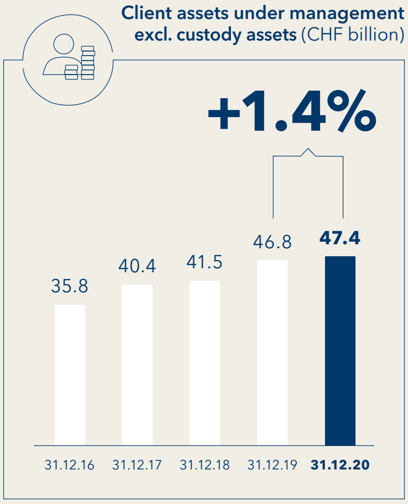
Total assets (CHF billion)



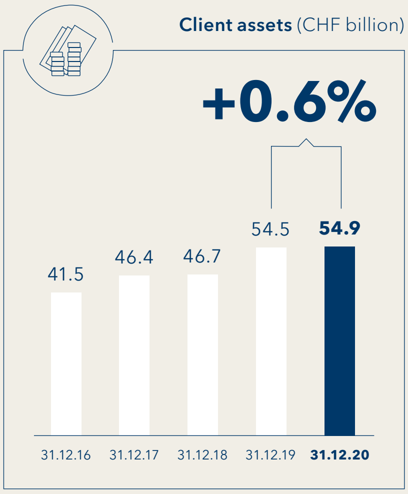
Total operating income (CHF million)



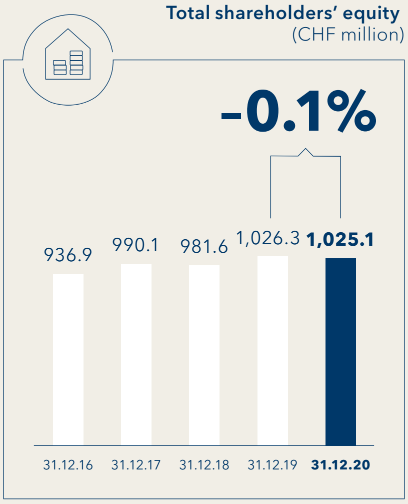
Client assets under management excl. custody assets (CHF billion)



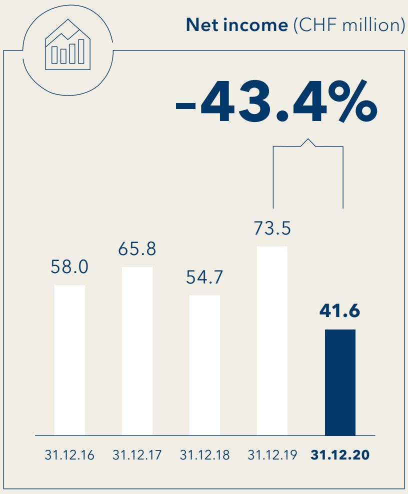
Client assets (CHF billion)



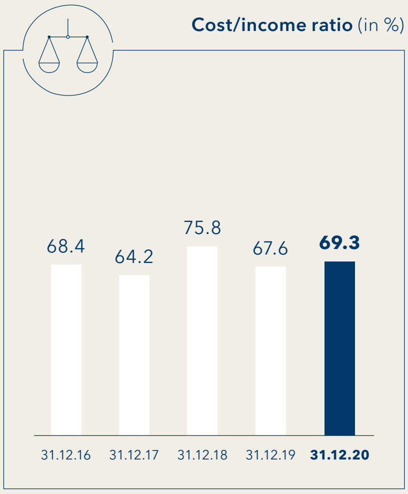
Total shareholders' equity (CHF million)



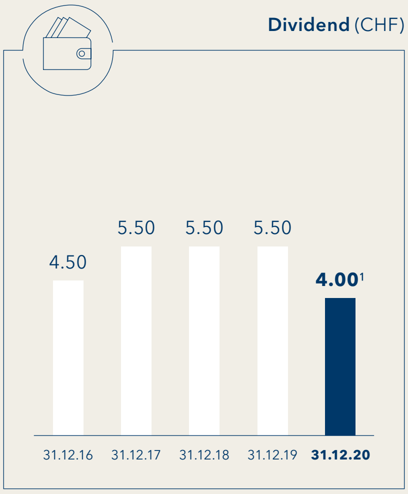
Net income (CHF million)



Cost/income ratio (in %)



Dividend (CHF)



Share price performance

[1] Proposal to the annual general meeting

VP Bank registered shares A (in CHF)

Key figures of VP Bank Group

	2020	2019	Variance in %
Key income statement data in CHF million[1, 2]			
Total net interest income	113.6	115.1	–1.3
Total net income from commission business and services	140.0	137.2	2.1
Income from trading activities	56.6	61.0	–7.1
Income from financial instruments	7.9	14.3	–44.6
Total operating income	319.0	327.8	–2.7
Operating expenses	269.5	244.8	10.1
Group net income	41.6	73.5	–43.4
Key balance-sheet data in CHF million[1, 2]			
Total assets	13,523.4	13,399.9	0.9
Due from banks	1,784.3	735.0	142.8
Due from customers	6,281.5	6,797.3	–7.6
Due to customers	11,511.7	11,137.5	3.4
Total shareholders' equity	1,025.1	1,026.3	–0.1
Equity ratio (in %)	7.6	7.7	–1.0
Tier 1 ratio in accordance with Basel III (in %)	20.8	20.1	3.5
Leverage ratio in accordance with Basel III (in %)	7.1	7.1	0.0
Liquidity coverage ratio in accordance with Basel III (in %)	179.4	213.1	–15.8
Total client assets under management in CHF million	**47,437.1**	**46,777.0**	**1.4**
On-balance-sheet customer deposits (excluding custody assets)	11,539.1	11,146.1	3.5
Fiduciary deposits (excluding custody assets)	401.1	908.6	–55.9
Client securities accounts	35,496.9	34,722.3	2.2
Custody assets in CHF million	**7,442.6**	**7,772.2**	**–4.2**
Total client assets in CHF million	**54,879.7**	**54,549.2**	**0.6**
Business volumes in CHF million[10]	**53,718.6**	**53,574.3**	**0.3**
Net new money in CHF million	**1,382.5**	**2,054.7**	**–32.7**
Key operating indicators[2]			
Return on equity (in %)[1, 3]	4.1	7.4	
Cost/income ratio (in %)[4]	69.3	67.6	
Total operating expenses / total net operating income (in %)	84.5	74.7	
Headcount (expressed as full-time equivalents, excluding student apprentices)[5]	917.1	873.7	
Total operating income per employee (in CHF 1,000)	347.9	375.2	
Total operating expenses per employee (in CHF 1,000)[6]	241.0	253.7	
Group net income per employee (in CHF 1,000)	45.4	84.2	
Key indicators related to shares of VP Bank in CHF[1]			
Group net income per registered share A[7]	6.90	12.28	
Group net income per registered share B[7]	0.69	1.23	
Dividend per registered share A[8]	4.00	5.50	
Dividend per registered share B[8]	0.40	0.55	
Dividend yield (in %)	3.6	3.5	
Payout ratio (in %)	58.0	44.8	
Total shareholders' return on registered shares A (in %)[11]	–24.19	13.51	
Shareholders' equity per registered share A on the balance-sheet date	169.93	172.26	
Shareholders' equity per registered share B on the balance-sheet date	16.44	16.41	
Quoted price per registered share A	112.00	155.00	
Quoted price per registered share B	11.20	15.50	
Highest quoted price per registered share A	167.20	165.40	
Lowest quoted price per registered share A	99.00	130.20	
Market capitalisation (in CHF million)[9]	741	1,025	
Price/earnings ratio per registered share A	16.23	12.62	
Price/earnings ratio per registered share B	16.23	12.62	
Rating Standard & Poor's	**A/Negative/A-1**	**A/Stable/A-1**	

1 The reported key data and operating indicators are computed and reported on the basis of the share of the net profit and shareholders' equity attributable to the shareholders of VP Bank Ltd, Vaduz.
2 Details in the notes on the consolidated income statement and consolidated balance sheet.
3 Net income / average shareholders' equity less dividend.
4 Total operating expenses (without depreciation and amortisation, valuation allowances, provisions and losses) / total operating income.
5 In accordance with legal requirements, apprentices are to be included in headcount statistics as 50 per cent of equivalent full-time employees.
6 Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / gross income less other income and income from financial instruments.
7 Based on the weighted average number of shares (registered share A) (note 11).
8 Subject to approval by the annual general meeting.
9 Including registered shares B.
10 Assets under management and due from customers.
11 Price change compared to previous year closing price plus dividend / closing price previous year.

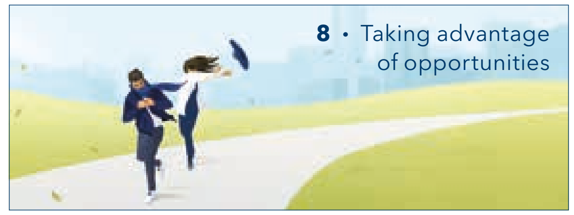
"Seize opportunities"

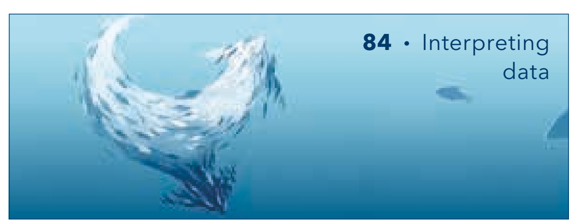
With its Strategy 2026, VP Bank set a milestone for the future of the Group. Under the motto "Seize opportunities", we have defined, among other things, a sharpened positioning and a number of strategic measures.

This annual report guides you through the key components of the new strategy and presents seven themes that illustrate the idea of seizing opportunities. Learn about our approach to markets, trends, sustainable investments, risk management, data analytics, private markets and the intermediary business. The themes we show you here will also be encountered in a media advertising campaign slated for 2021.

Additional information on the topic of seizing opportunities can be found in this annual report as well as in your daily cooperation with the VP Bank team.

report.vpbank.com





Introduction

VP Bank Group

Corporate strategy

Sustainability

Corporate governance and compensation report

Segments

Financial report 2020 of VP Bank Group

Financial report 2020 of VP Bank Ltd, Vaduz

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

Dr Thomas R. Meier
Chairman of the Board of Directors

Paul H. Arni
Chief Executive Officer

Dear Shareholders,
Ladies and gentlemen

An eventful year lies behind us, one that was clearly dominated by the coronavirus pandemic. Since its eruption in the spring of 2020, the effects of the pandemic have been felt in all areas of everyday life, with profound social and economic consequences. The public health measures imposed by governments worldwide to contain the pandemic led to far-reaching restrictions on every kind of social interaction, with grave consequences for the economy.

In response, governments and central banks have taken exceptional steps to cushion the pandemic's economic impact. After stock markets plummeted at the beginning of the pandemic in March 2020, the situation on financial markets calmed considerably in the second half of the year, as an impressive recovery got underway. However, this should not obscure the fact that the economic damage from the pandemic, in combination with the many earlier interventions made by the central banks, will preoccupy our economies for years to come, and that uncertainty about the economic and geopolitical outlook will remain omnipresent.

As a result of their sweeping support programmes, the debt levels of governments and companies continue to rise, as do the risks of financial market turmoil and loan defaults. And interest rates are also likely to remain very low for a long time to come.

VP Bank Group with solid results in a difficult market environment

In this extraordinary market environment, VP Bank was able to close out the financial year 2020 within expectations and bring it to a stable end. Our robust and broad-based business model is clearly a strength, proving its resilience in these extraordinary times. The Group's international footprint was part of this success, making a significant contribution to our solid operational results. VP Bank thus is well positioned for the future and enjoys an excellent financial foundation. VP Bank's healthy financial position is also largely reflected in the key figures.

For the financial year 2020, VP Bank generated a Group net income of CHF 41.6 million, down from CHF 73.5 million in 2019, largely due to a one-time value adjustment in connection with a loan case. Compared to the previous year, 2020's total operating income declined 2.7 per cent, to CHF 319.0 million. Operating expenses excluding write-downs declined by CHF 1.4 million, compared to the previous year, to CHF 250.1 million.

Client assets under management increased to CHF 47.4 billion at the end of 2020, despite the difficult market environment. Compared to the previous year, this represents an increase of 1.4 per cent. It is particularly gratifying to note that despite the difficulties imposed by the pandemic, the loan repayments and some necessary reallocations, we achieved a net new money growth of CHF 1.4 billion, and we were again able to win significant new asset management mandates.

Net income (CHF million)

41.6

Total operating income (CHF million)

319.0

Operating expenses (CHF million)

269.5

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

47.4

Tier 1 ratio (in %)

20.8

As of 31 December 2020, VP Bank had a very healthy capitalisation, with a tier 1 ratio of 20.8 per cent and a high level of liquidity. The cost/income ratio increased to 69.3 per cent.

Thus, in the difficult market environment of 2020, VP Bank achieved a result that underlines the Bank's solidity. It is also satisfying to note that, excluding the impairment charge, all locations contributed to 2020's positive operating results. In addition, the costs of the entire Bank could be kept well under control.

Strategy 2020 ends and Strategy 2026 is launched

In 2020, the five-year "Strategy 2020" cycle came to an end. It was focussed on the themes of growth, efficiency and the development of our sales and performance culture. It aimed for CHF 50 billion in client assets under management, CHF 80 million in net profits and a cost/income ratio of less than 70 per cent. Due to the difficult market environment and the above-mentioned write-down, we were only able to reach the cost/income ratio target.

That said, there are various developments that currently speak for the financial services industry generally, and for VP Bank's prospects in particular. The business of serving wealthy clients is growing worldwide, and the past year has shown that advising these clients with a high degree of professionalism is vital for success, as is institutional stability. Especially when it comes to investing, there was a strong need to minimise risks, incorporate the theme of sustainability and develop investment solutions that can profit from the new opportunities that arise. Proximity to the client is key today, and this represents a great chance for VP Bank, since we often have close, long-standing relationships with our clients.

Today, we are seeing an unprecedented surge in the digitalisation of financial services that the pandemic has only accelerated. Such transformative moments open up many new business opportunities and exploiting these is the focus of our Strategy 2026 initiative.

As part of Strategy 2026, VP Bank Group will become a truly comprehensive wealth management services provider, both for professional intermediaries and wealthy private clients. Based on our strong Liechtenstein roots, we are strengthening our solid existing business areas, our international footprint and excellent networks, and our strong focus on sustainability.

We will strengthen our consistent customer focus through ecosystems and networks with an open wealth management approach, using our own and third-party offerings that are bundled together into innovative, tailor-made financial solutions. These attractive offerings are made accessible to clients through their personal advisors and through new digital customer interfaces. Thanks to our strong focus on financial intermediaries, VP Bank is realising a significant multiplier effect with this group and is expanding its addressable market through the targeted expansion of its intermediary ecosystem. As intermediaries, we define professional financial service providers such as trustees, external asset managers and family offices.

Based on this, we have defined a portfolio of core measures which have been grouped into three strategic areas of focus. In the course of the past year we evolved our organisation in a targeted manner to reinforce its strength and resilience and its capacity to successfully respond to change. The robustness of our processes and procedures, combined with the high level of professionalism of our employees, are important basic requirements for the future development of VP Bank. This can also be said for the stability of our shareholders, which enables us not only to pursue our development strategy independently, but also to implement goals over the course of a strategic cycle.

- Under the term "Evolve", we set measures aimed at further developing and optimising the existing business models at the individual locations. The focus is on the needs of our clients and how we can serve them even more effectively. This also involves the consistent promotion of the theme of sustainability across the Group.
- Under "Scale", we pursue the goal of further increasing the efficiency and cost discipline of our operations. To do this, we devise and implement simplified core processes consistently. The focus is on process optimisation, which is achieved through standardisation and automation of the operational platform as key part of the IT strategy we have developed.
- "Move" refers to activities that aim to open up new business opportunities. The focus here is on topics such as private market solutions, digital assets and the development of networked platforms. We want to open up a range of new investment opportunities for our clients, some of which were previously difficult for them to access or were relatively illiquid.

We have also set ourselves clear quantitative goals for Strategy 2026, which we want to achieve by the end of the strategy cycle. Overall, we are aiming for a Group net income of CHF 100 million by the end of 2026. In addition, by the end of 2026, we want to realise:

- New money growth of 4 per cent per year,
- Increased profitability, with a profit margin of more than 15 basis points and a cost-to-income ratio of maximum 70 per cent,
- A tier 1 ratio of more than 20 per cent.

Business year 2020

In addition to dealing with the challenges of the pandemic, the focus of the past year was on the preparatory work for the new strategy cycle. We have worked intensively and carefully on the definition and preparation of the core projects for the coming years. The work has progressed well and we are now well equipped to face the future with confidence. We have already started important key initiatives and, in a few cases, have already successfully completed them.

In 2020, we laid the foundations for repositioning our product offering and enhancing access to innovative investment solutions. What's more, we have consistently integrated sustainability criteria into our investment processes. And we launched risk-optimised ESG equity funds and made this future-oriented topic accessible to our clients with our "Green City" basket stock universe. In addition, we have more closely aligned our locations with their target markets and regional market opportunities, and developed new strategies for them accordingly. In this regard, the further development of our Asian business is a particularly important focus.

The future of our IT infrastructure also is a central focus of Strategy 2026. It underpins our work on the next generation of our financial services platform while also facilitating the integration of external wealth management services, collaborations, data-supported advice and individualised financial solutions. Important strategic decisions about the form and structure of the future IT platform were made at the end of 2020. In 2020, we also introduced new services to make interactions with our clients even more user-friendly and digital. In addition to video consultations, QR bills, Multiscan and Multipay, we also launched the new client communication tool "Avaloq CCM", the VP Bank Crisis Barometer, our new investment magazine "Telescope", and we held a variety of online customer events.

Last year, we already began to assemble our new Client Solutions unit. Building on our DNA in the intermediary business, with this new unit, we aim to expand our position as an international wealth management services provider. We offer systematic access to the private markets asset class and corresponding structuring solutions, such as Private Label Funds (PLFs), Special Purpose Vehicles (SPVs) and tokenisation. The strategy for the Client Solutions unit has been defined and work has begun on articulating its central principles. We were also able to make the first deals in the Private Investment Partners area. More detailed information on Strategy 2026 and the individual measures it entails can be found in the "Strategic Orientation" section of this annual report.

2020 was, as we have inevitably mentioned several times here, dominated by the coronavirus pandemic. Shortly after its onset in the spring of 2020, we implemented a comprehensive crisis response concept throughout all our locations worldwide. Protecting our clients and our employees was always the top priority. Implementing our response was made easier by our already widespread use of digital technologies and by the exemplary flexibility and commitment of our staff. Thanks to our earlier investments in digitalisation, we were able to shift quickly to online services. Thus, we always were able to provide our customarily high levels of service and support to our clients for their investment decisions and banking needs.

With regard to Strategy 2026, in a joint undertaking by the Board of Directors and the Chief Executive Officer, the Group Executive Management (GEM) team was also strengthened in 2020 with important management and technical expertise. Tobias Wehrli took over the management of the Intermediaries & Private Banking department from Christoph Mauchle, who opted for early retirement. In addition to overseeing private banking, Tobias Wehrli will also continue to develop the intermediary business, which is an important component of our growth strategy. And Thomas von Hohenhau, a proven financial expert with extensive expertise in the area of open banking, has also joined VP Bank and the GEM in the newly created role of Head of Client Solutions.

We responded with far-reaching measures to the write-down of a single position in the first half of 2020. The credit department and various responsibilities within it were reorganised. At the same time, governance in the areas of risk and compliance were also strengthened, as were other central processes. Altogether, we believe these measures create important preconditions for VP Bank's sustainable success. In this regard, Patrick Bont has been named the new Chief Risk Officer. He comes to us from the Financial Market Authority Liechtenstein (FMA), and he will further strengthen the security of our operations. He will also actively participate in the further strategic development of the Bank. Finally, Roger Barmettler, a well-established internal manager, has been named VP Bank's new Chief Financial Officer.

At the 57th Annual General Meeting of VP Bank on 24 April 2020, Dr Beat Graf and Michael Riesen were re-elected to the Board of Directors for further three-year terms. Prof. Dr Teodoro D. Cocca did not stand for re-election and has stepped down from the Board. Katja Rosenplänter-Marxer was newly elected to the Board for a three-year term. She represents the anchor shareholder the "Marxer Stiftung für Bank- und Vermögenswerte" foundation. Fredy Vogt, Chairman of the Board of Directors since 2012, has relinquished his position in line with the succession plan, but remains a member of the Board. Following the Annual General Meeting, Board member Dr Thomas R. Meier was elected the new Chairman of the Board of VP Bank.

In 2020, we celebrated the twenty-fifth anniversary of our branch office in the British Virgin Islands, which, in addition to traditional banking services, also offers credit financing and mortgages. And we once again received various industry awards for our banking and financial services. Our team in Singapore was given the WealthBriefingAsia Award for "Best External Asset Manager Service Provider" and "Best Private Banking Regional Partnership". In addition, we were honoured with the "Citywire Asia EAM Desk Award 2020 for Best Service" and we were named the best private bank for intermediaries at the Asian Private Banker Awards for Distinction 2020 at the end of the year in Singapore. These awards recognise our strong position as a bank and, in particular, our focus on the intermediary business in Asia, confirming our focus on our Asian strategy.

In Europe, Bisnode D&B Switzerland awarded VP Bank Group the top grade in the D&B Risk Indicator for the seventh time. The award recognises the solid financial stability of VP Bank Group. In the annual Fuchsbriefe tests, VP Bank again received an award for the quality of its advice in German-speaking countries. Finally, the rating agency Standard & Poor's (S&P) also confirmed the "A" rating for VP Bank in July 2020.

Dividend proposal 2020

At the Annual General Meeting of VP Bank on 30 April 2021, the Board of Directors will propose a dividend of CHF 4.00 per registered share A and CHF 0.40 per registered share B. These amounts are based on the Board of Directors' constant dividend policy, with the aim of distributing 40 to 60 per cent of the Group's profits to shareholders. The proposed dividends are based on the Group's 2020 net income of CHF 41.6 million.

Outlook for 2021

In 2021, VP Bank Group celebrates two important anniversaries. In 2006, we opened our Hong Kong office where, for the past 15 years, we have successfully offered asset management services and maintained a representative office. Hong Kong plays an important and growing role in our Asia strategy. Twenty-five years ago, the VP Bank Art Foundation was founded to collect and promote contemporary visual art. We have planned some attractive anniversary activities for both occasions.

The widespread distribution of effective vaccines to combat the coronavirus promises a gradual return to normal social and economic activity in the second half of 2021. Until then, however, the virus will continue to shape economic development. Given the strong economic correction in 2020 and the resulting low starting point for growth calculations, respectable macroeconomic growth rates are expected in 2021.

With our new Strategy 2026, an unchanged solid core capital ratio of 20.8 per cent and ample liquidity, VP Bank Group is well equipped even for difficult times, and we look to the future with confidence.

Thanks

The coronavirus pandemic has shown how important it is, as individuals and as an organisation, to react to change with creativity and agility.

We are proud of how our organisation responded to the challenges of 2020. As a team, we have proved time and again in recent months that VP Bank is able to respond effectively new challenges in a targeted manner. Competent and committed employees were behind the success VP Bank had in meeting the challenges of 2020. They were responsible for ensuring that we could maintain close relationships with our satisfied clients. Thanks to the efforts, commitment and flexibility of our employees in all locations, we are able to operate our business successfully, with our customarily high level of quality, even under difficult conditions, and to emerge stronger from this demanding time. We would also like to express our special thanks to our outstanding crisis team, who guided our response to the challenges we all have faced.

Finally, we warmly thank our clients and shareholders for the ongoing trust they have placed in VP Bank.

Dr Thomas R. Meier Chairman of the Board of Directors	**Paul H. Arni** Chief Executive Officer

Opportunities don't just come about. They require the **right analysis** at the **right time**.

Taking advantage of opportunities

The coronavirus pandemic has led to extreme volatility on the stock markets. When there is turbulence on the stock markets, it is difficult for investors to remain calm and stick to their strategies. Phases of volatility certainly offer opportunities that can be tapped into.

Tan Zhi Qiang, Junior Relationship Manager at VP Bank Singapore, explains in an interview how he actively accompanies his clients through phases of market volatility and develops attractive investment solutions for them.

Detailed information at www.vpbank.com/opportunities

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. We also offer access to investment solutions via our fund companies and to investments on the private market.

VP Bank is one of the largest banks in the Liechtenstein financial centre. In addition to its headquarters in the Principality of Liechtenstein, VP Bank Group is present with offices in five other locations: Switzerland, Luxembourg, Singapore, Hong Kong and the British Virgin Islands.

VP Bank Group has a sound balance sheet and a strong capital base. An "A" rating from Standard & Poor's vouches for the financial strength of this banking enterprise. The shares of VP Bank are listed on SIX Swiss Exchange. A large proportion of its equity capital is in the hands of three anchor shareholders: "Stiftung Fürstl. Kommerzienrat Guido Feger" foundation, "U.M.M. Hilti-Stiftung" foundation and "Marxer Stiftung für Bank- und Unternehmenswerte" foundation – a guarantee for continuity, independence and sustainability.

VP Bank's workforce of more than 990 employees administer clients assets totalling almost CHF 55 billion. Its client advisors are supported by a well-developed network of partner firms that contribute to the outstanding international know-how of VP Bank Group.

Tradition and innovation for more than 60 years

Founded in 1956 in Vaduz, Liechtenstein, VP Bank has grown steadily from a friendly local bank to become a globally active financial services enterprise.

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

Excellent advice and services as well as the high level of processing competence are proof of 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

VP Bank is an established partner for financial intermediaries who especially count on decades of experience and a modern infrastructure. By intermediaries, we mean professional financial service providers such as trustees, external asset managers and family offices.

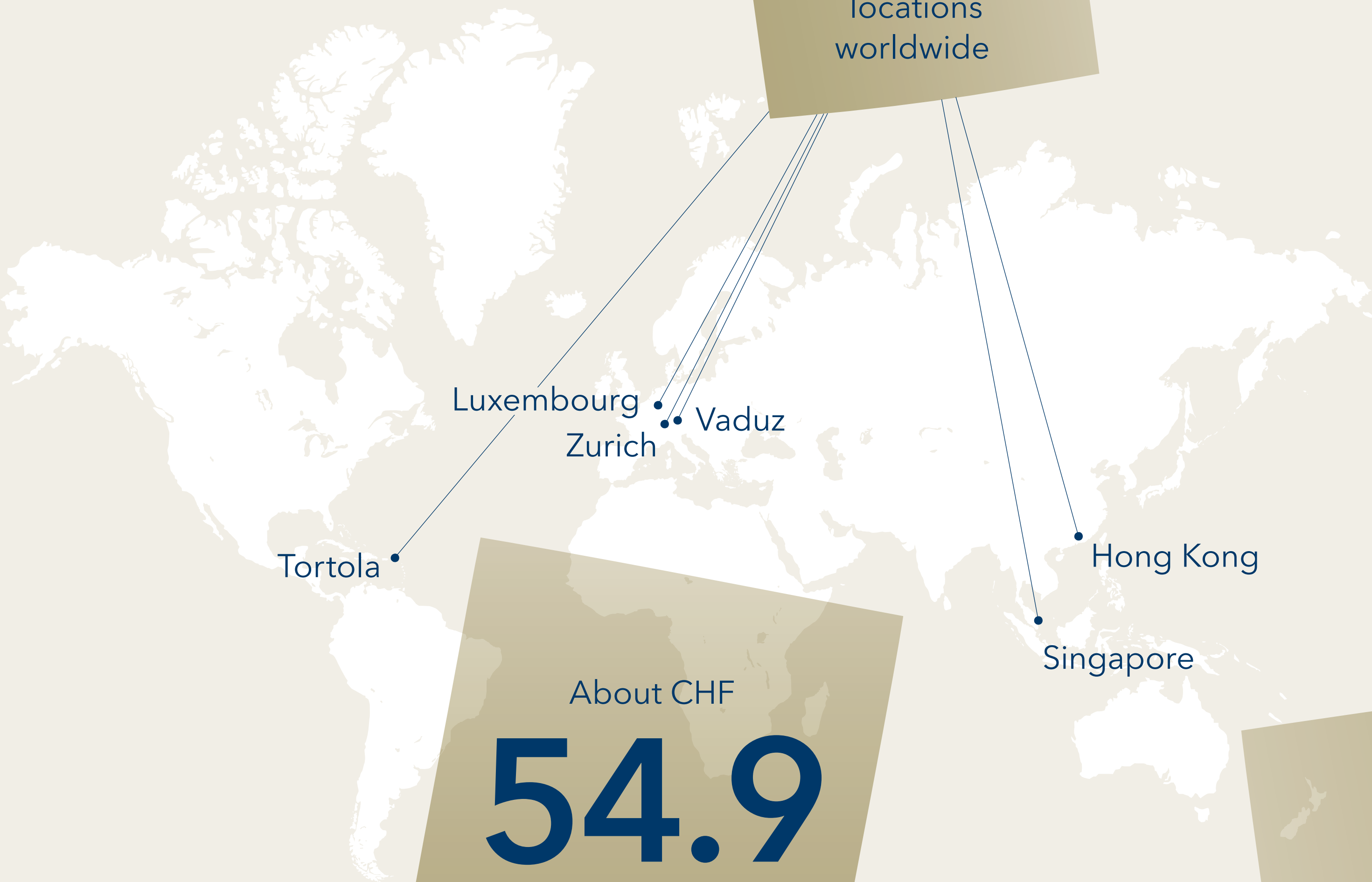
Tailor-made asset management, investment advisory and wealth planning for a sophisticated private clientele represent VP Bank's core competencies. The strategic business area Client Solutions focuses on access to investment solutions via our fund companies and on investments in the private market.

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 about 990 employees, VP Bank Group is the right size to offer top-notch solutions with a personal touch. Clients enjoy the individualised advice of a private bank and, thanks to the international presence of VP Bank, gain access to a worldwide network of specialists.

VP Bank relies on short decision-making paths, agility, and flexible and sustainable solutions. The use of digital tools supports personal client care. In addition, VP Bank's e-banking application affords clients freedom of movement and maximum security when conducting banking transactions. They have round-the-clock electronic access to their securities and deposit accounts.

6
locations worldwide



About CHF
54.9
billion in client assets

Founded in
1956

990
employees

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

2020 in review

01

JANUARY

Preliminary announcement of the annual result

VP Bank provides information about a significantly higher expected Group net income and an increase in client assets under management.

02

FEBRUARY

Strategy 2026

The Board of Directors of VP Bank approves the new corporate strategy, including the implementation measures and road map.

Awards for excellence in Asia

VP Bank Ltd Singapore Branch is named "Best External Asset Manager Service Provider" in Asia. This award highlights the prominent position of the Bank and its targeted focus on the intermediary business. In addition, VP Bank in Singapore is also recognised as the "Best Private Banking Regional Partnership".

03

MARCH

2019 annual results

VP Bank Group reports a 34.4 per cent increase in profit for 2019 and achieves a Group net income of CHF 73.5 million. At CHF 2.3 billion, net new money inflow improved for the third year in a row. The tier 1 capital ratio was 20.2 per cent, and the cost/income ratio was reduced to 67.6 per cent.

Valuation adjustment

In the short term, the coronavirus crisis leaves a mark on the loan portfolio of VP Bank Group, requiring a larger valuation adjustment to one individual position of roughly CHF 20 million.

Corona crisis management

To manage the coronavirus crisis situation, VP Bank activates crisis mode at the beginning of March 2020.

04

APRIL

Sustainable ESG fund concept

VP Bank repositions its own equity funds according to a risk-optimised approach based on environmental, social and governance (ESG) criteria.

Best score for Risk Indicator 1

In 2020, Dun & Bradstreet Worldwide again awards VP Bank Group its top rating of "Risk Indicator 1" for risk and creditworthiness.

Annual general meeting

At the 57th annual general meeting, which is held digitally for the first time, the shareholders of VP Bank approve all of the proposals of the Board of Directors by a large majority. Distribution of a dividend of CHF 5.50 per registered share A and CHF 0.55 per registered share B are approved. Dr Beat Graf and Michael Riesen are re-elected to the VP Bank Board of Directors for another three years. Prof. Dr Teodoro D. Cocca does not stand for re-election, and Katja Rosenplänter-Marxer is elected to the Board of Directors for a term of three years. Fredy Vogt steps down as Chairman of the Board of Directors and Dr Thomas R. Meier is elected as the new Chairman.

06

JUNE

New investment magazine

VP Bank launches its new investment magazine Telescope, which offers new perspectives on investment topics and sheds light on the long-term investment horizon.

Changes to Group Executive Management

In the course of the reorganisation of the Credit division, CFO Siegbert Näscher and General Counsel & Chief Risk Officer Monika Vicandi leave VP Bank Group.

07

JULY

New Head of Intermediaries & Private Banking

On 1 July 2020, Tobias Wehrli takes over as Head of Intermediaries & Private Banking and joins Group Executive Management at VP Bank. He succeeds Christoph Mauchle, who opts for early retirement by the end of September 2020.

Acquisition of Öhman Bank's private banking business in Luxembourg

VP Bank strengthens its position in the Nordics market by acquiring the client business of Luxembourg-based private bank Öhman Bank S.A. from the Swedish Öhman Group as of 1 January 2021.

Standard & Poor's rating

Standard & Poor's confirms the "A" rating for VP Bank and adjusts its outlook to "Negative".

08

AUGUST

2020 semi-annual results

With a Group net income of CHF 14.4 million, net new money inflow of approximately CHF 1 billion, an improved cost structure and an increase in operating income of 2.5 per cent to CHF 166.8 million, VP Bank Group proves its crisis resilience in the first six months of a year turned upside down by the coronavirus pandemic.

09

SEPTEMBER

New Client Solutions division

As part of Strategy 2026, the Board of Directors appoints Thomas von Hohenhau to begin serving as Head of the newly created Client Solutions division on 1 September 2020. In this role, Thomas von Hohenhau also joins Group Executive Management.

Sponsorship commitment

Through a sponsorship of the Swiss Ladies Open, VP Bank helps achieve a professional women's golf comeback in Switzerland.

New management at VP Bank in Luxembourg

Claus Jørgensen takes over from Thomas Steiger after being appointed Chief Executive Officer of VP Bank (Luxembourg) SA.

Annual report receives awards

VP Bank Group's print and online reports receive eight international prizes in 2019.

F.A.Z. economists' ranking

VP Bank is ranked among the top 10 of Germany's most influential economists in the media ranking of the Frankfurter Allgemeine Zeitung's "Economist Ranking 2020".

10

OCTOBER

Best Paper Award

The VP Bank Best Paper Award 2020 for sustainable finance is presented at the "Sustainable Finance Workshop" of the University of Liechtenstein.

Investing for Change

Following the expansion of the product range to include risk-optimised ESG equity funds, VP Bank launches the "VP Bank Green City Basket".

11

NOVEMBER

New Chief Risk Officer

The Board of Directors appoints Patrick Bont, the former Head of the Banking Division of the Financial Market Authority (FMA) Liechtenstein, to serve as Group Chief Risk Officer starting on 1 November 2020.

New client service tool

The roll-out of the new client advisory tool "RM Cockpit" at VP Bank (Switzerland) Ltd makes client advisory service even more efficient and appropriate to the needs of the clients. Group-wide placement into service will take place in the first quarter of 2021.

Excellent quality of advisory services

VP Bank receives a "Very good" rating for the quality of its advisory services in the Fuchsbriefe test regarding advisory quality of banks and asset managers, allowing the Bank to move up in the overall rankings to 10th place.

12

DECEMBER

"Lichtblick"

As part of the VP Bank Foundation's annual "Lichtblick" philanthropic event, numerous charitable organisations receive generous donations.

Website refresh

After an overhaul of both design and content, VP Bank's new website presents the Bank in a modern, neatly arranged and well-structured manner, with user-friendliness that is state of the art.

IT strategy

VP Bank adopts its IT strategy as an important milestone in the implementation of its Strategy 2026. The measures are aimed at further advancing the digital transformation towards becoming a wealth management service provider.

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

Organisational structure

VP Bank Group comprises six business units: "Chief Executive Officer", "Intermediaries & Private Banking", "Client Solutions", "Chief Risk Officer", "Chief Financial Officer" and "Chief Operating Officer".

Changes to the organisational structure of VP Bank Group in 2020

As of 1 January 2020, VP Bank consolidated all supporting activities related to market and segment management in a new organisational unit designated "Market & Segment Management". In addition to the implementation of target-market and segment strategies, it also ensures Group-wide coordination of the content and processes of market and segment management and support for the managers responsible for the markets and segments. At the same time, the strategic management of the Group was consolidated in the CEO Office under the leadership of Dr Rolf Steiner. In addition to day-to-day management support, the primary tasks of the new, expanded CEO Office therefore include management of Group strategy in particular. This includes support for strategy development and management of the strategic project portfolio as well as management of M&A activities and innovation.

As of 1 January 2020, Roger Barmettler succeeded Hanspeter Kaspar as Head of Group Finance. Kaspar left VP Bank at the end of September 2019.

On 30 April 2020, Cécile Bachmann stepped down as Head of Group Communications & Marketing. The department is now led by Felipe Gomez de Luis and has been organisationally reintegrated into the CEO Office.

In connection with the valuation adjustment on a single position that was announced in spring 2020, VP Bank Group reorganised and restructured the responsibilities in its Credit division. In the course of these measures, Siegbert Näscher decided to step down from his position as CFO and leave the Bank on 19 June 2020. Roger Barmettler, Head of Group Finance, took over management of the CFO division on an interim basis. He has been definitely appointed CFO as of 1 March 2021.

In connection with the reorganisation of credit processing activities, Monika Vicandi, General Counsel & Chief Risk Officer, also left the Bank. Dr Rolf Steiner, Head of the CEO Office, assumed the function of Chief Risk Officer, which now also includes Credit Risk Management, on an interim basis. The Board of Directors of VP Bank then appointed Patrick Bont, the former Head of the Banking Division of the Financial Market Authority (FMA) Liechtenstein, to serve as Group Chief Risk Officer starting on 1 November 2020.

The Group Credit division was split in order to ensure a clear division between the first line of defence (operational management) and the second line of defence (risk management). In future, the Group Credit Consulting department will be entrusted with the task of strengthening the entire front-office organisation operationally with regard to support for and ensuring further development of first-line expertise. Credit Processing was integrated into Credit Consulting. The new department, together with the Group Product Management department, is now part of the Group Product Center division under the leadership of Marcel Fleisch, with direct reporting to the Head of Intermediaries & Private Banking.

In future, Credit Risk Management in the Group Credit Risk division will focus on traditional second line of defence duties such as credit approval, monitoring and reporting. Since 1 December 2020, Group Credit Risk has been managed by Arndt Fauser, who reports directly to Chief Risk Officer Patrick Bont.

After seven years in Group Executive Management as Head of Client Business, Christoph Mauchle decided to take early retirement and leave VP Bank as of 30 September 2020. Head of Intermediaries Liechtenstein Tobias Wehrli joined the Group Executive Management team on 1 July 2020, assuming responsibility for the management of the newly structured Intermediaries & Private Banking (IPB) division.

Christophe Racine took over as Head of Intermediaries on 1 November 2020, succeeding Tobias Wehrli in this position.

Werner Wessner, IPB Office, and Patrick Bischofberger, Head of Market & Segment Management, left the Bank at the end of July 2020. The IPB Office department is now headed by Sibylle Haag.

Eduard von Kymmel, Head of VP Fund Solutions of VP Bank Group and CEO of VP Fund Solutions (Luxembourg) SA, stepped down from his positions and left VP Bank Group at the end of 2020. The overall management position for VP Fund Solutions will not be filled. The management of VP Fund Solutions (Luxembourg) SA will be taken over by Torsten Ries as the new CEO.

As part of Strategy 2026, Thomas von Hohenhau was appointed to begin serving as Head of the newly created Client Solutions division on 1 September 2020. In this role, Thomas von Hohenhau also joins Group Executive Management. The Client Solutions unit has been tasked with creating systematic access to new investment opportunities in the private market. The new business unit will be assuming responsibility for earnings and results, building on the fund services of VP Bank Fund Solutions and supplementing them with investment solutions in the private market. The objective is to build another pillar with new business opportunities in addition to the established business with intermediaries and private clients.

Changes to the organisational structure of VP Bank's Group companies in 2020

The CEO of VP Bank (Luxembourg) SA, Thomas Steiger, took early retirement and left VP Bank at the end of May 2020. The Board of Directors of VP Bank (Luxembourg) SA appointed Claus Jørgensen as CEO of our Luxembourg subsidiary.

VP Bank, Vaduz, Head Office

Segment	Area	Head
Board of Directors	Chairman Group Internal Audit	Dr Thomas R. Meier Nikolaus Blöchlinger
Chief Executive Officer	 CEO Office Chief Investment Officer Group Human Resources	Paul H. Arni Dr Rolf Steiner Dr Felix Brill Dominique Christen
Intermediaries & Private Banking	 Private Banking Liechtenstein Intermediaries Liechtenstein Group Product Center VP Bank (Switzerland) Ltd VP Bank (Luxembourg) SA VP Bank Ltd Singapore Branch VP Wealth Management (Hong Kong) Ltd VP Bank (BVI) Ltd	Tobias Wehrli Martin Engler Christophe Racine Marcel Fleisch Antony Lassanianos Claus Joergensen Bruno Morel Clare Lam Chan Nicholas Clark
Client Solutions	 CSL Office Collective Private Markets Investments Private Investment Partners CSL Access Partners Fund Client- & Investmentservices Philanthropy and Impact CSL Operations CSL Legal & Risk	Thomas von Hohenhau Sebastian Heinrich Donat Wild Ulrich Knopp Thomas von Hohenhau a.i. Ralf Konrad Dr Céline Wong Dr Martin Jonasch Ralf Konrad a.i.
Chief Risk Officer	 Group Legal Services Group Compliance Group Risk Group Credit Risk	Patrick Bont Stefan Zünd Markus Reinacher Patrick Bont a.i. Arndt Fauser
Chief Financial Officer	 Group Finance Group Treasury & Execution Group Financial Management & Reporting	Roger Barmettler Roger Barmettler Claus Hug Robert Kilga
Chief Operating Officer	 Group Information Technology Group Operations Client Lifecycle Management Business Process Management Corporate Services	Dr Urs Monstein Dr Andreas Benz Jürg Mühlethaler Günter Klemens Thomas Ludescher Andreas Nigg

Branch office

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

Subsidiaries with bank status

Company	Country	City	Head
VP Bank Ltd	Liechtenstein	Vaduz	Paul H. Arni, Tobias Wehrli, Thomas von Hohenhau, Patrick Bont, Roger Barmettler, Dr Urs Monstein
VP Bank (Switzerland) Ltd	Switzerland	Zurich	Antony Lassanianos, Thomas Westh Olsen, Martin Vetsch
VP Bank (Luxembourg) SA	Luxembourg	Luxembourg	Claus Joergensen, Romain Moebus
VP Bank (BVI) Ltd	British Virgin Islands	Tortola	Nicholas A. Clark, Sjoerd Koster

Wealth management companies

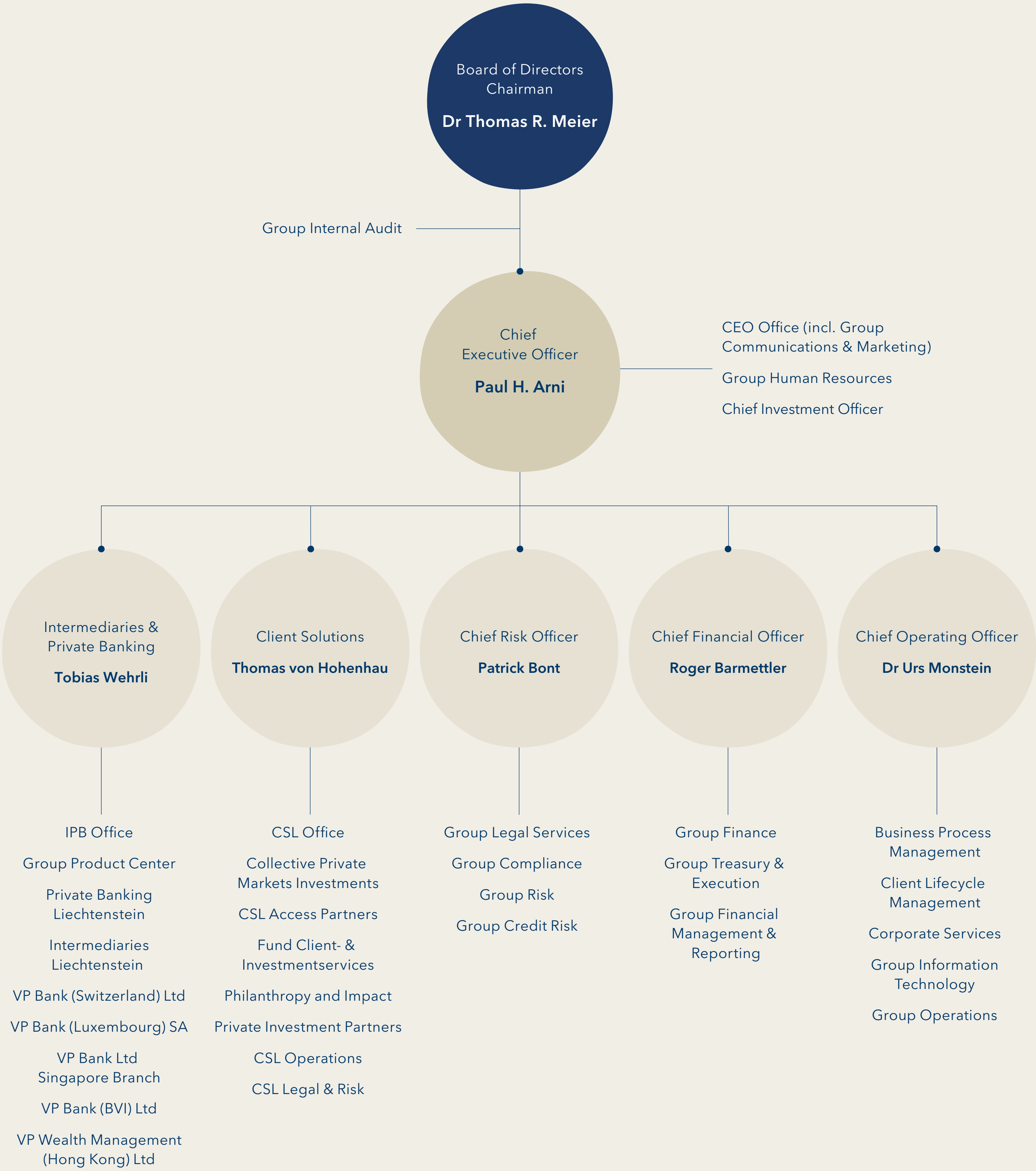
Company	Country	City	Head
VP Wealth Management (Hong Kong) Ltd	China	Hong Kong	Clare Lam Chan

Fund management companies

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

Representative offices

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



The assignment of the organisational units in the segment reporting is set out on ➔ page 86 ff.

Organisational chart as of 31.12.2020

Dr Thomas R. Meier
Chairman of the Board of Directors

Paul H. Arni
Chief Executive Officer

Tobias Wehrli
Head of Intermediaries & Private Banking

Thomas von Hohenhau
Head of Client Solutions

Patrick Bont
Chief Risk Officer

Roger Barmettler
Chief Financial Officer

Dr Urs Monstein
Chief Operating Officer

Economic environment

World economy 2020

The fateful year 2020 has earned a permanent place in the history books. With the outbreak of the coronavirus pandemic and the subsequent measures to contain it, gross domestic product experienced a massive collapse in most countries. The global economy is now facing the worst recession since the Great Depression of almost 100 years ago. It was primarily due to the generous aid provided by central banks and governments that the economic fallout was not even more severe. Thanks to this support, the retail sector was even able to experience net growth in many industrialised countries, with online trade flourishing in particular. The global manufacturing sector also enjoyed a noticeable increase in new orders in the second half of the year, with the positive economic trend in China serving as a key driver here.

Against this backdrop, the stock market slump was brief but particularly severe. Among the most effective tools for fighting the crisis was the generous provision of dollar liquidity by US monetary authorities to other central banks via so-called "swap lines". This meant that the central banks of Great Britain, Canada, Japan and Switzerland, as well as the European Central Bank (ECB), were sufficiently supplied with fresh US dollars. With the knowledge that the global shortage of dollars further exacerbated the financial market crisis, the International Central Bank Cooperation took countermeasures at an early stage this time.

In the meantime, the Swiss National Bank (SNB) faced significant upward pressure on the Swiss Franc, which it countered with massive foreign exchange market interventions. This made Swiss monetary policy in 2020 one of the most expansive in the world even though the SNB did not launch a securities purchase programme like the ECB and the US Federal Reserve (Fed). The SNB also maintained its interest rate policy, refraining from further interest rate cuts, and the negative interest rate situation did not change.

Equity markets in 2020

The equity markets, which started 2020 on solid footing, were shaken up and put to the test by the global health crisis. In particular, industrial and service sectors that are heavily dependent on high mobility experienced extreme economic shock. However, the crisis also demonstrated the strength of the digital transformation, which offered rapid solutions in the segment of the digital economy, automation and telework, as well as additional increases in profitability. Combined with strong fiscal policy measures, this created a sense of confidence that drove the US equity market to new highs within just a few months.

The emerging markets, led by China, also recovered disproportionately within a brief period of time, with Europe and the defensive Swiss equities lagging significantly in comparison. This is due to their strong roots in traditional business models as well as a high share in the financial sector, which had consequently experienced a major collapse. With successful development of a vaccine against the coronavirus, dynamic value recoveries were seen in equity markets in the fourth quarter.

VP Bank in capital markets

Number of shares, market capitalisation and trading volume

VP Bank's registered shares A are listed on the SIX Swiss Exchange; the registered shares B are not listed. The number of VP Bank's listed registered shares A remained unchanged at 6,015,000 in 2020. The market capitalisation of registered shares A combined with the market value of registered shares B, with a year-end value of CHF 741 million, was approximately 28 per cent below the 2019 value (CHF 1,025 million).

On the SIX Swiss Exchange where they are listed, VP Bank shares had a trading volume of 827,429 shares in 2020, representing average daily volume of 3,283 shares.

VP Bank share price trend

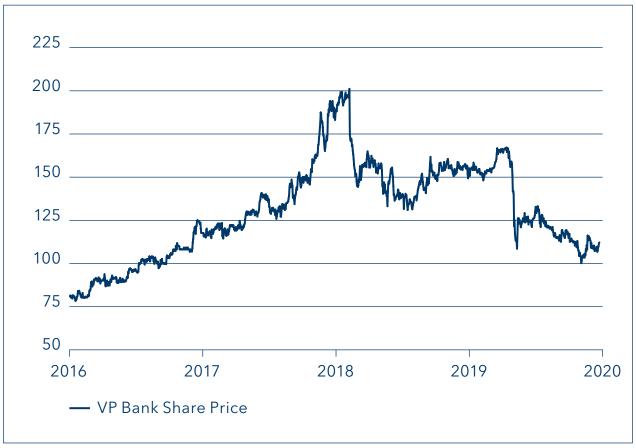
VP Bank shares got off to an encouraging start in the first months of 2020. However, as soon as the stock market began to price in the coronavirus pandemic towards the end of February, VP Bank shares also suffered significant losses. Neither the publication of the good annual results for 2019 nor the announcement of the Strategy 2026 could put an end to this trend. In the months that followed, the recovery of the share price was sluggish, which is likely due to the publication of the extraordinary value adjustment on an individual item in the loan portfolio of CHF 20 million (➔ **Chart** 1).

The low was reached on 28 October 2020 (CHF 99.00) and the high on 26 February 2020 (CHF 167.20). The average share price was CHF 125.88 and shares closed 2020 at CHF 112.00. Taking into account the dividend payment of CHF 5.50, VP Bank generated a return of just under –25 per cent in 2020, which is around 12 percentage points below the return on the Swiss Bank Index (➔ **Chart** 2).

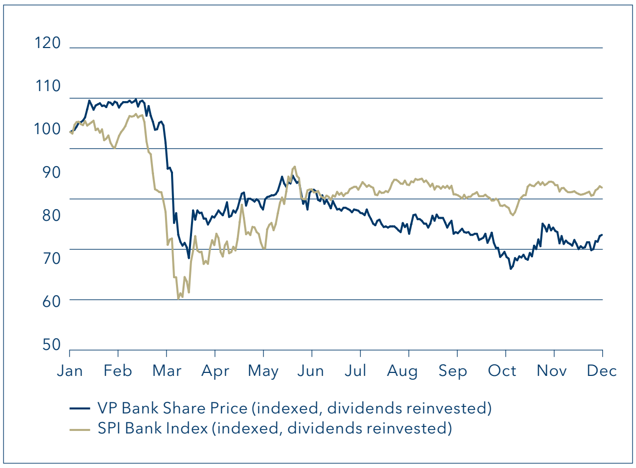
Dividends

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 April 2020, VP Bank paid a dividend of CHF 5.50 per registered share A, representing a dividend yield of 4.3 per cent at the time. That dividend was based on 2019 consolidated net income totalling CHF 73.5 million (➔ **Chart** 3).

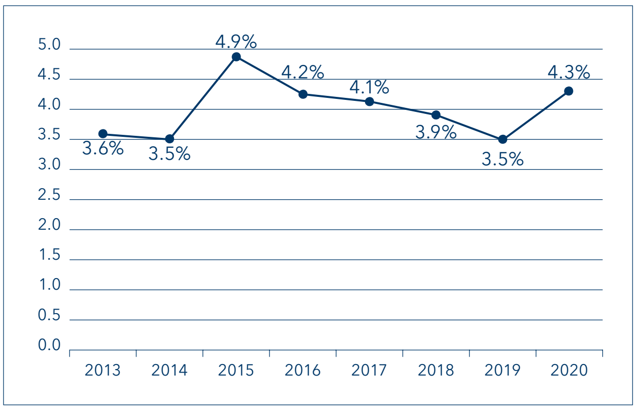
Share price performance 2016 to 2020 (in CHF) **Chart 1**



SPI Bank Index (indexed, dividends reinvested) **Chart 2**



Dividend yield performances **Chart 3**
(calculated based on closing price at end of prior year)



Bonds

VP Bank Ltd placed a total of three bonds in 2015 and 2019. For information on terms, interest rates and maturities, please refer to note 26 (➔ page 145).

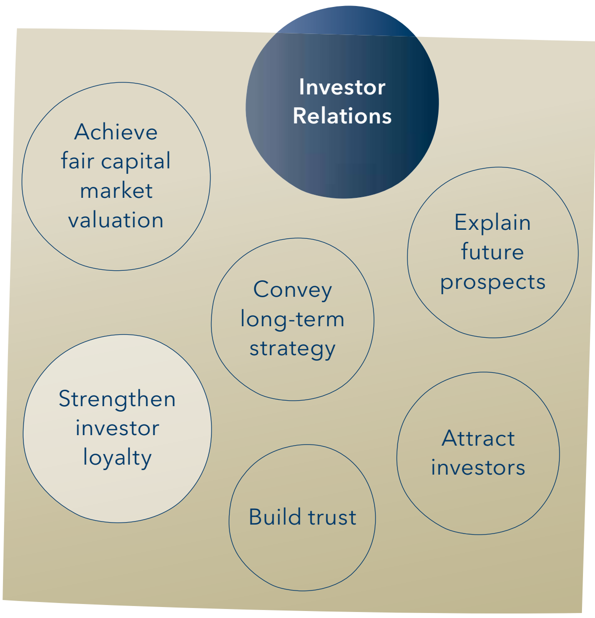
Investor relations

VP Bank views investor relations as a value-determining factor for the company and its shareholders, and strives to inform market participants promptly and to the best of its ability in regard to current developments. The primary goal of VP Bank's investor relations efforts is to communicate a true and fair picture of the Group to shareholders and other participants in the capital market in an open and ongoing dialogue, to strengthen trust, to clarify future potential, and thereby to achieve a fair capital market valuation.

The focal points 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", that is, 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 publication platforms.

Investor relations goals



In 2020, VP Bank's management attended numerous meetings of investors and analysts as individuals and groups, and also participated in several roadshows and investor conferences, most of which were held virtually due to the coronavirus pandemic. Analyst meetings were held following the presentation of the annual and interim results.

We provide comprehensive information on VP Bank Group and its shares on the 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 our information. These are available in the "Investor Relations" section at www.vpbank.com. 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 "Investor Relations" section on the VP Bank website and posted online at report.vpbank.com along with all current information. The VP Bank interim annual report is also available in an online version at report.vpbank.com/en/semi2020.

The continuing development of VP Bank Group's annual and interim reports in accordance with international trends and legal requirements is taken seriously; under the motto of "We connect", the design of the last annual report focused on the process of connectivity.

VP Bank Group's 2019 Annual Report received a total of eight international awards, which recognised the outstanding quality of the VP Bank's communications policy and again demonstrated its creative design prowess. VP Bank Group's annual report was ranked number 3 in the HarbourClub and Bilanz's Swiss Annual Report Rating. With a superb jury comprising design experts and financial professionals, this rating is the most important in Switzerland, and the largest of its kind.

VP Bank was also thrilled to receive an additional award, the famous Red Dot Design Award, in the Brands & Communication Design category. The 2019 Annual Report received Gold in the ARC Awards in the US, with VP Bank coming out on top against 1,700 submissions from 29 countries. The ARC Awards have been given out in the US for more than 30 years, and it is the largest annual report competition in the world.

VP Bank also received a Gold Award at the League of American Communications Professionals (LACP) Vision Awards in the US, featuring around 1,000 participants.

Another Gold Award came from the Stevie Awards in the US. The online version of VP Bank's 2019 Annual Report was awarded Gold at both the LACP Vision Awards and the ARC Awards. The 2019 Annual Report also demonstrated its high quality at the Galaxy Awards and the Spotlight Awards.

Annual General Meeting

At VP Bank's 57th ordinary Annual General Meeting on 24 April 2020 in Vaduz, the shareholders approved all of the resolutions proposed by the Board of Directors.

Because of the ban on gatherings due to the coronavirus pandemic, voting took place electronically and by postal mail. Shareholders were able to follow the Annual General Meeting via live stream on the VP Bank website. Through the elimination of the social programme for the shareholders as well as the shareholder gift, VP Bank was able to make a charitable donation in coordination with the Liechtenstein Bankers' Association.

The next ordinary Annual General Meeting will be held on 30 April 2021.

VP Bank's rating

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.

VP Bank is one of the few private banks in Liechtenstein and Switzerland to be rated by an international rating agency. Rating agency Standard & Poor's (S&P) confirmed the "A" rating for VP Bank again on 17 July 2020. The rating report cited the Bank's very strong capitalisation and solid refinancing item as the primary reasons for this rating. At the same time, however, the outlook was changed from "stable" to "negative". The change is a direct consequence of the valuation adjustment of around CHF 20 million that was made in March 2020.

That said, the improvement measures initiated by VP Bank in its processes, duties, competencies and responsibilities were met with broad approval and acceptance in the latest audit report by S&P. The S&P ratings committee was confident that this has significantly strengthened the risk governance of VP Bank. VP Bank is confident that this will help it to fulfil the necessary conditions to quickly return the outlook to "Stable".

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

VP Bank shares are also followed by analysts from MIRABAUD Securities LLP (recommendation: buy), Research Partners AG (recommendation: buy), Zürcher Kantonalbank (recommendation: overweight) and Kepler Cheuvreux (recommendation: buy). Recommendations as of February 2021.

Calendar	
Publication of 2020 annual results	Tuesday, 9 March 2021
58th ordinary annual general meeting	Friday, 30 April 2021
Ex-dividend date	Tuesday, 4 May 2021
Dividend record date	Wednesday, 5 May 2021
Dividend payment date	Thursday, 6 May 2021
Publication of 2021 interim results	Tuesday, 17 August 2021

VP Bank share details	
Registered shares A, listed on the SIX Swiss Exchange	
Listed shares	6,015,000
Free float	50.15%
SIX symbol	VPBN
Bloomberg ticker	VPBN
Reuters ticker	VPBN.S
Securities number	31 548 726
ISIN	LI0315487269

2019 share data	
High (17 February 2020)	167.20
Low (28 October 2020)	99.00
Year-end close (31 December 2020)	112.00
Average price	125.88
Market capitalisation in CHF millions	741
Consolidated income per registered share A	6.90
Price/earnings ratio per registered share A	0.69
Dividend per registered share A (proposed)	4.00
Net dividend yield in %	3.6
Standard & Poor's rating	A (A/Negative/A-1)

Further information on VP Bank's capital structure and core shareholders can be found in the section "Corporate Governance", ➔ page 63 ff.

