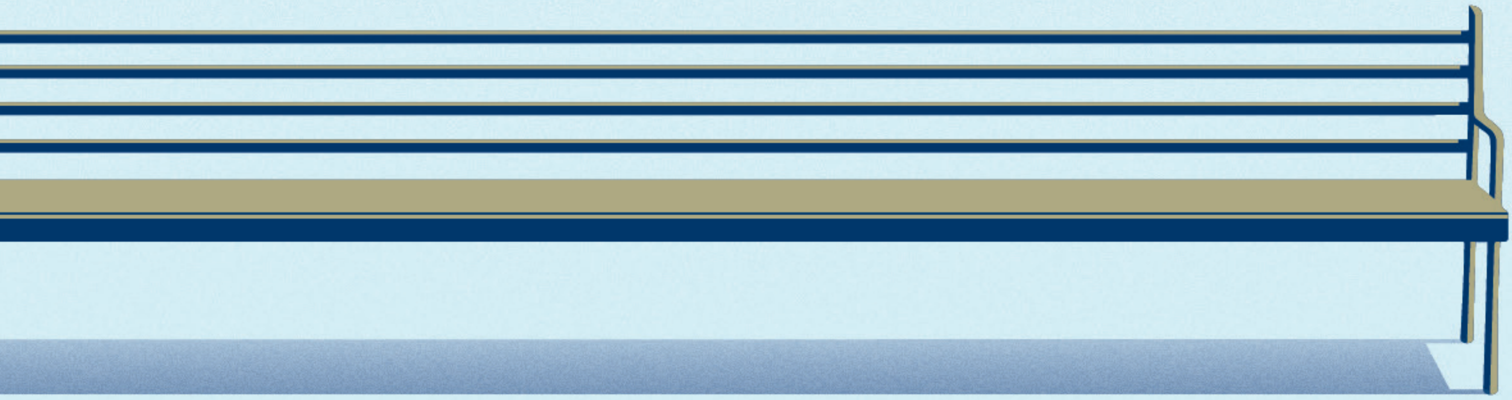
Disclosure report 2019

We connect.



"We connect. Learn more about what connects us."

Connectivity is the corporate megatrend of our time. The principle of unlimited networking continues to grow rapidly and touches all areas of our lives. Our specialists serve as the bank's messengers to describe the areas and topics where VP Bank is forging new conceptual connections. We present seven central themes in all, which include the following areas: client experience, digital advisory, corporate responsibility, working environment, investment solutions, financial strength and fund expertise. You can also watch more in-depth interviews at our online annual report at report.vpbank.com

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Index disclosure part 8 Capital Requirements Regulation (CRR)

Article CRR	Topic	Disclosure document
435	Risk management objectives and policy	Disclosure report p. 10 ff., Annual report p. 119 ff.
436	Consolidation	Disclosure report p. 5ff., Annual report p. 163 ff.
437	Own funds	Disclosure report p. 16 ff., Annual report p. 125 ff.
438	Capital requirements	Disclosure report p. 20 ff., Annual report p. 125 ff.
439	Counterparty credit risk	Disclosure report p. 35 ff., Annual report p. 129 ff.
440	Capital buffers	Disclosure report p. 21 ff., Annual report p. 126 ff.
441	Indicators of global systemic importance	Not applicable
442	Credit risk adjustments	Disclosure report p. 30 ff., Annual report p. 126 ff.
443	Unencumbered assets	Disclosure report p. 44 ff.
444	Use of ECAIs	Disclosure report p. 28
445	Exposure to market risk	Disclosure report p. 38 ff., Annual report p. 126 ff.
446	Operational risk	Disclosure report p. 42 ff., Annual report p. 139 ff.
447	Equities not included in the trading book	Disclosure report p. 43 ff., Annual report p. 126 ff.
448	Interest rate risk on positions not included in the trading book	Disclosure report p. 39 ff., Annual report p. 127ff.
449	Securitisation positions	Not applicable
450	Remuneration policy	Disclosure report p. 46 ff., Annual report p. 81 ff.
451	Leverage	Disclosure report p. 22 ff.
452	IRB approach	Not applicable
453	Credit risk mitigation techniques	Disclosure report p. 39 ff., Annual report p. 111 ff.
454	Advanced Measurement Approaches to operation risk (AMA)	Not applicable
455	Internal market risk models	Not applicable
EBA/GL	Liquidity	Disclosure report p. 40 ff.
EBA/GL	non-performing and forborne exposures	Offenlegungsbericht S. 31 ff.

Introduction

VP Bank

VP Bank is an internationally active private bank and is one of the biggest banks in Liechtenstein. It has offices in Vaduz, Zurich, Luxembourg, Tortola / British Virgin Islands, Singapore and Hong Kong.

Since its foundation in the year 1956, VP Bank has focused on asset management and investment consultancy for private individuals and financial intermediaries. 943 employees manage client assets of CHF 47.6 billion as of 31 December 2019.

VP Bank is listed on the SIX Swiss Exchange. Its financial strength has been given an "A" rating by Standard & Poor's. The shareholder base with three anchor shareholders ensure stability, independence and sustainability.

Basis and purpose of the disclosure

The Disclosure Report is based upon Part 8 of the Regulation (EU) No. 575/2013 CRR, which has been directly applicable in Liechtenstein with amendments of the Banking Act Liechtenstein (BankA) and the Banking Ordinance Liechtenstein (BankO) since 1 February 2015.

The Disclosure Report provides a comprehensive picture of the equity and liquidity adequacy, the risk profile and the risk management of VP Bank.

Content and scope of application of the disclosure

The Disclosure Report contains all qualitative and quantitative information specified in Part 8 Section II CRR that has not already been published in the annual report of VP Bank. The exemption rules set out under Art. 432 CRR for immaterial or confidential information as well as business secrets have not been applied.

VP Bank AG with registered domicile in Vaduz, Liechtenstein, is the parent company of VP Bank Group and fulfils the disclosure requirements pursuant to Art. 13 Para. 1 CRR on a consolidated level. The basis for this is the prudential scope of consolidation pursuant to Art. 18 to 24 CRR. For this reason, all information in the Disclosure Report relate to VP Bank Group.

Frequency and means of disclosure

A comprehensive disclosure report is drawn up annually and published as a separate document on the VP Bank homepage (www.vpbank.com). Supplementary information is provided in the annual report. Publications performed during the course of the year are set out in the interim report. A supplementary Disclosure Report is issued semi-annually and is also published on the VP Bank website.

Preparation and assessment of the disclosure

VP Bank has implemented a process for preparing the Disclosure Report, and has defined the tasks and responsibilities in writing. Within this context, the content and frequency of the disclosure is regularly reviewed in order to ascertain that this is reasonable. The Disclosure Report is not subject to any review by statutory banking auditors.

No significant obstacles exist that limit the prompt transfer of equity capital or the repayment of liabilities between the parent company and fully-consolidated subsidiaries.

Changes since last year's Disclosure Report

The EBA Guideline 2018/10 on the disclosure of non-performing and deferred risk positions has been applicable in Liechtenstein since 31 December 2019. Compared to the previous year, the present disclosure as of 31 December 2019 therefore includes full disclosure in accordance with EBA Guideline 2018/10 for the first time.

Changes after the reporting date 31 December 2019

Despite the effects of the COVID 19 crisis, the capital and liquidity ratios disclosed in this report remain well above the regulatory requirements even after the reporting date of 31 December 2019 until the time of publication at the end of April 2020.

Consolidation

Outline of the differences in the scope of consolidation (entity by entity) (EU LI3)

The following table shows the regulatory reporting entities and the reporting entities in accordance with the IFRS for VP Bank.

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation: Full consolidation	Proporational consolidation	Neither consolidated nor deducted	Deducted	Description of the entity
VP Bank AG, Vaduz	IFRS	x				Banks (regulated companies)
VP Bank (Schweiz) AG, Zürich	IFRS	x				
VP Bank (Luxembourg) SA, Luxembourg	IFRS	x				
VP Bank (Singapore) Ltd - in liquidation	IFRS	x				
VP Bank (BVI) Ltd, Tortola	IFRS	x				
VP Fund Solutions (Liechtenstein) AG, Vaduz	IFRS	x				Other financial institutions
VP Fund Solutions (Luxembourg) SA, Luxembourg	IFRS	x				
VP Wealth Management (Hong Kong) Ltd, Hong Kong	IFRS	x				
Data Info Services AG, Vaduz	IFRS		x			Ancillary services undertaking

Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (EU LI1)

in CHF 1,000	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items: Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and cash equivalents	2,909,935	2,909,584	2,909,584	0	0	161,123	0
Receivables arising from money market papers	122,956	122,958	122,958	0	0	0	0
Due from banks	735,026	708,319	708,319	0	0	628,491	0
Due from customers	6,797,316	6,824,374	6,824,374	0	0	3,163,052	0
Trading portfolios	199	199	199	0	0	199	0
Derivative financial instruments	72,513	72,513	0	72,513	0	72,513	0
Financial instruments at fair value	215,690	215,690	215,690	0	0	80,730	0
Financial instruments measured at amortised cost	2,302,477	2,302,477	2,302,477	0	0	1,837,842	0
Associated companies	28	28	28	0	0	0	0
Property and equipment	115,368	115,368	115,368	0	0	2,559	0
Goodwill and other intangible assets	62,189	62,189	0	0	0	313	62,189
Tax receivables	847	847	0	0	0	0	847
Deferred tax assets	9,974	9,974	0	0	0	0	9,974
Accrued receivables and prepaid expenses	28,536	28,536	28,536	0	0	16,019	0
Assets held for sale				0	0	0	0
Other assets	26,802	26,802	26,802	0	0	16,805	0
Own Shares	0	66,515	66,515	0	0	0	0
Total assets	**13,399,856**	**13,466,373**	**13,320,850**	**72,513**	**0**	**5,979,646**	**73,010**

EU LI1 (continued)

in CHF 1,000	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Liabilities							
Due to banks	401,844	400,561	0	0	0	237,354	163,206
Due to customers – savings and deposits	600,966	600,966	0	0	0	662	600,304
Due to customers – other liabilities	10,536,568	10,537,852	0	0	0	7,869,483	2,668,368
Derivative financial instruments	94,625	94,625	0	94,625	0	94,625	0
Medium-term notes	177,493	177,493	0	0	0	20,459	157,034
Debentures issued	355,327	355,328	0	0	0	0	355,328
Tax liabilities	6,221	6,221	0	0	0	0	6,221
Deferred tax liabilities	65	65	0	0	0	0	65
Accrued liabilities and deferred items	39,510	39,510	0	0	0	10,065	29,445
Other liabilities	154,250	154,250	0	0	0	54,366	99,884
Provisions	942	942	0	0	0	0	942
Share capital	66,154	66,154	0	0	0	0	66,154
Less: treasury shares	–68,004	–1,489	0	0	0	0	–1,489
Capital reserves	26,772	26,772	0	0	0	0	26,772
Income reserves	1,043,893	1,043,893	0	0	0	0	1,043,893
Unrealised gains/losses on FVTOCI financial instruments	–15,518	–15,518	0	0	0	0	–15,518
Foreign-currency translation differences	–21,252	–21,252	0	0	0	0	–21,252
Total liabilities and shareholders' equity	**13,399,856**	**13,466,373**	**0**	**94,625**	**0**	**8,287,014**	**5,179,357**

The delta between the published annual financial statements and the regulatory reporting entities is primarily due to the differing treatment of own shares (CHF 66 million), which are deducted from the equity capital in the annual financial statements but recognised as an asset item in the regulatory reporting entities.

Main sources of differences between regulatory exposure amounts and carrying values in financial statements (EU LI2)

In addition to the EU LI1 template, figure EU LI2 below illustrates the key differences between the carrying values under the IFRS Group balance sheet (under the regulatory reporting entities) and the risk exposures used for regulatory purposes. The division of the columns into regulatory risk categories corresponds to the breakdown listed in Part 3 of the CRR.

in CHF 1,000		Items subject to			
	Total	Credit risk framework	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**13,466,373**	**13,320,850**	**72,513**	**0**	**5,979,646**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	12,367,813	0	94,625	0	8,287,014
Total net amount under the regulatory scope of consolidation	1,098,560	13,320,850	72,513	0	–2,307,368
Off-balance-sheet amounts	625,067	144,618		0	0
Differences in valuations	77,785	0	77,785	0	0
Differences due to different netting rules, other than those already included in row 2	0	0	0	0	0
Differences due to consideration of provisions	0	0	0	0	0
Differences due to prudential filters	–61,864	–61,864	0	0	0
Others	0	0	0	0	0
Exposure amounts considered for regulatory purposes		**13,403,604**	**150,298**	**0**	**0**

Corporate governance

Board of Directors

Pursuant to Art. 23 BankA, the Board of Directors is responsible for the overall management, supervision and control of the bank. It is responsible for the medium to long-term strategic focus of VP Bank and of VP Bank Group (Group Board of Directors).

The powers and obligations of the Board of Directors are set out in the Articles of Association and in the Organisation and Business Rules (OBR) of VP Bank.

Committees of the Board of Directors

To help it fulfil its responsibilities, the Board of Directors is supported by four committees: the Nomination & Compensation Committee, the Audit Committee, the Risk Committee and the Strategy & Digitalisation Committee. Each committee consists of at least three members of the Board of Directors.

The tasks, powers, rights and obligations of the committees of the Board of Directors are set out in the Organisation and Business Rules of VP Bank. The functions of the Audit Committee, of the Risk Committee as well as of the Strategy & Digitalisation Committee are also defined in regulations.

The Risk Committee is responsible in particular for the following tasks:
- Receiving and processing the reports prepared by Group Risk as well as assessing the appropriateness of the procedures deployed to control and monitor the risks
- Assessing the strategic, business, financial, operational and reputation risks as well as discussing these with the Chief Risk Officer and the Head of Group Risk
- Assessing the integrity of the risk control and monitoring as well as of the internal control system
- Assessing the precautions taken to ensure adherence to statutory (such as e.g. equity capital, liquidity & risk distribution regulations) and internal regulations (compliance), and adherence to these regulations
- Receiving and processing the reports prepared by Group Legal Services, Group Compliance and Group Tax Center
- Acknowledging material interactions with the respective supervisory authorities as well as assessing the precautions taken to implement conditions as well as assessing the integrity of the procedures deployed to fulfil the conditions and measures imposed by supervisory authorities
- Assessing the quality (effectiveness) of the risk governance as well as of the cooperation between Risk Control, Risk Supervision, Group Executive Management (GEM), Group Risk Committee, Risk Committee and the Board of Directors
- Assessment whether the incentives offered by the remuneration system take account of the risk, the capital, the liquidity as well as the likelihood and the timing of revenues.
- Advising the Board of Directors on the appointment or dismissal of the Chief Risk Officer.

As a rule, the Risk Committee meets five to eight times per annum. Seven ordinary and one workshop took place in the 2019 financial year. The General Counsel & Chief Risk Officer, the Chief Financial Officer and the Head of Group Internal Audit took part in the meetings.
At a joint meeting with the Audit Committee, there was a discussion with Group Executive Management (GEM) regarding the quality of the internal control system and additional concerns.

Members of the Board of Directors

Pursuant to Art. 16 of the Bank's Articles of Association, the Board of Directors shall consist of at least five members who are elected individually for three-year terms of office.

In professional and personal terms, the members of the Board of Directors must at all times ensure proper business operations. Criteria governing the selection of the members of the Board of Directors are prepared and reviewed by the Nomination & Compensation Committee. In this conjunction, attention is paid to the balance of the know-how and capabilities, the diversity and the experience of the Board of Directors in its entirety.

