// Clarity //

2017

Disclosure report

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

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

www.vpbank.com/brand

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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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, British Virgin Islands, Singapore, Hong Kong and Moscow.

Since its foundation in the year 1956, VP Bank has focused on asset management and investment consultancy for private individuals and financial intermediaries. Today, some 800 employees manage client assets of around CHF 40 billion. A global network of partnerships supports the client advisors with excellent international know-how.

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 (Capital Requirements Regulation, 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.

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 audited by the statutory banking auditor.

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.

Consolidation

		Regulatory consolidation		IFRS consolidation	
		full	pro rata	full	at equity
Banks (regulated companies)	VP Bank AG, Vaduz	x		x	
	VP Bank (Schweiz) AG, Zürich	x		x	
	VP Bank (Luxembourg) SA, Luxembourg	x		x	
	VP Bank (Singapore) Ltd, Singapore	x		x	
	VP Bank (BVI) Ltd, Tortola	x		x	
Other financial institutions	VP Fund Solutions (Liechtenstein) AG, Vaduz	x		x	
	VP Fund Solutions (Luxembourg) SA, Luxembourg	x		x	
	VP Wealth Management (Hong Kong) Ltd, Hong Kong	x		x	
	VPB Finanz Holding AG, Zürich	x		x	
	VP Verwaltung GmbH, Munich - in liquidation	x		x	
Ancillary services undertaking	Data Info Services AG, Vaduz		x		x

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 financial, business, reputation and operational 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 Legal, Compliance & Tax
- 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, Group Risk Committee, Risk Committee and the Board of Directors
- Checking 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. The Chief Risk Officer, the Head of Group Internal Audit as well as the Head of Group Risk also take part in the meetings. A discussion is held at a joint meeting with the Audit Committee and the Executive Board on the quality of the internal audit system and other matters.

During the 2017 financial year the Risk Committee held seven ordinary meetings. A discussion was held at a joint meeting with the Audit Committee and the Executive Board on the quality of the internal audit system and other matters.

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.

At the 54th ordinary Annual General Meeting of VP Bank on 28 April 2017, Prof Dr Teodoro D. Cocca, Dr Beat Graf and Michael Riesen, whose positions were expiring, were elected for a further tenure of three years. Dr Daniel H. Sigg declared that he had decided not to stand for election again.

On 31 December 2017 the Board of Directors comprised nine members. The biographies as well as the further activities and vested interests are set out under Fig. 3.1 of the VP Bank annual report.

None of the members of the Board of Directors were members of the Group Executive Management or of the Executive Board of VP Bank or of the executive board of a subsidiary during the past three financial years.

The two members of the Board of Directors Dr Florian Marxer and Dr Beat Graf represent the interests of major shareholders (anchor shareholders). At the same time they are related to companies, which are intermediary clients of VP Bank.

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 reports, risk control 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 Executive Board, 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 Executive Board. In addition, he holds regular consultations with the Chief Executive Officer (weekly) and other members of the Executive Board.

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.

Executive Board

The Executive Board 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 Executive Board are set out in the Organisation and Business Rules (OBR) of VP Bank.

Members of the Executive Board

Pursuant to Fig. 5.1 OGR, the Executive Board consists of the Chief Executive Officer, the Chief Financial Officer and at least one further member. One member of the Executive Board 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.

In professional and personal terms, the members of the Executive Board 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.

On 31 December 2017 the Executive Board comprised four members. The biographies as well as the further activities and vested interests are set out under Fig. 4.1 of the VP Bank annual report.

Capital adequacy

Equity structure

VP Banks regulatory capital consists exclusively of common equity tier 1 (CET 1) and comprises essentially of paid in capital and retained earnings.

Deductions according to Art. 36 Para. 1 CRR are made comprehensively from common equity tier 1. Transitional provisions in accordance with Part 10 Section I CRR are not applied.

Capital instruments

in CHF 1,000

Issuer	VP Bank AG, Vaduz	VP Bank AG, Vaduz	VP Bank Group
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	registered share A	registered share B	disclosed reserves
Governing law(s) of the instrument	Liechtenstein law	Liechtenstein law	Liechtenstein law
Regulatory treatment			
Transitional CRR rules	Common Equity Tier 1 (CET1)	Common Equity Tier 1 (CET1)	Common Equity Tier 1 (CET1)
Post-transitional CRR rules	Common Equity Tier 1 (CET1)	Common Equity Tier 1 (CET1)	Common Equity Tier 1 (CET1)
Eligible at solo(sub-)consolidated/ solo & (sub-)consolidated	solo and 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	disclosed reserves
Amount recognised in regulatory capital			
Nominal amount of instrument	60,150	6,004	910,399
Issue price	60,150	6,004	910,399
Redemption price	n.a.	n.a.	n.a.
Accounting classification	equity	equity	equity
Original date of issuance	n..a.	n..a.	n..a.
Perpetual or dated	perpetual	perpetual	perpetual
Original maturity date	n.a.	n.a.	n.a.
Issuer call subject to prior supervisory approval	no	Nein	Nein
Optional call date, contingent call dates and redemption amount	n.a.	n.a.	n.a.
Subsequent call dates, if applicable	n.a.	n.a.	n.a.
Coupons / dividends			
Fixed or floating dividend/coupon	floating	floating	n.a.
Coupon rate and any related index	n.a.	n.a.	n.a.
Existence of a dividend stopper	n.a.	n.a.	n.a.
Fully discretionary, partially discretionary or mandatory (in terms of timing)	fully discretionary	fully discretionary	n.a.
Fully discretionary, partially discretionary or mandatory (in terms of amount)	fully discretionary	fully discretionary	n.a.
Existence of step up or other incentive to redeem	n.a.	n.a.	n.a.
Noncumulative or cumulative	n.a.	n.a.	n.a.
Converible or non-convertible	not applicable	not applicable	not applicable
If convertible, conversion trigger(s)	n.a.	n.a.	n.a.
If convertible, fully or partially	n.a.	n.a.	n.a.
If convertible, conversion rate	n.a.	n.a.	n.a.
If convertible, mandatory or optional conversion			
If convertible, specify instrument type convertible into	n.a.	n.a.	n.a.
If convertible, specifiy issuer of instrument it converts into			
Write-down features	n.a.	n.a.	n.a.
If write-down, write-down trigger(s)	n.a.	n.a.	n.a.
If write-down, full or partial	n.a.	n.a.	n.a.
If write-down, permanent or temporary	n.a.	n.a.	n.a.
If temporary write-down, description of write-up mechanism	n.a.	n.a.	n.a.
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	n.a.	n.a.	n.a.
Non-compliant transitioned features	n.a.	n.a.	n.a.
If yes, specify non-compliant features	n.a.	n.a.	n.a.

Own funds

in CHF 1,000	31.12.2017
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	66,154
of which: shares	
Retained earnings	991,542
Accumulated other comprehensive income (and other reserves)	–79,219
Funds for general banking risk	
Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	
Minority interests (amount allowed in consolidated CET1)	
Independently reviewed interim profits net of any foreseeable charge or dividend	
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**978,477**
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Additional value adjustments (negative amount)	
Intangible assets (net of related tax liability) (negative amount)	
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liablity where the conditions in Article 38 (3) are met) (negative amount)	–1,915
Fair value reserves related to gains or losses on cash flow hedges	
Negative amounts resulting from the calculation of expected loss amounts	
Any incerease in equity that results from securitised assets (negative amount)	
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	
Defined-benefit pension fund assets (negative amount)	
Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	
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)	
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)	
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)	
Exposure amount of the following items which qualify for the RW of 1250%, where the institution opts for the deduction alternative	–9
of which: qualifying holdings outside the financial sector (negative amount)	
of which: securitisation positions (negative amount)	
of which: free deliveries (negative amount)	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability whre the conditions in Article 38 (3) are met) (negative amount)	
Amount exceeding the 15% threshold (negative amount)	
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	
of which: deferred tax assets arising from temporary differences	
Losses for the current financial year (negative amount)	
Foreseeable tax charges relating to CET1 items (negative amount)	
Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	
Total regulatory adjustments to Common Equity Tier 1 (CET1)	
Common Equity Tier 1 (CET1) capital	**976,553**
Additional Tier 1 (AT1) capital: instruments	
Capital instruments and the related share premium accounts	
of which: classified as equity under applicable accounting standards	
of which: classified as liabilities under applicable accounting standards	
Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	
of which: classified as liabilities under applicable accounting standards	
Additional Tier 1 (AT1) capital before regulatory adjustments	
Additional Tier 1 (AT1) capital: regulatory adjustments	
Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	
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)	
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 (amoutn above 10% threshold and net of eligible short positions) (negative amount)	
Direct, indirect and synthetic holdings by the instituiton of the AT1 instrument of financial sector entities whre the instituion has a significant investment in those entities (net of eligible short positions) (negative amount)	
Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	
Total regulatory adjustments in Additional Tier 1 (AT1) capital	
Additional Tier 1 (AT1) capital	
Tier 1 capital (T1 = CET1 + AT1)	**976,553**
Tier 2 (T2) capital: instruments and provisions	