Contact

Felipe Gomez de Luis
Head of Group Communications & Marketing
T +423 235 65 22 · F +423 235 66 20
investor.relations@vpbank.com
www.vpbank.com / Investor Relations

New trends emerge all the time. Turning them into **investment opportunities** is the real trick.

Tap trends

The digital transformation is changing our lives radically. The rapid pace of digitalisation is affecting almost all business processes and can be described as nothing less than a new industrial revolution. Global corporations are reinventing themselves or are being replaced by more innovative providers. Start-ups with smart solutions are growing to become global market leaders in the space of just a few years. However, a good idea alone is never enough. To enable change, it is also necessary to have (venture) capital.

Ulrich Graner, Senior Relationship Manager at VP Bank Luxembourg, explains what opportunities are opening up for investors who are already investing today in digital topics of the future and in the market leaders of tomorrow.

Detailed information at www.vpbank.com/tap_trends

CORPORATE STRATEGY

Strategic orientation

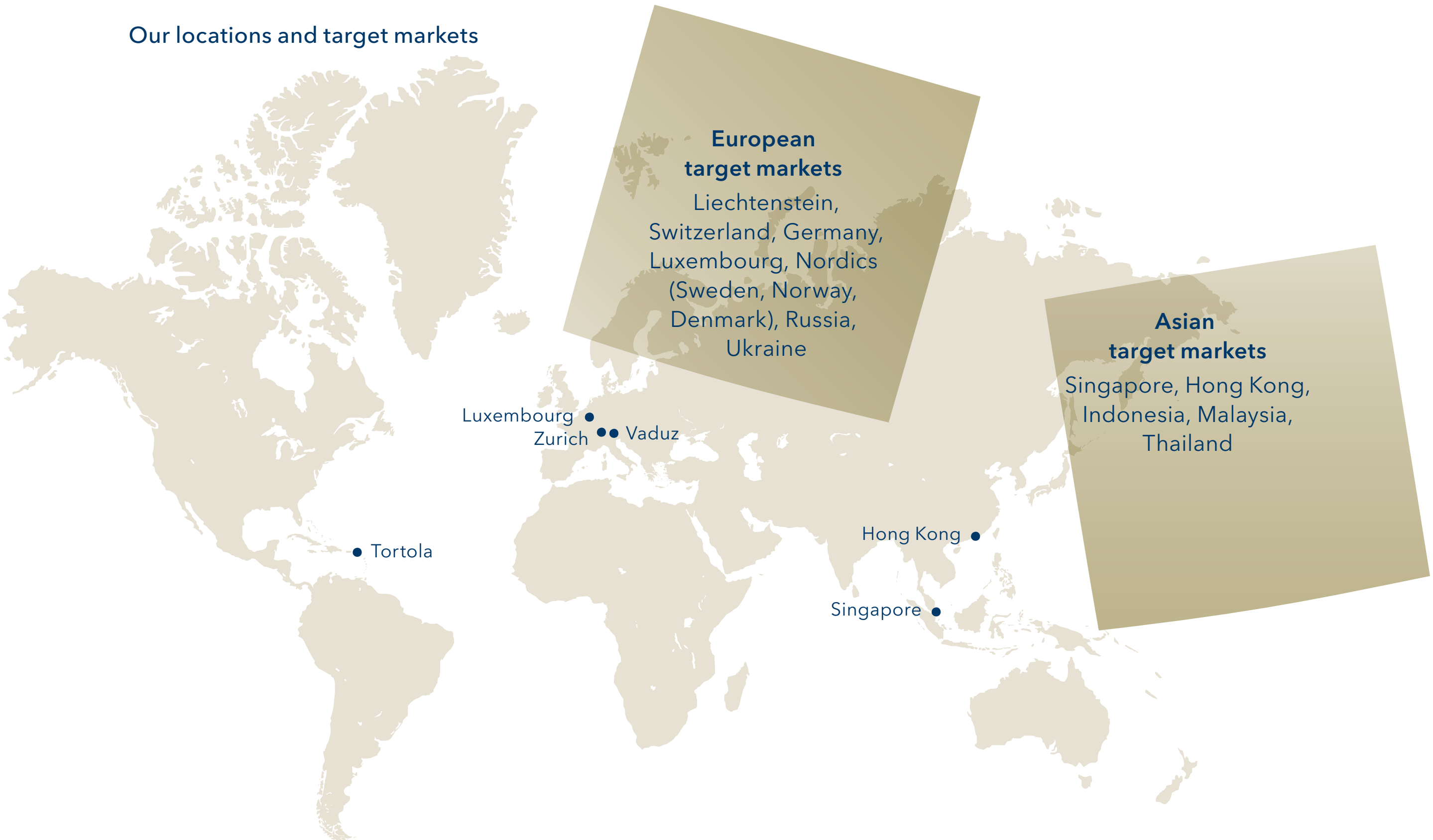
We use our expertise and excellent network to develop tailored financial solutions for intermediaries and private clients, drawing on our many years of experience and our skill in fulfilling demanding client requirements.

1. Business model

Since its founding in 1956, VP Bank's business model and DNA have been in the intermediaries business (trustees, external asset managers, family offices). We also make our knowledge available to wealthy private clients in the area of private banking. With the creation of the new business unit "Client Solutions", we are building a modular and open investment and structuring platform for our clients and partners. We offer systematic access to the asset class of private markets and corresponding structuring solutions such as private label funds, special purpose vehicles and tokenisation. In its home market of Liechtenstein, VP Bank is also active in retail and commercial banking.

VP Bank Group's services are offered in six locations in major financial centres. Each location focuses on specific target markets, allowing the respective market opportunities to be served in a focussed manner and with offers tailored to local requirements. The defined target markets for Europe include Liechtenstein, Switzerland, Germany, Luxembourg, Russia, Ukraine and the Nordics markets (Denmark, Norway, Sweden). In Asia, the focus is on Singapore, Hong Kong, Indonesia, Malaysia and Thailand. Responsibility for market development lies with the respective locations, with coordination provided through the Group. The Nordics region and Germany are served from Luxembourg and Switzerland, with the two European locations functioning as centres of excellence on an alternating basis. The Zurich location is responsible for market development of Central and Eastern Europe.

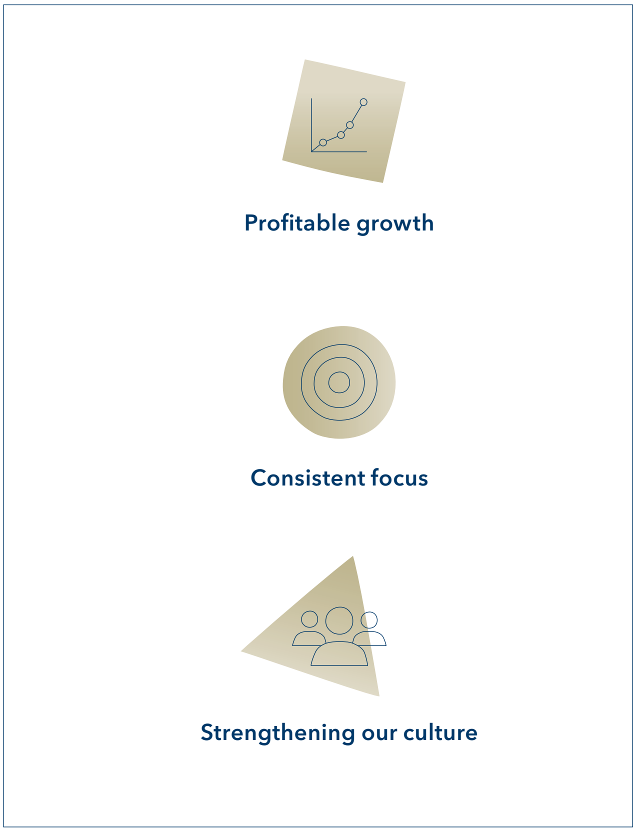
Our locations and target markets



The goal of VP Bank Group is to grow in its target markets on a profitable and sustainable basis while preserving its independence. Regional strategies that address local growth opportunities provide support for this. Future-oriented business opportunities are key to strategic development and will be developed through the newly created "Client Solutions" division. The associated and specific market know-how is consolidated in the Client Solutions division, including the structuring competence, VP Fund Solutions, Private Investment Partners and new expertise in the areas of private market solutions, digitisation of assets and adding value through data analysis.

2. Strategy 2020

Strategy 2020 was defined for the period from 2015 to 2020 and included three pillars: profitable growth, bringing a tighter focus to business activities and strengthening the corporate culture.



To achieve the defined growth targets, VP Bank pursued a combined strategy of organic growth and acquisition of new clients. Thanks to Strategy 2020, it was possible to further increase client assets under management and generate profitable growth.

To promote focus, measures to increase efficiency and reduce the complexities and costs of internal processes were defined. This resulted in disciplined, ongoing cost management and a more consistent focus on the products and services on offer.

The third emphasis of Strategy 2020 was on culture and included the topics of sales and performance culture as well as corporate culture.

Quantitative targets to be achieved by the end of 2020:

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

Due to the difficult market environment and the extraordinary write-off due to a loan default in spring 2020, it was not possible to achieve the target for client assets under management, with CHF 47.4 billion actually achieved at year end, nor was it possible to achieve the target for Group net income, with CHF 41.6 million at year end. However, we were able to attain the defined cost/income ratio target, with 67.6 per cent achieved.

3. Transition year 2020

In 2021, VP Bank is marking the beginning of the new strategy cycle under the motto "Seize Opportunities", which will last until the end of 2026. With this cycle, VP Bank will be building on a successful phase of growth in recent years and focusing on stability, innovation and taking advantage of opportunities. 2020 was a transitional year that marked the conclusion of Strategy 2020 and the creation of important organisational and structural conditions for the new 2026 strategy cycle.

In 2018, VP Bank successfully entered the Scandinavian market with the acquisition of the Luxembourg-based investment funds of Swedish financial services group Carnegie as well as the Luxembourg-based private banking activities of Sweden-based Catella Bank. In order to further provide support for the growth targets, the Luxembourg location and thus the organisation's position in the Nordics market was further reinforced in 2020 with the announcement of the acquisition of the private banking operations of Öhman Bank Luxembourg. This acquisition makes an important contribution to further expanding activities in Luxembourg for the Scandinavian markets of Sweden, Norway and Denmark. By the end of 2020, the acquisition and integration were successfully brought to a conclusion.

In Asia, the partnership with Hywin Wealth, launched in 2019, was subjected to significant further development – more on this can be found in the following chapter. In addition, we were able to expand the range of services in the regional markets and support organic growth by adding additional client advisors.

With the goal of enhancing the sales and performance culture in the company, Group-wide seminars and workshops were held in 2020 and the active exchange of experience between client advisors was promoted. This was largely done digitally due to the coronavirus situation. In addition, VP Bank has been recognised with the award for Best External Asset Manager Service Provider in Asia and Best Private Banking Regional Partnership in Singapore in 2020. In the area of our corporate culture, our employees had the opportunity over the past business year to actively engage in a dialogue with management and provide feedback on the shaping of the company through employee surveys, personal meetings with management, web conferences and internal roadshows.

Over the past business year, we also pushed ahead with measures to increase efficiency and reduce the complexities and costs of internal processes. Preparatory work for Strategy 2026 in the first half of the year saw VP Bank Group's organisation transformed into something altogether more agile and resilient, existing processes optimised, and Group Executive Management (GEM) further strengthened with key management and specialist expertise. The Group Credit division was reorganised, and a clearer distinction was made in the credit organisation between front-office activities and Credit Risk Management (CRM). The Board of Directors of VP Bank approved the new IT strategy in December 2020, laying a significant cornerstone for Strategy 2026. To meet the rising demand for digital services, the first tangible steps in this direction were taken in 2020 with the rollout of video consulting, digital online client events, web conferences, webinars, live streams of annual results press conferences and the shareholder meeting.

With a view to the new 2026 strategy cycle, the management expertise in Group Executive Management was also enhanced over the past year. On 1 July 2020, Tobias Wehrli, an accomplished internal financial expert with long-standing experience in the asset management sector and intermediaries, joined Group Executive Management in the Intermediaries & Private Banking division of VP Bank. Furthermore, on 1 September 2020, Thomas von Hohenhau was appointed to Group Executive Management and as the Head of the newly established Client Solutions division. He will use his division to facilitate systematic access to new investment opportunities in the private markets sector and contribute important expertise in the areas of digital transformation and open banking platforms. The former head of the banks division at the Liechtenstein Financial Market Authority (FMA) Patrick Bont was welcomed to Group Executive Management as the Group Chief Risk Officer as of 1 November 2020.

The newly compiled Group Executive Management team has worked together to accelerate the important issues in the transition year 2020. The GEM and the Board of Directors are cooperating and engaged in discussion in a goal-oriented manner, with the work together characterised by mutual trust and the jointly defined Strategy 2026.

In preparation for the new Strategy 2026, VP Bank successfully launched a number of measures in the past financial year, some of which have already been completed. This was done in particular against the backdrop of the ongoing crisis management running in parallel, which worked to ensure stable operational readiness as well as to take health precautions to protect our employees and clients.

You will find explanations of the three focal points of Evolve – Scale – Move in the chapter that follows.

4. Strategy 2026 – Seize opportunities

With the 2021 financial year, a new strategy cycle is beginning under the motto "Seize opportunities". The defined key initiatives of Strategy 2026 are broken down into the three areas of Evolve, Scale and Move.

Evolve focuses on ongoing development of the existing business, Scale is about improving effectiveness, scale and cost discipline, and Move emphasises the development of new business opportunities to generate additional revenue. In parallel with the new strategy, a variety of measures are being used to cultivate the topic of culture throughout the Group and are further developed. The focus is on measures aimed at strengthening the capabilities of the employees in terms of teamwork, performance and innovation. Achieving sustainability and equality of opportunity are also considered key topics.

A variety of important trends are currently sweeping through the financial industry, including acceleration of digitisation, increasing emphasis on sustainability, growth of private markets and the changing needs of clients in their use of financial services. Strategy 2026 takes these social and economic developments into account and creates scope for the further development of VP Bank Group. In accordance with this reality, the tagline "Seize opportunities" was adopted for Strategy 2026. Strategy 2026 builds on the proven business segments of intermediaries and private banking, as well as on the universal banking service in Liechtenstein. A new addition is the Client Solutions division, which will tap into new business opportunities.

The key ideas of the new strategy were already outlined in the 2019 Annual Report. We are adhering to the targets we already communicated, along with the targeted Group net income of CHF 100 million, but are extending the

Strategy 2026

Claim

Seize opportunities

Positioning

We develop bespoke financial solutions for intermediaries and private clients thanks to specialist expertise and excellent networks. To do this, we build on our long-standing experience and strengths in the support of discerning clients.

Business segments

Retail & Commercial Banking
Continuous progression

Wealthy Individuals
Expanding core wealth management at all sites
Holistic wealth management at selected sites

Intermediaries
Offering a comprehensive service platform
Expanding the range of services

Client Solutions
Extending the range of services for investment funds
Building up a private investment partner platform

Strategic focuses

Evolve
Driving strategic ambitions forward, profitable growth at all sites

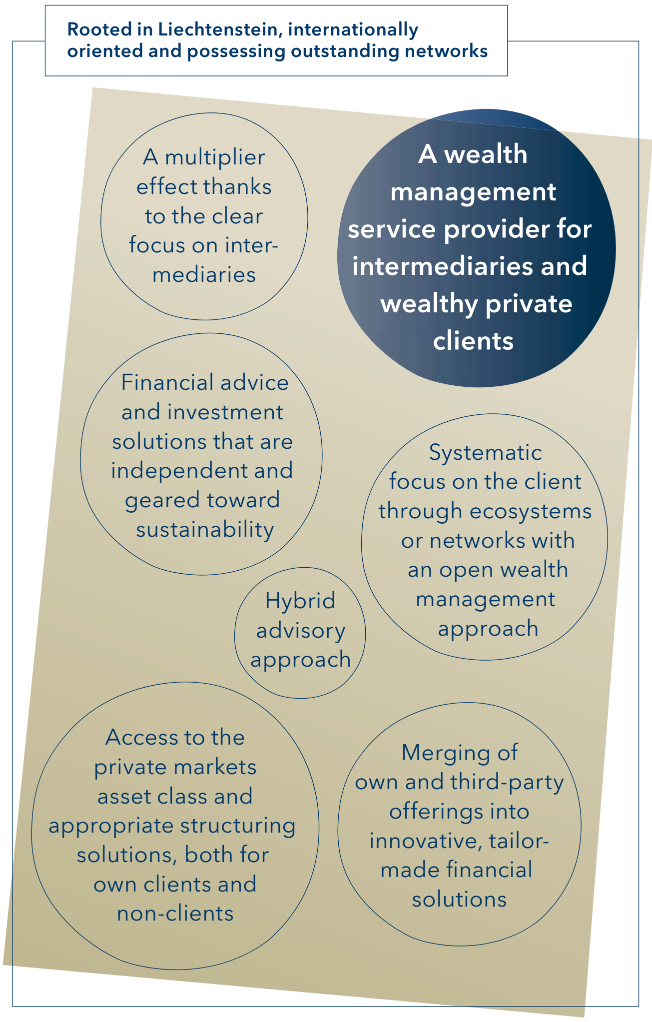
Scale
Adapting the operating model to achieve growth while minimising costs

Move
Opening up new business opportunities

duration of the cycle until the end of 2026 due to the current economic crisis and the coronavirus pandemic.

As part of its Strategy 2026, VP Bank Group will be further developed into a comprehensive wealth management service provider for intermediaries and wealthy private clients on the basis of its Liechtenstein roots, existing business segments, internationality, excellent networks and a pronounced focus on the topic of sustainability. Ecosystems and networks with an open wealth management approach are used to bring about consistent focus on the client and to consolidate proprietary and third-party services into tailored and innovative financial solutions. These are made accessible both through personal advisory contact as well as digital client interfaces. Thanks to its clear focus on intermediaries, VP Bank is bringing about a significant multiplier effect and, through targeted expansion of the ecosystem, is also making the market it can address significantly broader.

Future VP Bank services will be characterised by the following:



Business segments

Based on the existing business model, Strategy 2026 (➔ **chart** page 27) comprises four strategic business segments: Retail & Commercial Banking, Wealthy Individuals, Intermediaries and Client Solutions.

Retail & Commercial Banking

The previous business segments Retail Banking and Corporate Clients are now and will continue to be offered only in Liechtenstein. However, the business segment is an important component of our Group-wide earnings mix as well as the basis of our origin. It includes basic banking services and mortgage advice. Products and services are sold on a mix of digital channels as well as through personal consultation.

Wealthy Individuals

This business segment is geared towards high net worth private clients and families with service needs in the areas of asset protection and growth. The services include basic banking services, asset investment and holistic wealth planning. Key services are provided in all locations, and holistic advisory services are only provided at select locations. Sustainable products and services are integral to the segment.

Intermediaries

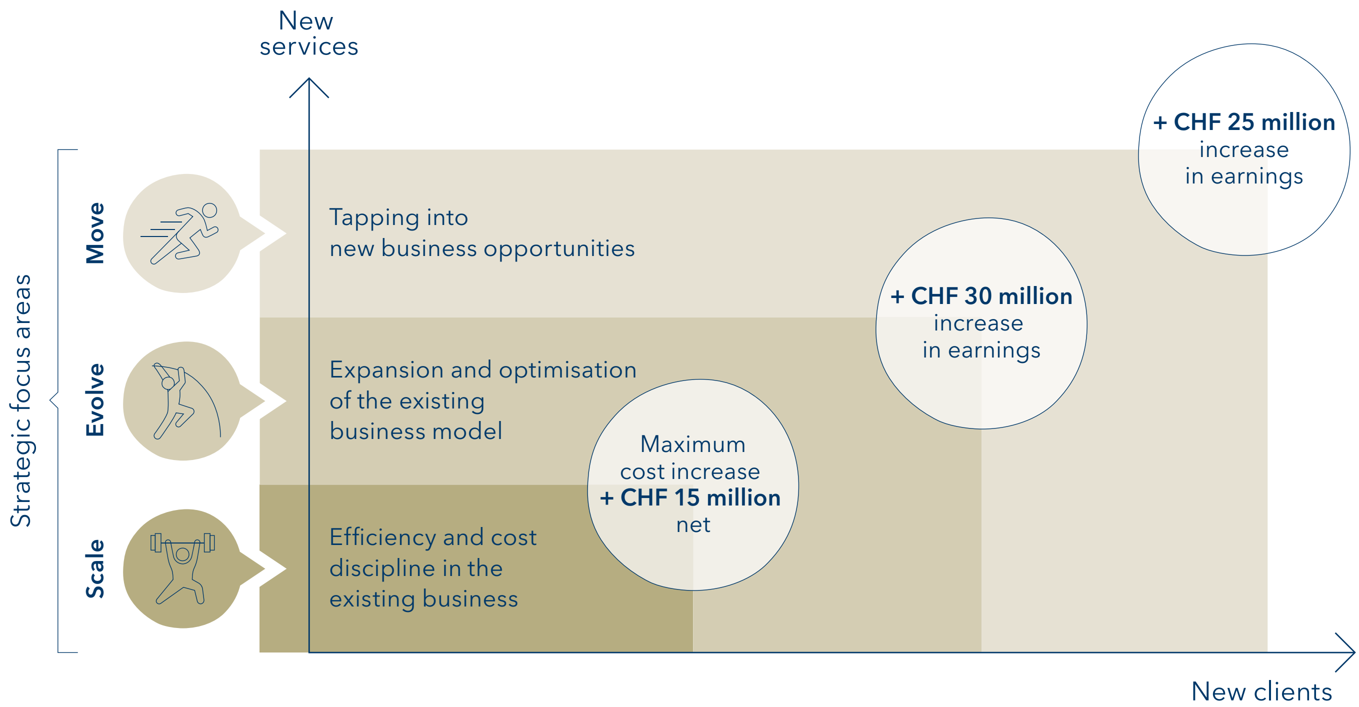
We use the term intermediaries to refer to professional financial service providers such as trustees, external asset managers and family offices. VP Bank puts its focus on medium-sized and large partners and offers a comprehensive service platform for professional financial services clients. We plan to further expand VP Bank's traditional service range in this area and, with the exception of BVI, are represented with this business segment in all locations.

Client Solutions

With the creation of the new business unit "Client Solutions", we are building a modular and open investment and structuring platform for our clients and partners. The focus is on systematic access to the private markets asset class and corresponding structuring solutions. We see a clear trend towards private market investments and are convinced that this type of investment will become increasingly important in wealth management.

Existing clients, especially intermediaries, should benefit from this expanded offering and new target groups should be acquired. In addition, there are new competencies in the area of digitisation of assets and the creation of added value from data analysis.

With the development of the new service, Client Solutions is bolstering VP Bank's attractiveness significantly as a wealth management service provider for existing client segments and attracting new target groups such as pension funds, insurance companies and private banks.



Strategic focus areas

To implement Strategy 2026, we defined the three strategic focus areas of Evolve, Scale and Move.

Evolve measures are intended to help achieve profitable growth as well as strategic and targeted further development of the operating business in the core segments.

The Evolve measures centre around further development of the existing business.

For example, VP Bank will systematically cultivate the topic of sustainability on all levels. Under the tagline "Investing for Change", we have launched a programme that focuses on opportunities in the area of sustainability, with the aim of repositioning the product range and accessing new solutions in areas such as impact investing. In future, clients of VP Bank will only receive investment products that meet clearly defined sustainability criteria. In 2020, the topic of sustainability was enshrined in the Bank's investment philosophy, ESG criteria were rolled out for all products and the first of the Bank's own risk-optimised, ESG-compliant equity funds were launched. As of 1 January 2021, we have also systematically integrated the ESG approach into our asset management mandates and advisory packages, creating transparency that allows clients to choose their own sustainability profile. In future, we will also offer targeted satellite products on sustainability topics, allowing investors to access new investment solutions and topics. Details can be found in the "Sustainability" chapter.

In 2020, VP Bank also developed market-oriented location strategies for all key regions, with the structure of the strategies guided by a regional approach, and the strategies also featuring greater proximity to the client and regional services with specific solutions. Our international locations will have a clearly defined orientation in future and will be further expanded in a targeted manner – by enhancing personnel and product potential, but also opportunistically through acquisitions and/or partnerships. One focus of the future location strategy is on the Asia region in particular, where new client segments and sources of income are to be developed through collaborations.

Our partnership with Hywin Wealth Management Co. Ltd. in Hong Kong is of particular importance. In July 2019, VP Bank signed a memorandum of understanding with Hywin in China with the aim of entering into a strategic collaboration to meet the international needs of Chinese clients. Work is currently underway to formalise the framework and flesh out the details of the partnership. The focus is on expanding the existing cooperation in the intermediaries area in order to be able to offer exclusive custody as well as investment and wealth management services through Hywin and to take advantage of joint synergies at the Singapore and Hong Kong

locations. In the Scandinavian markets, VP Bank concentrates on its core competencies in the intermediaries business and private banking as well as on a limited set of services in the fund business.

In the area of front-office efficiency, the new RM Cockpit for client advisors was successfully launched and is currently being rolled out throughout the Group.

Aside on location strategy

- **Liechtenstein** is the location of the VP Bank Group head office. Founded in 1956, the location in Vaduz offers services relating to private banking and the intermediaries business. In Liechtenstein and the adjacent region, these services are complemented by Retail & Commercial Banking. Institutional clients and regional corporate clients take advantage of VP Bank's financing for investments and operational resources. All services of the key staff and the back office are located exclusively at the head office in Liechtenstein and are controlled by means of the formalised functional management in the Group companies. In addition to the Bank, VP Bank Group in Liechtenstein also operates VP Funds Solutions (Liechtenstein) AG, which, as a one-stop shop, has been offering a comprehensive range of fund-related services for more than 20 years.
- VP Bank has been represented in **Zurich** by its subsidiary VP Bank (Switzerland) Ltd since 1988. VP Bank (Switzerland) Ltd offers intermediaries a state-of-the-art service platform and wealthy individuals holistic advice and investment solutions in private banking. The core competencies are asset management and investment advisory services for private and institutional investors, support for external asset managers and the lending business.

The target markets of **Germany** and Central and Eastern Europe (especially Russia and Ukraine) are cultivated from Zurich. Germany has traditionally been a target market for VP Bank for many years. VP Bank takes advantage of the opportunities afforded by an EU passport in Switzerland: The European Union enables simplified, EEA-wide, cross-border distribution of specific financial products by banks that are domiciled in Switzerland. This exemption allows VP Bank (Switzerland) Ltd, with the Head Office in Liechtenstein acting as an intermediary, to actively acquire clients in Germany and to subsequently provide cross-border management services to these clients.

- **Luxembourg** is a financial centre for international investors. With VP Bank (Luxembourg) SA Luxembourg, we offer cross-border wealth management services to wealthy individuals in **Scandinavia** (Denmark, Norway and Sweden) as well as a state-of-the-art e-banking platform, comprehensive fund solutions and ESG products and services to intermediaries. VP Bank is the preferred partner for Scandinavian asset managers and their clients. In addition to the Bank, we have been represented in Luxembourg by VP Funds Solutions (Luxembourg) SA since 1988. The Grand Duchy specialises in pan-European fund distribution and is the second-largest fund centre in the world after the United States.
- The Asia-Pacific region (APAC) is a market with great growth opportunities for VP Bank. VP Bank has been represented in **Hong Kong** since 2006 and in **Singapore** since 2008. In Asia, VP Bank offers intermediaries a state-of-the-art service platform. Wealthy private clients are advised on wealth management, including structuring solutions and access to offshore investment opportunities. The growing number of intermediaries clients in Asia represents a particularly promising opportunity, as we have many years of experience in this segment. The partnership with recognised Chinese financial services provider Hywin Wealth International, which operates out of Hong Kong, provides us with the opportunity to further accelerate our business activities also in this attractive region.
- VP Bank has been represented by a subsidiary in the **British Virgin Islands** (BVI) since 1995. VP Bank (BVI) Ltd offers credit financing and mortgages on local real estate in addition to traditional banking services. In the BVI, VP Bank acts as a top-notch real-estate financier and as a partner to global investors and family office networks.

Scale measures are about process optimisation through standardisation and automation as well as about making the operational platform more flexible and considering how to better source our services.

With the initiatives under the label of Scale, VP Bank is striving to further increase effectiveness and efficiency within the Group. The key point in this area is to further increase the robustness and resilience of VP Bank and to position the Bank in such a way that it can respond quickly to changing market and economic conditions and be well equipped for the future. The focus is also on sustaining risk governance and shoring up processes, with the foundations for this created and implemented in 2020.

Furthermore, the focus is on productivity improvements through process optimisations as well as standardisation and automation of the operational platform and further digitisation of products and services, including considerations of scaling and sourcing of standard and other services. Development of a digital platform offering efficient, flexible and convenient asset management services is to be expedited in particular. A measure that is key to all of this is the development of a modular integrative system that facilitates cooperation with external wealth management service providers in the market, including providers from the fintech sector. The IT Strategy 2026, which was initiated as part of a holistic information management system and approved in 2020, serves as the foundation for this. It is based on a future IT architecture that is to make it possible for the Bank to provide clients with internal and external services in line with their needs and made available to them through their preferred channels. To this end, we will also invest in continued modernisation of our workstations in order to further improve virtual cooperation both with clients and within the Bank.

In conjunction with the new IT strategy, VP Bank decided to outsource the IT infrastructure tasks to an external service provider (with a declaration of intent signed with Swisscom Ltd). This step is consistent with the technological trends towards increasing standardisation and industrialisation, which are promoted by cloud services in particular. Outsourcing allows VP Bank to benefit from the high level of expertise of the technology specialist in this area. At the same time, synergies arise in the use of additional innovative technologies and in the improvement of cyber security measures. However, despite this outsourcing, we will continue to invest in the promotion of technological expertise within our Bank as the implementation of our strategy requires ever more internal technological competence.

Move measures are used to develop new revenue areas, particularly private market solutions, to expand our wealth management platform for our clients, to expand our capabilities in the area of asset digitisation and to create added value from data analysis.

The measures in the Move area serve to tap into new and pioneering business opportunities. The focus here is on complementing the wealth management service platform with private market solutions, new expertise in the area of asset digitisation and creation of added value from data analysis. The market is now increasingly seeking out investments in alternative assets and investment themes. Clients are demanding private market solutions in particular to an ever-greater extent.

With the creation of the new business unit "Client Solutions", we are building a modular and open investment and structuring platform for our clients and partners as described above. The focus here is on systematic access to the private markets asset class and the corresponding structuring solutions.

In 2020, we started the relevant preparatory work and began building the new Client Solutions division.

We also rolled out new digitised banking services for clients, and the first client mandates for private market investments, particularly in the area of sustainable infrastructure investments, were concluded. The launch of an initial prototype in the area of data analytics for clients has also been in the testing phase since the beginning of 2021. In addition to the technological transformation to support our partnership-based business model, it is also vital to respond to and satisfy the needs of our clients in an even more tailored manner using modern data analytics methods. These analytical methods will also help to increase efficiency in operations and risk detection on a lasting basis.

Financial Strategy 2026

The financial targets for the strategy cycle lasting until the end of 2026 have been defined as follows: VP Bank is striving to achieve Group net income after taxes of CHF 100 million by 2026. Excluding market effects, VP Bank will thus achieve a sustainable market capitalisation of more than CHF 1 billion, further establishing itself as a provider of wealth management services with greater visibility. With a net new money growth target of >4% p.a. over the cycle, clients are underscoring their trust in VP Bank and client advisors are demonstrating their quality and effectiveness in attracting new clients.

The targeted cost/income ratio of a maximum of 70% reflects stringent cost management, and the profit margin of > 15 bps on assets under management underscores VP Bank's ability to adequately position services in the market. VP Bank is thus also in a position to use its own resources to finance the investments and innovations required to achieve its targets.

With our Strategy 2026 – Seize opportunities, we have created a clear and comprehensible plan for the further sustainable growth and international success of VP Bank Group.

VP Bank's strategic goals 2021–2026

2026 target: net income of CHF 100 million			
Growth	Profitability		Stability
Net new money (in % AUM)	Profit margin (in bp of AUM)	Cost/income ratio[2]	Tier 1 ratio
> 4% p.a.[1]	> 15 bps	70%	> 20%

[1] Over the cycle 2021–2026
[2] Total operating expenses / total net operating income

5. Outlook for 2021

Although the pandemic makes it difficult to forecast the numbers for 2021, we will continue to successfully advance our business in 2021, even under the new conditions stemming from the coronavirus crisis.

The growing importance of the business in Asia will significantly shape our location development in 2021. We are providing VP Bank Group with access to the Chinese offshore market through the aforementioned partnership and see significant potential for additional growth together with the development of the intermediaries market in Asia. We are accelerating this growth through increased integration of the strengths and opportunities of the market access of our locations.

In general, we see entering into partnerships as a suitable manner in which to enable additional growth and/or market access while increasing value for the client. In addition, we remain prepared to take advantage of market opportunities that present themselves to us in terms of acquisitions, provided that the strategic and cultural specifics of the opportunity are a good fit for VP Bank Group and the terms of the transaction are also right.

For the implementation of our IT strategy, we will work in two dimensions. On the one hand, we will finalise the outsourcing of infrastructure services contractually in the first quarter and then launch the implementation. A memorandum of understanding was signed with Swisscom Ltd in February 2021.

On the other hand, we will be working on the future modular IT architecture for integration of fintech solutions, client advice that is customised with the support of data and further optimisation of internal processes.

The focus will be on the technological transformation to support our partnership-based business model, with the launch of the transformation programme planned for the second quarter. In the area of digital assets, we are forging ahead with the implementation of the initial expansion stage of a functional product in tokenisation that can be offered to clients. As a first step, we would like to deal with tokenisation of art by mid-2021.

As part of the Investing for Change initiative, our ESG portfolio offering is to be completed by mid-2021, with the objective of VP Bank Group no longer offering any of its own investment solutions that do not meet our ESG standard.

The new Client Solutions division will complete its preparations for market entry in the first half of the year and begin active market development in the third quarter. Parallel to this, we will also press ahead with the activities of the Funds Solutions units and Private Investment Partners.

In addition, we will conclude the transformation of our risk and credit organisation in order to increase the Group's resilience. Last but not least, we plan to significantly shorten the amount of time it takes for the client onboarding process by the end of 2021.

By launching the new strategy cycle, the foundation was laid for successful further development of VP Bank Group. In 2021, we will systematically "Seize opportunities" that present themselves to us in order to establish VP Bank as a wealth management service provider.

Strategic partnerships

Partnerships are an important cornerstone of VP Bank's strategy. In an increasingly specialised competitive environment as well as with rapid technological development and increasing regulatory standardisation, we are convinced that no institution alone can offer its clients the best-possible services.

Cooperative ventures are a means of combating rising costs, increasing efficiency, fostering innovation and jointly taking advantage of market circumstances. VP Bank is constantly sharing experiences with other banks and service providers in order to use and optimise available resources.

Cooperation in the investment sector

In the investment sector, we pursue the goal of offering our clients access to innovative solutions through partnerships that are not otherwise available or accessible. In spring 2020, we found ways to implement a new collaboration for our equity funds.

Due to the abundance of highly comparable investment solutions, it was important in the repositioning of the equity funds previously managed as fund-of-funds to choose an approach that would stand out from the mass of existing solutions. Instead of closely aligning with reference indices, so-called benchmarks, Bern-based OLZ Ltd. pursues a systematic, risk-optimised approach based on scientific findings. The focus here is on the portfolio with the lowest (expected) risk. In phases in which the market is trending strongly in the positive or negative direction, portfolios designed in this way can certainly exhibit significant deviations from the well-known indices. In combination with other collective investments that an investor usually already holds, this leads to a more stable performance over the market cycle.

OLZ Ltd. is responsible as an advisor for the portfolio design of VP Bank Risk Optimised ESG, for which VP Bank defines the specifications, including the sustainability requirements resulting from the sustainability philosophy. The funds are managed by VP Bank Fund Solutions in Liechtenstein.

Partnerships with Hywin and CC Ecosystems

In 2019, VP Bank and Hywin Wealth Management Co., Ltd. (China) announced their intention to establish a joint collaboration platform in Hong Kong as part of a strategic cooperation. The two companies are thus combining their respective strengths to create holistic, global asset management services for the fast-growing segment of Chinese (ultra) high net worth individuals ([U]HNW) inside and outside China. Details can be found in the section "Strategic orientation".

Another partnership concerns Competence Center Ecosystems. CC Ecosystems, led by the Business Engineering Institute St. Gallen, is a research and knowledge exchange platform that is open to all companies in the financial industry. In two-year research cycles, application-oriented issues defined by the partners of CC Ecosystems are worked on, with the findings then being made available to all members. VP Bank has been an Associated Partner in CC Ecosystems since the end of 2020 and hopes to intensify its exchange with other financial institutions, to gain access to the latest findings on success factors for the digital transformation and collaboration in ecosystems, and to acquire expert knowledge within the framework of innovation management.

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 has also created a joint purchasing company.

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 lowering costs on a lasting basis. Among the results of this partnership was the creation in 2011 of a joint venture with LLB for financial information systems procurement.


You decide how **sustainable** your **lifestyle** is. But what about your investment strategy?

Sustainable investing

Sustainability has become a key issue for the financial markets. As an investor, it is impossible to avoid dealing with this new reality – and this is also true when it comes to yield considerations. As a Bank, we have made it our mission to support our clients in coming to terms with this issue, and we also seek to actively nurture the transition. As a key element of our Strategy 2026, the corresponding initiative is referred to as Investing for Change.

The Chief Investment Officer of VP Bank, **Dr Felix Brill**, shows why sustainable investing is not just a matter of personal conscience and how VP Bank is aspiring to make a positive contribution to this important next step in the evolution of society.

Detailed information at www.vpbank.com/sustainability

SUSTAINABILITY

Sustainability strategy

Sustainability is a supporting pillar of our corporate strategy and provides significant support for the achievement of our long-term goals. In 2020, we developed our sustainability strategy, which is rooted in our Group-wide strategy for 2026.

Engaging our stakeholders

In setting our priorities, we sought the assistance of our stakeholders, including employees, experts, clients and shareholders. In the course of these discussions, we identified topics that are relevant for our business activities and services and which can be seen in the following overview.

Key issues such as "Combating corruption and bribery", "fair business practices and integrity" and "corporate governance" are implemented in the daily routines of our business. VP Bank has already implemented extensive programmes in these areas and will continue to monitor and update them as required.

The findings from the discussions with our stakeholders formed the basis for the formulation of our strategic goals as well as the development of the sustainability plan with which we are seeking to attain them.

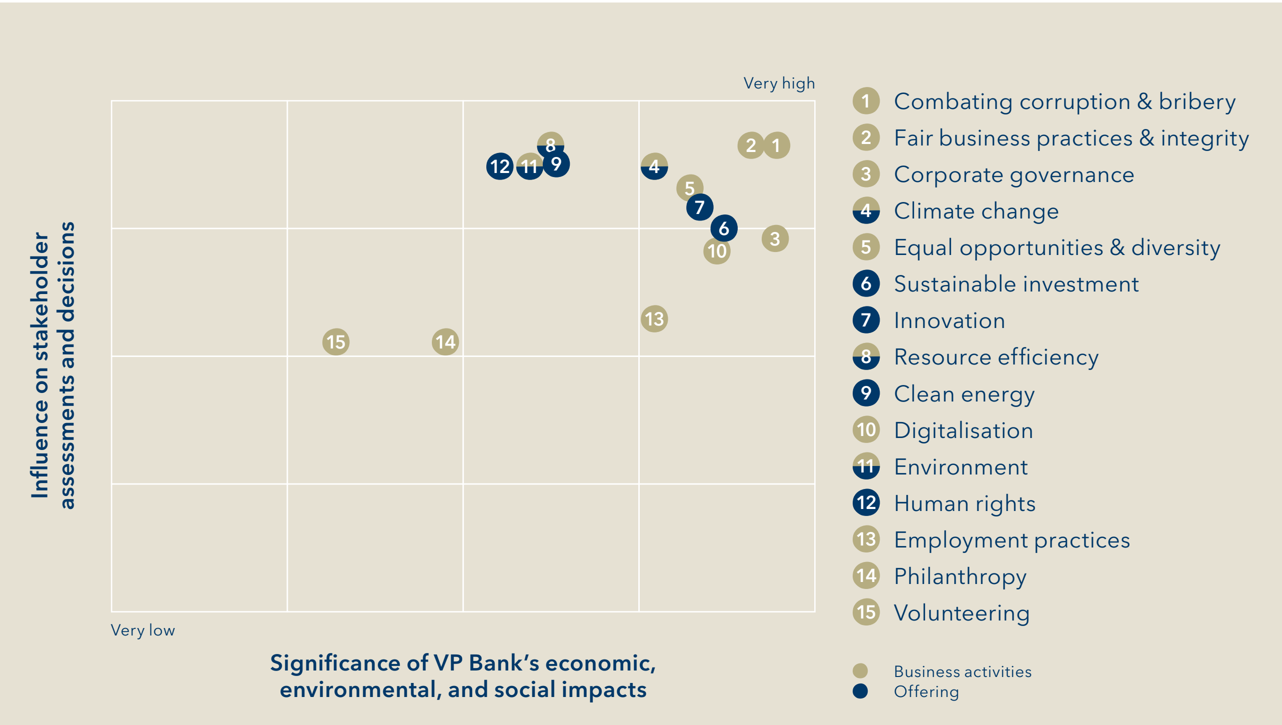
Our claim

We want to consolidate our business while making a positive contribution to the environment and society, which is why we systematically incorporate the topic of sustainability into the normal course of our business. With the strategic initiative "Investing for change", we offer our clients transparency as well as access to investment opportunities relating to all aspects of the topic of sustainability, allowing them to seize the opportunities that are right for them.

Sustainability plan 2026

The sustainability plan outlines what we want to achieve in the coming years – with a focus on the areas that are relevant to our business.

In our business activities	In our product offering (Investing for Change)
Integrate sustainability into our business processes	Integrate ESG into our investment process
Achieve CO_2-neutral operations	Create a net positive impact through our offering
Improve gender diversity in our workforce	Grow Assets under Management in sustainable investment solutions
Achieve "AA" ESG Rating from MSCI	



Investing for change

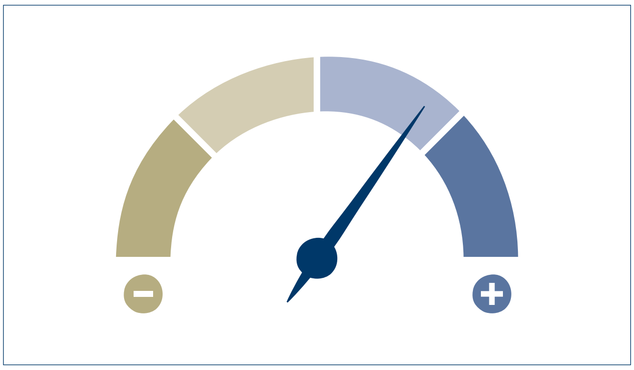
The centrepiece here is the investment business. We launched our "Investing for change" initiative in 2020 in order to actively create change through sustainable investing for the benefit of our stakeholders. At an early stage, we identify future issues and undertakings that make a significant contribution to improvements on the social and environmental front. On this basis, we assist our clients in positioning their portfolios in a more sustainable manner in accordance with their preferences. Sustainability criteria according to the generally recognised environmental, social and governance (ESG) grid complement the financial decision-making criteria. We launched two solutions according to this concept in 2020: our risk-optimised ESG equity funds and the "Green City" basket.

We also integrate sustainability criteria into our investment and advisory processes on a comprehensive basis. Here we look to integrate rather than exclude, allowing us to identify long-term risks and opportunities. We not only offer financial products that comply with our sustainability philosophy, but also take these criteria into account consistently in asset management and when preparing investment proposals for our advisory clients.

VP Bank Sustainability Score

We developed the VP Bank Sustainability Score to take into account important dimensions such as minimum requirements for eligible investments and portfolio optimisation.

VP Bank Sustainability Score



Our methodology makes it possible to make comparisons between a variety of different asset classes and financial products and thus get an overview of the overall sustainability performance on the portfolio level. You can find a description of the methodology on our website at www.vpbank.com/sustainability (➔ **QR code**)

Training on the topic of sustainability

Our employees are one of the most important factors underpinning the success of our sustainability plan. We developed a comprehensive training programme for our client advisors and investment professionals to ensure that our colleagues understand the importance of sustainability for VP Bank and our approach to sustainable investing.

Sustainability Board

VP Bank's former CSR Board was renamed the Sustainability Board in 2020. Its mission is to support the implementation of the sustainability plan throughout the Bank and ensure consistency. The members of this body represent the Bank's value chain and help ensure proper positioning and awareness within the Bank. The Group Chief Investment Officer serves as Chair of the Sustainability Board.

Reporting on sustainability

Additional details regarding our sustainability activities can be found in a separate VP Bank sustainability report.

Outlook

In future, we will focus on achieving targets according to our sustainability plan and on complying with regulatory requirements according to the EU action plan on sustainable finance. We will be focusing on further development of training programmes in particular and on working with partners and organisations in the spirit of progress towards a sustainable future.

Sustainable business practices

Organisational roots

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

VP Bank pursues long-term goals and adopts a conscientious approach in the risk management area. A comprehensive description of risk management is presented in the “Risk management of VP Bank Group” section (➔ pages 111 ff.)

Fostering 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 its operating principles.

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

The Code of Conduct, which is well established at VP Bank, and the Bank’s values and management principles underpin VP Bank’s binding commitment to ethically correct management and serve as a guide for good conduct. Violations of the Code of Conduct or of VP Bank rules are penalised through uncompromising disciplinary measures and consequences as authorised by labour law. The Code of Conduct was revised in 2019 and all employees received e-training on it. Violations of the Code of Conduct were reported across the Group in 2020; all violations were sanctioned.

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

Monitoring of conflicts of interest in conjunction with third-party fees and commissions and secondary employment will be further expanded and embedded in the system throughout the Group in 2021.

Conflicts of interest and anti-corruption measures

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

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

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

Tax compliance

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

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

Stakeholders

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

VP Bank's stakeholders include all organisations and persons that 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 ongoing dialogue and integrate the lessons learned and experiences in its activities. Through these exchanges, we can recognise trends at an early stage while furthering our corporate social responsibility initiatives.

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

Regulatory authorities
- Trade organisation work and participation in interest groups

Clients
- Client discussions and feedback management
- Client events

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

Shareholders, investors and analysts
- Investor meetings, roadshows and investor's day
- Sector-specific information sharing

www.vpbank.com/ sustainability

Media and the general public
- Press conferences
- Thematic conferences
- Trade shows
- PR work on investment, market and company subjects

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

Dialogue with rating agencies

VP Bank maintains regular contact 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 success 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.

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 particular needs and objectives.

The dialogue with clients, media and investors is carried out on either a scheduled or as-needed basis. The relevant departments and teams, for example Legal & Compliance, Corporate Communications, Investor Relations, Human Resources Management, Investment Solutions, the CIO office 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 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), the Liechtenstein Society for Environmental Protection and Swiss Sustainable Finance serve as a means of sharing best practices in the area of sustainability.

In addition, VP Bank follows the 10 principles of the United Nations Global Compact (UNGC). Since 2016, VP Bank has been one of the signatory companies and has thus committed itself to consistent compliance with the UNGC principles of responsible business conduct. VP Bank's progress reports (UN Global Compact Communication on Progress – COP) are available on the UN Global Compact website as well as on the VP Bank website under www.vpbank.com/sustainability (➔ **QR code**).

Suppliers

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

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

Procurement

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

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

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

VP Bank's suppliers are urged to voluntarily propose environmentally friendly alternatives. They are also required to deliver only merchandise and goods that are in keeping with Liechtenstein's environmental laws and come from countries that comply with the conventions of the International Labour Organisation (ILO).

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

Choosing suppliers

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

In terms of printing services, VP Bank works primarily with partner companies that print in a climate-neutral way. In the procurement of shareholder gifts, sustainable suppliers from the surrounding region are worked with – for example, the Curative Education Center of the Principality of Liechtenstein (HPZ). VP Bank also uses this institution for packaging purposes.

Supplier relations

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

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

Approval and procurement process at VP Bank

Client advisory

VP Bank has a diversified business model with clearly defined business segments. Its core activity is business with financial intermediaries (primarily professional financial service providers such as trustees, external asset managers and family offices) and wealthy private clients. The third strategic business segment is consolidated under Client Solutions and focuses on access to investment solutions through our fund management companies – with comprehensive fund solutions for fund providers, asset managers and management companies – as well as investments in the emerging private market.

In Liechtenstein, VP Bank offers a broad universal banking line for retail clients, small to medium-sized companies and real estate companies.

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

For its advisory activities, VP Bank focuses on personalised support, quick decision-making capabilities, agility, flexible, tailored and sustainable solutions and a long-term approach.

The quality of client service and support is regularly assessed by independent specialists. VP Bank was also examined as part of the Fuchsbriefe Tops 2021 test , which was published in Germany under the slogan "Who is sustainable?". In the advisory consultation, VP Bank was able to impress the examiners, who awarded the assessment of "Very good performance". The Bank also moved up by one position in the overall ranking and is now in 10th place on the "Perpetual best list".

We see this recognition as confirmation of the systematic measures taken to bolster our service and performance culture. The ongoing certifications of the client advisors ensure a consistently high standard of quality of our advisory services. Our sustainable investment philosophy also ensured that we made a compelling case.

With its 10th place standing on the list, VP Bank ranks among the top 10 of the "European League" of the best wealth managers. The independent test rating proves that VP Bank operates at the highest level in terms of advisory standards and sustainability in an international comparison.

VP Bank markets

VP Bank is primarily active in the strategically defined target markets in Europe and Asia (see the "Strategic orientation" section, ➔ page 24 ff.). Complementary growth potential is developed in additional opportunity markets – mainly other regions in Europe. With the acquisition of the private banking business of Öhman Bank S.A. in Luxembourg, we were able to further strengthen VP Bank's position in the Nordic target markets in 2020. In Asia, we intensified our cooperation with Hywin Wealth of Hong Kong/Shanghai in order to boost our business in this attractive growth region together with this financial service provider, which is recognised in China. In preparation for the new Strategy 2026, VP Bank locations have brought their services even more resolutely in line with the clients in target markets, thus creating good conditions for our ambitions in terms of national and international growth.

Client feedback

On an ongoing basis, VP Bank ascertains and analyses its clients' views on its services and assesses its advisory quality, thereby gaining valuable insight as to how it can adapt its services to satisfy client needs more effectively. Internal processes for the delivery of services are also reviewed and optimised in a targeted manner with the help of client feedback. A special focus is placed on what tomorrow's clients need, allowing our services to already meet these needs today or to take steps in that direction. To do this, client opinions are systematically solicited in personal meetings, on contact forms on the website and in client surveys conducted on an ongoing basis.

If complaints are received, solutions for the specific situation are sought and implemented in a personal dialogue with the client. This approach makes it possible for VP Bank to derive the implications for relationship management as well as to use the insights gained for optimisations to services and processes. This also satisfies the complaint resolution guidelines of the Liechtenstein Financial Market Authority (FMA).

VP Bank's services

VP Bank's clear strengths include its comprehensive client support and the combination of a wide variety of services. Complex client requirements are systematically recorded, and clients are regularly informed about their status. We consistently take into account all sustainability criteria, the comprehensive economic, legal and risk aspects, and the operational considerations.

The Bank's services start with basic services for account and custody management and payments. For private clients, we offer customised asset management and investment advisory services, wealth planning, pension and estate planning, financing and fund solutions.

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

In the asset management area, clients may choose between mandates for fund-based products and individual securities. They can also determine the frequency of the portfolio adjustments. VP Bank also offers a sustainability mandate that places further emphasis on environmental, social and corporate governance issues. In the enhanced mandate that is also offered, the selected investment strategy is implemented even more actively with a focus on the use of cost-effective investment instruments such as exchange-traded funds (ETFs) and index funds as well as derivatives. In addition to active allocation across the various asset classes in accordance with our market assessment, the additional elements of volatility, momentum and themes ensure further optimisation of risk-return characteristics.

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

To ensure comprehensive support, VP Bank works together with external specialists, enabling us to suggest partners to our clients for wealth planning, retirement and estate planning, tax advice, corporate earnings or corporate transactions.

Financial intermediaries and fund providers benefit from a variety of services tailored to their needs. In addition to basic services for account and portfolio management, custodian bank services and order processing, specific services are offered especially for intermediaries for investment advisory services, advice on regulatory issues, and fund solutions. With its direct execution service, VP Bank provides direct access to trading.

A broad range of digital solutions for sharing data and information makes VP Bank a leading bank for intermediary clients. The continuous development in data interfaces and the modern client portal offer independence, efficiency and security, as well as round-the-clock electronic access to accounts and custody accounts.

Digitally supported client services

For its client services, VP Bank relies on personal contact with advisors and specialists. This allows the Bank to recognise more complex client requirements in the best way while anticipating the needs of the future.

In the unusual year of 2020, we introduced new digital solutions to our client advisory services in response to numerous COVID-19 safety measures and the accompanying restrictions on face-to-face contact. In order to continue to ensure individual and personal advisory consultations for our clients even under challenging conditions, we began offering the option of advisory consultations via video conferences. As personal interaction has unfortunately become rare in the past year, the option to get together digitally is very much appreciated by both our clients and our client advisors.

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

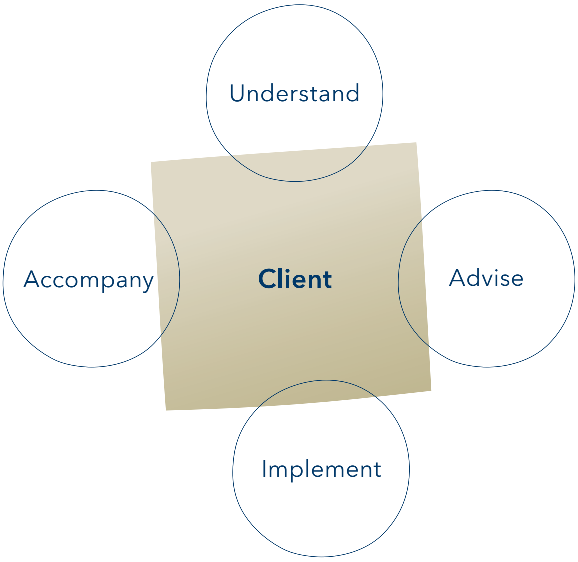
With the roll-out of a new cockpit for our client advisors, we are enabling a significant increase in efficiency in the completion of administrative activities so that more time can be dedicated to serving the client. The use of digital tools makes it possible to easily and efficiently serve client needs in a standardised manner, regardless of time or place. It also allows advisors to focus on more complex client needs during personal meetings.

By continuously expanding our VP Bank e-banking into a client portal, we are responding to the changing needs of clients with regard to the degree of digitalisation of banking services; in doing so, we are increasing our focus on transparency and accessibility. The opportunities for interaction have been expanded, and with the roll-out of the new messaging function, we have created a fast and secure communication channel between the client and the Bank. Regardless of whether the client is logged in to the client portal, they can now be notified about the activities on their custody accounts and other accounts at any time.

Structured advisory process

The changing environment of the banking world requires an optimised product and service range. Our advisory concept therefore involves adapting the business model for traditional investment advice. With our systematic advisory process and ongoing development of services, we have laid the foundation for the investment advisory service of the future.

Advisory process



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

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

Details on the advisory process can be found in the online annual report. (➔ **qr code**)

www.vpbank.com/
advisory_process

Further training for client advisors

Highly trained client advisors are the foundation of excellent support. In addition, the constant addition of new regulatory requirements means that VP Bank needs to train its client-facing employees in a manner consistent with these requirements. VP Bank thus continuously invests in their training and continuing education. By the end of December 2020, our client advisors at the Liechtenstein and Swiss locations had already successfully completed the international certification according to the Swiss Association for Quality (SAQ) and are currently in the recertification phase. These measures are further enhanced through ongoing training on technical, economic and regulatory issues.

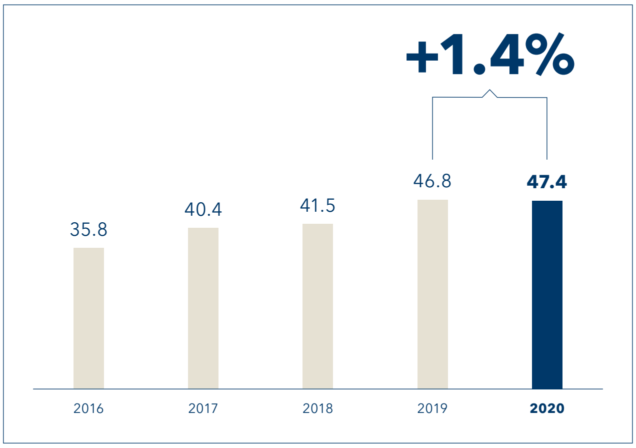
Client assets

As of 31 December 2020, VP Bank had client assets totalling CHF 47.4 billion, up 1.4 per cent from the previous year. It also held another CHF 7.4 billion in custody assets, bringing total client and custody assets to CHF 54.9 billion at the end of the reporting period (2019: CHF 54.5 billion). Overall, VP Bank Group recorded net new client money totalling CHF 1.4 billion.

Classification of client assets under management

in %	31.12.2020	31.12.2019
Analysis by asset class		
Liquidity	26	26
Bonds	15	17
Equities	28	25
Investment funds	27	27
Other	4	5
Total	**100**	**100**
Analysis by currency		
CHF	22	23
EUR	30	30
USD	33	33
Other	15	14
Total	**100**	**100**

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



Employees

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

With our corporate strategy in mind

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 towards a future that continues to be successful. 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 the past, we conducted an employee survey every two years to assess satisfaction and commitment within the company.

The next survey was scheduled for 2021. Due to the challenging situation, Group Executive Management decided to conduct an abbreviated "pulse survey" in autumn 2020. The response rate was 92 per cent.

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. For the Bank, the development of trainees through the cooperative educational system continues to represent a strategically important talent management component.

Last year, the development programme for students (support model) and university graduates (career start) was further expanded. These programmes offer attractive first-time jobs at VP Bank. In the "support model", Master's level students can combine theory and practice and gain valuable experience over a 12- to 18-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.

In order to also offer opportunities for bachelor's degree graduates in future, VP Bank has launched another development programme in the form of the bachelor's graduate programme. Through the graduate programmes and apprenticeship training, VP Bank develops future talent in a targeted manner in order to secure its growth from within.

At the end of 2020, VP Bank was training 15 (previous year: 16) young people in the sales programme and 5 more in information technology. In summer 2020, 6 (previous year: 7) trainees successfully passed their final exams.

As of the end of 2020, the graduate programmes had two students in the study-accompanying support model, five graduates in the career start programme, and one person in the bachelor's graduate programme.

People Strategy

Enthusiastic employees are crucial to inspiring our clients. In order to seize and successfully take advantage of the current opportunities presented by ongoing change, the People Strategy focuses on a bank's most valuable and decisive competitive advantage – its employees.

In order to successfully implement the 2026 strategic goals, the People Strategy puts its focus on four key thrusts.

With these thrusts and the associated measures for implementing them in the context of culture and talent management, we create the basis for extraordinary moments – for our employees as well as for our clients.

Excite Talents

We attract and retain exceptional employees by creating employee experiences that motivate and inspire.

Grow for the Future

We know what unique skills our employees bring to the table and work to develop them in a variety of ways.

Love to Empower

Our leaders inspire and guide our employees to use change as the basis for growth.

Connect to Collaborate

Our inclusive culture makes our employees feel welcome and encourages them to work together in a collaborative and agile manner.

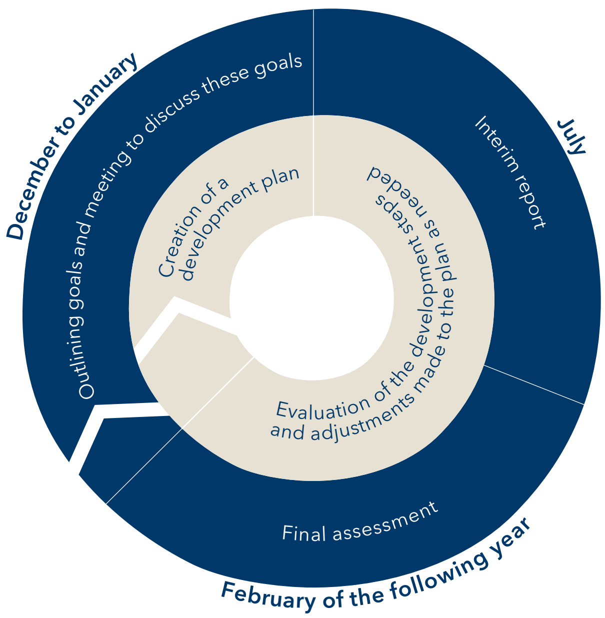
www.vpbank.com/career_apprenticeship

Management by Objectives (MbO)

Managing by objectives is a key part of VP Bank Group's approach to leadership. Each year we go through a recurring process to ensure that the objectives set by the Bank for the following year are systematically iterated throughout all levels of the organisation. On the individual level, corresponding objectives and primary tasks are set for individual employees. On this basis, the employees' activities are systematically brought into line with the desired 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 performanceoriented 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 customised 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.