Changes to business activities (e.g. expansion into new markets, products, etc.) or new regulatory requirements are leading to new tasks and increased complexity in business operations. This may result in additional requirements on the supervisory duties of the Board of Directors.

The Nomination & Compensation Committee therefore conducts ad hoc reviews at least annually as to any potential new requirements for the qualifications of members of the Board of Directors, and whether or not these requirements are adequately met by the body as a whole and/or by individuals. Where a deficit is discovered, the Nomination & Compensation Committee immediately initiates effective measures to ensure smooth management across all members of the body and within individual roles.

VP Bank is committed to diversity. Employees and managers are hired strictly on the basis of their qualifications without regard for age, gender or nationality. The Board of Directors has focused on this issue and prepared a skills analysis for future challenges. With two female Board members from the Legal/Compliance and HR/Business Development areas, these skills were expanded in optimal fashion in 2016.

A study on gender mix in Swiss companies showed the percentage of women on the Board of Directors of VP Bank to be above average in comparison to the other companies assessed.

At the 56th Annual General Meeting of VP Bank on 26 April 2019, Markus Thomas Hilti, Ursula Lang and Dr Gabriela Maria Payer were re-elected to three-year terms on the Board of Directors, while Dr Christian Camenzind chose not to seek re-election and left the Board.

In 2018, Dr Thomas R. Meier was elected for the first time to a three-year term on the Board of Directors. In February 2019, he was appointed second Vice Chairman of the Board. As a proven Asia specialist, Thomas Meier makes a substantial contribution to the continued successful strategic development of our Asian activities.

Dr Florian Marxer stepped down from the Board of Directors for personal reasons on 20 August 2019.

Information and control instruments of the Board of Directors

The Board of Directors and its committees have various information and control instruments at their disposal. These include the strategy process, the medium-term planning, the budgeting process as well as the reporting.

The Board of Directors receives monthly financial and risk reports as well as periodic reports on the quarterly, interim and annual financial statements:

- The reports contain quantitative and qualitative information as well as budget discrepancies, period and multi-year comparisons, management parameters and risk analyses.
- The reports enable the Board of Directors to obtain a picture of the relevant developments and risk situation at all times.
- Reports that are the responsibility of the Audit Committee or of the Risk Committee are discussed by the respective committee, and are forwarded to the Board of Directors for acknowledgement or with corresponding motions for approval.
- The reports are discussed comprehensively within the context of the meetings of the Board of Directors.

On the basis of the reporting by the GEM, the strategy implementation or strategy controlling are checked twice per annum by the Board of Directors. The Strategy & Digitalisation Committee supports the Board of Directors to fulfil this function.

The Chairman of the Board of Directors receives all minutes of the meetings of the GEM. In addition, he holds regular consultations with the Chief Executive Officer (weekly) and other members of the GEM.

A further important instrument for exercising the supervisory and control functions of the Board of Directors is the internal audit, which applies the internationally recognised standards of the Swiss Internal Audit Association and of the Institute of Internal Auditors (IIA).

The duties and powers of the internal audit are set out in a dedicated set of regulations. Operating as an independent authority, it audits in particular the internal control system, the management processes and the risk management at VP Bank.

Group Executive Management

The GEM is responsible for the operating management of VP Bank as well as for the management of VP Bank Group (Group Executive Management).

The powers and authorities of the GEM are set out in the Organisation and Business Rules (OBR) of VP Bank.

Members of the GEM

Pursuant to Fig. 5.1 OGR, the GEM consists of the Chief Executive Officer, the Chief Financial Officer and at least one further member. One member of the GEM oversees the risk management function in the capacity of Chief Risk Officer, and may also simultaneously hold further functions, insofar as this is compatible with the necessary independence. At VP Bank, the role of Chief Risk Officer is established at Group management level within the "General Counsel & Chief Risk Officer" organisational unit.

In professional and personal terms, the members of the GEM must offer assurance of proper business activities at all times and may not simultaneously be members of the Board of Directors of the bank. They are appointed by the Board of Directors after being proposed by the Nomination & Compensation Committee.

In early 2019, the Board of Directors of VP Bank Group and CEO Alfred W. Moeckli mutually agreed not to continue their collaboration. Alfred W. Moeckli relinquished all his functions at end-January 2019 and left the bank. The Board of Directors subsequently appointed Paul H. Arni as the new CEO of VP Bank Group. Paul Arni assumed his duties on 1 October 2019.

Before Paul Arni assumed the position, Dr Urs Monstein served as interim CEO and then returned to focus on his role as Chief Operating Officer. The Board of Directors extends its sincerest thanks to Dr Urs Monstein for his prudent leadership of the bank during this challenging transition phase.

Risk management goals and risk management policy

Risk policy principles

Effective capital, liquidity and risk management is an elementary prerequisite for the success and stability of a bank. VP Bank understands this term to mean the systematic process to identify, evaluate, manage and monitor the relevant risks as well as the steering of capital resources and liquidity necessary to assume risks and guarantee risk tolerance. The risk policy laid down by the Board of Directors of VP Bank Group constitutes the mandatory operating framework in this respect.

The risk policy regulations contain a comprehensive framework as well as a risk strategy for the risk groups business, financial and operational risks. These detail and clearly stipulate specific objectives and principles, organisational structures and processes, methods and instruments as well as targets and limits.

The following principles are applicable to risk management at VP Bank:

Alignment of risk tolerance and risk appetite

Risk appetite is reflected in the risk capital and indicatesthe maximum loss which the bank is prepared to bear arising from crystallising risks without thereby jeopardising the bank's ability to continue as a going concern. As a strategic success factor, risk tolerance is to be maintained and enhanced by employing a suitable process to ensure and increase an appropriate capital base.

Clear defined powers of authority and responsibilities

Risk tolerance is operationalised using a comprehensive limit system and implemented effectively with a clear definition of the duties, powers and responsibilities of all bodies, organisational units and committees involved in the risk and capital management process. Risk coverage potential, risk capital and limits are reviewed and, if necessary, adjusted as required, but once a year at the minimum.

Conscientious handling of risks

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

Segregation of functions

Risk monitoring and risk reporting to GEM and the Board of Directors are ensured by an entity independent of the units which actively manage risk (Group Risk).

Transparency

The underlying principle of risk monitoring is a comprehensive, objective, timely and transparent disclosure of risks to GEM and the Board of Directors.

Risk management process

Classification of banking risks

The prerequisite for the risk management and the management of equity resources of VP Bank is the identification of all significant risks and their aggregation to an overall bank risk position. Which risks are significant is derived from the business model and related offerings of financial products and services of VP Bank.

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

Strategic risk encompasses the risk of a potential decline in profitability as a result of an inadequate corporate orientation in relation to the market environment (political, social, technological, ecological, legal) and can arise from an unsuitable strategic positioning or absence of effective counter-measures in the case of changes.

Business risk describes the risk that the attractiveness of location-related factors recedes, or the significance and/or weighting of individual business areas undergo change by virtue of external framework conditions. It also includes the risk that new product launches, market access or business processing are impeded or rendered impossible as a result of regulation or existing products, market access or business processing entail disproportionately high costs or are unprofitable. Finally, adverse developments may arise in connection with target markets as a result of political or geopolitical influences.

Financial risk is consciously assumed in order to generate revenues or to protect business policy interests. In this respect, liquidity risk comprises short-term liquidity and refinancing risk as well as market liquidity risk. Liquidity and refinancing risk express the danger that current and future payment obligations cannot be refinanced on the due date or to the full extent, not in the correct currency or not on customary market terms and conditions. Market liquidity risk includes cases where it is not possible, because of insufficient market liquidity, to liquidate or hedge positions subject to risk on a timely basis, to the desired extent and on acceptable conditions.

Strategic risk	Business risk	Financial risk (Risk group)			Operational risk
		Risk category			
		Liquidity risk	**Market risk**	**Credit risk**	
	• Locations • Business segments • Products • Target markets • Macroeconomic risk • Excessive leverage	• Insolvency risk/ maturity risk • Refinancing risk • Market liquidity risk	• Interest-rate-risk • Equity share risk • Currency risk • Spread risk • Participation risk • Volatility risk	• Default risk • Country risk • Counterparty risk • Solvency risk • Concentration risk (incl. shadow banks) • Liquiditation risk	• Legal risk and regulatory risk • Process risk • IT-/cyber risk & data security • External risk (incl. correspondent banks & tax) • Employee risk • Compliance risk
		Risk type			

Reputational risks

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

Credit risk encompasses counterparty, country, concentration risk as well as residual risk deriving from the use of credit collateral (realisation or liquidation risk). Counterparty risk describes the danger of a financial loss which may arise if a counterparty of the bank cannot or does not wish to meet its contractual commitments in full or on the due date (default risk) or the credit-worthiness of the debtor has deteriorated (solvency risk). Country risk as a further credit risk arises whenever political or economic conditions specific to a country diminish the value of an exposure abroad. Concentration risk encompasses potential losses accruing to the bank not through the debtor itself but as a result of an insufficient diversification of the credit portfolio. Realisation risk encompasses potential losses accruing to the bank not from the debtor itself as a result of an insufficient possibilities of realising the collateral.

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 before they become effective or, if that is not possible, be reduced to a level set by the bank. Operational risks may also arise in all organisational units whereas financial risks can only arise in risk-taking units.

Reputational risk describes the risk that the trust of employees, clients, shareholders, regulatory authorities and the public in general is weakened or the public image and/or reputation of the Bank is impaired as a result of other types of risk or through various events. It can also imply that the Bank suffers monetary losses and/or a decline in earnings as a result

Duties, powers of authority and responsibilities

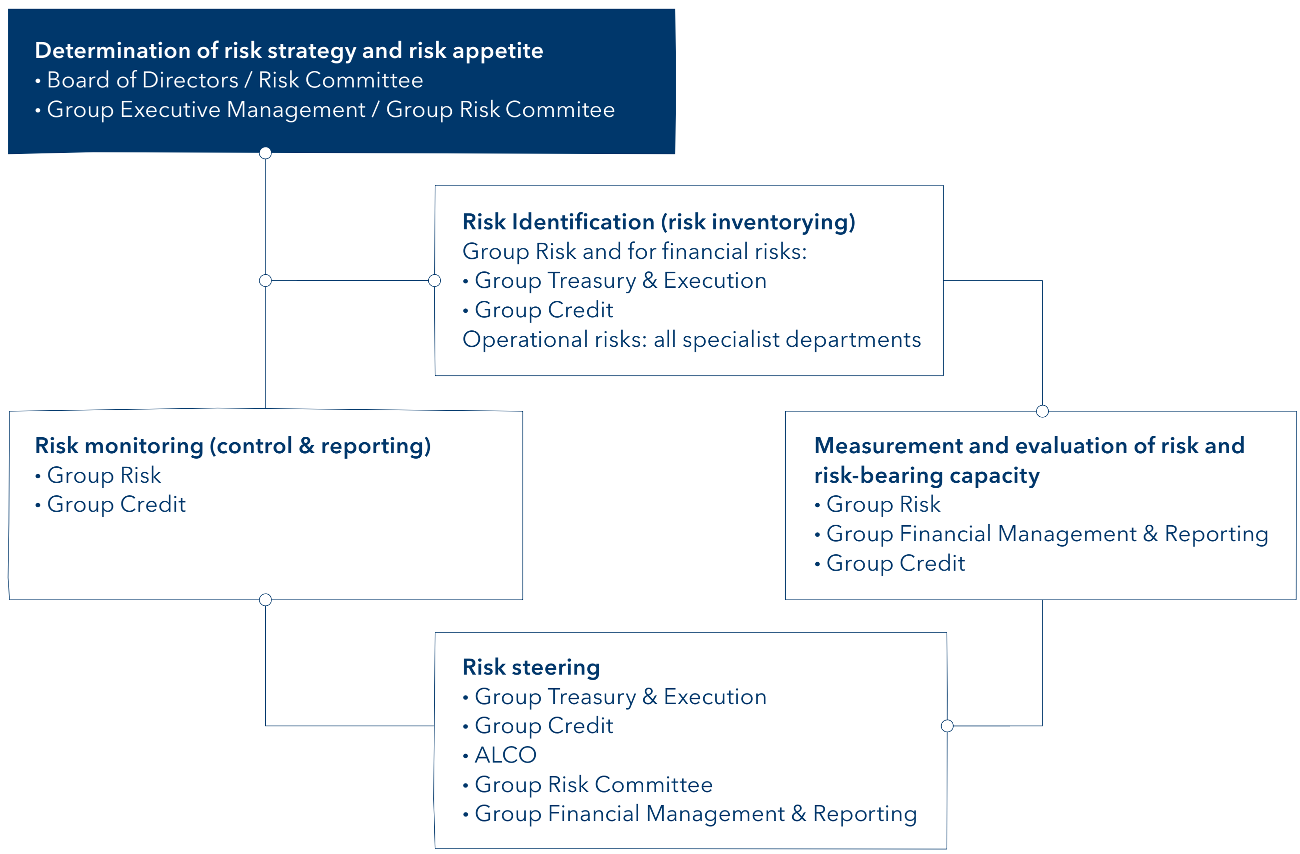
The diagram above shows the core tasks, competencies and responsibilities of the positions, organisational units and committees for the individual risk groups which are involved in the risk-management process. The principle of the functional and organisational segregation of risk management and risk monitoring ensures avoiding conflicts of interest between those units which assume risks and those which monitor them. The management, monitoring and verification of risks is performed through the three lines of defence model as follows:

- 1st Line of defence: risk management
- 2nd Line of defence: risk monitoring
- 3rd Line of defence: internal/external audit.

The Board of Directors bears the overall responsibility for the management of equity resources, liquidity and risk management within the Group. It is its responsibility to establish and maintain suitable processes and an organisational structure as well as a system of internal control (ICS) to ensure an effective and efficient management of equity resources, liquidity and risk, thereby ensuring adeherence to risk tolerance. The Board of Directors lays down directives governing the risk policy and approves these. It monitors their implementation, sets the risk appetite on a Group level and establishes the target values and limits for the management of equity resources, liquidity and risk management. In assuming these tasks, the Board of Directors is assisted by the Risk Committee.

The Board of Directors receives reports of the internal audit and the external auditors concerning extraordinary and

Process supervision (Group Internal Audit, External Auditors)



significant events such as significant losses, serious disciplinary errors, litigation etc. In assuming this task, the Board of Directors is supported by the Audit Committee.

The Group Strategy & Digitalisation Committee (SDC) assists and advises the Board of Directors in the case of strategic issues and projects. It prepares strategy issues for the attention of the Board of Directors, explores in-depth strategic issues, ensures an on-going steering and management process in the area of strategy and reviews the strategy both periodically and on an ad-hoc basis. Furthermore, the Committee reviews the implementation of strategic measures.

Group Internal Audit is responsible for the function of internal audit within VP Bank Group. It is an autonomous organisational unit which is independent of business processes and is responsible for the periodic audit of structures and processes relevant for the risk policy.

