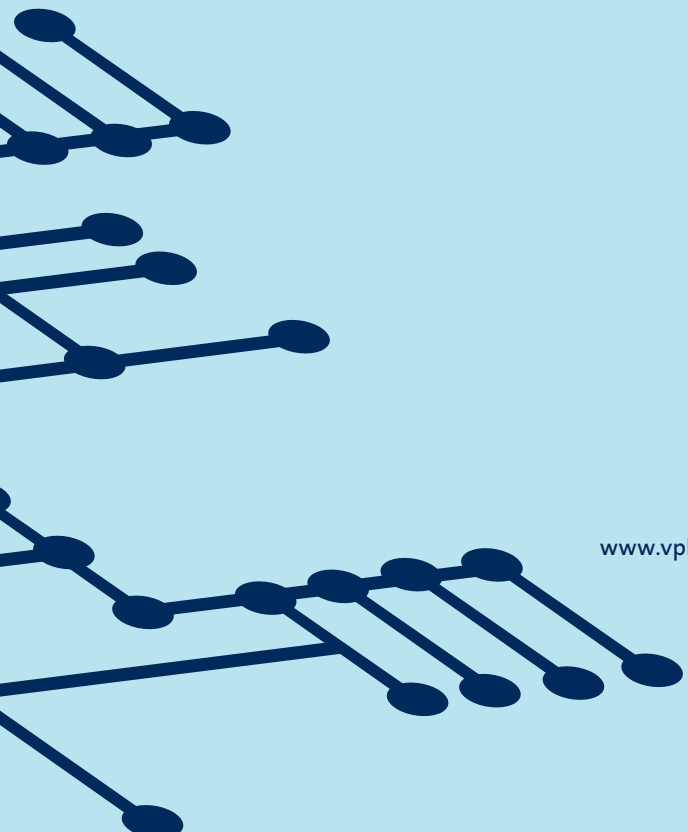


"Why digital is not good enough."

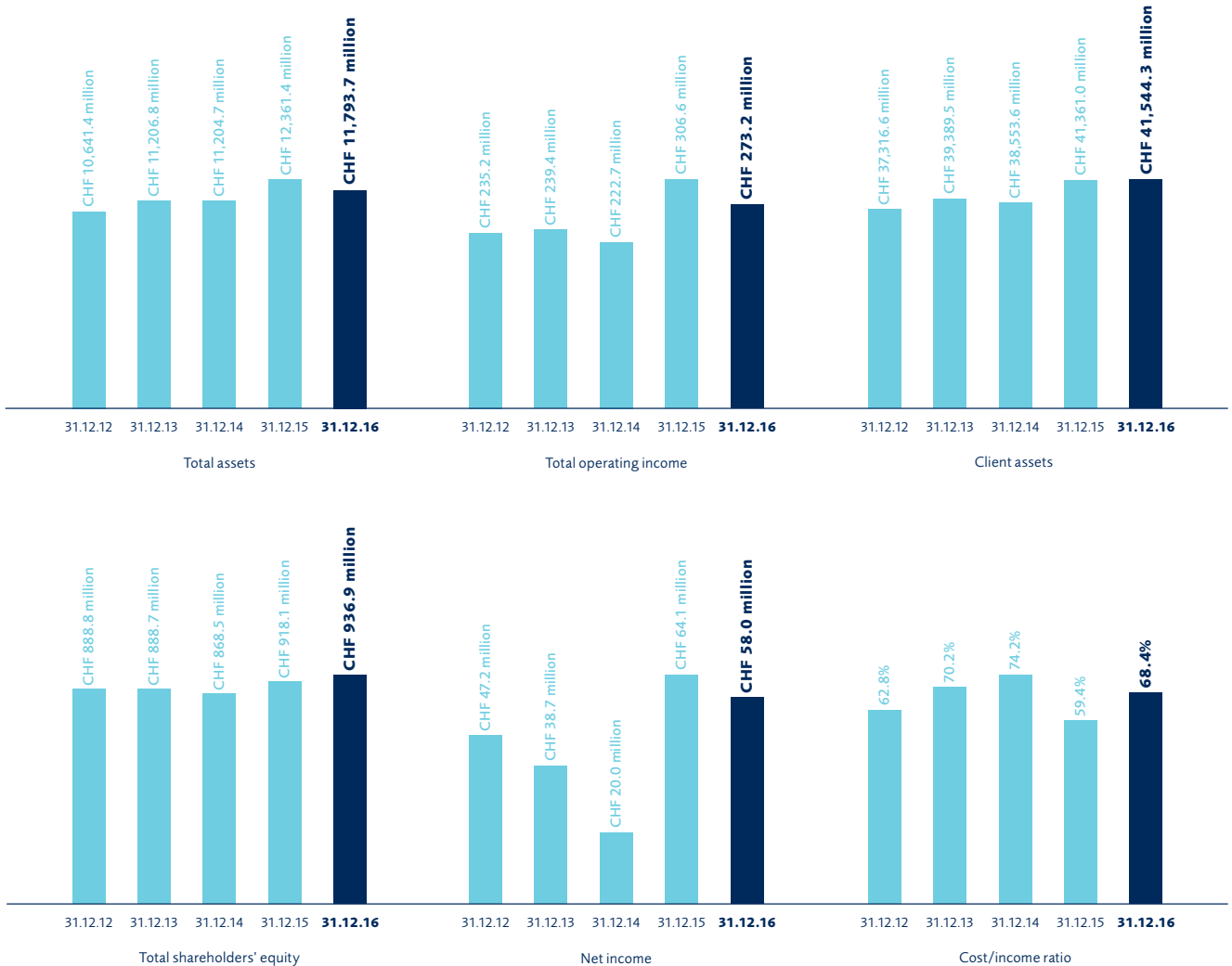
Prof. Jan vom Brocke
Director of the Institute for Business Information Technology,
Holder of the Hilti Professorship for Business Process Management
and Prorector of the University of Liechtenstein

To successfully enter the "man-machine society", we must above all learn to offer added values which machines are incapable of achieving. Where can such added values be found, which will turn us into the designers of a good digital world?