Goal-setting and performance assessment process



The Group Human Resources unit

The Human Resources (HR) department has its own staff at the Liechtenstein, Zurich, Luxembourg and Singapore sites. Group HR manages global topics and, where necessary, includes the country companies. Along with the local HR staff, the unit is broken down into four primary segments: HR Consulting, HR Change & Development, HR Services and HR Benefits & Payroll. The HR Consulting division includes the HR Business Partner and Young Talents teams.

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, departures, wage setting, promotions and much more. Employee development is yet another key component of human resources work. VP Bank continuously invests in the technical training of its employees and managers and implemented various internal leadership training programmes in 2020.

Employee representation

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

The ANV's functions are based on the Employee Participation Rules, which were issued by Executive Management. Whenever general employment conditions are amended or staff reductions are planned, Executive Management must inform the ANV and give it a chance to participate, although decision-making powers remain with Executive Management. The ANV serves as a point of contact for all employees at the Liechtenstein location in order to discuss a variety of topics such as employee terminations and to defend employee interests. All proposals, complaints and personal matters are handled with utmost discretion in regularly scheduled meetings within the ANV. Regular meetings are also held between the Chair 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 13 elected members, with seven of them being permanent members and six being alternates.

The Works Council represents employee interests and intervenes to protect and improve working conditions, defend employment situations and jobs, and protect employees' social security benefits. The employer must inform the Works Council about business operations and the development of the company as well as about 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

As of 31 December 2020, VP Bank Group employed 990 people. VP Bank in Singapore saw its headcount increase by 8 employees to 75 (full-time equivalents +8). The changes at our other locations were minimal.

At the end of 2020, VP Bank Group had a total of 161 client advisors (FTE 156).

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	31.12.2020		31.12.2019	
	FTE	HC	FTE	HC
	156.0	161	157.0	162

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

As of the end of 2020, the average years of service at VP Bank Group remained unchanged at 9 years. This value at VP Bank Fund Solutions (Liechtenstein) AG declined slightly to roughly 7.9 years (previous year: 9.2 years). In contrast, VP Bank (Switzerland) Ltd recorded a slight increase to roughly 5.3 years (previous year: 4.8). The average length of service at our locations in Hong Kong and the British Virgin Islands increased by 1 year each (Hong Kong 2020: 11.1; British Virgin Islands 2020: 5.7).

Employee statistics of VP Bank Group

as of 31.12.2020	Men	Women	Total
Number of employees	600	390	990
Percentage share	60.6	39.4	100
Average age	43.7	41.2	42.7
Average length of service	8.7	9.1	8.9

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

People with Swiss nationality continue to form the largest group with 37.3 per cent of all employees (previous year: 37.2 per cent), followed by Liechtenstein nationals with 20.5 per cent (previous year: 21.5 per cent). German employees continue to represent the third-largest group, with 14.2 per cent in 2020, up from 14.0 per cent the previous year (➔ **chart** below).

Employee recruitment and exits

In the reporting year, an average of between 20 and 30 vacancies were advertised each month. Specialists in IT and the Compliance and Tax divisions were particularly sought after. The trend of hiring candidates outside the immediate catchment area – especially those from Zurich – increased further in 2020. The electronic applicant management system is making a contribution to more efficient management of vacancies as well as faster responses to applications.

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

The employee turnover rate for 2020 is 6 per cent (previous year: 7.2 per cent).

Employee retention, remuneration and support

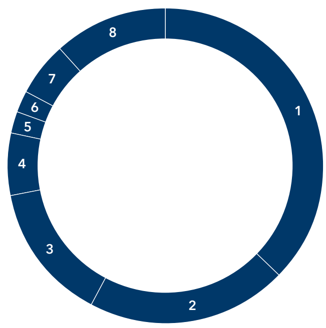
Job functions that appear meaningful and satisfying as well as a good work environment are very important considerations for employee well-being. Many factors can destroy a good working environment: bad influences from within the company, economic circumstances or even an employee's personal or family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

VP Bank is aware that employees should be seen as individuals with differing needs and within the context of their own life situations. The contact persons in the HR departments are always ready and willing to help all employees or their line managers clarify any issues that may arise. Support measures for employees and line managers include regular discussions with those involved, searching for solutions, support during situations of conflict or personal crisis and also team analyses and coaching. Employees at the Liechtenstein and Swiss locations may also take advantage of external help for work-related and non-work-related difficult situations. This professional service with a broad range of specialists may be used around the clock and on an anonymous basis 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 the employees at VP Bank (Switzerland) Ltd and by the statutory pension fund for employees of VP Bank (Luxembourg) SA. In addition, VP Bank (Luxembourg) SA

Nationality of VP Bank Group's employees

1 Switzerland **37.3%**
2 Liechtenstein **20.5%**
3 Germany **14.2%**
4 Austria **6.5%**
5 Luxembourg **2.1%**
6 Italy **2.2%**
7 Singapore **5.6%**
8 Rest of the world **11.6%**



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 area of mobility, and much more.

Employee development

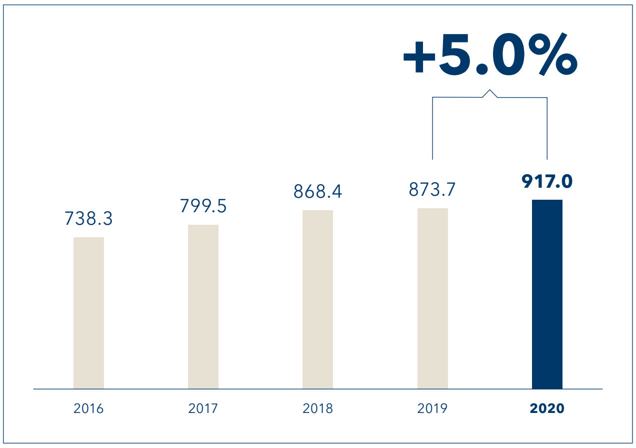
2020 was significantly shaped by the influence and impact of the COVID-19 pandemic. Our focus was largely on supporting employees and managers in the new digital world. This change in our point of departure requires further development on an ongoing basis, especially with regard to leadership culture and the shape that our Group-wide collaboration takes. To this end, we have launched a variety of training measures on the topic of work and leadership in the digital world.

Further training of our client advisors was also continuously fostered. In addition to individual development measures, they undergo a certification process according to the SAQ standard. In order to keep this certification up to date, our client advisors complete targeted training courses in a recertification process for sustainable quality assurance and in order to polish their advisory skills.

Last year in Liechtenstein, 26 people (previous year: 24) completed a job-related course of study with a recognised diploma, while another 38 people (previous year: 40) were participating in continuing education at the end of 2020.

Through implementation of these training initiatives, VP Bank is clearly demonstrating that it is making constant investments in the development of its employees and thus in the competitiveness of the company.

Headcount of VP Bank Group (full-time equivalents)



Number of employees by location

as of 31.12.	2020		2019		Variance with previous year	
	Employees	Full-time equivalents	Employees	Full-time equivalents	Employees	Full-time equivalents
VP Bank Ltd, Vaduz	605	553.1	571	521.3	34	31.8
VP Bank (Switzerland) Ltd	103	94.9	102	96.0	1	–1.1
VP Bank (Luxembourg) SA	118	110.2	116	107.5	2	2.7
VP Fund Solutions (Luxembourg) SA	37	33.1	33	29.5	4	3.6
VP Bank (BVI) Ltd	13	13.0	14	14.0	–1	–1.0
VP Wealth Management (Hong Kong) Ltd	8	8.0	8	8.0	0	0.0
VP Bank Ltd Singapore Branch	75	75.0	67	67.0	8	8.0
VP Fund Solutions (Liechtenstein) AG	31	29.7	32	30.4	–1	–0.7
Total	**990**	**917.0**	**943**	**873.7**	**47**	**43.4**

Responsibility as an employer

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

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

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

More information is available in the section "Employees" (➔ page 45 f.).

Sustainable business activity

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

In recent years, we have been able to hold National Future Day with success and, above all, with great pleasure. Children and young people have gained an exclusive insight into the activities of various professions. To protect everyone involved, we decided not to hold National Future Day 2020 due to the coronavirus situation. Protecting the health of children and all employees is a top priority for VP Bank. In taking this step, we have followed the recommendation of the Liechtenstein Bankers Association as well as the two other major banks in the country.

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

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

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

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

www.vpbank.com/sustainability

Diversity at VP Bank

Diversity and equal opportunity create a solid foundation for the development of closer relations between VP Bank, 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 and are more open to innovative ideas.

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

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

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

	Total number of women	Number of women in %	Total number of men	Number of men in %
as of 31.12.2020				
Board of Directors	3	37.5	5	62.5
Management level 1	0	0.0	5	100.0
Management level 2	1	4.0	24	96.0
Total employees	390	39.4	600	60.6
as of 31.12.2019				
Board of Directors	2	25	6	75
Management level 1	1	16.7	5	83.3
Management level 2	2	7.4	25	92.6
Total employees	382	40.5	561	59.5

As of 31.12.2020, VP Bank had 39.4 per cent female employees (2019: 40.5 per cent).

Coronavirus crisis management

The COVID-19 pandemic is the greatest challenge that companies have faced in recent decades. It developed unprecedented momentum in a few short days and weeks, bringing with it new risks that required rapid action.

VP Bank successfully mastered this crisis situation through the establishment of efficient crisis management, swift development of infrastructure for enabling work from home, provision of new online services, and going on the offensive in its information and communication policy. Through courageous and single-minded action, it was possible to effectively achieve the primary goal of protecting our clients and employees.

VP Bank Group responded in a manner that was prompt, prudent and appropriate to the threat posed by the coronavirus. For Group Executive Management, the duty to practise due diligence and the responsibility for preserving the safety and health of the employees and clients enjoyed the highest priority from the very beginning.

That is why VP Bank went into crisis mode already at the beginning of March 2020, making it possible to effectively handle the crisis situation and the specific issues of the crisis. To do this, a special management structure in the form of the Group Crisis Board and Group Crisis Management was introduced alongside the operational management structure. Under the chairmanship of CEO Paul Arni, the Group Crisis Board assumed overall responsibility for all measures related to the coronavirus crisis and made fundamental decisions. The fast-changing situation made it necessary for the crisis team to meet regularly every two weeks to analyse the situation and promptly make necessary decisions. In this way, we were able to deal with the crisis issues in a targeted and focused manner.

For VP Bank, the topic of working from home was a key safety measure for containing the COVID-19 pandemic. At the same time, it was an important tool for ensuring and maintaining operational readiness. By the end of 2020, an average of up to 75 per cent of employees across the Group were working from home. Our experience in this regard has been consistently positive, and we can build on a very solid and flexible infrastructure going forward.

Online solutions

In our core service, namely the provision of personal advisory services, we were affected to a large extent by the applicable restrictions in 2020. The personal exchange we usually engage in with our clients was no longer possible at the same intensity as before the crisis. Executive Management therefore took the decision to expand our operational distribution processes in a targeted manner with the introduction of new online solutions. Here, the focus was placed on digital technologies that promote interactions with clients, providing them with real added value and supporting our distribution activities in achieving acquisitions and sales. As a new service, video consultations were rolled out as an additional communication channel for clients, creating the option to continue to maintain a direct, personal and visual connection with our clients despite the coronavirus restrictions.

Timely and transparent information and communication were particularly crucial in this crisis mode – internally in regard to the Bank's own employees, but also externally in regard to clients and the public. As a central internal information platform, we have set up our own coronavirus news ticker and other coronavirus information pages on the Group-wide intranet. We also established an e-mail inbox for Group Crisis Management as a central point of contact for all personal questions that employees might have in connection with the coronavirus. Numerous leaflets and notices were prepared on specific topics, including travel and hygiene rules. The Group Crisis Board used internal e-mails to provide information on a regular basis in regard to the current status of the company and necessary safety measures.

The internal coronavirus mood barometer survey was developed to explore the needs and state of mind of the employees in dealing with the crisis situation. The response rate to this online survey was very high, and a great deal of constructive and useful feedback was provided to the crisis managers. By conducting the survey several times, it was possible to identify additional need for action in order to further optimise VP Bank's coronavirus measures.

The coronavirus crisis has highlighted the importance of relevant information being made available quickly. It was therefore of particular importance to us to always keep our clients informed and not to leave them in the dark in a time of crisis. For this reason, we used our online presence and the electronic client portal to regularly provide information externally on current topics relating to the coronavirus. This coronavirus information was published on all websites of our locations in tailored announcements, and in response to specific events and reconciled with the country regulations applicable in each case. On this basis, we succeeded in promptly informing our own clients about important topics, demonstrating that VP Bank is always available to them as a reliable partner even in these trying times.

We made a special service available to our clients with the development of the VP Bank Corona Crisis Barometer. It analyses and demonstrates how the restrictions of the coronavirus crisis affect the economy. The VP Bank Corona Crisis Barometer is updated regularly and published in the newsroom on the VP Bank website.

In order to further meet our clients' high demand for information in times of crisis, we used web conferences to hold our VP Bank Experts events in 2020. This made it possible for us to provide our clients with well-founded facts and data on the financial markets and economic events.

VP Bank registered a high level of media interest in connection with the coronavirus pandemic. The many media enquiries regarding VP Bank's assessment and handling of the coronavirus pandemic were responded to in an open and transparent manner in the form of written statements as well as interviews with the crisis managers and CEO Paul Arni.

Successful measures

At VP Bank Group, the primary focus in dealing with the coronavirus pandemic was on offering clients and employees the best assistance possible in finding their way through this unprecedented crisis situation.

The measures that VP Bank took in 2020 were successful, showing that we are well positioned and able to respond flexibly to new challenges even in a situation like this. We owe this to the high degree of flexibility and exemplary dedication of our employees. We have adapted our conduct, developed new skills in a very short period of time and built up the infrastructure appropriate to the challenge.

Social engagement

Charitable donations

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

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

Sponsorships

In the areas of sport, culture and entrepreneurship, VP Bank supports selected sponsorship projects that are unique and offer the company an additional platform for positioning itself in an emotionally engaging manner. In 2020, VP Bank put its focus on two long-term commitments.

In classical music, VP Bank was a Presenting Partner of the VP Bank Classic Festival in Switzerland until 2020. The festival's purpose is to provide an international springboard for young classical artists to develop their musical talent. In 2021, VP Bank will be the main sponsor of the International Classical Music Awards, the most important awards for classical music in Europe.

As main sponsor and co-initiator of the VP Bank Swiss Ladies Open, VP Bank's new commitment to golf, the Bank brought the Ladies European Tour back to Switzerland in 2020. With this sponsorship, VP Bank is underscoring its long-standing commitment to women's golf and offering Europe's best professional players a new, attractive tournament.

VP Bank Art Foundation

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

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

Activities in 2020 focused on three acquisitions, the placement of works of art in VP Bank's business premises, management and inventory of the collection, and redesign of the art storage facility.

To celebrate its 25th anniversary, the collection of VP Bank Art Foundation will be made accessible to a wider public in 2021. 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. VP Bank Foundation has earned a well-regarded position among Liechtenstein foundations and helped to shape the philanthropic sector.

The Foundation's Board of Trustees comprises Hans Brunhart and Fredy Vogt. During the year under review, VP Bank Foundation distributed around CHF 200,000 to worthy causes.

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

In the area of culture, various projects in the fields of literature, art, cultural events and association activities were supported.

Within the scope of a multi-year commitment in the area of the environment, support was given to Lebenswertes Liechtenstein, a foundation co-founded by VP Bank Foundation. A renaturation project and a climate protection project of the myclimate foundation were also supported.

In connection with the "Lichtblick" campaign, VP Bank Foundation made grants totalling around CHF 63,000 to 28 social institutions in Liechtenstein in 2020.

The Foundation's impact is achieved through financial contributions and investment of the Foundation's assets according to sustainability criteria. Within the context of its investment policy, the Foundation's Board of Trustees has thus invested a large part of the Foundation's assets in a sustainable mandate. An additional portion of the Foundation's assets is invested in the EMF Microfinance Funds and in the VP Bank Strategy Fund Class C. Via returns from the latter exposure, the SolidarMed relief organisation again received earmarked financial aid in 2020.

VP Bank Foundation is a founding 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 of the Foundation location, and makes use of valuable sharing of experiences in both associations.

Business ecology

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

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 332,000 in 2020. The number of envelopes used was reduced from 1,500,000 in 2004 to 602,685 last year.

Paper consumption decreased from 68.03 tonnes in 2004 to 32.71 tonnes in 2020, including a 3.1-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 as paper use declines. Paper consumption per employee was 0.05 tonnes in 2020, the lowest amount since 2004 (0.15 tonnes).

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

The number of printed copies of the Bank's annual and semi-annual reports has declined by more than 78 per cent over the past 10 years thanks to the introduction of order cards and references to digital documents. The print runs for these publications fell from 7,000 in 2007 to just 1,300 in 2019.

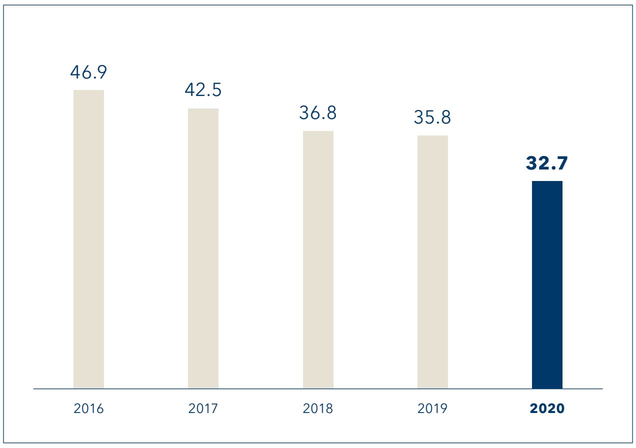
For the Vaduz and Zurich locations, the number of e-mailed digital documents has steadily increased: from approximately 130,250 in 2007 to more than 1,204,603 in 2013, then 2,060,375 in 2016 and finally 3,218,212 in 2020. As to the number of e-post transmissions, the 25 per cent increase recorded in 2014 was followed by further rises of 11 per cent in 2015, 23.4 per cent in 2016, 2.7 per cent in 2017 and 14.2 per cent in 2020. 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. In 2020, a slight decrease to the level from 2015 was recorded. Water consumption per employee decreased continuously from 15.3 m^3 in 2009 to 9.6 m^3 in 2015 before posting a modest increase in the ensuing years. While a slightly higher figure of 10.0 cubic metres was achieved for 2017 and 2018, consumption in 2020 dropped to 8.4 m^3 per employee per year. This is probably also due to the increased use of home offices since spring 2020.

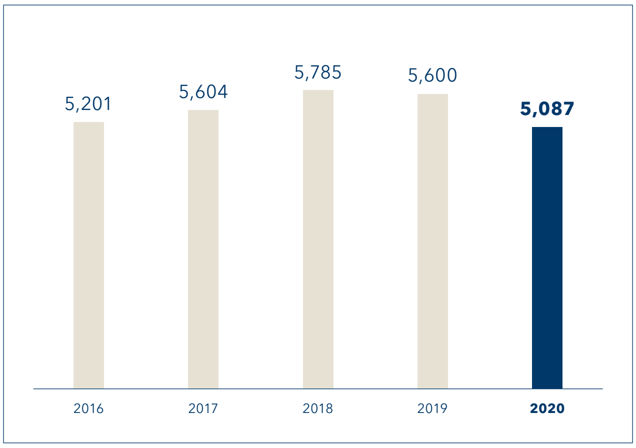
Energy

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 client service centre

Paper consumption (in tonnes)



Water consumption (in m^3)



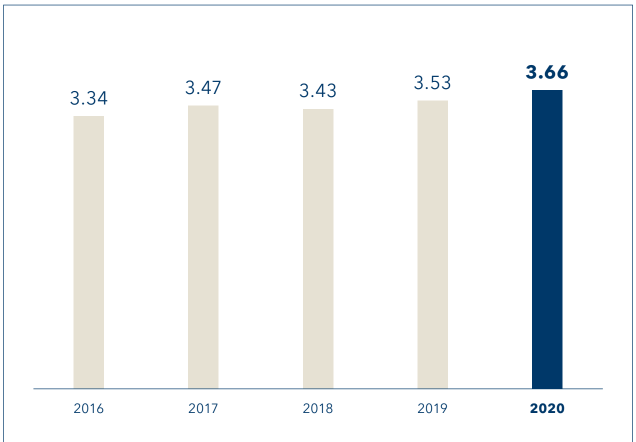
in Triesen, the use of geothermal energy for heating and cooling and the implementation of motion-activated lighting. In 2016, renovation work began on the more than 20-year-old ventilation system in the Giessen building, which was replaced by an energy-efficient installation with heat recovery in 2017.

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

Total energy consumption per employee at the Bank's Liechtenstein offices has fallen from 9,755 kWh in 2010 to 6,057 kWh currently. Power consumption at the head office had been declining from 2008 to 2017 thanks to efficiency-enhancing measures and has only increased slightly since 2019. The replacement of the central heating system and renovation of the building's ventilation system also contributed to the reduced energy use. Modern ventilation systems recover and reuse waste heat from the offices and working areas.

For the past 24 years, a photovoltaic solar power generator has been in operation on the roof of the building in Vaduz. It supplies environmentally friendly energy that is fed into VP Bank's power grid (2017: 3,731 kWh, 2018: 20,181 kWh). Thanks to upgrades of the control system for this installation, solar power generation increased continually from 2009 to 2011. However, over the past five years, it has declined mainly due to defective modules. In 2017, the

Power consumption (in million kWh)



solar installation at the Giessen building was renovated and expanded, which increased its performance by 133 per cent compared to the old installation. In 2018, the new plant increased its output by 541 percent. In 2019, the installation of a further system on the roof of the main building was completed and the total yield from the two systems was increased to 50,051 kWh in 2019. The installation of a new system on the roof of the administration building in Triesen was completed in 2020. The new photovoltaic systems made it possible to achieve a significant increase in solar energy generated in-house to 202,799 kWh.

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 82.3 per cent is generated through hydro and 17.7 per cent through solar power sources.

Overall concept

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

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

With the implementation of this system, the lion's share of the overall concept has been realised. The next step is to plan for the use of groundwater in Vaduz. Through this initiative, existing groundwater can be used for cooling in summer and heating in winter. Discussions with the environmental protection agency have already been held and two pilot holes were drilled. The environmental protection agency has examined the viability of the plan. Further measurements and steps towards implementation were taken in 2020, and the project will be further advanced in 2021.

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

Waste reduction and paper consumption

Since 2004, waste separation has been the order of the day at VP Bank in keeping with its waste disposal concept. Newspapers and magazines are collected and recycled separately from the other types of paper. Glass, cardboard, polystyrene, PET bottles and green waste each have their own receptacles. The total amount of waste fell to 150 tonnes in 2020, the lowest value since 2004. Due to the increased number of employees, it has experienced a slight rise from 2015 to 2018, but the figure has now fallen again since 2019.

Unnecessary printing is one of the largest sources of paper waste. Most of the documents are prepared in digital form but still printed, as in the past. Through measures such as digital invoicing, employee self-service for holiday planning and online boardrooms, VP Bank has already introduced key initiatives to reduce paper consumption.

VP Bank's discarded waste paper is shredded in an in-house recycling unit and compressed into briquettes. With this process, roughly 19.14 tonnes of paper briquettes were produced at the Liechtenstein location in 2020. They were collected by a local recycler and put to new uses.

Printing solutions

The existing printers in Liechtenstein were getting outdated. In 2019, we took this as an opportunity to replace the entire printer infrastructure and set it up again in order to ensure uniform, secure and cost-effective operation. The focus is on ease of use and efficiency.

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

Through the use of these modern multifunctional devices, the existing 190 devices were reduced to just 100 printers. The replacement of the devices, which took place in spring 2019, made it possible to achieve a significant reduction in printouts of approximately 25 per cent. In 2020, VP Bank recorded 2,865,874 printed pages.

Environmental management

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

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

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

Mobility management

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

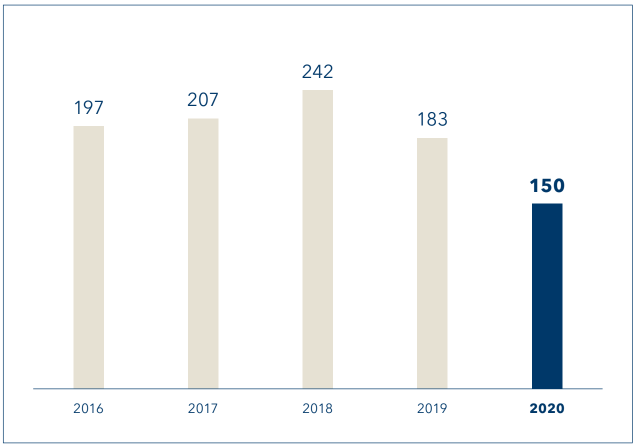
Employees who use public transport are reimbursed for their public transport fare cards for their commute to work up to a maximum of CHF 1,200. The proceeds from mobility management are also applied to these reimbursements. In 2020, 111 employees benefited from this system.

The mobility management concept also encourages employees to form carpools. It also offers free use of mobility cars, a very popular initiative. The total number of kilometres travelled on business in 2020 was 11,865 km, 8.75 per cent lower than in 2019 (13,004 km). The reduction in kilometres driven is presumably due to the COVID-19 pandemic as well as the increase in people working from home.

The use of a videoconferencing system helps reduce employee travel to both VP Bank's regional and international sites. Every employee also has the possibility of using online meeting tools to organise in-house web conferences at which documents can be reviewed and edited directly and simultaneously by multiple users.

The mobility concept has proven to be a success. The goals of reducing automobile traffic, creating environmental awareness and promoting the use of public transport have been achieved. The concept is exemplary for the region and earned the Zurich Climate Award in 2011. This award recognises measures aimed at promoting energy efficiency and CO_2 emissions reductions.

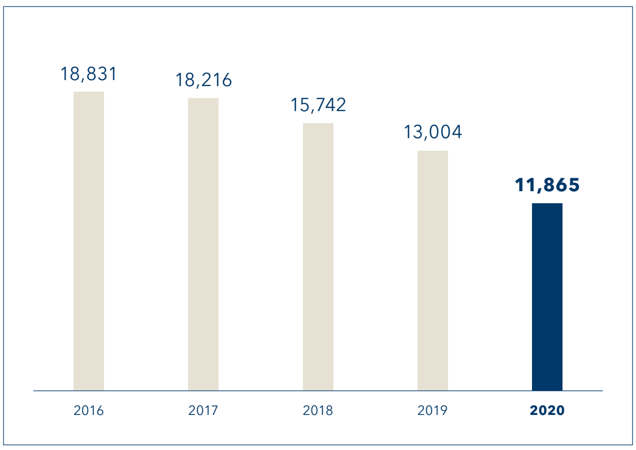
Total waste (in tonnes)



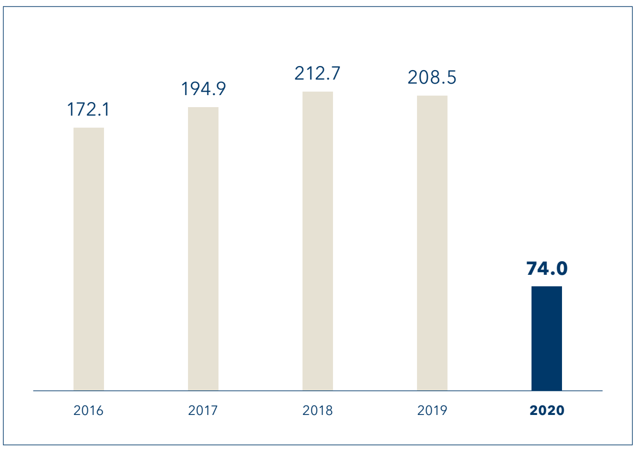
As in previous years, numerous employees participated in the 2020 "Ride to Work" challenge sponsored by the Liechtenstein Chamber of Commerce and Industry (LCCI). Employees in Liechtenstein often travel back and forth between the office buildings in Vaduz and the neighbouring town of Triesen for conferences and training. VP Bank is committed to the use of bicycles as an integral part of operational mobility. To that end, four electric bicycles were acquired in 2016 that can be used free of charge by employees and are very popular. In addition, employees have the option to travel by bus between the Vaduz and Triesen locations free of charge. To do this, they can request a code for FAIRTIQ, an automatic ticketing app.

In 2019, four electric vehicle charging stations were made available for clients and employees. Additional charging stations were installed in 2020, and a total of 10 such parking spaces are now available. In 2019, an electric vehicle was purchased for in-house travel between the office buildings in Vaduz and Triesen.

Mobility Cars (in km)



Number of kilometres (in 1,000)



Legislation and supervisory authorities

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

General information

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, 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 primary 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 provision 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 the following laws and related ordinances in particular:

- Payment Services Act (PSA)
- Ordinance on Certain Undertakings for Collective Investments in Transferable Securities (UCITSA)
- Investment Undertakings Act, (IUA)
- Alternative Investment Fund Managers Act (AIFMA)
- Act on the Disclosure of Information Concerning Issuers of Securities (Disclosure Act, DA)
- Act on the Implementation of Regulation (EU) No. 596/2014 on Market Abuse (EEA Market Abuse Regulation Implementation Act; EWR-MDG)
- Act on Deposit Insurance and Investor Compensation at Banks and Securities Firms (Deposit Insurance and Investor Compensation Act; DIICA)
- 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.

Federal Act on Financial Services (FinSA)

In principle, the Financial Services Act (FinSA), which came into force in Switzerland on 1 January 2020, pursues the same goals as MiFID II with regard to investor protection, but it is not identical. VP Bank Group will implement the FinSA-specific provisions which deviate from MiFID II on a Group-wide basis by 31 December 2021 at the latest. This requires that new processes be implemented, especially for VP Bank (Switzerland) Ltd. However, the new FinSA legislation affects not only VP Bank (Switzerland) Ltd but also the servicing of Swiss-domiciled clients of VP Bank Ltd and VP Bank (Luxembourg) SA.

Payment Accounts Directive

On 23 July 2014, the EU issued Directive 2014/92/EU (Payment Accounts Directive), which essentially encompasses the following items:

- Right to access a payment account with basic functions (a so-called "basic account") 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 should be implemented in Liechtenstein through the creation of a new Payment Accounts Law (PAL). This is to enter into force at the same time as the corresponding EEA adoption decision (which will likely happen in mid-2021).

Blockchain law (TTTA)

At the beginning of October 2019, the Liechtenstein Landtag passed the new Tokens and TT Service Providers Act (TTTA).

Due to the high speed of innovation in blockchain technology, the abstract term "transaction systems based on trustworthy technologies (TT systems)" was used to refer to blockchain systems in this law. With the term "token", the law introduces a new legal object to enable mapping of the "real" world onto TT systems on a legally sound basis. The law defines a legal framework for all applications of the token economy to ensure a legally sound basis for many current and future business models and to support the positive development of the token economy in Liechtenstein.

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

Mortgage Credit Directive (MCD)

The Mortgage Credit Directive (Directive 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 mortgages and similar credit products and aims to establish a single market for residential real estate loans.

The EEA legal adoption of the MCD is largely complete. The implementation of the MCD in Liechtenstein (creation of a Mortgage and Real Estate Credit Act, MRECA) was passed by the Landtag on 4 December 2020. The new MRECA is expected to come into force on 1 April 2021.

EBA Guidelines on Lending and Supervision

The EBA Guidelines on Lending and Supervision (2020/06), which will go into force on 30 June 2021, touch on a very wide range of requirements related to supervisory and credit decision-making processes (including internal governance regulations, processes and mechanisms for credit and counterparty risk management, or specified requirements related to consumer creditworthiness). VP Bank is in close contact with the Liechtenstein Bankers' Association in order to analyse and help steer the impact of the requirements on its own credit organisation.

Securities Financing Transactions Regulation (SFTR)

The Securities Financing Transactions Reporting and Re-use Regulation (SFTR, (EU) 2015/2365) aims to make the securities financing transactions market more transparent. Lending and borrowing transactions of securities as well as repurchase transactions are affected in particular. The reporting requirements of the details of securities financing transactions serve to limit risks for financial market stability. The content of the SFTR reports is largely based on the European Market Infrastructure Regulation (EMIR) reporting obligations. Legal adoption of the SFTR by the EEA is currently pending or in preparation.

Insolvency law reform

As part of a fundamental and comprehensive modernisation of insolvency law, the Liechtenstein Bankruptcy Code and other legal enactments have been amended. The concept of reorganisation has now taken centre stage, which is why it has become necessary to distinguish between bankruptcy and reorganisation proceedings.

Due to the unified insolvency proceedings, the previous Bankruptcy Code became the Insolvency Code. In addition, abolition of the previous bankruptcy classes and introduction of private bankruptcy are now planned. The first part of the legal changes went into force on 1 January 2021, and the second part will go into force on 1 January 2022.

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

In 2020, the 5th Money-Laundering Directive was to be implemented at the European level. This provides for matters including an extension of the list of persons or entities covered by the legislation as well as the scope of application of the directive, and defines enhanced duties of due diligence in relation to high-risk countries and in the use of virtual currencies. The expansion of the powers of central financial intelligence units is also defined. It also provides for the establishment of centralised registers or electronic data retrieval systems which enable the timely determination of all individuals or legal entities which hold or control payment accounts or safety deposit boxes with credit institutions in an EU/EEA country. As a member of the European Economic Area (EEA), Liechtenstein must adopt the implementation of all the minimum requirements provided for in the directive at the latest upon adoption of the decision of the EEA Joint Committee. Since this decision has been delayed, the Landtag decided to implement it separately from the adoption process on 1 April 2021.

As a member of Moneyval, the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, Liechtenstein is regularly audited with regard to compliance with international regulations, in particular the recommendations of the Financial Action Task Force (FATF) and the European requirements (directives and regulations). The next so-called Moneyval assessment is planned for 2021.

Basel IV

In the coming years, the revision of the major European regulations within the framework of Basel IV will bring about far-reaching changes. The focus on the calculation of equity requirements and on medium- to long-term liquidity risk will increase. In the case of equity, the emphasis is on the denominator of the capital ratio: In some cases, the calculation of risk exposure in credit, market and operational risk will change significantly. For liquidity risk, the observation period is extended from one month to one year, so that a structural liquidity ratio will finally be rolled out.

Resolution regime

The resolution plan will be prepared by the responsible resolution authority and is expected for VP Bank in 2021. The Bank has a comprehensive obligation to cooperate and provide information. This allows the resolution authority to identify items including the critical functions as well as to ensure financial and operational continuity in the event of resolution by means of a resolution strategy defined in advance. Based on the preferred resolution strategy, the resolution authority determines a minimum amount of liabilities that are capable of being taken into consideration (Minimum Requirement of Own Funds and

Eligible Liabilities, MREL) so that the participation of certain debtor groups (e.g. private individuals, governments) in the financing of the resolution is limited.

Data on real estate loans

The Recommendation of the European Systemic Risk Board to close gaps in real estate data will be implemented in Liechtenstein in 2021. The real estate sector plays an important role in the economy, and trends in this sector can have a significant impact on the financial system. For this reason, it is becoming more and more important to monitor trends in the residential and commercial property markets in order to identify vulnerabilities at an early stage.

Automatic exchange of information (AEOI)

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

Starting on 1 January 2021, the relevant data will be exchanged with 114 AEOI partner countries. However, Liechtenstein will unilaterally not provide data to a total of 12 permanently non-reciprocal states.

EU Directive on Administrative Cooperation (DAC 6)

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

Taxation of the digitalised economy

On 31 May 2019, the Organisation for Economic Co-operation and Development (OECD) published a work programme on the tax challenges associated with the digitalisation of the economy. Taxation even without physical market presence (pillar 1) and minimum taxation (pillar 2) are envisaged. The first decisions are to be taken in mid-2021. VP Bank Ltd will closely follow developments in this area.

Tax compliance guideline of the Liechtenstein Bankers' Association

On 1 January 2021, the updated guideline of the Liechtenstein Bankers Association regarding tax compliance of its clients went into effect. VP Bank Ltd will implement this amended guideline by 1 April 2021 at the latest.

Brexit impact

The Brexit transition period ended on 31 December 2020. The UK has now definitely left the EU single market and the customs union. Shortly before the end of the transition period, the EU and the UK were able to agree on a trade deal, thus preventing a "hard Brexit". However, the trade agreement only provides superficial regulation of financial services. The Freedom of Services Passport, which EEA firms previously used to provide their services in the UK and which UK firms previously used to provide their services in the European Economic Area, will now cease to exist. Negotiations between the UK and the EU on facilitating the provision of cross-border financial services are ongoing, and there is a possibility that mutual equivalence decisions will be taken in future.

EEA firms that were still in possession of the Freedom of Services Passport for the UK at the end of the transition period and which do not wish to apply for a UK licence will be incorporated into the Financial Services Contracts Regime (FSCR), a wind-down regime that allows EEA firms to resolve existing regulated business with UK clients in an orderly manner. New business with UK clients is still permitted under certain restrictions (as per the UK third-country regulation).

UK firms may also continue to provide services to Liechtenstein clients under certain conditions. With the corresponding amendment to the Liechtenstein Banking Ordinance of 1 December 2020, UK firms have the option, after notification of the FMA, to provide or engage in cross-border investment services or activities as well as ancillary services to suitable counterparties or professional clients within the framework set out in Art. 46 MiFIR. This regulation is valid for a limited period of two years or until the EU Commission reaches a Europe-wide equivalence decision.

Important links to legislation and the Liechtenstein Financial Center

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

Greater risks are only rarely rewarded with **better prospects**.

Controlling risks

Only those who are prepared to take risks can grow their assets. In an era of negative interest rates accompanied by positive inflation, this even applies to those who merely want to preserve the value of their assets. What makes this difficult is that not everyone who takes risks is automatically rewarded for doing so. Exposing oneself to even greater risk does not automatically lead to greater returns, making it all the more important to take risks where it makes sense.

Bernd Hartmann, Chief Strategist of VP Bank Group, explains how the VP Bank Sustainability Score can be a useful indicator when dealing with risk.

Detailed information at www.vpbank.com/controlling_risks

CORPORATE GOVERNANCE AND COMPENSATION REPORT

Corporate Governance

Corporate Governance stands for responsible corporate management and control. The "Swiss Code of Best Practice for Corporate Governance" defines Corporate Governance as encompassing the full range of principles directed towards shareholders' interest seeking a good balance between direction and control and transparency at the top, maintaining decision-making capability and efficiency.

Good Corporate Governance ensures transparent management aimed at sustainable achievement. It is designed to serve not only the company and its shareholders, 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.

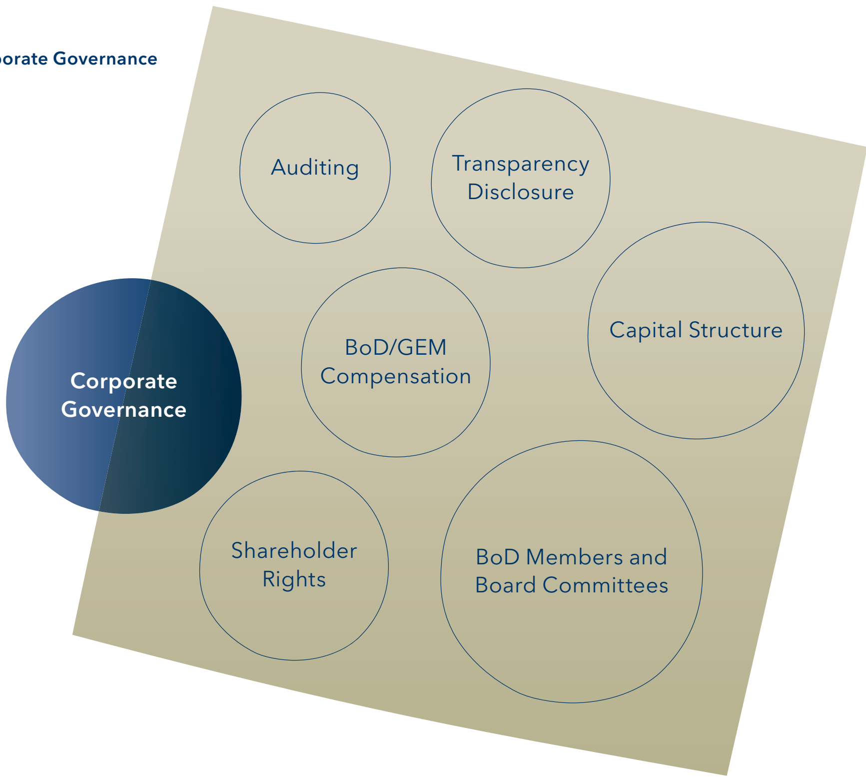
VP Bank Group strives to earn the trust of all stakeholder groups. It thus acts with integrity and responsibility and in a fair and transparent manner at all times, and grants its stakeholder groups insight into its decision-making and control processes. For years, it has thus published, of its own accord, information as to its strategic objectives as well as its relationships with its 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 20 June 2019, as well as the laws of Liechtenstein.

The Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO) has been in force in Switzerland since 1 January 2014. It is applicable to Swiss joint-stock companies whose shares are listed 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 listed on the SIX Swiss Exchange must disclose the same information concerning Corporate Governance. Consequently, the DCG contains, in part, special provisions for issuers that are not subject to the ERCO, but to which the Ordinance still applies in part.

Unless otherwise indicated, all Corporate Governance disclosures herein are valid as at 31 December 2020.

Functions of Corporate Governance



[1] Hereinafter referred to as VP Bank.

1. Group structure and shareholders

1.1 Group structure

1.1.1 Description of the Group's operating 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 (➔ page 16) shows the Group's operating structure and from page 86 onwards, the detailed segment reporting is set out.

The Executive Board of the parent bank is referred to as "Group Executive Management (GEM)". It assumes responsibility for the operational management of the parent bank as well as assuming the function of the Executive Board for VP Bank Group.[2] The members of the Executive Board are represented on the Boards of Directors (BoD) of the subsidiary companies. As a general rule, either the Chief Executive Officer or another member of Group Executive Management acts as Board Chairman of any given subsidiary company.

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

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 listed.

	ISIN	Year-end price in CHF	Market value in CHF million
Registered shares A (listed)	LI0010737216	112.00	673.7[1]
Registered shares B (not listed)	LI0010737596	11.20	67.2
Total (market capitalisation of registered shares A plus market value of registered shares B)			**740.9**

[1] Stock-market capitalisation of listed registered shares A as of 31.12.2020

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

1.1.3 Unlisted companies included in the scope of consolidation

Group subsidiaries and significant shareholdings included in the scope of consolidation together with their corporate name, registered office, share capital and the percentage of share capital held are set out in the Financial Report (➔ page 156).

1.2 Significant shareholders (anchor shareholders)

As at 31 December 2020, the following shareholders have declared that they own more than 10 per cent of the share capital of VP Bank or exercise more than 5 per cent of the voting rights.

Shareholders	Registered shares A	Registered shares B	Voting rights	Voting rights as % of total	Ownership of total share capital
Stiftung Fürstl. Kommerzienrat Guido Feger, Vaduz[1]	1,066,426	4,530,047	5,596,473	46.6%	23.0%
U.M.M. Hilti-Stiftung, Schaan	577,842	658,370	1,236,212	10.3%	9.7%
Marxer Stiftung für Bank- und Unternehmenswerte, Vaduz	756,885	0	756,885	6.3%	11.4%

[1] incl. institutions controlled by the Foundation

During the financial year, no further disclosure notifications were received within the meaning of Art. 25 of the Liechtenstein Law Governing the Disclosure of Information Relating to Issuers of Securities and of Art. 120–124 of the Swiss Financial Market Infrastructure Act (FMIA). There are no shareholder agreements in place.

1.3 Cross-shareholdings

VP Bank has not entered into any cross-shareholdings with other companies involving share capital or voting rights.

2. Capital structure

2.1 Share capital

The share capital of VP Bank amounts to CHF 66,154,167 and is divided into 6,015,000 fully paid-up registered shares A with a par value of CHF 10.00 each, as well as 6,004,167 registered shares B with a par value of CHF 1.00 each (see Financial Report, ➔ page 146).

	Number	Balance as of 31.12.2020 Share capital in CHF
Registered shares A	6,015,000	60,150,000
Registered shares B	6,004,167	6,004,167
Total	**12,019,167**	**66,154,167**

2.2 Conditional and authorised capital

VP Bank has neither authorised nor conditional capital.

2.3 Changes in shareholders' equity

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

in CHF 1,000	31.12.2018	31.12.2019	31.12.2020
Share capital	66,154	66,154	66,154
Capital reserves	47,049	47,049	47,049
Legal reserves	239,800	239,800	239,800
Other reserves	352,286	355,667	358,889
Provisions for general banking risks	63,150	63,150	63,150
Retained earnings	134,015	156,754	159,929
Total	**902,454**	**928,574**	**934,970**

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 vis-à-vis the company.

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

2.7 Convertible bonds and options

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

3. Board of Directors

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

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

3.1 Members of the Board of Directors

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

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

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

At the annual general meeting of 24 April 2020, Dr Beat Graf and Michael Riesen were re-elected for a term of office of three years. Professor Teodoro D. Cocca did not stand for re-election, and stepped down from the Board of Directors.

Katja Rosenplänter-Marxer was elected to the Board of Directors for a term of three years. She represents the interests of the anchor shareholder, the Marxer Stiftung für Bank- und Unternehmenswerte.

The Chairman of the Board of Directors was replaced on 24 April 2020, following Fredy Vogt's resignation. In an extraordinary meeting of the Board of Directors following the annual general meeting, Dr Thomas R. Meier (previously Vice Chairman) was elected as its Chairman with immediate effect. Thomas R. Meier has been a member of the Board of Directors of VP Bank since 2018, and was also Vice Chairman from February 2019.

Name	Year of birth	Function	Joined Board of Directors in	Elected until AGM in	Committee membership
Dr Thomas R. Meier	1962	Chairman	2018	2021	Strategy & Digitalisation Committee[1], Nomination & Compensation Committee
lic. oec. Markus Thomas Hilti	1951	Vice Chairman	1992	2022	Nomination & Compensation Committee
Dr Beat Graf	1964	Member	2014	2023	Audit Committee, Risk Committee
lic. iur. Ursula Lang	1967	Member	2016	2022	Audit Committee, Risk Committee[1]
Dr Gabriela Maria Payer	1962	Member	2016	2022	Nomination & Compensation Committee, Strategy & Digitalisation Committee
Michael Riesen	1962	Member	2014	2023	Audit Committee[1], Risk Committee
Katja Rosenplänter-Marxer	1981	Member	2020	2023	Audit Committee, Risk Committee
Fredy Vogt	1958	Member	2012	2021	Nomination & Compensation Committee[1], Strategy & Digitalisation Committee

[1] Chairperson

[3] The Articles of Incorporation online: www.vpbank.com/regulations

Dr Thomas R. Meier

Born in 1962
Citizen of Switzerland

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

Education

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

Professional background

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

Other activities and vested interests

- Member of the Board of Directors, the Audit Committee and the Risk Committee of Leonteq AG, Zurich, Switzerland
- Board member of "Smiling Gecko" social enterprise (NGO), Dübendorf
- Owner of Cardeira, Portugal and Switzerland
- Member of Global Family Wealth Strategy Advisory Committee of China Construction Bank Trust Co., Ltd, Beijing (China)

Markus Thomas Hilti

Born in 1951
Citizen of Liechtenstein

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

Education

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

Professional background

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

Other activities and vested interests

- Trustee of U. M. M. Hilti-Stiftung, Schaan (➔ Section 1.2)
- Board of Trustees of the Top Talent Sport Foundation, Vaduz
- Member of the Board of Directors and Executive Board of Golf Gams-Werdenberg AG, Gams

Dr iur. Beat Graf

Born in 1964
Citizen of
Switzerland

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

Education

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

Professional background

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

Other activities and vested interests

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

Ursula Lang

Born in 1967
Citizen of
Switzerland

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

Education

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

Professional background

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

Other activities and vested interests

Member of the Board of Directors and Chair of the Audit and Risk Committee of responsAbility Investments AG, Zurich

Dr Gabriela Maria Payer

Born in 1962
Citizen of
Switzerland

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

Education

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

Professional background

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

Other activities and vested interests

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

Michael Riesen

Born in 1962
Citizen of
Switzerland

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

Education

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

Professional background

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

Other activities and vested interests

None

Katja Rosenplänter-Marxer

Born in 1981
Citizen of Germany

Katja Rosenplänter-Marxer is a member of the Audit Committee and the Risk Committee.

Education

2010	Specialist course in commercial and company law at Deutsche Anwalt Akademie (German Lawyers' Academy)
2010	Admission to the German bar
2009	Second state law exam, Assessor iuris (Germany)
2007–2009	Clerkship, Regional Court of Konstanz (Germany)
2006–2007	Master of Science Educational Leadership, Northern Arizona University, Flagstaff (USA)
2005–2006	Graduate Certificate in Public Management, Northern Arizona University, Flagstaff (USA)
2005	First state law exam, Magister iuris (Germany)
2000–2005	Law Degree, University of Constance (Germany)

Professional background

2012–2017	Law office of Marxer & Partner Rechtsanwälte, Vaduz, Legal Associate
2010–2012	Law office of Wagner & Joos, Konstanz (Germany), attorney
2009	Law office of Gnann, Thauer & Kollegen, Freiburg (Germany), articled clerk
2008–2009	City of Konstanz (Germany), articled clerk
2008	Law office of Baiker & Kollegen, Konstanz (Germany), Articled clerk
2008	Public prosecutor's office, Konstanz (Germany), articled clerk
2007–2008	District Court of Villingen-Schwenningen (Germany), articled clerk
2007	HSBC Trinkaus & Burkhardt AG, Düsseldorf (Germany), trainee

Other activities and vested interests

- Member of the Board of Trustees of the "Lebenswertes Liechtenstein" Foundation, Vaduz
- Member of the Board of Directors of the "Zeitvorsorge Liechtenstein" Association, Vaduz

Fredy Vogt

Born in 1958
Citizen of Liechtenstein

Fredy Vogt is Chairman of the Nomination & Compensation Committee and a member of the Strategy & Digitalisation Committee.

Education

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

Professional background

Since 1987	VP Bank Ltd, Vaduz **Since 2020:** Member of the Board of Directors **2012–2020:** Chairman of the Board of Directors **2003–2012:** Chief Financial Officer (CFO) of VP Bank Group and Deputy Chief Executive Officer (CEO) of VP Bank Group, Head of the Corporate Center (Group Finance & Risk, Group Legal Services & Compliance, Group Tax Center, Group Communications & Marketing, Group Human Resources Management) **2009–2010:** Chief Executive Officer (CEO) ad interim of VP Bank Group **1996–2012:** Member of Group Executive Management **1994–1996:** Head of the Corporate Planning and Accounting department **1990–1994:** Establishment and management of the Controlling department **1987–1990:** Deputy Head of Internal Auditors
1985–1987	Areva Allgemeine Revisions- und Treuhand AG, Vaduz, Lead Auditor
1984–1985	Revikon Revisions- und Beratungs AG, Vaduz, Managing Director
1983–1984	Neutra Treuhand AG, St. Gallen, Auditor
1980–1983	Confida Treuhand- und Revisions AG, Vaduz, Assistant and later Department Head in the Trustee Operations department
1979–1980	Trevisor Treuhand- und Kontrollstellen AG, Vaduz, assistant in the Bookkeeping department
1979	Liechtensteinische Landesbank AG, Vaduz, assistant in the Credit department

Other activities and vested interests

- Chairman of the Board of Trustees of the Privatbank Personalstiftung, Vaduz
- Member of the Board of Trustees of the VP Bank Foundation, Vaduz
- Member of the Board of Trustees of the VP Bank Art Foundation, Vaduz
- Chairman of the Board of Trustees of the Karl Danzer Foundation, Vaduz
- Member of the Board of Directors of Helios Aviation AG, Triesen

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 Remuneration in Listed Companies Limited by Shares (ERCO). 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 Section 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 (Art. 17 to 19) and in the Organisation and Business Regulations (OBR Sections 2 to 4)[4].

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

3.5.1 Division of tasks within the Board of Directors

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

3.5.2 Composition, tasks and areas of responsibility of the Board committees

The tasks, areas of responsibility, 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.

[4] The Organisation and Business Regulations online: www.vpbank.com/regulations

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

Nomination & Compensation Committee

The Nomination & Compensation Committee comprises the following members: Fredy Vogt (Chairman), Markus Thomas Hilti, Dr Thomas R. Meier and Dr Gabriela Maria Payer. Pursuant to Section 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 human-resources 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, Ursula Lang and Katja Rosenplänter-Marxer. The Audit Committee assists the Board of Directors in fulfilling the duties assigned to it under the Banking Act regarding the overall management, supervision and control of the parent bank and of VP Bank Group. The Audit Committee is responsible in particular for the following tasks (pursuant to OBR Section 3.3):

- receiving and dealing with the reports from Group Internal Audit and the bank law auditors, as well as assessing the appropriateness of the procedures deployed to remedy the pending items arising from the audit;
- critically assessing financial reporting as well as discussion thereof with the CFO, the Head of Group Internal Audit and representatives of the bank law auditors;
- deciding whether the individual company and consolidated financial statements can be recommended to the Board of Directors for submission to the Annual General Meeting of shareholders;
- assessing the implementation of the tax strategy of the Bank;
- assessing the functional capability of the internal control system;

- assessing the measures taken designed to ensure compliance with and the observance of legal (e.g. compliance with capital-adequacy, liquidity and risk-diversification provisions) and internal provisions (compliance);
- taking note of significant interactions with the respective supervisory authorities and assessing the measures taken to implement any conditions imposed as well as assessing the appropriateness of the procedures implemented to ensure compliance with regulatory conditions imposed and of remedial action taken;
- assessing the quality of the internal and external auditors, as well as the collaboration between the two sets of auditors;
- setting the multi-year audit plan of Group Internal Audit, as well as informing themselves as to and discussing the audit planning of the Group and bank 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 dismissal of external auditors;
- submitting motions to the Board of Directors for the appointment and dismissal of the Head of Group Internal Audit;
- advising the Board of Directors on the appointment and dismissal of the Chief Financial Officer.

Risk Committee

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

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

Strategy & Digitalisation Committee

The Strategy & Digitalisation Committee is comprised of Dr Thomas R. Meier (Chairman), Dr Gabriela Maria Payer and Fredy Vogt. The Strategy & Digitalisation Committee assists and advises the Board on strategic issues and projects. It is responsible for the following tasks in particular (in accordance with OBR Section 3.5):

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

3.5.3 Modus operandi of the Board of Directors and its Committees

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

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

Specific topics addressed by the Board of Directors and its committees may require that further individuals be called upon to attend (executives of VP Bank Group, representatives of the bank law auditors, as well as internal or external specialists and advisors). During 2020, the full Board of Directors held eight ordinary meetings and seven extraordinary meetings. In addition, the Board of Directors and Executive Board jointly conducted two full-day strategy workshops.

The Nomination & Compensation Committee usually meets six to ten times per year. When required, the CEO participates in the Nomination & Compensation Committee meetings in an advisory capacity. During 2020, the Nomination & Compensation Committee met on a total of eleven occasions.

The Audit Committee usually meets on five to eight occasions per year, with the meeting dates being set to accommodate the needs arising from specific tasks (closing of accounts, financial reporting, auditors' reports, etc.). The CFO, the Chief Risk Officer and the Head of Group Internal Audit attend the meetings. For the purpose of addressing audit-specific topics, representatives of the

Name	Board of Directors	Nomination & Compensation Committee	Audit Committee	Risk Committee	Strategy & Digitalisation Committee
Number of meetings	17	11	9	8	7
Dr Thomas R. Meier	17	11	7	7	7
lic. oec. Markus Thomas Hilti	17	11			
Prof. Dr Teodoro D. Cocca [1]	5				3
Dr Beat Graf	16		9	8	
lic. iur. Ursula Lang	17		9	8	
Dr Gabriela Maria Payer	16	11			7
Michael Riesen	17		9	8	
Katja Rosenplänter-Marxer [2]	9		5	5	
Fredy Vogt	17	11	2	1	6

[1] Board member until 24 April 2020
[2] Board member from 24 April 2020

external auditing firm (as a general rule, the Auditor-in-Charge) attend the meetings. Last year, the Audit Committee convened for seven ordinary meetings and two extraordinary 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 year. The Chief Risk Officer, the CFO and the Head of Group Internal Audit attend the meetings. Last year, the Risk Committee met for seven ordinary meetings and one extraordinary meeting. 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 year. The CEO and other representatives of the Group Executive Board attend the meetings. In 2020, the Strategy & Digitalisation Committee met on a total of seven occasions.

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 divisions of powers and authorities

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 depicted in the organisational chart (➔ page 16).

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

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

The members of the Board of Directors regularly receive various reports: monthly financial reports (individual-company and Group basis), risk-controlling reports, as well as periodic reports on the semi-annual and annual financial statements (consolidated and individual company accounts). These also include qualitative information, as well as budget variances, period-specific and multi-year 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 the implementation of business strategies and strategy controlling twice a year on the basis of the reporting by the Executive Board.

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

The Chairman of the Board receives all minutes of the Executive Board meetings. In addition, he also exchanges information with the CEO on a weekly basis, and on an ad-hoc basis 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.

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

4.1 Members of the Executive Board and Group Executive Management

As at 31 December 2020, the Executive Board and Group Executive Management were made up of the following individuals:

Name	Year of birth	Functions	At VP Bank since	Member since
Paul H. Arni	1964	Chief Executive Officer (CEO)	2019	2019
Roger Barmettler	1972	Chief Financial Officer (CFO) a.i.	2020	2020
Patrick Bont	1975	Chief Risk Officer (CRO)	2020	2020
Dr Urs Monstein	1962	Chief Operating Officer (COO)	2018	2018
Thomas von Hohenhau	1983	Head of Client Solutions	2020	2020
Tobias Wehrli	1977	Head of Intermediaries & Private Banking	2015	2020

Siegbert Näscher decided to step down from his role as CFO and leave VP Bank Group on 19 June 2020. Roger Barmettler, Head of Group Finance, was appointed CFO on an interim basis. The Board of Directors appointed Roger Barmettler Chief Financial Officer (CFO) and member of the Group Executive Management as of 1 March 2021.

Monika Vicandi, General Counsel & Chief Risk Officer, left VP Bank Group by mutual agreement on 19 June 2020. Dr Rolf Steiner, Head of the CEO Office, performed the role on an interim basis until the end of October 2020, with Patrick Bont becoming Group Chief Risk Officer and a member of the Executive Board on 1 November 2020.

Tobias Wehrli was appointed Head of Intermediaries & Private Banking and member of the Group Executive Management on 1 July 2020. He succeeded Christoph Mauchle, who stepped down from the Executive Board on 30 June 2020 and left VP Bank Group at the end of September 2020 after taking early retirement.

On 1 July 2020, Dr Felix Brill moved to the CEO unit with the Group CIO & Sustainability division, and stepped down from the Executive Board.

As part of Strategy 2026, Thomas von Hohenhau was appointed to begin serving as Head of the newly created Client Solutions division on 1 September 2020. He also sits on the Executive Board as part of this function.

Paul H. Arni

Born in 1964
Citizen of
Switzerland

Paul H. Arni is the Chief Executive Officer (CEO) of VP Bank Group (segment reporting, ➔ page 86 ff.).

Education

2020	Certified Board Member, Rochester-Bern Executive Programs, Berne
2006	Advanced Management Program (AMP), The Wharton School at the University of Pennsylvania (USA)
2002	Master of Business Administration MBA, University of Berne and University of Rochester (USA)
1999	Post-graduate diploma in Bank Management, Institute of Financial Services Zug (IFZ)
1995	Controller Diploma, Controller Academy, Zurich, and Swiss Institute for Business Administration (SIB), Zurich
1990	Business Economist FH, Zurich University of Applied Sciences, Zurich

Professional background

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

Other activities and vested interests

- Member of the Board and Vice President of the Liechtenstein Bankers Association, Vaduz
- Member of the Board of the Liechtenstein Chamber of Commerce and Industry (LIHK), Vaduz

Tobias Wehrli

Born in 1977
Citizen of
Switzerland

Tobias Wehrli is the Head of Intermediaries & Private Banking (segment reporting, ➔ page 86 ff.).