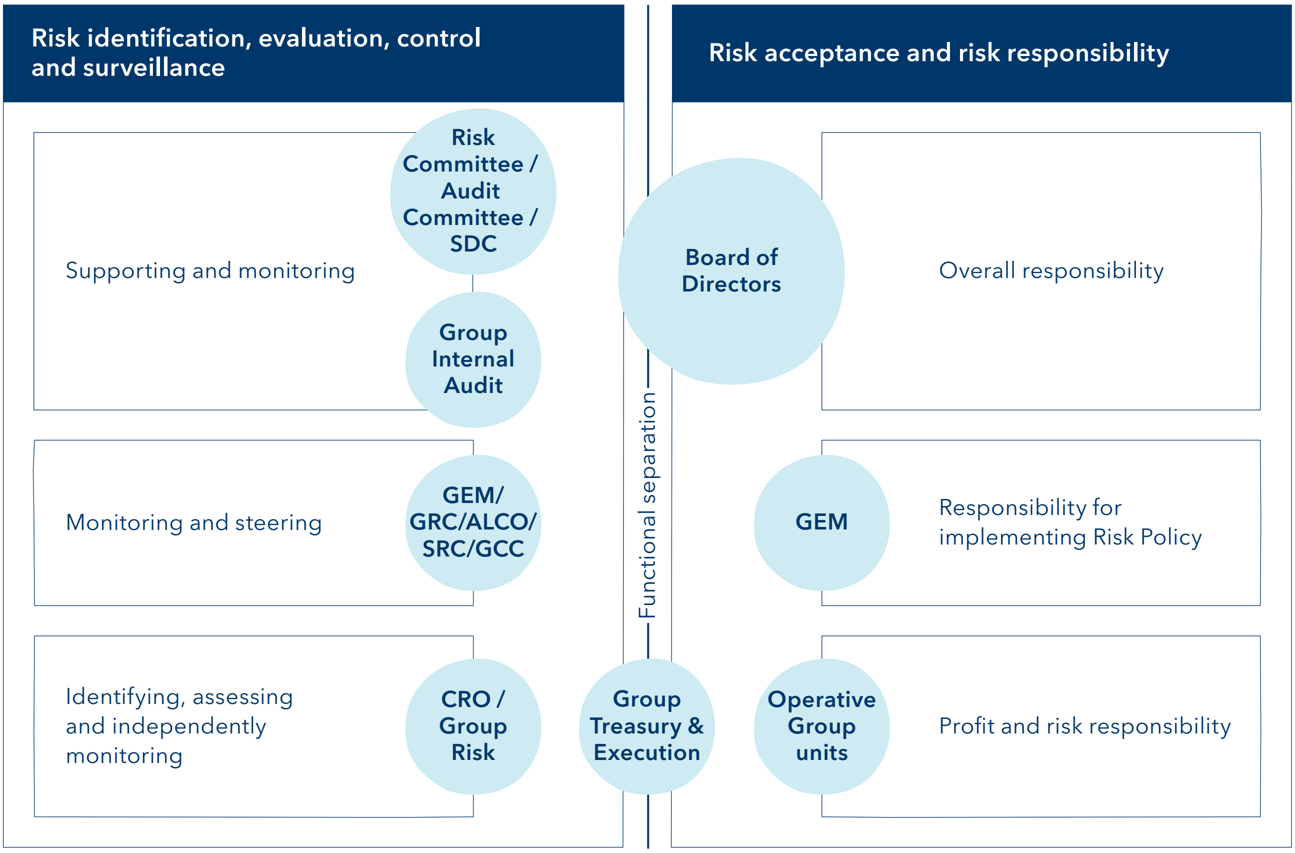
Group Executive Management (GEM) is responsible for implementing of and compliance with the risk policy approved by the Board of Directors. One of its core tasks is to ensure the functional capability of the risk-management process and the internal control system. Furthermore, it is responsible for the determination and assignment of duties, responsibilities and competencies of the Asset & Liability Committee, the allocation of target measures and limits, as set by the Board of Directors, to the individual Group subsidiaries as well as the Group-wide management of strategy, business, financial, operational and reputational risk.

In its function as Group Risk Committee (GRC) as the supreme body to monitor and steer the risks of VP Bank, the Group Executive Management assumes responsibility for implementing the risk strategy within the limits and targets set by the Board of Directors and Group Executive Management as well as dealing with overarching issues.

Whilst complying with the relevant legal and regulatory provisions, the Asset & Liability Committee (ALCO) is responsible for the risk and return-oriented management of the balance sheet on basis of the Economic Profit Model as well as for the steering of financial risks. It assesses the Group's risk situation in the area of financial risks and initiates remedial steering measures, whenever necessary.

The Security Risk Committee (SRC) is the supreme security body of VP Bank which manages the operational implementation in the participating units by setting targets regarding the various security-related issues. It deals with all strategic security issues of VP Bank Group. This covers physical security, information security (incl. cyber-security), business continuity management as well as the related awareness of the need for security and culture.

The Group Credit Committee (GCC) is, inter alia, responsible for monitoring credit risks at the level of the individual credit as part of the first line of defence. This includes in particular dealing with credit applications within the scope of delegated powers of authority as well as the risk assessment of individual credits.



Group Treasury & Execution bears the responsibility for the steering and management of financial risks within the limits and target measures laid down by the Board of Directors and Group Executive Management. This is done whilst taking into account the Group's risk tolerance as well as complying with legal and regulatory prescriptions.

Group Credit is responsible for the monitoring process of credit exposures at an individual credit level with regard to collateral and limits. In addition, Group Credit ensures that credits are approved by the defined competence bodies and regularly prepares credit reports for the attention of Group Executive Management.

The Chief Risk Officer (CRO) is on top of the risk-management function. Within Group Executive Management, he is responsible for the independent risk monitoring of VP Bank Group and the individual Group subsidiaries. This covers all risk groups with the exception of default risk at the level of the individual exposure.

The CRO ensures that the existing legal, supervisorylaw and internal bank provisions regarding risk management are complied with and new risk management provisions are implemented.

As an independent function for the centralised identification, evaluation (measurement and assessment) and monitoring (control and reporting) of the risk situation and risk tolerance of the Group, Group Risk supports the CRO in assuming his respective duties.

Process to ensure risk bearing capacity

The primary objective of the Internal Capital Adequacy Assessment Process (ICAAP) is the compliance with the regulatory capital-adequacy requirements and thus the guaranteeing of the ability to continue as a going concern. The risks of banking operations are to be borne by the freely available risk capital. The following risk management process for all significant risks in VP Bank as outlined below is designed to ensure risk tolerance.

Definition of risk strategies: The risk strategies by risk group (strategy risk, business risk, financial risk and operational risk) flow from the business strategy of VP Bank and set the framework for an efficient risk management of the respective risk types. The risk policy forms the basic structure and the regulatory framework for the individual risk strategies.

Determination of the risk coverage capacity and setting the risk appetite: The concept of risk tolerance of VP Bank Group distinguishes between a regulatory and a value-oriented perspective. The findings from one perspective serve to validate and complement the other perspective and vice-versa. The determination of the freely available risk-coverage equity is made under both perspectives having regard to appropriate haircuts and risk buffers. Based on the risk-bearing capacity statement, the BoD sets limits and targets measures for a rolling risk horizon of one year. At least semi-annually, all significant risks and the available risk-covering equity are juxtaposed (risk-bearing capacity statement).

Risk identification (risk inventory): In the annual risk inventory to be undertaken as part of the review of the framework structure and risk strategies, it is ensured that all significant risks for the Group (both quantitative and qualitative) are identified. The analysis is made top-down and bottom-up based on both quantitative and qualitative criteria. Significant risks are fully integrated into the risk-management cycle. Insignificant risks are reviewed at least annually and monitored within the scope of the risk inventory. As part of the risk inventory, potential risk concentrations in all significant risk types are evaluated.

Risk measurement and evaluation: Relevant for the assessment of risk tolerance from a regulatory viewpoint is the eligible equity as well as the regulatory committed capital. From a value-oriented point of view, the risk tolerance results from the net present value of the equity after deducting operating and risk costs as well as a buffer for other risks. The economically required capital from a value-oriented point of view is measured uniformly using a confidence level of 99 per cent and a risk horizon of one year. In order to determine the economically required capital, all risk types of VP Bank classified as significant during the annual risk inventory are taken into account and possible unexpected losses in value considered. The economic risk assessment includes also such risk types which are not captured by the regulatory capital-adequacy requirements for the Bank. To determine the economically required capital, all significant risks are aggregated to form an overall assessment.

Assessment of risk tolerance: Risk tolerance is measured against the degree of utilisation of the economically required capital for all significant risks in relation to the free risk-coverage capacity as of the date of measurement. In this process, early-warning stages permit a timely change of direction in order not to endanger the continuation of the Bank as a going concern. Risk tolerance is considered as still intact as long as the degree of utilisation of the economically required capital (from a regulatory and value-oriented viewpoint) in relation to the free risk-coverage capacity is under 100 per cent as of the date of measurement.

Risk steering encompasses all measures on all organisational levels to actively steer the Bank's significant risks. In this respect, the objective is the optimisation of the correlation of risks and returns within the limits and target measures set by the Board of Directors and Group Executive Management to ensure the risk tolerance of the Group whilst complying with legal and supervisory-law prescriptions. Risk steering takes place on a strategic as well as operating level.

Based upon the juxtaposing of risks and limits on the one hand, as well as of regulatory and economically required capital and risk coverage capacity, on the other, countermeasures are taken in the case of negative deviations.

Risk monitoring (control and reporting to GEM and BoD): Risk steering is accompanied by comprehensive risk monitoring, which is functionally and organisationally independent of risk steering. Risk monitoring covers control and reporting. As part of the control over financial risks, steering impulses are derived from a comparison of target to actual numbers of figures. The target is constituted by the limits and target measures set, as well as from legal and supervisory-law prescriptions. For the review of which limits are exhausted (actual), early warning stages are additionally deployed, in order to take timely steering measures for any risks before they become effective.

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

In addition to financial and operational risks, reputational risks may include also business risks (including strategy risks). Business and any reputational risks arising are monitored by Group Executive Management.

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

The process of ensuring the risk tolerance of VP Bank Group is presented in the diagram on page 12.

Risk declaration of the Board of Directors

The Board of Directors bears overall responsibility for capital and liquidity risk management and declares that it is adequately equipped in accordance with the profile and strategy of VP Bank.

Key metrics

Key metrics

in CHF 1,000	31.12.2019	31.12.2018
Own Funds		
Common Equity Tier 1 (CET 1)	978,962	942,783
Tier 1 Capital	978,962	942,783
Total Capital	978,962	942,783
Common Equity Tier 1 Ratio	20.2%	20.9%
Tier 1 Ratio	20.2%	20.9%
Total Capital Ratio	20.2%	20.9%
Risk weighted assets	4,841,859	4,510,319
Combined capital buffer requirement	242,093	227,570
Leverage		
Total exposure measure	13,803,380	12,951,594
Leverage Ratio	7.1%	7.3%
Liquidity		
Liquidity Coverage Ratio (LCR)	213.1%	142.6%

The rise in risk-weighted assets is due primarily to a higher level of receivables from clients (CHF 0.6 billion).

Capital adequacy

VP Bank's regulatory equity capital consists solely of core Tier 1 capital (common equity Tier 1 – CET1) and is comprised primarily of paid-in capital and retained earnings. The amounts to be deducted according to Article 36(1) of the CRR are deducted in full from core Tier 1 capital. Part 10, Title I of the CRR regarding transitional provisions is not applied.

Capital instruments

in CHF 1,000		
Issuer	**VP Bank Ltd, Vaduz**	**VP Bank Ltd, Vaduz**
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	registered share A	registered share B
Governing law(s) of the instrument	Liechtenstein law	Liechtenstein law
Regulatory treatment		
Transitional CRR rules	Common equity tier 1 (CET1)	Common equity tier 1 (CET1)
Post-transitional CRR rules	Common equity tier 1 (CET1)	Common equity tier 1 (CET1)
Eligible at solo(sub-)consolidated/ solo & (sub-)consolidated	solo and consolidated	solo and consolidated
Instrument type (types to be specified by each jurisdiction)	fully paid-up share capital	fully paid-up share capital
Amount recognised in regulatory capital	60,150	6,004
Nominal amount of instrument	60,150	6,004
Issue price	60,150	6,004
Redemption price	n.a	n.a
Accounting classification	equity	equity
Original date of issuance	n.a	n.a
Perpetual or dated	perpetual	perpetual
Original maturity date	n.a	n.a
Issuer call subject to prior supervisory approval	no	no
Optional call date, contingent call dates and redemption amount	n.a	n.a
Subsequent call dates, if applicable	n.a	n.a
Coupons / dividends		
Fixed or floating dividend/coupon	floating	floating
Coupon rate and any related index	n.a	n.a
Existence of a dividend stopper	n.a	n.a
Fully discretionary, partially discretionary or mandatory (in terms of timing)	fully discretionary	fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	fully discretionary	fully discretionary
Existence of step up or other incentive to redeem	n.a	n.a
Noncumulative or cumulative	n.a	n.a
Convertible or non-convertible	non-convertible	non-convertible
If convertible, conversion trigger(s)	n.a	n.a
If convertible, fully or partially	n.a	n.a
If convertible, conversion rate	n.a	n.a
If convertible, mandatory or optional conversion	n.a	n.a
If convertible, specify instrument type convertible into	n.a	n.a
If convertible, specify issuer of instrument it converts into	n.a	n.a
Write-down features	n.a	n.a
If write-down, write-down trigger(s)	n.a	n.a
If write-down, full or partial	n.a	n.a
If write-down, permanent or temporary	n.a	n.a
If temporary write-down, description of write-up mechanism	n.a	n.a
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	n.a	n.a
Irregular features of the converted instruments	n.a	n.a
Description of any irregular features	n.a	n.a

Own funds

in CHF 1,000	31.12.2019
Common equity tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	57,813
of which: shares	57,813
Retained earnings	960,353
Accumulated other comprehensive income (and other reserves)	–59,663
Funds for general banking risk	n.a
Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	n.a
Minority interests (amount allowed in consolidated CET1)	n.a
Independently reviewed interim profits net of any foreseeable charge or dividend	37,157
Common equity tier 1 (CET1) capital before regulatory adjustments	**995,660**
Common equity tier 1 (CET1) capital: regulatory adjustments	
Additional value adjustments (negative amount)	–383
Intangible assets (net of related tax liability) (negative amount)	–5,269
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	–2,705
Fair value reserves related to gains or losses on cash flow hedges	n.a
Negative amounts resulting from the calculation of expected loss amounts	n.a
Any increase in equity that results from securitised assets (negative amount)	n.a
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	n.a
Defined-benefit pension fund assets (negative amount)	n.a
Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	–8,341
Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to initiate artificially the own funds of the institution (negative amount)	n.a
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n.a
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n.a
Exposure amount of the following items which qualify for the RW of 1250%, where the institution opts for the deduction alternative	n.a
of which: qualifying holdings outside the financial sector (negative amount)	n.a
of which: securitisation positions (negative amount)	n.a
of which: free deliveries (negative amount)	n.a
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	n.a
Amount exceeding the 15% threshold (negative amount)	n.a
of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	n.a
of which: deferred tax assets arising from temporary differences	n.a
Losses for the current financial year (negative amount)	n.a
Foreseeable tax charges relating to CET1 items (negative amount)	n.a
Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	n.a
Total regulatory adjustments to common equity tier 1 (CET1)	**–16,698**
Common equity tier 1 (CET1) capital	**978,962**
Additional tier 1 (AT1) capital: instruments	
Capital instruments and the related share premium accounts	n.a
of which: classified as equity under applicable accounting standards	n.a
of which: classified as liabilities under applicable accounting standards	n.a
Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	n.a
Qualifying tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	n.a
of which: classified as liabilities under applicable accounting standards	n.a
Additional tier 1 (AT1) capital before regulatory adjustments	**n.a**