Own funds (continued)

in CHF 1,000	31.12.2017
Capital instruments and the related share premium accounts	
Amount of qualifiying items referred to in article 484 (5) and the related share premium account ssubject to phase out from T2	
Qualifying own funds instruments included in consolidated T2 capital issued by subsidiaries and held by third parties	
of which: instruments issued by subsidiaries subject to phase out	
Credit risk adjustments	
Tier 2 (T2) capital before regulatory adjustments	
Tier 2 (T2) capital: regulatory adjustments	
Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	
Holdings of the T2 instruments and subordinated loans of financial sector entities whre those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	
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)	
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)	
Total regulatory adjustments of Tier 2 (T2) capital	
Tier 2 (T2) capital	
Total capital (TC = T1 + T2)	976,553
Total risk weighted assets	3,799,412
Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of total risk exposure amount)	25.7%
Tier 1 (as a percentage of total risk exposure amount)	25.7%
Total capital (as a percentage of total risk exposure amount)	25.7%
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)	
of which: capital conservation buffer requirement	
of which: countercyclical buffer requirement	
of which: systemic risk buffer requirement	
of which: Global Systemically Important Instituion (G-SII) or Other Systemically Important Institution (O-SII) buffer	
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	
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)	
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)	
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)	
Applicable caps on the inclusion of provisions in Tier 2	
Credit risk adjustments included in T2 in respect of exposured subject to standardised approach (prior to the application of the cap)	
Cap on inclusion of credit risk adjustments in T2 under standardised approach	
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	
Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	
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	
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	
Current cap on AT1 instruments subject to phase out arrangements	
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
Current cap on T2 instruments subject to phase out arrangements	
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	

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

in CHF 1,000	31.12.2017
Equity according to consolidated balance sheet	994,180
Deduction dividend according to Board of Directors proposal	–36,385
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**957,795**
Deduction Goodwill according to group balance sheet	–36,491
Deferred taxation liabilites on Goodwill (positive amount)	4,831
Offset actuarial gains, after tax (IAS 19)	52,342
Deduction	–1,915
Deduction securitisation exposure	–9
Common Equity Tier 1 (CET1) after regulatory adjustments	**976,553**
Tier 2 capital according to group balance sheet	n.a.
Subordinated liabilities	n.a.
Tier 2 (T2) capital before regulatory adjustments	**n.a.**

Own funds requirements

VP Bank determines its own funds requirements in accordance with CRR. For this purpose, the following approaches are applied:

- Standardised approach for credit risks in accordance with Part 3 Section II Chapter 2 CRR
- Basic indicator approach for operational risks in accordance with to Part 3 Section III Chapter 2 CRR
- Standardised method for market risks in accordance with Part 3 Section IV Chapter 2-4 CRR
- Standardised method for Credit Valuation Adjustments (CVA) risks in accordance with Art. 384 CRR
- Comprehensive method to take account of financial collateral in accordance with Art. 223 CRR.

Total risk exposure amount and own funds requirements

in CHF 1,000 as of 31.12.2017	Total risk exposure amount	Own funds requirements
Credit risks	**2,984,558**	**238,765**
Central governments or central banks	2,124	170
Regional governments or local authorities	25,973	2,078
Public sector entities	84,389	6,751
Multilateral development banks	2,585	207
International organisations	3,019	241
Institutions	191,527	15,322
Corporates	842,419	67,394
Retail exposures	142,533	11,403
Exposures secured by mortgages on immovable property	1,432,883	114,631
Exposures in default	66,728	5,338
Exposures associated with particularly high risk	11,567	925
Covered bonds		
Securitised positions		
Institutions and corporates with a short-term credit assessment		
Units or shares in collective investment undertakings (CIUs)		
Equity exposures	59,978	4,798
Other items	118,833	9,507
Settlement risk	**0**	**0**
Settlement/ Delivery risk		
Market risks	**199,708**	**15,977**
Interest rate risk	62,520	5,002
Share risk	3,854	308
Foreign exchange risk	114,557	9,165
Commodities risk	18,777	1,502
Operational risks	**608,905**	**48,712**
Basis indicator approach	608,905	48,712
Credit valuation adjustments	**6,241**	**499**
Standard approach	6,241	499
Total	**3,799,412**	**303,953**

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.

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

	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
Breakdown by country												
Czech Republic	6,717						537			537		0.50%
Hongkong	4,747,819						379,826			379,826		1.25%
Iceland										0		1.25%
Norway	5,257,910						420,633			420,633		2.00%
Sweden	7,181,425						574,514			574,514		2.00%
Slovakia	13,068						1,045			1,045		0.50%

Amount of institution-specific countercyclical capital buffer

Total risk exposure amount	3,799,412
Institution specific countercyclical buffer rate	502
Institution specific countercylcial buffer requirement	0.013%

Leverage

Leverage ratio

Basel III introduced a leverage ratio, to supplement the risk-based own funds requirements, which applies the equity capital in relation to unweighted balance sheet and off-balance sheet risk items.

The structure of the leverage ratio has still not been definitively agreed on at the European level or at the Liechtenstein level. In future, it is set to be a binding minimum ratio.

At the end of 2017, the leverage ratio at VP Bank was 7.5 percent.

The reduction in the leveraget ratio in comparison to 31 December 2016 is due to an increase in total assets.

Leverage Ratio

in CHF 1,000		**31.12.2017**
On-balance sheet exposures (excluding derivatives and SFTs		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	12,782,769
2	(Asset amounts deducted in determining Tier 1 capital)	–81,473
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	12,701,296
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	29,457
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	49,100
EU-5a	Exposure determined under Original Exposure Method	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	Total derivatives exposures (sum of lines 4 to 10)	78,557
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	
15	Agent transaction exposures	
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	
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	1,514,724
18	(Adjustments for conversion to credit equivalent amounts)	-1,199,313
19	Other off-balance sheet exposures (sum of lines 17 and 18)	315,411
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))	
EU-19b	**(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))**	
Capital and total exposure measure		
20	Tier 1 capital	976,553
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**13,095,264**
Leverage Ratio		
22	Leverage ratio	7.5%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	

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

in CHF 1,000	31.12.2017
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	12,782,769
Trading book exposures	134
Banking book exposures, of which:	
Covered bonds	
Exposures treated as sovereigns	4,177,810
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	697,206
Institutions	1,340,788
Secured by mortgages of immovable properties	3,023,204
Retail exposures	702,897
Corporate	2,519,123
Exposures in default	93,892
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	227,715

Summary reconciliation of accounting assets and leverage ratio exposures

in CHF 1,000	31.12.2017
Total assets as per published financial statements	12,782,768
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	
(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)	
Adjustments for derivative financial instruments	49,100
Adjustment for securities financing transactions (SFTs)	
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	315,411
(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	
(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	
Other adjustments	–52,015
Leverage ratio total exposure measure	13,095,264

Risk of excessive indebtedness

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

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 include a general framework as well as a risk strategy for each risk group. These regulate the specific objectives and principles, organisational structures and processes, methods and instruments as well as set targets and limits clearly and in detail.

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

Clear defined powers of authority and responsibilities

Risk appetite is rendered operational with the aid of a comprehensive system of limits and implemented in an effective manner together with a clear set of guidelines governing the tasks, limits of authority and responsibility of all functions, organisational units and bodies participating in risk- and capital-management processes. The risk coverage potential results from net present value of equity, less operating and risk costs as well as regulatory capital-adequacy requirements.

Conscientious handling of risks

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

Segregation of functions

Risk control and risk reporting are assured by a unit (Group Risk) which is independent of those functions involved in the management of risks.