Education

2012–2014	Executive Master's in Business Administration (EMBA), FHS St. Gallen, specialisation in Service Management
2006	Fit for CAS Customers (Comprehensive Advice Seeking)
2005	Next PACE – Credit Suisse Advisory Process in Private Banking
2004	Series 7 / General Securities Registered Representative Qualification Examination, (American NYSE Trader Exam)
2003–2004	Executive Master of Financial Planning, CFP post-graduate studies at the FHS Fachhochschule für Technik, Wirtschaft und Soziale Arbeit St. Gallen (University of Applied Sciences)
1998–2001	FHS Fachhochschule für Technik, Wirtschaft und Soziale Arbeit St. Gallen (University of Applied Sciences; field of study: Economics with specialisation in Financial Services)

Professional background

Since 2020	VP Bank Ltd, Head of Intermediaries & Private Banking, Vaduz
2015–2020	Head of Intermediaries VP Bank Ltd, Vaduz, Special responsibility VP Bank Group: locations Zurich, Singapore, Luxembourg, Liechtenstein
	2016–2019: Additional team management "Commercial Banking Domestic"
2009–2015	St. Galler Kantonalbank AG, St. Gallen, Head of Desk for External Asset Managers, member of the Management Board
2007–2009	Financial Architects Schweiz, Wil, investment Advisor for Swiss doctors FMH, Deputy General Manager / Partner
2005–2007	Credit Suisse Private Banking, St. Gallen, Relationship Manager for foreign countries, Assistant Vice President
2004–2005	Swiss American Sec. Inc., New York City (USA), Broker, Trading and Sales, Assistant Vice President
2001–2004	Credit Suisse Private Banking, Frauenfeld, Relationship Manager Domestic, Assistant Vice President
1997–1998	UBS AG, Zurich, Financial Education Team
1996–1997	UBS AG, Wil, commercial employee in private customer business
1993–1996	UBS AG, Wil, commercial training incl. BMS (federal vocational baccalaureate)

Other activities and vested interests

None

Thomas von Hohenhau

Born in 1983
Citizen of Germany and Switzerland

Thomas von Hohenhau is the Head of Client Solutions of VP Bank Group (segment reporting, ➔ page 86 ff.).

Education

2011	Master of Arts in Banking and Finance, University of St. Gallen (HSG)
2007	Bachelor of Arts in Business Administration, University of Zurich

Professional background

Since 2020	VP Bank Ltd, Head of Client Solutions, Vaduz
2019–2020	Deposit Solutions, CEO Switzerland
2016–2020	Deposit Solutions, Chief Client Officer, International
2016–2018	Deposit Solutions, Managing Director Switzerland
2015–2016	Bank Julius Baer, Head of Portfolio Management International
2014–2015	Bank Julius Baer, Global Head of PM Business Operations & Management, International
2012–2014	Bank Julius Baer, Global Head of Integration Merrill Lynch Portfolio Management, Zurich/London
2009–2014	Bank Julius Baer, Head of PM Business Development, Zurich

Other activities and vested interests

- Owner of Andorien Capital AG, Zurich
- Member of the Board of Young SECA

Patrick Bont

Born in 1975
Citizen of Switzerland

Patrick Bont is the Chief Risk Officer of VP Bank Group (segment reporting, ➔ page 86 ff.).

Education

2015–2016	Executive Master of Business Administration (EMBA) in Digital Transformation, HTW Chur, University of Applied Sciences
2010–2012	Executive Master of Laws (LL.M.) in Company Foundations and Trust Law, University of Liechtenstein
1995–2001	Master of Arts (lic. iur. HSG), University of St. Gallen HSG

Professional background

Since 2020	VP Bank Ltd, Vaduz, Liechtenstein, Chief Risk Officer
2009–2020	FMA Financial Market Authority Liechtenstein, Vaduz
	2016–2020: Member of the Executive Board, Head of "Banking" Division
	2013–2016: Member of the Executive Board, Head of "Other Financial Intermediaries" Division
	2010–2013: Executive Officer, Head of Legal and International Affairs
	2009–2010: Lawyer, Executive Office
2001–2009	UBS AG, Zurich / Hong Kong
	2005–2009: Director, Head of Business Management, Group General Counsel Area – UBS Corporate Center, Zurich
	2007–2008: Director, Head of Business Management, Legal & Compliance – UBS Investment Bank, Hong Kong
	2003–2005: Business Analyst, Operational Risk – UBS Corporate Center, Zurich
	2001–2003: Junior Client Advisor – UBS Wealth Management, Zurich

Other activities and vested interests

- University of Liechtenstein – Lecturer for the Compliance certificate course
- Authorship – publications on the topics of tokenisation, compliance officers in the financial sector, and financial market supervisory authorities

Roger Barmettler

Born in 1972
Citizen of
Switzerland

Roger Barmettler is the Chief Financial Officer (CFO) of VP Bank Group (segment reporting, ➔ page 86 ff.).

Education

2001	Swiss CPA, Treuhandkammer Zurich
1997	Bachelor of Science in Business Administration, University of Lucerne

Professional background

Since 2020	VP Bank Ltd, Vaduz
	From 03/2021: Chief Financial Officer
	06/2020–02/2021: Chief Financial Officer ad interim
	2020: Head of Group Finance
2018–2019	UBS AG, Zurich, Group Accounting
2005–2018	Credit Suisse AG, Zurich
	2014–2018: Liquidity Measurement & Reporting
	2013–2014: Head of Credit Risk Reporting Private Banking
	2011–2012: COO of Risk Analytics & Reporting
	2006–2011: Group Accounting, Financial Reporting & Consolidation
	2005–2006: Audit Manager Financial Audit Team
2004–2005	UBS Investment Bank, Zurich, Senior Auditor, Group Internal Audit
2002–2003	KPMG LLP, Philadelphia (USA), Senior Auditor
1997–2004	KPMG Fides Peat, Zurich, Audit Manager

Other activities and vested interests

None

Dr Urs Monstein

Born in 1962
Citizen of
Switzerland

Dr Urs Monstein is the Chief Operating Officer (COO) of VP Bank Group (segment reporting, ➔ page 86 ff.).

Education

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

Professional background

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

Other activities and vested interests

Chairman of the Board of Directors of Data Info Services AG, Vaduz, Liechtenstein

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 Section 4.1.

4.3 Number of authorised activities

VP Bank is not subject to the Swiss Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO). From that point of view, it has not issued any statutory rules concerning the number of authorised activities.

4.4 Management contracts

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

5. Compensation, participations and loans

5.1 Content and method of determining 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 (➔ page 79 ff.).

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

As a SIX Swiss Exchange-listed issuer domiciled outside Switzerland, VP Bank discloses information on compensation, shareholdings and loans as provided for in Article 5.3 of the Appendix to the Corporate Governance Directive dated 20 June 2019, i.e. by analogy to Art. 14–16 ERCO. The details in this regard can be found in the Financial Report, individual company accounts of VP Bank Ltd, Vaduz (➔ page 172 ff.).

6. Shareholders' participation rights

6.1 Voting right restrictions and proxies

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

6.2 Statutory quorums

Amendments to the Articles of Incorporation regarding a change in the ratio of the registered shares A to registered shares B (Articles of Incorporation, Art. 4 par. 2) as well as to the provisions governing the restriction on registration of registered shares B (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(4)).

6.3 Convocation of the Annual General Meeting

The Annual General Meeting is convened 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 (Art. 11 to 14).

6.5 Entries in the 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 listed on the SIX Swiss Exchange, it also must observe several Swiss regulations in addition to those of Liechtenstein. 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 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" or "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

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

Rolf Birrer has been the Auditor in charge since 2020.

8.2 Audit fee[1]

in CHF 1,000	2020	2019
Audit of annual financial statements	593	945
Other audit-related and certification services	521	479
Total	**1,114**	**1,424**

[1] Fees are reported exclusive of VAT and expenses.

8.3 Additional fees[1]

in CHF 1,000	2020	2019
Tax-advisory services	285	
Other services	332	22
of which audit-related services		20
of which legal services		
of which other advisory services	332	2
Total	**617**	**22**

[1] Fees are reported exclusive of VAT and expenses.

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

8.4 Supervisory and control instruments in relation to the external audit

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

All reports from the external auditors are reviewed at the meetings of the Audit Committee. In 2020, 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 Auditor's Report prescribed under the Banking Act.

Each year, the Audit Committee assesses and evaluates the effectiveness and independence of the external auditors. During this process, it relies 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(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: 30 April 2021
Semi-annual report 2021: 12 August 2021

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

Contact

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

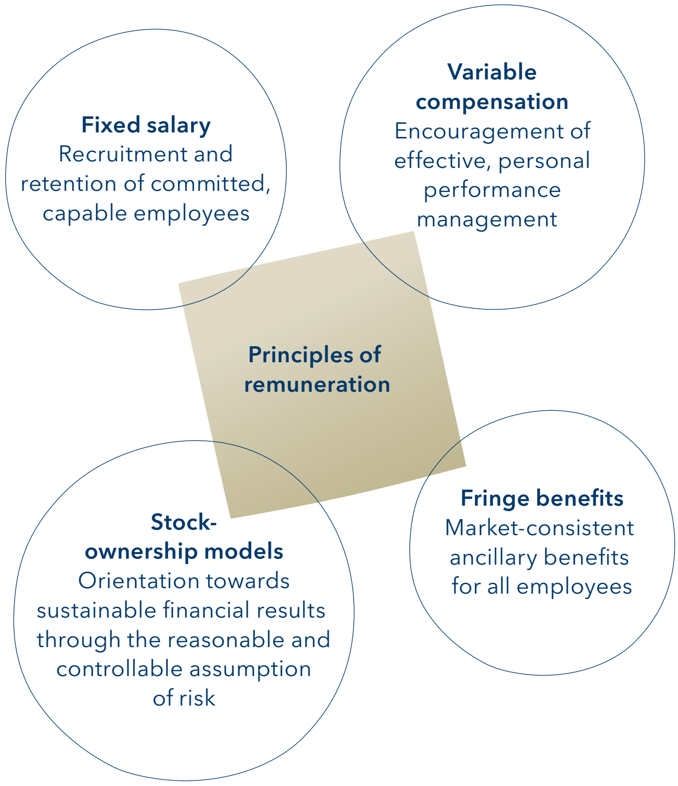
Compensation Report

Regulatory framework

The basis of this VP Bank Compensation Report is the implementation of 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 para. 6 thereof: "Banks and securities firms shall introduce a compensation policy and practices and shall ensure continuously that they are consistent with robust and effective risk management within the spirit of this Article. The Government has regulated the details of the compensation policy and practices in a related ordinance".

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



Principles of remuneration

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

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

- A focus on performance and performance differentiation are substantive components of the compensation policy and ensure the interlinking of variable compensation with the achievement of the strategic goals of the company.
- The remuneration policies and practices of VP Bank Group are simple, transparent and focused on sustainability – in particular environmental, social and governance aspects. They are in line with the business strategy, goals and values as well as the long-term overall success, and take into account the Group's equity situation.
- The compensation policy is compatible with and helps foster robust and effective risk management. It makes sure that remuneration-based conflicts of interests of the functions or individuals involved are avoided. The assumption of excessive risks by employees to increase remuneration in the short term should be best prevented by setting appropriate incentives.
- The compensation policy renders possible a fair and attractive remuneration in line with the market in order to attract, motivate and tie qualified and talented employees to VP Bank Group. Conformity with market conditions is reviewed regularly.
- The remuneration system is not founded on a purely formula-based approach and therefore possesses sufficient flexibility to take account of the business performance of VP Bank Group or its subsidiary companies.
- Remuneration practices follow the principle of equal treatment. The level of fixed salary varies according to the function. The level of variable remuneration reflects Group performance, the performance of the segment or team and/or individual performance.
- The remuneration policy is subject to regular review. Relevant legal provisions are applied and implemented in remuneration practices. Prescriptions specific to functions, in particular those relating to identified employees, are taken into account.

Components of remuneration

The total remuneration of the employees of VP Bank Group comprises a fixed remuneration, an additional variable salary, equity-share participation models as well as additional perquisites ("fringe benefits"). In laying down the structure of remuneration, an appropriate relationship between the fixed components and variable remuneration as well as a function-specific compensation is taken into account. In particular, identified employees, which includes Group Executive Management, receive a maximum variable remuneration which complies with the legal relationship to the annual salary (maximum of 1:2). The limitation of the ratio of fixed to variable compensation at VP Bank to a maximum of 1:2 was determined within the scope of the 53rd Annual General Meeting on 29 April 2016.

Fixed salary

The annual salary set out in the individual employment contract and payable in cash in monthly instalments forms the basis of remuneration. The level thereof varies in accordance with the function exercised and the demands and responsibilities associated therewith which are assessed based on objective criteria. This enables internal comparability as well as the equal treatment in remuneration matters, and also permits comparison with market data. VP Bank considers the fixed salary to be compensation for the employee's activities performed in an orderly manner. The fixed salary is reviewed annually for ongoing appropriateness within the scope of the salary and wage round negotiations and, where necessary, adjusted.

Variable compensation

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

Funding of variable remuneration

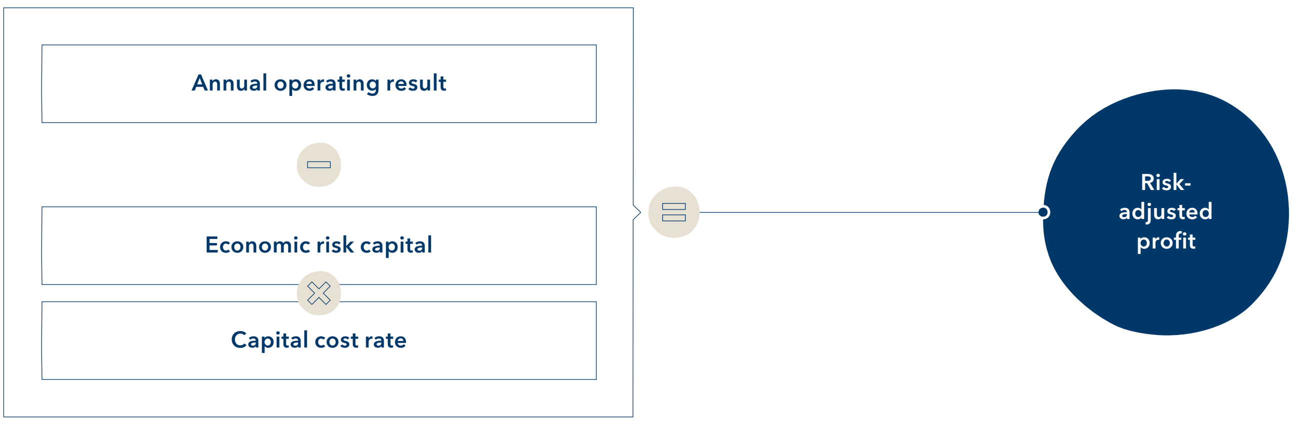
The overall amount of variable remuneration is determined by the Board of Directors and is based upon performance indicators as well as qualitative performance criteria. The overall amount takes into consideration the multi-annual, risk-adjusted profitability of VP Bank Group (➔ **table** below), the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

The Board of Directors makes a facts-based assessment of the total amount of variable remuneration and can adapt the amount to a limited degree. In times of adverse operating conditions, the overall amount of variable remuneration is reduced accordingly and can even amount to zero. The sum of provisions for variable remuneration must be affordable in the aggregate. Never should VP Bank Group nor any individual Group subsidiary fall into financial difficulties as a result. The impact on the Group's equity situation is taken into consideration in this process.

Allocation of variable remuneration

The allocation of variable payments is made on a discretionary basis and, in addition to the attainment of quantitative and/or qualitative goals, also takes into account the degree of compliance with the directives of the legislator, the guidelines set by the Bank, 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 and 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. Participation in the results of the company or of VP Bank Group is admissible within normal limits and is sensible within the spirit of equal treatment. Achievement of targets is evaluated after the end of

Calculation of the risk-adjusted profit



the business year within the scope of the performance management process. The amount of the individual variable compensation is determined by the employee's superior.

Settlement of variable remuneration

- **Immediately payable variable remuneration (bonus):** The bonus is that part of the variable remuneration paid annually in cash as compensation for the contribution made to earnings in the preceding business year. Should the bonus be particularly high in relation to overall remuneration, a part of the payment thereof can be withheld. Where it appears sensible and appropriate, such withheld portion can also be settled in the form of deferred remuneration instruments or in the form of equity shares which may not be disposed of during a limited period.
- **Deferred remuneration instruments:** Using deferred compensation instruments, the long-term alignment of the interests of shareholders and employees is to be achieved by a participation of the employees in the growth in the value of the Group. As deferred remuneration instruments, VP Bank deploys, in principle, equity-share and index-based schemes which are exposed to market risk. Entitlement to deferred remuneration instruments is dependent on the function exercised and the individual. It is confirmed by a certificate of allocation. Through the deployment of deferred remuneration instruments, VP Bank Group complies with the legal regulations concerning payment schemes for risk takers, i.e. a minimum of 40 per cent of the variable remuneration is granted in the form of deferred remuneration instruments which are linked to a possible malus and/or clawback rule and accordingly can be forfeited. The regulations on deferred remuneration instruments are set out in separate plan rules.
- **Malus and clawback 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 (clawback). This applies particularly in the case of the subsequently discovered fault of the employee or in the case of disproportionately high risks being entered into to increase revenues. On leaving VP Bank, entitlements to deferred, not yet disbursed variable salary components are forfeited as a rule.

Equity-participation programmes

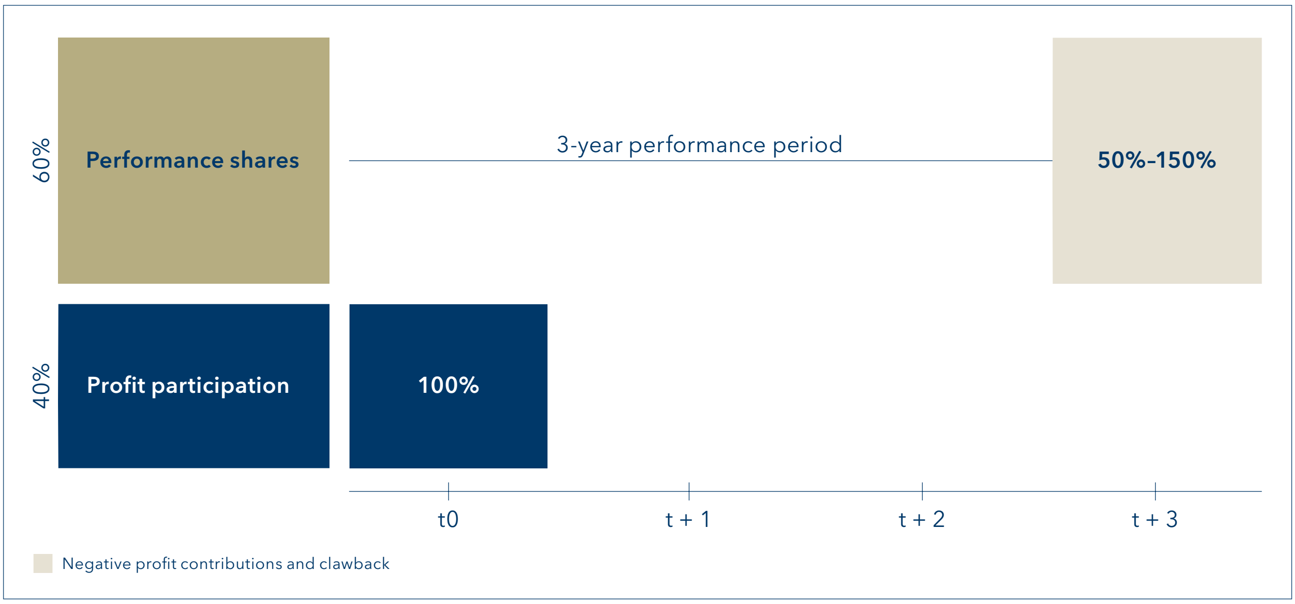
Each year, registered shares A are offered to the employees of VP Bank on preferential terms. The number thereof depends in equal shares on the level of the fixed salary and the period of employment as of the measurement date, 1 May. The shares may not be disposed of during a sales restriction period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

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

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

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).

Instruments of variable remuneration



Content and method of setting compensation and equity-participation programmes

The compensation policy rules and the risk policy rules of VP Bank stipulate that the Bank's compensation systems and human resource management are to be designed in a manner that minimises personal conflicts of interest and behavioural risks.

The Nomination & Compensation Committee (see the chapter on Corporate Governance under section 3.5.2, ➔ page 70) makes proposals to the Board of Directors on the principles underlying remuneration as well as the level of compensation paid to the members of the Board of Directors and the Executive Board. The Board of Directors approves these principles and determines the amount of total compensation payable to itself and the members of the Executive Board in keeping with the rules.

Board of Directors

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

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

Executive Board

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

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

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

In 2020, 21,987 (2019: 28,868) shares with a market value as of the date of allocation aggregating CHF 3,189,375.00 (2019: CHF 4,047,293.60) were transferred to the Executive Board as part of the 2017–2019 management equity-share participation plan, the RSP 2017–2019 as well as the RSP2018–2020. The vested benefits from previous management equity-share participation plans (2018–2020, 2019–2021 and 2020–2022) continue 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" along with other selected functions. These are, in particular, the Heads of the units "Group Internal Audit", "Group Compliance", "Group Finance", "Group Risk", "Chief Investment Officer", "Group Operations", "Intermediaries", "Private Banking", "Group Information Technology", "Group Human Resources", "Group Treasury & Execution", "Head of CEO-Office", the members of the Credit Committee, the CEOs of Group subsidiaries, as well as other persons identified on the basis of quantitative criteria.

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

Compliance with remuneration provisions

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

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

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

Determination of remuneration (governance)

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

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

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

Quantitative information on remuneration

Information on the remuneration of members of the Board of Directors of VP Bank Ltd as well as the members of the Executive Board are to be found in the financial report, the stand-alone financial statements of VP Bank Ltd, Vaduz, under "Remuneration paid to members of governing bodies" (➔ page 185).

Disclosures regarding personnel expenses are set out in the 2020 Financial Report of VP Bank Group under "6 Personnel expenses" (➔ page 135).

The aggregate remuneration paid to all risk-takers in 2020 amounted to:

	CHF	Share of total remuneration
Fixed basic salary	9,751,404	50%
Short-Term Incentive (STI, cash) for performance year 2019	3,623,611	19%
Restricted Share Plan (RSP) entitlement for performance year 2019	602,182	3%
Performance Share Plan (PSP) entitlement relating to performance years 2020–2022	4,404,418	23%
Pension fund senior employees employer contributions	1,159,331	6%
Total remuneration	**19,540,946**	**100%**
Vesting 2020, equity-share value PSP 2017–2019 / RSP 2017–2019 RSP 2018–2020 / RSP 2019–2021	7,385,665	

Data points to the right direction. **Human foresight** shows the way.

Interpreting data

Data plays an increasingly crucial role in private and business life. Whether big data, artificial intelligence or machine learning are involved: at its core, it's always about using data to solve problems. Which stock best suits a particular portfolio? How can we ensure that clients are provided with the information that is really important to them? And how can we ensure that this happens at the right time? For VP Bank, data analytics is a pioneering topic and therefore also has relevance for strategy.

Project Manager **Sasha Wäger** reports on her experiences so far, showing why humans and not machines are at the centre of the Data Analytics initiative and explaining how our clients can benefit from it.

Detailed information at www.vpbank.com/interpreting_data

SEGMENTS

Segment reporting

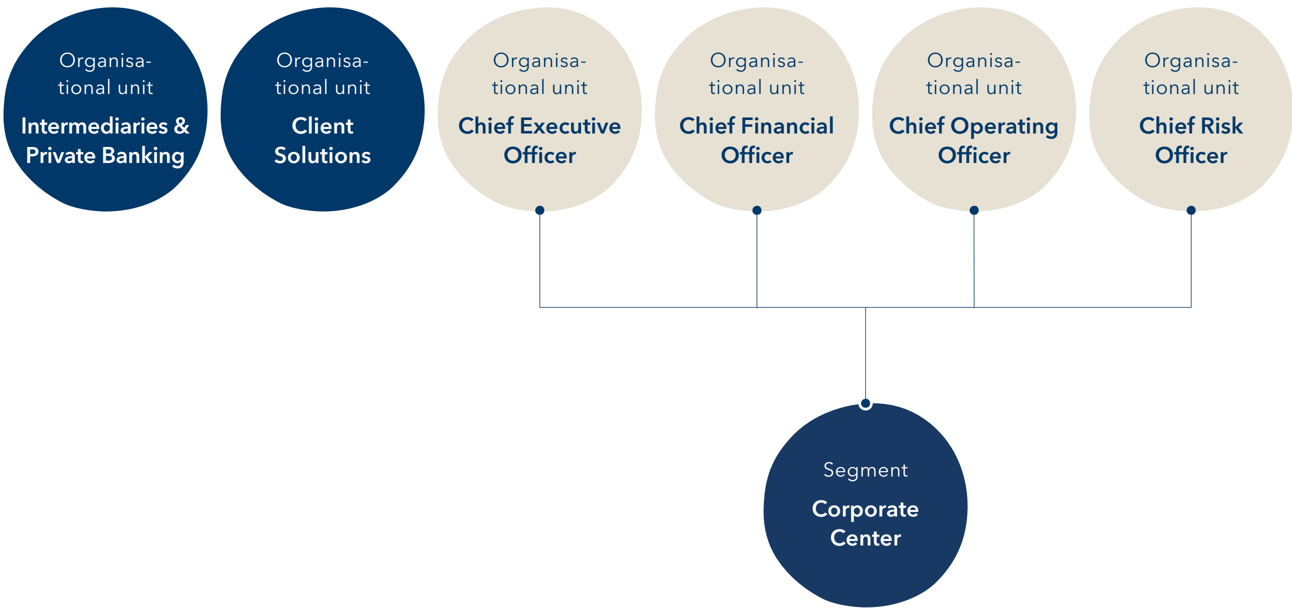
Structure

VP Bank Group adjusted its organisational structure as of 1 July 2020, creating the new Client Solutions organisational unit. The external segment reporting reflects the organisational structure of VP Bank Group as of 31 December 2020 and the internal reporting to management. These form the basis for assessing the financial performance of the segments and the allocation of resources to the segments.

VP Bank Group consists of the six organisational units "Intermediaries & Private Banking", "Client Solutions", "Chief Executive Officer", "Chief Financial Officer", "Chief Operating Officer" and "Chief Risk Officer".

The four organisational units "Chief Executive Officer", "Chief Financial Officer", "Chief Operating Officer" and "Chief Risk Officer" are regrouped together under the business segment "Corporate Center" for segment reporting.

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



Business segment reporting 2020

in CHF 1,000	Intermediaries & Private Banking	Client Solutions	Corporate Center	Total Group
Total net interest income	101,345	1,677	10,543	113,565
Total net income from commission business and services	119,353	31,254	–10,628	139,980
Income from trading activities	31,808	2,479	22,346	56,632
Income from financial instruments	0	0	7,900	7,900
Other income	32	323	615	970
Total operating income	**252,538**	**35,733**	**30,776**	**319,047**
Personnel expenses	64,303	10,960	86,854	162,117
General and administrative expenses	7,816	4,973	46,075	58,864
Depreciation of property, equipment and intangible assets	5,584	527	22,652	28,763
Credit loss expenses	19,416	–30	–27	19,359
Provisions and losses	393	4	3	400
Services to/from other segments	55,074	2,421	–57,495	0
Operating expenses	**152,585**	**18,855**	**98,063**	**269,503**
Earnings before income tax	**99,953**	**16,878**	**–67,287**	**49,544**
Taxes on income				7,922
Group net income				**41,622**
Segment assets (in CHF million)	6,213	65	7,245	13,523
Segment liabilities (in CHF million)	9,808	898	1,792	12,498
Client assets under management (in CHF billion)[1]	36.0	11.5	0.0	47.4
Net new money (in CHF billion)	0.8	0.5	0.0	1.4
Headcount (number of employees)	356	81	553	990
Headcount (expressed as full-time equivalents)	334.2	75.3	507.5	917.1

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

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

Business segment reporting 2019

in CHF 1,000	Intermediaries & Private Banking	Client Solutions	Corporate Center	Total Group
Total net interest income	115,300	2,382	–2,580	115,101
Total net income from commission business and services	115,207	31,223	–9,264	137,166
Income from trading activities	29,895	2,137	28,953	60,985
Income from financial instruments	0	2	14,269	14,271
Other income	30	338	–116	252
Total operating income	**260,432**	**36,082**	**31,261**	**327,775**
Personnel expenses	67,316	11,056	87,019	165,391
General and administrative expenses	9,167	4,570	42,561	56,298
Depreciation of property, equipment and intangible assets	6,631	699	22,013	29,343
Credit loss expenses	–6,494	–228	–31	–6,753
Provisions and losses	533	19	3	555
Services to/from other segments	51,357	2,380	–53,737	0
Operating expenses	**128,510**	**18,496**	**97,828**	**244,834**
Earnings before income tax	**131,922**	**17,586**	**–66,567**	**82,941**
Taxes on income				9,398
Group net income				**73,543**
Segment assets (in CHF million)	6,554	229	6,617	13,400
Segment liabilities (in CHF million)	9,311	839	2,224	12,374
Client assets under management (in CHF billion)[1]	35.4	11.4	0.0	46.8
Net new money (in CHF billion)	1.5	0.6	0.0	2.1
Headcount (number of employees)	349	72	522	943
Headcount (expressed as full-time equivalents)	327.6	66.9	479.2	873.7

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

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

Intermediaries & Private Banking

Segment results

in CHF 1,000	2020	2019	Variance absolute	Variance in %
Total net interest income	101,345	115,300	–13,954	–12.1
Total net income from commission business and services	119,353	115,207	4,146	3.6
Income from trading activities	31,808	29,895	1,913	6.4
Income from financial instruments	0	0	0	0.0
Other income	32	30	2	5.6
Total operating income	**252,538**	**260,432**	**–7,894**	**–3.0**
Personnel expenses	64,303	67,316	–3,013	–4.5
General and administrative expenses	7,816	9,167	–1,351	–14.7
Depreciation of property, equipment and intangible assets	5,584	6,631	–1,047	–15.8
Credit loss expenses	19,416	–6,494	25,910	399.0
Provisions and losses	393	533	–141	–26.4
Services to/from other segments	55,074	51,357	3,717	7.2
Operating expenses	**152,585**	**128,510**	**24,075**	**18.7**
Segment income before income tax	**99,953**	**131,922**	**–31,969**	**–24.2**
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	50.4	49.1		
Operating expenses excluding valuation allowances, provisions and losses / total operating income (in %)	52.6	51.6		
Client assets under management (in CHF billion)	36.0	35.4		
Change in client assets under management compared to 31.12. prior year (in %)	1.6	13.0		
Net new money (in CHF billion)	0.8	1.5		
Total operating income / average client assets under management (bp) (gross margin)[1]	70.7	78.0		
Segment result / average client assets under management (bp)[1]	28.0	39.5		
Cost/income ratio operating income (in %)[2]	50.4	49.1	1.3	2.6
Headcount (number of employees)	356	349	7.0	2.0
Headcount (expressed as full-time equivalents)	334.2	327.6	6.6	2.0

[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 "Intermediaries & Private Banking" business segment comprises the intermediaries and private banking business at the local and international locations as well as the local universal banking and lending business.

Segment result

The pre-tax segment result fell from CHF 131.9 million to CHF 100.0 million compared to the previous-year period (CHF –32.0 million). In 2020, operating income declined by CHF 7.9 million (–3.0 per cent) compared to that of the previous-year period. This decline results from the net interest income from customers (–12.1 per cent). USD interest payments in client business contributed significantly to this negative movement in interest income. Income from commission business and services (3.6 per cent) and income from trading activities (6.4 per cent) increased compared to the previous year. Increased client trading activity and the targeted recruitment of client advisors continued to contribute positively to commission and trading income.

Operating expenses increased by CHF 24.1 million to CHF 152.6 million. The reason for this increase is primarily the value adjustment on an individual item of around CHF 20 million communicated in March 2020, as well as from the increase in the item "Services to/from other segments". Personnel expenses were reduced by 4.5 per cent to CHF 64.3 million (previous year: CHF 67.3 million), general and administrative expenses by 14.7 per cent to CHF 7.8 million (previous year: CHF 9.2 million), and depreciation and amortisation by 15.8 per cent. The gross margin amounted to 70.7 basis points (previous-year period: 78.0 basis points). The cost/income ratio increased from 49.1 per cent to 50.4 per cent.

At CHF 0.8 billion, net new money continued to develop positively in 2020 despite the challenges posed by COVID-19. The targeted recruitment of client advisors at our locations continued to generate net new money inflow in 2020. Thanks to intense market development activities, a positive inflow of net new money was again achieved in the European markets. Client assets under management as of 31 December 2020 totalled CHF 36.0 billion (31 December 2019: CHF 35.4 billion). The employee headcount rose from 328 (31 December 2019) to 334 positions.

Client Solutions

Segment results

in CHF 1,000	2020	2019	Variance absolute	Variance in %
Total net interest income	1,677	2,382	–705	–29.6
Total net income from commission business and services	31,254	31,223	32	0.1
Income from trading activities	2,479	2,137	341	16.0
Income from financial instruments	0	2	–2	–100.0
Other income	323	338	–15	–4.4
Total operating income	**35,733**	**36,082**	**–349**	**–1.0**
Personnel expenses	10,960	11,056	–96	–0.9
General and administrative expenses	4,973	4,570	404	8.8
Depreciation of property, equipment and intangible assets	527	699	–172	–24.6
Credit loss expenses	–30	–228	198	86.8
Provisions and losses	4	19	–15	–77.8
Services to/from other segments	2,421	2,380	41	1.7
Operating expenses	**18,855**	**18,496**	**360**	**1.9**
Segment income before income tax	**16,878**	**17,586**	**–709**	**–4.0**
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	51.4	49.9		
Operating expenses excluding valuation allowances, provisions and losses / total operating income (in %)	52.8	51.8		
Client assets under management (in CHF billion)	11.5	11.4		
Change in client assets under management compared to 31.12. prior year (in %)	0.9	12.8		
Net new money (in CHF billion)	0.5	0.6		
Total operating income / average client assets under management (bp) (gross margin)[1]	31.3	33.7		
Segment result / average client assets under management (bp)[1]	14.8	16.4		
Cost/income ratio operating income (in %)[2]	51.8	50.4	1.5	2.9
Headcount (number of employees)	81	72	9.0	12.5
Headcount (expressed as full-time equivalents)	75.3	66.9	8.4	12.6

[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 “Client Solutions” business unit now comprises the following functional teams: Private Investment Partners, Collective Private Markets Investments, CSL Access Partners, Fund Client & Investment Services, Philanthropy and Impact, CSL Operations and CSL Legal & Risk. The fund management companies Fund Solutions Luxembourg SA and Fund Solutions Liechtenstein AG remain as independent companies and are now part of “Client Solutions”.

The “Client Solutions” unit is tasked with creating systematic access to new investment opportunities in the private markets business sector. The new business unit will be assuming responsibility for earnings and results, building on the top-notch fund services of VP Bank Fund Solutions and supplementing them with investment solutions in the private market.

Segment result

The pre-tax segment result in 2020 fell by CHF 0.7 million (4.0 per cent) compared to the previous-year period. The operating income declined in particular due to the drop in USD interest income. On the other hand, income from commission business and services increased by 16.0 per cent. Operating expenses increased slightly by CHF 0.4 million to CHF 18.9 million, primarily due to higher licensing and maintenance costs.

The gross margin fell to 31.3 basis points (previous-year period: 33.7 basis points). The cost/income ratio increased from 50.4 per cent to 51.8 per cent.

At CHF 0.5 billion, net new money in the fund business again trended upwards in 2020. Client assets under management as of 31 December 2020 totalled CHF 11.5 billion (31 December 2019: CHF 11.4 billion). The employee headcount rose from 67 (31 December 2019) to 75 positions.

Corporate Center

Segment results

in CHF 1,000	2020	2019	Variance absolute	Variance in %
Total net interest income	10,543	–2,580	13,123	n.a.
Total net income from commission business and services	–10,628	–9,264	–1,364	–14.7
Income from trading activities	22,346	28,953	–6,607	–22.8
Income from financial instruments	7,900	14,269	–6,369	–44.6
Other income	615	–116	731	n.a.
Total operating income	**30,776**	**31,261**	**–485**	**–1.6**
Personnel expenses	86,854	87,019	–164	–0.2
General and administrative expenses	46,075	42,561	3,513	8.3
Depreciation of property, equipment and intangible assets	22,652	22,013	639	2.9
Credit loss expenses	–27	–31	4	12.9
Provisions and losses	3	3	0	9.9
Services to/from other segments	–57,495	–53,737	–3,758	–7.0
Operating expenses	**98,063**	**97,828**	**234**	**0.2**
Segment income before income tax	**–67,287**	**–66,567**	**–719**	**–1.1**
Additional information				
Headcount (number of employees)	553	522	31.0	5.9
Headcount (expressed as full-time equivalents)	507.5	479.2	28.4	5.9

Structure

The “Corporate Center” is of great importance for banking operations and the processing of business transactions. In addition, those revenues and expenses of VP Bank Group that have no direct relationship to client-oriented business segments, as well as consolidation adjustments, are reported under the Corporate Center. The revenue-generating business activities of the segment Corporate Center are associated with the exercise of the Group Treasury function. The results of the Group’s own financial investments, the structural contribution and the changes in the value of hedges are reported in this segment.

Segment result

The pre-tax segment result in 2020 amounted to minus CHF 67.3 million as opposed to minus CHF 66.6 million in the previous-year period.

In 2020, operating income decreased slightly by CHF 0.5 million compared to the same period of the previous year.

Net interest income increased by CHF 13.1 million compared with the previous-year period. This is largely due to optimisation of investments of liquid funds.

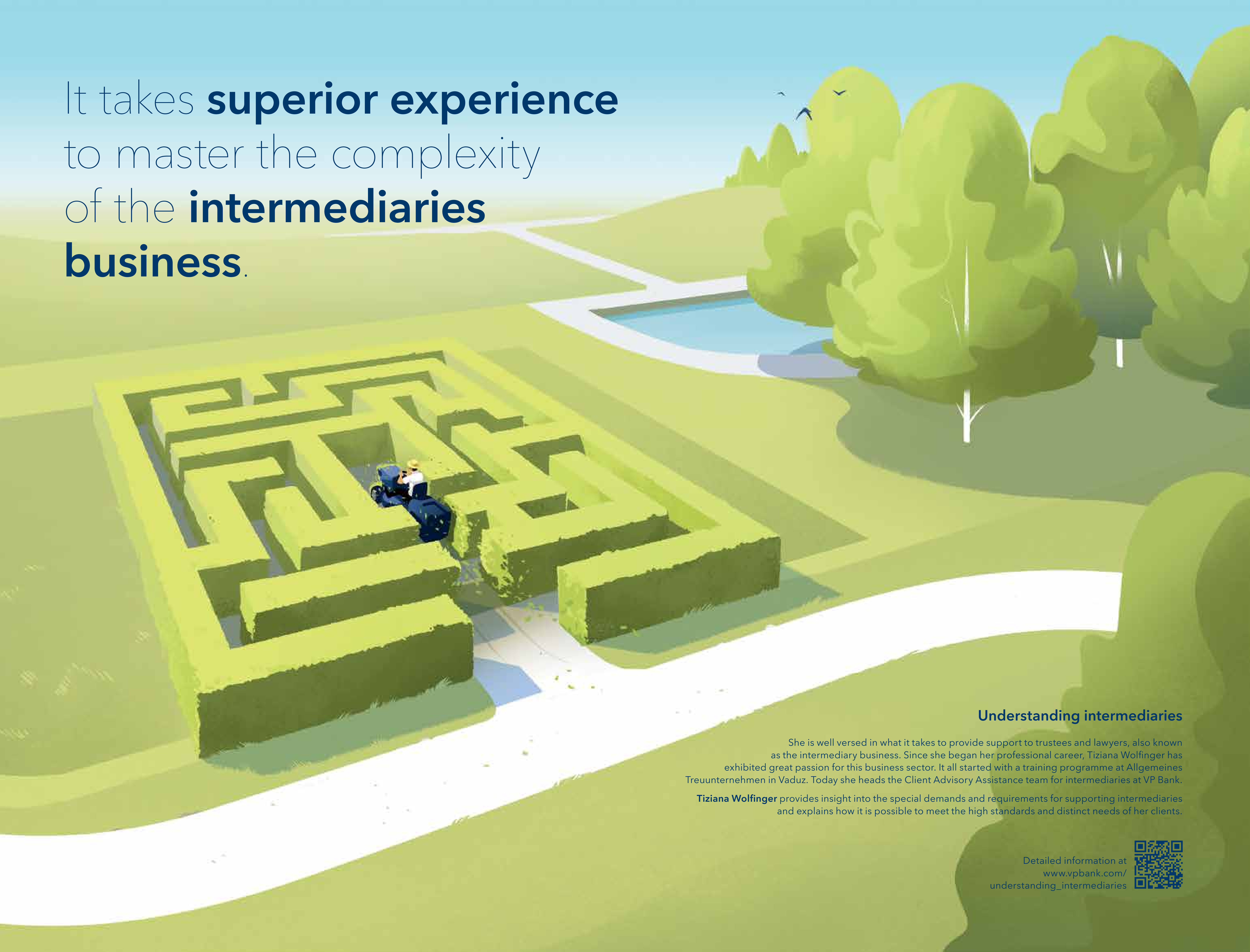
Commission and service income saw a fall in revenues. This includes bank commissions which are invoiced to front business units by the service units through internal recharging.

Income received by Group Treasury & Execution is reported under trading income. This relates to income generated from the execution of foreign-exchange trades. Income from derivatives for risk minimisation and income from balance sheet management are disclosed under this position too. Compared to the previous year, income from trading activities declined by CHF –6.6 million or –22.8 per cent. This decline is primarily due to the reduced USD/CHF interest margin stemming from the reduction of USD interest rates by the Fed.

Income from financial investments totalled CHF 7.9 million in 2020 due to market performance. This position recorded a result of CHF 14.3 million in the previous-year period. This major decline is primarily associated with the financial instruments measured at fair value, which were reduced in the previous year.

Operating expenses rose by CHF 0.2 million in the reporting period, from CHF 97.8 million to CHF 98.1 million. General and administrative expenses increased by CHF 3.5 million, and depreciation and amortisation decreased by CHF 0.6 million.

Due to the work that was necessary to strengthen the organisation and its processes, the headcount increased significantly from 479 (as of 31 December 2019) to 508 positions.



It takes **superior experience** to master the complexity of the **intermediaries business**.

Understanding intermediaries

She is well versed in what it takes to provide support to trustees and lawyers, also known as the intermediary business. Since she began her professional career, Tiziana Wolfinger has exhibited great passion for this business sector. It all started with a training programme at Allgemeines Treuunternehmen in Vaduz. Today she heads the Client Advisory Assistance team for intermediaries at VP Bank.

Tiziana Wolfinger provides insight into the special demands and requirements for supporting intermediaries and explains how it is possible to meet the high standards and distinct needs of her clients.

Detailed information at www.vpbank.com/understanding_intermediaries

FINANCIAL REPORT 2020 OF VP BANK GROUP

Consolidated annual report of VP Bank Group

Consolidated results

In 2020, VP Bank Group recorded a Group net income of CHF 41.6 million (–43.4 per cent). Group net income for the same period of the previous year was CHF 73.5 million. Earnings before taxes minus value adjustments for credit risks amounted to CHF 68.9 million in 2020 compared to CHF 76.2 million in the previous year (–9.6 per cent). The cost/income ratio increased from 67.6 per cent in the previous year to 69.3 per cent in the reporting year.

The reduction in Group net income is largely due to the one-off valuation adjustment communicated in March 2020 in connection with a credit case of around CHF 20 million. Another negative impact is due to the significant reduction in USD and EUR interest rates in March 2020, which was reflected in net interest income, net trading income and financial investments.

Capital base

VP Bank Group has a strong capital base. As of 31 December 2020, the tier 1 ratio was 20.8 per cent (compared with 20.1 per cent at the end of 2019). This strong capital base is a testament to VP Bank's resilient and successful business model and offers an ideal starting point for the ongoing development of VP Bank Group.

Client assets

As of 31 December 2020, VP Bank Group's client assets under management amounted to CHF 47.4 billion. This represents an increase of 1.4 per cent (CHF 0.7 billion) on the CHF 46.8 billion recorded as of 31 December 2019. Net new money inflow amounted to CHF 1.4 billion. The negative trend in the market valuation (performance) of client assets contributed minus CHF 0.7 billion to the change for the year. Of the CHF 47.6 billion in client assets under management reported in 2019, CHF 0.8 billion was reclassified to custody assets due to a reassessment.

After a turbulent first half-year brought about by the coronavirus pandemic, which caused stock markets to plummet worldwide and reduced the value of client assets under management, the latter returned to the previous year's values as the end of the reporting period approached. The inflow of client assets was achieved in a challenging environment thanks to intensive market cultivation and recruitment of new client advisors.

Assets under custody fell slightly by CHF 0.3 billion to CHF 7.4 billion as of 31 December 2020 compared to the value of 31 December 2019 (CHF 7.8 billion). Client assets including custody assets were listed at CHF 54.9 billion as of 31 December 2020, an increase of CHF 0.3 billion compared to 31 December 2019 (CHF 54.5 billion).

Income statement

Operating income

In the reporting year, VP Bank's operating income decreased by CHF 8.7 million or 2.7 per cent to CHF 319 million (previous year: CHF 327.8 million). This reduction was due to lower interest and trading income as well as reduced income from financial investments, which can be attributed to the drop in USD and EUR interest rates. The aforementioned reductions were partially offset by the CHF 2.8 million (2.1 per cent) improvement in income from commission business and services.

Net interest income fell by CHF 1.5 million from CHF 115.1 million in the previous year to CHF 113.6 million in the reporting year. Interest income fell by CHF 34.2 million (–19.7 per cent). This reduction is primarily due to the decline in USD and EUR interest rates as well as slightly lower client loans. Interest expenses also fell by CHF 32.7 million (–56.1 per cent) due to interest rate trends.

Net income (CHF million)

41.6

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

47.4

Total operating income (CHF million)

319.0

Income from commission business and services increased by 2.1 per cent to CHF 140 million in the reporting year (previous year: CHF 137.2 million).

Income from trading activities amounted to CHF 56.6 million, a decrease of CHF 4.4 million (–7.1 per cent) compared to the previous year. This reduction is also related to a further reduction of USD and EUR interest rates by the central banks in the first half of 2020, which had a negative effect on swap transaction margins.

Financial investments made a positive contribution of CHF 7.9 million to the annual results. Nevertheless, the contribution to earnings in the reporting year was CHF 6.4 million lower than the previous year's CHF 14.3 million. Gains from financial instruments measured at fair value were CHF 8.3 million lower in the reporting year, which was partially offset by realised gains of CHF 1.9 million from sold financial instruments valued at acquisition cost (➔ Note 4, p. 134).

Operating expenses

Operating expenses excluding value adjustments fell slightly by CHF 1.4 million (–0.6 per cent) from CHF 251.6 million in the previous year to CHF 250.1 million in the reporting period. Operating expenses, including value adjustments, rose by CHF 24.7 million from CHF 244.8 million in the previous year to CHF 269.5 million. This increase can primarily be traced back to the value adjustment on a credit position in the amount of approximately CHF 20 million which was communicated in March 2020.

Compared to the previous year, personnel expenses decreased by CHF 3.3 million or 2.0 per cent to CHF 162.1 million. At the end of December 2020, VP Bank Group employed approximately 917 full-time equivalents.

General expenses rose by 4.6 per cent to CHF 58.9 million (previous year: CHF 56.3 million). The increase is related to one-off costs incurred to strengthen the organisation as well as higher IT costs. At CHF 28.8 million, depreciation and amortisation were somewhat lower in the reporting period compared with the previous year (CHF 29.3 million).

Valuation adjustments, provisions and losses amounted to CHF 19.8 million in the reporting year compared with a net reversal of CHF 6.2 million the previous year. The change is mainly due to the value adjustment of around CHF 20 million on a credit position that was communicated in March 2020.

The aim of IFRS 9 is to map the expected credit loss (ECL) over an economic cycle. The individual parameters of the ECL model are assessed on an ongoing basis and may be adapted where potential changes in economic circumstances require it.

Taxes on income

Taxes on income in 2020 amounted to CHF 7.9 million, which is CHF 1.5 million less than in the previous year. The reduction is due to the lower Group net income and the partial capitalisation of future loss offset opportunities.

Group net income

The Group net income of 2020 amounted to CHF 41.6 million (previous-year period: CHF 73.5 million). The Group net income per registered share A was CHF 6.90 (2019: CHF 12.28).

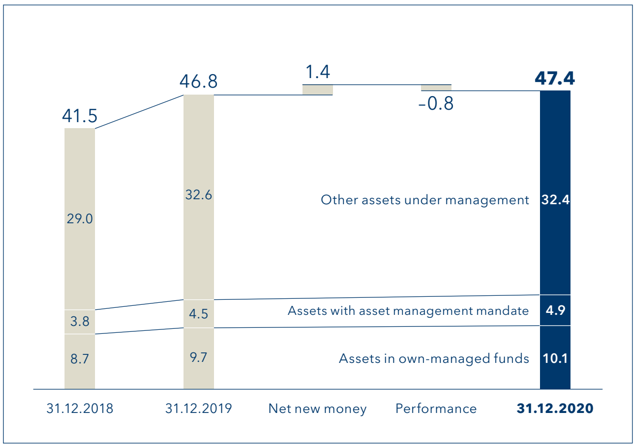
Comprehensive income

Comprehensive income refers to all income and expenses recognised on the income statement and in equity capital. 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 of CHF 28.4 million in the 2020 financial year, compared to CHF 87.3 million in the previous year.

Balance sheet

Compared to 31 December 2019, total assets grew by CHF 0.1 billion to CHF 13.5 billion in the 2020 financial year. The increase in the balance sheet total is mainly due to the increase in other liabilities due to customers of CHF 0.4 billion on the liabilities side, as well as a reduction in liabilities to banks of CHF 0.2 billion and a reduction in medium-term notes of CHF 0.1 billion.

Increase in client assets under management (in CHF billion)



While loans and advances to clients decreased by CHF 0.5 billion, loans and advances to banks increased by CHF 1.0 billion. Compared to the previous year, financial instruments measured at amortised cost decreased by 4.4 per cent to CHF 2.2 billion (previous year: CHF 2.3 billion). The funds from the expiring financial instruments are reinvested, but at less favourable conditions due to the low interest rates.

VP Bank Group has a very comfortable liquidity structure with liquid assets of roughly 19 per cent of total assets worth CHF 2.6 billion (CHF 2.9 billion as of 31 December 2019). This is reflected in an optimum liquidity coverage ratio (LCR) of 179 per cent.

As of 31 December 2020, VP Bank Ltd holds, directly or indirectly, 530,171 registered shares A and 344,369 registered shares B (8.53 per cent of the share capital and 7.28 per cent of the voting rights). As the shares have not been cancelled, both capital structure and voting rights will remain the same. The registered shares A in the portfolio are to be used for future acquisitions or for treasury management purposes.

As of 31 December 2020, equity capital stood at CHF 1,025 million (31 December 2019: CHF 1,026 million).

The tax reassessments of simplifications of the Group structure carried out in the past led to tax expenses in the amount of approximately CHF 5.8 million, which are charged to equity capital on an accrual basis. As a result, equity capital decreased from CHF 1,032 million to CHF 1,026 million as of 31 December 2019.

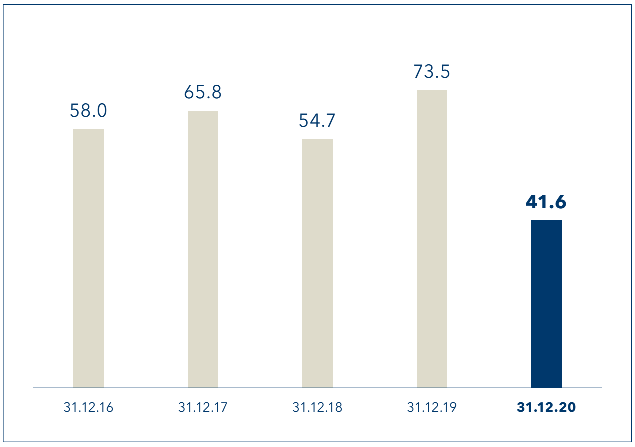
The tier 1 ratio calculated under Basel III was 20.8 per cent as of 31 December 2020 (as of 31 December 2019: 20.1 per cent), reflecting a strong capital base and a good strategic starting point for the ongoing development of VP Bank Group.

Outlook

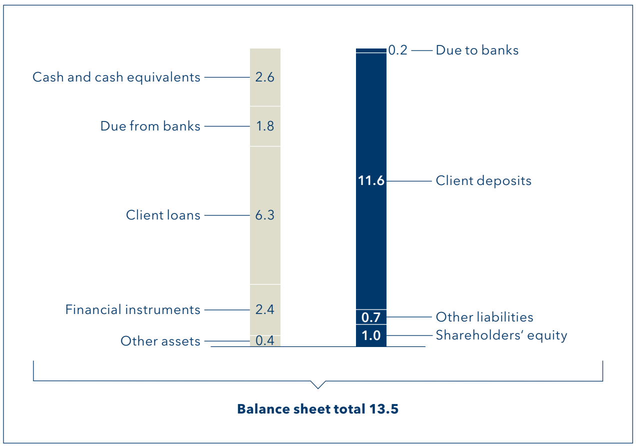
The coronavirus pandemic will continue to leave its mark on economic trends in 2021, with containment measures currently restricting public life and the economy. Nevertheless, there are good reasons to look to the future with confidence as progress in vaccine administration promises a gradual return to normality. Another positive factor is that the order books of many companies are now much fuller again, and some sectors are even experiencing a real boom. Finally, both fiscal and monetary policy continue to provide strong support for the economy.

VP Bank cannot escape the challenging environment and potential consequences of COVID-19, but it is well equipped for the challenges and all set to press ahead with its sustainable growth strategy. With a strong capital base coupled with a very good liquidity situation, VP Bank Group has everything it needs to build a successful future. The "A" rating confirmed by Standard & Poor's in July 2020 underscores the resilience and effectiveness of VP Bank Group's business model.

Net income (CHF million)



Sound balance sheet as of 31 December 2020 (in CHF billion)



Consolidated income statement

in CHF 1,000	Note	2020	2019	Variance absolute	Variance in %
Interest income from financial instruments at amortised cost		122,086	155,370	–33,284	–21.4
Other interest income		17,052	17,970	–918	–5.1
Interest expense using the effective interest method		25,573	58,239	–32,666	–56.1
Total net interest income	1/32	**113,565**	**115,101**	**–1,536**	**–1.3**
Commission income		184,503	186,653	–2,150	–1.2
Commission expenses		44,523	49,487	–4,964	–10.0
Total net income from commission business and services	2	**139,980**	**137,166**	**2,814**	**2.1**
Income from trading activities	3	56,632	60,985	–4,353	–7.1
Income from financial instruments	4	7,900	14,271	–6,371	–44.6
Other income	5	970	252	718	284.9
Total operating income		**319,047**	**327,775**	**–8,728**	**–2.7**
Personnel expenses	6	162,117	165,391	–3,274	–2.0
General and administrative expenses	7	58,864	56,298	2,566	4.6
Depreciation of property, equipment and intangible assets	8	28,763	29,343	–580	–2.0
Credit loss expenses	9	19,359	–6,753	26,112	386.7
Provisions and losses	9	400	555	–155	–27.9
Operating expenses		**269,503**	**244,834**	**24,669**	**10.1**
Earnings before income tax		**49,544**	**82,941**	**–33,397**	**–40.3**
Taxes on income	10	7,922	9,398	–1,476	–15.7
Group net income		**41,622**	**73,543**	**–31,921**	**–43.4**
Share information					
Undiluted Group net income per registered share A	11	6.90	12.28		
Undiluted Group net income per registered share B	11	0.69	1.23		
Diluted Group net income per registered share A	11	6.87	12.14		
Diluted Group net income per registered share B	11	0.69	1.21		

Consolidated statement of comprehensive income

in CHF 1,000	2020	2019	Variance absolute	Variance in %
Group net income	41,622	73,543	–31,921	–43.4
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	–8,699	–2,188	–6,511	–297.6
Total other comprehensive income which will be transferred to the income statement upon realisation	**–8,699**	**–2,188**	**–6,511**	**–297.6**
Other comprehensive income which will not be transferred to the income statement				
• Changes in value of FVTOCI financial instruments	–8,328	8,052	–16,380	–203.4
• Actuarial gains/losses from defined-benefit pension plans	3,721	10,495	–6,774	–64.5
• Tax effects (note 10d)	85	–2,589	2,674	103.3
Total other comprehensive income which will not be transferred to the income statement	**–4,522**	**15,958**	**–20,480**	**–128.3**
Total comprehensive income in shareholders’ equity	**–13,221**	**13,770**	**–26,991**	**–196.0**
Total comprehensive income in income statement and shareholders' equity	**28,401**	**87,313**	**–58,912**	**–67.5**

Consolidated balance sheet

Assets

in CHF 1,000	Note	31.12.2020	31.12.2019	Variance absolute	Variance in %
Cash and cash equivalents	13	2,592,706	2,909,935	–317,229	–10.9
Receivables arising from money market papers	14	116,166	122,956	–6,790	–5.5
Due from banks	15/16	1,784,320	735,026	1,049,294	142.8
Due from customers	15/16	6,281,529	6,797,316	–515,787	–7.6
Trading portfolios	17	290	199	91	45.7
Derivative financial instruments	18	79,491	72,513	6,978	9.6
Financial instruments at fair value	19	182,936	215,690	–32,754	–15.2
Financial instruments measured at amortised cost	20	2,201,303	2,302,477	–101,174	–4.4
Joint venture companies	21	25	28	–3	–10.7
Property and equipment	22/32	108,156	115,368	–7,212	–6.3
Goodwill and other intangible assets	23/32	66,679	62,189	4,490	7.2
Tax receivables	10c	159	847	–688	–81.2
Deferred tax assets	10b	10,173	9,974	199	2.0
Accrued receivables and prepaid expenses[1]		32,429	36,693	–4,264	–11.6
Other assets[1]	24	66,989	18,645	48,344	259.3
Total assets		**13,523,351**	**13,399,856**	**123,495**	**0.9**

[1] As per 31.12.2019, CHF 8.2 million was reclassified from other assets to accrued receivables and prepaid expenses. As of January 1 2019, other assets decreased by CHF 6.5 million from CHF 23.6 million to CHF 17.1 million. Accrued receivables and prepaid expenses increased by the same amount as of January 1 2019 from CHF 28.1 to CHF 34.6 million (see accounting principles on page 102).

Liabilities and shareholders' equity

in CHF 1,000	Note	31.12.2020	31.12.2019	Variance absolute	Variance in %
Due to banks		250,426	401,844	–151,418	–37.7
Due to customers – savings and deposits		589,784	600,966	–11,182	–1.9
Due to customers – other liabilities		10,921,871	10,536,568	385,303	3.7
Derivative financial instruments	18	104,371	94,625	9,746	10.3
Medium-term notes	25	76,148	177,493	–101,345	–57.1
Debentures issued	26	355,205	355,327	–122	–0.0
Tax liabilities[1]	10c	12,208	11,986	222	1.9
Deferred tax liabilities	10b	141	65	76	116.9
Accrued liabilities and deferred items[2]		36,085	45,436	–9,351	–20.6
Other liabilities[2]	27/32	151,243	148,324	2,919	2.0
Provisions	28	812	942	–130	–13.8
Total liabilities		**12,498,294**	**12,373,576**	**124,718**	**1.0**
Share capital	29	66,154	66,154	0	0.0
Less: treasury shares	30	–61,071	–68,004	6,933	10.2
Capital reserves		23,377	26,772	–3,395	–12.7
Retained earnings[1]		1,107,739	1,099,279	8,460	0.8
Actuarial gains/losses from defined-benefit pension plans		–57,859	–61,151	3,292	5.4
Unrealised gains/losses on FVTOCI financial instruments		–23,332	–15,518	–7,814	–50.4
Foreign-currency translation differences		–29,951	–21,252	–8,699	–40.9
Total shareholders' equity		**1,025,057**	**1,026,280**	**–1,223**	**–0.1**
Total liabilities and shareholders' equity		**13,523,351**	**13,399,856**	**123,495**	**0.9**

[1] Prior year figures restated by CHF 5.8 million in accordance with accounting principles on page 102. As a result of the adjustment, the tax liabilities increased as of January 1 2019 from CHF 7.0 million to CHF 12.8 million or as of December 31 2019 and thus from CHF 6.2 million to CHF 12.0 million as of January 1 2020. Equity decreased from CHF 981.6 million to CHF 975.8 million as of January 1 2019, and from CHF 1,032.0 million to CHF 1,026.3 million as of December 31 2019.
[2] As per 31 December 2019, CHF 5.9 million was reclassified from other liabilities to accrued liabilities and deferred items. As of January 1 2019, other liabilities decreased by CHF 4.3 million from CHF 132.7 million to CHF 128.4 million. Accrued liabilities and deferred items increased by the same amount as of January 1 2019 from CHF 36.5 to CHF 40.8 million (see accounting principles on page 102).