Read the full post at
www.vpbank.com/NextBanking-Digitalisation



Key figures of VP Bank Group



Shareholder information

- Tuesday, 7 March 2017** Media and analyst conference, 2016 annual results
- Friday, 28 April 2017** 54th ordinary annual general meeting
- Friday, 5 May 2017** Dividend payment
- Tuesday, 22 August 2017** Round-table, 2017 semi-annual results

Core data on shares

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

Key figures of VP Bank Group

	2016	2015	Variance in %
Key income statement data in CHF million^{1,2}			
Total operating income	273.2	306.6	-10.9
Total net interest income	102.4	88.4	15.8
Total net income from commission business and services	118.8	126.4	-6.0
Income from trading activities	44.5	42.2	5.5
Operating expenses	212.2	246.4	-13.9
Group net income	58.0	64.1	-9.5
Key balance-sheet data in CHF million^{1,2}			
Total assets	11,793.7	12,361.4	-4.6
Due from banks	660.8	2,060.3	-67.9
Due from customers	5,248.7	5,007.0	4.8
Due to customers	9,838.9	10,546.4	-6.7
Total shareholders' equity	936.9	918.1	2.0
Equity ratio (in %)	7.9	7.4	7.0
Tier 1 ratio (in %)	27.1	24.4	10.9
Leverage ratio in accordance with Basel III (in %)	7.8	7.0	11.4
Client assets in CHF billion^{2,11}			
On-balance-sheet customer deposits (excluding custody assets)	9,712.2	10,062.1	-3.5
Fiduciary deposits (excluding custody assets)	612.9	512.7	19.6
Client securities accounts	25,428.8	24,193.8	5.1
Custody assets ¹¹	5,790.4	6,592.3	-12.2
Business volumes¹²	41,002.6	39,775.7	3.1
Net new money	7.4	6,045.5	-99.9
Key operating indicators²			
Return on equity (in %) ^{1,3}	6.3	7.3	
Cost/income ratio (in %) ⁴	68.4	59.4	
Total operating expenses / total net operating income (in %)	77.7	80.4	
Headcount (expressed as full-time equivalents, excluding student apprentices) ⁵	738.3	734.4	
Total operating income per employee (in CHF 1,000)	370.1	417.4	
Total operating expenses per employee (in CHF 1,000) ⁶	253.3	248.0	
Group net income per employee (in CHF 1,000)	78.5	87.2	
Key indicators related to shares of VP Bank in CHF^{1,10}			
Group net income per registered share A ⁷	9.61	10.17	
Group net income per registered share B ⁷	0.96	1.02	
Dividend per registered share A ⁸	4.50	4.00	
Dividend per registered share B ⁸	0.45	0.40	
Dividend yield (in %)	4.2	4.9	
Payout ratio (in %)	46.8	39.3	
Total shareholders' return on registered shares A (in %)	36.59	0.0	
Shareholders' equity per registered share A on the balance-sheet date	157.14	154.01	
Shareholders' equity per registered share B on the balance-sheet date	14.47	14.18	
Quoted price per registered share A	108.00	82.00	
Quoted price per registered share B	10.80	8.20	
Highest quoted price per registered share A	111.90	87.50	
Lowest quoted price per registered share A	78.05	71.15	
Market capitalisation (in CHF million) ⁹	714	542	
Price/earnings ratio per registered share A	11.24	8.06	
Price/earnings ratio per registered share B	11.24	8.06	
Rating Standard & Poor's	A-/Positive/A-2¹³	A-/Negative/A-2	

¹ The reported key data and operating indicators are computed and reported on the basis of the share of the net profit and shareholders' equity attributable to the shareholders of VP Bank Ltd, Vaduz.

² Details in the notes to the consolidated income statement and consolidated balance sheet.

³ Net income / average shareholders' equity less dividend.

⁴ Total operating expenses (without depreciation and amortisation, valuation allowances, provisions and losses) / total operating income.

⁵ In accordance with legal requirements, apprentices are to be included in headcount statistics as 50 per cent of equivalent full-time employees.

⁶ Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / gross income less other income and income from financial instruments.

⁷ Based on the weighted average number of shares (registered share A) (note 11).

⁸ Subject to approval by the annual general meeting.

⁹ Including registered shares B.

¹⁰ Conversion of bearer shares into registered shares A (note 30).

¹¹ Adjusted (custody assets, see also note client assets).

¹² Assets under management and due from customers.

¹³ As of 2 March 2017.

Editorial

Digitalisation is the new watchword and a topic that is bringing about permanent changes to the banking sector. Adjustments to the technical infrastructure, ways of thinking and processes are all necessary in order to keep pace with the rapidly changing digital world. VP Bank is tackling this challenge while at the same time seeing future opportunities through digitalisation and the application of innovative technologies.

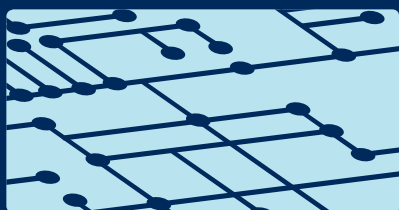
True to our motto "Safely ahead," we have developed a digitalisation strategy that will show the way for the years ahead. You can learn more about it in the section "Strategic orientation of VP Bank".