Own funds (continued)

in CHF 1,000	31.12.2019
Additional tier 1 (AT1) capital: regulatory adjustments	
Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	n.a
Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	n.a
Direct, indirect and synthetic holding of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n.a
Direct, indirect and synthetic holdings by the institution of the AT1 instrument of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	n.a
Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	n.a
Total regulatory adjustments in additional tier 1 (AT1) capital	**n.a**
Additional tier 1 (AT1) capital	**n.a**
Tier 1 capital (T1 = CET1 + AT1)	**978,962**
Tier 2 (T2) capital: instruments and provisions	
Capital instruments and the related share premium accounts	n.a
Amount of qualifying items referred to in article 484 (5) and the related share premium account subject to phase out from T2	n.a
Qualifying own funds instruments included in consolidated T2 capital issued by subsidiaries and held by third parties	n.a
of which: instruments issued by subsidiaries subject to phase out	n.a
Credit risk adjustments	n.a
Tier 2 (T2) capital before regulatory adjustments	**n.a**
Tier 2 (T2) capital: regulatory adjustments	
Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	n.a
Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	n.a
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n.a
Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	n.a
Total regulatory adjustments of Tier 2 (T2) capital	**n.a**
Tier 2 (T2) capital	**n.a**
Total capital (TC = T1 + T2)	**978,962**
Total risk weighted assets	**4,841,859**
Capital ratios and buffers	
Common equity tier 1 (as a percentage of total risk exposure amount)	20.2%
Tier 1 (as a percentage of total risk exposure amount)	20.2%
Total capital (as a percentage of total risk exposure amount)	20.2%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	9.6%
of which: capital conservation buffer requirement	2.5%
of which: countercyclical buffer requirement	0.1%
of which: systemic risk buffer requirement	2.5%
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0%
Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	12.2%

Own funds (continued)

in CHF 1,000	31.12.2019
Amount below the thresholds for deduction (before risk weighting)	
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	n.a
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	n.a
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	n.a
Applicable caps on the inclusion of provisions in tier 2	
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	n.a
Cap on inclusion of credit risk adjustments in T2 under standardised approach	n.a
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	n.a
Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	n.a
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)	
Current cap on CET1 instruments subject to phase out arrangements	n.a
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	n.a
Current cap on AT1 instruments subject to phase out arrangements	n.a
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	n.a
Current cap on T2 instruments subject to phase out arrangements	n.a
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	n.a

The Tier 1 Ratio of VP Bank declined in 2019 from 20.9 percent to 20.2 percent and continues to be significantly above the regulatory minimum requirement. Increased lending led to an increase in risk-weighted assets. The equity base is very solid and permits successful growth VP Bank complied with the minimum capital requirements for 2019 at all times.

Reconciliation between balance sheet items used to calculate own funds and regulatory own funds

in CHF 1,000	31.12.2019
Equity according to consolidated balance sheet	1,032,045
Deduction dividend according to Board of Directors proposal	–36,385
Additional Valuation Adjustment	–383
Deduction goodwill according to group balance sheet	–10,808
Deferred taxation liabilities on goodwill (positive amount)	0
Other intangible assets	–51,381
Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	–8,341
Deferred tax liabilities associated to other intangible assets	3,413
Offset actuarial gains, after tax (IAS 19)	53,507
Deduction	–2,705
Deduction securitisation exposure	0
Unaudited interim profits	0
Profit or loss attributable to owners of the parent	0
Common equity tier 1 (CET1) after regulatory adjustments	**978,962**
Tier 2 capital according to group balance sheet	0
Subordinated liabilities	0
Tier 2 (T2) capital before regulatory adjustments	**0**

Capital adequacy requirements and capital buffer

VP Bank calculates the equity requirement in accordance with the provisions of the CRR using the following approaches:
- 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)
- Standardised method for credit valuation adjustment (CVA) risk (under Article 384 of the CRR)
- Comprehensive method for taking into consideration financial collateral (under Article 223 of the CRR)

Overview of risk weighted assets (RWAs) (EU OV1)

The following overview shows the capital adequacy requirements specific to the various regulatory risk types in accordance with Article 438(c) to (f) of the CRR.

in CHF 1,000		Risk weighted assets		Minimum capital requirements	
		31.12.2019	31.12.2018	31.12.2019	31.12.2018
1	Credit risk (excluding CCR)	3,961,965	3,721,074	316,957	297,686
2	of which the standardised approach	3,961,965	3,721,074	316,957	297,686
6	Counterparty credit risk (CCR)	57,534	35,505	4,603	2,840
9	of which the standardised approach	43,406	26,233	3,472	2,099
12	of which CVA	14,128	9,272	1,130	742
19	Market risk	253,168	214,541	20,253	17,163
20	of which the standardised approach	253,168	214,541	20,253	17,163
23	Operational risk	569,192	539,199	45,535	43,136
24	of which basic indicator approach	569,192	539,199	45,535	43,136
29	**Total**	**4,841,859**	**4,510,319**	**387,348**	**360,826**

A comparison of the distribution of risk-weighted assets with the previous period (31 December 2018) shows an increase in credit risk, which is the result of credit growth.

Capital buffers

Capital conservation buffer

Pursuant to Art. 4a Para.1 Letter a BankA, all banks in Liechtenstein are required to hold a capital conservation buffer consisting of 2.5% of common equity tier 1 at the individual and consolidated level. The buffer is designed to ensure that banks form an adequate capital base during times of economic growth, enabling losses to be absorbed in difficult times.

Other systemically important institutions (O-SII) buffer

Pursuant to Art. 7e and Art. 7f BankO, VP Bank was identified by the Financial Market Authority as O-SII. The Financial Market Authority identifies other systemically important institutions each year. Pursuant to Art. 4a BankA, a capital buffer amounting to up to 2% of the total risk expose amount may be stipulated. The Financial Market Authority set the buffer for VP Bank at 0%.

Systemic risk buffer

Pursuant to Art. 7i BankO, VP Bank is required to hold a systemic risk buffer of at least 2.5% of common equity tier 1 at the individual and consolidated level. The systemic risk buffer is designed to prevent or mitigate long-term non-cyclical systemic risks or macro-prudential risks.

Institution specific countercyclical capital buffer

Pursuant to Art. 5 et seq. BankO, all banks in Liechtenstein are required to hold an institution specific countercyclical capital buffer of up to 2.5% common equity tier 1 at the individual and consolidated level. The buffer is designed to counter risks arising out of excessive lending growth.

The institution-specific countercyclical capital buffer results from a weighted average of the countercyclical buffer ratios that are applicable in the countries in which the relevant credit exposures of the bank are located:

- The buffer rate for domestic credit exposures is set by the Financial Market Authority. In accordance with Art. 6 Para. 3 BankO the buffer is set in steps of 25 basis points or a multiple thereof.
- In the case of non-domestic receivables, the buffer rate defined in the respective country is essentially applicable. In this conjunction, buffer rates of up to 2.5% must be used in the EU and third-party countries on an automatic reciprocity basis. Pursuant to Art. 7 Para. 1 BankO, higher ratios need to be taken into account only if the government recognises these at the request of the Financial Market Authority Liechtenstein.
- The institute-specific, anti-cyclical capital buffer for the country of Liechtenstein remains unchanged at 0%.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

in CHF 1,000	General credit exposures	Own funds requirements			
	Exposure value for SA	Of which General credit exposures	Total	Own funds requirement weights	Counter-cyclical capital buffer rate
Breakdown by country					
Switzerland	2,775,046	96,059	96,059	31.0%	0.00%
Liechtenstein	2,267,385	81,797	81,797	26.4%	0.00%
British Virgin Islands	821,672	25,936	25,936	8.4%	0.00%
United States	551,885	19,172	19,172	6.2%	0.00%
Luxembourg	451,329	16,496	16,496	5.3%	0.25%
Germany	234,794	9,669	9,669	3.1%	0.00%
Austria	180,843	8,743	8,743	2.8%	0.00%
Netherlands	207,479	7,133	7,133	2.3%	0.00%
France	235,949	6,511	6,511	2.1%	0.25%
United Kingdom	247,750	6,453	6,453	2.1%	1.00%
Singapore	271,170	6,297	6,297	2.0%	0.00%
Norway	94,870	2,876	2,876	0.9%	2.50%
Sweden	136,229	2,755	2,755	0.9%	2.50%
China	139,026	2,533	2,533	0.8%	0.00%
remaining countries	1,111,611	14,673	14,673	4.7%	0%-2.50%[1]
Total	**9,878,385**	**310,339**	**310,339**	**100.0%**	**n.a.**

[1] The countries listed under "remaining countries" were subject to a ratio of the countercyclical capital buffer of between 0 and 2.5 per cent on the reporting date.

Amount of institution-specific countercyclical capital buffer

in CHF 1,000	31.12.2019
Total risk exposure amount	4,841,859
Institution specific countercyclical buffer rate	0.06%
Institution specific countercyclical buffer requirement	3,057

Leverage

In addition to the risk-based capital adequacy requirements, Basel III introduced a leverage ratio, which applies the equity capital in relation to unweighted-balance-sheet and off-balance-sheet risk exposures.

Leverage ratio

in CHF 1,000		31.12.2019
On-balance sheet exposures (excluding derivatives and SFTs		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	13,398,514
2	Asset amounts deducted in determining tier 1 capital	–129,868
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**13,268,646**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	72,513
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	77,785
EU-5a	Exposure determined under original exposure method	n.a
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	n.a
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	n.a
8	Exempted CCP leg of client-cleared trade exposures	n.a
9	Adjusted effective notional amount of written credit derivatives	n.a
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives	n.a
11	**Total derivatives exposures (sum of lines 4 to 10)**	**150,298**
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	n.a
13	Netted amounts of cash payables and cash receivables of gross SFT assets	n.a
14	Counterparty credit risk exposure for SFT assets	n.a
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	n.a
15	Agent transaction exposures	n.a
EU-15a	Exempted CCP leg of client-cleared SFT exposure)	n.a
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**0**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	3,023,236
18	(Adjustments for conversion to credit equivalent amounts)	–2,638,800
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**384,436**
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)	n.a
EU-19b	**Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)**	**n.a**
Capital and total exposure measure		
20	Tier 1 capital	978,962
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**13,803,380**
Leverage ratio		
22	**Leverage ratio**	**7.09%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	n.a
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	n.a

The reduction in the leverage ratio in comparison to 31 December 2018 is due to an increase in total assets. As of the end of 2019, the leverage ratio of VP Bank was 7.1% and there was not yet any regulatory minimum value in place in Liechtenstein.

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

in CHF 1,000	**31.12.2019**
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)	13,398,514
of which Trading book exposures	198
Banking book exposures	13,398,316
of which Covered bonds	475,132
Exposures treated as sovereigns	3,564,949
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	218,047
Institutions	512,777
Secured by mortgages of immovable properties	2,893,868
Retail exposures	1,134,332
Corporate	3,715,151
Exposures in default	56,815
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	827,245

Summary reconciliation of accounting assets and leverage ratio exposures

in CHF 1,000	**31.12.2019**
Total assets as per published financial statements	13,399,856
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013	0
Adjustments for derivative financial instruments	150,298
Adjustment for securities financing transactions (SFTs)	0
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	384,436
Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013	0
Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013	0
Other adjustments	–131,210
Leverage ratio total exposure measure	**13,803,380**

Risk of excessive debt

In order to prevent the risk of excessive debt, VP Bank has defined a minimum value for the leverage ratio, and monitors at least once per quarter that this is adhered to.

Credit risks

Risk control and risk monitoring

Credit risks arise out of all transactions in which payment obligations of third parties exist or may arise vis-á-vis the bank. VP Bank incurs credit risks from client lending transactions, money market transactions including bank guarantees, correspondence and metal accounts, reverse-repo transactions, in-house securities investments, securities lending & borrowing, collateral management as well as from OTC derivative transactions.

Credit risks are controlled and monitored not just at the individual transaction level, but also at the portfolio level. At the portfolio level VP Bank uses the anticipated and unexpected credit loss to monitor and measure the credit risk. Drawing upon historical loss data and estimated default likelihoods, the anticipated credit loss quantifies the respective loss per credit portfolio that is to be expected within one year. Results of the analysis also flow into the calculation of the portfolio valuation adjustments in the annual financial statements. The unexpected credit loss represents the value-at-risk deviation of the actual loss from the expected loss, assuming a certain probability.

In addition to the Risk Policy Regulations, the Credit Regulations form the binding scope of action for credit risk management within the client lending business. These establish not just the general credit guidelines and the operating conditions for the conclusion of credit transactions, but also define the decision-makers and the corresponding bands within which loans may be approved (allocation of authority).

Commitments in private client loans and commercial lending must generally be covered by the lending value of the collateral (collateral after risk discounts). Counterparty risk in lending business is regulated by limits which restrict the amount of the commitment depending on the credit rating, sector, collateral and risk domicile of the client. VP Bank uses an internal rating method for assessing creditworthiness. Deviations from lending principles (exceptions to policy) are dealt with accordingly in the credit risk management process depending on the inherent risk.

In the interbank transaction field, VP Bank enters into covered as well as uncovered positions. Uncovered positions result from money market transactions (including bank guarantees, correspondence and metal accounts), covered positions from reverse-repo transactions, securities lending & borrowing, collateral management as well as from OTC derivative transactions. Because repo-investments are comprehensively secured and the associated collateral serves as a reliable source of liquidity in a crisis, reverserepo transactions reduce not just the counterparty risk, but also the liquidity risk.

Counterparty risks in the interbank business field may be entered into only in approved countries and with authorised counterparties. A comprehensive system of limits restricts the level of an investment, depending on the term, the rating, the risk domicile and the securities of the counterparty. In this conjunction, VP Bank uses the ratings issued by the two rating agencies Standard & Poor's and Moody's for banks.

Country risk

Country risks are monitored and controlled using volume limits, which cap all investments per country rating (Standard & Poor's and Moody's). For this purpose, all balance sheet and off-balance-sheet receivables are taken into consideration; investments in the Principality of Liechtenstein and Switzerland are not subject to this country limit rule. The country risk is determined by the risk domicile of the investment. In the case of covered investments, the country in which the securities are located is also taken into account.

Breakdown of risk positions

Below follows a breakdown of credit risk exposures by exposure class, geographical distribution, economic sector, residual maturity and credit quality.