Consolidated changes in shareholders' equity

in CHF 1,000	Share capital	Treasury shares	Capital reserves	Retained earnings	Actuarial gains/losses from defined-benefit pension plans	Unrealised FVTOCI gains/losses	Foreign-currency translation differences	Total share-holders' equity
Total shareholders' equity 01.01.2020	**66,154**	**–68,004**	**26,772**	**1,099,279**	**–61,151**	**–15,518**	**–21,252**	**1,026,280**
Other comprehensive income, after income tax					3,292	–7,814	–8,699	–13,221
Group net income				41,622				41,622
Total reported result 31.12.2020	**0**	**0**	**0**	**41,622**	**3,292**	**–7,814**	**–8,699**	**28,401**
Appropriation of profit 2019				–33,162				–33,162
Management equity participation plan			–3,965					–3,965
Movement in treasury shares[1]		6,933	570					7,503
Total shareholders' equity 31.12.2020	**66,154**	**–61,071**	**23,377**	**1,107,739**	**–57,859**	**–23,332**	**–29,951**	**1,025,057**
Total shareholders' equity 01.01.2019	**66,154**	**–65,807**	**28,419**	**1,064,505**	**–69,923**	**–22,704**	**–19,064**	**981,580**
Adjustment from restatement[2]				–5,765				–5,765
Total shareholders' equity 01.01.2019 adjusted	66,154	–65,807	28,419	1,058,740	–69,923	–22,704	–19,064	975,815
Other comprehensive income, after income tax					8,772	7,186	–2,188	13,770
Group net income				73,543				73,543
Total reported result 31.12.2019	**0**	**0**	**0**	**73,543**	**8,772**	**7,186**	**–2,188**	**87,313**
Appropriation of profit 2018				–33,004				–33,004
Management equity participation plan			–1,379					–1,379
Public tender own shares[1]		–8,555						–8,555
Movement in treasury shares[1]		6,358	–268					6,090
Total shareholders' equity 31.12.2019	**66,154**	**–68,004**	**26,772**	**1,099,279**	**–61,151**	**–15,518**	**–21,252**	**1,026,280**

[1] Details on transactions with treasury shares can be found in note 30.
[2] See principles underlying financial-statement reporting page 102.

Consolidated statement of cash flow

in CHF 1,000	Note	2020	2019 restated[1, 2]	2019	Adjustments[1, 2]
Cash flow from operating activities					
Group net income		41,622	73,543	73,543	0
Reconciliation to cash flow from operating activities					
Non-cash-related positions in Group results					
• Depreciation of property, equipment and intangible assets	22/23	28,763	29,343	29,343	0
• Creation/dissolution of retirement pension provisions		–86	–373	–373	0
• Creation/dissolution of other provisions and valuation allowances		20,262	–7,324	–7,316	–8 [2]
• Unrealised gains on financial instruments measured at fair value		–1,450	640	640	0
• Unrealised gains on financial instruments measured at amortised cost		1	7	7	0
• Deferred income taxes		–38	2,257	2,257	0
Net increase/reduction in banking					
• Amounts due from/to banks, net		–1,244,061	–30,376	–30,371	–5 [2]
• Trading portfolios incl. replacement values, net		2,677	4,917	3,933	984 [2]
• Amounts due from/to clients		984,449	220,020	226,436	–6,416 [3]
• Accrued receivables and other assets		–43,392	–3,636	–3,702	66 [2]
• Accruals and other liabilities		11,187	33,560	33,835	–275 [2]
Income taxes paid	10a	–7,666	–8,014	–8,014	0
Used provisions and valuation allowances		–26,022	–964	–964	0
Foreign-currency impact on intra-Group payments		–10,778	3,961	3,961	0
Net cash flow from operating activities		**–244,532**	**317,561**	**323,215**	**–5,654**
Cash flow from investment activities					
Purchase of financial instruments measured at fair value		–6,939	–74,179	–74,179	0
Proceeds from sale of/maturing financial instruments measured at fair value		27,981	101,907	101,907	0
Purchase of financial instruments measurement at amortised cost		–616,744	–651,762	–403,410	–248,352 [1]
Proceeds from sale of/maturing financial instruments measured at amortised cost		632,932	612,445	440,348	172,097 [1]
Acquisition of property and equipment and intangible assets		–22,278	–32,432	–32,432	0
thereof from acquisitions	46		–10,200	–10,200	0
Sale of property and equipment and intangible assets			60	60	0
Net cash flow from investment activities		**14,952**	**–43,961**	**32,294**	**–76,255**
Cash flow from financing activities					
Purchase of treasury shares	30	–198	–8,594	–8,594	0
Sale of treasury shares		957	962	962	0
Cash loss due to lease liabilities		–5,919	–5,907	–5,907	0
Dividend distributions		–33,163	–33,004	–33,004	0
Issuance of medium-term bonds		3,428	32,951	32,951	0
Redemption of medium-term bonds		–104,216	–95,295	–95,295	0
Issuance of debentures	26		154,976	154,976	0
Net cash flow from financing activities		**–139,111**	**46,089**	**46,089**	**0**
Foreign-currency translation impact[2]		8,192	14,761	8,243	6,518 [4]
Net increase/reduction in cash and cash equivalents		**–360,499**	**334,450**	**409,841**	**–75,391**
Cash and cash equivalents at the beginning of the financial year		3,565,856	3,231,406	3,279,005	–47,599 [1]
Cash and cash equivalents at the end of the financial year		3,205,357	3,565,856	3,688,846	–122,990 [1]
Net increase/reduction in cash and cash equivalents		**–360,499**	**334,450**	**409,841**	**–75,391**

Consolidated statement of cash flow (continued)

in CHF 1,000	Note	2020	2019 restated[1, 2]	2019	Adjustments[1, 2]
Cash and cash equivalents are represented by					
Cash	13	2,592,848	2,910,048	2,910,048	0
Receivables arising from money market paper[1]		0	0	122,990	–122,990 [1]
Due from banks – at-sight balances	15	612,509	655,808	655,808	0
Total cash and cash equivalents		**3,205,357**	**3,565,856**	**3,688,846**	**–122,990**
Consolidated statement of cash flow (summarised)					
Cash and cash equivalents at beginning of accounting period		3,565,856	3,231,406	3,279,005	–47,599
Cash flow from operating activities, net of taxes		–244,532	317,561	323,215	–5,654
Cash flow from investing activities		14,952	–43,961	32,294	–76,255
Cash flow from financing activities		–139,111	46,089	46,089	0
Foreign-currency translation impact[2]		8,192	14,761	8,243	6,518 [4]
Cash and cash equivalents at end of accounting period		**3,205,357**	**3,565,856**	**3,688,846**	**–122,990**
Cash flow from operating activities from interest and dividends					
Interest paid		–28,567	–57,201	–57,201	0
Interest received		141,798	186,354	186,354	0
Dividends received		4,722	6,369	6,369	0

At-sight balances due from banks bear interest at daily rates or are invested in interest-bearing short-term money-market deposits for between one day and three months, depending upon the liquidity requirements of VP Bank Group. Interest rates are based upon equivalent market rates. The fair value of cash and cash equivalents amounts to CHF 3,205.4 million (2019: CHF 3,565.9 million).

1 Short-term money-market deposits have an original maturity of a maximum of three months. In 2019, money market paper with a total term of over 90 days was erroneously added to the cash and cash equivalents. The previous year's figures have therefore been corrected accordingly.
2 The disclosure of foreign-currency effects was checked and refined. The foreign-currency influences on items in the cash and cash equivalents are determined and reported, and the currency differences from changes in the balance sheet are adjusted accordingly. The incorrect figures from the previous year have been corrected accordingly.
3 Thereof 1) 4,225 and 2) -10,641.
4 Thereof 1) -3,228 and 2) 9,746.

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

in CHF 1,000	Note	31.12.2020	31.12.2019	Variance absolute	Variance from cash flows	Changes in fair values	Effect of changes in foreign exchange rates	Additions right of use assets	Other variances
Medium-term notes	25	76,148	177,493	–101,345	–100,788	–557	0	0	0
Debentures issued	26	355,205	355,327	–122	0	–122	0	0	0
Lease liabilities	32	28,985	30,852	–1,867	–5,919	0	–228	4,022	258
Total variance				**–103,334**	**–106,707**	**–679**	**–228**	**4,022**	**258**

in CHF 1,000	Note	31.12.2019	31.12.2018	Variance absolute	Variance from cash flows	Changes in fair values	Effect of changes in foreign exchange rates	Additions right of use assets	Other variances
Medium-term notes	25	177,493	240,616	–63,123	–62,344	–779	0	0	0
Debentures issued	26	355,327	200,474	154,853	154,976	–123	0	0	0
Lease liabilities	32	30,852	0	30,852	–5,907	0	–76	36,228	607
Total variance				**122,582**	**86,725**	**–902**	**–76**	**36,228**	**607**

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 owns subsidiary companies in Zurich, Luxembourg, the British Virgin Islands and Hong Kong, a branch in Singapore, and a representative office in Hong Kong. As of 31 December 2020, VP Bank Group employed 917.1 persons, expressed as full-time equivalents (as of the end of the previous year: 873.7).

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 2020 annual report was drawn up in accordance with the International Financial Reporting Standards (IFRS).

Adjustment of the consolidated annual report as of 1 January 2019

In the reporting year, there was a reassessment of the tax treatment of past transactions that changed the Group structure. This led to the creation of additional tax provisions of CHF 5.8 million. As they can be traced to past errors, the formation of such additional tax provisions is charged to the previous periods.

Pursuant to IAS 8.42, material errors arising in previous financial years are to be corrected retroactively. Whenever an error has occurred prior to the earliest accounting year presented, the opening balances of assets, liabilities and shareholders' equity are to be restated for the earliest prior period presented.

The effect was retroactively corrected on the balance sheet to 1 January 2019. As a result of the adjustment, the tax liability increases from CHF 7.0 million to CHF 12.8 million as of 1 January 2019, and from CHF 6.2 million to CHF 12.0 million as of 31 December 2019 and 1 January 2020, respectively. Shareholders' equity decreased from CHF 981.6 million to 975.8 million as of 1 January 2019, and from CHF 1,032.0 million to CHF 1,026.3 million as of 31 December 2019.

In addition, one subsidiary reclassified other assets to accrued receivables and prepaid expenses in the on-balance-sheet assets and reclassified other liabilities to accrued liabilities and deferred items in the on-balance-sheet liabilities as follows: As of 31 December 2019, CHF 8.2 million was reclassified from other assets to accruals and deferrals. As of 1 January 2019, other assets decreased by CHF 6.5 million from CHF 23.6 million to CHF 17.1 million. Accruals and deferrals increased by the same amount from CHF 28.1 to CHF 34.6 million as of 1 January 2019. As of 31 December 2019, CHF 5.9 million was reclassified from other liabilities to accruals and deferrals. As of 1 January 2019, other liabilities decreased by CHF 4.3 million from CHF 132.7 million to CHF 128.4 million. Accruals and deferrals increased by the same amount from CHF 36.5 to CHF 40.8 million as of 1 January 2019.

Post-balance-sheet-date events

On 8 July 2020, VP Bank (Luxembourg) SA signed and announced an agreement to acquire the private banking division of Öhman Bank S.A. in Luxembourg. The transaction was successfully completed as planned on 1 January 2021 and will close in spring 2021 (Appendix 46).

The Board of Directors reviewed and approved the consolidated financial statements in its meeting of 18 February 2021. These consolidated financial statements will be submitted for approval to the Annual General Meeting of 30 April 2021.

2. Assumptions and uncertainties in estimates

The Board of Directors is responsible for issuing accounting directives. IFRS contain provisions requiring the management of VP Bank Group to make assumptions and estimates in drawing up the consolidated financial statements. The significant accounting principles are described in this part to show how their application affects the reported income and expenses, assets and liabilities, and disclosure of contingent liabilities. The assumptions and estimates are regularly reviewed and are based upon historical experience and other factors, including anticipated developments arising from probable future events. Actual future occurrences may differ from these estimates.

Changes in estimates

No material changes in estimates were made or applied. Further explanations on estimates are described in the corresponding tables in the notes (expected credit losses, goodwill, intangible assets, legal cases, provisions, share-based payments, income taxes, pension plans).

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, with the shareholders' equity of the consolidated company being 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.

Participation in joint venture companies

Companies in which VP Bank Group holds a 50 per cent stake (joint ventures) are accounted for using the equity method.

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 joint venture 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 joint venture company.

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 on 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 on 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 into Swiss francs at the year-end exchange rate. Average exchange rates for the reporting period are applied for the translation of income statement items 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 items (excluding shareholders' equity) are translated into the Group reporting currency at the rate of exchange prevailing as of the balance sheet date. Individual items of the income statement are translated at average rates for the period. The translation differences arising from the translation of financial statements into foreign currencies are recognised in equity capital as translation differences with no effect on net 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 on 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 include the items "Cash and cash equivalents", "Receivables from money market papers" with an original maturity of three months or less and "At-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 shareholders' 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 measured 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 allocation of the financial instruments is made at the time of their initial recognition in accordance with the criteria of IFRS 9.

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 items 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 measured 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 asset carried at amortised cost is subject to the process for value adjustments of credit risks described below. If an impairment has occurred, the carrying value is reduced to the recoverable amount to be recognised on the income statement using the item "Valuation adjustments for credit risks".

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. Liquid shareholders' equity instruments that are managed on a benchmark basis with a medium-term investment horizon are to be evaluated at fair value through profit or loss (FVTPL).

Interest and dividend income are recorded in "Income from financial investments" under the items "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 on the balance sheet at fair value. Changes in value are taken to income, except in those cases for which VP Bank Group has decided that they are to be recognised at fair value through other comprehensive income.

For illiquid shareholders' equity instruments (private equity) as well as investments in high-dividend individual shares, the OCI option is applied, which results in a valuation at fair value through other comprehensive income (FVOCI). The focus of these investments is on long-term value generation.

Dividends are reported in the income from financial investments under the item "Dividends from financial instruments FVTOCI".

Bank and client loans

At the time of their initial recognition, loans to banks and clients are valued at their effective cost, which equates to fair value at the time the loans are granted. Subsequent measurement thereof is made at amortised cost, with the effective interest method being applied. Interest on non-overdue loans is accounted for using the accrual method and reported under interest income using the effective interest method.

The carrying value of receivables for which micro fair-value hedge accounting is applied is adjusted by the changes in fair value attributable to the hedged risk. In cases when portfolio fair-value hedge accounting is applied, the changes in fair-value are recognised in the balance sheet item "Other assets".

Credit loss valuation adjustments in accordance with IFRS 9

Fundamentals of expected credit loss modelling

According to the International Financial Reporting Standard IFRS 9 Financial Instruments, all items on the assets side that are subject to potential credit risk and are not already recognised at fair value on the income statement are allocated to one of the three stages:

- Stage 1 (Performing)
- Stage 2 (Under-performing)
- Stage 3 (Non-performing)

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

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

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

Implementation of IFRS 9 Impairment at VP Bank Group

All asset items exposed to a potential credit risk and not already measured at fair value are covered. These include, in particular, amounts due from banks and clients, financial investments measured at amortised cost, money-market receivables, and cash and cash equivalents. Also affected are off-balance-sheet items, such as credit commitments and guarantees and irrevocable lines of credit granted.

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

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

In the case of items with an internal rating of VP Bank Group, the allocation is made on the basis of whether the debtor is in default of payment regarding interest and/or amortisation of capital. From the moment a payment is overdue for 31 days or more, the item falls into stage 2, and if it is more than 90 days overdue to stage 3. In addition, a deterioration of the internal rating or a classification as a credit with an enhanced risk of default is used for the stage allocation. In the case of items which are not internally nor externally rated, to which primarily lombard loans belong, risk management is conducted primarily in relation to the collateral. Any payment default by the debtor regarding interest and/or amortisation of capital in excess of 30 and 90 days, respectively, or the classification as a credit exposed to enhanced risk serve as criteria for the stage allocation. In addition, any collateral shortfalls for these items are taken into account.

In the case of items for which financial collateral or a guarantee from an externally rated third party exist, the credit risk of the debtor is substituted by that of the guarantor or third party (substitution approach). In this case, the stage allocation results from a combination of the aforementioned criteria.

At VP Bank Group, the modelling of expected credit losses (ECL) is generally performed on the level of individual transactions and on the basis of various risk parameters (especially probability of default, the loss given default, the amount receivable and the discount rate).

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

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

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

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

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

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

Amounts due to banks and clients

Whenever micro fair-value hedge accounting is applied, secured liabilities are adjusted by the changes in fair value attributable to the hedged risk. In the cases when portfolio fair-value hedge accounting is applied, the changes in fair value are recognised in the balance sheet item "Other liabilities".

Derivative financial instruments

Derivative financial instruments are measured and reported on 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 unrealised 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 can also be traded in the form of a security (warrant).

Hedge accounting

In accordance with the risk policy of the Group, VP Bank Group 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, an asymmetrical representation, in bookkeeping terms, of the changes in value of the underlying transaction and the hedge ensues. 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 juxtaposition 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.
- 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 risks and foreign-currency risks. Whenever derivative and non-derivative financial instruments fulfil the 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 papers. 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 on the balance sheet. The opposing valuation changes from the hedging instruments as well as from the hedged underlying items are recognised on 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 previous year.

Debt securities issued

Medium-term notes are recorded at their issuance price and measured subsequently at amortised cost.

Bonds are recorded at fair value plus transaction costs upon initial recognition. Fair value corresponds to the consideration received. They are subsequently accounted for at amortised cost. 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.

Own 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 on 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 on the balance sheet under amounts due to/from customers and banks. Securities lending and borrowing transactions in which VP Bank Group appears as the 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 on the balance sheet if VP Bank Group has a liability to a third party which is attributable to an occurrence in the past, if the outflow of resources with economic benefit to fulfil this liability is probable, and if this liability can be reliably estimated. If an outflow of funds is unlikely to occur or the amount of the liability cannot be reliably estimated, a contingent liability is shown.

Impairment in the value of non-current assets

The value of property, plant and equipment is always reviewed whenever the carrying value appears to be overvalued because of occurrences or changed circumstances. If the carrying value exceeds the realisable value, a valuation adjustment is recorded. Any subsequent recovery in value is taken to income.

The intrinsic value of goodwill is reviewed at least once a year. If the carrying value exceeds the realisable value, an extraordinary write-down is made.

Property, plant and equipment

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

Property, plant and equipment is capitalised provided its purchase or manufactured cost can be determined reliably, it exceeds a minimum limit for capitalisation and the expenditure benefits future accounting periods.

Depreciation and amortisation are 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
Fixtures	10 to 15 years
Land	no depreciation
Furniture and equipment	5 to 9 years
IT systems	3 to 7 years

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

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, plant and equipment are disclosed as other income.

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 capitalisable intangible assets), the remaining amount constitutes the acquired goodwill. Goodwill is capitalised and subject to an annual review for any required valuation adjustments. 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, that is, 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 on the balance sheet under software. The amounts capitalised in this manner 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 5 to 10 years. Other intangible assets are recorded on the balance sheet at acquisition cost.

Leasing

VP Bank Group rents various office and warehouse buildings, as well as vehicles. Rental agreements are usually concluded for fixed periods of two to eight years, but options to extend may be included.

Leasing relationships are recognised as rights of use and corresponding lease liabilities are recognised at net current value. The discounting is carried out at the marginal debt capital interest rate, which corresponds to the interest rate that VP Bank Group would have to pay if it were to borrow the funds in order to acquire an asset with a comparable value and comparable conditions in a comparable economic environment. Each lease payment is divided into repayment and financing expenses. Finance charges are recognised in interest income over the term of the leasing relationship so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use is depreciated on a straight-line basis over the lease term through the income statement item depreciation of property, plant and equipment. On the balance sheet, the rights of use are capitalised under property, plant and equipment and the lease liabilities are reported under other liabilities.

Current and deferred taxes

Current income taxes are computed based on the applicable taxation laws in the individual countries and are booked as expenses in the accounting period in which the related profits arise. They are shown as tax liabilities on the balance sheet.

The taxation effects of temporary differences between the values attributed to the assets and liabilities as reported on 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 if it is probable that sufficient taxable profits will be available against which these temporary differences or tax loss carry-forwards can be offset.

Deferred tax assets and tax liabilities are computed using the rates of taxation which are expected to apply in the accounting period in which these tax assets will be realised or tax liabilities will be settled.

Tax assets and tax liabilities are netted if they relate to the same taxable entity, concern the same taxing jurisdiction and an enforceable right of offset exists.

Deferred taxes are credited or charged to shareholders' equity if the tax relates to items which are directly credited or debited to shareholders' equity in the same or another period.

The tax savings anticipated from the utilisation of estimated future realisable loss carry-forwards are capitalised. The probability of realising expected taxation benefits is considered when valuing a capitalised asset for future taxation relief. Tax assets arising from future taxation relief encompass deferred taxes on temporary differences between the carrying values of assets and liabilities in the consolidated balance sheet and those used for taxation purposes, as well as tax savings from future estimated realisable loss carry-forwards. Deferred taxation receivables in one sovereign taxation jurisdiction are offset against deferred taxation liabilities of the same jurisdiction if the enterprise has a right of offset of actual taxation liabilities and tax claims and the taxes are levied by the same taxing authorities.

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 service anniversaries which qualify as other long-term employee benefits.

The computation of accrued amounts and amounts due to these pension funds is based on the statistical and actuarial calculations of experts.

For defined-benefit pension plans, pension costs are determined on the basis of various economic and demographic assumptions using the projected unit credit method, which takes into account the number of insurance years actually earned through the date of valuation. The insurance years completed up to the valuation date are taken into account. The computational assumptions taken into account by the Group include the expected future rate of salary increases, long-term interest earned on retirement assets, retirement patterns and life expectancy. The valuations are carried out annually by independent actuaries. Plan assets are remeasured annually at fair values.

Pension costs comprise three components:
- Service costs which are recognised on the income statement;
- Net interest expense, which is also recognised on 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 on the income statement as personnel expense.

Employer contributions to defined-contribution pension plans are recognised in personnel expense on the date when the employee becomes entitled thereto.

4. Amendments in accounting principles and comparability

New and revised International Financial Reporting Standards

Since 1 January 2020, the following new and revised standards and interpretations have been published:

Interest Rate Benchmark Reform – Phase I (amendments to IFRS 9, IAS 39 and IFRS 7)

In September 2019, the IASB published amendments to IFRS 9, IAS 39 and IFRS 7.

The amendments provide temporary relief to allow hedge accounting to continue during the period of uncertainty before an existing interest rate benchmark is replaced by an alternative near-risk-free rate (RFR).

Only hedging transactions of the currency CHF are affected (volume: CHF 102 million). The first-time application of the amendments had no impact on the consolidated annual report. Until 31 December 2020, there were no adjustments of items due to the reform of the IBOR interest rates. The adjustment of these transactions is expected to take place in the course of 2021, is value-neutral and does not affect the achievement of the hedging objective (fair value hedge).

The following amendments have no material impact on the consolidated financial statements of VP Bank Group

- Amendment to IFRS 3, Business combinations – definition of a business (effective 1 January 2020)
- Amendments to IAS 1 and IAS 8 – definition of material (effective 1 January 2020)
- Amendments to IFRS 16, Leases, Related rent concessions (effective 1 June 2020) (subject to EU endorsement)
- Small amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (effective 1 January 2022) (subject to EU endorsement)
- Amendments to IAS 1, Presentation of financial statements on classification of liabilities (effective 1 January 2023) (subject to EU endorsement)

International Financial Reporting Standards which are to be introduced in 2021 or later

Interest Rate Benchmark Reform – Phase II (amendments to IFRS 9, IAS 39 and IFRS 7)

In August 2020, the IASB published amendments to the Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). In relation to changes to the financial instruments directly required by the reform, the amendments of phase 2 contain:
- A practical expedient when considering changes in the basis for determining the contractual cash flows of financial assets and liabilities to allow for an adjustment to the effective interest rate
- Facilitation of the discontinuation of hedging relationships
- Temporary exemption from the need to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component
- Additional disclosures on IFRS 7

In its phase 2 amendments, the IASB has identified four ways in which changes can be made to the basis for determining the contractual cash flows of a financial instrument in order to achieve IBOR reform:

- By amending the terms of the contract (e.g. to replace a reference to an IBOR with a reference to an RFR).
- By activating an existing fallback clause in the contract.
- Without changing the terms of the contract, to change the way an interest rate benchmark is calculated.
- A hedging instrument may alternatively be modified in accordance with the requirements of the reform by not changing the basis for calculating its contractual cash flows, but by closing out an existing IBOR-related derivative and replacing it with a new derivative with the same counterparty, on similar terms, except by reference to an RFR.

A project team has been working on the implementation of the reform since 2019. The amendments are not expected to have a material impact on the consolidated financial statements of VP Bank Group. Effects of the IBOR transition are mainly to be expected in the case of cash flow hedges, especially if the IBOR interest rate of the underlying transaction is translated at a different time or according to a different logic than the float leg of the interest rate swaps. VP Bank Group currently has no cash flow hedges in place, but instead fair value hedges. The existing underlying transactions (loans with fixed interest rates) are dependent on IBOR interest rates neither currently nor in future, but their interest rate instead remains fixed over the term. In the case of the interest rate swaps (hedging transactions), the fixed leg relevant for the present value hedge is also dependent on IBOR interest rates neither currently nor in future.

VP Bank Group did not avail itself of the possibility of early adoption thereof.

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 Group 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 Group manages all risks within the risk budget approved by the Board of Directors. In managing the equity resources, VP Bank Group 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 VP Bank Group 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 Group is able to maintain its robust capitalisation as well as its credit rating and continues to create sustainable value for the shareholders.

Capital indicators

The determination of the required capital and tier capital pursuant to Basel III is undertaken based on the IFRS consolidated financial statements, with unrealised gains being deducted from core capital. Total capital (core capital and supplementary capital) must amount to a minimum of 12.5 per cent of the risk-weighted assets.

Risk-weighted assets as of 31 December 2020 aggregated CHF 4.7 billion as compared to CHF 4.8 billion in the previous year. Core capital as of 31 December 2020 was CHF 972.8 million as compared to CHF 973.2 million in the previous year. The overall equity ratio increased by 0.7 percentage points, from 20.1 per cent on 31 December 2019 to 20.8 per cent on 31 December 2020. As of both 31 December 2019 and 31 December 2020, VP Bank Group was adequately capitalised in accordance with the respective guidelines of the FMA and the BIS currently in force. In 2020, 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).

Risk management of VP Bank Group

1. Overview

An effective capital, liquidity and risk management is crucial for the success and stability of a bank. VP Bank has established a systematic process to identify, evaluate, manage and monitor the relevant risks as well as the steering of capital resources and liquidity to ensure its risk-bearing capacity. The binding risk management framework is defined by the Board of Directors of VP Bank Group and provided by the corresponding regulations.

The risk policy is an overarching framework that describes the limits and objectives set by the Board of Directors. Together with the risk strategies for each risk group (strategic risks/business risks, financial risks, operational risks and compliance risks), it regulates the specific goals and principles, organisational structures and processes, as well as methods and instruments of risk management in detail.

In Liechtenstein, the regulatory requirements governing risk management are set out primarily in the Banking Act and the Banking Ordinance. In addition, the European Union's Capital Requirements Regulation (CRR) went into force in Liechtenstein on 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 Banking Act and Banking Ordinance. VP Bank was classified as a local systemically important institution by the Financial Market Authority Liechtenstein and must possess in aggregate equity of at least 12.5 per cent of its risk-weighted assets. In terms of liquidity, the Bank has been required to maintain a liquidity coverage ratio (LCR) of at least 100 per cent since 1 January 2018. Thanks to its solid equity basis, balance sheet structure and comfortable liquidity position, VP Bank constantly outperformed the minimum regulatory requirements in 2020.

In addition to quantitative measures, qualitative requirements for identification, measurement, steering and monitoring of financial and operational risks are imposed. These are continually reviewed and further developed by VP Bank.

Capital and balance sheet management

The minimum capital ratio of VP Bank of 12.5 per cent of risk-weighted assets consists of the regulatory minimum requirement of 8 per cent, a capital conservation buffer of 2.5 per cent and a buffer for other systemically important institutions of 2 per cent. Basel III also provides for an anti-cyclical capital buffer that was set at 0 per cent for 2020 by the Financial Market Authority Liechtenstein.

VP Bank complied with the minimum capital requirements for 2020 at all times. Thanks to an exceedingly robust tier 1 ratio of 20.8 per cent as of the end of 2020, this leaves sufficient room for manoeuvre. This enables VP Bank to continue taking risks associated with banking operations.

As of the end of 2020, the leverage ratio of VP Bank was 7.1 per cent. As of 31 December 2020, there was no regulatory minimum value in place in Liechtenstein. VP Bank publishes 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 ongoing basis. With an internal process to assess the adequacy of capital resources (the Internal Capital or Internal Liquidity Adequacy Assessment Process), possible adverse effects on the equity and liquidity position under stress situations are simulated and analysed.

The market turbulence triggered by the COVID-19 pandemic did not have any significant impact key risk indicators and risk-bearing capacity.

Liquidity management

Whilst adhering to legal liquidity requirements and provisions, liquidity risks are monitored and managed using internal directives and limits for the interbank business and credit-granting activities. Maintaining liquidity at all times within VP Bank Group has highest priority and is assured by large holdings of cash and cash-equivalent as well as high-quality liquid assets (HQLA). VP Bank observed the minimum regulatory liquidity requirements at all times during 2020.

VP Bank is legally obligated to comply with the liquidity coverage ratio (LCR). A minimum ratio of 100 per cent was required in 2020. With a value of 179 per cent, this target ratio was markedly exceeded thanks to a comfortable liquidity situation.

With the Internal Liquidity Adequacy Assessment Process (ILAAP), the Financial Market Authority imposed specific requirements concerning internal strategies and procedures to determine, manage and monitor liquidity risks. In 2020, the Financial Market Authority Liechtenstein surveyed and assessed these requirements again using a specific ILAAP questionnaire.

As part of its liquidity management process, VP Bank has developed an emergency liquidity plan which ensures that VP Bank possesses sufficient liquidity in the event of liquidity crises. Early-warning indicators are regularly reviewed to monitor and identify, any deterioration in the liquidity situation at an early stage.

As part of liquidity management, compliance with regulatory requirements and the coverage of business needs is subject to ongoing monitoring. Using stress tests, possible adverse scenarios are simulated and the impact on liquidity in stress situations is analysed.

Credit risk

Due to the importance of the client lending business (CHF 6.3 billion as of 31 December 2020 or 46 per cent of total assets), management and monitoring of credit risks play a central role at VP Bank. Due to the strong devaluation of the global stock markets caused by the COVID-19 crisis, a valuation adjustment of an individual loan position had been required. Beyond that, no further loan losses were recorded. With the creation of the new Group Credit Risk unit within the responsibility of the Chief Risk Officer, a reorganisation of the first and second line of defence took place in credit risk management. Credit regulations govern credit risk management in the client loan business.

In 2020, the volume of loans to clients decreased by CHF 0.5 billion. This is primarily the result of a significant reduction in lending in the Lombard lending business (deleverage) in the wake of the sharp fall in prices on the global stock markets. The volume of amounts due from banks has increased compared to the previous year, totalling CHF 1.8 billion at the end of 2020. In order to increase interest income in the current low-interest environment, free liquid assets are increasingly being invested at banks with good credit ratings, predominantly Swiss cantonal banks.

In 2020, government support initiatives to mitigate the effects of lockdown measures on the economy, such as government-guaranteed bridging loans, played a subordinate role for VP Bank (credit volume approx. CHF 0.3 million). VP Bank supported borrowers by deferring repayments of principal and interest (approx. CHF 6.5 million) and by occasionally granting bridging loans (approx. CHF 8 million). Beyond the default of an individual loan, the COVID-19 crisis had no material impact on the credit risk situation of VP Bank so far.

Market risk

Regarding market risk, VP Bank Group is exposed to interest rate, currency and equity-risks. Given the importance of the interest-bearing business, management and monitoring of market risk is of particular importance. The global interest rate environment was characterised by very low interest rates throughout 2020. The negative interest rate environment in the two primary currencies of the Swiss franc and the euro, as well as the significantly fallen US dollar interest rate level, continues to challenge balance sheet management as well as the investment of client deposits. The major sell-off in the stock markets in March, triggered by the COVID-19 pandemic, led to interim devaluation of our equity investments, but such losses had largely been set off by the end of the year.

Operational risks

VP Bank defines operational risk as potential losses incurred as a consequence of the inappropriateness or failure of internal processes, individuals, systems or as a result of external events. Possible risk scenarios are identified, described and assessed using risk assessments. In all organisational units of VP Bank, operational risk is monitored by the responsible managers. 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 quarterly status report on operational risks within VP Bank Group.

The COVID-19 pandemic and the related measures have resulted in elevated operational risks: employees could be absent from work due to infection, data security must be ensured when employees are working from home, communication channels for maintaining contact with clients are limited and the legal requirements differ from country to country. At the beginning of the pandemic, a task force was immediately convened, followed by activation of a crisis management team. In the course of the pandemic, a variety of measures were taken to ensure operations at all times.

Further risks

In addition to the aforementioned risks, risk management of VP Bank Group covers business/strategic risk, compliance risk and reputational risk. Based on its business model and range of services, these risks are systematically analysed and reassessed on an ongoing basis.

The topic of sustainability is becoming increasingly important in the financial sector. The ESG criteria are also causing sustainability to find its way into nearly every area of activity of financial institutions to an ever greater extent. VP Bank will implement the EU Action Plan on Sustainable Finance in the years to come, making its contribution to promoting sustainable investments on this basis. Subsequently, this will require ESG criteria to be considered systematically in the risk management process.

ESG risks include climate risks, social risks and governance risks, and encompass any effects on earnings and the financial stability of VP Bank. Climate risks in particular do not represent a new risk category of their own but instead manifest themselves in existing risk categories (e.g. business, financial and operational risks).

2. Principles underlying the risk policy

Risk management is predicated on the following principles:

Harmonisation of risk-bearing capacity and risk tolerance

Risk-bearing capacity generally refers to a bank's ability to continue its business operations – or at least fully serve the claims of investors and creditors – in spite of losses from any risks that may materialise. Risk tolerance indicates the potential loss which the Bank is prepared to bear without jeopardising the Bank's ability to continue its business (going concern). As a strategic success factor, risk-bearing capacity is to be maintained and enhanced by employing a suitable process to ensure an appropriate capital and liquidity base.

Clearly defined powers of authority and responsibilities

Risk tolerance is operationalised using a comprehensive limit system and implemented effectively with a clear definition of the duties, powers of authority and responsibilities of all bodies, organisational units and committees involved in the risk and capital management process.

Conscientious handling of risks

Strategic and operational decisions are taken based on risk-return calculations and aligned with the interests of the stakeholders. Subject to compliance with statutory and regulatory requirements as well as corporate policy and ethical principles, VP Bank consciously assumes risks provided that the extent of these are known, the system requirements for mapping them are in place and the Bank will be adequately compensated for them. Transactions with an imbalanced risk-return ratio are avoided, as are major risks and extreme risk concentrations, which could endanger the risk-bearing capacity and thus the future existence of the Group.

Segregation of functions

Units that report to the Chief Risk Officer and that are independent of the bodies that actively manage the risks are responsible for monitoring and reporting risks to Group Executive Management and the Board of Directors.

Transparency

Comprehensive, objective, timely and transparent disclosure of risks to Group Executive Management (GEM) and the Board of Directors (BoD) forms the basis for risk monitoring.

3. Organisation of capital, liquidity and risk management

Risk taxanomy

The prerequisite for risk management and the management of equity resources of VP Bank is the identification of all significant risks and their aggregation to an overall risk exposure. The identification of significant risks is based on the business model and related offerings of financial products and services of VP Bank.

The following chart (➔ graphic on page 114) provides an overview of the risks to which VP Bank is possibly exposed in the context of its business activities. These are allocated to the risk groups of strategic/business risks, financial risks, operational risks, compliance risks and reputational risks.

Business risk and strategic risk encompass the risk of a potential decline in profitability as a result of an inadequate corporate orientation in relation to the market environment (political, economic, social, technological, ecological, legal) and can arise from unsuitable strategic positioning or absence of effective countermeasures in case of changes.

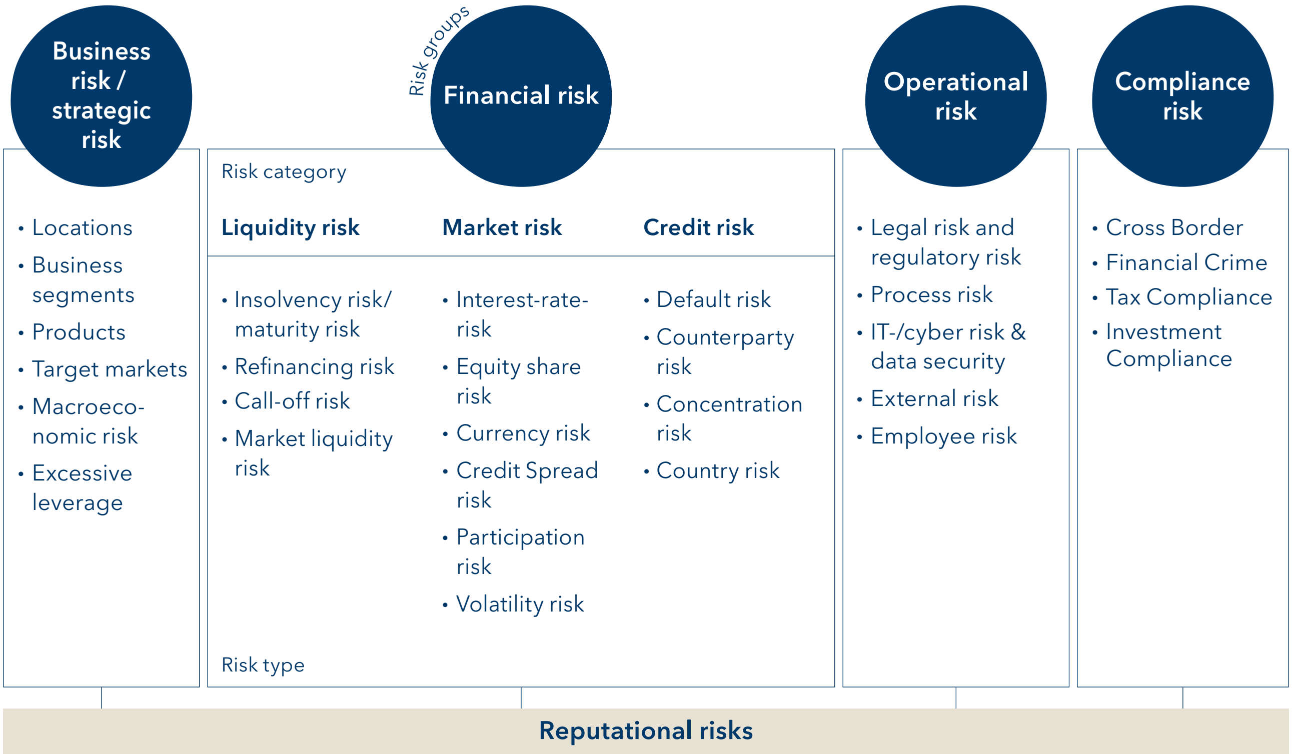
This includes the risk that the attractiveness of location-related factors recedes or the significance and/or weighting of individual business areas undergo change by virtue of external factors. It also includes the risk that new product launches, market access or business processing are impeded or rendered impossible as a result of regulation or existing products, market access or business processing entail disproportionately high costs or are unprofitable. Finally, adverse developments may arise in connection with target markets as a result of political or geopolitical influences.

Financial risk is deliberately taken in order to generate earnings or to pursue business policy interests.

In this respect, liquidity risk comprises short-term liquidity and refinancing risk as well as market liquidity risk. The liquidity and refinancing risk refers to the risk of being unable to refinance current and future payments on time, in full, in the right currency or on standard market terms. Market liquidity risk includes cases where it is not possible, because of insufficient market liquidity, to liquidate or hedge risk positions on a timely basis to the desired extent and at acceptable conditions.

Market risk refers to the risk of potential economic losses in the banking and trading book that emerge due to unfavourable changes in market prices (interest rates, foreign exchange rates, equity prices, commodities) or other price-influencing parameters such as volatility.

Credit risk includes default risk, counterparty risk, concentration risk and country risk. Default risk refers to the risk of a financial loss which may occur following the default of a debtor or loan collateral. Country risk is not posed by the counterparty itself, but by uncertain political, economic and social circumstances, and arises from restrictions in payment transactions in the risk domicile. Counterparty risk refers to the risk of a financial loss resulting from the



default or a deterioration in the credit rating of a counterparty in trading activities or due to non-performance by the counterparty. Concentration risk includes potential losses incurred by the Bank due to an insufficiently diversified loan portfolio.

Operational risk is the risk of incurring losses arising from the inappropriateness or failure of internal procedures, individuals or systems or as a result of external events. These are to be avoided by appropriate controls and measures or, if that is not possible, be reduced to a level set by the Bank. Operational risk can also arise in all organisational units, whereas financial risk can only arise in risk-taking units.

Compliance risk is understood to be breaches of statutory and regulatory provisions that can cause significant damage to VP Bank's reputation or result in sanctions, fines or even in the Bank's licence being withdrawn. The compliance risk of VP Bank consists in particular in the fact that VP Bank does not or does not sufficiently recognise financial crime risks of its clients and counterparties – such as money laundering, financing of terrorism, violations of sanctions and embargoes, or fraud and corruption activities – and has not established appropriate surveillance and monitoring processes/measures for identification, management and limitation of cross-border compliance risks as well as tax and investment compliance risks.

Reputational risk describes the risk that the confidence of employees, clients, shareholders, regulatory authorities and the public is weakened or the public image and/or reputation of the Bank is impaired as a result of other types of risk or through various events. It can exhibit itself in the Bank suffering monetary losses and/or a decline in earnings.

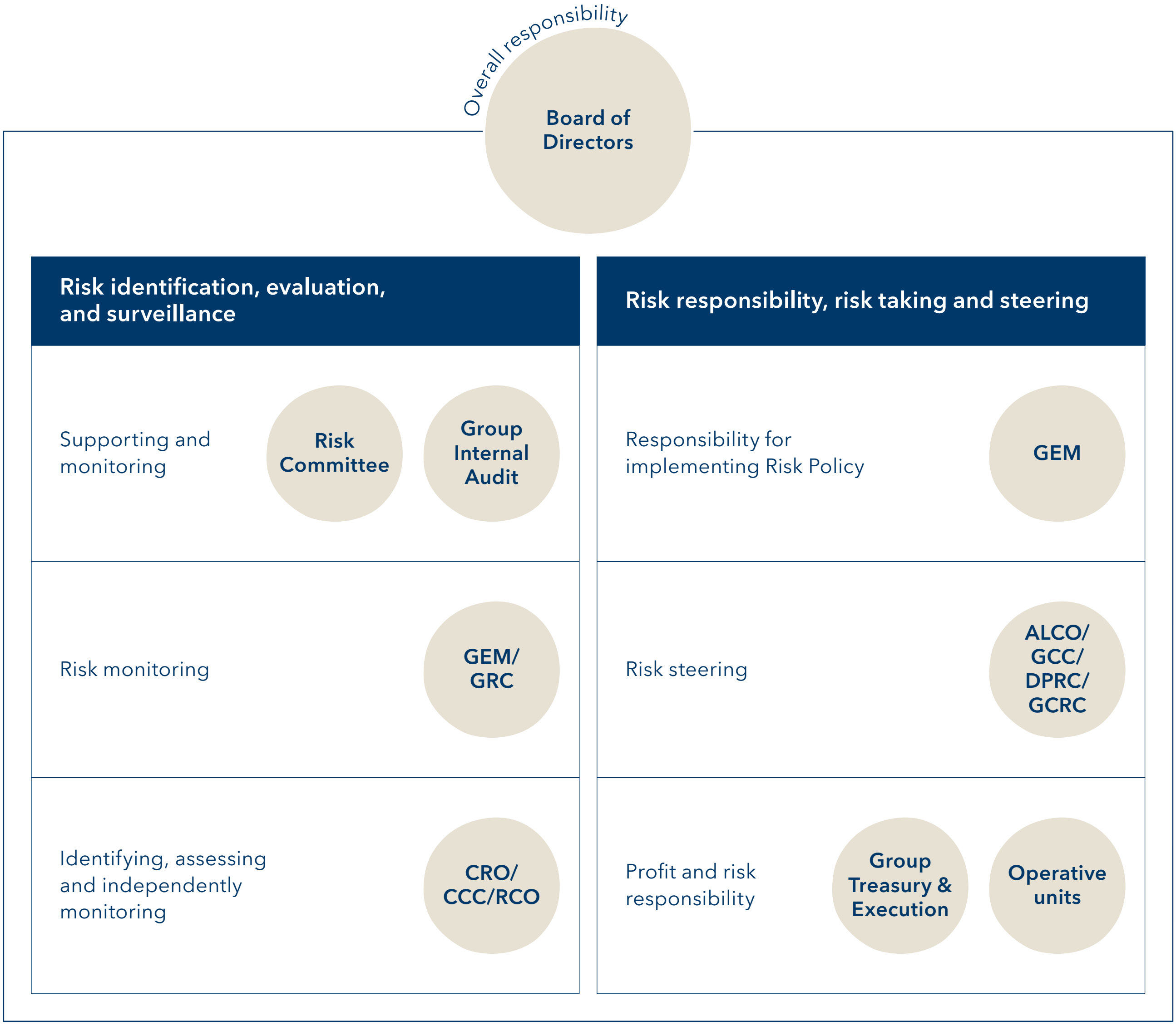
Duties, powers and responsibilities

The following figure (➔ **graphic** on page 115) shows the key duties, competencies and responsibilities of the bodies, organisational units and committees involved in the risk management process for the individual risk groups. The roles of risk steering and risk monitoring are separated. This is intended to avoid conflicts of interest between the risk-taking and the risk-monitoring entities. Management, monitoring and verification of risks takes place over three lines of defence:

1. First line of defence: risk steering
2. Second line of defence: risk monitoring
3. Third line of defence: internal/external audit

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-bearing capacity of the Bank on a sustainable basis. The Board of Directors defines and approves the risk tolerance, the risk policy and the risk strategies. It monitors their implementation, sets the risk tolerance on a Group level and establishes the target values and limits for the management of equity resources, liquidity and risk. In assuming these tasks, the Board of Directors is assisted by the **Risk Committee**.

In addition, the Board of Directors receives reports from the internal and external auditors on exceptional and material incidents, including significant losses, serious disciplinary errors, lawsuits and so on. In assuming this task, the Board of Directors is supported by the **Audit Committee**.



Group Internal Audit is responsible for the internal audit function within VP Bank Group. It is an autonomous organisational unit independent of operations and responsible for the periodic audit of structures and processes of in the context of the risk management process as defined by the risk policy.

Group Executive Management (GEM) is responsible for implementation and observance of the risk policy approved by the Board of Directors. One of its central tasks is to ensure the functional capability of the risk management process and the Internal Control System (ICS). Furthermore, it is responsible for the composition and assignment of duties, responsibilities and competencies of the Asset & Liability Committee, the allocation of objectives and limits to the individual Group subsidiaries as well as the Group-wide management of strategic, business, financial, compliance, operational and reputational risk.

In its function as **Group Risk Committee** (GRC), which is the supreme body for independent monitoring of the risks of VP Bank, Group Executive Management assumes responsibility for implementing the risk strategy within the limits and targets defined by the Board of Directors and Group Executive Management as well as dealing with overarching issues.

The Asset & Liability Committee (ALCO) is responsible for risk- and earnings-oriented balance sheet management based on the economic profit model and the management of financial risks in line with the relevant statutory and regulatory rules. It assesses the Group's risk situation in the area of financial risks and initiates remedial steering measures whenever necessary.

The **Data and Process Risk Committee** (DPRC) ensures the completeness and effectiveness of the business process map and the corresponding internal controls. It also manages external risks and provides leadership in the management of crises and disasters. In addition, the DPRC seeks to provide adequate safeguards against data security risks as well as IT/cyber risks. Furthermore, it ensures appropriate identification and mitigation of operational risks as well as process-related reputational risks.

The **Group Credit Committee** (GCC) is responsible for matters including managing credit risks and the handling of credit applications within the scope of delegated powers of authority in particular.

The **Group Compliance Risk Committee** (GCRC) proactively manages compliance risks, identifies primary risks, and ensures that risk-mitigating controls are implemented and adhered to. The GCRC also examines reputational risks related to specific clients.

Group Treasury & Execution bears the responsibility for the day-to-day steering of financial risks within the target measures and limits laid down by the Board of Directors and Group Executive Management. This is done whilst taking into account the Group's risk-bearing capacity, as well as in compliance with legal and regulatory requirements.

Group Credit Consulting (CRQ), as a first line of defence, is responsible for credit risk structuring and assessment of all credit applications on the Group level, as well as for the monitoring process of credit exposure on the individual loan level with regard to coverage and limits. CRQ is represented by units in all Group locations. For non-standard credit applications, Group Credit Risk carries out a review of the risk analysis, which was prepared by CRQ in the first instance. In addition, Group Credit Consulting approves loans on its own authority or submits them to the corresponding organisational unit, committee or body for assessment or approval.

The Chief Risk Officer (CRO) heads the risk management function. Within Group Executive Management, he is responsible for independent risk monitoring of VP Bank Group and the individual subsidiaries. The CRO ensures that the existing legal, supervisory-law and internal bank provisions regarding risk management are complied with and new risk management provisions are implemented.

Group Credit Risk (CCC) is the second line of defence, which is responsible for credit risk assessment of the largest individual credit risks of the Group. This concerns all credit exposures that go beyond Group Credit Consulting's own area of authority and trigger an additional credit assessment by the second line of defence on the basis of defined risk criteria. In addition, Group Credit Risk is responsible for all material credit risk standards of VP Bank Group, including all guidelines and risk concepts as well as IT implementation. Group Credit Risk also supports and initiates all development projects related to the credit business of VP Bank Group, including regulatory projects. Furthermore, CCC regularly prepares portfolio credit risk reports in close cooperation with Group Risk for the attention of Group Executive Management and of the Board of Directors.

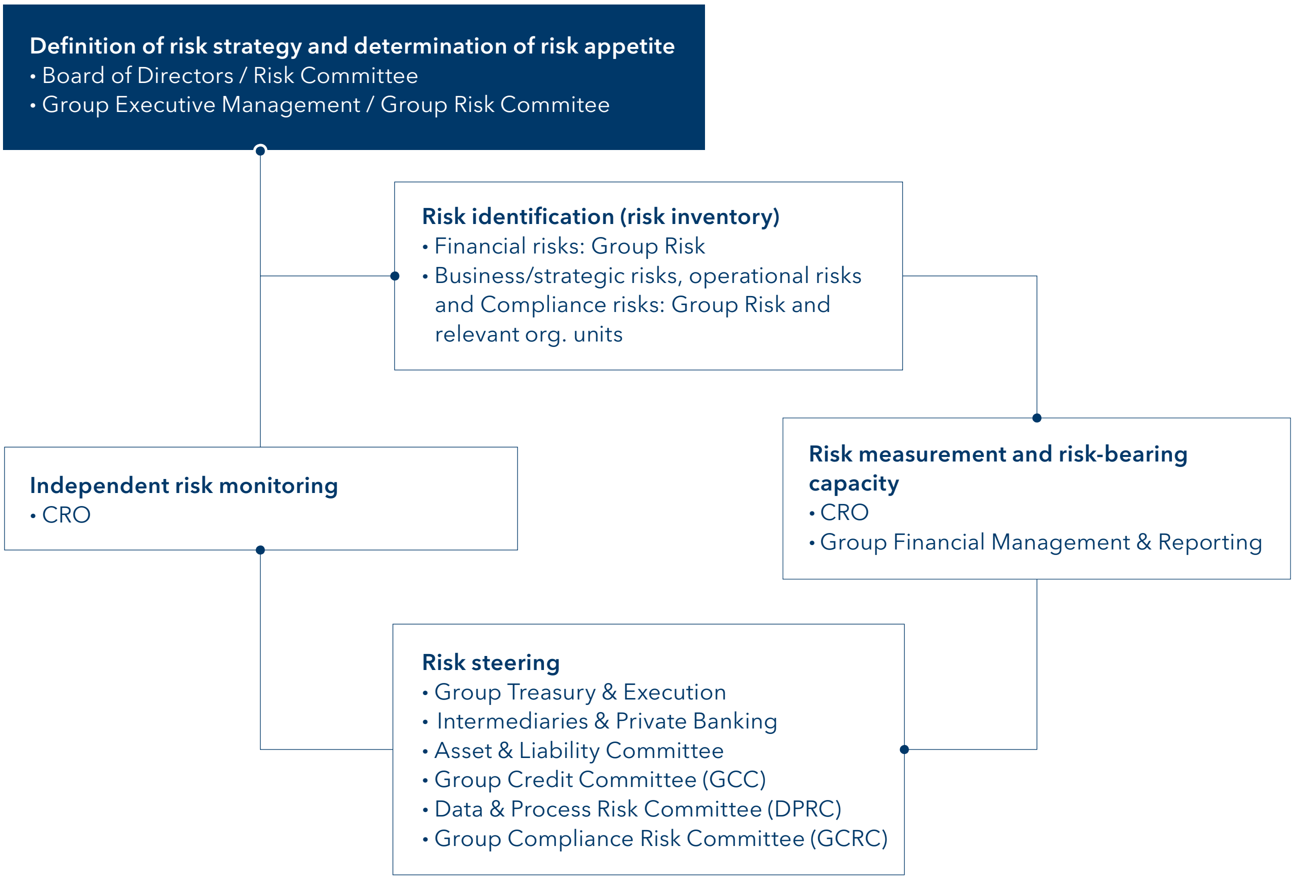
As a second line of defence, Group Risk (RCO) is responsible for independent monitoring of financial and operational risks. It is responsible for defining and assessing the risk methods and models, conducting the risk inventory and monitoring the economic risk-bearing capacity. With periodic risk reporting, the responsible bodies are informed about the risk situation as well as adherence to limits.

Process to ensure risk-bearing capacity

The primary objective of the ICAAP is to comply with the regulatory capital requirements and thus to ensure the continuation of the Bank. The risks of banking operations are to be borne by the available risk capital. The components of the risk management process established at VP Bank for all material risks are explained below:

- Determination of the risk strategies: The risk strategies for each risk group (strategic risk/business risk, financial risk, and operational and compliance risks) are derived from the business strategy of VP Bank and provide the framework for efficient risk management of the respective risk types. The basic framework for the individual risk strategies is the risk policy.
- Determining the risk coverage potential and setting the risk tolerance: The risk-bearing capacity concept of VP Bank Group distinguishes between a regulatory and a value-oriented perspective. The findings from each of the two perspectives are used in turn to validate and supplement the other perspective. With both perspectives, the identification of the risk-bearing capacity is based on consideration of appropriate deductions and risk buffers. On the basis of the risk-bearing capacity, the Board of Directors determines the limits and objectives for a rolling risk horizon of one year. At least semi-annually, all significant risks and the available risk capital are juxtaposed (risk assessment of risk-bearing capacity calculation).
- Risk identification (risk inventory): In the annual risk inventory to be undertaken as part of the review of the framework and risk strategies, it is ensured that all significant risks for the Group (both quantitative and qualitative) are identified. The analysis is carried out on a top-down and bottom-up basis using both quantitative and qualitative criteria. Significant risks are integrated fully into the risk management cycle, insignificant risks are reviewed and monitored at least annually within the scope of the risk inventory. As part of the risk inventory, potential risk concentrations in all significant risk types are evaluated.
- Risk measurement: Relevant for the assessment of the risk-bearing capacity from a regulatory viewpoint is the eligible equity as well as the regulatory committed capital. From a value-oriented point of view, the risk-bearing capacity results from the net economic value of equity after deducting operating and risk costs, a buffer for other risks and the economic capital requirement. For the purpose of determining the economic capital requirement, all risk types of VP Bank which are classified as material within the scope of the annual risk inventory are taken into account and possible unexpected losses are considered (confidence level 99 per cent, risk horizon one year). The economic risk assessment also includes risk types which are not covered by the regulatory capital-adequacy requirements for the Bank. To determine the economically required capital, all significant risks are aggregated to form an overall risk assessment.
- Assessment of risk-bearing capacity: Risk-bearing capacity exists when the available risk capital is greater than the risks taken at any time. In this process, early-warning stages permit a timely change of direction in order not to endanger the continuation of the Bank as a going concern.

Process supervision (Group Internal Audit)



- **Risk steering** encompasses all measures on all organisational levels to actively influence the Bank's risks identified as being significant. In this respect, the objective is the optimisation of the risk return ratio within the limits and objectives set by the Board of Directors and Group Executive Management and to ensure the risk-bearing capacity of the Group whilst complying with legal and supervisory-law prescriptions. Risk steering takes place on both strategic and operating levels. Based upon the juxtaposition of risks and limits on the one hand, as well as of regulatory and economically required capital and available risk capital on the other, countermeasures are taken in case of negative deviations.
- **Independent risk monitoring (control and reporting to GEM and BoD):** Risk steering is accompanied by comprehensive risk monitoring, which is functionally and organisationally independent of risk steering. Risk monitoring covers control and reporting. As part of the control of financial risks, steering impulses are derived from a routine target to actual comparison. The target is constituted by the limits and target measures set, as well as from legal and supervisory-law prescriptions. For review of the extent to which limits are exhausted (actual), early-warning stages are also deployed in order to take timely steering measures for any risks before losses occur.

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

From a risk-monitoring perspective, risk-based controls for compliance risks are carried out on an ongoing basis by Group Compliance, while the steering of compliance risks is the responsibility of the respective business units.

Reputational risks can result from financial, operational and compliance risks as well as from business and strategic risks. The business and strategic risks as well as any reputational risks are handled by Group Executive Management.

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

The process of ensuring the risk-bearing capacity of VP Bank Group is presented in the figure above.

4. Own funds disclosure

The required qualitative and quantitative information on capital adequacy, on the strategies and procedures for risk management and 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 2020 business year. On this basis, the Bank fulfils the regulatory requirements of the Banking Ordinance and the Banking Act.

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 systemically important banks in Liechtenstein, VP Bank must fulfil the requirement of additional capital buffers.

VP Bank computes its required equity in accordance with the provisions of the CRR. In this context, the following approaches are applied:

- Standardised approach for credit risk under Part 3, Title II, Chapter 2 of the CRR
- Basic-indicator approach for operational risk under Part 3, Title III, Chapter 2 of the CRR
- Standardised procedure for market risk under Part 3, Title IV, Chapters 2 to 4 of the CRR
- Standard method for credit valuation adjustment (CVA) risks in accordance with Art. 384 CRR
- Comprehensive method for financial collateral in accordance with Art. 223 CRR

As in regard to strategic, business and reputational risk, no explicit regulatory capital requirements are stipulated in the CRR. The following table shows the equity situation of VP Bank Group as of 31 December 2020.

The following table shows the capital-adequacy situation of the Group as of 31 December 2020.

Capital-adequacy computation (Basel III)

in CHF 1,000	31.12.2020	31.12.2019
Core capital		
• Paid-in capital	66,154	66,154
• Deduction for treasury shares	–61,071	–68,004
• Retained earnings and other reserves	978,352	954,587
• Group net income	41,622	73,543
Total shareholders' equity	**1,025,057**	**1,026,280**
• Deduction for dividends as per proposal of Board of Directors	–26,462	–36,385
• Deduction for goodwill and intangible assets	–66,679	–62,189
• Deduction for actuarial gains/losses from IAS19	57,859	61,151
• Deduction for equity instruments as per art. 28 CRR	–9,989	–8,341
• Other regulatory adjustments (deferred tax, securisation positions, prudential filter)	–7,032	–7,319
Total regulatory deduction	**–52,303**	**–53,083**
Eligible core capital (tier 1)	**972,754**	**973,197**
Eligible core capital (adjusted)	**972,754**	**973,197**
Credit risk (in accordance with Liechtenstein standard approach)	309,649	320,430
thereof price risk regarding equity securities in the banking book	8,011	8,265
Market risk (in accordance with Liechtenstein standard approach)	16,313	20,253
Operational risk (in accordance with basic indicator approach)	46,984	45,535
Credit Value Adjustment (CVA)	1,093	1,130
Total required equity	**374,039**	**387,348**
Capital buffer	210,397	242,093
Total required equity including capital buffer	**584,436**	**629,441**
CET1 equity ratio	20.8%	20.1%
Tier 1 ratio	20.8%	20.1%
Overall equity ratio	20.8%	20.1%
Total risk-weighted assets	**4,675,482**	**4,841,859**
Return on investment (net income / average balance sheet total)	0.3%	0.5%

5. Financial risks

Whilst complying with the relevant legal and regulatory provisions, the monitoring and steering of financial risks is based on internal bank target measures and limits relating inter alia to volumes and sensitivities. In addition, scenario analyses and stress tests demonstrate the effect of events which were not or not sufficiently taken into consideration within the ordinary risk evaluation.