Digitalisation is also the guiding theme of this annual report. We asked seven experts to demonstrate the diversity of digitalisation as well as the opportunities and challenges for the banking sector. The range of topics discussed includes future digital viability, robo-advisory, crypto banking, cyber security and changing patterns of corporate communications.

The print version of the 2016 annual report contains introductions to these fascinating expert commentaries, and the full-length versions are available online for reading and sharing at <https://report.vpbank.com/en>



Contents



"Why digital is not good enough."

U2

Prof. Jan vom Brocke
Director of the Institute for Business Information Technology,
Holder of the Hilti Professorship for Business Process Management
and Prorector of the University of Liechtenstein



"What Robo-Advisors cannot do."

8

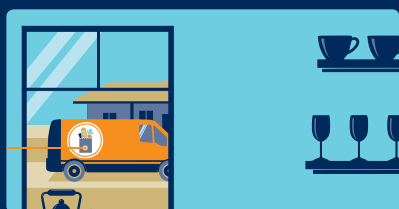
Prof. Dr Teodoro D. Cocca
Chair of Asset and Wealth Management
Johannes Kepler University Linz



"How intelligent automation improves the experience of banking customers."

22

Hans Peter Wolf
CEO and founder of Appway



"From banking secrecy to crypto-banking."

62

Peter Schnürer
Member of the Board of Management
(Professional Services Banking Unit), Inventx



"Is Switzerland prepared for digitalisation?"

74

Dr Urs Rügsegger
Group CEO SIX



"When do we notice that we were a victim of a cyber-attack?"

100

Walter Sprenger
Board Member of the Compass Security
Network Computing AG (Holding)



"The end of discretion for private banks?"

176

Dominik Allemann
Co-owner and Joint Managing Director of Bernet PR

Key figures of VP Bank Group	U2 inner side
Shareholder information	U2 inner side

Statement

Statement by the Chairman of the Board and the Chief Executive Officer	4
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VP Bank Group

VP Bank at a glance	11
2016 highlights	12
The organisational structure of VP Bank Group	14
VP Bank shares	19

Corporate strategy

Strategic orientation of VP Bank	25
The Asia strategy of VP Bank	32
Sustainability at VP Bank	34
VP Bank's clients	36
VP Bank's stakeholders	40
Employees of VP Bank	41
VP Bank's suppliers	46
Strategic partnerships at VP Bank	47
VP Bank's business ecology	49
The social engagement of VP Bank	52
Legislation and supervisory authorities in Liechtenstein	55

Segments

Segment reporting	65
Client Business Liechtenstein	68
Client Business International	70
Corporate Center	72

Corporate governance and compensation report

Corporate governance 2016	77
Compensation report	94

Financial report 2016 of VP Bank Group

Consolidated annual report of VP Bank Group	103
Consolidated income statement	107
Consolidated statement of comprehensive income	108
Consolidated balance sheet	109
Consolidated changes in shareholders' equity	110
Consolidated statement of cash flow	111
Principles underlying financial statement reporting and notes	113
Risk management of VP Bank Group	124
Segment reporting	140
Notes to the consolidated financial statement	142
Statutory auditor's report on the audit of the consolidated financial statements	173

Financial report 2016 of VP Bank Ltd, Vaduz

Annual report of VP Bank Ltd, Vaduz	179
Balance sheet	180
Income statement	182
Information regarding business activities and number of employees	184
Principles of accounting and valuation, disclosures on risk management	185
Notes regarding balance sheet and income statement	187
Report of the statutory auditor on the financial statements	199

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

Dear Shareholders,
Ladies and Gentlemen

Major challenges prevailed yet again in the 2016 financial year: aside from the persistently lacklustre economic environment, there were also landmark political developments such as the Brexit vote that had a seminal influence on global business activity and the financial markets. Against this backdrop, VP Bank Group put in a fine performance – especially thanks to the strategic and operative measures that have started to gain traction.

Gratifying annual results

For the 2016 financial year, VP Bank Group recorded consolidated net income of CHF 58.0 million after having earned a profit of CHF 64.1 million in the previous year. However, excluding the one-time effects in 2015 from the merger with Centrum Bank and the application of IAS 19, this annual result lies 89.5 per cent above VP Bank Group's prior-year adjusted consolidated net income of CHF 30.6 million.

Compared to the previous year, operating income declined by 10.9 per cent from CHF 306.6 million to CHF 273.2 million. Here again, though, if the one-time effects from the Centrum merger are excluded, operating income actually rose by 6.5 per cent.

Operating expenses decreased versus the previous year by 13.9 per cent to CHF 212.2 million, which is mainly a reflection of the successfully concluded integration of Centrum Bank and the resulting synergies.

Client assets under management increased by 2.8 per cent, from CHF 34.8 billion to CHF 35.8 billion. In 2016, VP Bank Group registered a CHF 7 billion net inflow of new client money – a significant improvement compared to the organic trend in net new money seen in 2015. Here, our intensive market cultivation efforts in Asia were the main source of this pleasing inflow.

On 31 December, VP Bank's tier 1 ratio stood at 27.1 per cent (31 December 2015: 24.4 per cent).

Dividend increase to be proposed

At the annual general meeting on 28 April 2017, the Board of Directors will propose a dividend of CHF 4.50 per registered share A (previous year: CHF 4.00) and CHF 0.45 per registered share B (previous year: CHF 0.40). This is a clear reflection of the dividend policy the Board of Directors upholds: VP Bank strives to maintain a consistent approach to dividend distributions with the aim of paying out 40 to 60

per cent of its annual net income to shareholders. The newly proposed dividend is based on VP Bank Group's consolidated net income of CHF 58.0 million.