Total and average net amount of exposures (EU CRB-B)

The averages indicated in the figure EU CRB-B were calculated on the basis of the quarterly closing dates. Figure EU CRB-C shows the risk exposure values broken down by geographical region, sector and residual maturity.

in CHF 1,000	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	3,379,558	3,133,330
Regional governments or local authorities	126,343	129,454
Public sector entities	200,780	262,715
Multilateral development banks	62,364	83,228
International organisations	4,915	4,982
Institutions	462,419	385,613
Corporates	3,336,329	3,669,712
Retail	1,688,747	1,891,548
Secured by mortgages on immovable property	3,532,086	3,470,949
Exposures in default	56,822	70,033
Items associated with particularly high risk	33,617	29,232
Covered bonds	475,132	476,201
Claims on institutions and corporates with a short-term credit assessment	457,980	470,181
Collective investments undertakings	29,255	40,729
Equity exposures	103,310	96,777
Other exposures	165,107	165,811
Total standardised approach	**14,114,762**	**14,380,495**

Geographical breakdown of exposures (EU CRB-C)

in CHF 1,000	LI / CH	DE	FR	GB	LU	Rest of Europe	North America	Asia	Others	Total
Central governments or central banks	2,740,111	21,855	20,109	4,333	155,704	38,794	312,131	86,521	0	3,379,558
Regional governments or local authorities	58,518	18,796	0	0	204	7,073	34,088	4,446	3,218	126,343
Public sector entities	8,560	54,426	54,348	0	0	68,361	0	15,085	0	200,780
Multilateral development banks	0	0	11,114	0	2,082	12,457	11,702	12,852	12,157	62,364
International organisations	0	0	0	0	4,915	0	0	0	0	4,915
Institutions	319,966	5,193	3,678	30,058	3,189	53,060	801	40,327	6,147	462,419
Corporates	544,706	135,436	143,825	169,154	255,633	470,533	1,352,975	143,466	120,601	3,336,329
Retail exposures	556,002	56,952	16,251	34,971	140,684	234,008	81,767	523,406	44,707	1,688,747
Exposures secured by mortgages on immovable property	3,256,756	1,601	0	13,087	0	32,170	157,682	70,789	0	3,532,086
Exposures in default	18,121	289	3	18	12,608	3,143	22,425	212	3	56,822
Exposures associated with particularly high risk	23,430	0	0	1,100	1,465	0	1,735	3,030	2,856	33,617
Covered bonds	140,451	19,487	64,254	5,440	0	178,815	28,163	12,112	26,410	475,132
Institutions and corporates with a short-term credit assessment	302,152	4,021	430	13,446	3,448	122,502	4,612	6,697	673	457,980
Units or shares in collective investment undertakings (CIUs)	8,070	0	0	0	15,395	0	5,789	0	0	29,255
Equity exposures	59,411	12,590	11,186	9,065	0	8,975	2,083	0	0	103,310
Other items	133,332	4,418	0	1,470	22,095	114	1,315	2,320	43	165,107
Total standardised approach	**8,169,587**	**335,065**	**325,197**	**282,142**	**617,421**	**1,230,006**	**2,017,267**	**921,262**	**216,815**	**14,114,762**

North America is the most important region for VP Bank after Liechtenstein and Switzerland. With CHF 1.4 billion, VP Bank holds a large portion of the "Companies" category here. It is primarily treasury bonds of the US Federal Reserve which are used as high-quality liquid assets (HQLA) in US dollar.

Concentration of exposures by industry or counterparty types (EU CRB-D)

in CHF 1,000	Finance	Private persons	Manu-facturing	Real estate activities	Public adminis-tration	Services	Trade	Mechan-ical engi-neering	Others	Total
Central governments or central banks	2,895,815	0	0	0	483,743	0	0	0	0	3,379,558
Regional governments or local authorities	0	0	0	0	126,343	0	0	0	0	126,343
Public sector entities	2,251	0	0	0	227	198,302	0	0	0	200,780
Multilateral development banks	62,364	0	0	0	0	0	0	0	0	62,364
International organisations	0	0	0	0	4,915	0	0	0	0	4,915
Institutions	462,419	0	0	0	0	0	0	0	0	462,419
Corporates	1,817,042	0	1,107,155	130,741	4,022	21,871	172,250	12,309	70,938	3,336,329
Retail exposures	254,249	1,428,479	26	2,345	0	52	102	108	3,386	1,688,747
Exposures secured by mortgages on immovable property	288,632	2,052,666	48,358	719,879	0	62,472	65,087	105,487	189,506	3,532,086
Exposures in default	15,198	30,451	431	122	0	1	719	5,406	4,493	56,822
Exposures associated with particularly high risk	1,776	6,616	7,282	0	0	0	17,442	0	500	33,617
Covered bonds	454,879	0	0	0	0	20,252	0	0	0	475,132
Institutions and corporates with a short-term credit assessment	457,980	0	0	0	0	0	0	0	0	457,980
Units or shares in collective investment undertakings (CIUs)	27,912	0	0	0	0	0	1,343	0	0	29,255
Equity exposures	26,958	249	76,103	0	0	0	0	0	0	103,310
Other items	150,650	13,769	0	0	13	0	0	0	675	165,107
Total standardised approach	**6,918,125**	**3,532,230**	**1,239,354**	**853,088**	**619,263**	**302,951**	**256,943**	**123,310**	**269,499**	**14,114,762**

The "Finances" category contains both financial investments of CHF 2.6 billion and a credit balance with the Swiss National Bank of approximately CHF 2.7 billion.

Maturity of exposures (EU CRB-E)

in CHF 1,000	on demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
Central governments or central banks	2,863,205	358,422	119,975	37,471	484	3,379,558
Regional governments or local authorities	25	18,174	75,236	32,909	0	126,343
Public sector entities	9	33,180	145,916	21,675	0	200,780
Multilateral development banks	0	2,310	57,010	3,044	0	62,364
International organisations	0	16	4,898	0	0	4,915
Institutions	329,803	47,063	69,065	15,699	789	462,419
Corporates	107,541	1,652,426	793,487	331,464	451,411	3,336,329
Retail exposures	54,979	1,300,347	75,254	70,961	187,207	1,688,747
Exposures secured by mortgages on immovable property	212,117	1,904,085	1,011,575	336,963	67,346	3,532,086
Exposures in default	0	7,416	3,444	8,766	37,196	56,822
Exposures associated with particularly high risk	13,216	19,836	0	215	350	33,617
Covered bonds	0	67,588	261,574	145,970	0	475,132
Institutions and corporates with a short-term credit assess-ment	337,273	93,735	0	0	26,971	457,980
Units or shares in collective investment undertakings (CIUs)	28,648	0	0	607	0	29,255
Equity exposures	100,748	0	0	0	2,562	103,310
Other items	157,259	713	4,065	3,070	0	165,107
Total standardised approach	**4,204,823**	**5,505,312**	**2,621,499**	**1,008,812**	**774,317**	**14,114,762**

Credit quality of exposures by exposure class and instrument (EU CR1-A)

In accordance with the disclosure requirements under Article 442(g) and (h) of the CRR, institutes should use the following template, EU CR1-A, to disclose a breakdown of their defaulted and non-defaulted risk exposures by risk exposure class.

in CHF 1,000	a	b	c	d	e	f	g
	Gross carrying values of						
	Defaulted exposures	Not defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumu-lated write -offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
16 Central governments or central banks	0	3,379,575	17	0	0	0	3,379,558
17 Regional governments or local authorities	0	126,343	0	0	0	0	126,343
18 Public sector entities	0	200,780	0	0	0	0	200,780
19 Multilateral development banks	0	62,364	0	0	0	0	62,364
20 International organisations	0	4,915	0	0	0	0	4,915
21 Institutions	0	462,425	6				462,419
22 Corporates	15,806	3,341,492	11,796	0	108	2,492	3,345,502
24 Retail	25,846	1,693,182	9,368	0	86	1,979	1,709,660
26 Secured by mortgages on immovable property	34,228	3,539,539	14,947	0	137	3,167	3,558,820
28 Exposures in default	75,880	0	19,058	0	0	0	56,822
29 Items associated with particularly high risk	0	33,617	0	0	0	0	33,617
30 Covered bonds	0	475,132	0	0	0	0	475,132
31 Claims on institutions and corporates with a short-term credit assessment	0	458,004	23	0	0	0	457,981
32 Collective investments undertakings	0	29,255	0	0	0	0	29,255
33 Equity exposures	0	103,310	0	0	0	0	103,310
34 Other exposures	0	165,107	0	0	0	0	165,107
35 Total standardised approach	**75,880**	**14,075,039**	**55,215**	**0**	**331**	**7,638**	**14,114,762**
37 of which: Loans	75,880	6,850,150	36,157	0	331	7,638	6,889,873
38 of which: Debt securities	0	2,542,313	0	0	0	0	2,542,313
39 of which: off-balance-sheet exposures	0	705,414	0	0	0	0	705,414

As demonstrated by the list above, VP Bank maintains a high-quality client portfolio. Defaulted risk exposures amounted to 0.5% of the gross carrying amounts. The specific credit risk adjustment is roughly 0.3%.

Credit quality of loans and advances by industry

in CHF 1,000	Gross carrying amount				Accumulated impairment	Accumulated negative changes[1]
	Total	Of which non-performing		Of which subject to impairment		
		Total	Of which defaulted			
Agriculture, forestry and fishing	9,864	0	0	0	0	0
Mining and quarrying	4,358	0	0	0	0	0
Manufacturing	127,141	244	227	258	258	0
Electricity, gas, steam and air conditioning supply	118	0	0	0	0	0
Water supply	1,249	0	0	0	0	0
Construction	69,418	2	2	2	2	0
Wholesale and retail trade	222,088	651	604	688	688	0
Transport and storage	11,329	976	906	1,032	1,032	0
Accommodation and food service activities	24,438	0	0	0	0	0
Information and communication	119,528	2,636	2,448	2,787	2,787	0
Financial and insurance activities	2,036,312	16,222	15,065	17,154	17,154	0
Real estate activities	771,663	316	293	334	334	1,800
Professional, scientific and technical activities	47,693	883	820	934	934	0
Administrative and support service activities	46,768	3	3	3	3	0
Public administration and defence, compulsory social security	3,745	16	15	17	17	0
Education	2,907	270	250	285	285	0
Human health services and social work activities	41,211	2	2	2	2	0
Arts, entertainment and recreation	1	0	0	0	0	0
Other services	35,199	0	0	0	0	0
Households	3,251,946	11,973	11,119	12,661	12,661	0
Total	**6,826,976**	**34,192**	**31,754**	**36,157**	**36,157**	**1,800**

[1] Accumulated negative changes in fair value due to credit risk on non-performing exposures.

Use of external rating agencies

In order to determine statutory supervisory capital requirements according to the standardised approach for credit risks, the creditworthiness assessments of Standard & Poor's or Moody's are used:

- Exposure value vis-à-vis central governments or central banks
- Exposure value vis-à-vis regional governments or local authorities
- Exposure value vis-à-vis public sector agencies
- Exposure value vis-à-vis multilateral development banks
- Exposure value vis-à-vis institutions
- Exposure value vis-à-vis corporates

If a directly applicable rating exists for a exposure value, this shall be used for the risk weighting. In all other cases, the exposure shall be deemed not to have been assessed.

External ratings are assigned to the regulatory credit quality steps ratings in accordance with the standard EBA allocation.

Standardised approach (EU CR5)

The following overviews contain the respective total of the risk exposure values using the standardised approach in accordance with Article 444(e) of the CRR. The risk exposure values are presented broken down by risk exposure classes before and after factoring in credit risk mitigation effects of collateral.

in CHF 1,000		Risk weight										
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Total	Of which unrated
Exposure classes												
1	Central governments or central banks	3,377,021	0	2,053	0	0	0	484	0	0	3,379,558	0
2	Regional governments or local authorities	11,281	0	89,979	0	25,083	0	0	0	0	126,343	37,067
3	Public sector entities	18,832	0	176,724	0	5,224	0	0	0	0	200,780	8,560
4	Multilateral development banks	51,180	0	3,090	0	8,094	0	0	0	0	62,364	0
5	International organisations	4,915	0	0	0	0	0	0	0	0	4,915	0
6	Institutions	234,864	0	206,770	0	20,785	0	0	0	0	462,419	119,859
7	Corporates	1,185,238	0	422,311	18,188	540,247	0	1,170,314	30	0	3,336,329	2,317,592
8	Retail	960,321	0	290,612	24,230	0	66,017	347,568	0	0	1,688,747	1,688,747
9	Secured by real estate	0	0	0	2,308,211	898,853	0	325,021	0	0	3,532,086	3,532,086
10	Exposures in default	4,898	0	0	0	0	0	34,526	17,399	0	56,822	56,822
11	Items associated with particularly high risk	0	0	0	0	0	0	0	33,617	0	33,617	33,617
12	Covered bonds	0	475,132	0	0	0	0	0	0	0	475,132	0
13	Securitisation positions	0	0	0	0	0	0	0	0	0	0	0
14	Claims on institutions and corporates with a short-term credit assessment	0	0	441,717	0	13,925	0	2,338	0	0	457,980	351
15	Collective investments undertakings	0	0	0	0	0	0	29,255	0	0	29,255	29,255
16	Equity exposures	0	0	0	0	0	0	103,310	0	0	103,310	103,310
17	Other items	13,781	0	11,205	0	0	0	129,439	0	10,682	165,107	149,447
18	**Total**	**5,862,331**	**475,132**	**1,644,460**	**2,350,629**	**1,512,213**	**66,017**	**2,142,255**	**51,045**	**10,682**	**14,114,762**	**8,076,713**

Credit risk mitigation techniques – overview (EU CR3)

In application of Article 453 (f) and (g) CRR, the following table provides an overview of the overall extent to which credit risk mitigation techniques are used. The collateral reported in the column "Risk positions secured by collateral" includes financial collateral, real estate collateral and physical collateral. Both unsecured and secured net carrying amounts are disclosed.

in CHF 1,000		Exposures unsecured - carrying amount	Exposures secured - carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans	1,079,680	5,733,952	5,727,912	6,040	0
2	Total debt securities	2,067,181	475,132	0	0	0
3	Total exposures	3,146,861	6,209,084	5,727,912	6,040	0
4	of which defaulted	56,822	0	0	0	0

Standardised approach – Credit risk exposure and CRM effects (EU CR4)

The following figure provides an overview of the overall extent to which credit risk mitigation techniques are used in accordance with Article 453(f) and (g) of the CRR. In addition to financial collateral, real estate collateral and asset collateral are also included among the collateral reported in the column "Risk exposures backed by collateral". Both unsecured and secured net carrying amounts are disclosed.

in CHF 1,000		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
	Exposure classes						
1	Central governments or central banks	3,379,558	0	3,379,558	0	895	0.0%
2	Regional government or local authorities	126,057	286	125,996	0	30,537	24.2%
3	Public sector entities	200,553	227	200,553	0	37,957	18.9%
4	Multilateral development banks	62,364	0	62,364	0	4,665	7.5%
5	International organisations	4,915	0	4,915	0	0	0.0%
6	Institutions	435,396	27,024	434,307	949	50,771	11.7%
7	Corporates	3,120,759	215,570	2,025,340	28,401	1,454,594	70.8%
8	Retail	1,493,286	195,461	640,688	14,054	421,811	64.4%
9	Secured by mortgages on immovable property	3,284,107	247,979	3,284,107	46,842	1,482,729	44.5%
10	Exposures in default	56,815	7	51,923	0	42,136	81.2%
11	Exposures associated with particularly high risk	27,576	6,040	27,576	1,208	43,177	150.0%
12	Covered bonds	475,132	0	475,132	0	47,513	10.0%
13	Institutions and corporates with a short-term credit assessment	447,721	10,259	447,721	4	97,637	21.8%
14	Collective investment undertakings	29,255	0	29,255	0	29,255	100.0%
15	Equity	100,748	2,562	100,748	0	103,310	102.5%
16	Other items	165,107	0	165,107	0	158,384	95.9%
17	**Total**	**13,409,348**	**705,414**	**11,455,289**	**91,458**	**4,005,371**	**34.7%**

Risk provisions

A loan is classified as non-performing as soon as the capital repayments and/or interest payments contractually stipulated are outstanding for 90 days or more. Such loans are not to be classified as value-impaired if it can be assumed that they are still covered by existing collateral securities.