In this respect, the Board of Directors sets strategic barriers within which risk management is conducted. The identification, evaluation, steering and monitoring of all relevant risks is handled on the operating level. Group Executive Management is responsible for the implementation and observance of the risk strategy for financial risks as approved by the Board of Directors.

Market risks

Market risks arise from taking positions in financial assets (debt instruments, shares and other securities), foreign currencies, precious metals and corresponding derivatives, as well as from client business, interbank business and from consolidated Group companies whose functional currency is a foreign currency.

Interest rate risk in VP Bank's balance sheet constitutes a significant component of market risk. It arises mainly due to divergent maturities between asset- and liability-side positions. The table of maturity structure shows the assets and liabilities of VP Bank broken down into positions at sight, callable positions and positions with specific maturities (➔ cf. appendix 35). Asset and liability positions of VP Bank denominated in foreign currencies are of importance to determine the currency risk. A balance sheet overview by currency is to be found in appendix 34 (➔ cf. balance sheet by currency).

The Bank employs a comprehensive set of methods and indicators for the monitoring and management of market risks. In this respect, the value-at-risk approach was established as the standard method to measure general market risk. The value-at-risk for market risks quantifies the potential negative deviation, expressed in Swiss francs, from the value of all positions exposed to market risk as of the reporting date. The value-at-risk indicator is computed on a Group-wide basis with the method of historical simulation. In this process, the historical movements in market data over a period of at least five years are used in order to evaluate all positions subject to market risk. The projected loss is valid for a holding period of 10 trading days and will not be exceeded with a probability of 99 per cent. For fixed rate positions interest rate risk is calculated based on the respective fixed interest period, whereas an internal replication model is applied for variable rate positions.

The market value-at-risk of VP Bank Group as of 31 December 2020 amounted to CHF 22.9 million (prior year: CHF 24.1 million).

The following table shows a break down of the overall value-at-risk types of market risk. The computation of average, highest, lowest values by risk type and aggregate values is based on a separate year-on-year perspective of the end-of-month values; the aggregate value thus does not necessarily equate to the sum of the respective individual values by risk type.

Market-Value-at-Risk (end of month values)

in CHF million	Total	Interest-rate risk	Equity and commodity risk	Currency risk
2020				
Year-end	22.9	6.2	9.3	7.4
Average	23.7	7.1	7.7	8.8
Highest value	25.8	8.6	9.3	9.6
Lowest value	22.0	6.2	6.8	7.2
2019				
Year-end	24.1	6.7	8.7	8.7
Average	28.0	10.4	8.5	9.1
Highest value	29.5	12.4	9.4	9.7
Lowest value	24.1	6.7	6.8	8.4

As 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 enable the Bank to estimate 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 items and derivatives in the area of market risks are computed with the aid of sensitivity indicators based on pre-defined market movements (parallel shift, rotation or inclination changes in interest-rate curves, exchange rate fluctuations by a multiple of their implicit volatility, slump in equity share prices).

The following table shows the key rate duration of positions exposed to interest-rate risk. First of all, the present values of all asset and liability items as well as derivative financial instruments are calculated. Then, the interest rates of the relevant interest-rate curves are changed by 1 basis point and the result is scaled to 1 per cent (100 basis points) in each maturity band and per currency. The respective movements represent the gain or loss of the present value resulting from the shift in the interest-rate curve. Negative values point to an excess of assets, positive values to an excess of liabilities in the maturity band.

Key rate duration profile per 100 basis 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
31.12.2020						
CHF	780	1,397	775	709	–10,762	–7,101
EUR	454	50	1,986	–3,861	–9,342	–10,713
USD	1,047	–2,285	1,154	–1,713	–8,698	–10,495
Other currencies	85	–225	995	2,985	0	3,840
Total	**2,366**	**–1,063**	**4,910**	**–1,880**	**–28,802**	**–24,469**
31.12.2019						
CHF	1,207	753	2,077	–2,330	–8,213	–6,506
EUR	701	–422	1,734	–3,332	–16,231	–17,550
USD	534	–977	1,178	–7,923	–3,312	–10,500
Other currencies	57	41	550	2,426	0	3,074
Total	**2,499**	**–605**	**5,539**	**–11,159**	**–27,756**	**–31,482**

In the following table, the effects of a negative movement in the principal foreign currencies on consolidated net income and shareholders' equity are set out. Responsible for the underlying fluctuation of the Swiss franc against the euro and the US dollar is the implicit volatility as of 31 December 2020 and 31 December 2019, respectively.

Movements in significant foreign currencies

Currency	Variance in %	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
2020			
EUR	–5	–1,918	0
USD	–6	–6,402	–3,480
2019			
EUR	–5	–2,939	0
USD	–6	–6,440	–3,844

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 in 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
2020		
–10%	–3,838	–9,905
–20%	–7,677	–19,809
–30%	–11,515	–29,714
2019		
–10%	–3,508	–10,649
–20%	–7,015	–21,297
–30%	–10,523	–31,946

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 exposed 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 and liability management, interest rate swaps accounted for at fair value are deployed to hedge this risk. VP Bank applies fair-value hedge accounting under IFRS in order to record the offsetting effect of changes in the value of the hedged items on the balance sheet. For this purpose, a portion of the underlying transactions (fixed-interest credits) is linked to the hedging transactions (payer swaps) through hedging relationships. In the event of fair-value changes caused by interest rate changes, the carrying values of the underlying transactions are adjusted and the gains/losses taken to income.

Because the unsettled fixed-interest positions are transformed into variable interest rate positions through 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 induced by interest rate changes offset each other. Ineffectiveness may result from variations in duration, due to different interest rates, interest payment dates or maturities of transactions.

The initial efficiency of a hedging relationship is proven with a prospective effectiveness test. For this purpose, future changes in the fair value of the underlying and hedging transactions are simulated based upon scenarios and subjected to a regression analysis. Effectiveness is assessed based on the results of the analysis. Repeated reviews take place during the duration of the hedging relationship.

By entering into foreign exchange transactions, VP Bank has hedged its own financial investments against exchange rate fluctuations in the principal currencies. Currency risks from the client business generally may not arise; residual foreign currency positions are closed via the foreign exchange market. Group Treasury & Execution is responsible for the management of foreign currency risks from client business.

Liquidity risks

Liquidity risks may arise through contractual mismatches between the inflows 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 lending business and other balance sheet-related key figures – whilst complying with the legal liquidity norms and provisions regarding risk concentrations on both the asset and liability side.

As of the end of 2020, a lower limit of 100 per cent applies for the liquidity coverage ratio (LCR). With a value of 179 per cent for the LCR at the end of 2020, VP Bank presents a very comfortable liquidity situation.

The maturity structure of assets and liabilities is set out in appendix 35. In the short-term maturity range, the Bank refinances itself primarily through client deposits at sight.

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 using stress tests. In this manner, VP Bank can take all applicable remedial action on a timely basis and set limits where necessary.

Credit risks

Credit risks arise from all transactions for which payment obligations of third parties in favour of VP 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 and OTC derivative trades.

Risk concentrations can arise through inadequate diversification of the credit portfolio. Such concentrations can constitute exposures from borrowers which are domiciled in the same countries or regions, are active in the same industry segment or possess similar collateral. Concentrations can lead to the creditworthiness of borrowers or the recoverability of collateral being impacted by the same economic, political or other factors. Risk concentrations are closely monitored by VP Bank as well as being controlled with corresponding limits and operational controls.

As of 31 December 2020, the total credit exposure excluding collateral was CHF 10.5 billion (as of 31 December 2019: CHF 10.1 billion). The following table shows the composition thereof by on- and off-balance-sheet items.

Credit exposures

in CHF 1,000	31.12.2020	31.12.2019
On-balance-sheet assets		
Receivables arising from money market papers	116,166	122,956
Due from banks	1,784,320	735,026
Due from customers	6,281,087	6,796,832
Public-law enterprises	442	484
Trading portfolios	290	
Derivative financial instruments	79,491	72,513
Financial instruments at fair value	45,190	73,805
Financial instruments measured at amortised cost	2,201,303	2,302,477
Total	**10,508,289**	**10,104,093**
Off-balance-sheet transactions		
Contingent liabilities	115,339	143,951
Irrevocable facilities granted	81,668	97,495
Total	**197,007**	**241,446**

In 2020, the volume of loans to clients decreased by CHF 0.5 billion. This was mainly due to a significant reduction in lending in the lombard lending business in the wake of the COVID-19 crisis. The volume of amounts due from banks has significantly increased compared to the previous year, totalling CHF 1.8 billion at the end of 2020. Free liquid assets are increasingly invested with banks with good credit ratings, predominantly Swiss cantonal banks.

Receivables from clients are generally granted on a secured basis. This primarily includes the mortgage business in Switzerland and Liechtenstein, the lombard loan business as well as a small number of special loans.

In the mortgage business, cover is primarily provided by residential, mixed or commercial properties in Switzerland and Liechtenstein. In Liechtenstein, the regulations of the Capital Requirements Regulation apply to the guidelines and procedures for the valuation and management of mortgage collateral. Lombard loans are granted in exchange for the pledging of liquid and diversified securities portfolios. In addition, life insurance policies can be used as collateral. Predefined minimum requirements apply to the issuers of the corresponding policies. Each issuer must be pre-approved.

The qualitative requirements for the cover and the permissible loan-to-value ratios per cover type are defined internally. Compared to the previous year, the collateralisation has not changed significantly. Risk concentrations within the collateral are to be avoided through a prudent credit policy. The standard collateralisation of credit exposures and the conservative pledging of collateral lead to a significant reduction in the expected credit loss (ECL), especially in the mortgage and lombard areas.

Within the scope of the client lending business, loans are granted on a regional and international basis to private and commercial clients. The focus remains on the private client business with a volume of CHF 3.4 billion of mortgage loans (31 December 2019: CHF 3.3 billion). From a regional perspective, VP Bank conducts most of its business in the Principality of Liechtenstein and in the eastern part of Switzerland.

The ten largest single exposures comprise 11 per cent of total credit exposures (31 December 2019: 11 per cent).

In addition to the Risk Policy, the credit-granting rules constitute the binding framework for client credit risk management. They set out the general guidelines governing credit granting, the decision makers powers depending on corresponding band-widths for credit approval authority (rules on powers of authority).

In principle, exposures in the private client loans business and in the commercial loans business must be covered by the loanable value of the collateral (collateral after haircut). Counterparty risks in the loan business are governed by limits which restrict the level of exposure depending on the creditworthiness, industry segment, collateral and risk domicile of the client. VP Bank uses an internal rating method for assessing creditworthiness. 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 metals accounts), secured positions arising from reverse repo transactions, securities lending and borrowing, collateral management, and OTC derivative transactions. Repo deposits are fully secured and the collateral received serves as a reliable source of liquidity in a crisis. Hence, counterparty risk and also liquidity risk is reduced with reverse repo transactions.

Counterparty risks in the interbank business may only be entered into in approved countries and with approved counterparties. Exposures to banks relate to institutions with a high credit capacity (investment grade rating) and registered office in an OECD country. A comprehensive system of limits restricts the level of exposure depending on the duration, rating, risk domicile and collateral of the counterparty. For banks, VP Bank relies on the rating provided by the two rating agencies Standard & Poor's and Moody's. OTC derivative transactions may only be concluded with counterparties with whom a netting agreement has been signed.

Credit risks are managed and monitored not only on an individual transaction level but also on a portfolio level. On the portfolio level, VP Bank uses expected and unexpected credit loss estimates to monitor and measure credit risk. The expected credit loss quantifies a loss per credit portfolio which may be anticipated within one year, based on historical loss data and estimated default probabilities. Unexpected credit loss quantifies the deviation of potential losses from the expected loss based on a confidence level of 99 per cent over a risk horizon of one year.

Credit derivatives (contract volume)

in CHF 1,000	Providers of collateral as of 31.12.2020	Providers of collateral as of 31.12.2019
Collateralised debt obligations	0	0
Total	**0**	**0**

No proprietary trading transactions in credit derivatives were carried out in the past financial year.

Country risk

Country risks arise whenever political or economic conditions specific to a country may affect the value of an exposure abroad. The monitoring and management of country risk is carried out by 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, it is generally the case that 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 %	31.12.2020	31.12.2019
AAA	81.5	84.9
AA	14.7	12.0
A	1.6	0.6
BBB - B	0.7	0.9
CCC - C	0.1	0.1
Not Rated	1.5	1.5
Total	**100.0**	**100.0**

IFRS 9 Impairment

The following pages show the additional tables from IFRS 9 Impairment to be disclosed.

Credit exposures by rating classes

in CHF 1,000		Carrying amount of the below financial position			
	Rating (Standard & Poor's or Equivalent)	Stage 1	Stage 2	Stage 3	Total 31.12.2020
Cash and cash equivalents					
Investment Grade					
• Very Low credit risk	AAA	2,567,371			2,567,371
• Low credit risk	AA+, AA, AA-, A+, A, A-				0
• Moderate credit risk	BBB+, BBB, BBB-				0
Non Investment Grade	BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C				0
Default	D				0
Gross Carrying amount		**2,567,371**	**0**	**0**	**2,567,371**
Loss allowance		–142			–142
Carrying amount		**2,567,229**	**0**	**0**	**2,567,229**
Receivables arising from money market papers					
Investment Grade					
• Very Low credit risk	AAA	53,463			53,463
• Low credit risk	AA+, AA, AA-, A+, A, A-	62,735			62,735
• Moderate credit risk	BBB+, BBB, BBB-				0
Non Investment Grade	BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C				0
Default	D				0
Gross Carrying amount		**116,198**	**0**	**0**	**116,198**
Loss allowance		–32			–32
Carrying amount		**116,166**	**0**	**0**	**116,166**
Due from banks					
Investment Grade					
• Very Low credit risk	AAA	144,697			144,697
• Low credit risk	AA+, AA, AA-, A+, A, A-	1,257,230			1,257,230
• Moderate credit risk	BBB+, BBB, BBB-	207,572			207,572
Non Investment Grade	BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C		777		777
Default	D				0
Gross Carrying amount		**1,609,499**	**777**	**0**	**1,610,276**
Loss allowance		–135			–135
Carrying amount		**1,609,364**	**777**	**0**	**1,610,141**
Due from customers					
Low credit risk		6,116,318			6,116,318
Moderate credit risk			96,369		96,369
High Credit Risk			25,637	11,159	36,796
Doubtful				6,043	6,043
Default				56,102	56,102
Gross Carrying amount		**6,116,318**	**122,006**	**73,304**	**6,311,628**
Loss allowance		–1,581	–376	–28,142	–30,099
Carrying amount		**6,114,737**	**121,630**	**45,162**	**6,281,529**

Credit exposures by rating classes (continued)

in CHF 1,000		Carrying amount of the below financial position			
	Rating (Standard & Poor's or Equivalent)	Stage 1	Stage 2	Stage 3	Total 31.12.2020
Financial instruments measured at amortised cost					
Investment Grade					
• Very Low credit risk	AAA	615,882			615,882
• Low credit risk	AA+, AA, AA-, A+, A, A-	1,295,562			1,295,562
• Moderate credit risk	BBB+, BBB, BBB-	272,901			272,901
Non Investment Grade	BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C		18,529		18,529
Default	D				0
Gross Carrying amount		**2,184,345**	**18,529**	**0**	**2,202,874**
Loss allowance		–1,270	–301		–1,571
Carrying amount		**2,183,075**	**18,228**	**0**	**2,201,303**

in CHF 1,000	Exposure to credit risk on loan commitments and financial guarantee contracts			
	Stage 1	Stage 2	Stage 3	Total 31.12.2020
Exposure to credit risk on loan commitments and financial guarantee contracts				
Low credit risk	22			22
Moderate credit risk				0
High Credit Risk	181,035	651		181,686
Doubtful				0
Default				0
Gross Carrying amount	**181,057**	**651**	**0**	**181,708**
Loss allowance	–201			–201
Carrying amount	**180,856**	**651**	**0**	**181,507**

in CHF 1,000		Carrying amount of the below financial position			
	Rating (Standard & Poor's or Equivalent)	Stage 1	Stage 2	Stage 3	Total 31.12.2019
Cash and cash equivalents					
Investment Grade					
• Very Low credit risk	AAA	2,896,279			2,896,279
• Low credit risk	AA+, AA, AA-, A+, A, A-				0
• Moderate credit risk	BBB+, BBB, BBB-				0
Non Investment Grade	BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C				0
Default	D				0
Gross Carrying amount		**2,896,279**	**0**	**0**	**2,896,279**
Loss allowance		–113			–113
Carrying amount		**2,896,166**	**0**	**0**	**2,896,166**

Credit exposures by rating classes (continued)

in CHF 1,000		Carrying amount of the below financial position			
	Rating (Standard & Poor's or Equivalent)	Stage 1	Stage 2	Stage 3	Total 31.12.2019
Receivables arising from money market papers					
Investment Grade					
• Very Low credit risk	AAA	84,626			84,626
• Low credit risk	AA+, AA, AA-, A+, A, A-	38,365			38,365
• Moderate credit risk	BBB+, BBB, BBB-				0
Non Investment Grade	BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C				0
Default	D				0
Gross Carrying amount		**122,990**	**0**	**0**	**122,990**
Loss allowance		–34			–34
Carrying amount		**122,956**	**0**	**0**	**122,956**
Due from banks					
Investment Grade					
• Very Low credit risk	AAA	105,842			105,842
• Low credit risk	AA+, AA, AA-, A+, A, A-	333,932			333,932
• Moderate credit risk	BBB+, BBB, BBB-	75,309			75,309
Non Investment Grade	BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C				0
Default	D				0
Gross Carrying amount		**515,083**	**0**	**0**	**515,083**
Loss allowance		–86			–86
Carrying amount		**514,997**	**0**	**0**	**514,997**
Due from customers					
Low credit risk		6,703,401			6,703,401
Moderate credit risk		13,790	65,333		79,123
High Credit Risk				22,216	22,216
Doubtful				5,577	5,577
Default				23,070	23,070
Gross Carrying amount		**6,717,191**	**65,333**	**50,863**	**6,833,386**
Loss allowance		–1,879	–2,438	–31,754	–36,071
Carrying amount		**6,715,312**	**62,895**	**19,109**	**6,797,316**
Financial instruments measured at amortised cost					
Investment Grade					
• Very Low credit risk	AAA	577,239			577,239
• Low credit risk	AA+, AA, AA-, A+, A, A-	1,453,358			1,453,358
• Moderate credit risk	BBB+, BBB, BBB-	273,188			273,188
Non Investment Grade	BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C				0
Default	D				0
Gross Carrying amount		**2,303,785**	**0**	**0**	**2,303,785**
Loss allowance		–1,308			–1,308
Carrying amount		**2,302,477**	**0**	**0**	**2,302,477**

Credit exposures by rating classes (continued)

in CHF 1,000	Exposure to credit risk on loan commitments and financial guarantee contracts			
	Stage 1	Stage 2	Stage 3	Total 31.12.2019
Exposure to credit risk on loan commitments and financial guarantee contracts				
Low credit risk	11,453			11,453
Moderate credit risk				0
High Credit Risk	220,254	160		220,414
Doubtful				0
Default				0
Gross Carrying amount	**231,707**	**160**	**0**	**231,867**
Loss allowance	–295			–295
Carrying amount	**231,412**	**160**	**0**	**231,572**

Information about amounts arising from expected credit losses

in CHF 1,000	Expected credit loss of the below financial position			
	Stage 1	Stage 2	Stage 3	Total 2020
Due from customers - mortgage loans[1]				
01 January 2020	**57**	**1,409**	**8,962**	**10,428**
New financial assets originated or purchased	23	15		38
Transfers				0
• to stage 1	601	–368	–233	0
• to stage 2				0
• to stage 3				0
Net remeasurement of loss allowance	–609	19	2,831	2,241
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	–10	–96	–1,331	–1,437
Changes in models/risk parameters		–961		–961
Amounts written off on loans / utilisation in accordance with purpose			–3,648	–3,648
Foreign exchange and other adjustments			–92	–92
31 December 2020	**62**	**18**	**6,489**	**6,569**
Due from customers - lombard loans[1]				
01 January 2020	**1,520**	**1,021**	**17,754**	**20,295**
New financial assets originated or purchased	321	19		340
Transfers				0
• to stage 1				0
• to stage 2	–14	14		0
• to stage 3				0
Net remeasurement of loss allowance	–218		21,635	21,417
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	–365	–754		–1,119
Changes in models/risk parameters				0
Amounts written off on loans / utilisation in accordance with purpose			–22,254	–22,254
Foreign exchange and other adjustments	17	1	–392	–374
31 December 2020	**1,261**	**301**	**16,743**	**18,305**
Due from customers - other loans[1]				
01 January 2020	**302**	**8**	**5,038**	**5,348**
New financial assets originated or purchased	82	3		85
Transfers				0
• to stage 1	5	–5		0
• to stage 2	–3	3		0
• to stage 3	–1		1	0
Net remeasurement of loss allowance	15	50	103	168
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	–116	–1		–117
Changes in models/risk parameters				0
Amounts written off on loans / utilisation in accordance with purpose			–113	–113
Foreign exchange and other adjustments	–26	–1	–119	–146
31 December 2020	**258**	**57**	**4,910**	**5,225**

[1] By type of collateral.

Information about amounts arising from expected credit losses (continued)

in CHF 1'000	Wertberichtigungen der untenstehenden Finanzinstrumente Stufe 1	Stufe 2	Stufe 3	Total 2019
Due from customers - mortgage loans[1]				
01 January 2019	61	6,529	9,254	15,844
New financial assets originated or purchased	15	188		203
Transfers				0
• to stage 1	6,419	–4,135	–2,284	0
• to stage 2				0
• to stage 3		–431	431	0
Net remeasurement of loss allowance	–6,423	292	2,600	–3,531
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	–13	–1,097	–394	–1,504
Changes in models/risk parameters				0
Amounts written off on loans / utilisation in accordance with purpose			–332	–332
Foreign exchange and other adjustments	–2	63	–313	–252
31 December 2019	**57**	**1,409**	**8,962**	**10,428**
Due from customers - lombard loans[1]				
01 January 2019	241	3,933	17,662	21,836
New financial assets originated or purchased	1,281	137		1,418
Transfers				0
• to stage 1				0
• to stage 2				0
• to stage 3		–1	1	0
Net remeasurement of loss allowance	137		–94	43
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	–140	–3,049	–473	–3,662
Changes in models/risk parameters				0
Amounts written off on loans / utilisation in accordance with purpose				0
Foreign exchange and other adjustments	1	1	658	660
31 December 2019	**1,520**	**1,021**	**17,754**	**20,295**
Due from customers - other loans[1]				
01 January 2019	243	5	6,108	6,356
New financial assets originated or purchased	130	7		137
Transfers				0
• to stage 1				0
• to stage 2				0
• to stage 3				0
Net remeasurement of loss allowance	12		20	32
Financial assets derecognised during period (not written off) i.e., repayments, modifications, sales, etc.	–83	–4	–693	–780
Changes in models/risk parameters				0
Amounts written off on loans / utilisation in accordance with purpose				0
Foreign exchange and other adjustments			–398	–398
31 December 2019	**302**	**8**	**5,038**	**5,348**

[1] By type of collateral.

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

in CHF 1,000	Impact: increase/decrease			
	Stage 1	Stage 2	Stage 3	Total 2020
Volume change of central banks, money market instruments and banks by CHF 759 million	76			76
Volume change of bonds amc/oci by CHF 102 million (stage 1)	–38			–38
Reclassification of individual bonds in stage 2		301		301
Volume change of customer loans by CHF 642 million	–136		–3,612	–3,748
Impact of changes in volumes on loss allowances	**–98**	**301**	**–3,612**	**–3,409**
Loans with special collateral at VP Bank (Luxembourg) SA		–726		–726
Reassesment of mortgage claims at VP Bank (BVI) Ltd (Hurrican Irma)	5	–368		–363
Impact of changes in customer loans with additional risk provisions	**5**	**–1,094**		**–1,089**
Withdrawal of the special parameters for mortgage claims of VP Bank (BVI) Ltd (Hurrican Irma)		**–961**		**–961**
Other effects	**–261**	**–7**		**–268**
Total	**–354**	**–1,761**	**–3,612**	**–5,727**

in CHF 1,000	Impact: increase/decrease			
	Stage 1	Stage 2	Stage 3	Total 2019
Volume change of central banks, money market instruments and banks by CHF 371 million	1			1
Volume change of bonds amc/oci by CHF 79 million	–51			–51
Volume change of customer loans by CHF 572 million	1,340			1,340
Impact of changes in volumes on loss allowances	**1,290**	**0**	**0**	**1,290**
Mortgage claims at VP Bank (BVI) Ltd	2	–4,214		–4,212
Loans with special collateral at VP Bank (Luxembourg) SA		–2,907		–2,907
Reassessment of other customer loans with specific allowances				0
Impact of changes in customer loans with additional risk provisions	**2**	**–7,121**	**0**	**–7,119**
Other effects	**265**	**–3**		**262**
Total	**1,557**	**–7,124**	**0**	**–5,567**

The following table provides disclosures on assets which were modified and at the same time have a stage 2 and 3 valuation allowance.

Information about the nature and effect of modifications on the measurement of provision for doubtful debts (Stage 2 and 3) in CHF 1,000	Total 2020	Total 2019
Financial assets modified during the period		
Amortised cost before modification		
Net modificaton loss		
Financial assets modified since initial recognition		
Gross carrying amount at 31 December of financial assets for which loss allowance has changed from stage 2 or stage 3 to stage 1 during the period	6,045	24,634

6. Operational risks

Whilst financial risks are deliberately assumed in order to earn revenues, operational risk should be avoided by suitable controls and measures or, be reduced to a level set by the Bank, if possible.

There are a wide variety of causes for operational risks. People make mistakes, IT systems fail, external risks affect the Bank or business processes do not work. 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 across all business units and processes on a uniform and Group-wide basis.

The following methods are used:
- The internal control system of VP Bank encompasses all process-integrated and process-independent measures, functions and controls which assure the orderly conduct of business operations.
- In order to recognise potential losses on a timely basis and in order to ensure enough time for the implementation of countermeasures, early-warning indicators are used.
- Significant loss occurrences are systematically recorded and evaluated centrally. The findings from the collection of loss data are integrated directly into the risk management process.

Group Risk is responsible for the Group-wide implementation, monitoring and further development of the risk management methods deployed and bears responsibility for the associated IT application.

The risk factors leading to operational risks are assessed within the framework of periodic top-down and bottom-up risk assessments. Based on these assessments, Group Executive Management decides how to deal with the identified risks.

Each person in a management position is responsible for identification and evaluation of operational risks as well as for definition and performance of key controls and measures to contain risks. This responsibility may not be delegated.

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

Business Continuity Management (BCM), as a further important sub-area, is systematically pursued by VP Bank along the lines of ISO standard 22301:2012. The basis thereof is the BCM strategy which has been implemented by Group Executive Management and is reviewed for effectiveness and accuracy on an ongoing basis. Operationally critical processes are reviewed in detail, discussed and, where necessary, documented with a clear course of action. The organisation necessary for crisis management is in place and its members are routinely trained and instructed.

7. Business risk and strategic risk

Business risk may result from unexpected changes in market conditions and business environment with an adverse effect on profitability or equity. It indicates the risk of unexpected losses due to inadequate business strategies (strategic risk). Group Executive Management is responsible for managing business and strategic risk by taking into account the internal and external business environment. Top business risks are derived and appropriate measures are implemented (top-down process).

8. Compliance risk

Compliance risk is understood to be breaches of statutory and regulatory provisions that can cause significant damage to VP Bank's reputation or result in sanctions, fines or even in the Bank's licence being withdrawn. The compliance risk of VP Bank consists in particular of VP Bank not or not sufficiently recognising financial crime risks of its clients and counterparties – such as money laundering, financing of terrorism, violations of sanctions and embargoes, and fraud and corruption activities – and not establishing appropriate monitoring and control processes/measures for the identification, management and limitation of cross-border compliance risks as well as tax and investment compliance risks.

All relevant compliance risks which are of significance for the business and service activities of VP Bank Group are recorded and assessed within the scope of a Group-wide, annual compliance risk assessment. In this regard, all relevant, risk-based compliance controls as well as processes and systems within the overall organisation of VP Bank Group are assessed in order to determine whether they are up-to-date, appropriate and effective. In this context, the risk-based compliance controls must be proportionate to the respective compliance risk, the management effort and the intended control objectives. VP Bank Group also ensures through regular compliance trainings that all employees of VP Bank Group are familiar with and adhere to the relevant compliance regulations.

9. Reputational risk

Reputational risk represents the risk of negative economic effects that could arise as a result of damage to the public image or reputation of VP Bank. Business and strategic risks, financial risks, and operational and compliance risks can result in reputational risks and weaken the confidence in the Bank's reputation of employees, clients, shareholders, regulators or the public in general. This may result in asset losses or a decline in earnings, for instance due to deteriorating or terminated client relationships, rating downgrades, higher refinancing costs or more difficult access to the interbank market.

Reputational risks are monitored by Group Executive Management.

Segment reporting

Business segment reporting 2020

in CHF 1,000	Intermediaries & Private Banking	Client Solutions	Corporate Center	Total Group
Total net interest income	101,345	1,677	10,543	113,565
Total net income from commission business and services	119,353	31,254	–10,628	139,980
Income from trading activities	31,808	2,479	22,346	56,632
Income from financial instruments	0	0	7,900	7,900
Other income	32	323	615	970
Total operating income	**252,538**	**35,733**	**30,776**	**319,047**
Personnel expenses	64,303	10,960	86,854	162,117
General and administrative expenses	7,816	4,973	46,075	58,864
Depreciation of property, equipment and intangible assets	5,584	527	22,652	28,763
Credit loss expenses	19,416	–30	–27	19,359
Provisions and losses	393	4	3	400
Services to/from other segments	55,074	2,421	–57,495	0
Operating expenses	**152,585**	**18,855**	**98,063**	**269,503**
Earnings before income tax	**99,953**	**16,878**	**–67,287**	**49,544**
Taxes on income				7,922
Group net income				**41,622**
Segment assets (in CHF million)	6,213	65	7,245	13,523
Segment liabilities (in CHF million)	9,808	898	1,792	12,498
Client assets under management (in CHF billion)[1]	36.0	11.5	0.0	47.4
Net new money (in CHF billion)	0.8	0.5	0.0	1.4
Headcount (number of employees)	356	81	553	990
Headcount (expressed as full-time equivalents)	334.2	75.3	507.5	917.1

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

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

Business segment reporting 2019

in CHF 1,000	Intermediaries & Private Banking	Client Solutions	Corporate Center	Total Group
Total net interest income	115,300	2,382	–2,580	115,101
Total net income from commission business and services	115,207	31,223	–9,264	137,166
Income from trading activities	29,895	2,137	28,953	60,985
Income from financial instruments	0	2	14,269	14,271
Other income	30	338	–116	252
Total operating income	**260,432**	**36,082**	**31,261**	**327,775**
Personnel expenses	67,316	11,056	87,019	165,391
General and administrative expenses	9,167	4,570	42,561	56,298
Depreciation of property, equipment and intangible assets	6,631	699	22,013	29,343
Credit loss expenses	–6,494	–228	–31	–6,753
Provisions and losses	533	19	3	555
Services to/from other segments	51,357	2,380	–53,737	0
Operating expenses	**128,510**	**18,496**	**97,828**	**244,834**
Earnings before income tax	**131,922**	**17,586**	**–66,567**	**82,941**
Taxes on income				9,398
Group net income				**73,543**
Segment assets (in CHF million)	6,554	229	6,617	13,400
Segment liabilities (in CHF million)	9,311	839	2,224	12,374
Client assets under management (in CHF billion)[1]	35.4	11.4	0.0	46.8
Net new money (in CHF billion)	1.5	0.6	0.0	2.1
Headcount (number of employees)	349	72	522	943
Headcount (expressed as full-time equivalents)	327.6	66.9	479.2	873.7

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

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

Geographic segment reporting

in CHF 1,000	Liechtenstein	Rest of Europe	Other countries	Total Group
2020				
Total operating income	207,339	78,992	32,716	319,047
Total assets	10,631	1,896	996	13,523
2019				
Total operating income	228,892	65,322	33,561	327,775
Total assets	10,371	1,799	1,230	13,400

Segment reporting follows the principle of branch accounting.

Notes to the consolidated financial statement

1 Interest income

in CHF 1,000	2020	2019	Variance absolute	Variance in %
Discount income	1,050	2,299	–1,249	–54.3
Loan commissions with the character of interest	790	1,055	–265	–25.1
Interest income from banks	381	1,670	–1,289	–77.2
Interest income from customers	85,983	114,661	–28,678	–25.0
Interest income from financial instruments measured at amortised cost	27,033	30,872	–3,839	–12.4
Interest income from financial liabilities	6,849	4,813	2,036	42.3
Total interest income from financial instruments at amortised cost	**122,086**	**155,370**	**–33,284**	**–21.4**
Interest-rate instruments	–791	–1,099	308	28.0
Trading derivatives (forward points)	17,911	19,066	–1,155	–6.1
Hedge accounting	–68	3	–71	n.a.
Total other interest income	**17,052**	**17,970**	**–918**	**–5.1**
Total interest income	**139,138**	**173,340**	**–34,202**	**–19.7**
Interest expenses on amounts due to banks	39	1,243	–1,204	–96.9
Interest expenses on amounts due to customers	13,347	46,098	–32,751	–71.0
Interest expenses on medium-term notes	432	646	–214	–33.1
Interest expenses on debentures issued	2,219	1,352	867	64.1
Interest expenses from financial assets	9,233	8,566	667	7.8
Interest expenses on right-of-use assets	303	334	–31	–9.3
Total interest expenses using the effective interest method	**25,573**	**58,239**	**–32,666**	**–56.1**
Total net interest income	**113,565**	**115,101**	**–1,536**	**–1.3**
Fair-value hedges				
Movements arising from hedges	159	–610	769	126.1
• Micro fair-value hedges	159	–610	769	126.1
Movements in underlying transactions	–227	613	–840	–137.0
• Micro fair-value hedges	–227	613	–840	–137.0
Total hedge accounting[1]	**–68**	**3**	**–71**	**n.a.**

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

2 Income from commission business and services

in CHF 1,000	2020	2019	Variance absolute	Variance in %
Commission income from credit business	776	1,015	–239	–23.5
Asset management and investment business	55,269	54,110	1,159	2.1
Brokerage fees	37,970	32,126	5,844	18.2
Securities account fees	19,209	20,718	–1,509	–7.3
Fund management fees	52,826	58,134	–5,308	–9.1
Fiduciary commissions	1,154	2,304	–1,150	–49.9
Other commission and service income	17,299	18,246	–947	–5.2
Total income from commission business and services	**184,503**	**186,653**	**–2,150**	**–1.2**
Brokerage expenses	1,978	1,535	443	28.9
Other commission and services-related expenses	42,545	47,952	–5,407	–11.3
Total expenses from commission business and services	**44,523**	**49,487**	**–4,964**	**–10.0**
Total net income from commission business and services	**139,980**	**137,166**	**2,814**	**2.1**

The following table shows what proportions are included in the income position «asset management and investment business».

in CHF 1,000	2019	2018	Variance absolute	Variance in %
Fees for securities settlement	8,120	8,496	–376	–4.4
Administration commissions	31,246	29,976	1,270	4.2
Management fees	8,182	9,333	–1,151	–12.3
Brokerage fees[1]	15,335	12,933	2,402	18.6
Securities account fees	4,161	4,568	–407	–8.9
Administration fees[1]	3,568	3,142	426	13.6
All-in-fees	13,470	12,915	555	4.3
Miscellaneous fees	2,433	2,723	–290	–10.7
Asset management and investment business	**55,269**	**54,110**	**1,159**	**2.1**

[1] Presentation of previous year's figures for the reporting period adjusted.

3 Income from trading activities

in CHF 1,000	2020	2019	Variance absolute	Variance in %
Securities trading[1]	–2,315	–2,878	563	19.6
Interest income from trading portfolios	0	0	0	0.0
Foreign currency	57,638	62,851	–5,213	–8.3
Banknotes, precious metals and other	1,309	1,012	297	29.3
Total income from trading activities	**56,632**	**60,985**	**–4,353**	**–7.1**

[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	2020	2019	Variance absolute	Variance in %
Income from financial instruments at fair value	6,021	14,361	–8,340	–58.1
Income from financial instruments at amortised cost (foreign exchange)	1,879	–90	1,969	n.a.
Total income from financial instruments	**7,900**	**14,271**	**–6,371**	**–44.6**
Income from financial instruments at fair value				
Income from FVTPL assets	272	5,768	–5,496	–95.3
Interest income from FVTPL financial instruments	1,027	2,224	–1,197	–53.8
Dividend income from FVTPL financial instruments	721	1,166	–445	–38.2
Dividend income from FVTOCI financial instruments	4,001	5,203	–1,202	–23.1
thereof from FVTOCI financial instruments sold	58	0	58	0.0
Total	**6,021**	**14,361**	**–8,340**	**–58.1**
Income from financial instruments at amortised cost (foreign exchange)				
Revaluation gains/losses on financial instruments at amortised cost	–1	–7	6	85.7
Realised gains/losses on financial instruments at amortised cost	1,880	–83	1,963	n.a.
Total	**1,879**	**–90**	**1,969**	**n.a.**

5 Other income

in CHF 1,000	2020	2019	Variance absolute	Variance in %
Income from real estate	157	150	7	4.7
Income from joint venture companies	–3	–2	–1	–50.0
Miscellaneous other income	816	104	712	n.a.
Total other income	**970**	**252**	**718**	**284.9**

6 Personnel expenses

in CHF 1,000	2020	2019	Variance absolute	Variance in %
Salaries and wages	133,448	135,675	–2,227	–1.6
Social contributions required by law	11,505	12,567	–1,062	–8.5
Contributions to pension plans / defined-benefit plans	9,873	9,988	–115	–1.2
Contributions to pension plans / defined-contribution plans	2,631	1,896	735	38.8
Other personnel expenses	4,660	5,265	–605	–11.5
Total personnel expenses	**162,117**	**165,391**	**–3,274**	**–2.0**

7 General and administrative expenses

in CHF 1,000	2020	2019	Variance absolute	Variance in %
Occupancy expenses	3,040	2,941	99	3.4
Insurance	859	820	39	4.8
Professional fees	14,475	11,756	2,719	23.1
Financial information procurement	8,941	8,503	438	5.2
Telecommunication and postage	1,328	1,184	144	12.2
IT systems	17,986	16,118	1,868	11.6
Marketing and public relations	4,207	4,817	–610	–12.7
Capital taxes	906	805	101	12.5
Other general and administrative expenses	7,122	9,354	–2,232	–23.9
Total general and administrative expenses	**58,864**	**56,298**	**2,566**	**4.6**
Fees invoiced by the audit firm	1,731	1,446	285	19.7
thereof the audit of the annual financial statements	593	945	–352	–37.2
thereof other audit or assurance services	521	479	42	8.8
thereof tax advisory services	285	0	285	0.0
thereof other services	332	22	310	n.a.

8 Depreciation of property, equipment and intangible assets

in CHF 1,000	Note	2020	2019	Variance absolute	Variance in %
Depreciation and amortisation of property and equipment	22	15,888	15,030	858	5.7
Depreciation and amortisation of intangible assets	23	12,875	14,313	–1,438	–10.0
Total depreciation and amortisation		**28,763**	**29,343**	**–580**	**–2.0**

9 Valuation allowances, provisions and losses

in CHF 1,000	2020	2019	Variance absolute	Variance in %
Decrease/increase credit allowances[1]	19,359	–6,753	26,112	386.7
Legal and litigation risks	–515	–42	–473	n.a.
Other provisions and losses	915	597	318	53.3
Total valuation allowances, provisions and losses	**19,759**	**–6,198**	**25,957**	**418.8**

[1] Including currency effects.
[2] Includes the valuation allowances of a single position (page 94).

10a Taxes on income

in CHF 1,000	2020	2019
Domestic		
Current taxes	6,907	7,225
Deferred taxes	–153	1,185
Foreign		
Current taxes	1,054	–84
Deferred taxes	114	1,072
Total current taxes	7,961	7,141
Total deferred taxes	–39	2,257
Total taxes on income	**7,922**	**9,398**

Actual payments for domestic and foreign taxes made by the Group in 2020 totalled CHF 7.6 million (2019: CHF 8.0 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:

	2020	2019
Liechtenstein	12.5%	12.5%
Switzerland	19.7%	19.7%
Luxembourg	24.9%	24.9%
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	**2020**	**2019**
Income before income tax		
Domestic	49,325	63,536
Foreign	219	19,405
Taxes on income using an assumed average charge	**7,432**	**12,441**
Reasons for increased/decreased taxable income		
Effect on tax free income / effect on non taxable expenses	4,391	–247
Difference between actual and assumed tax rates	–2,621	–1,395
Lower tax charges as a result of changes in laws or taxation agreements	–51	–173
Use of non-capitalised losses carried forward	0	–790
Tax income unrelated to accounting period	102	–293
Use of tax loss carry-forwards	–1,331	–145
Total income tax	**7,922**	**9,398**

10b Deferred tax assets and liabilities

in CHF 1,000	**Balance at the beginning of the financial year**	**Changes affecting the income statement**	**Changes affecting the other comprehensive income**	**Changes in scope of consolidation/ acquisitions**	**Total 2020**
Deferred tax assets					
Property, equipment and intangible assets	5,559	275	0	0	5,834
Valuation allowances for credit risks	868	5	0	0	873
Tax loss carry-forwards[1]	2,705	–374	0	0	2,331
Defined-benefit pension plans	5,914	30	–429	0	5,515
Financial instruments	348	13	26	0	387
Other	1,517	–355	0	0	1,162
Total deferred tax assets	**16,911**	**–406**	**–403**	**0**	**16,102**
Offsetting	–6,937				–5,929
Total deferred tax assets after offsetting	**9,974**				**10,173**
Deferred tax liabilities					
Property, equipment and intangible assets	3,546	–489	0	0	3,057
Financial instruments	466	–50	0	0	416
Financial instruments directly offset within shareholders' equity	521	0	–488	0	33
Valuation allowances for credit risks	23	16	0	0	39
Other	2,446	79	0	0	2,525
Total deferred tax liabilities	**7,002**	**–444**	**–488**	**0**	**6,070**
Offsetting	–6,937				–5,929
Total deferred tax liabilities after offsetting	**65**				**141**

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

10b Deferred tax assets and liabilities (continued)

in CHF 1,000	Balance at the beginning of the financial year[1]	Changes affecting the income statement	Changes affecting the other comprehensive income	Changes in scope of consolidation/ other	Total 2019
Deferred tax assets					
Property, equipment and intangible assets	5,249	310	0	0	5,559
Valuation allowances for credit risks	909	–41	0	0	868
Tax loss carry-forwards[2]	4,049	–1,731	0	387	2,705
Defined-benefit pension plans	9,632	–1,995	–1,723	0	5,914
Financial instruments	170	178	0	0	348
Other	1,964	–447	0	0	1,517
Total deferred tax assets	**21,973**	**–3,726**	**–1,723**	**387**	**16,911**
Offsetting	–6,392				–6,937
Total deferred tax assets after offsetting	**15,581**				**9,974**
Deferred tax liabilities					
Property, equipment and intangible assets	2,771	–427	0	1,202	3,546
Financial instruments	2,073	–1,607	0	0	466
Financial instruments directly offset within shareholders' equity	–345	0	866	0	521
Valuation allowances for credit risks	11	12	0	0	23
Other	1,882	564	0	0	2,446
Total deferred tax liabilities	**6,392**	**–1,458**	**866**	**1,202**	**7,002**
Offsetting	–6,392				–6,937
Total deferred tax liabilities after offsetting	**0**				**65**

1 The balancing of deferred tax assets and liabilities was refined in the companies and allocated to the individual subject areas. The 2019 opening balances have been adjusted accordingly and the table aligned. This reclassification had no effect on the total of deferred tax assets and liabilities.
2 Provided that the realisation of future tax benefits is considered probable, these must be treated as an asset. The offset of deferred tax assets and liabilities is only possible if they are due to/from the same taxing authority.

Deferred taxes arise because of timing differences between the IFRS financial statements and the statutory accounts as a result of differing valuation policies.

in CHF 1,000	2020	2019
Loss carry-forwards not reflected in the balance sheet expire as follows:		
Within 1 year	0	0
Within 1 to 5 years	0	0
Within 5 to 10 years	0	0
No expiration	3,869	0
Total	**3,869**	**0**

10c Tax assets and liabilities

in CHF 1,000	Note	31.12.2020	31.12.2019
Tax assets			
Amounts receivable arising on current taxes on income		159	847
Deferred tax assets	10b	10,173	9,974
Total tax assets		**10,332**	**10,821**
Tax liabilities			
Liabilities arising on current taxes on income		12,208	11,986
Deferred tax liabilities	10b	141	65
Total tax liabilities		**12,349**	**12,051**

10d Tax effects on other comprehensive income

in CHF 1,000	Amount before tax	Tax yield / tax expenses	31.12.2020 Amount net of tax
Changes in foreign-currency translation differences	–8,699	0	–8,699
Foreign-currency translation difference transferred to the income statement from shareholders' equity	0	0	0
Changes in value of FVTOCI financial instruments	–8,328	514	–7,814
Actuarial gains/losses from defined-benefit pension plans	3,721	–429	3,292
Total comprehensive income in shareholders' equity	**–13,306**	**85**	**–13,221**

			31.12.2019
	Amount before tax	**Tax yield / tax expenses**	**Amount net of tax**
Changes in foreign-currency translation differences	–2,188	0	–2,188
Foreign-currency translation difference transferred to the income statement from shareholders' equity	0	0	0
Changes in value of FVTOCI financial instruments	8,052	–866	7,186
Actuarial gains/losses from defined-benefit pension plans	10,495	–1,723	8,772
Total comprehensive income in shareholders' equity	**16,359**	**–2,589**	**13,770**

11 Earnings per share

	31.12.2020	**31.12.2019**
Consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000)[1]	41,622	73,543
Weighted average of registered shares A issued	6,015,000	6,015,000
Weighted average of registered shares B issued	6,004,167	6,004,167
Less weighted average number of treasury shares A	551,888	595,006
Less weighted average number of treasury shares B	333,457	326,088
Weighted average number of registered shares A (undiluted)	5,463,112	5,419,994
Weighted average number of registered shares B (undiluted)	5,670,710	5,678,079
Total weighted average number of shares (registered shares A)	6,030,183	5,987,802
Undiluted consolidated earnings per registered share A	6.90	12.28
Undiluted consolidated earnings per registered share B	0.69	1.23
Diluted consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000)[1]	41,622	73,543
Dilution effect number of registered shares A[2]	30,970	71,001
Number of shares used to compute the fully diluted consolidated net income	6,061,153	6,058,803
Diluted consolidated earnings per registered share A	6.87	12.14
Diluted consolidated earnings per registered share B	0.69	1.21

[1] On the basis of Group profits attributable to the shareholders of VP Bank Ltd, Vaduz.
[2] The dilutive effect results from outstanding management participation plans (note 43).

12 Dividend

	2020	**2019**
Approved and paid dividend of VP Bank Ltd, Vaduz		
Dividend (in CHF 1,000) for the financial year 2019 (2018)	36,385	36,385
Dividend per registered share A	5.50	5.50
Dividend per registered share B	0.55	0.55
Payout ratio (in %)	44.8	60.8
Proposed dividend to be approved by the annual general meeting of VP Bank Ltd, Vaduz (not reflected as a liability as of 31 December)		
Dividend (in CHF 1,000) for the financial year 2020	26,462	
Dividend per registered share A	4.00	
Dividend per registered share B	0.40	
Payout ratio (in %)[1]	58.0	

[1] Dividend per registered share A / Group net income per registered share A

13 Cash and cash equivalents

in CHF 1,000	**31.12.2020**	**31.12.2019**
Cash on hand	25,477	13,769
At-sight balances with national and central banks	2,567,371	2,896,279
Expected credit loss	–142	–113
Total cash and cash equivalents	**2,592,706**	**2,909,935**

14 Receivables arising from money market paper

in CHF 1,000	31.12.2020	31.12.2019
Money market paper (qualifying for refinancing purposes)	116,198	122,990
Other money market paper	0	0
Expected credit loss	–32	–34
Total receivables arising from money market paper	**116,166**	**122,956**

15 Due from banks and customers

in CHF 1,000	Note	31.12.2020	31.12.2019
By type of exposure			
Due from banks – at-sight balances		612,509	655,808
Due from banks – term balances		1,171,946	79,304
Valuation allowances for credit risks	16	–135	–86
Due from banks		**1,784,320**	**735,026**
Mortgage receivables		3,372,024	3,343,572
Other receivables		2,939,604	3,489,815
Valuation allowances for credit risks	16	–30,099	–36,071
Due from customers		**6,281,529**	**6,797,316**
Total due from banks and customers		**8,065,849**	**7,532,342**
Due from customers by type of collateral			
Mortgage collateral		3,423,238	3,377,304
Other collateral		2,454,786	2,991,609
Without collateral		433,604	464,474
Subtotal		**6,311,628**	**6,833,387**
Valuation allowances for credit risks		–30,099	–36,071
Total due from customers		**6,281,529**	**6,797,316**

16 Valuation allowances for credit risks

The detailed information on credit risks is disclosed in the section Risk Management of the VP Bank Group on pages 123 ff.

17 Trading portfolios

in CHF 1,000	31.12.2020	31.12.2019
Debt securities valued at fair value		
Total	0	0
Equity securities / investment-fund units valued at fair value		
Total	0	0
Other	290	199
Total trading portfolios	**290**	**199**

18 Derivative financial instruments

31.12.2020 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments			
Forward contracts			
Swaps	14	6,332	137,762
Futures			
Options (OTC)			
Options (exchange-traded)			
Total interest-rate instruments 31.12.2020	**14**	**6,332**	**137,762**

31.12.2020 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Foreign currencies			
Forward contracts	43,846	44,221	4,930,731
Combined interest rate/currency swaps	24,239	42,227	4,793,736
Futures			
Options (OTC)	9,924	9,922	1,281,138
Options (exchange-traded)			
Total foreign currencies 31.12.2020	**78,009**	**96,370**	**11,005,605**
Equity securities/indices			
Forward contracts			
Futures			
Options (OTC)	463	463	16,759
Options (exchange-traded)		105	1,285
Total equity securities/indices 31.12.2020	**463**	**568**	**18,044**
Precious metals			
Forward contracts	129	225	20,612
Swaps			
Options (OTC)	876	876	67,701
Options (exchange-traded)			
Total precious metals 31.12.2020	**1,005**	**1,101**	**88,313**
Total derivative financial instruments 31.12.2020	**79,491**	**104,371**	**11,249,724**

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.

The reform of the IBOR interest rates had or has no material impact on the replacement values of the derivatives. With the exception of interest rate swaps, the contract specifications of the derivatives are not related to IBOR interest rates. In the EUR currency, the EURIBOR is already available in a revised form and can continue to be used as a reference interest rate. For the interest rate swaps in the CHF currency, the abolition of CHF-LIBOR as reference interest rate is expected at the end of 31 December 2021. It is planned to switch the corresponding contracts to the reference interest rate SARON in 2021 via an ISDA fallback, whereby the switch will be value-neutral. The contract volume of the affected interest rate swaps amounts to CHF 138 million.

31.12.2019 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments			
Swaps	56	9,036	194,110
Total interest-rate instruments 31.12.2019	**56**	**9,036**	**194,110**
Foreign currencies			
Forward contracts	23,915	24,208	2,689,170
Combined interest rate/currency swaps	16,322	29,440	4,134,640
Options (OTC)	30,755	30,718	1,478,665
Total foreign currencies 31.12.2019	**70,992**	**84,366**	**8,302,475**
Equity securities/indices			
Options (OTC)	111	111	3,737
Total equity securities/indices 31.12.2019	**111**	**111**	**3,737**
Precious metals			
Forward contracts	241	0	10,427
Options (OTC)	1,113	1,112	44,883
Total precious metals 31.12.2019	**1,354**	**1,112**	**55,310**
Total derivative financial instruments 31.12.2019	**72,513**	**94,625**	**8,555,632**

19 Financial instruments at fair value

in CHF 1,000	31.12.2020	31.12.2019
Debt instruments		
Exchange-listed	39,786	73,805
Non-exchange-listed	5,405	0
Total	**45,191**	**73,805**
Equity shares / investment fund units		
Exchange-listed	5,088	12,257
Non-exchange-listed	30,459	19,358
Total	**35,547**	**31,615**
Equity shares, through other comprehensive income (FVTOCI)		
Exchange-listed	95,011	101,380
Non-exchange-listed	4,036	5,427
Total	**99,047**	**106,807**
Structured products		
Exchange-listed	544	607
Non-exchange-listed[1]	2,607	2,856
Total	**3,151**	**3,463**
Total financial instruments at fair value	**182,936**	**215,690**

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.

[1] Principally structured credit notes (credit-linked notes and credit-default notes).

20 Financial instruments at amortised cost

in CHF 1,000	31.12.2020	31.12.2019
Debt instruments		
Exchange-listed	2,199,829	2,284,492
Non-exchange-listed	3,045	19,293
Expected credit loss	–1,571	–1,308
Total	**2,201,303**	**2,302,477**
Total financial instruments at amortised cost	**2,201,303**	**2,302,477**

21 Joint venture

in CHF 1,000	2020	2019
Balance at the beginning of the financial year	28	30
Additions	–3	–2
Value impairments	0	0
Balance as of balance sheet date	**25**	**28**

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

Name	Registered office	Activity	Share capital	Capital held in % 31.12.2020	Capital held in % 31.12.2019
Data Info Services AG	Vaduz	Procurement, trade and exchange of goods and services	CHF 50,000	50	50

22 Property and equipment

in CHF 1,000	Right of use assets[1]	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total 2020
Acquisition cost						
Balance on 01.01.2020	36,171	196,002	5,023	17,448	26,147	280,791
Additions	4,022	1,006	258	784	2,857	8,927
Disposals/derecognitions[2]	–2,736	–202		–151	–2,997	–6,086
Foreign-currency translation	–381	–80	–51	–50	–56	–618
Balance on 31.12.2020	**37,076**	**196,726**	**5,230**	**18,031**	**25,951**	**283,014**
Accumulated depreciation and amortisation						
Balance on 01.01.2020	–5,620	–128,842	–528	–10,781	–19,652	–165,423
Depreciation and amortisation	–5,730	–5,064	–340	–1,244	–3,510	–15,888
Disposals/derecognitions[2]	2,736	202		125	2,996	6,059
Foreign-currency translation	218	56	35	31	54	394
Other adjustments	0					0
Balance on 31.12.2020	**–8,396**	**–133,648**	**–833**	**–11,869**	**–20,112**	**–174,858**
Net book values on 31.12.2020	**28,680**	**63,078**	**4,397**	**6,162**	**5,839**	**108,156**

[1] Total according to the table below.
[2] Includes the derecognitions of completely depreciated and amortised assets.

Right of use assets

in CHF 1,000	Buildings and premises	Motor vehicles	Total 2020
Acquisition cost			
Balance on 01.01.2020	34,828	1,343	36,171
Additions	3,750	272	4,022
Disposals/derecognitions	–2,669	–67	–2,736
Foreign-currency translation	–381	0	–381
Balance on 31.12.2020	**35,528**	**1,548**	**37,076**
Accumulated depreciation and amortisation			
Balance on 01.01.2020	–5,279	–341	–5,620
Depreciation and amortisation	–5,296	–434	–5,730
Disposals/derecognitions	2,669	67	2,736
Foreign-currency translation	218	0	218
Balance on 31.12.2020	**–7,688**	**–708**	**–8,396**
Net book values on 31.12.2020	**27,840**	**840**	**28,680**

in CHF 1,000	Right of use assets[1]	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total 2019
Acquisition cost						
Balance on 01.01.2019	0	205,499	4,614	16,743	22,966	249,822
First adoption IFRS 16	34,308					34,308
Additions	1,920	1,780	420	1,055	4,260	9,435
Disposals/derecognitions[2]	0	–11,247		–341	–1,068	–12,656
Foreign-currency translation	–57	–30	–11	–9	–11	–118
Balance on 31.12.2019	**36,171**	**196,002**	**5,023**	**17,448**	**26,147**	**280,791**
Accumulated depreciation and amortisation						
Balance on 01.01.2019	0	–133,946	–158	–9,989	–17,910	–162,003
Depreciation and amortisation	–5,663	–5,017	–376	–1,103	–2,871	–15,030
Disposals/derecognitions[2]	0	10,565		306	1,118	11,989
Foreign-currency translation	43	14	6	5	11	79
Other adjustments	0	–458				–458
Balance on 31.12.2019	**–5,620**	**–128,842**	**–528**	**–10,781**	**–19,652**	**–165,423**
Net book values on 31.12.2019	**30,551**	**67,160**	**4,495**	**6,667**	**6,495**	**115,368**

[1] Total according to the table below. First adoption IFRS 16 - Leases starting 1 January 2019 (Note 32).
[2] Includes the derecognitions of completely depreciated and amortised assets.

Right of use assets

in CHF 1,000	Buildings and premises	Motor vehicles	Total 2019
Acquisition cost			
Balance on 01.01.2019	0	0	0
First adoption IFRS 16	33,866	442	34,308
Additions	1,019	901	1,920
Disposals/derecognitions	0	0	0
Foreign-currency translation	–57	0	–57
Other adjustments	0	0	0
Balance on 31.12.2019	**34,828**	**1,343**	**36,171**
Accumulated depreciation and amortisation			
Balance on 01.01.2019	0	0	0
Depreciation and amortisation	–5,322	–341	–5,663
Disposals/derecognitions	0	0	0
Foreign-currency translation	43	0	43
Balance on 31.12.2019	**–5,279**	**–341**	**–5,620**
Net book values on 31.12.2019	**29,549**	**1,002**	**30,551**

Additional information regarding property and equipment

in CHF 1,000	2020	2019
Fire insurance value of real estate	155,363	153,922
Fire insurance value of other property and equipment	43,694	45,302
Fair value of other real estate	4,397	4,495

There is no property and equipment arising from financing leasing contracts.

23 Goodwill and other intangible assets

in CHF 1,000	Software	Customer relationships	Goodwill	Total 2020
Acquisition cost				
Balance on 01.01.2020	186,680	48,748	52,895	288,323
Additions	17,373			17,373
Disposals/derecognitions	–536			–536
Foreign-currency translation	–375			–375
Balance on 31.12.2020	**203,142**	**48,748**	**52,895**	**304,785**
Accumulated amortisation				
Balance on 01.01.2020	–163,306	–27,526	–35,302	–226,134
Depreciation and amortisation	–9,008	–3,867		–12,875
Disposals/derecognitions	556			556
Foreign-currency translation	347			347
Balance on 31.12.2020	**–171,411**	**–31,393**	**–35,302**	**–238,106**
Net book values on 31.12.2020	**31,731**	**17,355**	**17,593**	**66,679**

in CHF 1,000	Software	Customer relationships	Goodwill	Total 2019
Acquisition cost				
Balance on 01.01.2019	173,202	44,123	46,112	263,437
Additions	13,509	4,625	6,783	24,917
Disposals/derecognitions	–26			–26
Foreign-currency translation	–5			–5
Balance on 31.12.2019	**186,680**	**48,748**	**52,895**	**288,323**
Accumulated amortisation				
Balance on 01.01.2019	–152,983	–23,698	–35,302	–211,983
Depreciation and amortisation	–10,485	–3,828		–14,313
Disposals/derecognitions	26			26
Foreign-currency translation	136			136
Balance on 31.12.2019	**–163,306**	**–27,526**	**–35,302**	**–226,134**
Net book values on 31.12.2019	**23,374**	**21,222**	**17,593**	**62,189**

There are no other capitalised intangible assets on the consolidated balance sheet of VP Bank Group with an unlimited estimated useful life.