Also to be proposed at the annual general meeting is a grant to the VP Bank Foundation in the amount of CHF 2 million.

Strategic orientation and positioning

With its "Strategy 2020", the Board of Directors in 2015 re-mapped the strategic course of VP Bank Group to account for the changed market conditions and general circumstances.

With the related goals in mind, we reinforced our organisational and management structure in 2016 and reallocated the tasks within Group Executive Management. The structure as determined by the Board also places redoubled emphasis on client and marketing orientation. This should help VP Bank, as a group enterprise, to grow both in terms of profitability and quality in its defined target markets, as well as to generate true added value for its clients.

The newly formed organisational unit "Chief Operating Officer" commenced its activities as of 1 January 2016. The Board of Directors of VP Bank Group has named Martin C. Beinhoff to the post of Chief Operating Officer and head of this unit, where the job will be to strengthen the relevant support functions and optimise various processes. At the same time, greater focus will be placed on the increasing digitisation and heightened significance of IT-based processes both in the Intermediaries and Private Banking segments. Through the combination of these important functions, further complexities and costs can be avoided.

Special attention is also being paid to the realigned organisation of the strategically important intermediaries business: here, the structures have become more market- and client-oriented, and a new information platform for intermediaries was introduced. Our reinforcement of the team in Singapore underscores the growing importance of VP Bank's markets in Asia. And in terms of growth, we would also mention the successful further development of our fund business.

In 2016, we forged ahead with client-side digitisation projects and the automation of our internal processes with the aim of efficiency enhancement. "Digitisation" also represents the leitmotif of this Annual Report in reflection of how extremely important it has become to the financial industry. VP Bank has taken that fact into account by establishing a Strategy & Digitalisation Committee of the Board of Directors as well as a Group-wide project team.

Further details on our strategic orientation and positioning can be found in the "Strategic orientation of VP Bank" section on page 25 et seq.

Medium-term goals for 2020

With regard to VP Bank's "Strategy 2020", in 2015 we defined our medium-term goals, i.e. through the end of 2020, as follows:

- CHF 50 billion in client assets under management;
- CHF 80 million in consolidated net income; and
- a cost/income ratio of less than 70 per cent.

At the end of 2016, assets under management totalled CHF 35.8 billion (previous year: CHF 34.8 billion) and total net income amounted to CHF 58.0 million (2014: CHF 64.1 million). The cost/income ratio on 31 December 2016 was 68.4 per cent (previous year: 59.4 per cent). Our growth initiatives, disciplined use of available resources, exploitation of synergy opportunities and strict cost controls will help us to achieve the aforementioned goals for 2020.

The shares of VP Bank

At VP Bank's annual general meeting on 29 April 2016, shareholders approved the conversion of bearer shares into registered shares. The listed bearer shares of VP Bank (par value CHF 10.00) were exchanged for registered shares A with the same par value. The existing non-listed registered shares (par value CHF 1.00) remain as registered shares B and in future will still not be publicly traded. This conversion was completed in early May 2016.

Within the scope of the authorisation granted by shareholders at the annual general meeting on 24 April 2015, VP Bank Ltd also decided in 2016 to increase the number of treasury shares by means of a further buyback of up to 10 per cent of the outstanding share capital. This follows through on the two successful buyback programmes conducted in 2015. The repurchase of registered shares A, which lasts from 7 June 2016 to at latest 31 May 2017, is being accomplished via ordinary trading lines on SIX Swiss Exchange. The acquired registered shares A are to be used for future acquisitions or treasury management purposes.

VP Bank's registered shares A in 2016 trended steadily higher and, with a gain of 37.1 per cent for the year (including the dividend), were among the strongest performers on the Swiss stock exchange. Yet again, VP Bank shares proved to be a solid investment. Details the share price development can be found in the "VP Bank shares" section on page 19 et seq.

Maintaining open and amicable investor relations is of great importance to us. During the past year, we conducted numerous talks with investors, shareholders and analysts. VP Bank's third Investor Day is scheduled to be held in May 2017.

In July 2016, rating agency Standard & Poor's reaffirmed its excellent "A-" rating for VP Bank and raised its outlook from "Negative" to "Stable". In its assessment, Standard & Poor's took into account the operative progress being made at VP Bank, the Bank's circumspect management of risks, as well as its solid capital base and the successful integration of Centrum Bank. As of 2 March 2017, the outlook was improved again to "Positive". This fine "A-" rating and the positive outlook testify to our well-founded, successful business model and VP Bank's ability to generate profitable growth without eroding its capital base.

Other significant events

In April 2016, VP Bank celebrated its 60th anniversary and published a jubilee book for shareholders. Our summer employee festival was fully dedicated to this milestone birthday.

Sustainability is a theme that has accompanied VP Bank for years now. By having joined the worldwide sustainability initiative "UN Global Compact" in 2016, we have committed to rendering an annual account of our compliance with social and ecological standards. A broadly diverse Corporate Social Responsibility (CSR) workgroup supports us in our efforts to implement all measures of relevance to sustainability. Moreover, in 2016 our avowal of sustainable corporate leadership and social responsibility was evidenced by various activities, including our "Volunteering Day" as well as the provision of cost-free e-bikes for VP Bank employees in Liechtenstein.