Transparency

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

Risk management process

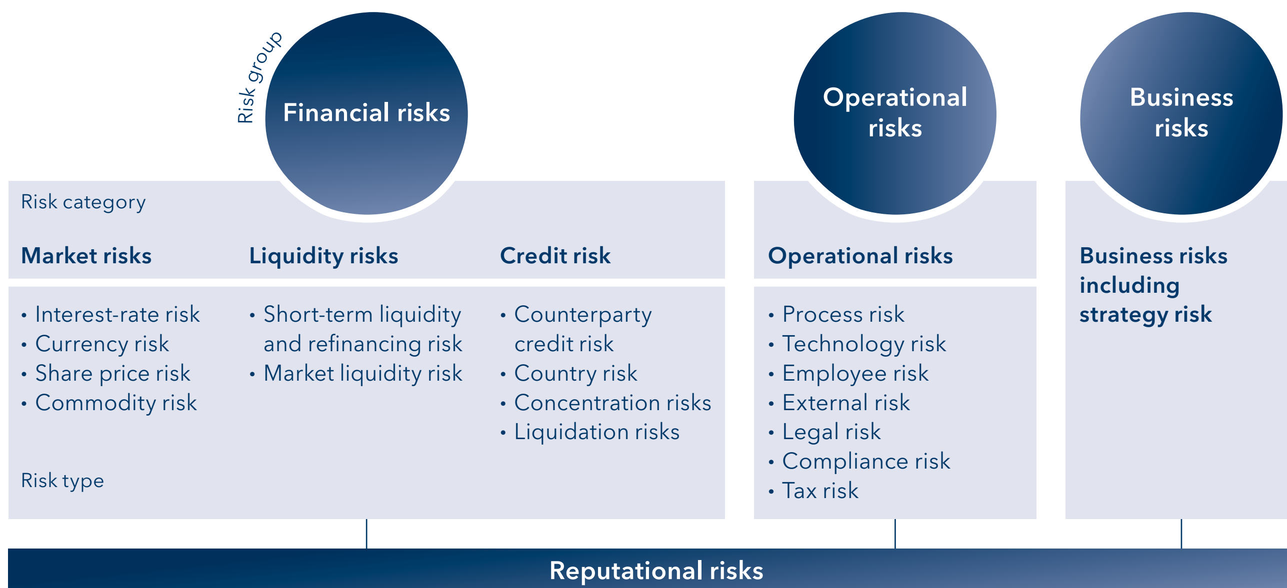
Classification of banking risks

The following table gives an overview over the risks to which VP Bank is exposed in its ordinary course of business. These are allocated to three risk groups – financial risks, operational risks and business risks (including strategic risks).

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

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

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



encompass potential losses accruing to the bank not from the debtor itself as a result of an insufficient possibilities of realising the collateral.

Operational risks represent the danger of incurring losses arising from the inappropriateness or failure of internal procedures, individuals or systems or as a result of external events. These are to be avoided by appropriate controls and measures before they crystallise or, if that is not possible, to be reduced to a level set by the bank. Operational risks may also arise in all organisational units whereas financial risks can only arise in risk-taking units.

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

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

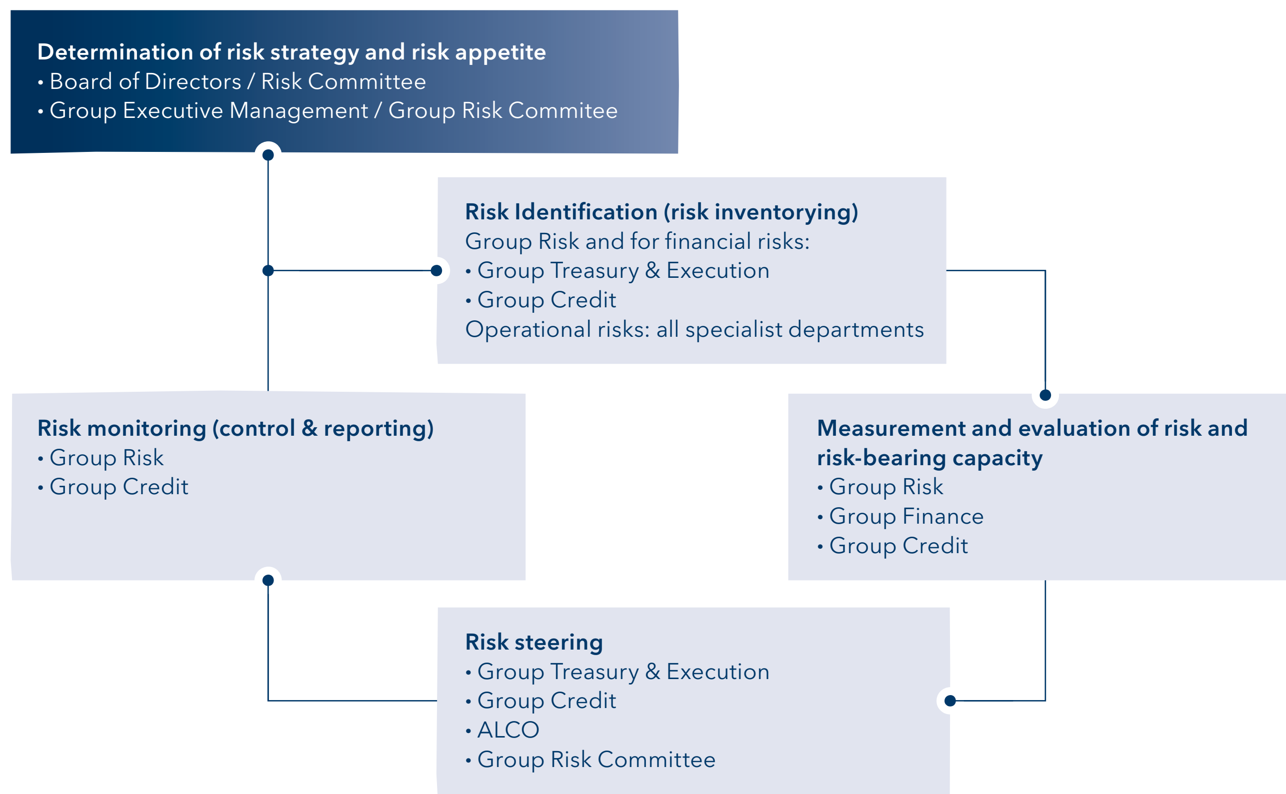
Process to ensure an appropriate capital base

In order to ensure that it continues to have reasonable capital provisioning, even in the event of adverse market developments or extreme events, VP Bank has established an Internal Capital Adequacy Assessment Process (ICAAP), which is outlined below.

Within the context of the annual planning process, the Board of Directors, taking account of stress scenarios (e.g. idiosyncratic, market and combined stress), planned strategic initiatives and changes in statutory and supervisory regulations, stipulates the risk strategy and risk appetite at Group level.

The risk appetite forms the starting point for limiting market, credit and operational risks by the Board of Directors. In this conjunction, equity capital bound by regulatory provisions is not made available to cover risk. In addition, a part of the free risk coverage potential is retained as a risk buffer for unquantifiable or incompletely identified risks.

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



For the operative risk control, the global limits set by the Board of Directors are assigned by the Executive Management to the individual subsidiaries, and are specified in greater detail, if necessary.

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

In computing the economically required equity, the risks are aggregated to form an overall assessment whereby the value-at-risk method is employed for the financial risks. Operational risks are computed using the basis indicator approach.