Review of impairment in value of goodwill

The goodwill of CHF 17.6 million results from the existing goodwill of CHF 10.8 million arising on the acquisition of VP Bank (Luxembourg) Ltd in 2001 and which is allocated to the cash-generating unit VP Bank (Luxembourg) Ltd. Since 1 January 2005, this goodwill has not been amortised but subject only to an annual test for impairment in value. A further goodwill amount of CHF 6.8 million has existed since 2019 arising from the acquisition by VP Bank (Luxembourg) Ltd of the private-banking activities located in Luxembourg of Catella Bank (note 46) which was also allocated to the cash-generating unit VP Bank (Luxembourg) Ltd.

The determination of the recoverable amount as part of the impairment test in the 2020 financial year was based on the fair value (level 3) less selling costs. The book value of the existing goodwill and intangible assets is tested using the market multiples method from comparable listed companies or from comparable transactions. The multiple used is the so-called "goodwill" multiple, which is defined as the ratio of the difference between market capitalization and the book value of equity to the existing assets under management and is used to value companies in the wealth management sector. The recoverable amount exceeded the book value (book value of equity plus book value of acquired intangible assets after deferred taxes plus book value of goodwill) of the CGU to such an extent that an impairment of the goodwill could be viewed as unlikely. An additional calculation of the recoverable amount based on the value in use and a sensitivity analysis was therefore dispensed with.

24 Other assets

in CHF 1,000	31.12.2020	31.12.2019
Value-added taxes and other tax receivables	5,327	5,905
Prepaid retirement pension contributions	0	0
Settlement accounts	59,734	11,320
Miscellaneous other assets[1, 2]	1,928	1,420
Total other assets	**66,989**	**18,645**

[1] Compensation accounts and miscellaneous other assets.
[2] As per 31.12.2019, CHF 8.157 million was reclassified from other assets to accrued receivables and prepaid expenses.

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
2021	34,047	1,478	1,364	0	36,889
2022	19,320	521	1,066	0	20,907
2023	7,859	686	2,652	0	11,197
2024	1,847	426	0	0	2,273
2025	2,063	289	123	0	2,475
2026	1,653	0	0	0	1,653
2027	273	0	0	0	273
2028	243	0	0	0	243
2029	96	0	0	0	96
2030	142	0	0	0	142
Total 31.12.2020	**67,543**	**3,400**	**5,205**	**0**	**76,148**
Total 31.12.2019	160,785	13,181	3,527	0	177,493

The average interest rate as of 31 December 2020 was 0.40 per cent (prior year: 0.32 per cent).

26 Debentures, VP Bank Ltd, Vaduz

Year of issue	ISIN	Interest rate in %	Currency	Maturity	Nominal amount	in CHF 1,000 Total 31.12.2020	Total 31.12.2019
2015	CH0262888933	0.500	CHF	07.04.2021	100,000	100,018	100,088
2015	CH0262888941	0.875	CHF	07.10.2024	100,000	100,209	100,263
2019	CH0461238880	0.600	CHF	29.11.2029	155,000	154,978	154,976
Total					**355,000**	**355,205**	**355,327**

Debt securities issued are recorded at fair value plus transaction costs upon initial recognition. Fair value corresponds to the consideration received. Subsequently, they are re-measured at amortised cost. In this process, the effective interest method (0.43 per cent debenture 2021; 0.82 per cent debenture 2024; 0.60 per cent debenture 2029) is applied in order to amortise the difference between the issuance price and redemption value over the duration of the debentures.

27 Other liabilities

in CHF 1,000	31.12.2020	31.12.2019
Value-added taxes and other tax receivables	12,956	14,622
Accrued retirement pension contributions	40,208	44,017
Accrued expenses for long service awards[1]	3,531	3,502
Settlement accounts	62,530	45,840
Miscellaneous other liabilities[2, 3]	32,018	40,343
Total other liabilities	**151,243**	**148,324**

[1] See note 40.
[2] Compensation accounts and miscellaneous other liabilities.
[3] As per 31.12.2019, CHF 5.926 million was reclassified from other liabilities to accrued liabilities and deferred items.

28 Provisions

in CHF 1,000	Default risk	Legal and litigation risks	Other provisions	Restructuring provisions	Total 2020
Carrying value at the beginning of the financial year	295	515	132	0	942
Utilisation in accordance with purpose			–7		–7
New provisions charged to income statement	466		486		952
Provisions releases to income statement	–550	–488	–1		–1,039
Foreign-currency translation differences and other adjustments	–10	–27	1		–36
Carrying value at the end of the financial year	**201**	**0**	**611**	**0**	**812**
Maturity of provisions					
• within one year					812
• over one year					0

in CHF 1,000	Default risk	Legal and litigation risks	Other provisions	Restructuring provisions	Total 2019
Carrying value at the beginning of the financial year	31	973	121	84	1,209
Utilisation in accordance with purpose		–416	–163	–42	–621
New provisions charged to income statement	290		187		477
Provisions releases to income statement	–22	–28	–13	–41	–104
Foreign-currency translation differences and other adjustments	–4	–14		–1	–19
Carrying value at the end of the financial year	**295**	**515**	**132**	**0**	**942**
Maturity of provisions					
• within one year					942
• over one year					0

29 Share capital

	31.12.2020 No. of shares	Nominal CHF	31.12.2019 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

	31.12.2020 No. of shares	in CHF 1,000	31.12.2019 No. of shares	in CHF 1,000
Registered shares A at the beginning of the financial year	598,065	62,812	599,442	60,362
Purchases	0	0	58,750	8,556
Sales	–67,894	–7,131	–60,127	–6,106
Balance of registered shares A as of balance sheet date[1]	**530,171**	**55,681**	**598,065**	**62,812**
Registered shares B at the beginning of the financial year	327,419	5,192	324,929	5,155
Purchases	16,950	198	2,490	37
Sales	0	0	0	0
Balance of registered shares B as of balance sheet date	**344,369**	**5,390**	**327,419**	**5,192**

[1] VP Bank Ltd carried out a repurchase programme of registered shares A from 27 June 2018 to 28 June 2019. In the context of the repurchase programme, VP Bank Ltd acquired 169,950 registered shares A totalling CHF 31.0 million. The repurchased shares are to be used for future acquisitions or for treasury management purposes. Own shares are offset against equity in line with IAS 32.

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

in CHF 1,000	31.12.2020 Market value	Actual liability	31.12.2019 Market value	Actual liability
Securities	705,465	0	649,493	0
Money market paper	0	0	0	0
Other	1,077	0	0	0
Total pledged assets	**706,542**	**0**	**649,493**	**0**

The assets are pledged to limits for the repo business with national and central banks, for stock exchange deposits, and to secure the business activities of overseas organisations pursuant to local legal provisions. Pledged or assigned assets within the framework of securities lending transactions or of repurchase and reverse-repurchase transactions are not reflected in the above analysis. They are shown in the table "Securities lending and repurchase and reverse-repurchase transactions with securities" (note 44).

32 Leases

The Group rents various office and warehousing buildings as well as motor vehicles. As a rule, rental agreements are entered into for fixed periods of 2 to 8 years but may have renewal options.

Leases in the balance sheet

in CHF 1,000	31.12.2020	31.12.2019	Variance absolute	Variance in %
Property and equipment				
Right of use – buildings and premises	27,840	29,549	–1,709	–5.8
Right of use – motor vehicles	840	1,002	–162	–16.2
Total assets	**28,680**	**30,551**	**–1,871**	**–6.1**
Other liabilities				
Short-term lease liabilities	5,746	5,264	482	9.2
Long-term lease liabilities	23,239	25,588	–2,349	–9.2
Total liabilities	**28,985**	**30,852**	**–1,867**	**–6.1**
Remaining duration of up to 1 year	5,746	5,264	482	9.2
Remaining duration of 1 to 5 years	16,376	16,075	301	1.9
Remaining duration of over 5 years	6,863	9,513	–2,650	–27.9
Total lease liabilities	**28,985**	**30,852**	**–1,867**	**–6.1**

Leases in the profit and loss statement

in CHF 1,000	2020	2019	Variance absolute	Variance in %
Net interest income				
Interest expenses on right-of-use assets	303	334	–31	–9.3
Depreciation of property and equipment				
Depreciation on right-of-use assets	5,730	5,707	23	0.4

33 Litigation

As part of its ordinary banking activities, VP Bank Group is involved in various legal and regulatory proceedings. The legal and administrative environment in which it operates conceals significant litigation, compliance, reputational and other risks in connection with legal disputes and regulatory proceedings. The impact of these proceedings on the financial strength and profitability of VP Bank Ltd is dependent on the status of the proceedings and their outcome. VP Bank Group has established appropriate processes, reports and committees for the monitoring and management of these risks. In addition, it establishes provisions for ongoing and threatened proceedings if it judges the probability that such proceedings will entail an outflow of funds to be greater than the probability of this not being the case. In isolated cases in which the amount cannot be reliably estimated, for instance, because they are at an early stage, because of the complexity of the proceedings or other factors, no provision is established but a contingent liability is disclosed.

The risks described below are, where applicable, not the only ones which VP Bank Group is exposed to. Additional, presently unknown risks or risks and proceedings currently assessed to be immaterial may equally have an impact on future business operations, operating results and the outlook of VP Bank Group.

The Russian Agency for Deposit Insurance (DIA), as part of the bankruptcy proceedings of two Russian banks, asserts that third-party pledges created in connection with the granting of credits to foreign companies shortly prior to the revocation of the banking license and commencement of bankruptcy proceedings should not have been realised on the open market. Both proceedings are at differing stages of development.

In the first proceedings against VP Bank (Switzerland) Ltd involving an amount in dispute of some USD 10 million, the Ninth Arbitration Court of Appeal on 24 May 2017 upheld the nullity of the realisation pursuant to Russian Bankruptcy Law. The court demanded VP Bank (Switzerland) Ltd pay an amount of approx. USD 10 million. The sentence became res judicata on 19 September 2017. All extraordinary appeals were dismissed without suspensive effect. Debt-collection proceedings initiated in Moscow on 7 June 2018 have so far come to nothing. In a letter dated 31 July 2019, the DIA, in its function as insolvency administrator, made its first demand on VP Bank (Switzerland) Ltd for payment. VP Bank Group will not comply with this demand, as it disputes the correctness of this decision. Further developments will be monitored by local attorneys in Moscow. VP Bank Group has also initiated adequate measures to protect its own interests and those of its employees.

The second proceedings against VP Bank Ltd, and now against VP Bank (Switzerland) Ltd, in an amount in dispute of USD 15 million are of a similar nature, but are not yet closed. On 16 March 2018, the competence of the Russian courts was confirmed by the Supreme Court and the case was referred to the court of first instance (Arbitration Court) for a substantive assessment. On 22 May 2019, the Arbitration Court ruled in favour of VP Bank Ltd and VP Bank (Switzerland) Ltd. On 12 August 2019, this ruling was confirmed by the Court of Appeals. On 19 November 2019, the Court of Cassation reversed the rulings of the lower instances and referred the proceedings back to the court of first instance (Arbitration Court) for a renewed ruling. VP Bank Ltd and VP Bank (Switzerland) Ltd have appealed the decision to the judicial chamber of the Supreme Court.

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

In another case, the High Court of Justice in London served a civil suit to VP Bank (Switzerland) Ltd in early 2020. VP Bank Ltd is also a defendant, but the suit has not yet been served. The primary defendant is a former governing body of a foreign pension fund. In his function, this person is alleged to have unlawfully received distribution remuneration for investment funds. The lawsuit is also served to various other banks and individuals who had processed payments or paid distribution renumeration.

VP Bank Ltd and VP Bank (Switzerland) Ltd are accused of a breach of the duty of due care. They would also have participated in the settlement of the benefits in question, which amount to approximately USD 46 million, so that they would have had to assume non-contractual joint and several liability for the loss incurred. VP Bank denies the allegations. At present, VP Bank Group considers the risk of an outflow of assets to be low, which is why no provision has been made.

34 Balance sheet per currency

in CHF 1,000	CHF	USD	EUR	Other	Total 2020
Assets					
Cash and cash equivalents	2,369,868	826	219,750	2,262	2,592,706
Receivables arising from money market paper		62,715		53,451	116,166
Due from banks	1,201,058	84,969	215,610	282,683	1,784,320
Due from customers	3,671,800	1,124,277	1,029,690	455,762	6,281,529
Trading portfolios				290	290
Derivative financial instruments	63,005	7,954	732	7,800	79,491
Financial instruments at fair value	64,692	37,376	75,844	5,024	182,936
Financial instruments at amortised cost	487,362	840,912	834,821	38,208	2,201,303
Joint venture companies	25				25
Property and equipment	104,061	3,408		687	108,156
Intangible assets	66,412	267			66,679
Tax receivables			11	148	159
Deferred tax assets	10,173				10,173
Accrued liabilities and deferred items	19,929	6,858	4,821	821	32,429
Assets held for sale					0
Other assets	4,242	49,392	11,194	2,161	66,989
Total assets 31.12.2020	**8,062,627**	**2,218,954**	**2,392,473**	**849,297**	**13,523,351**
Liabilities and shareholders' equity					
Due to banks	180,514	23,172	16,855	29,885	250,426
Due to customers – savings and deposits	589,370		414		589,784
Due to customers – other liabilities	2,707,151	3,962,950	2,920,381	1,331,389	10,921,871
Derivative financial instruments	92,461	3,306	780	7,824	104,371
Medium-term notes	65,512	3,978	6,658		76,148
Debenture issues	355,205				355,205
Tax liabilities	11,065			1,143	12,208
Deferred tax liabilities	132			9	141
Accrued liabilities and deferred items	29,345	1,123	2,550	3,067	36,085
Other liabilities	82,522	7,568	59,356	1,797	151,243
Provisions	353	189	270		812
Total liabilities	**4,113,630**	**4,002,286**	**3,007,264**	**1,375,114**	**12,498,294**
Total shareholders' equity	**965,450**	**58,000**		**1,607**	**1,025,057**
Total liabilities and shareholders' equity 31.12.2020	**5,079,080**	**4,060,286**	**3,007,264**	**1,376,721**	**13,523,351**

in CHF 1,000	CHF	USD	EUR	Other	Total 2019
Assets					
Cash and cash equivalents	2,748,461	489	160,473	512	2,909,935
Receivables arising from money market paper		38,350		84,606	122,956
Due from banks	79,665	119,771	194,363	341,227	735,026
Due from customers	3,623,649	1,278,084	1,176,943	718,640	6,797,316
Trading portfolios				199	199
Derivative financial instruments	39,826	3,421	29	29,237	72,513
Financial instruments at fair value	75,267	55,999	80,034	4,390	215,690
Financial instruments at amortised cost	523,864	853,155	893,792	31,666	2,302,477
Joint venture companies	28				28
Property and equipment	112,811	1,884		673	115,368
Intangible assets	61,876	313			62,189
Tax receivables			14	833	847
Deferred tax assets	9,974				9,974
Accrued liabilities and deferred items	20,229	10,001	5,452	1,011	36,693
Assets held for sale					0
Other assets	2,275	8,198	7,151	1,021	18,645
Total assets 31.12.2019	**7,297,925**	**2,369,665**	**2,518,251**	**1,214,015**	**13,399,856**

34 Balance sheet per currency (continued)

in CHF 1,000	CHF	USD	EUR	Other	Total 2019
Liabilities and shareholders' equity					
Due to banks	163,469	71,387	115,901	51,087	401,844
Due to customers – savings and deposits	600,304		662		600,966
Due to customers – other liabilities	2,669,930	3,621,798	3,028,128	1,216,712	10,536,568
Derivative financial instruments	63,184	2,010	54	29,377	94,625
Medium-term notes	157,035	4,356	16,102		177,493
Debenture issues	355,327				355,327
Tax liabilities	11,748		222	16	11,986
Deferred tax liabilities	33	6		26	65
Accrued liabilities and deferred items	34,634	4,229	2,662	3,911	45,436
Other liabilities	95,307	5,276	45,970	1,771	148,324
Provisions	661	277	4		942
Total liabilities	**4,151,632**	**3,709,339**	**3,209,705**	**1,302,900**	**12,373,576**
Total shareholders' equity	**960,460**	**64,060**		**1,760**	**1,026,280**
Total liabilities and shareholders' equity 31.12.2019	**5,112,092**	**3,773,399**	**3,209,705**	**1,304,660**	**13,399,856**

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 2020
Assets						
Cash and cash equivalents	2,592,706					2,592,706
Receivables arising from money market paper			116,166			116,166
Due from banks	612,509		1,171,811			1,784,320
Due from customers	262,736	224,087	4,555,734	868,332	370,640	6,281,529
Trading portfolios	290					290
Derivative financial instruments	79,491					79,491
Financial instruments at fair value	83,574				99,362	182,936
Financial instruments at amortised cost			267,288	1,414,221	519,794	2,201,303
Joint venture companies	25					25
Property and equipment[1]					108,156	108,156
Intangible assets					66,679	66,679
Tax receivables	159					159
Deferred tax assets				10,173		10,173
Accrued liabilities and deferred items	32,429					32,429
Assets held for sale						0
Other assets	66,545	444				66,989
Total assets 31.12.2020	**3,730,464**	**224,531**	**6,110,999**	**2,292,726**	**1,164,631**	**13,523,351**
Liabilities						
Due to banks	250,426					250,426
Due to customers – savings and deposits		589,784				589,784
Due to customers – other liabilities	8,861,495	895,989	1,164,387			10,921,871
Derivative financial instruments	104,371					104,371
Medium-term notes			36,889	36,852	2,407	76,148
Debenture issues			100,019	100,209	154,977	355,205
Tax liabilities	12,208					12,208
Deferred tax liabilities				141		141
Accrued liabilities and deferred items	36,085					36,085
Other liabilities	150,631		612			151,243
Provisions	812					812
Total liabilities 31.12.2020	**9,416,028**	**1,485,773**	**1,301,907**	**137,202**	**157,384**	**12,498,294**

[1] Without maturity.

in CHF 1,000	At sight	Callable	1 year	Due within 1 to 5 years	Over 5 years	Total 2019
Assets						
Cash and cash equivalents	2,909,935					2,909,935
Receivables arising from money market paper			122,956			122,956
Due from banks	655,808		79,218			735,026
Due from customers	387,656	322,146	4,603,511	1,148,347	335,656	6,797,316
Trading portfolios	199					199
Derivative financial instruments	72,513					72,513
Financial instruments at fair value	108,881				106,809	215,690
Financial instruments at amortised cost			375,158	1,370,832	556,487	2,302,477
Joint venture companies	28					28
Property and equipment[1]					115,368	115,368
Intangible assets					62,189	62,189
Tax receivables	847					847
Deferred tax assets				9,974		9,974
Accrued liabilities and deferred items	36,693					36,693
Assets held for sale						0
Other assets	17,890	755				18,645
Total assets 31.12.2019	**4,190,450**	**322,901**	**5,180,843**	**2,529,153**	**1,176,509**	**13,399,856**
Liabilities						
Due to banks	401,844					401,844
Due to customers – savings and deposits		600,966				600,966
Due to customers – other liabilities	7,747,445	1,028,360	1,750,921	9,842		10,536,568
Derivative financial instruments	94,625					94,625
Medium-term notes			101,452	71,761	4,280	177,493
Debenture issues				200,351	154,976	355,327
Tax liabilities	11,986					11,986
Deferred tax liabilities				65		65
Accrued liabilities and deferred items	45,436					45,436
Other liabilities	148,324					148,324
Provisions	942					942
Total liabilities 31.12.2019	**8,450,602**	**1,629,326**	**1,852,373**	**282,019**	**159,256**	**12,373,576**

[1] Without maturity.

36 Classification of assets by country or groups of countries

	31.12.2020 in CHF 1,000	Proportion in %	31.12.2019 in CHF 1,000	Proportion in %
Liechtenstein and Switzerland	8,574,557	63.4	7,901,685	58.8
Rest of Europe	2,309,034	17.1	2,460,137	19.1
North America	826,658	6.1	920,979	8.4
Other countries	1,813,102	13.4	2,117,055	13.7
Total assets	**13,523,351**	**100.0**	**13,399,856**	**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 31.12.2020	Fair value 31.12.2020	Variance	Carrying value 31.12.2019	Fair value 31.12.2019	Variance
Assets						
Cash and cash equivalents	2,593	2,593	0	2,910	2,910	0
Receivables arising from money market paper	116	116	0	123	123	0
Due from banks	1,784	1,785	1	735	735	0
Due from customers	6,282	6,400	118	6,797	6,914	117
Trading portfolios	0	0	0	0	0	0
Derivative financial instruments	79	79	0	73	73	0
Financial instruments at fair value	183	183	0	216	216	0
of which designated on initial recognition	0	0	0	0	0	0
of which mandatory under IFRS 9	84	84	0	109	109	0
of which recognised in other comprehensive income with no effect on net income	99	99	0	107	107	0
Financial instruments at amortised cost	2,201	2,279	78	2,302	2,355	53
Subtotal			**197**			**170**
Liabilities						
Due to banks	250	250	0	402	402	0
Due to customers	11,512	11,538	–26	11,138	11,133	5
Derivative financial instruments	104	104	0	95	95	0
Medium-term notes	76	77	–1	177	179	–2
Debentures issued	355	361	–6	355	363	–8
Subtotal			**–33**			**–5**
Total variance			**164**			**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.

Fair value hedges (hedging of interest-rate risk)

in CHF 1,000 31.12.2020	Nominal value of hedging instruments	Book value of hedging instruments		Balance sheet position under which hedging instruments are disclosed
		Assets	Liabilities	
Interest-rate swaps	87,390	14	4,663	Derivative financial instruments
Change of value of the hedged item used as the basis for recognising hedge ineffectiveness for the period[1]				159

[1] Ineffectiveness mainly results from variations in duration, e.g. due to different interest rates, interest payment dates or maturities of transactions.

in CHF 1,000 31.12.2019	Nominal value of hedging instruments	Book value of hedging instruments		Balance sheet position under which hedging instruments are disclosed
		Assets	Liabilities	
Interest-rate swaps	103,518	56	5,949	Derivative financial instruments
Change of value of the hedged item used as the basis for recognising hedge ineffectiveness for the period[1]				–610

[1] Ineffectiveness mainly results from variations in duration, e.g. due to different interest rates, interest payment dates or maturities of transactions.

in CHF 1,000 31.12.2020	Book value of underlying transactions		Accumulated valuation adjustments, included in the book value of the underlying transactions		Balance sheet position under which underlying transactions are disclosed
	Assets	Liabilities	Assets	Liabilities	
Client receivables	103,338	0	2,197	0	Due from customers
of which active hedge relationships	89,527	0	2,137	0	Due from customers
of which closed hedge relationships (client receivables)	13,811	0	60	0	Due from customers

in CHF 1,000 31.12.2019	Book value of underlying transactions		Accumulated valuation adjustments, included in the book value of the underlying transactions		Balance sheet position under which underlying transactions are disclosed
	Assets	Liabilities	Assets	Liabilities	
Client receivables	118,695	0	2,431	0	Due from customers
of which active hedge relationships	105,882	0	2,364	0	Due from customers
of which closed hedge relationships (client receivables)	12,813	0	67	0	Due from customers

Maturity of interest-rate swaps

in CHF million	1 year	Due within 1 to 5 years	Over 5 years	Total 2020
Fair value hedges				
Hedging of interest-rate risk				
Interest-rate swaps	15	65	7	87

in CHF million	1 year	Due within 1 to 5 years	Over 5 years	Total 2019
Fair value hedges				
Hedging of interest-rate risk				
Interest-rate swaps	4	78	22	104

Valuation methods for financial instruments

The fair value of listed securities held for trading purposes or as financial instruments, as well as that of listed derivatives and other financial instruments with a price established in an active market, is determined on the basis of current market value (Level 1). Valuation methods or pricing models are used to determine the fair value of financial instruments if no direct market prices are available. If possible, the underlying assumptions are based on observed market prices or other market indicators as at the balance sheet date (Level 2). For most of the derivatives traded over the counter, as well as for other financial instruments that are not traded in an active market, fair value is determined by means of valuation methods or pricing models. Among the most frequently applied of those methods and models are cash-value-based forward pricing and swap models, as well as options pricing models such as the Black-Scholes model or derivations thereof. The fair values arrived at on the basis of these methods and models are influenced to a significant degree by the choice of the specific valuation model and the underlying assumptions applied, for example the amounts and time sequence of future cash flows, discount rates, volatilities and/or credit risks.

If neither current market prices nor valuation methods/models based on observable market data can be drawn on for the purpose of determining fair value, then valuation methods or pricing models supported by realistic assumptions derived from actual market data are used (Level 3). Level 3 principally includes investment funds, for which an obligatory net asset value is not published at least on a quarterly basis. The fair value of these positions is, as a rule, computed on the basis of external estimates by experts in relation to the level of future distributions of fund units, or equates to the acquisition cost of the securities less any applicable valuation allowances.

Valuation methods for financial instruments

in CHF million at fair value	Quoted market prices, Level 1	Valuation methods based on market data, Level 2	Valuation methods with assumptions based on market data, Level 3	Total 31.12.2020
Assets				
Cash and cash equivalents	2,593			2,593
Receivables arising from money market paper	116			116
Due from banks		1,785		1,785
Due from customers		6,400		6,400
Trading portfolios				0
Derivative financial instruments		79		79
Financial instruments at fair value	136	38	8	183
Financial instruments at amortised cost	2,279	0	0	2,279
Liabilities				
Due to banks		250		250
Due to customers		11,538		11,538
Derivative financial instruments		104		104
Medium-term notes		77		77
Debentures issued	361			361

No material level reclassifications took place in the 2020 financial year. For two positions with a market value of CHF 0.09 million, the assignment was changed from level 2 to level 3, as these positions are in liquidation. Beyond that, no level reclassifications took place. No financial instruments were reclassified in the 2019 financial year.

in CHF million at fair value	Quoted market prices, Level 1	Valuation methods based on market data, Level 2	Valuation methods with assumptions based on market data, Level 3	Total 31.12.2019
Assets				
Cash and cash equivalents	2,910			2,910
Receivables arising from money market paper	123			123
Due from banks		735		735
Due from customers		6,914		6,914
Trading portfolios				0
Derivative financial instruments		73		73
Financial instruments at fair value	188	19	9	216
Financial instruments at amortised cost	2,355			2,355
Liabilities				
Due to banks		402		402
Due to customers		11,133		11,133
Derivative financial instruments		95		95
Medium-term notes		179		179
Debentures issued	363			363

Level 3 financial instruments in CHF million	2020	2019
Balance sheet		
Holdings at the beginning of the year	8.6	4.1
Investments	0.0	5.6
Disposals	0.0	-1.0
Losses recognised in the income statement	-0.4	0.0
Reclassification to Level 3	0.1	0.0
Total book value at balance sheet date	**8.3**	**8.6**
Income on holdings at balance sheet date		
Unrealised losses recognised in the income statement	0.4	0.0
Unrealised losses recognised as other comprehensive income	0.0	0.0
Unrealised gains recognised in the income statement	0.0	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 2020 or 31 December 2019.

Sensitivity of fair values of Level 3 financial instruments

Changes in the net asset values of investment funds lead to corresponding changes in the fair values of these financial instruments. A realistic change in the basic assumptions or estimated values has no material impact on the statement of income, other comprehensive income or the equity of VP Bank Group's shareholders.

Netting agreements

In order to reduce the credit risks in connection with financial derivatives, repurchase and reverse repurchase as well as securities-lending and -borrowing transactions, VP Bank Group enters into global offset agreements or similar arrangements (netting agreements) with its counterparties. 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 counterparty 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

31.12.2020 in CHF 1,000	**Balance sheet netting**			**Netting potential**		
	Amount prior to balance sheet netting	**Balance sheet netting**	**Carrying value**	**Financial liabilities**	**Collateral received**	**Assets after taking account of netting potential**
Financial assets						
Reverse repurchase transactions			0			0
Positive replacement values	79,491		79,491	74,107		5,384
Collateral deposited for transactions with derivatives	63,396		63,396	31,605		31,791
Total assets	**142,887**	**0**	**142,887**	**105,712**	**0**	**37,175**

31.12.2020 in CHF 1,000	**Balance sheet netting**			**Netting potential**		
	Amount prior to balance sheet netting	**Balance sheet netting**	**Carrying value**	**Financial assets**	**Collateral provided**	**Liabilities after taking account of netting potential**
Financial liabilities						
Repurchase transactions			0			0
Negative replacement values	104,371		104,371	74,107	17,817	12,447
Collateral received from transactions with derivatives			0			0
Total liabilities	**104,371**	**0**	**104,371**	**74,107**	**17,817**	**12,447**

31.12.2019 in CHF 1,000	**Balance sheet netting**			**Netting potential**		
	Amount prior to balance sheet netting	**Balance sheet netting**	**Carrying value**	**Financial assets**	**Collateral provided**	**Assets after taking account of netting potential**
Financial assets						
Reverse repurchase transactions			0			0
Positive replacement values	72,513		72,513	53,993		18,520
Collateral deposited for transactions with derivatives	66,145		66,145	39,620		26,525
Total assets	**138,658**	**0**	**138,658**	**93,613**	**0**	**45,045**

31.12.2019 in CHF 1,000	**Balance sheet netting**			**Netting potential**		
	Amount prior to balance sheet netting	**Balance sheet netting**	**Carrying value**	**Financial assets**	**Collateral provided**	**Liabilities after taking account of netting potential**
Financial liabilities						
Repurchase transactions			0		0	0
Negative replacement values	94,625		94,625	53,993	17,093	23,539
Collateral received from transactions with derivatives			0			0
Total liabilities	**94,625**	**0**	**94,625**	**53,993**	**17,093**	**23,539**

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 Wealth Management (Hong Kong) Ltd	Hong Kong	HKD	5,000,000	100%
VP Bank (Luxembourg) SA	Luxembourg	CHF	20,000,000	100%
• which holds the following sub-participation:				
• VP Fund Solutions (Luxembourg) SA	Luxembourg	CHF	5,000,000	100%
VP Bank (Switzerland) Ltd	Zurich	CHF	20,000,000	100%
VP Bank (BVI) Ltd	Tortola	USD	10,000,000	100%

Shareholdings excluded from the scope of consolidation	VP Bank (Singapore) Ltd - liquidation[1]
Joint venture companies excluded from the scope of consolidation	none
Joint venture companies	Data Info Services AG, Vaduz
Companies integrated during the financial year	none
Shareholdings accounted for the first time in accordance with the equity method	none
Asset transfer during the financial year	none

[1] In order to serve its clients' needs even better in the future, VP Bank will be conducting its business in Singapore through a branch instead of a wholly owned subsidiary with effect from 1 September 2018. This is consistent with VP Bank's growth strategy because as a branch in Singapore, VP Bank is better positioned to expand and grow its client services in Asia. In addition, to enable VP Bank to offer a wider range of services, the licence in Singapore has been upgraded from a merchant bank licence to a wholesale banking licence with effect from 1 September 2018 as well. A wholesale banking licence provides the bank with a wider set of options to grow its product offerings. In relation to the change in the operating entity from subsidiary to a branch, VP Bank (Singapore) Ltd has transferred the assets and liabilities of its business in Singapore to the newly established Singapore branch of VP Bank on 1 September 2018.

39 Transactions with related companies and individuals

Members of the Board of Directors and Group Management as well as their next of kin, and companies which are controlled by these individuals either by virtue of a majority shareholding or as a result of their role as member of the Board and/or Group Executive Management in these companies, are considered to be related companies and individuals.

in CHF 1,000	2020	2019
Remuneration of the members of the Board of Directors[1, 2]		
Remuneration due in the short term	1,200	1,376
Share-based payment[3]	392	431
Remuneration of the members of Group Executive Management[2]		
Remuneration due in the short term	4,307	5,265
Remuneration due upon termination of contract of employment	1,499	1,295
Share-based payments[4]	2,136	1,308

[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 2020 was CHF 0.6 million (previous year: CHF 0.6 million). The Board of Directors and Group Executive Management as well as parties related thereto (excluding qualifying shareholders) and retirement pension plans as of 31 December 2020 held 43,022 registered shares A of VP Bank Ltd, Vaduz (previous year: 79,725 registered shares A).

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

in CHF 1,000	2020	2019
Mortgages and loans at the beginning of the financial year	0	10,000
Additions	0	0
Repayments	0	–10,000
Mortgages and loans at the end of the financial year	**0**	**0**

Loans to members of the Board of Directors and of Group Executive Management developed as follows (from an effective date perspective):

in CHF 1,000	2020	2019
Mortgages and loans at the beginning of the financial year	2,892	4,204
Additions	2,167	100
Repayments	–2,892	–1,412
Mortgages and loans at the end of the financial year	**2,167**	**2,892**

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 62.739 million was issued for related parties. 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 typically deducted by the employer from the salary 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 2020 amounted to CHF 2.6 million (prior year: CHF 1.9 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.

For employees in the Principality of Liechtenstein and Switzerland, the Group operates several pension plans with fixed, predefined admission criteria. The largest of the plans are operated using an autonomous foundation, the remaining plans are handled using collective foundations of insurance companies. In these foundations, the assets available to meet the pension obligations are segregated out.

For the pension plans which are operated using collective foundations, there are pension commissions which comprise an equal number of representatives.

The Foundation Board of the autonomous pension plan is also made up of an equal number of employer and employee representatives. On the basis of the Law and the Rules of the Pension Fund, the Foundation Board is obligated to act solely in the interests of the Foundation and of the beneficiaries (current actively insured employees and pensioners). Thus, in this plan, the employer cannot himself determine pension benefits and their financing, but resolutions are taken on an equal representation basis. The Foundation Board is responsible for setting the investment strategy, for changes to the Rules of the Pension Fund and, in particular, also for determining how pension benefits are to be financed.

Retirement benefits in this plan are based upon the balance of accumulated capital savings. Annual savings credits and interest (no negative interest is possible) are added to the employee's capital savings account. Upon retirement, the insured person has the option between a lifetime pension which includes a reversionary spouse's pension, or the payment of a capital sum. In addition to retirement benefits, employee benefits also include an invalidity pension and a partner pension. These are computed as a percentage of the insured annual salary. An insured person can also purchase additional benefits to improve his/her pension situation up to a maximum allowed under the pension rules.

Upon termination of employment, the accumulated savings capital is transferred to the pension plan of the new employer or to a vested benefits scheme. This form of employment benefit can lead to a situation where pension payments may vary significantly between the various years.

The minimum provisions of the Law on Occupational Pension Plans and its Implementing Provisions (BPVG) are to be observed in determining employee benefits. The minimum insurable salary and the minimum savings credits are laid down in the BPVG.

As a result of the form of the pension plan and the legal provisions of the BPVG, the employer is exposed to actuarial risks, the most significant of which are investment risk, interest-rate risk, invalidity risk and longevity risk. The employee and employer contributions are laid down by the Foundation Boards. In this regard, 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 2020 by independent actuaries using the Projected Unit Credit Method. The fair value of plan assets as of 31 December 2020 was determined based upon information available at the time of preparation of the annual financial statements.

In December 2020, VP Bank Ltd decided to outsource part of the IT in connection with the implementation of the new IT strategy. Due to the outsourcing, employees switch to a new employer, which leads to a curtailment of plans. The effect of this measure was calculated as of December 31 2020 and leads to a profit from plan curtailment of CHF 2.0 million.

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

	31.12.2020	31.12.2019
Discount rate	0.17%	0.25%
Rate of future salary increases	0.50%	1.00%
Rate of future pension increases	0.00%	0.00%
Lump sum payments at retirement	40.00%	40.00%
Life expectancy at the age of 65, in years		
Year of birth	1955	1954
men	22.72	22.61
women	24.76	24.65
Year of birth	1975	1974
men	24.48	24.40
women	26.51	26.44

The net position of pension obligations recognised in the balance sheet may be summarised as follows:

Pension costs

in CHF 1,000	2020	2019
Pension expenses recognised in income statement		
Service cost		
• current service cost	11,533	10,977
• past service cost incl. effects from curtailments	–1,984	–1,325
• plan settlements	0	–365
Net interest expenses	91	484
Administrative costs	233	217
Total pension cost expenses of the period	**9,873**	**9,988**
Revaluation components recognised in comprehensive income		
Actuarial gains/losses		
Result of changes to demographic assumptions	0	0
Result of changes to financial assumptions	–405	22,024
Experience adjustments	2,833	–1,387
Return on plan assets (excluding amounts in net interest expenses)	–6,149	–31,132
Total expenses recognised in comprehensive income	**–3,721**	**–10,495**
Total pension cost	**6,152**	**–507**

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	2020	2019
Present value of defined-benefit obligations at the beginning of the financial year	365,237	350,673
Current service cost	11,533	10,977
Employee contributions	6,475	6,439
Interest expenses on present value of pension obligations	906	3,105
Actuarial gains/losses	2,428	20,637
(Gains)/losses from curtailment	–1,984	0
Transfer of assets through compensation	0	–1,325
Acquisitions	0	0
Plan settlement	0	–13,955
Pension payments financed by plan assets	–6,308	–11,314
Balance at the end of the financial year	**378,287**	**365,237**

Movement in plan assets

in CHF 1,000	2020	2019
Plan assets at the beginning of the financial year	321,220	281,027
Employee contributions	6,475	6,439
Employer contributions[1]	9,961	25,122
Interest income on plan assets	815	2,621
Return on plan assets (excluding amounts under interest income)	6,149	31,132
Acquisitions	0	0
Transfer of assets through compensation	0	–13,590
Pension payments financed by plan assets	–6,308	–11,314
Administrative costs	–233	–217
Balance at the end of the financial year	**338,079**	**321,220**

[1] In 2019, the Group transferred an extraordinary employer contribution of CHF 14.8 million to strengthen its financial situation.

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	31.12.2020	31.12.2019
Present value of pension obligations financed through a fund	378,287	365,237
Market value of plan assets	–338,079	–321,220
Lack / excess of funding	**40,208**	**44,017**
Present value of pension obligations not financed through a fund	0	0
Unrecognised assets	0	0
Recognised pension obligations	**40,208**	**44,017**

In the case of the autonomous pension plan, the Foundation Board issues investment guidelines for the investment of the plan's assets which contain the tactical asset allocation and the benchmarks for comparing the results with those of the general investment universe. The plan assets are well diversified and, in addition, the legal provisions of the BPVG are to be observed. In the case of collective foundations, the Board of Trustees of the collective foundation issues the investment guidelines. The Foundation Board reviews on an ongoing basis whether the investment strategy chosen is appropriate to cover the pension benefits and whether the risk budget corresponds to the demographic structure. Compliance with investment guidelines and the investment performance of investment advisors are also subject to ongoing review.

Plan assets primarily consist of the following categories of securities:

in CHF 1,000	31.12.2020	31.12.2019
Equity shares	123,389	98,062
thereof quoted market prices (Level 1)	123,389	98,062
Bonds	142,128	131,960
thereof quoted market prices (Level 1)	142,128	131,960
Alternative financial investments	26,995	26,226
thereof quoted market prices (Level 1)	4,124	0
Real estate	23,387	22,738
thereof quoted market prices (Level 1)	0	0
Qualifying insurance paper	12,036	13,903
Cash equivalents	10,216	27,431
Other financial investments	–72	900
Total	**338,079**	**321,220**
• thereof quoted market prices (Level 1)	269,641	230,022

The pension plans hold shares in VP Bank Ltd, Vaduz, with a market value totalling CHF 1.9 million (previous year: CHF 2.6 million). In 2020, the return on plan assets was CHF 7.0 million (previous year: CHF 33.8 million). Expected employer contributions for the year 2021 amount to CHF 10.1 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	31.12.2020	31.12.2019
Current actively insured employees	267,332	255,725
Pensioners	110,955	109,512
Total	**378,287**	**365,237**

The duration of pension obligations is approximately 16 years (previous year: 16 years).

Presented in the following table are the sensitivities for the most important factors in the computation of the present value of pension obligations. Due to the expected interest volatility in CHF, sensitivities are stated as 25 bps. 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	31.12.2020		31.12.2019	
Variance	0.25%	–0.25%	0.25%	–0.25%
Discount rate	–13,127	14,160	–13,042	14,032
Interest on pension capital accounts	3,112	–3,035	3,061	–2,979
Development of salaries	967	–950	1,010	–994

Other employee benefits payable in the long term

in CHF 1,000	2020	2019
Balance at the beginning of the financial year	3,502	3,117
Expenses financial year	525	691
Acquisitions	0	0
Employee payments	–492	–305
Exchange differences	–4	–1
Balance at the end of the financial year	**3,531**	**3,502**

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 accrued expenses have been recognised for these benefits. In 2015, the Group introduced a uniform regulation for the calculation of benefits from long service awards for most Group employees. For some employees abroad, separate regulations apply. These regulations qualify as plans for other employee benefits payable in the long term.

41 Significant foreign exchange rates

The following exchange rates were used for the most important currencies:

	Year-end rates 31.12.2020	31.12.2019	Annual average rates 2020	2019
USD/CHF	0.8841	0.9684	0.93830	0.99382
EUR/CHF	1.0817	1.0870	1.07032	1.11247
SGD/CHF	0.6689	0.7202	0.68030	0.72855
HKD/CHF	0.1140	0.1243	0.12097	0.12683
GBP/CHF	1.2084	1.2828	1.20378	1.26881

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 three-year restriction on selling these shares. 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 draw the shares at any time and in full, the expense arising from the employee stock ownership plans is recorded in full at the time of their respective allocation. Half of the number of registered shares A to be subscribed is based on length of service and is proportional to the amount of the annual fixed salary, with fixed salary components in excess of CHF 120,000 and variable salary components not taken into account. The purchase price is determined annually in relation to the market value of the bearer shares on the Swiss Exchange (ex-dividend). The shares issued in this manner derive either from share holdings 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 2020, 15,416 shares were issued at a preferential price (previous year: 12,972 shares). Share issue expenses in 2020 were CHF 1.0 million (previous year: CHF 1.0 million). There is no stock ownership 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 (annex 39). A management stock ownership plan exists for Group Executive Management and other management members (annex 43). VP Bank has defined lock-up periods for the Board of Directors, Group Executive Management and selected executives and employees, during which it is prohibited to trade in the shares of VP Bank.

43 Management profit-sharing plan

A long-term and value-oriented remuneration model is in place for the Group Executive Board and the Executive Board, the second management level and certain persons for whom variable remuneration has been deferred. Details thereof are to be found in the "Compensation report" on (➔ page 79 f.). Regardless of the actual cash flow, management stock ownership plans are recognised in the financial year to which they economically belong. For deferred share plans, the expense for the entire vesting period is estimated, updated and recognised pro rata temporis over this period in personnel expenses.

The overall amount of variable remuneration is determined by the Board of Directors and is based on 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 and the capital costs, and thus takes into account current and future risks (➔ chart below).

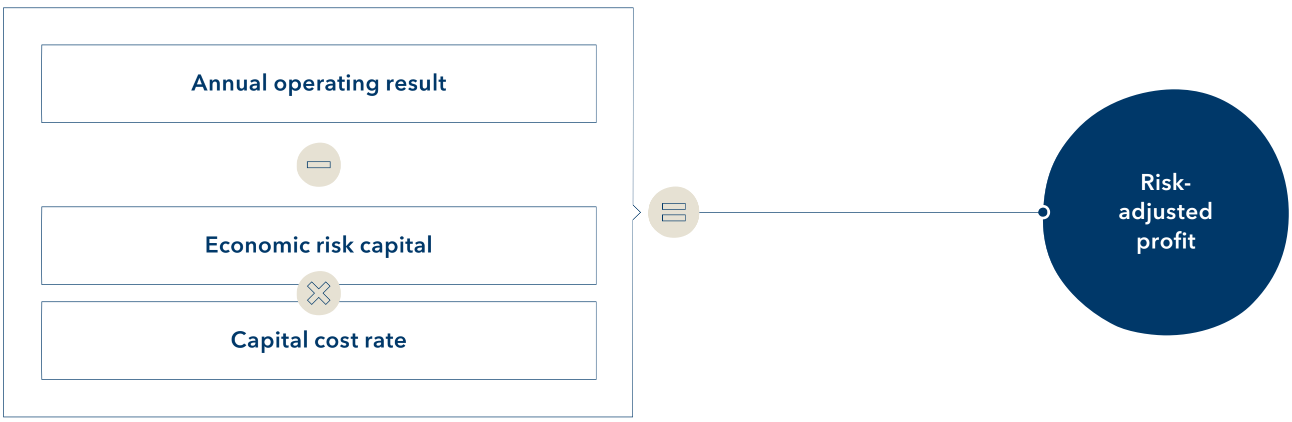
The Board of Directors makes a facts-based assessment of the total amount of variable remuneration and can adapt the amount on a limited scale. In times of adverse operating conditions, the overall amount of variable remuneration is reduced accordingly and can even amount to zero. The total of provisions for variable remuneration must be affordable in the aggregate. Neither VP Bank Group nor any individual Group subsidiary should encounter financial difficulties as a result. The impact on the Group's equity situation is taken into consideration in this process.

The Board of Directors changed the stock ownership programme of members of the first and second management levels and selected VP Bank Ltd employees in 2019. The Performance Share Plan (PSP) is a long-term variable management stock ownership programme in the form of registered shares A of VP Bank Ltd and is applied for programme participants.

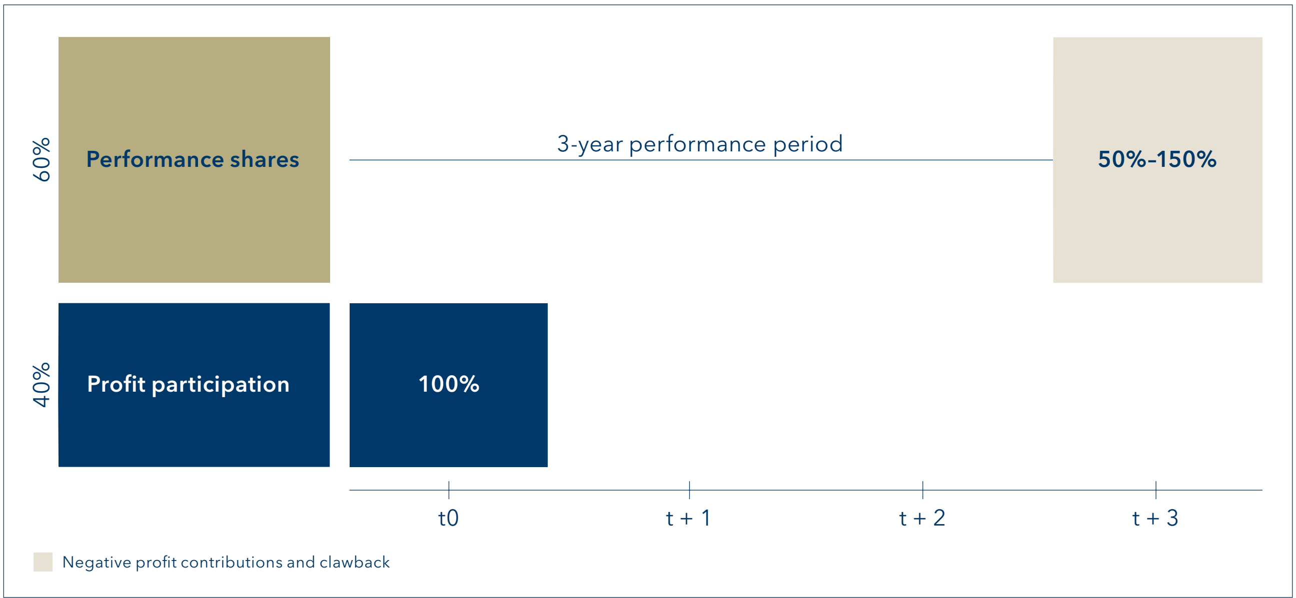
The table below gives an overview over the various instruments of variable remuneration for the members of the first and second management levels using a time axis (Y).

The Restricted Share Plan (RSP) will be paid out annually in thirds over a scheduled duration of three years in the form of registered shares A. The RSP programme may be used, in justified cases, to compensate for any postponed variable salary components, to implement special retention measures or to compensate for loss of benefits at previous employers.

Calculation of the risk-adjusted profit



Instruments of variable remuneration



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

1. A fixed base salary that is contractually agreed 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 stock ownership plan 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, 50 to 150 per cent of the allocated vested benefits are transferred in the form of equity shares. This vesting multiple is determined from the weighting of an average Group net income and the average net new money of new client assets over a three-year period. Until the time of transfer of ownership, the Board of Directors reserves the right to reduce or suspend the allocated vested benefits in the case of defined occurrences and in extraordinary situations. The share of the PSP makes up approximately 60 per cent of the total variable performance-related remuneration.
3. A cash compensation which also depends on the risk-adjusted profit weighted over three years. The share of the profit-related remuneration makes up approximately 40 per cent of the total variable performance-related remuneration.

If an employment relationship is terminated, the allocated VP Bank Performance Units expire without any compensation. In the event of termination of the employment relationship due to retirement, early retirement, disability or death of the participant, the number of Vested VP Bank Performance Units with respect to each award certificate is determined by multiplying the following percentages of VP Bank Performance Units by the early vesting multiple:

- Termination between 1 January of the performance period (PP) year 1 and 28 February PP year 2: share in ownership: 0%
- Termination between 1 March PP year 2 and 28 February PP year 3: share in ownership: 33%
  Early vesting multiple: 1.0
- Termination between 1 March PP year 3 and 28 February of the year following PP year 3: share in ownership: 67%
  Early vesting multiple: 1.0
- Termination as of 1 March of the year following PP year 3: share in ownership: 100%
  Vesting multiple: The vesting multiple of the performance period.

In all cases, the Chairman of the Board of Directors, together with the CEO, reserves the right to decide otherwise regarding early vesting.

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

In 2020, a total of 21,987 performance shares (previous year: 28,868) with a market value on the date of allocation of CHF 3,189,375.00 (previous year CHF 4,047,293.60) were transferred to the Executive Board from the 2017–2019 management stock ownership plan and the 2017–2019 and 2018–2020 RSP. The vested benefits from previous management stock ownership plans (2018–2020, 2019–2021 as well as 2020–2022) continues to run unchanged until the end of the plan period.

Management equity-sharing plan (LTI)

Number	2020	2019[1]	Variance in %
Balance of entitlements at the beginning of the year	71,001	97,133	–26.9
New entitlements	31,424	50,641	–37.9
Changes in entitlements as a result of allocation	–48,927	–55,280	–11.5
Changes in entitlements as a result of expiry	–13,429	–23,049	–41.7
Changes in entitlements as a result of changes in factors	–9,099	1,556	n.a.
Balance of calculated entitlements at the end of the year	30,970	71,001	–56.4

in CHF 1,000	2020	2019[1]	Variance in %
Personnel expenses recorded over vesting period for allocated management sharing plan	5,403	5,019	7.6
Fair value of management sharing plan at date of allocation	7,258	7,638	–5.0
Personnel expenses for management sharing plan expenses for reporting period	1,446	3,643	–60.3
Accrual for management sharing plan in equity at the end of the year	4,344	8,300	–47.7

[1] In the above two tables, the reporting logic was changed slightly from 2020 (expiry, factor changes). The imputed fluctuation effect is now listed under "changes in factor" and no longer under "result of expiry". In addition, all share plans at VP Bank are now shown in the table in accordance with the remuneration principles described above. For this reason, the data for 2019 have also been corrected or supplemented for the sake of comparability.

44 Consolidated off-balance-sheet transactions

in CHF 1,000	31.12.2020	31.12.2019
Contingent liabilities		
Credit guarantees and similar	16,232	34,719
Performance guarantees and similar	99,107	106,870
Irrevocable commitments	0	2,362
Other contingent liabilities	0	0
Total contingent liabilities	**115,339**	**143,951**
Credit risks		
Irrevocable facilities granted	81,668	97,495
Total credit risks	**81,668**	**97,495**
Fiduciary transactions		
Fiduciary deposits[1]	549,043	1,113,104
Total fiduciary transactions	**549,043**	**1,113,104**
Exposure to credit risk on loan commitments and financial guarantee contracts	–201	–295

[1] Placements that Group companies made with banks outside the scope of consolidation in their own name but at the risk and expense of the client.

Maturity structure

in CHF 1,000	At sight	Maturing within 1 year	Maturing within 1 to 5 years	Over 5 years	Total
31.12.2020					
Contingent liabilities	29,755	4,087	6,234	75,263	115,339
Credit risks	13,464	42,142	10,732	15,330	81,668
31.12.2019					
Contingent liabilities	37,653	21,924	7,782	76,592	143,951
Credit risks	35,896	47,421	3,164	11,014	97,495

Securities lending and repurchase and reverse-repurchase transactions

in CHF 1,000	31.12.2020	31.12.2019
Accounts receivable arising from cash deposits in connection with securities borrowing and reverse-repurchase transactions	0	0
Accounts payable arising from cash deposits in connection with securities-borrowing and reverse-repurchase transactions	0	0
Securities lent out within the scope of securities-lending or delivered as collateral within the scope of securities-borrowing activities, as well as securities in own portfolio transferred within the framework of repurchase transactions	207,174	185,729
of which securities where the unlimited right to sell on or pledge has been granted	147,403	132,084
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	183,545	164,482
of which securities which have been resold or repledged	59,771	53,644

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	31.12.2020	31.12.2019	Variance absolute	Variance in %
Analysis of client assets under management				
Assets in self-administered investment funds	10,107.0	9,719.7	387.3	4.0
Assets in discretionary asset management accounts	4,866.6	4,476.9	389.8	8.7
Other client assets under management[1]	32,463.5	32,580.4	–117.0	–0.4
Total client assets under management (including amounts counted twice)	**47,437.1**	**46,777.0**	**660.1**	**1.4**
of which amounts counted twice	2,025.7	2,347.1	–321.5	–13.7
Change of assets under management				
Total client assets under management (including amounts counted twice) at the beginning of the financial year	46,777.0	41,525.9	5,251.1	12.6
of which net new money[1]	1,382.5	2,054.7	–672.3	–32.7
of which change in market value	–722.3	2,890.2	–3,612.5	–125.0
of which other effects[1]	0.0	306.2	–306.2	–100.0
Total client assets under management (including amounts counted twice) as of balance sheet date	**47,437.1**	**46,777.0**	**660.1**	**1.4**
Custody assets[1]	**7,442.6**	**7,772.2**	**–329.7**	**–4.2**
Total client assets				
Total client assets under management (including amounts counted twice)	47,437.1	46,777.0	660.1	1.4
Custody assets	7,442.6	7,772.2	–329.7	–4.2
Total client assets	**54,879.7**	**54,549.2**	**330.5**	**0.6**
Net new money[1]	**1,382.5**	**2,054.7**	**–672.3**	**–32.7**

[1] The previous year's presentation was aligned with the current reporting period due to the adjustment of the categorisation of selected assets (2019: client assets under management CHF –846 million and net new money CHF –200 million).

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, 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 and 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 2020, net new money includes reclassifications amounting to CHF 0 million (2019: CHF 500.1).

Custody assets

Assets held exclusively for the purposes of trading and custody for which the involvement of VP Bank Group is limited to custodian and collection activities.

46 Acquisition

On 8 July 2020, VP Bank (Luxembourg) SA signed and announced an agreement to acquire the private banking division of Öhman Bank S.A. in Luxembourg. The transaction was successfully completed as planned on 1 January 2021 and will close in spring 2021. It includes the takeover of a client advisory team of 9 employees and client assets of around EUR 852 million. The purchase price was CHF 8.5 million. The other business activities and divisions of Öhman Bank S.A. are excluded from the takeover.

The following assets and liabilities were acquired as part of the merger as per 1 January 2021 (provisionally):

in CHF million	Fair value
Cash and cash equivalents	60.1
Amounts due from banks and clients	54.7
Derivative financial instruments	70.6
Other intangible assets	7.8
Total assets	**193.2**
Amounts due to banks and clients	–111.6
Derivative financial instruments	–73.8
Total liabilities	**–185.4**
Total net assets	**7.8**
Net assets acquired	**7.8**
Purchase price to be settled in cash and cash equivalents[1]	8.5
Purchase consideration	**8.5**
Goodwill arising from acquisition	**0.8**
Purchase consideration settled in cash and cash equivalents	6.7
Cash inflow arising from the transaction	53.4

Assets under management of CHF 852 million were taken over as part of the acquisition. The transaction gave rise to intangible assets (client relationships) of CHF 7.8 million. The client relationships will be amortised over 9 years.
The individual factors underlying the amount of goodwill recognised consist of, in particular, the employees transferred, the know-how available as well as the strategic market expansion in the Nordics.

As of 1 February 2019, the acquisition of the Luxembourg private banking activities of Catella Bank by VP Bank (Luxembourg) SA was completed. The acquisition was announced on 26 October 2018.
This transaction in the form of an asset deal was successfully completed as planned on 1 February 2019. It included the acquisition of 11 employees and the migration of client assets of CHF 952 million. The purchase price amounted to CHF 10.2 million. The private banking business of Catella Bank S.A. in Sweden is excluded from the acquisition.
Catella is a leading specialist in property investments and advisory, fund management, and banking, with operations in 14 countries. The group manages assets of approximately EUR 20 billion. Catella has about 600 employees and is listed on Nasdaq Stockholm in the Mid Cap segment. The head office is located in Stockholm, Sweden.

in CHF million	Fair value
Other intangible assets	4.6
Total assets	**4.6**
Deferred tax liabilities	–1.2
Total liabilities	**–1.2**
Total net assets	**3.4**
Net assets acquired	**3.4**
Purchase price settled in cash and cash equivalents	10.2
Purchase consideration	**10.2**
Goodwill arising from acquisition	**6.8**
Purchase consideration settled in cash and cash equivalents	10.2
Cash inflow arising from the transaction	0.0

Assets under management of CHF 952 million were taken over as part of the acquisition. The transaction gave rise to intangible assets (client relationships) of CHF 4.6 million. The client relationships will be amortised over 10 years. The costs of the transaction incurred in the reporting period (advisory, legal, auditing, valuation costs, etc.) amount to CHF 0.3 million and are recognised in general and administrative expenses (note 7) (financial year 2018: CHF 0.7 million).
The individual factors underlying the amount of goodwill recognised consist of, in particular, the employees transferred, the know-how available, the strategic market entry in the Nordic countries and the growth related thereto.

Statutory auditor’s report

pwc

Report of the statutory auditor

to the General Meeting of VP Bank Ltd., Vaduz

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of VP Bank Ltd and its subsidiaries ('VP Bank Group'), which comprise the consolidated income statement and the consolidated statement of comprehensive income for the year ended 31 December 2020, the consolidated balance sheet as at 31 December 2020, consolidated changes in shareholders' equity and consolidated statement of cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 96 to 164) give a true and fair view of the consolidated financial position of VP Group as at 31 December 2020 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.

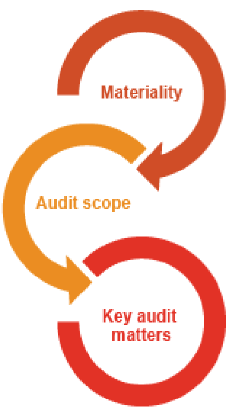
Basis for opinion

We conducted our audit in accordance with Liechtenstein law and International Standards on Auditing (ISA). 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 VP Bank Group in accordance with the provisions of Liechtenstein law and the requirements of the audit profession, as well as the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code) 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.

Our audit approach

Overview



Overall Group materiality: CHF 3,180,000

We concluded full scope audit work at three Group companies in three countries.
In addition, specific audit procedures were performed on a further three Group companies in three countries. Our audit scope addressed 79% of income before income tax and 88% of total assets.

As key audit matters, the following areas of focus were identified:

- Impairment testing of due from customers
- Completeness and valuation of provisions for legal and litigation risks

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zürich, Switzerland
Telefon: +41 58 792 44 00, Telefax: +41 58 792 44 10, www.pwc.ch

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Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 3,180,000
How we determined it	5% of Earnings before income tax (average of the last three years)
Rationale for the materiality benchmark applied	We chose income before income tax as the benchmark because, in our view, it is the benchmark against which the performance of the VP Bank Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations.

We agreed with the Audit Committee of VP Bank Ltd that we would report to them misstatements above CHF 159,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the VP Bank Group operates.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Impairment testing of due from customers

Key audit matter	How our audit addressed the key audit matter
As at 31 December 2020, the VP Bank Group reported due from customers in the amount of CHF 6.282 billion, of which 0.48% were assessed as impaired. Due from customers is the Group's largest asset and about 54.2% are backed by mortgages and 38.9% by other collateral provided by customers (i.e. mainly in the form of Lombard loans).	Our audit procedures were primarily tests of the proper functioning of the internal controls performed by the VP Bank Group. We tested compliance with the rules and processes as well as the effectiveness of these controls through risk-based sample testing. In doing so, we assessed the design of the key controls and, on a sample basis, tested compliance with them.