During the past year, a number of VP Bank Group managers attended a workshop on the topic of "Leadership". The major thrusts in this regard are the development of management skills as well as future managers, and the nurturing of a sales culture. Our client advisory teams also attended training sessions to receive formal certification of their know-how.

Personnel changes

At the 53rd annual general meeting of VP Bank on 29 April 2016, Dr Guido Meier – representative of the Bank's largest anchor shareholder (Stiftung Fürstl. Kommerzienrat Guido Feger) – announced that he would waive a further term of office and step down from the Board of Directors of VP Bank after 27 years of service. Newly elected as members of the Board were Dr Christian Camenzind, lic. iur. Ursula Lang and Dr Gabriela Maria Payer. With that, the Board of Directors has reinforced its skill set and ensured long-term continuity in the Bank's highest governance body. Lic. oec. Markus T. Hilti was elected to a further three-year term on VP Bank's Board of Directors and subsequently named its Vice Chairman.

Dr Daniel H. Sigg decided not to stand for re-election at the annual general meeting on 28 April 2017 and will step down from Board of Directors. He was elected to the Board in 2008 and was able to contribute his vast experience in the major Asian, European and US financial centres, as well as his expertise in the area of financial products. Dr Daniel H. Sigg was Chairman of the Risk Committee and a member of the Audit Committee. The Board of Directors thanks him for his tremendous efforts on behalf of VP Bank and wishes him all the best in his future endeavours.

At the beginning of 2017, the General Counsel function was combined with that of the Chief Risk Officer. The Group Legal, Compliance & Tax and Group Risk are to be merged into a new organisational unit at the Group management level. This reinforcement is in response to increasing market regulation and the consequential raft of new requirements for internationally oriented financial services companies. Monika Vicandi, who has been Head of Group Legal, Compliance & Tax for five years, will bear management responsibility for this important unit in her function as General Counsel and, since 1 January 2017, also as Chief Risk Officer.

A look back and a look ahead

In the 2016 financial year, our key priorities were growth, the further development of our fund business, strengthening our position in the intermediaries business, developing and introducing new digital services, as well as building-out our international business. As the financial figures presented in this Annual Report clearly testify, we have made good progress in all these areas.

Thus in 2016 we laid the foundation for VP Bank's increased profitability, and in 2017 the results of those efforts should filter through to the bottom line. In parallel, we will press ahead with our resolute cost management by seeking out further possibilities for cost savings and optimising our product and service offering.

At the beginning of 2017, the new "Investment Solutions" organisational unit came into being. It is comprised of the Group Investment, Product & Market Management as well as the VP Fund Solutions operating units which were previously included in the Client Business organisational unit. Their merger into a stand-alone unit underscores the growing importance of these competence centres, given the current and future trends in the market environment. It also adds emphasis to the Group's investment expertise.

And growth will remain a key topic also in 2017: Europe is in a state of commotion, and Asia is steadily becoming the driving force behind global growth. For VP Bank, this means focusing squarely on the qualitative enhancement of our client care and

services, as well as on adding experienced advisory teams – especially in Asia. Moreover, we shall take advantage of market opportunities as they arise in order to grow through acquisition. VP Bank continues to enjoy a very solid equity capital base, a factor that puts us in an excellent position to make the most out of the change underway in the financial industry.

Special emphasis will also be placed on the expansion of our fund business and the implementation of our newly plotted course with regard to intermediaries. In light of today's ever more demanding clients and markets, we shall intensify our efforts to expand VP Bank's international business and develop an even broader range of digital services.

Another central task in 2017 will be the acquisition of new, experienced client advisors: our goal is to hire an additional 25 professionals per year over the next three years, roughly 50 per cent of whom will hail from Asia.

We are confident of our ability to reinforce VP Bank Group's already sustainable foundation for growth. And with our workforce of highly competent, motivated employees, we are indeed well equipped to do so.

A word of thanks

2016 was yet another eventful and challenging year in which VP Bank made significant operative progress, as can be seen in the actual numbers. For these successes, we sincerely thank our dedicated employees.

We would also like to express our special thanks to VP Bank's clients and shareholders for the trust they have placed in us. It is of great importance to us that we can justify that trust again in 2017.



Fredy Vogt
Chairman of the Board of Directors



Alfred W. Moeckli
Chief Executive Officer



Fredy Vogt
Chairman of the
Board of Directors

Alfred W. Moeckli
Chief Executive
Officer

"What Robo-Advisors cannot do."

Prof. Dr Teodoro D. Cocca
Chair of Asset and Wealth Management
Johannes Kepler University Linz

At present, virtual offers are sprouting up from the earth like mushrooms and promise to revolutionise private banking as never before. Pure digital solutions can, however, not satisfy, in an all-embracing manner, the needs of demanding private-banking customers.



Read the full post at
www.vpbank.com/NextBanking-RoboAdvisors







1

VP Bank Group

VP Bank at a glance

VP Bank Group is an internationally active private bank focused on rendering asset management services for private individuals and financial intermediaries.

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

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

VP Bank's workforce of about 800 employees administer clients assets totalling almost CHF 42.0 billion. Its client advisors are supported by a global network of partner firms that contribute to the outstanding international know-how of VP Bank Group.

Tradition and quality for more than 60 years

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

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

To this very day, each and every employee of VP Bank Group lays claim to the ethos of quality. A number of international awards for the quality of the Bank's client advice and ancillary services, as well as for its competence in transaction processing, attest to this pronounced quality consciousness.

In 1983, VP Bank became Liechtenstein's first exchange-listed company, and ever since then it has

been present in the international banking system via the euro money market. The philanthropic activities of VP Bank's founder have been continued by its major shareholder, "Stiftung Fürstl. Kommerzienrat Guido Feger" foundation.