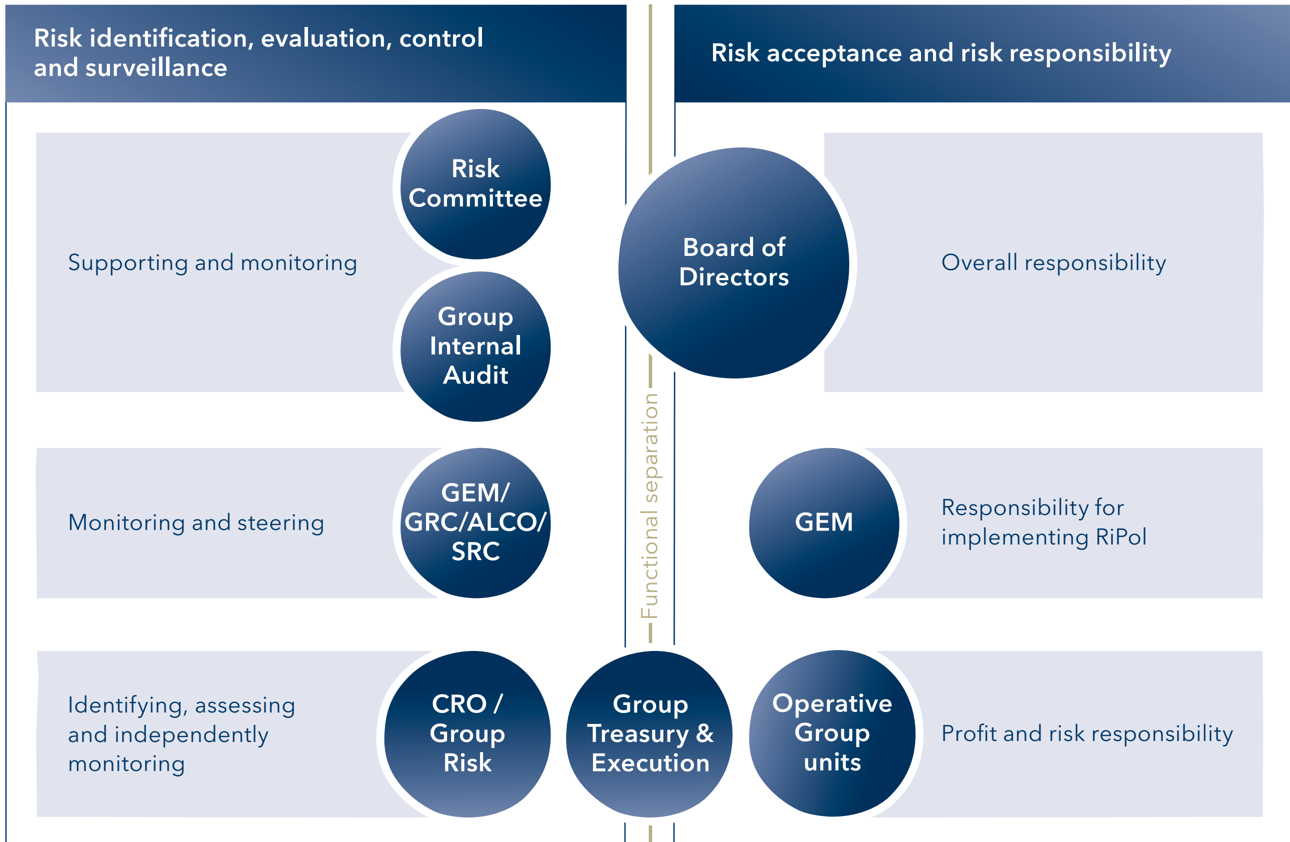
Risk management is performed on a strategic level by setting goals, limits, principles of conduct as well as process guidelines. On an operating level, the diversification of risks is ensured by managing financial risks within the target measures and limits set as well by observing regulatory requirements.

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

The risk management process, which extends from risk identification to monitoring the response measures, is supplemented by rolling three-year capital planning. In addition to the baseline scenario, this includes two differently configured negative scenarios. This is designed to ensure that VP Bank continues to have sufficient equity capital to cover all material risks.

Tasks, authorities and responsibilities

Pursuant to Art. 21d Para. 4 BankO, the risk management function must be headed by a member of the Executive Management who is specifically responsible for this



function (Chief Risk Officer). Insofar as this is justified by the nature, scope and complexity of the business activity, and provided no conflict of interests exists, another executive within the bank may exercise this function. 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 addition to the Chief Risk Officer, a number of committees and operating units are involved in the risk management process. The chart above shows responsibilities between units, operating units and committees involved in the risk management process. The left hand side of the chart shows units, operating units and committees involved in risk identification, - assessment, - management and - control. Units taking over risk responsibilities and risk are functionally separated (right hand side of the chart). Tasks, competences and responsiblities of each unit, operating unit and committee are described below:

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

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

The Group Executive Management also takes the funktion of the Group Risk Committee (GRC). The Group Risk Committee is the supreme authority for monitoring and steering the risks to which VP Bank is exposed. The principal tasks of the Group Risk Committee are the implementation of the risk strategy for financial and operational risks within the overall framework of the target measures and limits laid down by the Board of Directors and Group Executive Management. In addition, the Group Risk Committee receives as part of the monitoring of financial-, business-, and operational risk reports from the Assets & Liability Committee, Security Risk Commitees, local risk units, Group Risk, Group Legal, Compliance & Tax, Group Credit and Group Treasury & Execution. Together with the involved operational units the Group Risk Committee defines possible measures.

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

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

As an independent function for the centralised identification, evaluation (measurement and assessment) and monitoring (control and reporting) of the risk situation and risk tolerance of the Group, Group Risk supports the Board of Directors, Group Executive Management, Group Risk Committee and the Chief Risk Officer in assuming their respective duties. A further task of Group Risk consists of ensuring that existing legal, regulatory and internal bank risk-management provisions are complied with and new risk-management prescriptions implemented. In addition thereto is the regular review and assessment of the effectiveness and appropriateness of the methods, performance indicators and systems deployed in risk management.

Group Treasury bears the responsibility for the day-to-day steering of financial risks within the target measures and limits laid down by the Board of Directors and Group Executive Management, whilst complying with legal and regulatory prescriptions. Part of its core tasks is the balance-sheet structure management whilst taking account of profitability, market and credit risks as well as the liquidity and equity situation of VP Bank as well as additionally, the management of equity resources, liquidity and collateral and of limits for banks and countries.

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

Risk declaration of the Board of Directors

The Board of Directors bears overall responsibility for risk management that is appropriate for the size, the complexity, the structure and the risk profile of VP Bank.

Based on the business model, the range of services and instruments used to manage the bank book, financial, operational and operational risks as well as reputational risks are regarded as essential for the continued existence of VP Bank.

As at 31 December 2017, the economic capital requirement for unexpected losses amounted to CHF 186 million. Of this, market risks accounted for 53 percent, operational risks accounted for 22 percent and credit risks accounted for 22 percent. A risk buffer of CHF 80 million is deployed for risks that cannot be quantified or are incompletely identified.

As at the end of 2017, the utilised economic capital accounted for 48 percent of the risk cover potential. This means the risk bearing capacity of VP Bank is established.

Risk control and risk monitoring processes and methods correspond to accepted standards and are reasonably structured.

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).

In principle, all exposures in the private credit business and the corporate credit business have to be covered by the lending value of the collateral (collateral after deduction) VP Bank uses an internal rating procedure to estimate creditworthiness. Deviations from the credit principles (exceptions to policy) are treated accordingly in the credit risk management process, depending on the risk criteria.

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, reverse-repo 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.

Counterparty default risk

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.

Counterparty Credit Risk derivative transactions

	Positive replacement values before netting and collateral	Consideration of netting agreements	Consideration of collateral	Positive replacement values after netting and collateral
Derivative instruments	29,457			29,457

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.

Breakdown of the exposure values

The following shows a breakdown of the credit risk exposures according to receivable classes, geographical distribution, sectors, residual maturities as well as credit quality steps.