Due from customers are valued by using the effective interest rate method and by calculating the expected credit loss. Determining the factors and calculating the expected credit loss – and the resulting valuation allowances – requires judgement. We consider the impairment testing of due from customers a key audit matter because of the amount they represent on the balance sheet and the significant scope for judgement inherent in their valuation. The accounting principles applied to due from customers and the methods used to identify default risk, to determine the need for impairment and to evaluate collateral are described in the annual report. Please refer to pages 104 and 105 (Principles underlying financial-statement reporting), page 139 (Notes to the consolidated financial statements: 15 Due from banks and customers) and pages 119 to 128 (Risk management: 5 Financial risks).	Where significant scope for judgement exists (e.g. in the valuation of collateral or the estimation of property values), we also challenged VP Bank Group's decisions with our own critical opinion as part of our substantive audit procedures. Our substantive tests included sample-based testing of loans at risk in the loan portfolio to assess whether an additional valuation allowance was needed. We also assessed the method and accuracy of the calculation of the expected credit losses. Overall, on the basis of our audit procedures, we consider the principles and assumptions applied by the VP Bank Group to test for the impairment of due from customers to be acceptable.

Completeness and valuation of provisions for legal and litigation risks

Key audit matter	How our audit addressed the key audit matter
As at 31 December 2020, VP Bank Group has recorded no provisions for legal and litigation risks. The VP Bank Group is exposed to legal and litigation risks as it operates in a regulatory and legal environment. The completeness and valuation of provisions for legal and litigation risks involves significant scope for judgement. We therefore consider the audit of the accounting for provisions for legal and litigation risks to be a key audit matter. The VP Bank Group assesses legal and litigation risks through internal analyses conducted by the department responsible and in cooperation with external legal counsel. The annual report provides details on the accounting and valuation principles for the provisions for legal and litigation risks. Please refer to page 107 (Principles underlying financial statement reporting) and page 146 (Notes to the consolidated financial statements: 28 Provisions) and page 148 (Notes: 33 Litigation).	We assessed the accounting principles for the provisions for the settlement of litigation and regulatory proceedings. In doing so, we used a risk-based approach to test the VP Bank Group's estimates of the amounts for potential claims for damages and the provisions created for such. The evidence we examined included, among others, correspondence with third parties, confirmations from external legal counsel on selected litigation and claims, and the VP Bank Group's internal analyses. Regarding as yet unidentified risks, we reviewed a sample of customer complaints. In this way, we assessed whether systematic weaknesses existed for which provisions might have to be made. We also considered externally available information and assessed its potential implications for the Company. Further, on the basis of our understanding of the Company's business and our inspection of business correspondence, we assessed the completeness of the provisions. Additionally, the completeness of the provisions was evaluated on the basis of selected assessments by external legal counsel. The audit procedures performed allowed us to assess the completeness and valuation of the provisions for legal and litigation risks. The assumptions made by VP Bank Group are in line with our expectations.

Other matters

The consolidated financial statements of VP Bank Group for the year ended 31 December 2019 were audited by another firm of auditors whose report, dated 28 February 2020, expressed an unmodified opinion on those 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 stand-alone financial statements, the consolidated annual report, the stand-alone annual report 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.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of 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 VP Bank 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 VP Bank 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 judgement and maintain professional scepticism 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 VP Bank Group's internal control system.
- 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 VP Bank 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 VP Bank 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 VP Bank 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 and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The consolidated financial statements (pages 93 to 95) as at 31 December 2020 comply with Liechtenstein law and the articles of incorporation. Further, the Group's annual report accords with the consolidated financial statements and, in our opinion, does not contain any material inaccurate information.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Rolf Birrer	Tobias Scheiwiller
Liechtenstein Certified Public Accountant Auditor in charge	

Zurich, 5 March 2021

VP Bank simplifies **access** to exclusive **private market** investments.

Simplified access

The demand for alternative investments has highly increased. In particular, private market opportunities are highly sought after and have experienced an upsurge in popularity amongst investors. In addition to the momentum of the continuously low-interest-rate environment and reduced returns or profitability of traditional investment themes, more and more investors are recognising the opportunities in private markets.

Dr Céline Chi Hae Wong, Head of Philanthropy & Impact, Client Solutions, shares some thoughts on how VP Bank supports its clients to gain access to those sought-after private markets.

Detailed information at
www.vpbank.com/
simplified_access

FINANCIAL REPORT 2020 OF VP BANK LTD, VADUZ

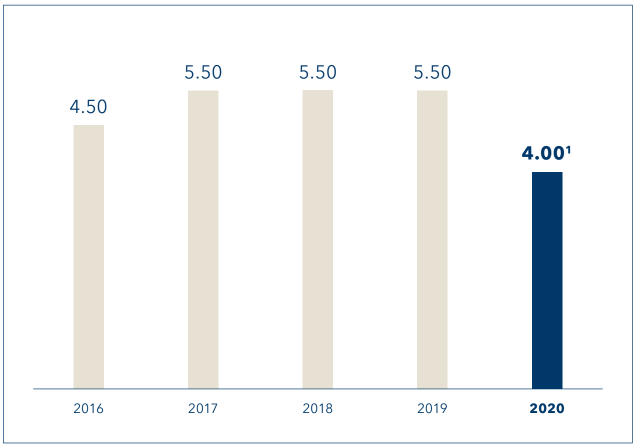
Annual report of VP Bank Ltd, Vaduz

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 530,171 registered shares A and 344,369 registered shares B (previous year: 598,065 registered shares A and 327,419 registered shares B). This equates to a capital share of approximately 8.5 per cent (previous year: 9.5 per cent). In addition, reference is made to the notes to the relevant annual financial statements regarding the number of and changes in treasury shares in the parent company.

In keeping with the spirit of the Group's long-term dividend policy, the Board of Directors will propose a dividend of CHF 4.00 per registered share A and CHF 0.40 per registered share B (previous year: CHF 5.50 per registered share A and CHF 0.55 per registered share B) at the annual general meeting of shareholders to be held on 30 April 2021.

Dividend (in CHF)



[1] Proposal to the annual general meeting

Balance sheet

Assets

in CHF 1,000 Art. 24b FL-BankO	31.12.2020	31.12.2019	Variance absolute	Variance in %
Cash and cash equivalents	2,136,637	2,610,760	–474,123	–18.2
Due from banks	1,914,393	782,048	1,132,345	144.8
• maturing daily	682,587	692,783	–10,196	–1.5
• other receivables	1,231,806	89,265	1,142,541	n.a.
Due from customers	5,096,511	5,493,969	–397,458	–7.2
of which mortgage receivables	3,050,955	3,007,197	43,758	1.5
Debentures and other interest-bearing securities	2,087,968	2,238,928	–150,960	–6.7
• money-market papers	116,167	122,957	–6,790	–5.5
from public-sector issuers	116,167	122,957	–6,790	–5.5
from other issuers	0	0	0	0.0
• debt securities	1,971,800	2,115,972	–144,172	–6.8
from public-sector issuers	494,684	563,926	–69,242	–12.3
from other issuers	1,477,116	1,552,046	–74,930	–4.8
Equity shares and other non-interest-bearing securities	126,132	131,311	–5,179	–3.9
Participations	74	74	0	0.0
Shares in affiliated companies	167,527	204,227	–36,700	–18.0
Intangible assets	29,521	21,329	8,192	38.4
Property and equipment	70,921	75,254	–4,333	–5.8
Treasury shares	53,605	66,515	–12,910	–19.4
Other assets	90,736	94,225	–3,489	–3.7
Accrued receivables and prepaid expenses	20,314	23,224	–2,910	–12.5
Total assets	**11,794,339**	**11,741,864**	**52,475**	**0.4**

Liabilities and shareholders' equity

in CHF 1,000 Art. 24b FL-BankO	31.12.2020	31.12.2019	Variance absolute	Variance in %
Due to banks	2,675,464	2,523,782	151,682	6.0
• maturing daily	1,847,353	1,406,186	441,167	31.4
• with agreed duration or term of notice	828,111	1,117,596	–289,485	–25.9
Due to customers	7,542,314	7,561,767	–19,453	–0.3
• savings deposits	587,937	599,194	–11,257	–1.9
• other liabilities	6,954,377	6,962,573	–8,196	–0.1
maturing daily	5,692,890	5,916,554	–223,664	–3.8
with agreed duration or term of notice	1,261,487	1,046,019	215,468	20.6
Securitised liabilities	434,148	535,493	–101,345	–18.9
• debentures issued	434,148	535,493	–101,345	–18.9
of which medium-term notes	79,148	180,493	–101,345	–56.1
Other liabilities	170,347	149,916	20,431	13.6
Accrued liabilities and deferred items	23,750	28,639	–4,889	–17.1
Provisions	13,345	13,693	–348	–2.5
• tax provisions	10,329	4,915	5,414	110.2
• other provisions	3,016	8,778	–5,762	–65.6
Provisions for general banking risks	63,150	63,150	0	0.0
Share capital	66,154	66,154	0	0.0
Capital reserves	47,049	47,049	0	0.0
Income reserves	598,689	595,467	3,222	0.5
• legal reserves	239,800	239,800	0	0.0
• reserves for treasury shares	53,605	66,515	–12,910	–19.4
• other reserves	305,284	289,152	16,132	5.6
Balance brought forward	120,370	97,630	22,740	23.3
Net income for the year	39,559	59,124	–19,565	–33.1
Total liabilities and shareholders' equity	**11,794,339**	**11,741,864**	**52,475**	**0.4**

Off-balance-sheet transactions

in CHF 1,000 Art. 24b FL-BankO	31.12.2020	31.12.2019	Variance absolute	Variance in %
Contingent liabilities	84,885	119,288	–34,403	–28.8
Credit risks	70,819	82,746	–11,927	–14.4
• irrevocable facilities granted	70,819	82,746	–11,927	–14.4
Derivative financial instruments				
• positive replacement values	79,366	72,199	7,167	9.9
• negative replacement values	104,641	94,867	9,774	10.3
• contract volumes	11,250,159	8,544,733	2,705,426	31.7
Fiduciary transactions	306,907	758,593	–451,686	–59.5

Income statement

in CHF 1,000 Art. 24c FL-BankO	2020	2019	Variance absolute	Variance in %
Interest income	81,999	108,800	–26,801	–24.6
of which from interest-bearing securities	26,022	30,705	–4,683	–15.3
of which from trading transactions	0	0	0	n.a.
Interest expense	18,885	53,391	–34,506	–64.6
Net interest income	**63,114**	**55,409**	**7,705**	**13.9**
Current income from securities	**15,002**	**13,904**	**1,098**	**7.9**
• shares and other non-interest-bearing securities	4,722	6,369	–1,647	–25.9
of which from trading transactions	0	0	0	0.0
• participations	2	6	–4	–72.0
• shares in affiliated companies	10,278	7,529	2,749	36.5
Income from commission business and services	91,873	95,847	–3,974	–4.1
• commission income from credit business	848	969	–121	–12.5
• commission income from securities and investment business	79,862	82,405	–2,543	–3.1
• commission income from other services	11,163	12,473	–1,310	–10.5
Commission expenses	14,817	15,627	–810	–5.2
Net income from commission business and services	**77,056**	**80,220**	**–3,164**	**–3.9**
Income from financial transactions	**52,339**	**101,588**	**–49,249**	**–48.5**
of which from trading transactions	62,466	69,727	–7,261	–10.4
Other ordinary income	**20,266**	**3,782**	**16,484**	**436.0**
• income from real estate	223	196	27	13.9
• other ordinary income	20,043	3,586	16,457	459.0
Total net operating income	**227,777**	**254,903**	**–27,126**	**–10.6**
Operating expenses	156,211	170,057	–13,846	–8.1
• personnel expenses	109,682	127,543	–17,861	–14.0
• general and administrative expenses	46,529	42,514	4,015	9.4
Gross income	**71,566**	**84,846**	**–13,280**	**–15.7**
Depreciation and amortisation of intangible assets and property and equipment	18,004	19,299	–1,295	–6.7
Other ordinary expenses	6,437	995	5,442	n.a.
Valuation allowances on receivables and increases in provisions for contingent liabilities and credit risks	3,000	3,289	–289	–8.8
Income from release of valuation allowances on receivables and from the release of provisions for contingent liabilities and credit risks	3,762	3,539	223	6.3
Write-offs on participations, shares in affiliated companies and securities dealt with as non-current assets	2,795	0	2,795	n.a.
Gains from appreciations on participations, shares in affiliated companies and securities dealt with as non-current assets	0	0	0	0.0
Income from normal business operations	**45,092**	**64,802**	**–19,710**	**–30.4**
Extraordinary income	0	0	0	0.0
Extraordinary expenses	0	0	0	0.0
Taxes on income	5,023	5,015	8	0.2
Other taxes if not included in above items	510	663	–153	–23.1
Net income for the year	**39,559**	**59,124**	**–19,565**	**–33.1**

Appropriation of profit

in CHF 1,000 Art. 24c FL-BankO	2020	2019	Variance absolute	Variance in %
Net income for the year	39,559	59,124	–19,565	–33.1
Retained earnings brought forward	120,370	97,630	22,740	23.3
Retained earnings	**159,929**	**156,755**	**3,174**	**2.0**
Appropriation of profit				
Appropriation to other reserves	0	0	0	0.0
Distribution on the basis of company capital	26,462	36,385	–9,923	–27.3
Other appropriation of profit	0	0	0	0.0
Retained earnings to be carried forward	**133,467**	**120,370**	**13,097**	**10.9**

The Board of Directors proposes that the profit be distributed as follows (in CHF):	
At the disposal of the annual general meeting	159,928,854.41
Distribution of a dividend of CHF 4.00 per registered share A CHF 0.40 per registered share B	26,461,666.80
Other appropriation of profit	0.00
Retained earnings to be carried forward	133,467,187.61

Information regarding business activities and number of employees Art. 24e Par. 1 Point 1 FL-BankO

VP Bank Ltd, which has its registered office in Vaduz, Liechtenstein, was established in 1956 and is one of the three largest banks in Liechtenstein. Today, VP Bank Group owns subsidiary companies in Zurich, Luxembourg, the British Virgin Islands and Hong Kong, a branch in Singapore and a representative office in Hong Kong. Adjusted to reflect full-time equivalents, at year-end 2020, VP Bank Ltd had 628.1 individuals under its employment (previous year: 588.3).

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

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 lending 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 transactions. A significant portion of the trading activities is related to foreign exchange dealings on behalf of private clients.

For liquidity-management and investment purposes, VP Bank Ltd maintains a portfolio of interest-bearing security and equity positions.

Principles of accounting and valuation, disclosures on risk management Art. 24e Par. 1 Point 2 FL-BankO

Principles of accounting and valuation

General principles

Accounting and valuation principles follow the prescriptions of the Liechtenstein Persons and Companies Act, as well as the Liechtenstein Banking Act and its related Ordinance.

Recording of transactions

In accordance with the valuation policies laid down, all business transactions are recorded in the Bank's accounts as of their trading date. Forward contracts are recorded under off-balance-sheet transactions as of their settlement or value date.

Income and expenditure in foreign currencies are translated into Swiss francs at their respective daily rates; assets and liabilities are translated at the rates prevailing at year-end. Foreign-exchange gains and losses resulting from translation are recorded in the income statement.

Financial statements of foreign branches expressed in a foreign currency are translated at the exchange rate prevailing at the balance-sheet date (balance-sheet positions) or at an annual average exchange rate (income-statement positions). Translation differences are recorded in the income statement.

Cash balances, public-sector debt securities and bills of exchange which are eligible for refinancing with central banks, amounts due from banks, liabilities

Recording is made at nominal values minus any applicable unearned discount in the case of money-market paper. Valuation allowances are established to cover identifiable risks following the principle of prudence. Individual and lump-sum valuation allowances are deducted directly from the related balance-sheet positions.

Interest overdue for more than 90 days is provided for and recorded in the income statement as and when received.

Amounts due from clients

Receivables from clients are recorded in the balance sheet at their nominal values minus any applicable valuation allowances. A receivable is considered as being value-impaired when there is a probability that the total contractually owed amount is no longer recoverable.

A valuation allowance is recorded in the balance sheet as a reduction of the carrying value of the receivable to its probable realisable value. On the other hand, provisions for credit risks are established for off-balance-sheet positions. In addition to individual valuation allowances, VP Bank Ltd creates lump-sum individual valuation allowances as well as general lump-sum valuation allowances to cover latent credit risks.

A review of collectability is undertaken at least annually for all non-performing loans.

Debentures and other interest-bearing securities, equity shares and other non-interest-bearing securities

Trading portfolios of securities and precious metals are valued at the quoted market price as of the balance-sheet date.

Portfolios of securities and precious metals are valued at the lower of cost or market and interest-bearing securities, in part, also in accordance with the accrual method. In accordance with the accrual method, the premium or discount on acquisition is deferred and accreted or amortised, respectively, over the term of the security until maturity. The interest portion of realised gains or losses from premature disposal or redemptions are deferred and released to income over the remaining term (i.e. until the original final maturity). Interest income arising on interest-bearing securities is reflected in the caption "interest income", and dividend income in the caption "current income from securities". Price gains/losses are reported in the caption "income from finance transactions".

Participations

Equity shareholdings in companies owned by the Bank representing a non-controlling interest held on a long-term basis are recorded as participations. Participations are valued at acquisition cost minus economically required valuation allowances.

Shares in affiliated companies

The existing majority shareholdings of VP Bank Ltd are recorded as shares in affiliated companies. Shares in affiliated companies are valued at acquisition cost minus economically required valuation allowances.

These affiliated companies are fully consolidated for the purposes of the published consolidated financial statements.

Intangible assets

Value-enhancing expenditures in connection with the acquisition and installation of software are capitalised and amortised on a straight-line basis over the estimated useful life of three to seven years. Self-developed intangible assets are not capitalised. Minor purchases are charged directly to general and administrative expenses.

Property, plant and equipment

Property, plant and equipment encompasses buildings used by the Bank, other real estate, furniture and equipment as well as IT installations. Investments in new and existing property, plant and equipment are capitalised and valued at acquisition cost. Minor purchases are charged directly to general and administrative expenses.

In subsequent valuations, property and equipment is recorded at acquisition cost, minus accumulated depreciation and amortisation. Depreciation and amortisation is charged on a systematic basis over the estimated useful lives (bank buildings and other real estate: 25 years; fixtures: 10 to 15 years; furniture and equipment: 8 years; IT installations: 3 years; software: 3 to 7 years). Property, plant and equipment is reviewed annually for impairment in value.

Other assets, other liabilities

Other assets and liabilities include the positive and negative replacement values, respectively, of all financial derivative instruments open at the balance-sheet date arising from nostro transactions as well as over-the-counter contracts (OTC) arising from transactions on behalf of clients. In addition, these positions include balances of various settlement and clearing accounts.

Valuation allowances and provisions

Valuation allowances and provisions are established to reflect identifiable risks, as dictated by the principle of prudence. Individual and lump-sum valuation allowances for receivables from banks and clients as well as for mortgage receivables are deducted directly from the corresponding asset position. Provisions can be raised for receivables subject to a country risk as dictated by the principle of prudence.

Provisions for general banking risks

Provisions for general banking risks are prudently established reserves to cover latent risks arising from the normal course of business of the Bank. As required by the prescriptions governing financial statement reporting, they are shown as a separate item in the balance sheet. Changes thereto are disclosed separately in the income statement.

Contingent liabilities, irrevocable facilities granted, capital subscription and margin obligations

Amounts disclosed as off-balance-sheet items are stated at nominal values. Lump-sum provisions exist in the balance sheet for latent default risks.

Statement of cash flow

VP Bank Ltd is exempted from drawing up a statement of cash flow as a result of the obligation to prepare consolidated financial statements (Art. 24l FL-BankO). The consolidated statement of cash flow of VP Bank Group is a part of the consolidated financial statements.

Post-balance-sheet-date events

There were no material occurrences to be reported for the 2020 financial year.

Commentaries on risk management

Appropriate risk management is the basic prerequisite for the sustainable development and continuing success of VP Bank Ltd, Vaduz. By "appropriate" it is to be understood that VP Bank Ltd, as a value-oriented enterprise, although it takes on financial, operational and business risks in a conscious manner, does not hinder growth through innovation and initiatives, but realistically evaluates and realises profit opportunities.

The principles for identifying, evaluating, controlling and monitoring financial, operational and business risks apply to VP Bank Ltd to the same extent as to the subsidiary companies and exactly mirror the risk management and control framework of VP Bank Group, for which reason reference is made at this point to the commentaries on risk management of VP Bank Group (➔ page 111 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	24,927	1,639,755	380,874	2,045,556
Mortgage receivables	3,037,515	9,980	3,460	3,050,955
• Residential property	2,131,783	9,866	2,672	2,144,321
• Office and business premises	88,690	0	0	88,690
• Commercial and industrial premises	700,159	0	789	700,948
• Other	116,882	114	0	116,995
Total loans, 31.12.2020	**3,062,441**	**1,649,735**	**384,335**	**5,096,511**
Total loans, 31.12.2019	3,001,657	2,077,549	414,763	5,493,969
Off-balance-sheet transactions				
Contingent liabilities	114	21,898	62,873	84,885
Irrevocable facilities granted	17,840	21,581	31,398	70,819
Total off-balance-sheet transactions, 31.12.2020	**17,954**	**43,480**	**94,270**	**155,704**
Total off-balance-sheet transactions, 31.12.2019	22,413	76,323	103,298	202,034

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, 31.12.2020	**51,441**	**34,572**	**16,869**	**16,869**
Total value-impaired loans, 31.12.2019	28,830	9,210	19,620	19,620

Trading portfolios of securities and precious metals

in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankO	Carrying value 31.12.2020	Carrying value 31.12.2019	Acquisition cost 31.12.2020	Acquisition cost 31.12.2019	Market value 31.12.2020	Market value 31.12.2019
Trading portfolios of securities and precious metals						
Equity shares	34	47	26	26	34	47
of which equity shares in the treasury	34	47	26	26	34	47
Precious metals	289	198	285	193	289	198
Total	**323**	**245**	**311**	**219**	**323**	**245**
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)	79,353	72,143			79,353	72,143
Negative replacement values of derivative financial instruments in trading portfolios (other liabilities)	98,309	85,832			98,309	85,832
Total	**177,662**	**157,975**			**177,662**	**157,975**
Portfolios of securities and precious metals in current assets (excluding trading portfolios)						
Debt securities	2,087,967	2,238,928	2,202,963	2,266,390	2,157,755	2,288,350
Equity shares	179,703	197,779	230,642	235,841	200,574	239,238
of which equity shares in the treasury	53,571	66,468	63,701	69,161	63,202	97,728
Total	**2,267,670**	**2,436,707**	**2,433,605**	**2,502,231**	**2,358,329**	**2,527,588**
of which repo-eligible securities	618,442	704,127	633,759	711,164	636,973	719,127
of which exchange-listed securities	2,233,699	2,400,236	2,370,149	2,438,706	2,321,092	2,488,627

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 2020	2019	Carrying value 2020	2019
Registered shares A				
Balance at the beginning of the year	598,065	599,442	62,341	57,512
Purchase		58,750		8,556
Disposals	–67,894	–60,127	–9,557	–8,565
Valuation allowances			–2,687	
Appreciation				4,838
Balance at the end of the year	**530,171**	**598,065**	**50,098**	**62,341**
Registered shares B				
Balance at the beginning of the year	324,387	321,897	4,127	3,841
Purchase	16,950	2,490	198	37
Disposals				
Valuation allowances			–851	
Appreciation				248
Balance at the end of the year	**341,337**	**324,387**	**3,473**	**4,127**

Participations and shares in affiliated companies

in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankO	Carrying value 31.12.2020	Carrying value 31.12.2019
Participations		
without quoted market value	74	74
Total participations	**74**	**74**
Shares in affiliated companies		
without quoted market value[1]	167,527	204,227
Total shares in affiliated companies	**167,527**	**204,227**

[1] In 2020, recoveries in value of CHF 16.4 million were recorded pursuant to Art. 1090 PGR (prior year: CHF 0.0 million).

in CHF 1,000 Art. 24e Par. 1 Point 3.3 FL-BankO	Currency	31.12.2020 Corporate capital	Percentage ownership	Currency	31.12.2019 Corporate capital	Percentage ownership
Participations						
Data Info Services AG, Vaduz (procurement, trade and exchange of goods and services)	CHF	50	50%	CHF	50	50%
Shares in affiliated companies						
VP Fund Solutions (Liechtenstein) AG (fund management company)	CHF	1,000	100%	CHF	1,000	100%
VP Bank (Luxembourg) SA, Luxembourg (bank)	CHF	20,000	100%	CHF	20,000	100%
VP Bank (Switzerland) Ltd, Zurich (bank)	CHF	20,000	100%	CHF	20,000	100%
VP Wealth Management (Hong Kong) Ltd, Hong Kong (wealth management company)	HKD	5,000	100%	HKD	5,000	100%
VP Bank (Singapore) Ltd, Singapore – liquidated per 18.09.2020 (bank)				SGD	102,000	100%
VP Bank (BVI) Ltd, Tortola (bank)	USD	10,000	100%	USD	10,000	100%

The carrying value of affiliated banks included under shares in affiliated companies amounts to CHF 165.8 million including subordinated loans (previous year: CHF 202.4 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 31.12.2019	Financial year 2020 Investments/ Additions	Divestments	Depr. and amortisation	Foreign-currency translation	Carrying value 31.12.2020
Total participations (minority participations)	126	–52	74	0	0	0	0	74
Total shares in affiliated companies	249,873	–45,646	204,227	0	–75,754	22,654	0	167,527
Total intangible assets (excluding goodwill)	182,003	–160,674	21,329	17,355	–547	–8,587	–29	29,521
Real estate								
• bank premises	194,719	–128,441	66,278	1,277	–269	–4,848	0	62,438
• other real estate	3,134	–304	2,830	250	0	–130	–17	2,933
Other property and equipment	35,519	–29,373	6,146	3,062	–3,043	–604	–11	5,550
Total property and equipment	233,372	–158,118	75,254	4,589	–3,312	–5,582	–28	70,921
Fire-insurance values of real estate			152,400					153,750
Fire-insurance values of other property and equipment			32,761					33,257

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	31.12.2020	31.12.2019
Total minimum commitments arising from operating leases[1]	**9,338**	**8,757**

[1] Previous year value adjusted by CHF 0.661 million.
[2] Previous year value adjusted by CHF 0.993 million.

Operating expenses as of 31 December 2020 include CHF 2.487 million arising from operating leases (previous year: CHF 2.534 million)[2].

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	31.12.2020	31.12.2019
Assets pledged or assigned to secure own or third-party liabilities and assets subject to reservation of title excluding securities lending/borrowing and repo transactions		
Carrying value of assets pledged or assigned as security	685,137	635,236
Effective liabilities	0	0
Securities lending/borrowing and repurchase transactions		
Amounts receivable arising from cash deposits in connection with securities borrowing and reverse-repurchase transactions	0	0
Amounts payable arising from cash deposits in connection with securities lending and repurchase transactions	0	0
Securities owned by the Bank lent out within the scope of securities lending or delivered as collateral within the scope of securities borrowing or transferred within the scope of repurchase transactions	207,174	185,729
of which securities for which an unconditional right has been granted to sell on or repledge	147,403	132,084
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	183,545	164,482
of which securities repledged or sold on	59,771	53,644

Liabilities to own retirement pension plans

in CHF 1,000 Art. 24e Par. 1 Point 3.7 FL-BankO	31.12.2020	31.12.2019
Due to customers	11,661	32,730
Securitised liabilities	200	0
Other liabilities	463	1,434
Total liabilities to own retirement pension plans	**12,324**	**34,163**

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 31.12.2020	Nominal amount 31.12.2019
VP Bank Ltd, Vaduz	0.875	2015	07.10.2024	100,000	100,000
VP Bank Ltd, Vaduz	0.500	2015	07.04.2021	100,000	100,000
VP Bank Ltd, Vaduz	0.600	2019	29.11.2029	155,000	155,000

Valuation allowances / provisions for general banking risks

in CHF 1,000 Art. 24e Par. 1 Point 3.9 FL-BankO	Balance on 01.01.2020	Utilisation in accord-ance with purpose	Recoveries, overdue interest, forex diff.	Provisions charged to income statement	Provisions released to income statement	Balance on 31.12.2020
Valuation allowances for default risks						
• Individual valuation allowances	19,620	3,761	1,232	864	1,086	16,869
• Lump-sum valuation allowances	1,102		–27	1,661	1,612	1,124
Provisions for contingent liabilities and credit risks	281		–8	464	538	199
Provisions for taxes and deferred taxes	4,915	5,346	–26	10,786		10,329
Other provisions	8,496	5,378	1	527	829	2,817
Total valuation allowances and provisions	**34,414**	**14,485**	**1,172**	**14,302**	**4,065**	**31,338**
minus: valuation allowances	20,721					17,993
Total provisions as per balance sheet	**13,693**					**13,345**
Provisions for general banking risks	**63,150**					**63,150**

Company capital

in CHF 1,000 Art. 24e Par. 1 Point 3.10 FL-BankO	31.12.2020 Total par value	Number	Capital entitled to dividends	31.12.2019 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 Par. 1 Point 3.10.1 FL-BankO	31.12.2020 Par value	Share in % of par value	Share of voting rights in %	31.12.2019 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	6,437	9.7	10.3	6,434	9.7	10.3
Marxer Stiftung für Bank- und Unternehmenswerte, Vaduz	7,569	11.4	6.3	7,569	11.4	6.3

Statement of changes in shareholders' equity

in CHF 1,000 Art. 24e Par. 1 Point 3.11 FL-BankO	2020
Shareholders' equity at the beginning of the financial year	
Subscribed and paid-up capital	66,154
Capital reserves	47,049
Legal reserves	239,800
Reserve for treasury shares	66,515
Other reserves	289,152
Provisions for general banking risks	63,150
Retained earnings	156,754
Total shareholders' equity at the beginning of the financial year	**928,574**

in CHF 1,000 Art. 24e Par. 1 Point 3.11 FL-BankO	2019
Other appropriations / releases from reserves (–)	3,222
Dividends and other distributions from net income of the previous year[1]	–36,385
Net income/loss (–) for the financial year	39,559
Total shareholders' equity at the end of the financial year	**934,970**
of which	
Subscribed and paid-up capital	66,154
Capital reserves	47,049
Legal reserves	239,800
Reserve for treasury shares	53,605
Other reserves	305,284
Provisions for general banking risks	63,150
Retained earnings	159,929

[1] Only dividends to third parties.

Maturity structure of assets as well as liabilities and provisions

in CHF 1,000 Art. 24e Par. 1 Point 3.12 FL-BankO	Sight	Callable	Due within 3 months	Due within 3 to 12 months	Due within 1 year to 5 years	Due after 5 years	Without maturity	Total
Assets								
Cash and cash equivalents	2,136,637							2,136,637
Due from banks	682,579		1,191,438	40,000	376			1,914,393
Due from customers	542	198,505	2,887,084	883,847	812,029	314,504		5,096,511
of which mortgage receivables	521	28,641	1,353,812	588,769	764,708	314,504		3,050,955
Trading portfolios of securities and precious metals	323							323
Portfolios of securities and precious metals in current assets (excluding trading portfolios)	2,203,545							2,203,545
Portfolios of securities and precious metals in fixed assets	64,126							64,126
Other assets	312,804		629				65,370	378,804
Total assets, 31.12.2020	**5,400,556**	**198,505**	**4,079,151**	**923,847**	**812,405**	**314,504**	**65,370**	**11,794,339**
Total assets, 31.12.2019	6,119,272	292,560	3,198,643	761,821	1,032,902	267,558	69,108	11,741,864
Liabilities and provisions								
Due to banks	1,847,353	106,985	415,600	123,246	160,177	22,103		2,675,464
Due to customers	5,342,213	1,615,498	537,296	47,307				7,542,314
• savings deposits		587,937						587,937
• other liabilities	5,342,213	1,027,561	537,296	47,307				6,954,377
Securitised liabilities			8,407	131,482	136,852	157,407		434,148
• debentures issued			8,407	131,482	136,852	157,407		434,148
of which medium-term notes			8,407	31,482	36,852	2,407		79,148
Provisions (excluding provisions for general banking risks)	13,345							13,345
Other liabilities	193,043		1,054					194,097
Total liabilities, 31.12.2020	**7,395,954**	**1,722,483**	**962,357**	**302,035**	**297,029**	**179,510**		**10,859,368**
Total liabilities, 31.12.2019	6,740,753	1,553,995	1,722,395	355,264	281,603	159,280		10,813,290

Debentures and other interest-bearing securities which mature in the following financial year	375,078
Issued debentures which mature in the following financial year	139,889

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	31.12.2020	31.12.2019
Receivables from and payables to participations, affiliated companies and qualifying participants		
Receivables from participations	0	0
Payables to participations	60	59
Receivables from affiliated companies	139,829	83,663
Payables to affiliated companies	2,435,829	2,130,240
Receivables from qualifying participants	0	0
Payables to qualifying participants	95,990	110,563
Loans to governing bodies		
Members of Group Executive Management and parties related thereto	2,167	2,090
Members of the Board of Directors and parties related thereto[1]	0	802

[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 2020 totalled CHF 0.613 million (prior year: CHF 0.589 million).

Remuneration paid to members of governing bodies

in CHF 1,000 Art. 14-16 Ordinance against Excessive Compensation with respect to Listed Stock Corporations (Switzerland)		Remuneration[1, 2] Fixed		thereof in registered shares A (market value)		Retirement benefit plans		Total remuneration	
		2020	2019	2020	2019	2020	2019	2020	2019
Board of Directors									
Dr Thomas R. Meier	Chairman[B, G, M, N]	390	190	98	48			390	190
Markus Thomas Hilti	Vice Chairman[B]	130	130	33	33			130	130
Fredy Vogt	BoD[A, H, O]	303	560	76	140	27	82	330	642
Dr Christian Camenzind	BoD[K]	0	37	0	9			0	37
Prof. Dr Teodoro D. Cocca	BoD[M]	43	130	11	33			43	130
Dr Beat Graf	BoD[D, F]	145	145	36	36			145	145
Ursula Lang	BoD[D, E]	160	160	40	40			160	160
Dr Florian Marxer	BoD[L]	0	73	0	18			0	73
Dr Gabriela Payer	BoD[B, H]	140	140	35	35			140	140
Michael Riesen	BoD[C, F]	160	160	40	40			160	160
Katja Rosenplänter-Marxer	BoD[D, F, I]	93	0	23	0			93	0
Total Board of Directors		**1,565**	**1,725**	**392**	**431**	**27**	**82**	**1,592**	**1,807**

[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 from 24 April 2020.
[K] Member of the Board of Directors up to 26 April 2019.
[L] Member of the Board of Directors up to 20 August 2019.
[M] Member of the Board of Directors up to 24 April 2020.
[N] Chairman of the Board of Directors from 24 April 2020.
[O] Chairman of the Board of Directors up to 24 April 2020.
[1] Social-security costs on the emoluments paid to the Board members are borne by VP Bank.
[2] Compensation for out-of-pocket expenses is not included.

Remuneration paid to members of governing bodies (continued)

in CHF 1,000 **Art. 14-16 Ordinance against Excessive Compensation with respect to Listed Stock Corporations (Switzerland)**	**Remuneration[1, 2]** **Fixed basic salary**		**Short Term Incentive (STI)**		**Performance Share Plan (PSP)**		**Restricted Share Plan (RSP)**		**Retirement benefit plans**		**Total remuneration**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Group Executive Management	**3,092**	**3,386**	**2,224**	**2,167**	**1,716**	**1,308**	**420**		**490**	**1,007**	**7,942**	**7,868**
Highest remuneration												
Alfred W. Moeckli, CEO		408		1,295		0		0		552		2,255
Christoph Mauchle	289		644		546		420		70		1,968	

[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 section on compansation (➔ page 79 ff.), both the fixed basic salary and the cash compensation (STI), and the entitlement to performance shares are disclosed. In 2019, the variable compensation included the cash compensation (STI) as well as the entitlement to performance and restricted shares. The number of registered shares A (entitlement to the performance share plan) as well as the related monetary benefit are fixed definitively only at the end of the respective planning period (or at the time of transferring the registered shares A). As part of the 2020–2022 plan, Group Executive Management received 12,438 performance shares (prior year: 8,493 performance and restricted shares).

The computation of the number of shares transferred upon expiry of the plan period is dependent upon the achievement of the targets (return on equity and cost income ratio). The monetary benefit from the respective PSP and RSP programmes will by definition be determined by the equity share price at the time of transfer of title to the shares. In the 2020 financial year, 21,987 performance shares (prior year: 28,868) with a market value of CHF 3,189,375.00 on the date of allocation (prior year: CHF 4,047,293.60) were transferred from the Management Plan 2017–2019 and the RSP 2017–2019 and 2018–2020.

Shareholdings and loans to governing bodies and related parties

in CHF 1,000 **Art. 14-16 Ordinance against Excessive Compensation with respect to Listed Stock Corporations (Switzerland)**	**Shareholdings in VP Bank Number of shares (including related parties, excluding qualifying participants)** **Registered shares A**		**Registered shares B**		**Loans and credits**		**Related parties[1]** **Loans and credits[2]**		**Remuneration for service provided[2]**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Board of Directors										
Dr Thomas R. Meier	1,316	430								
Markus Thomas Hilti	6,976	6,675							4	
Prof. Dr Teodoro D. Cocca[A]		2,410								
Dr Beat Graf	1,767	1,431							539	539
Ursula Lang	1,343	973								
Dr Gabriela Payer	1,276	1,652								
Michael Riesen	2,305	1,935								
Katja Rosenplänter-Marxer[B]	216								70	
Fredy Vogt	3,373	4,868				802				
Dr Florian Marxer[C]										50
Total Board of Directors	**18,572**	**20,374**	**0**	**0**	**0**	**802**	**0**	**0**	**613**	**589**
Group Executive Management										
Paul H. Arni, CEO										
Roger Barmettler, CFO a.i.										
Siegbert Näscher[D]		11,173				1,150				
Tobias Wehrli[E]	4,316				1,247					
Dr Felix Brill[F]		1,504								
Christoph Mauchle[F]		22,000								
Dr Urs Monstein, COO	3,634	1,817			920					
Monika Vicandi[D]		6,357				940				
Thomas von Hohenhau[G]										
Patrick Bont, CRO[H]										
Total Group Executive Management	**7,950**	**42,851**	**0**	**0**	**2,167**	**2,090**	**0**	**0**	**0**	**0**

[A] Member of the Board of Directors up to 24 April 2020.
[B] Member of the Board of Directors from 24 April 2020.
[C] Member of the Board of Directors up to 20 August 2019.
[D] Member of Group Executive Management up to 19 June 2020.
[E] Member of Group Executive Management from 1 July 2020.
[F] Member of Group Executive Management up to 30 June 2020.
[G] Member of Group Executive Management from 1 September 2020.
[H] Member of Group Executive Management from 1 November 2020.
[1] Individual or legal entities which are economically, legally or de facto closely related to a member of one of the governing bodies.
[2] At arm's length conditions.

Assets and liabilities by domestic and foreign origin

in CHF 1,000 Art. 24e Par. 1 Point 3.14 FL-BankO	31.12.2020 Domestic	Foreign	31.12.2019 Domestic	Foreign
Assets				
Cash and cash equivalents	2,134,783	1,854	2,610,760	
Due from banks	1,764,366	150,027	548,197	233,851
Due from customers	3,575,972	1,520,539	3,662,270	1,831,699
of which mortgage receivables	2,949,428	101,527	2,921,377	85,820
Debentures and other interest-bearing securities	282,539	1,805,428	300,363	1,938,566
Equity shares and other non-interest-bearing securities	58,490	67,642	62,016	69,295
Participations	35	39	35	39
Shares in affiliated companies	96,000	71,527	79,600	124,627
Intangible assets	29,254	267	21,016	313
Property and equipment	70,661	260	74,797	457
Treasury shares	53,605		66,515	
Other assets	47,274	43,462	45,526	48,699
Accrued receivables and prepaid expenses	9,831	10,483	10,713	12,511
Total assets	**8,122,810**	**3,671,528**	**7,481,808**	**4,260,057**
Liabilities and shareholders' equity				
Due to banks	1,593,230	1,082,234	1,166,111	1,357,671
Due to customers	4,832,278	2,710,036	4,982,179	2,579,588
• savings deposits	494,692	93,245	483,930	115,264
• other liabilities	4,337,586	2,616,791	4,498,249	2,464,324
Securitised liabilities	434,148		535,493	
Other liabilities	110,030	60,317	83,347	66,569
Accrued liabilities and deferred items	20,023	3,727	21,068	7,571
Provisions	11,752	1,593	13,205	488
Provisions for general banking risks	63,150		63,150	
Share capital	66,154		66,154	
Capital reserves	47,049		47,049	
Income reserves	598,689		595,467	
• legal reserves	239,800		239,800	
• reserves for treasury shares	53,605		66,515	
• other reserves	305,284		289,152	
Balance brought forward	120,370		97,630	
Net income for the year	39,559		59,124	
Total liabilities and shareholders' equity	**7,936,432**	**3,857,907**	**7,729,977**	**4,011,887**

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	31.12.2020 Absolute	Share in %	31.12.2019 Absolute	Share in %
Assets				
Liechtenstein/Switzerland	8,122,810	68.9	7,481,808	63.7
Europe (excluding Liechtenstein/Switzerland)	1,457,678	12.4	1,646,350	14.0
North America	663,857	5.6	700,850	6.0
Asia	816,142	6.9	970,608	8.3
Caribbean	617,432	5.2	831,768	7.1
Other	116,420	1.0	110,480	0.9
Total assets	**11,794,339**	**100.0**	**11,741,864**	**100.0**

Balance sheet by currency

in CHF 1,000 Art. 24e Par. 1 Point 3.16 FL-BankO	CHF	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	2,127,783	528	6,157	2,169	2,136,637
Due from banks	1,289,965	84,534	215,473	324,421	1,914,393
Due from customers	3,422,650	779,260	609,907	284,694	5,096,511
of which mortgage receivables	2,908,602	4,056	50,650	87,647	3,050,955
Debentures and other interest-bearing securities	475,707	791,816	766,993	53,451	2,087,968
Equity shares and other non-interest-bearing securities	51,512	11,174	59,580	3,866	126,132
Participations	35		39		74
Shares in affiliated companies	167,527				167,527
Intangible assets	29,254	267			29,521
Property and equipment	70,661	260			70,921
Treasury shares	53,605				53,605
Other assets	72,524	8,784	737	8,691	90,736
Accrued receivables and prepaid expenses	9,998	5,570	4,330	416	20,314
Total on-balance-sheet assets	**7,771,221**	**1,682,193**	**1,663,216**	**677,708**	**11,794,339**
Delivery claims arising from foreign-exchange spot, forward and option transactions	476,247	3,497,578	3,806,925	3,313,603	11,094,353
Total assets, 31.12.2020	**8,247,468**	**5,179,771**	**5,470,141**	**3,991,311**	**22,888,692**
Total assets, 31.12.2019	7,409,555	4,742,369	4,396,687	3,540,138	20,088,748
Liabilities and shareholders' equity					
Due to banks	347,367	1,344,581	617,228	366,288	2,675,464
Due to customers	2,936,070	2,171,103	1,606,116	829,025	7,542,314
• savings deposits	587,523		414		587,937
• other liabilities	2,348,547	2,171,103	1,605,702	829,025	6,954,377
Securitised liabilities	423,512	3,978	6,658		434,148
Other liabilities	101,704	6,922	53,274	8,447	170,347
Accrued liabilities and deferred items	18,275	2,019	47	3,409	23,750
Provisions	11,880	189	269	1,007	13,345
Provisions for general banking risks	63,150				63,150
Share capital	66,154				66,154
Capital reserves	47,049				47,049
Income reserves	598,689				598,689
• legal reserves	239,800				239,800
• reserves for treasury shares	53,605				53,605
• other reserves	305,284				305,284
Balance brought forward	120,370				120,370
Net income for the year	39,559				39,559
Total on-balance-sheet liabilities	**4,773,779**	**3,528,792**	**2,283,592**	**1,208,176**	**11,794,339**
Delivery obligations arising from foreign-exchange spot, forward and option transactions	3,523,177	1,642,037	3,166,600	2,781,595	11,113,409
Total liabilities, 31.12.2020	**8,296,956**	**5,170,829**	**5,450,192**	**3,989,771**	**22,907,748**
Total liabilities, 31.12.2019	7,427,022	4,745,452	4,391,878	3,538,102	20,102,454
Net position per currency	**–49,488**	**8,942**	**19,949**	**1,540**	

Contingent liabilities

in CHF 1,000 Art. 24e Par. 1 Point 4.1 FL-BankO	31.12.2020	31.12.2019	Variance absolute	Variance in %
Contingent liabilities				
Credit guarantees and similar	70,494	96,176	–25,682	–26.7
Performance guarantees and similar	14,391	23,112	–8,721	–37.7
Other contingent liabilities	0	0	0	0.0
Total contingent liabilities	**84,885**	**119,288**	**–34,403**	**–28.8**

Unsettled derivative financial instruments

in CHF 1,000 Art. 24e Par. 1 Point 4.3 FL-BankO	Trading instruments Positive replacement values	Negative replacement values	Contract volumes	Hedging instruments Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments						
Swaps				14	6,332	137,762
Futures						
Foreign exchange / precious metals						
Forward contracts	46,204	61,385	5,590,804			
Combined interest-rate/currency swaps	21,886	25,557	4,133,996			
Options (OTC)	10,799	10,799	1,377,636			
Equity instruments/Indices						
Futures						
Options (OTC)	464	464	8,676			
Options (exchange-traded)		105	1,285			
Total prior to consideration of netting agreements, 31.12.2020	**79,352**	**98,309**	**11,112,397**	**14**	**6,332**	**137,762**
Total prior to consideration of netting agreements, 31.12.2019	72,143	85,832	8,350,623	56	9,036	194,110

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 152 ff.).

Fiduciary transactions

in CHF 1,000 Art. 24e Par. 1 Point 4.4 FL-BankO	31.12.2020	31.12.2019	Variance absolute	Variance in %
Fiduciary transactions				
Fiduciary deposits	306,907	758,593	–451,686	–59.5
• Fiduciary deposits with third-party banks	300,866	580,277	–279,411	–48.2
• Fiduciary deposits with affiliated banks and finance companies	6,041	178,316	–172,275	–96.6
Fiduciary loans	0	0	0	0.0
Other fiduciary transactions of financial nature	0	0	0	0.0
Total fiduciary transactions	**306,907**	**758,593**	**–451,686**	**–59.5**

Information regarding the income statement

in CHF 1,000 Art. 24e Par. 1 Point 5.2 FL-BankO	2020	2019	Variance absolute	Variance in %
Income from trading activities				
Gains from securities	–4	94	–98	–104.0
Gains from trading derivatives	151	–782	933	–119.3
Gains from foreign-exchange transactions	61,173	69,543	–8,370	–12.0
Gains from trading in banknotes	627	533	94	18.0
Gains from precious metals	519	339	180	52.8
Total income from trading activities	**62,466**	**69,727**	**–7,261**	**–10.4**

in CHF 1,000 Art. 24e Par. 1 Point 5.3 FL-BankO	2020	2019	Variance absolute	Variance in %
Personnel expenses				
Salaries and wages	89,711	91,498	–1,787	–2.0
Social security costs and staff retirement pensions and assistance costs	16,445	32,225	–15,780	–49.0
of which for staff retirement pensions	14,488	30,302	–15,814	–52.2
Other personnel expenses	3,526	3,820	–294	–7.7
Total personnel expenses	**109,682**	**127,543**	**–17,861**	**–14.0**

Salaries of members of the Board of Directors and the Group Executive Management are disclosed under "Remuneration paid to members of governing bodies" (➔ page 185 f.).

in CHF 1,000 Art. 24e Par. 1 Point 5.4 FL-BankO	2020	2019	Variance absolute	Variance in %
General and administrative expenses				
Occupancy expenses	3,438	3,540	–102	–2.9
Expenses for IT, equipment, furniture, motor vehicles and other installations	15,074	14,140	934	6.6
Other operating expenses	28,017	24,834	3,183	12.8
Total general and administrative expenses	**46,529**	**42,514**	**4,015**	**9.4**

in CHF 1,000 Art. 24e Par. 2 Point 6c FL-BankO	2020	2019	Variance absolute	Variance in %
Other ordinary expenses				
Losses and differences	645	312	333	106.9
Other ordinary expenses[1]	5,792	683	5,109	n.a.
Total other ordinary expenses	**6,437**	**995**	**5,442**	**n.a.**

[1] 2020: thereof CHF 5.765 million resulting from taxation expenses in other accounting periods.

in % Art. 24e Par. 1 Point 6 FL-BankO	2020	2019	Variance absolute	Variance in %
Return on capital[1]	**0.34**	**0.52**	**–0.18**	**–34.6**

[1] Net income / average balance sheet total.

in CHF 1,000 Art. 24e Par. 2 Point 6e FL-BankO	2020	2019	Variance absolute	Variance in %
Other ordinary income				
Income from real estate	223	196	27	13.9
Other ordinary income[1]	20,043	3,586	16,457	459.0
Total other ordinary income	**20,266**	**3,782**	**16,484**	**436.0**

[1] 2020: thereof CHF 3.245 million resulting from service level agreements and CHF 16.400 million resulting from gains from appreciations on shares in affiliated companies in other accounting periods.
2019: thereof CHF 3.183 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	31.12.2020	31.12.2019	Variance absolute	Variance in %
Other assets				
Precious metals	289	198	91	45.9
Unsettled derivative financial instruments (positive replacement values)	79,366	72,199	7,167	9.9
• Trading positions	79,353	72,143	7,210	10.0
• Liquidity positions	13	56	–43	–75.7
Compensation accounts	5,581	7,848	–2,267	–28.9
Settlement accounts	3,396	11,280	–7,884	–69.9
Miscellaneous other assets	2,104	2,700	–596	–22.1
Total other assets	**90,736**	**94,225**	**–3,489**	**–3.7**
Other liabilities				
Accounts for disbursement of taxes and fees	4,851	4,286	565	13.2
Unsettled derivative financial instruments (negative replacement values)	104,641	94,867	9,774	10.3
• Trading positions	98,309	85,832	12,477	14.5
• Liquidity positions	6,332	9,035	–2,703	–29.9
Compensation accounts	6	52	–46	–89.2
Settlement accounts	59,645	41,819	17,826	42.6
Miscellaneous other liabilities	1,204	8,892	–7,688	–86.5
Total other liabilities	**170,347**	**149,916**	**20,431**	**13.6**

Income and expense analysed by permanent establishment

in CHF 1,000 Art. 24e Par. 1 Point 5.6 FL-BankO	2020 Domestic	Foreign	2019 Domestic	Foreign
Interest income	71,020	12,551	94,540	21,003
Interest expenses	17,925	2,524	49,374	10,885
Current income from securities	15,002		13,904	
Income from commission business and services	81,892	10,541	86,306	10,100
Commission expenses	13,067	1,914	14,385	1,403
Income from financial transactions	47,746	5,048	97,035	4,676
Other ordinary income	20,929	0	4,551	1
Operating expenses	141,458	15,806	152,955	18,146
Other ordinary expenses	6,381	55	991	4

The split between domestic and foreign is based upon the domicile of the branch recording the transactions.

The values reported under foreign relate to the VP Bank Ltd Singapore Branch in Singapore (business activity: bank). As per 31.12.2020, this unit employs 75 individuals (31.12.2019: 67 individuals) expressed in terms of full-time equivalents. In 2020, total operating income on a consolidated basis amounts to an equivalent of CHF 24,065 million (2019: 26,849 million) and the pre-tax net income CHF 8.561 million (2019: 9.876 million). During 2020, the unit received an equivalent of CHF 0.826 million in state subsidies (2019: 0.060 million).

Auditor's report

Report of the statutory auditor

to the General Meeting of VP Bank Ltd., Vaduz

Report on the audit of the financial statements

Opinion

We have audited the financial statements of VP Bank Ltd ('the Company'), which comprise the balance sheet as at 31 December 2020, the income statement for the year then ended and the notes, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 173 to 191) give a true and fair view of the consolidated financial position of the Company as at 31 December 2020 and its financial performance for the year then ended in accordance with Liechtenstein law.

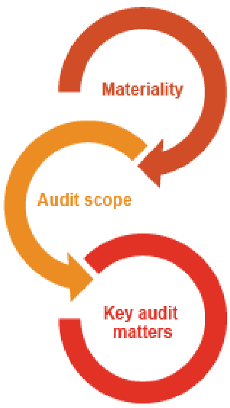
Basis for opinion

We conducted our audit in accordance with Liechtenstein law and International Standards on Auditing (ISA). Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the Company in accordance with the provisions of Liechtenstein law and the requirements of the audit profession, as well as the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code) 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.

Our audit approach

Overview



Overall materiality: CHF 2,480,000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matters, the following areas of focus were identified:

- Impairment testing of due from customers
- Completeness and valuation of provisions for legal and litigation risks

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zürich, Switzerland
Telefon: +41 58 792 44 00, Telefax: +41 58 792 44 10, www.pwc.ch

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

On the basis of our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 2,480,000
How we determined it	5% of the income from normal business operations (average of the last three years)
Rationale for the materiality benchmark applied	We chose income from normal business operations as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured. Income from normal business operations represents income before taxes and before changes to the provisions for general banking risks and is a generally accepted benchmark for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 119,500 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Reporting on key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment testing of due from customers

Key audit matter	How our audit addressed the key audit matter
As at 31 December 2020, the Company reported due from customers in the amount of CHF 5.097 billion, of which 0.35% were assessed as impaired. Due from customers is the Company's largest asset and about 60.1% are backed by mortgages and 32.4% by other collateral provided by customers (i.e. mainly in the form of Lombard loans).	Our audit procedures were primarily tests of the proper functioning of the internal controls performed by the Company. We tested compliance with the rules and processes as well as the effectiveness of these controls through risk-based sample testing. In doing so, we assessed the design of the key controls and, on a sample basis, tested compliance with them.

Due from customers are valued by calculating the expected credit loss. Determining the factors and calculating the expected credit loss – and the resulting valuation allowances – requires judgement. We consider the impairment testing of due from customers a key audit matter because of the amount they represent on the balance sheet and the significant scope for judgement inherent in their valuation.

The accounting principles applied to due from customers and the methods used to identify default risk, to determine the need for impairment and to evaluate collateral are described in the annual report.

Please refer to page 178 (Principles of accounting and valuation) and page 180 (Notes regarding the balance sheet and income statement: Analysis of collateral).

Where significant scope for judgement exists (e.g. in the valuation of collateral or the estimation of property values), we also challenged Company's decisions with our own critical opinion as part of our substantive audit procedures. Our substantive tests included sample-based testing of loans at risk in the loan portfolio to assess whether an additional valuation allowance was needed. We also assessed the method and accuracy of the calculation of the expected credit losses.

Overall, on the basis of our audit procedures, we consider the principles and assumptions applied by the Company to test for the impairment of due from customers to be acceptable.

Completeness and valuation of provisions for legal and litigation risks

Key audit matter

As at 31 December 2020, the Company has recorded no other provisions. Other provisions include provisions for legal and litigation risks.

The Company is exposed to legal and litigation risks as it operates in a regulatory and legal environment. The completeness and valuation of provisions for legal and litigation risks involves significant scope for judgement. We therefore consider the audit of the accounting for provisions for legal and litigation risks to be a key audit matter.

The Company assesses the legal and litigation risks through internal analyses conducted by the department responsible and in cooperation with external legal counsel.

The annual report provides details on the accounting and valuation principles for the provisions. Please refer to page 179 (Principles of accounting and valuation) and page 184 (Notes regarding the balance sheet and income statement: Maturity structure of assets as well as liabilities and provisions).

How our audit addressed the key audit matter

We assessed the accounting principles for the provisions for the settlement of litigation and regulatory proceedings. In doing so, we used a risk-based approach to test the Company's estimates of the amounts for potential claims for damages and the provisions created for such. The evidence we examined included, among others, correspondence with third parties, confirmations from external legal counsel on selected litigation and claims, and the Company's internal analyses.

Regarding as yet unidentified risks, we reviewed a sample of customer complaints. In this way, we assessed whether systematic weaknesses existed for which provisions might have to be made. We also considered externally available information and assessed its potential implications for the Company.

Further, on the basis of our understanding of the Company's business and our inspection of business correspondence, we assessed the completeness of the provisions. Additionally, the completeness of the provisions was evaluated on the basis of selected assessments by external legal counsel.

The audit procedures performed allowed us to assess the completeness and valuation of the provisions for legal and litigation risks. The assumptions made by the Company are in line with our expectations.

Other matters

The Company's financial statements for the year ended 31 December 2019 were audited by another firm of auditors whose report, dated 28 February 2020, expressed an unmodified opinion on those 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 stand-alone financial statements, the consolidated annual report, the stand-alone annual report and our auditor's reports thereon.

Our opinion on the financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with the requirements of Liechtenstein law and the Company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity'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 intends either to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Liechtenstein law and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Liechtenstein law and ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The annual report (page 172) as at 31 December 2020 complies with Liechtenstein law and the articles of incorporation. The annual report accords with the financial statements and, in our opinion, does not contain any material inaccurate information.

We further confirm that the financial statements and the proposed appropriation of profit comply with Liechtenstein law and the articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Rolf Birrer

Liechtenstein Certified Public Accountant
Auditor in charge

Tobias Scheiwiller

Zurich, 5 March 2021

VP Bank Group

VP Bank Ltd is a bank domiciled in Liechtenstein and is subject to supervision by the Liechtenstein Financial Market Authority (FMA), Landstrasse 109, 9490 Vaduz, Liechtenstein, www.fma-li.li

VP Bank Ltd	Aeulestrasse 6 · 9490 Vaduz · Liechtenstein T +423 235 66 55 · F +423 235 65 00 info@vpbank.com · www.vpbank.com VAT No. 51.263 · Reg. No. FL-0001.007.080-0
VP Bank (Switzerland) Ltd	Talstrasse 59 · 8001 Zurich · Switzerland T +41 44 226 24 24 · F +41 44 226 25 24 · info.ch@vpbank.com
VP Bank (Luxembourg) SA	2, rue Edward Steichen · L-2540 Luxembourg T +352 404 770-1 · F +352 481 117 · info.lu@vpbank.com
VP Bank (BVI) Ltd	VP Bank House · 156 Main Street · PO Box 2341 Road Town · Tortola VG1110 · British Virgin Islands T +1 284 494 11 00 · F +1 284 494 11 44 · info.bvi@vpbank.com
VP Bank Ltd Singapore Branch	8 Marina View · #27-03 Asia Square Tower 1 Singapore 018960 · Singapore T +65 6305 0050 · F +65 6305 0051 · info.sg@vpbank.com
VP Wealth Management (Hong Kong) Ltd	33/F · Suite 3305 · Two Exchange Square 8 Connaught Place · Central · Hong Kong T +852 3628 99 00 · F +852 3628 99 11 · info.hkwm@vpbank.com
VP Bank Ltd Hong Kong Representative Office	33/F · Suite 3305 · Two Exchange Square 8 Connaught Place · Central · Hong Kong T +852 3628 99 99 · F +852 3628 99 11 · info.hk@vpbank.com
VP Fund Solutions (Luxembourg) SA	2, rue Edward Steichen · L-2540 Luxembourg T +352 404 770-297 · F +352 404 770-283 fundclients-lux@vpbank.com · www.vpfundsolutions.com
VP Fund Solutions (Liechtenstein) AG	Aeulestrasse 6 · 9490 Vaduz · Liechtenstein T +423 235 67 67 · F +423 235 67 77 vpfundsolutions@vpbank.com · www.vpfundsolutions.com

Imprint

This annual report has been produced with the greatest possible care and all data have been closely examined. Rounding, typeset or printing errors, however, cannot be ruled out.

This annual report includes information and forecasts relating to the future development of VP Bank Group. Those forecasts represent estimates based on all information available at the time of publication. Any such forward-looking statement is subject to risks and uncertainties that could lead to significant variances in actual future results. No guarantee can be made as to the reliability of the prognoses, planned quantities or forward-looking statements contained herein.

This annual report has been produced in German and English, whereas the German version shall prevail in case of doubt.

Media & Investor Relations
VP Bank Ltd · Felipe Gomez de Luis · Head of Group Communications & Marketing
Aeulestrasse 6 · 9490 Vaduz · Liechtenstein · T +423 235 65 22 · F +423 235 66 20
corporate.communications@vpbank.com · www.vpbank.com

Text, layout and realisation
VP Bank AG, Vaduz

Illustrations
Patrick Oberholzer, Zurich · www.patrick-oberholzer.ch

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

Paper
Printed on PlanoJet 100 g/m² as well as creative paper 300 g/m² · Chlorine-free, acid-free, wood-free · FSC-certified