Competencies and client advice

Tailor-made wealth planning, asset management and investment advice for a demanding private clientele represent VP Bank's core competencies. The Bank is also an established partner for financial intermediaries who especially count on decades of experience and a modern infrastructure.

One of the strengths of VP Bank is its independence in terms of providing financial advice. The Bank's investment solutions are based on the principle of "open architecture", an approach that also takes into account the best-in-class products and services of third-party providers. The result: conflicts of interest are avoided right from the start.

Together with its partners throughout the world, VP Bank recommends either the best traditional investment instruments to its clients or develops proprietary, innovative solutions. The global presence of VP Bank Group means that it can draw on a vast pool of expertise, so that country-specific circumstances can be taken into account when necessary. Thanks to this open architecture and best manager selection, clients can always rest assured that they have the most suitable investment instruments in their portfolio.

In addition, VP Bank's e-banking application affords clients freedom of movement and maximum security when conducting banking transactions. They have round-the-clock electronic access to their securities and deposit accounts.

With more than 800 employees, VP Bank Group is the right size to offer top-notch solutions with a personal touch. Clients enjoy the individualised advice of a private bank while simultaneously gaining access to a worldwide network of specialists. And not least of all, the structured and transparent investment process ensures straightforward decisions, which benefit the client.

2016 highlights

January

Citywire "+" Rating

VP Fund Solutions is awarded a Citywire "+" Rating for four of its VP Bank Best Manager funds.

May

Share conversion

The listed bearer shares of VP Bank are converted into registered shares A with an equal par value.

July

"A–" rating reaffirmed

Rating agency Standard & Poor's confirms its "A–" rating of VP Bank and lifts its outlook to "Stable".

April

Annual general meeting

At the 53rd annual general meeting of shareholders, all proposals put to a vote by the Board of Directors are approved. Lic. oec. Markus T. Hilti is re-elected to the Board of Directors of VP Bank for a further three-year term of office. Dr Christian Camenzind, lic. iur. Ursula Lang, and Dr Gabriela Maria Payer are elected new Board members.

June

Share buyback

VP Bank launches a further public tender offer for up to 120,000 of its listed registered shares A.

May

60 years of VP Bank

VP Bank celebrates its 60th anniversary with events for its employees and the press.

July

Client advisory certification

As the first bank in Liechtenstein to do so, VP Bank deploys client advisors who have been certified under the SAQ standard.

March

2015 annual financial results

For 2015, VP Bank reports considerably higher consolidated net income of CHF 64.1 million, a 12.4 per cent increase in client assets under management, and a core capital (tier 1) ratio 24.4 per cent versus the prior-year reading of 20.5 per cent.

June

New CEO of VP Bank (Switzerland) Ltd

Antony Lissanianos takes over as head of the Executive Board at VP Bank (Switzerland) Ltd.

September

Excellence Award

Deutsche Bank honours yet again VP Bank's professionalism and quality in the execution of euro payments by presenting the Bank with its Excellence Award.

November

"Lichtblick"

As part of its annual "Lichtblick" (Ray of Hope) annual charity event, the VP Bank Foundation grants generous donations to a number of charitable and social institutions.

August

2016 semi-annual results

For the first half of 2016, VP Bank Group reports consolidated net income of CHF 24.4 million and a higher core capital (tier 1) ratio of 25.7 per cent. Mainly in Asia and the funds area, significant inflows of new client money are being recorded.

December

Augmented Group Executive Management

VP Bank announces the supplementation of its Group Executive Management body through the establishment of the "General Counsel & Chief Risk Officer" and "Investment Solutions" organisational units, effective as of 1.1.2017.

October

First-class range of services for intermediaries

With VP Bank's new information platform, intermediaries can easily and rapidly access the most important services and information they need for their daily business activities.

November

Advisory quality

The quality of asset management advisory at VP Bank is acknowledged yet again with a "cum laude" distinction in the Elite Report.

October

Award-winning annual report

VP Bank once again gains international recognition by winning five awards for the print version and four for the online version of its 2015 annual report.

October

EU passport

The new "EU passport" enables VP Fund Solutions to access the entire European domestic market. This passport also permits the Europe-wide, crossborder administration and distribution of alternative investment funds.

September

Award-winning mobility management

For its participation in the "Rückenwind" (tailwind) initiative for the furtherance of bicycle use at businesses, VP Bank receives an award from the Government of the Principality of Liechtenstein.

Detailed information can be accessed at www.vpbank.com
→ Investors & Media
→ Media releases

The organisational structure of VP Bank Group

VP Bank Group consists of four organisational units: "Chief Executive Officer", "Client Business" and "Chief Financial Officer & Banking Services" and "Chief Operating Officer".

Changes to the organisational structure in the 2016 financial year

Effective as of 1 January 2016, the new organisational unit "Chief Operating Officer" was established. Martin C. Beinhoff was named Chief Operating Officer and head of this unit.

Also on 1 January 2016, the Group Finance & Risk operating unit was divided into two discrete units: Group Finance, and Group Risk. Hanspeter Kaspar remains in charge of the former, and Marcel Beutler was newly appointed as Head of Group Risk on that date.

The former Head of Group Treasury, Patrick D. Businger, left VP Bank in January 2016. The unit was supervised temporarily by COO Martin C. Beinhoff until 1 March 2016, when Claus Hug assumed the post of Head of Group Treasury & Execution.

Antoine Baronnet, Head of Client Business and Executive Board member at VP Bank (Luxembourg) SA, left VP Bank on 27 April 2016. His function is being performed on an interim basis by Thomas Steiger, CEO of VP Bank (Luxembourg) SA.