Overall exposure values, without taking account of loan collateral

in CHF 1,000	31.12.2017	quarterly average 2017
Central governments or central banks	4,126,655	3,913,741
Regional governments or local authorities	125,508	107,228
Public sector entities	440,837	417,086
Multilateral development banks	83,639	84,338
International organisations	47,692	43,420
Institutions	1,280,012	1,167,783
Corporates	3,241,098	2,902,764
Retail exposures	1,364,375	1,293,446
Exposures secured by mortgages on immovable property	3,341,675	3,379,773
Exposures in default	94,218	91,738
Exposures associated with particularly high risk	7,711	9,864
Covered bonds		
Securitised positions		
Institutions and corporates with a short-term credit assessment		
Units or shares in collective investment undertakings (CIUs)		
Equity exposures	59,978	65,650
Other items	162,517	158,532
Total	**14,375,915**	**13,635,363**

Total exposure, by region

in CHF 1,000 as of 31.12.2017	Liechtenstein / Switzerland	Europe without LI/CH	Rest of world	Total
Central governments or central banks	3,466,891	287,647	372,117	4,126,655
Regional governments or local authorities	49,570	42,430	33,508	125,508
Public sector entities	117,533	312,888	10,416	440,837
Multilateral development banks		44,414	39,225	83,639
International organisations		31,136	16,556	47,692
Institutions	752,672	406,963	120,377	1,280,012
Corporates	627,825	1,059,034	1,554,238	3,241,097
Retail exposures	390,853	472,552	500,970	1,364,375
Exposures secured by mortgages on immovable property	3,168,305	61,832	111,538	3,341,675
Exposures in default	50,657	7,958	35,603	94,218
Exposures associated with particularly high risk	309		7,402	7,711
Covered bonds				0
Securitised positions				0
Institutions and corporates with a short-term credit assessment				0
Units or shares in collective investment undertakings (CIUs)				0
Equity exposures	31,876	18,623	9,480	59,979
Other items	140,075	18,767	3,675	162,517
Total	**8,796,566**	**2,764,244**	**2,815,105**	**14,375,915**

Total exposure value, by economic sector

in CHF 1,000 as of 31.12.2017	Services	Finance	Investment companies	Real estate	Commerce	Mechanical engineering	Public ad-ministation	Private individuals	Other	Total
Central governments or central banks		3,610,292					516,362			4,126,654
Regional governments or local authorities							125,508			125,508
Public sector entities		165,981					271		274,585	440,837
Multilateral development banks		83,639								83,639
International organisa-tions									47,692	47,692
Institutions		1,280,012								1,280,012
Corporates	81,712	2,233,910		11,045	269,174	30,462			614,795	3,241,098
Retail exposures	21,046	45,611		9,986	22,339	48		1,247,549	17,796	1,364,375
Exposures secured by mortgages on immovable property	184,328	506,624		490,624	82,862	7,736		1,881,013	188,489	3,341,676
Exposures in default	19,260	22,002		1,747	3,235			42,062	5,912	94,218
Exposures associated with particularly high risk		618			123				6,970	7,711
Covered bonds										0
Securitised positions										0
Institutions and corpo-rates with a short-term credit assessment										0
Units or shares in collective investment undertakings (CIUs)										0
Equity exposures		58,035			1				1,943	59,979
Other items		131,815						23,554	7,147	162,516
Total	**306,346**	**8,138,539**	**0**	**513,402**	**377,734**	**38,246**	**642,141**	**3,194,178**	**1,165,329**	**14,375,915**

Total exposure value, by contractual residual maturity

in CHF 1,000 as of 31.12.2017	under 1 month	1 to 6 months	6 to 12 months	1 to 5 years	over 5 years	Without contractual maturity	Total
Central governments or central banks	3,642,451	79,834	62,289	338,086	3,995		4,126,655
Regional governments or local authorities	106	5,453	1,852	70,000	48,098		125,509
Public sector entities	1,164	25,267	42,226	260,092	112,087		440,836
Multilateral development banks	977	214	11,904	69,431	1,114		83,640
International organisations	137	14,687	5,942	26,925			47,691
Institutions	896,615	71,668	44,529	211,178	56,021		1,280,011
Corporates	1,594,663	609,478	135,675	555,951	345,330		3,241,097
Retail exposures	1,102,327	105,594	43,797	106,525	6,133		1,364,376
Exposures secured by mortgages on immovable property	1,095,740	320,978	177,028	1,413,154	334,776		3,341,676
Exposures in default	62,765	564	131	12,428	18,330		94,218
Exposures associated with particularly high risk	7,711						7,711
Covered bonds							0
Securitised positions							0
Institutions and corporates with a short-term credit assessment							0
Units or shares in collective investment undertakings (CIUs)							0
Equity exposures	58,068	1,910					59,978
Other items	146,831	465	493	7,228	7,500		162,517
Total	**8,609,555**	**1,236,112**	**525,866**	**3,070,998**	**933,384**	**0**	**14,375,915**

Total exposure, by credit quality steps

in CHF 1,000 as of 31.12.2017	AAA	AA	A	BBB	BB	Without	Total
Central governments or central banks	3,879,700	76,478	2,979	2,083		165,415	4,126,655
Regional governments or local authorities		73,803	11,068			40,638	125,509
Public sector entities	289,662	144,990	2,885			3,300	440,837
Multilateral development banks	59,423	18,150	3,154			2,912	83,639
International organisations	24,861	22,831					47,692
Institutions	272,813	215,778	661,979	30,190		99,252	1,280,012
Corporates	58,692	200,882	377,335	93,094		2,511,095	3,241,098
Retail exposures			23			1,364,352	1,364,375
Exposures secured by mortgages on immovable property						3,341,675	3,341,675
Exposures in default						94,218	94,218
Exposures associated with particularly high risk						7,711	7,711
Covered bonds							0
Securitised positions							0
Institutions and corporates with a short-term credit assessment							0
Units or shares in collective investment undertakings (CIUs)							0
Equity exposures						59,978	59,978
Other items	419	2,494	109,661			49,942	162,516
Total	**4,585,570**	**755,406**	**1,169,084**	**125,367**	**0**	**7,740,488**	**14,375,915**

Total exposure values, by credit quality steps and taking account of loan collateral

in CHF 1,000 as of 31.12.2017	AAA	AA	A	BBB	BB	without	total
Central governments or central banks	3,879,700	76,478	2,979	2,083		165,415	4,126,655
Regional governments or local authorities		73,803	11,068			40,638	125,509
Public sector entities	289,662	144,990	2,885			3,300	440,837
Multilateral development banks	59,423	18,150	3,154			2,912	83,639
International organisations	24,861	22,831					47,692
Institutions	272,813	215,778	661,979	30,190		99,252	1,280,012
Corporates	58,692	200,882	377,335	93,094		2,511,095	3,241,098
Retail exposures			23			1,364,352	1,364,375
Exposures secured by mortgages on immovable property						3,341,675	3,341,675
Exposures in default						94,218	94,218
Exposures associated with particularly high risk						7,711	7,711
Covered bonds							0
Securitised positions							0
Institutions and corporates with a short-term credit assessment							0
Units or shares in collective investment undertakings (CIUs)							0
Equity exposures						59,978	59,978
Other items	419	2,494	109,661			49,942	162,516
Total	**4,585,570**	**755,406**	**1,169,084**	**125,367**	**0**	**7,740,488**	**14,375,915**

Credit risk mitigation techniques

The general credit risk mitigation techniques applied by VP Bank Group are set out below. The supervisory approach, which is limited to the collateral, reflects merely one aspect of the applied multifaceted credit risk mitigation process.

In addition to the creditworthiness of the borrowers, the counterparty default risk is determined above all by the scope and recoverability of the available collateral. The collateral constitutes mainly real estate charges on owner-occupied and leased residential property and commercial premises. Lombard loans are essentially secured using liquid and diversified cover portfolios.

Determination of the value and the eligibility of securities as collateral are governed by the principles set out in the loan-to-value guidelines. These define the accepted collateral, the respective procedures used to determine values and the frequency of the checks conducted on the collateral. The valuation is conducted by the respective client advisor. Within the mortgage segment, external valuations are regularly commissioned. The recoverability of the collateral is essentially checked before every loan decision and at regular intervals during the term of the loan. If necessary, the corresponding values are adjusted. As a rule, collateral checks are based on the renewal deadlines. In the cases with heightened risk, the collateral is checked at more frequent intervals.

Collateral is managed in the core bank system, which provides the necessary information for credit risk mitigation techniques. Organisationally separate from the client advisors, the back-end process includes the entire process of collecting, evaluating, monitoring and assessing the legal enforceability of collateral, which forms an integral part of the credit approval process.

In the case of OTC derivative transactions, netting agreements exist with the relevant counterparties, making it possible to use the credit risk mitigation effects arising out of standardised framework agreements. The bank does not use on-balance-sheet netting agreements.

VP Bank Group is not active in the field of trade with credit derivatives, certification structures and similar products. Only products that are sufficiently understood are traded and distributed.