Value-impaired loans are amounts outstanding from customers and banks where it is improbable that the debtor can meet its obligations. The causes of impairment are counterparty- or country-specific in nature. Value adjustments for credit risk are recorded on the balance sheet as the reduction of the carrying value of a receivable. However, in the case of off-balance-sheet items such as, for example, a firm commitment, provisions for credit risk are reported under "Provisions". The impairment amount is calculated primarily based on the difference between the carrying value and the likely recoverable amount, taking into account the proceeds on liquidation of any collateral.

A review of collectability is undertaken at least annually for all non-performing loans. If there are any changes in comparison to earlier estimations with regard to the amount and date of anticipated future cash flows, the allowance for credit risk will be adjusted and booked in the income statement under "Value adjustments for credit risk" or "Reversals of value adjustments and provisions no longer required". Portfolio value adjustments are made for latent, as yet unidentified credit risk on portfolio level.

VP Bank has been using the IFRS 9 for the valuation of financial instruments since 1 January 2018. VP Bank does not apply transitional provisions in accordance with Article 473a of the CRR. As such, the information relating to funds, equity capital and leverage ratio already reflect the full effect of IFRS 9 impairment and/or expected credit loss (ECL).

Changes in the stock of general and specific credit risk adjustments (EU CR2-A)

in CHF 1,000		Cumulated individual valuation allowances	Cumulated lump-sum valuation allowances
1	Opening balance at 1st January 2019	44,128	0
2	Increases due to amounts set aside for estimated loan losses during the period	9,758	0
3	Decreases due to amounts reversed for estimated loan losses during the period	–16,687	0
4	Decreases due to amounts taken against accumulated credit risk adjustments	–332	0
5	Transfers between credit risk adjustments	0	0
6	Impact of exchange rate differences	–710	0
7	Business combinations, including acquisitions and disposals for subsidiaries	0	0
8	Other adjustments	0	0
9	**Closing balance at 31 December 2019**	**36,157**	**0**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	45	0
11	Specific credit risk adjustments directly recorded to the statement of profit and loss	0	0

A large portion of "Decreases due to amounts reversed for estimated loan losses during the period" relates to the release of valuation allowances that were established in the loan portfolio of VP Bank (BVI) Ltd. following hurricane Irma in 2018.

Changes in the stock of defaulted and impaired loans and debt securities (EU CR2-B)

in CHF 1,000		Gross carrying value defaulted exposures	Accumulated general credit risk adjustment
1	Opening balance at 1st January 2019	86,211	0
2	Loans and debt securities that have defaulted or impaired since the last reporting period	n.a.	0
3	Returned to non-defaulted status	n.a.	0
4	Amounts written off	n.a.	0
5	Other changes[1]	n.a.	0
6	**Closing balance at 31 December 2019**	**109,082**	**0**

Quality of non-performing exposures by geography

in CHF 1,000	Gross carrying/nominal amount			Of which subject to impairment	Accumulated impairment	Provisions[1]	Accumulated negative changes[2]
	Total	Of which non-performing					
		Total	Of which defaulted				
On-balance-sheet exposures							
Switzerland	20,565	13,424	12,467	14,195	10,435	0	394
British Virgin Islands	17,450	11,390	10,578	12,045	8,981	0	0
Luxembourg	11,251	7,344	6,820	7,766	11,251	0	0
Liechtenstein	1,703	1,112	1,032	1,176	1,313	0	1,406
USA	1,412	922	857	975	299	0	0
Total	**52,381**	**34,192**	**31,754**	**36,157**	**32,279**	**0**	**1,800**

[1] Provisions on off-balance-sheet commitments and financial guarantees given.
[2] Accumulated negative changes in fair value due to credit risk on non-performing exposures.

Credit quality of performing and non-performing exposures by past due days

in CHF 1,000	Gross carrying amount/nominal amount Performing exposures Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days
Loans and advances			
Central banks	0	0	0
General governments	3,745	3,745	0
Credit institutions	729,751	729,751	0
Other financial corporations	1,944,833	1,944,788	45
Non-financial corporations	1,499,961	1,499,960	1
Households	3,331,414	3,331,413	1
Debt securities			
Central banks	0	0	0
General governments	826,997	826,997	0
Credit institutions	596,353	596,353	0
Other financial corporations	83,634	83,634	0
Non-financial corporations	1,035,328	1,035,328	0
Off-balance-sheet exposures			
Central banks	0	n.a.	n.a.
General governments	34	n.a.	n.a.
Credit institutions	4,764	n.a.	n.a.
Other financial corporations	244,456	n.a.	n.a.
Non-financial corporations	146,196	n.a.	n.a.
Households	229,616	n.a.	n.a.
Total	**10,677,082**	**10,051,969**	**47**

in CHF 1,000	Non-performing exposures Total	past due ≤ 90 days[1]	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 year	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances									
Central banks	0	0	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0	0
Other financial corporations	30,082	1,197	1,801	2,999	3,013	17,345	0	3,727	12,942
Non-financial corporations	0	0	0	0	0	0	0	0	0
Households	22,299	887	1,335	2,223	2,233	12,858	0	2,763	10,128
Debt securities									
Central banks	0	0	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0	0	0
Non-financial corporations	0	0	0	0	0	0	0	0	0
Off-balance-sheet exposures									
Total	**52,381**	**2,084**	**3,136**	**5,222**	**5,246**	**30,203**	**0**	**6,490**	**23,070**

[1] Unlikely to pay that are not past due or are past due ≤ 90 days

Credit quality of forborne exposures

This table is not required to be disclosed, as no positions exist as of 31 December 2019.

Performing and non-performing exposures and related provisions

in CHF 1,000	Gross carrying amount/nominal amount					
	Performing exposures			Non-performing exposures		
	Total	Of which stage 1	Of which stage 2	Total	Of which stage 2	Of which stage 3
Loans and advances						
Central banks	0	0	0	0	0	0
General governments	3,745	3,713	32	0	0	0
Credit institutions	729,751	723,550	6,201	6,451	187	6,264
Other financial corporations	1,944,833	1,928,306	16,527	23,631	685	22,946
Non-financial corporations	1,499,961	1,487,215	12,746	0	0	0
Households	3,331,414	3,303,105	28,309	22,299	646	21,653
Debt securities						
Central banks						
General governments	826,997	826,997	0	0	0	0
Credit institutions	596,354	596,354	0	0	0	0
Other financial corporations	83,634	83,634	0	0	0	0
Non-financial corporations	1,035,328	1,035,328	0	0	0	0
Off-balance-sheet exposures						
Central banks	0	0	0	0	0	0
General governments	34	34	0	0	0	0
Credit institutions	4,764	4,764	0	0	0	0
Other financial corporations	244,456	244,396	60	0	0	0
Non-financial corporations	146,196	146,156	40	0	0	0
Households	229,616	229,556	60	0	0	0
Total	**10,677,083**	**10,613,108**	**63,975**	**52,381**	**1,518**	**50,863**

Performing and non-performing exposures and related provisions

in CHF 1,000	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures[1]			Non-performing exposures[2]					
	Total	Of which stage 1	Of which stage 2	Total	Of which stage 2	Of which stage 3		performing	non-performing
Loans and advances									
Central banks	0	0	0	0	0	0	0	0	0
General governments	2	1	1				0	0	0
Credit institutions	422	191	231	3,918	7	3,911	0	0	0
Other financial corporations	1,126	509	617	14,351	26	14,325	0	0	0
Non-financial corporations	868	392	476	0	0	0	0	0	0
Households	1,928	872	1,056	13,542	24	13,518	0	0	0
Debt securities									
Central banks	0	0	0	0	0	0	0	0	0
General governments	437	437	0	0	0	0	0	0	0
Credit institutions	315	315	0	0	0	0	0	0	0
Other financial corporations	44	44	0	0	0	0	0	0	0
Non-financial corporations	547	547	0	0	0	0	0	0	0
Off-balance-sheet exposures									
Central banks	0	0	0	0	0	0	n.a.	0	0
General governments	0	0	0	0	0	0	n.a.	0	0
Credit institutions	2	2	0	0	0	0	n.a.	0	0
Other financial corporations	115	115	0	0	0	0	n.a.	0	0
Non-financial corporations	69	69	0	0	0	0	n.a.	0	0
Households	108	108	0	0	0	0	n.a.	0	0
Total	**5,983**	**3,602**	**2,381**	**31,811**	**57**	**31,754**	**0**	**0**	**0**

[1] Performing exposures – accumulated impairment and provisions.
[2] Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions .

Collateral obtained by taking possession and execution processes

At the time of the balance sheet date, VP Bank Group does not hold any collateral due to rescue acquisitions. The disclosure of this table can be waived as there are no positions as of 31.12.2019.

Counterparty default risks

OTC derivative transactions may be concluded only with counterparties with whom a netting contract and a clearing agreement have been concluded. The default risk is limited for interbank transactions within the context of the limit system.

The lines for OTC derivative transactions with other banks are essentially secured, and changes are settled daily. As there are no unsecured lines, there are also no material obligations to provide additional capital.

Within the context of the risk controls, derivative financial instruments are concluded only in the banking book and serve to hedge equity price, interest change and currency risks as well as to manage the banking book. Derivatives approved for this purpose are set out in the Risk Strategy for Financial Risks Regulations.

For the internal allocation of the economic capital, no distinction is made between derivative and original credit risk exposures. Risk-reducing correlation effects between the risk types are not taken into consideration for reasons of prudence.

The counterparty default risk arising out of the derivative transactions is determined by the credit equivalence sum resulting from the positive replacement values plus the add-ons. The credit equivalence sum is calculated using the Mark-to-Market Method pursuant to Art. 274 CRR. Existing netting agreements are not taken into account.

Analysis of CCR exposure by approach (EU CCR1)

in CHF 1,000		Notional	Replacement cost/ current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
3	Standardised approach	n.a	152,861	n.a	n.a	1.4	150,298	43,406
11	**Total**	**n.a**	**152,861**	**n.a**	**n.a**	**1.4**	**150,298**	**43,406**

CVA capital charge (EU CCR2)

The following figure presents regulatory calculations for credit valuation adjustment (CVA) in accordance with Article 439(e) and (f) of the CRR. Only the standardised method defined under Article 384 of the CRR is used to determine CVA risk.

in CHF 1,000		Exposure value	RWAs
1	Total portfolios subject to the advanced method	n.a	n.a
2	(i) VaR component (including the 3 multiplier)	n.a	n.a
3	(ii) SVaR component (including the 3 multiplier)	n.a	n.a
4	All portfolios subject to the standardised method	89,779	14,128
EU4	Based on the original exposure method	n.a	n.a
5	**Total subject to the CVA capital charge**	**89,779**	**14,128**

Standardised approach – CCR exposures by regulatory portfolio and risk (EU CCR3)

in CHF 1,000		Risk weight									
		0%	20%	35%	50%	75%	100%	150%	others	Total	Of which unrated
Exposure classes											
1	Central governments or central banks	0	0	0	0	0	0	0	0	0	0
2	Regional governments or local authorities	323	0	0	0	0	0	0	0	323	323
3	Public sector entities	0	218	0	0	0	0	0	0	218	218
4	Multilateral development banks	0	0	0	0	0	0	0	0	0	0
5	International organisations	0	0	0	0	0	0	0	0	0	0
6	Institutions	16,668	15,518	0	4,717	0	0	0	0	36,903	856
7	Corporates	0	0	0	0	0	37,377	54	0	37,431	37,431
8	Retail	0	0	0	0	22,785	37,759	0	0	60,544	60,544
9	Secured by real estate	0	0	0	0	0	0	0	0	0	0
10	Exposures in default	0	0	0	0	0	0	0	0	0	0
11	Items associated with particularly high risk	0	0	0	0	0	0	0	0	0	0
12	Covered bonds	0	0	0	0	0	0	0	0	0	0
13	Securitisation positions	0	0	0	0	0	0	0	0	0	0
14	Claims on institutions and corporates with a short-term credit assessment	0	14,879	0	0	0	0	0	0	14,879	0
15	Collective investments undertak-ings	0	0	0	0	0	0	0	0	0	0
16	Equity exposures	0	0	0	0	0	0	0	0	0	0
17	Other items	0	0	0	0	0	0		0	0	0
18	**Total**	**16,991**	**30,615**	**0**	**4,717**	**22,785**	**75,136**	**54**	**0**	**150,298**	**99,372**

Impact of netting and collateral held on exposure values (EU CCR5-A)

In application of Article 439(e), the following figure shows the impact of netting and collateral held on exposures.

in CHF 1,000	Gross positive fair Value or net carrying amount	Netting effects	Net current credit exposure	Collateral held	Net credit exposure
Derivatives	150,298	0	150,298	0	150,298
SFTs	0	0	0	0	0
Cross product netting	0	0	0	0	0
Total	**150,298**	**0**	**150,298**	**0**	**150,298**

In the case of OTC derivative transactions, netting agreements are in place with the relevant counterparties in order to take advantage of the credit risk mitigating effects resulting from the standardised master agreements. The Bank does not use on-balance-sheet netting agreements.

Composition of Collateral for exposures to CCR (EU CCR5-B)

in CHF 1,000	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency (CHF)	0	350,961	0	72,357	0	0
Equity securities	0	72,249	0	0	0	0
Total	**0**	**423,210**	**0**	**72,357**	**0**	**0**

The distinction between "separate" and "non-separate" describes whether or not collateral is held in insolvency-protected custody in accordance with Article 300 CRR (separate). As of 31 December 2019, VP Bank holds no insolvency-protected collateral.

Exposures to CCPs (EU CCR8)

In addition to the disclosure of counterparty credit risk in Tables EU CCR1 and EU CCR2, information relating to transactions with Central Counterparties in accordance with Article 439(e) and (f) CRR must be disclosed in Table EU CCR8.
As of 31 December 2019, VP Bank has no direct exposures to Central Counterparties and therefore the EU CCR8 table has been omitted.

Market risks

Risk control and risk monitoring

Market risks result from entering into positions in debt instruments, equities and other financial investments, foreign currencies, precious metals and in corresponding derivatives, from client transactions and transactions with banks as well as from consolidated subsidiaries whose functional currency is denominated in a foreign currency.

The bank applies a comprehensive set of methods and parameters to monitor and control the market risks. In this conjunction, the value-at-risk approach has become established as the standard method of measuring the general market risk. The value-at-risk for market risks quantifies the negative deviation, expressed in Swiss francs, from the value of all market risk positions as at the reporting date. The value-at-risk parameter is calculated Group-wide with the help of the historical simulation. For this purpose, historical changes in market data over a period of at least 5 years are used to evaluate all market risk positions. The forecast loss applies to a holding period of one year and there is a 99 per cent probability that this will not be exceeded.

Because the value-at-risk approach cannot identify maximum losses arising out of extreme market situations, the market risk analysis is supplemented by stress tests. Such tests make it possible to estimate the impact of extreme market fluctuations in the risk factors on the cash value of the equity capital. In the field of market risks, for example, cash value fluctuations arising out of all balance sheet items and derivatives are determined with the help of sensitivity parameters on the basis of synthetically generated market movements (parallel shift, rotation or change in the gradient of interest rate curves, fluctuation of exchange rates by a multiple of their implicit volatility, fall in equity market prices).

Monitoring and control of market risks is based – taking account of the relevant statutory and supervisory conditions – on defined internal bank targets and limits that reflect volumes and sensitivities. Scenario analyses and stress tests also show the impact of events that cannot or cannot sufficiently be taken account of within the context of the ordinary risk assessment.

The Group Treasury & Execution unit is responsible for the central control of market risks within the set limits. Group Executive Management allocates the set limits for financial risks in the form of value-at-risk (VaR) limits for financial risks across the individual subsidiaries and risk categories within which the respective subsidiaries control the risks with bottom-line responsibility. The Group Risk unit monitors the adherence to Group-wide limits.