Following the effort spearheaded by Martin C. Beinhoff to conduct a comprehensive examination of the fundamental metrics Group Executive Management relies on when determining its lending policy and credit strategy, the GEM decided to separate the Front- and Mid-/Backoffice activities of the Group Credit unit. In this connection, the Mid- and Backoffice departments were shifted to the Chief Operating Officer unit. The Commercial Banking Domestic department was kept in the Client Business Liechtenstein segment until 30 April 2016. In order to augment the important Intermediaries business with a wider array of offerings and make it a one-stop source of advisory services, the Commercial Banking department was then integrated into the Intermediaries operating unit on 1 June 2016. The Group Credit unit was streamlined as of 1 May 2016 by combining the Credit Risk Management and Commercial Banking International departments to create the Credit Risk department headed by Michael Curschellas. Michael Curschellas was then appointed Head of Group Credit on 1 September 2016.

Upon the merger with Centrum Bank AG in 2015, the Intermediaries II unit of that bank was integrated into VP Bank's existing Intermediaries organisation. In a second step completed on 1 June 2016, the respective VP Bank and Centrum Bank teams were combined to realise the intended segment-specific organisational structure.

In effort to reinforce VP Bank's client business and generate added revenues by means of new services, Hendrik Breitenstein – the Head of Group Investment, Product & Market Management – built up a Group-wide Active Advisory Desk. Since 1 May 2016, Stefan Schwitter has been responsible for the Group Investment, Product & Market Management unit.

On 1 May 2016, Anne Guidi was named member of the Executive Board of VP Fund Solutions (Luxembourg) SA and is mainly in charge of risk and compliance at that firm. Its Executive Board now comprises three members: Eduard von Kymmel, Ralf Funk and Anne Guidi.

On 2 November 2015, Antony Lassanianos took over as interim Chief Executive Officer of VP Bank (Switzerland) Ltd and was definitively appointed CEO of this Zurich-based subsidiary, effective as of 1 June 2016. On the same date, Stephan Wernli, formerly Head of Legal, Compliance & Tax, was named to the Executive Board of VP Bank (Switzerland) Ltd. As a result, the subsidiary's Executive Board once again consists of three members: Antony Lassanianos, Thomas Westh Olsen and Stephan Wernli.

Alex Boss, CEO of VP Fund Solutions (Liechtenstein) AG, decided to leave that company in October 2016. His successor, Ralf Konrad, assumed that post as of 1 December 2016. Going forward, the Executive Board of VP Fund Solutions (Liechtenstein) AG will comprise two members: Ralf Konrad as CEO, and Reto Grässli as Chief Operating Officer.

Changes to the organisational structure subsequent to 31 December 2016

In conjunction with the implementation process for VP Bank Group's Strategy 2020, the function of General Counsel will be combined with that of the Chief Risk Officer. The investment competency of the Bank will also be reinforced in a targeted manner. This reorientation and the greater emphasis placed on these areas of activity are reflected in VP Bank Group's adapted organisational and management structure, which took effect as of 1 January 2017.

Monika Vicandi, General Counsel and Head of Group Legal, Compliance & Tax, will now oversee the "General Counsel & Chief Risk Officer" organisational unit at the Group Executive Committee level. The future head of "Investment Solutions", whose recruitment is currently under way, will also become a member of Group Executive Management. As of 1 January 2017, the Investment Solutions organisational unit now includes the Group Investment, Product & Market Management and VP Fund Solutions operating units, which were previously part of the Client Business organisational unit.

Katharina Vogt-Schädler, Chief Executive Officer of VP Bank (BVI) Ltd, has opted not to prolong her secondment to the British Virgin Islands. As of 1 February 2017, Nicholas A. Clark will take over as Chief Executive Officer of VP Bank (BVI) Ltd. At that point, the Executive Board of VP Bank (BVI) will comprise Nicholas A. Clark (CEO) and Sjoerd Koster as General Manager for Client Business.

Rajagopal Govindarajoo, Managing Director of VP Bank (Singapore) Ltd, decided in September 2016 to step down from his operative function. On 13 March 2017, Bruno Morel will take over as Chief Executive Officer of VP Bank (Singapore) Ltd.



Organisational chart as of 31.12.2016



Siegbert Näscher
Chief Financial Officer

Martin C. Beinhoff
Chief Operating Officer

Alfred W. Moeckli
Chief Executive Officer

Christoph Mauchle
Head of Client Business

VP Bank, Vaduz, Head Office

Segment	Area	Head
Board of Directors	Group Internal Audit	Nikolaus Blöchlinger
Chief Executive Officer	Group Communications & Marketing Group Human Resources Management Group Legal, Compliance & Tax Group Business Development	Tanja Muster Rita Becker Monika Vicandi Alfred W. Moeckli
Chief Financial Officer	Group Finance Group Risk	Dr Hanspeter Kaspar Marcel Beutler
Client Business	Private Banking Intermediaries Group Investment, Product & Market Management	Martin Engler Tobias Wehrli Stefan Schwitter
Chief Operating Officer	Group Operations Group Information Technology Group Treasury & Execution Group Credit	Jürg Mühlethaler Dr Andreas Benz Claus Hug Michael Curschellas