Considered collateral by exposure classes

in CHF 1,000 as of 31.12.2017	Financial collateral	Guarantees
Central governments or central banks		
Regional governments or local authorities	308	
Public sector entities	271	
Multilateral development banks		
International organisations		
Institutions	89,481	
Corporates	1,482,476	3,547
Retail exposures	759,284	13,094
Exposures secured by mortgages on immovable property	3,341,675	
Exposures in default	63,944	
Exposures associated with particularly high risk		
Covered bonds		
Securitised positions		
Institutions and corporates with a short-term credit assessment		
Units or shares in collective investment undertakings (CIUs)		
Equity exposures		
Other items		
Total	**5,737,439**	**16,641**

Risk provisioning

A loan is considered outstanding or non-performing if a material contractually agreed payment is overdue for 90 days or more. Such loans are not classed as impaired, insofar as it may be assumed that they remain covered by existing collateral.

Impaired loans constitute sums outstanding from clients and banks where it is unlikely that the debtor is able to meet his obligations. Causes for an impairment in value are counterparty-specific or country-specific.

A valuation adjustment for credit risks is recorded in the balance sheet as a reduction in the book value of a receivable. In the case of off-balance sheet items, such as a firm undertaking, by contrast, a provision for credit risks is reported under the provisions.

The impairment sum is determined essentially on the basis of the difference between the book value and the probable recoverable sum, taking account of the liquidation proceeds arising out of the realisation of any possible collateral.

A creditworthiness audit is conducted for all impaired receivables at least once per annum. If there are changes in the amount and timing of expected future payment flows compared to previous estimates, the allowance for credit losses is adjusted to reflect loan loss provisions or reversals of unnecessary valuation adjustments and entered under provisions that are no longer required in the income statement.

Portfolio valuation adjustments are formed on a portfolio basis for latent credit risks that have not yet been identified.

To determine portfolio valuation adjustments, risk rates are applied to the respective volumes. Depending on the receivable class, these are derived from default probabilities pursuant to Standard & Poor's or the internal default history. In both cases, the basis of the data extends over at least 20 years.

With effect from 1 January 2018, VP Bank uses the IFRS 9 Standard to value financial instruments.

Development valuation allowances

in CHF 1,000 as of 31.12.2017	Balance at the beginning of the financial year	Amounts written off on loans / utilisation in accordance with purpose	Creation of valuation allowances and provisions for credit risk	Release of valuation allowances and provision for credit risk	Change in scope of consolidation	Foreign-currency translation differences and other adjustments	Balance at the end of the financial year
Individual value adjustments	36,535	-870	12,285	-6,412		6	41,544
Lump-sum valuation allowances	26,617		2,421	-3,951		-4	25,083
Total	**63,152**	**-870**	**14,706**	**-10,363**	**0**	**2**	**66,627**

Development of valuation allowances, by loan type

in CHF 1,000 31.12.2017	Balance at the beginning of the financial year	Amounts written off on loans / utilisation in accordance with purpose	Creation of valuation allowances and provisions for credit risk	Release of valuation allowances and provision for credit risk	Change in scope of consolidation	Foreign-currency translation differences and other adjustments	Balance at the end of the financial year
Banks	868		574	-376			1,066
Mortgage	17,202	-702	3,810	-1,205		82	19,187
Other	45,082	-168	10,322	-8,782		-80	46,374
Total	**63,152**	**-870**	**14,706**	**-10,363**	**0**	**2**	**66,627**

Impaired and overdue receivables, by economic sector

	Doubtful collectable	Non-performing loans	Individual valuation allowances	Lump-sum valuation allowances
Ancillary services				
Financial	4,870			1,066
Investment companies				
Real estate activities	29,855	52,627	12,652	6,535
Retail				
Engineering				
Public administration				
Private individuals	79,865	7,192	28,892	17,482
Others				
Total	**114,590**	**59,819**	**41,544**	**25,083**

Impaired and overdue receivables, by region

	Impaired receivables subject to default risk	Overdue receivables	Individual value adjustments
Liechtenstein/Switzerland	67,092	38,877	16,537
Europe without LI/CH	12,803	6,749	12,684
Rest of world	34,695	14,193	12,323
Total	**114,590**	**59,819**	**41,544**

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 percent 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.

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.

Appropriate maturity assumtions are determined on the basis of expert estimates for non-maturing products Implicit options on the client lending side, resulting for example from special termination rights without premature payment penalties, are negligible and are not modelled.

The interest rate risk is quantified on a monthly basis at an individual and consolidated level.

The following table shows the results of the interest sensitivity analysis as at 31 December 2017 at the consolidated level. Firstly, the cash value of all assets and liabilities as well as derivative financial instruments is determined. Then the interest rates of the relevant yield curves are raised by 1 percent (+ 100 basis points) in each maturity band and 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.

Key rate duration profile per 100 basis point increase

in CHF 1,000, as of 31.12.2017	within 1 month	1 to 3 months	3 to 12 months	1 to 5 months	over 5 years	Total
CHF	1,100	1,851	1,179	–20,815	–16,657	–33,342
EUR	910	–62	242	–10,871	–15,043	–24,824
USD	508	–643	2,154	–10,551	–2,110	–10,642
Other currencies	230	–85	747	1,963	–87	2,768
Total	**2,748**	**1,061**	**4,322**	**–40,274**	**–33,897**	**–66,040**

Liquidity risks

Liquidity management at VP Bank is part of the overall risk management. For the structure and organisation of the risk management, also see the chapter on risk management goals and risk management policy.

Liquidity risks encompass the short-term liquidity and refinancing risk as well as the market liquidity risk. The liquidity and refinancing risk expresses the danger that current and future payment obligations cannot be refinanced on time, to the full extent, in the correct currency or at standard market conditions. Market liquidity risk includes cases in which a shortage of market liquidity means it is not possible to liquidate or to hedge risky positions on time, to the desired extent and at reasonable conditions.

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 since 2015. With a figure of 161 percent, VP Bank had a comfortable liquidity situation at the end of 2017.

In the short-term maturity field, the bank refinances itself largely by means of sight deposits from clients.

Derivative positions that may lead to potential collateral demands consist mainly of interest rate swaps, currency swaps and currency futures – the total sum of these is low.

For the principal currencies (CHF, EUR and USD), the policy of VP Bank Group is to hedge these congruently. Other currencies are hedged on an ongoing basis.

It is consistently ensured that liquid assets that are not attributable as liquid assets in a third country are not included in the LCR calculation at Group level.

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.

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 (high quality liquid assets / HQLA).

Key liquidity management parameters at VP Bank are LCR, NSFR and the survival horizon. In order to reconcile the liquidity risk profile with the defined risk tolerance, the bank sets minimum requirements that are above the regulatory minimum. As at 31 December 2017, the LCR was 161%, the NSFR was over 100% and the survival horizon was over 30 days.

Liquidity Coverage Ratio

	Unweighted value (average)				Weighted value (average)			
	31.03.2017	30.06.2017	30.09.2017	31.12.2017	31.03.2017	30.06.2017	30.09.2017	31.12.2017
Number of data points used	3	3	3	3	3	3	3	3
High-quality liquid assets								
Total high-quality liquid assets (HQLA)					4,785,638	4,591,316	4,871,386	5,208,975
Cash outflows								
Retail deposits and deposits from small business customers, of which:	3,218,683	3,491,496	4,252,703	4,368,484	346,521	376,370	459,695	483,427
• Stable deposits	1,862,386	1,946,164	2,011,686	2,066,266	210,891	221,837	235,593	253,205
• Less stable deposits	1,356,297	1,545,332	2,241,017	2,302,218	135,630	154,533	224,102	230,222
Unsecured wholesale funding								
• Operational deposits (all counterparties) and deposits in networks of cooperative banks	861,213	778,950	633,973	796,618	215,283	194,724	158,493	199,155
• Non-operational deposits (all counterparties)	5,130,050	5,218,704	5,323,529	5,655,806	4,682,953	4,421,752	3,765,232	4,026,095
• Unsecured debt	0	0						
Secured wholesale funding								
Additional requirements	23,837	29,946	18,165	16,190	23,837	29,946	18,165	16,190
• Outflows related to derivative exposures and other collateral requirements	23,837	29,946	18,165	16,190	23,837	29,946	18,165	16,190
• Outflows related to loss of funding on debt products								
• Credit and liquidity facilities	1,133,806	1,127,406	1,272,900	1,320,205	592,028	510,100	384,165	425,113
Other contractual funding obligations	94,134	113,256	119,518	84,657	94,134	113,256	119,518	84,657
Other contingent funding obligations	87,338	43,550	21,075	3,840	87,338	43,550	21,075	3,840
Total cash outflows					6,042,094	5,689,698	4,926,343	5,238,477
Cash inflows								
Secured lending (eg reverse repos)		15,249		13,030		15,249		13,030
Inflows from fully performing exposures	2,620,815	2,657,867	2,787,169	3,301,947	1,681,517	1,748,490	1,801,287	2,137,959
Other cash inflows								
(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)								
(Excess inflows from a related specialised credit institution)								
Total cash inflows	2,620,815	2,673,116	2,787,169	3,314,977	1,681,517	1,763,739	1,801,287	2,150,989
Fully exempt inflows								
Inflows Subject to 90% Cap								
Inflows Subject to 75% Cap	2,620,815	2,673,116	2,787,169	3,314,977	1,681,517	1,763,739	1,801,287	2,150,989
					Total adjusted value			
Liquidity buffer					4,785,638	4,591,316	4,871,386	5,208,975
Total net cash outflow					4,360,577	3,925,959	3,125,056	3,087,488
Liqudity Coverage Ratio (LCR, %)					109.75%	116.95%	155.88%	168.71%

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. Each employee is aware of his or her obligation to report losses. Managers are responsible for ensuring that loss data is gathered comprehensively and uniformly.