VP Bank uses currency transactions to control the foreign exchange positions from its own financial assets. Foreign exchange risks arising out of client activities are essentially prohibited; residual currency positions are closed on the spot exchange market. Group Treasury & Execution is responsible for managing foreign exchange risks arising out of client activities.

To calculate additional value adjustments (AVA) VP Bank applies the simplified concept defined under Article 4 of Delegated Regulation (EU) No. 2016/101. Thus, for all items valued at market prices or fair value, 0.1% of the absolute value is deducted from equity capital as an additional valuation adjustment.

Market risk under the standardised approach (EU MR1)

in CHF 1,000	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	64,921	5,194
Equity risk (general and specific)	n.a.	n.a.
Foreign exchange risk	164,100	13,128
Commodity risk	24,147	1,932
Total	**253,168**	**20,253**

Interest rate risks in the banking book

VP Bank refinances its medium-term to long-term client lending and own holdings of debt instruments primarily using short-term client deposits, meaning that it is subject to a risk of changing interest rates.

The bank does not enter into any material interest rate risks in the trading book. For the purpose of risk management, no distinction is drawn between trading and banking book positions.

The starting point for the risk management and risk monitoring is the cash flow structure of the interest-sensitive positions at the overall bank level. For this purpose, all balance sheet and off-balance-sheet assets and liabilities are allocated to the various maturity bands according to their contractually fixed period interest rates. For products with indefinite interest-rate and capital-commitment periods, appropriate maturity scenarios will be set on the basis of expert estimates. Implicit options in client loans business which may, for example, potentially result from special termination rights without early-redemption penalties are negligible and have not been modelled.

Key rate duration profile per 100 basis points increase

The following table shows the results of the interest sensitivity analysis as at 31 December 2019 at the consolidated level. For this, first of all, the current 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 increased by 1% (+100 basis points) in each maturity band and per currency. The respective changes represent the profit or loss of cash value resulting from the shift in the interest rate curve. Negative values point to an excess of assets, positive values to an excess of liabilities in the maturity band.

in CHF 1,000	-100 bps	+100 bps
CHF	6,774	–4,877
EUR	18,402	–16,787
USD	10,855	–10,175
Other currencies	–3,120	3,029
Total	**32,911**	**–28,810**

Liquidity risks

VP Bank has implemented a process, the Internal Liquidity Adequacy Assessment Process (ILAAP), to ensure risk-adequate liquidity. The ILAAP approach involves two complementary perspectives: the normative perspective is based on ensuring the continuous fulfilment of all legal and internal requirements, while the economic perspective ensures the institution's ability to survive.

Liquidity risk includes insolvency/scheduling, refinancing, market liquidity, withdrawal and step-in risk. Liquidity risk includes, for example, the risk of current and future payment obligations not being able to be refinanced in full or on time, in the right currency or at the standard market conditions, as well as cases where, due to insufficient market liquidity, it is not possible to liquidate or collateralise high-risk items on time or to the extent necessary and on reasonable terms.

Liquidity risks – taking account of statutory liquidity standards and regulations – are monitored and controlled using internal criteria and limits for the interbank and lending activities. Liquidity management at VP Bank Group is performed centrally at head office in Liechtenstein.

Safeguarding liquidity within VP Bank Group at all times has absolute priority. This is ensured with a substantial holding of liquid assets and investments with high liquidity (high quality liquid assets / HQLA), which also represents the main source of liquidity. Around two thirds of the HQLA are held at central banks.

If necessary, VP Bank can access the Eurex repo market to procure covered liquidity at short notice.

Within the context of the national implementation of Basel III, the liquidity coverage ratio (LCR) has been reported to the Liechtenstein Financial Market Authority (FMA) since 2015. In terms of liquidity, a liquidity coverage requirement for a liquidity coverage ratio (LCR) of at least 100 per cent has been in place since 1 January 2018. With a figure of 213 per cent, VP Bank had a comfortable liquidity situation at the end of 2019.

The LCR is actively managed and monitored in all currencies (main currencies: CHF, EUR and USD).

Continuous checks are carried out to ensure that liquid assets which do not qualify as liquid assets in a third country are not factored into the LCR calculation at Group level either.

Short-term client deposits play a significant role in the Bank's refinancing. It is only dependent on the capital market to a minor extent.

Derivative items which might involve potential collateral requirements consist primarily of interest-rate swaps and currency swaps – the potential collateral requirements are low in amount.

With the help of regular stress tests, the impact of extraordinary (although plausible) events on liquidity is analysed. This enables VP Bank to take countermeasures in good time and, if necessary, to set limits.

A liquidity emergency plan is designed to ensure that VP Bank continues to have sufficient liquidity, even in cases of bank-specific or market-triggered liquidity crises as well as combinations thereof. For this purpose, suitable early warning indicators are identified and regularly monitored. Possible measures are set out in the emergency liquidity plan.

Despite the fact that the net stable funding ratio will be obligatory only at a future date, VP Bank regularly monitors the net stable funding ratio.

Declaration of the Board of Directors

The Board of Directors bears overall responsibility for liquidity management that is appropriate for the profile and strategy of VP Bank.

Safeguarding liquidity within VP Bank Group at all times has absolute priority. This is ensured with a substantial holding of liquid assets and investments with high liquidity (HQLA).

Key performance indicators in VP Bank's liquidity management include the LCR, the net stable funding ratio (NSFR), the liquidity reserve and distance to liquidity. To bring the liquidity risk profile into line with the defined risk tolerance, the Bank sets itself minimum requirements that are above the statutory minimum in each case. As at 31 December 2019, the LCR was 213 per cent, the NSFR was in excess of 100 per cent and the distance to liquidity according to the stress test was significantly more than 31 days. VP Bank complied with the 2019 LCR at all times.

Liquidity Coverage Ratio

in CHF 1,000	Unweighted value (average) 31.03.2019	30.06.2019	30.09.2019	31.12.2019	Weighted value (average) 31.03.2019	30.06.2019	30.09.2019	31.12.2019
Number of data points used	12	12	12	12	12	12	12	12
High-quality liquid assets								
Total high-quality liquid assets (HQLA)	–	–	–	–	4,883,010	4,873,234	4,909,202	4,956,298
Cash outflows								
Retail deposits and deposits from small business customers	4,097,631	4,035,462	3,983,153	4,002,564	465,937	460,041	452,738	452,645
of which Stable deposits	278,105	315,827	419,487	515,063	13,905	15,791	20,974	25,753
of which Less stable deposits	3,819,526	3,719,635	3,563,666	3,487,501	452,032	444,250	431,763	426,892
Unsecured wholesale funding	6,314,609	6,394,252	6,483,417	6,626,720	4,101,672	4,138,459	4,209,622	4,370,704
• Operational deposits (all counterparties) and deposits in networks of cooperative banks	510,256	397,188	275,126	146,189	127,558	99,290	68,775	36,543
• Non-operational deposits (all counterparties)	5,804,353	5,997,064	6,208,290	6,480,532	3,974,114	4,039,169	4,140,848	4,334,161
• Unsecured debt	0	0	0	0	0	0	0	0
Secured wholesale funding	–	–	–	–	0	0	0	0
Additional requirements	2,037,499	2,115,382	1,790,054	1,417,684	866,084	887,820	735,796	583,314
• Outflows related to derivative exposures and other collateral requirements	24,689	33,945	45,081	57,380	24,689	33,945	45,081	57,380
• Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
• Credit and liquidity facilities	2,012,810	2,081,437	1,744,974	1,360,305	841,395	853,875	690,716	525,934
Other contractual funding obligations	274,039	271,935	258,975	217,855	274,039	271,935	258,975	217,855
Other contingent funding obligations	20,887	25,556	29,200	29,435	7,313	9,264	12,863	13,207
Outflwos from secured lending and capital market-driven transactions	10,240	5,785	5,785	0	3,007	530	530	0
Total cash outflows	–	–	–	–	**5,718,052**	**5,768,049**	**5,670,525**	**5,637,726**
Cash inflows								
Secured lending (eg reverse repos)	0	83	83	12,752	0	83	83	12,752
Inflows from fully performing exposures	3,400,579	3,668,709	3,882,379	4,068,132	2,093,553	2,272,535	2,422,100	2,553,845
Other cash inflows	0	0	0	0	0	0	0	0
Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies	–	–	–	–	0	0	0	0
Excess inflows from a related specialised credit institution	–	–	–	–	0	0	0	0
Total cash inflows	**3,400,579**	**3,668,792**	**3,882,462**	**4,080,884**	**2,093,553**	**2,272,618**	**2,422,183**	**2,566,597**
Fully exempt inflows	0	0	0	0	0	0	0	0
Inflows Subject to 90% Cap	0	0	0	0	0	0	0	0
Inflows Subject to 75% Cap	3,400,579	3,668,792	3,882,462	4,080,884	2,093,553	2,272,618	2,422,183	2,566,597

	Total adjusted value			
Liquidity buffer	4,883,010	4,873,234	4,909,202	4,956,298
Total net cash outflow	3,624,499	3,495,431	3,248,341	3,071,130
Liqudity Coverage Ratio (LCR)	134.72%	139.42%	151.13%	161.38%

Consistent and prompt liquidity management has made it possible to reduce the LCR, liquidate poorly performing level 1 HQLAs and purchase higher-performance securities.

Operational risks and business risks

Operational risks

While financial risks are consciously taken in order to generate returns, operational risks should be avoided by means of suitable controls and measures or, if this is not possible, should be reduced to a level defined by the bank.

The causes of operational risks are many and varied. People can make mistakes, IT systems can malfunction or business processes can fail to have the desired effect. For this reason it is important to identify the triggers of significant risk events and their effects, in order to limit these by means of suitable preventative measures.

At VP Bank, the management of operational risks is considered an integrative interdisciplinary function that needs to be implemented uniformly throughout the Group across divisions and processes.

The following methods are used for this purpose:
- The risk factors that could lead to operational risks are assessed within the context of periodic risk assessments. The Executive Management decides, on the basis of the assessments, which risks are generally acceptable and hence, in the event of their materialising, are covered by the risk cover funds, which risks need to be reduced or avoided and which risks should be transferred to insurance companies. Key decision-making criteria here are the probability of their occurrence and the level of the damage in a typical case as well as in an extreme case.
- In order to identify potential losses in good time, and in order to ensure that there is sufficient time to plan and realise countermeasures, early warning indicators are deployed. Reasonable threshold values are defined for this purpose. Once these are reached or exceeded, mandatory measures must be initiated by the respective risk owners.
- Significant loss events are systematically recorded and centrally evaluated. Loss data findings flow directly into the risk management process.

Every individual manager is responsible for identifying and evaluating operational risks as well as for defining, implementing or monitoring suitable key controls and measures to limit risks.

The central Group Risk Unit is responsible for the Group-wide implementation, monitoring and further development of the deployed risk management methods, and bears specialist responsibility for the associated IT applications. The local risk unit, in consultation with Group Risk, is responsible for monitoring and further developing the deployed risk management methods of the respective subsidiary. Group Risk organises the Group-wide risk assessment, and informs GEM and the Board of Directors of the results and suggests any necessary measures.

Business risks

Business risks result on the one hand from unexpected changes in market and environmental conditions that have negative impacts on earnings or equity capital; on the other hand, they also describe the risk of unexpected losses arising out of management decisions relating to the business policy of the Group (strategic risks). The GEM is responsible for the Management of business risks. Business risks are analysed by taking into account the banking environment and the internal situation of the company. Top risk scenarios are derived and adequate measures are developed. The responsible units or organisational units get entrusted with the implementation of the measures (Top down process).

Exposures in equities not included in the trading book

Investments in equity capital instruments are recognised in the balance sheet at fair value.

Value changes are recognised in the income statement, except in cases in which VP Bank Group has decided to recognise these at fair value, while recording the change in the other overall result ("at fair value through other comprehensive income" / OCI).

For illiquid equity instruments (private equity) and investments in high-dividend individual shares, the OCI option is applied, resulting in a valuation at fair value (FVOCI) not affecting net income. In the case of these investments, the focus is on long-term value generation.

Value approaches for Equities

in CHF 1,000	Balance sheet value	Fair value
Equities		
Equity shares, exchange-listed	59,808	59,808
Private Equity, non-exchange listed	4,822	4,822
Investment fund units		
exchange-listed	53,829	53,829
non-exchange listed	19,963	19,963
Total	**138,422**	**138,422**
Gains on equity instruments		
Revaluation gains on equity instruments	0	–351
Realised gains on equity instruments	0	6,385
Total	**0**	**6,034**
Unrealised revaluation gain accounted in common equity tier 1 (CET1)	0	–15,518

Encumbered assets

Assets are deemed to be encumbered if the bank cannot dispose of them freely. This is the case, for example, if they were lent or used as collateral for potential liabilities arising out of derivative transactions. Encumbered assets do not have a significant impact on the business model of VP Bank Group as the bank only enters such transactions in relatively low amounts.

The encumbered assets consist mainly of securities lending and borrowing and repo transactions that are performed only at the head office in Liechtenstein. In addition, the regulatory scope of consolidation, for determining encumbered assets, does not differ from the scope of consolidated used for consolidated liquidity requirements. There are no incongruencies between the accounting perspective of collateral deposited and transferred assets and encumbered assets (regulatory view).

The reported values have reporting dates of 31 December 2019 and are not average values (median), because the level of the encumbered assets vary only marginally.

The encumbered and unencumbered assets as of 31 December 2019 are set out below.

Encumbered and unencumbered assets

in CHF 1,000	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	72,357	0	13,327,501	0
Loans on demand	0	0	3,552,042	0
Equity instruments	0	0	141,510	141,273
Debt securities	72,357	73,994	2,426,881	2,478,084
of which covered bonds	7,733	7,969	466,889	476,930
of which asset-backed securities	0	0	0	0
of which issued by general governments	8,642	8,882	808,998	818,572
of which issued by financial corporations	18,845	19,162	656,189	670,134
of which issued by non-financial corporations	44,870	45,950	961,694	989,378
Loans and advances other than loans on demand	0	0	6,876,467	0
of which mortgage loans	0	0	3,362,090	0
Other assets	0	0	330,600	0

Assets cannot be pledged if they have been accepted as collateral, and the Bank is not permitted to sell or re-pledge these assets. Own debentures cannot be pledged either if the terms of issue impose restrictions on the sale or re-pledging of the securities held. The following demonstrates which received collateral may be pledged.

Collateral received

in CHF 1,000	Fair value of encumbered collateral received or own debt securities issued	Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	n.a.	1,265,630
Loans on demand	n.a.	0
Equity instruments	n.a.	0
Debt securities	n.a.	1,072,157
of which covered bonds	n.a.	0
of which asset-backed securities	n.a.	0
of which issued by general governments	n.a.	573,975
of which issued by financial corporations	n.a.	428,000
of which issued by non-financial corporations	n.a.	70,183
Loans and advances other than loans on demand	n.a.	0
Other collateral received	n.a.	193,473
Own debt securities issued other than own covered bonds or asset-backed securities	n.a.	362,951
Own covered bonds and asset-backed securities issued and not yet pledged	n.a.	0
Total assets, collateral received and own debt securities issued	72,357	0

The following table details the various pledge options available as at 31 December 2019. These include both selected secured financial liabilities and pledges without associated refinancing.

Source of encumbrance

in CHF 1,000	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**n.a.**	**n.a.**
Derivatives	n.a.	n.a.
of which over-the-counter	n.a.	n.a.
Deposits	n.a.	n.a.
Repurchase agreement	n.a.	n.a.
Secured deposits	n.a.	n.a.
Debentures issued	n.a.	n.a.
Other sources of encumbrance	**n.a.**	**72,357**
Nominal value received loan commitments	n.a.	n.a.
Nominal value accepted financial collateral	n.a.	18,845
Fair value borrowed securities and non-cash collateral	n.a.	n.a.
Other	n.a.	53,512
Total	**n.a.**	**72,357**

Remuneration policy

Regulatory frameworks

Basis of the remuneration report of VP Bank is the implementation of the EU Regulation No. 575/2013 with reference to the EU Directive 2013/36/EU, which governs inter alia the risks associated with remuneration policy and practices.

Liechtenstein implemented these rules in its Banking Act , in particular in Art. 7a Para. 6 (BankA): "Banks and securities companies must introduce a remuneration policy and practice, and must consistently ensure that these are compatible with sound and effective risk management within the meaning of this Article. The government regulates further details of the remuneration policy and practice with the Ordinance."

Furthermore, relevant content is set out in specific terms in Annex 1 and Annex 4.4 of the Liechtenstein Ordinance on Banks and Investment Firms (Verordnung über die Banken und Wertpapierfirmen – BankV). The remuneration policy of VP Bank Group is appropriate for the size of VP Bank and its business model. This covers the provision of bank services for private clients and financial intermediaries in the allocated target markets, in Liechtenstein and in the other sites, as well as investment fund services.

Remuneration principles

Remuneration plays a central role when it comes to recruiting and retaining employees. VP Bank is committed to a fair, performance-oriented and balanced compensation practice that reconciles the long-term interests of shareholders, employees and customers. The long-term remuneration practice of VP Bank corresponds to the business model of VP Bank as an asset manager and private bank. The applied principles are set out in the remuneration policy:

- Performance orientation and performance differentiation are substantial components of the remuneration policy and ensure the linking of the variable remuneration with the achievement of the company's strategic goals.
- The remuneration policy is consistent with sound and effective risk management and promotes this. This ensures that the conflicts of interest of the involved functions or persons established by the remuneration is avoided. The assumption of excessive risks by employees to boost their short-term remuneration should be prevented as far as possible by corresponding incentives.
- The remuneration policy enables attractive and fair remuneration that is market-compliant, in order to attract, motivate and retain qualified and talented employees to VP Bank Group. The market-compliance is subject to regular checks.
- The compensation system is not based on a purely formula- based system and therefore has sufficient flexibility to take into account the respective business performance of VP Bank Group or its subsidiaries.
- The remuneration policy applies the principle of equal treatment. The level of the fixed salary is based on the function. The level of the variable remuneration reflects the Group performance, the departmental or team performance and/or the individual performance.
- The remuneration policy is subject to regular checks. Relevant provisions are applied and implemented in the remuneration practice. Role-specific requirements, specifically regarding those employees identified as risk-takers, are complied with.

Remuneration elements

The overall remuneration of the employees of VP Bank Group comprises the fixed remuneration, an additional variable salary, participation models as well as additional offers ("fringe benefits"). When determining the remuneration structure, consideration is given to an appropriate ratio between the fixed components and the variable remuneration as well as to a functionally appropriate remuneration. In particular, as risk takers identified employees, including the Group Management, receive at most a variable remuneration that complies with the statutory ratio to the annual salary (maximum 1:2).

Fixed salary

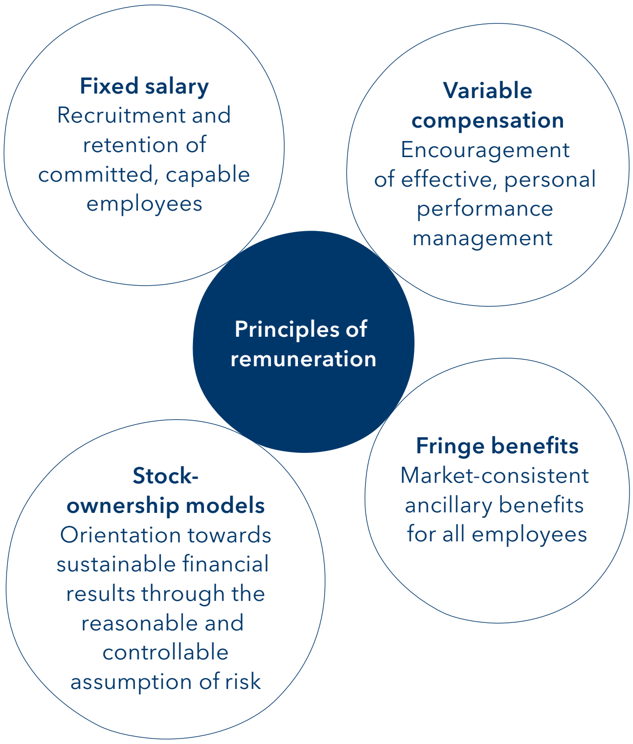
The remuneration is based on the annual salary that is set out in the individual contract of employment and is payable each month in cash. The level is dependent on the exercised function or on its requirements and responsibilities, which are assessed using objective criteria. This enables internal comparability as well as equal treatment, and also allows comparison with market data. VP Bank regards the fixed salary as compensation for the properly performed work of its employees. The fixed salary is reviewed annually for appropriateness in the wage round and, if necessary, redefined.

Variable remuneration

Variable remuneration can consist of a directly paid component and deferred remuneration instruments. This is an additional voluntary benefit of VP Bank Group, to which there is no legal entitlement, even after repeated, unconditional payment thereof.

Financing the variable remuneration

The overall sum of the variable remuneration is determined by the Board of Directors, and is based on success parameters as well as qualitative performance criteria. The total amount includes the multi-year, risk-adjusted profit of VP Bank Group, which takes into account the sustainable business performance, the cost of capital and thus the current and future risks. The Board of Directors makes a



fact-based assessment of the total amount of the variable compensation and can adjust the amount to a limited extent. If the business performs poorly, the total amount of the variable remuneration is reduced accordingly and can also be zero. The total sum of provisions for variable remuneration must be affordable in overall terms. They may never cause VP Bank Group or an individual subsidiary company to experience financial difficulties. This also takes into account the impact on the Group's equity situation.

Allocation of the variable remuneration

The allocation of variable payments is discretionary and, in addition to the achievement of quantitative and/or qualitative goals, also takes into account compliance with legislative requirements, the company's guidelines including the Code of Conduct and also the requirements defined by the customer Multi-year considerations can also be included in the performance assessment. The performance assessment of identified employees is based on the individual goals and objectives of the team, the division, the subsidiary and the overall result of VP Bank Group. Performance is assessed using quantitative and qualitative criteria. The variable compensation of employees in control functions, the internal audit or legal and compliance tasks is determined independently of the result of the business unit to be controlled in accordance with the achievement of the objectives associated with its tasks. Participation in the success of the company or in VP Bank Group is permitted within the usual framework or makes sense in the interests of equal treatment. Target achievement is evaluated as part of the performance management process after the end of the financial year. The amount of the individual variable remuneration is determined by the line manager.

Pay-out of the variable remuneration

- Immediate variable remuneration (bonus): The bonus is the variable cash remuneration paid annually in cash, which is paid as compensation for the profit contribution made in the previous financial year. If the bonus is particularly high in relation to the total compensation, part of the pay-out can be withheld. Where sensible and appropriate, such postponement may also be granted in deferred remuneration instruments or transferred to fixed-term inalienable shares.
- Deferred remuneration instruments: By means of deferred compensation instruments, long-term alignment of interests between shareholders and employees is to be achieved through employee participation in the performance. VP Bank Group generally uses share and index-based plans that are exposed to risk as deferred compensation instruments. Eligibility for deferred variable compensation is dependent on the respective function and person. This is confirmed by an allocation certificate. VP Bank Group uses the deferred compensation instruments to meet the legal requirements regarding the pay-out schemes of the as risk takers identified employees, i.e. at least 40% of the variable remuneration is granted in deferred remuneration instruments which are subject to a malus and/or claw-back provision and may lapse accordingly. The rules on deferred compensation instruments are contained in separate plan regulations.

- Malus and claw-back rules: Under certain conditions, VP Bank can retain, reduce or eliminate (malus) variable salary components that have been granted to an employee, or may demand repayment of sums that have already been paid out (claw-back). This applies in particular in the case of a subsequently determined fault of the employee or a disproportionately high risk taken in order to boost the income. In the event of departure from VP Bank, the entitlement to deferred variable salary components that have not yet been paid is generally forfeited.

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 programme in VP Bank Ltd by members of the first- and second-levels of management 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.

Content and procedures used to determine the compensation and participation programmes

The remuneration policy regulations as well as the risk policy regulations of VP Bank stipulate that the remuneration systems and personnel management must be structured in such a way that personal conflicts of interest and behavioural risks are minimised. The Nomination & Compensation Committee proposes to the Board of Directors the principles for compensation and the amount of compensation of the Board of Directors and the GEM. The Board of Directors approves these principles and sets the level of the compensation for itself and for the members of the GEM within the meaning of the regulations.

Board of Directors

The Board of Directors receives compensation for the duties and responsibilities assigned to it by law and the Articles of Association (Article 20 of the Articles of Association). This is set by the Full Board of Directors at the proposal of the Nomination & Compensation Committee anew each year. Compensation to members of the Board of Directors is graded according to their function on the Board of Directors and committees or other bodies (e.g. pension funds). Three quarters of this compensation is in cash, one quarter in the form of freely available VP Bank registered shares A. The number depends on the market value upon receipt. VP Bank has not concluded any severance compensation agreements with the members of the Board of Directors.

Nomination & Compensation Committee

The Nomination & Compensation Committee comprises the Board members Fredy Vogt (Chairman), Markus Hilti, Dr Gabriela Payer and Dr Thomas Meier. As a rule, it convenes ten to twelve times per annum. In case of need, the CEO participates in the meetings of the Nomination & Compensation Committee in an advisory capacity.

During 2019, the Nomination & Compensation Committee convened on nine occasions.

Group Executive Management

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 the bank 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, 50–150 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.

VP Bank has not concluded any severance compensation agreements with the members of the GEM.

An external advisor was commissioned to structure the remuneration model, who does not have any further VP Bank Group commissions.

Fringe benefits

Fringe benefits are additional benefits that VP Bank offers its employees on a voluntary basis, often due to local and established practice. These benefits are essentially limited in their scope. They are settled and reported in accordance with local regulations.

They comprise predominantly the following benefits:
- insurance benefits that extend beyond the statutory regulations;
- retirement provisioning sums, in particular voluntary contributions from the employer;
- preferential conditions for employees active in the banking field, such as cheaper home mortgages;
- further customary local fringe benefits.

Persons and functions with special regulations

Employees having a particularly large impact on the risk profile of the Bank are designated as "risk takers". VP Bank identifies the members of the Board of Directors and Executive Board as decision-makers and substantial "risk takers" as well as selected functions. These are in particular the heads of the units "Group Internal Audit", "Group Compliance", "Group Finance", "Group Risk", "Group Investment Center", "Group Operations", "Intermediaries", "Private Banking", "Group Information Technology", "Group Human Resources", "Group Treasury & Execution", "Group Communications & Marketing", "Group Credit", "Chief of Staff CEO" and the members of the Credit Committee as well as the CEOs of Group subsidiaries.

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

Correspondence with remuneration regulations

The remuneration practice of VP Bank corresponds to Appendix 4.4 of the Liechtenstein Banking Ordinance (BankO) as well as the EU Directive, and is based on long-term performance. The decision to provide the entire sum lies ultimately with the Board of Directors.

VP Bank waives guaranteed payments in addition to the fixed salary, such as severance settlements stipulated in advance. Golden handshakes may be provided in certain individual cases – as a rule, these constitute compensation for loss of benefits from the former employer.

Pursuant to Liechtenstein law, variable salary components may possibly be dropped, retained or lapse, or those that have already been paid may be reclaimed. This applies specifically in the event of an ascertained fault on the part of an employee, or if excessive risks have been taken to reach a target.

Determining the remuneration (governance)

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

Information relating to the salaries of members of the Board of Directors of VP Bank and members of GEM can be found in the Financial Report, in the individual financial statements of VP Bank Ltd, Vaduz, under "Compensation paid to members of governing bodies" (page 191 of the Annual Report).

The following tables show the salary components of risk-takers and the compensation paid to members of the governing bodies.

In the 2019 financial year, risk-takers were granted CHF 400,000 in compensation payments. Compensation amounting to CHF 1,295,127.80 was paid out for GEM members who left the GEM. For risk takers, compensation for loss of benefits from their former employer was set at CHF 40,000. In the 2019 financial year, one GEM member received compensation of between EUR 1 million and EUR 1.5 million and one GEM member received compensation in excess of EUR 2.0 million.

Remuneration "Risk taker"

in CHF	Executive management	Employees
Fixed basic salary	3,386,037	5,535,004
Short-Term Incentive (STI, cash), for performance year 2019	2,167,128	1,955,355
Entitlement for performance year 2019–2021	1,307,922	2,342,956
Pension fund senior employees Employer contributions	1,006,889	638,186
Total remuneration[1]	**7,867,976**	**10,471,501**
PSP 2015–2017 / RSP 2015–2017 / RSP 2016–2018 / RSP 2017–2019	4,047,294	2,986,260

[1] Number of beneficiaries: 28

Remuneration "Risk taker" by business segment

in CHF	Client Business		Client Business International		Corporate Center		Total	
	Amount	Share in %	Amount	Share in %	Amount	Share in %	Amount	Share in %
Fixed basic salary	1,945,017	47%	1,738,090	53%	5,237,934	48%	8,921,040	49%
Short Term Incentive (Cash)	768,000	18%	571,355	17%	2,783,128	26%	4,122,483	22%
Performance Share Plan (PSP)	1,151,920	28%	867,020	26%	1,631,938	15%	3,388,425	18%
Pension Fund	298,841	7%	104,135	3%	1,242,099	11%	1,645,075	9%
Total	**4,163,778**	**100%**	**3,280,600**	**100%**	**10,895,099**	**100%**	**18,339,477**	**100%**

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	
		2019	2018	2019	2018	2019	2018	2019	2018
Board of Directors									
Fredy Vogt	Chairman[A]	560	560	140	140	82	85	642	645
Markus Thomas Hilti	Vice Chairman[B]	130	130	33	33			130	130
Dr Thomas R. Meier	Vice Chairman[B, H, I]	190	73	48	18			190	73
Dr Christian Camenzind	BoD[H, J]	37	110	9	28			37	110
Prof. Dr Teodoro D. Cocca	BoD[G]	130	130	33	33			130	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[H, K]	73	110	18	28			73	110
Dr Gabriela Payer	BoD[B, H]	140	140	35	35			140	140
Michael Riesen	BoD[C, F]	160	160	40	40			160	160
Total Board of Directors		**1,725**	**1,718**	**431**	**430**	**82**	**85**	**1,807**	**1,803**

[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 as from 27 April 2018
[J] Member of the Board of Directors up to 26 April 2019
[K] Member of the Board of Directors up to 20 August 2019
[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.

VP Bank Group

VP Bank Ltd is a bank domiciled in Liechtenstein and is subject to supervision by the Liechtenstein Financial Market Authority (FMA), Landstrasse 109, 9490 Vaduz, Liechtenstein, www.fma-li.li

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Imprint

This disclosure 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.

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