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. This task cannot be delegated.

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 assessments and reports the results to the Executive Management and to the Board of Directors.

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 Group Executive Management 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).

Holdings in the banking 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”).

The OCI option is applied to equity capital instruments with long-term investment horizons of around ten years. Private equity investments in particular focus on long-term value generation.

Value approaches for holdings

in CHF 1,000 as of 31.12.2017	Balance sheet value	Fair value
Holdings		
• Equity shares, exchange-listed	8,781	8,781
• Private Equity, non-exchange listed	7,704	7,704
Investment fund units		
• exchange-listed	37,788	37,788
• non-exchange listed	10,963	10,963
Total	**65,236**	**65,236**
Gains on equity instruments		
Revaluation gains on equity instruments		8,699
Realised gains on equity instruments		5,706
Total		**14,405**
Unrealised revaluation gain accounted in Common Equity Tier 1 (CET1)		**–16,374**

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 liquity requirements. There are no incongruencies between the accounting perspective of collateral desposited and transferred assets and encumbered assets (regulatory view).

The reported values have reporting dates of 31 December 2017 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 2017 are set out below.

Encumbered and unencumbered assets

in CHF 1,000 as of 31.12.2017	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
Assets of the reporting institution	206,850	113,139			12,571,221	1,975,706		
Loans on demand	89,126				662,159			
Equity instruments	2,097		2,642		48,927		65,014	
Debt securities	115,627	113,139	116,284	113,707	2,179,550	1,975,706	2,200,133	1,993,046
of which: covered bonds								
of which: asset-backed securities								
of which: issued by general governments	74,304	74,304	74,422	74,422	829,338	818,340	834,650	823,635
of which: issued by financial corporations	25,794	24,302	26,223	24,682	725,438	588,882	734,729	595,753
of which: issued by non-financial corporations	15,529	14,533	15,639	14,603	624,774	568,484	630,754	573,658
Loans and advances other than loans on demand					5,927,985			
of which: mortgage loans					3,298,975			
Other assets					3,752,600			

Assets are not available for encumbrance if they have been provided as collateral, and if the bank is not permitted to sell or pledge these further. In-house debentures are also not available for encumbrance if the issue conditions contain restrictions for the sale or further pledging of the held securities exist. The following shows which received securities may be encumbered.

Collateral received

in CHF 1,000 as of 31.12.2017	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	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution			26,213,061	5,694,004
Loans on demand			3,225,447	
Equity instruments			5,866,693	1,949,278
Debt securities			6,011,485	3,744,726
of which: covered bonds				
of which: asset-backed securities				
of which: issued by general governments			526,014	428,991
of which: issued by financial corporations			1,715,815	1,018,094
of which: issued by non-financial corporations			3,769,656	2,297,641
Loans and advances other than loans on demand			11,109,436	
Other collateral received				
Own debt securities issued other than own covered bonds or asset-backed securities			200,000	
Own covered bonds and asset-backed securities issued and not yet pledged				
Total assets, collateral received and own debt securities issued	**208,052**	**113,707**		

The various encumbrance sources as of 31 December17 are set out in Table 28. These include selected pledged financial liabilities as well as encumbrances without associated refinancing.

Source of encumbrance

in CHF 1,000 as of 31.12.2017	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		
Derivatives		
of which: over-the-counter		
Deposits		
Repurchase agreement		
Secured deposits		
Debentures issued		
Other sources of encumbrance		**206,850**
Nominal value received loan commitments		
Nominal value accepted financial collateral		89,126
Fair value borrowed securities and non-cash collateral		
Other		117,724
Total	**206,850**	

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 CRD IV, 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."

On the other hand, the corresponding content is set out in further detail in Appendix 1 as well as Appendix 4.4 in the Banking (BankO). This Regulation came into force on 1 January 2012 and was supplemented on 1 July 2017. 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. Attention is paid to the function-specific regulations, in particular those concerning identified employees.

Remuneration elements

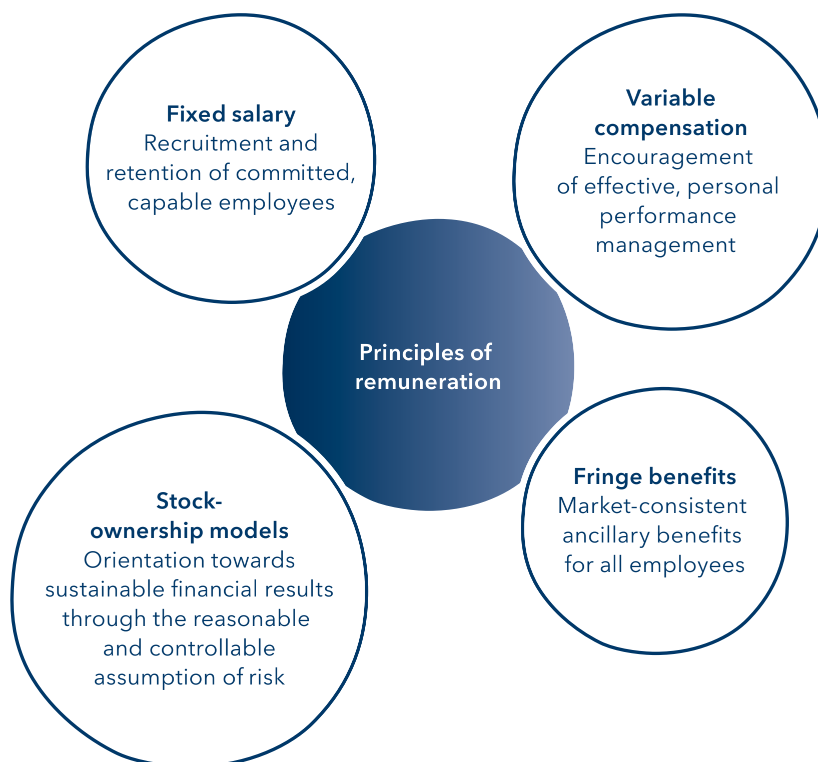
The overall remuneration of the employees of VP Bank Group comprises the fixed remuneration, an additional variable salary, participation models as well as additional offers ("fringe benefits"). When determining the remuneration structure, consideration is given to an appropriate ratio between the fixed components and the variable remuneration as well as to a functionally appropriate remuneration. In particular, 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 audit or with 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.

Payout 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 payout 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 payout schemes of 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

Employees of VP Bank are offered shares at a discounted price each year. The number depends on the level of the fixed salary on the reporting date, 1 May. The shares are subject to a three-year sales restriction.

The Board of Directors has modified the participation of the first and second management level members in VP Bank AG from 2014 and has defined two new programmes. The Performance Share Plan (PSP) is a long-term, variable management participation in the form of registered shares A in VP Bank AG.

The Restricted Share Plan (RSP) is paid out over the set period of three years, amounting in each case to one third, in the form of registered shares A. The RSP programme can also be used in justified cases to remunerate a deferred, variable salary component or to implement special retention measures.

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 Executive Management. The Board of Directors approves these principles and sets the level of the compensation for itself and for the members of the Executive Management 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 members Fredy Vogt (Chairman), Markus Thomas Hilti and Dr Gabriela Maria Payer. As a rule, it meets ten to twelve times per annum. If necessary, the CEO participates in meetings of the Nomination & Compensation Committee in an advisory capacity.

In the year 2017 the Nomination & Compensation Committee held a total of fourteen meetings.

Executive Management

Pursuant to the model adopted by the Board of Directors on 10 May 2017, the remuneration of the Executive Management consists of the following four components:

1. A fixed basic salary, which is contractually agreed by the Nomination & Compensation Committee with the individual members. Pro rata contributions to the executive insurance and the pension fund, which are paid by VP Bank, are added to the basic salary.
2. A Performance Share Plan (PSP), which is a long-term, variable management participation (in the form of registered shares A in VP Bank AG). The basis is risk-adjusted profit (operating profit adjusted for non-recurring items less capital costs), weighted over three years, and the management's long-term commitment to a variable salary component in the form of shares. At the end of the term of the plan, depending on the performance, 0-200 percent of the allocated entitlements to shares are transferred. This vesting multiple is determined by weighting average Group earnings and average net new money over three years. Until the transfer of ownership, the Board of Directors reserves the right to reduce or suspend the entitlements granted in defined events and in exceptional circumstances. The share of PSP is around half of the total variable compensation.
3. A Restricted Share Plan (RSP) based on the three-year weighted risk-adjusted profit and paid out in the form of shares over the three-year plan period, each for one third of each year. Until the transfer of ownership, the Board of Directors reserves the right to reduce or suspend the entitlements granted in defined events and in exceptional circumstances. The share of RSP is around one quarter of the total variable compensation.
4. A cash compensation that also depends on the risk adjusted profit weighted over three years. The share of this profit participation is around one quarter of the total variable profit compensation.

Each year, the Board of Directors determines the budget parameters for the profit sharing (PSP, RSP and cash compensation) for the following three years as well as their amount. The target share of total remuneration is based on function and market customs.

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

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 who have a particularly extensive impact on the risk profile of the bank are known as "risk takers". VP Bank identifies the members of the Board of Directors and of the Executive Management as well as selected functions in the second management level as decision-makers and relevant "risk takers". These are specifically the heads of the units "Group Internal Audit", "Group Legal, Compliance & Tax", "Group Finance", "Group Risk", "Group Investment, Product & Market Management", "Group Operations", "Intermediaries", "Private Banking", "Group Information Technology", "Group Human Resources", "Group Treasury & Execution", "Group Communications & Marketing", "Group Credit" and the members of the Credit Committee as well as the CEOs of the subsidiary companies.

Persons who exercise compliance or other control functions are remunerated largely with fixed remuneration components. The variable remuneration elements of these persons are independent of the success of the units that they audit or supervise.

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.

The total sum of provisions for variable salaries must be affordable in overall terms. They may never cause VP Bank Group or an individual subsidiary company to experience financial difficulties. If the business performs poorly, the bank refrains from paying variable salary components.

Determining the remuneration (governance)

With the budget, the Board of Directors determines the scope of the fixed remuneration, and decides the level of the provisions at the end of the year, taking account of the annual result.

for variable salary components. It defines the fixed and the variable remuneration for the members of the Group Management and the Executive Management. The Nomination & Compensation Committee (NCC) supports the Board of Directors with all questions relating to the setting of salaries, defines the circle of "risk takers" together with the Group Management, and monitors their remuneration. Together with the Internal Audit, the NCC checks adherence to the remuneration policy.

The Group Management is comprehensively responsible for conducting the remuneration processes within the context of the policy, and sets corresponding frameworks for the individual companies. It sets the fixed and variable remuneration of the managers at the second level of management, including the heads of the subsidiary companies. It also issues the annual execution provisions to the companies or senior managers for the setting of individual variable salaries.

In the MbO process, the individual senior managers agree the responsibilities and goals, and assess the achievement of the goals at the end of the period. Special attention is paid not merely to the performance, but also to adherence to the relevant regulatory provisions.

Quantitative remuneration information

Information about the remuneration of members of the Board of Directors of VP Bank as well as the members of the Executive Management are set out in the Financial Report, individual financial statements of VP Bank Ltd, Vaduz, under "Compensation to members of governing bodies".

The following tables show the remuneration components of the risk takers and members of the Executive Management whose income exceeds EUR 1 million, as well as the remuneration paid to members of the governing bodies.

In the 2017 financial year, CHF 145´000 was paid in compensation to risk takers (2 persons - maximum amount CHF 75´000). New appointment premiums amounting to CHF 219´000 were paid (1 person, amount including shares).

In the 2017 financial year, 2 executive management members remuneration was between EUR 1 and EUR 1.5 million.

Remuneration "Risk Taker"

	Executive management in CHF	Employees in CHF
Fixed basic salary	2,827,672	5,443,632
Short-Term Incentive (STI, cash), for performance year 2017	693,750	907,736
Restricted Share Plan (RSP)	618,743	842,489
Entitlement for performance year 2017	1,237,486	1,554,819
Pension fund senior employees Employer contributions	500,192	659,054
Total Remuneration	5,877,842	9,407,729
Vesting 2017, share value		
PSP 2014–2016 / RSP 2014–2016 / RSP 2015–2017 / RSP 2016–2018	2,228,153	1,482,985

Remuneration "Risk Taker" by business segment

	Client Business		Client Business International		Corporate Center		Total	
	Amount	Share in %	Amount	Share in %	Amount	Share in %	Amount	Share in %
Fixed basic salary	2,203,172	52.70%	1,949,796	61%	4,118,335	51.96%	8,271,304	54.11%
Short Term Incentive (Cash)	485,000	11.60%	297,736	9%	818,750	10.33%	1,601,486	10.48%
Restricted Share Plan (RSP)	409,893	9.80%	287,541	9%	763,798	9.64%	1,461,232	9.56%
Performance Share Plan (PSP)	690,037	16.51%	574,877	18%	1,527,390	19.27%	2,792,304	18.27%
Pension Fund	392,528	9.39%	68,902	2%	697,815	8.80%	1,159,245	7.58%
Total	**4,180,630**	**100.00%**	**3,178,853**	**100%**	**7,926,087**	**100.00%**	**15,285,570**	**100%**

Remuneration Board of Directors

in CHF 1,000		**Remuneration**[1, 2, 3]						**Total remuneration**	
Art. 14-16 Ordinance against Excessive Compensation with respect to Listed Stock Corporations (Switzerland)		**Fixed**		**thereof in registered shares A (market value)**		**Retirement benefit plans**			
		2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Board of Directors									
Fredy Vogt	Chairman[A]	560	560	140	140	85	84	645	644
Markus Thomas Hilti	Vice Chairman[B]	130	123	33	31			130	123
Dr Christian Camenzind	BoD[H, K]	110	84	28	18			110	84
Prof. Dr Teodoro D. Cocca	BoD[G]	130	132	33	33			130	132
Dr Beat Graf	BoD[D, F]	135	120	34	26			135	120
Ursula Lang	BoD[D, E, K]	143	84	36	18			143	84
Dr Florian Marxer	BoD[H]	110	105	28	26			110	105
Dr Guido Meier	BoD[I]		58		14			0	58
Dr Gabriela Payer	BoD[B, H, K]	140	107	35	23			140	107
Michael Riesen	BoD[C, F]	160	183	40	40			160	183
Dr Daniel H. Sigg	BoD[L]	80	160	20	40			80	160
Total Board of Directors		**1,698**	**1,716**	**425**	**409**	**85**	**84**	**1,783**	**1,800**

[A] Chairman of the Nomination & Compensation Committee
[B] Member of the Nomination & Compensation Committee
[C] Chairman of the Audit Committee
[D] Member of the Audit Committee
[E] Chairwoman of the Risk Committee
[F] Member of the Risk Committee
[G] Chairman of the Strategy & Digitalisation Committee
[H] Member of the Strategy & Digitalisation Committee
[I] Member of the Board of Directors up to 29 April 2016
[K] Member of the Board of Directors as from 29 April 2016
[L] Member of the Board of Directors up to 28 April 2017
[1] Social-security costs on the emoluments paid to the Board members are borne by VP Bank.
[2] Compensation for out-of-pocket expenses is not included.
[3] Including withholding tax contributions taken over by VP Bank.

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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