Subsidiaries with bank status

Company	Country	City	Head
VP Bank Ltd	Liechtenstein	Vaduz	Alfred W. Moeckli, Siegbert Näscher, Christoph Mauchle, Martin C. Beinhoff
VP Bank (Schweiz) Ltd	Switzerland	Zurich	Antony Lissanianos, Thomas Westh Olsen, Stephan Wernli
VP Bank (Luxembourg) SA	Luxembourg	Luxembourg	Thomas Steiger, Romain Moebus
VP Bank (BVI) Ltd	British Virgin Islands	Tortola	Katharina Vogt-Schädler, Sjoerd Koster
VP Bank (Singapore) Ltd	Singapore	Singapore	Rajagopal Govindarajoo

Wealth management companies

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

Fund management companies

Company	Country	City	Head
VP Fund Solutions (Liechtenstein) AG	Liechtenstein	Vaduz	Ralf Konrad, Reto Grässli
VP Fund Solutions (Luxembourg) SA	Luxembourg	Luxembourg	Eduard von Kymmel, Ralf Funk, Anne Guidi

Representative offices

Company	Country	City	Head
VP Bank (Switzerland) Ltd Moscow Representative Office	Russia	Moscow	Jean-Michel Brunie
VP Bank Ltd Hong Kong Representative Office	China	Hong Kong	Clare Lam Chan

VP Bank shares

Economic environment in 2016

2016 was a politically eventful year. In June, British voters opted to exit the European Union and in November Donald Trump won the U.S. presidential election. Financial markets appeared to take both electoral outcomes in stride, thanks in part to an improving global economic outlook in the second half of 2016. Growing confidence in the economies of commodity-exporting emerging countries as a result of rising oil prices as well as stable growth rates in China were the most notable factors underpinning the favourable news flow.

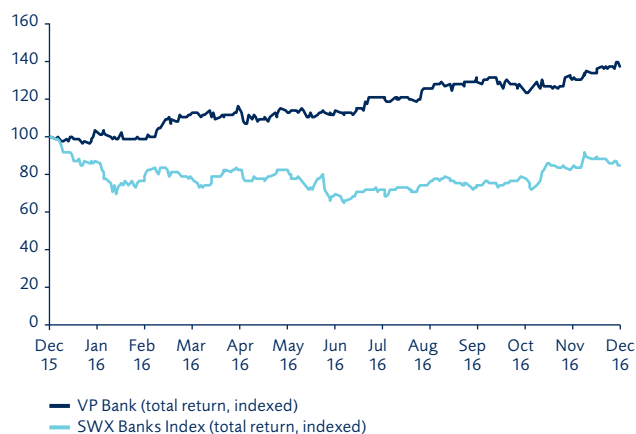
In the United States, growth was initially weak in the first half but the world's largest economy regained momentum in the second. The US labour market nevertheless performed well throughout the year, as job growth continued its upward trend in 2016. The unemployment rate fell from 5 per cent at the start of the year to 4.7 per cent at the end. These gains in employment ultimately led to rising wages. Given rising oil prices that pushed inflation higher and the lack of negative consequences from Donald Trump's victory, as had been widely feared, the US central bank responded by raising rates for the second time in the current monetary tightening cycle.

The euro zone economy proved to be surprisingly robust. Despite fears of economic collapse in the event of a pro-Brexit vote during the period leading up to the referendum, the real economy responded to the event relatively calmly. In the United Kingdom, economic sentiment even brightened considerably in autumn, as British companies welcomed the significant slide in the pound and improved competitiveness in the wake of the Brexit vote. No further economic damage was felt on the European Continent either, such that the impact of the UK referendum has been only theoretical so far. The consequences will only become apparent once the contractual parameters of the future relationship between the United Kingdom and European Union are known and the actual exit occurs.

Even though inflation rates in the euro zone inched slightly higher during the autumn months, the European Central Bank (ECB) opted to continue its expansive monetary policy. Adjusted for the energy price component, inflation remained at a standstill. ECB President Mario Draghi is therefore expected to continue monthly securities purchases – albeit at a slower pace – through end-2017. The divergent monetary policies on either side of the Atlantic put further pressure on the euro against the US dollar. In December 2016, the EUR/USD exchange rate was only slightly above parity.

The state of the Swiss economy can best be described as "light at the end of the tunnel". After a challenging year in 2015 following the sharp rise in the Swiss franc, the economy rebounded in 2016. The country's export economy even managed to recover as companies squeezed profit margins.

VP Bank registered share A versus the SWX Banks Index in 2016



The deflationary phase also bottomed out. In December, inflation was flat, marking more than two years without any negative signs. With upward pressure still evident on the Swiss franc, the SNB took advantage of the lack of deflationary effects as well as the substantially improved company sentiment to tolerate a slight appreciation in the Swiss currency. The overall monetary policy orientation nevertheless remained unchanged throughout 2016. While the SNB continued to intervene in currency markets, it did not need to adjust interest rates.

Equity markets in 2016

From a geopolitical and macro-economic perspective, 2016 was a very eventful year. Early on, many investors focused on economic issues such as the threat of weaker economic growth in China and the accompanying deflationary effects. With the Brexit vote, this focus nevertheless shifted increasingly toward political concerns and reached its zenith with the election of Donald Trump as the 45th US president. As unexpected as these developments were, the oft-predicted panic selling in equity and bond markets largely failed to materialise despite these huge geopolitical events. Neither Trump and Brexit on the one hand nor continued high valuations with falling earnings and a rising interest rate environment on the other led to any noteworthy or persistent destabilisation.

The MSCI World global equity market index rose by around 8.2% during the past calendar year. This favourable equity price trend was largely driven by emerging country shares, which rose by approximately 11.6 per cent. The most spectacular gains were recorded by Latin American emerging countries, as the relatively robust recovery in crude oil prices led to a veritable surge in equity prices (31.5 per cent). The situation in Europe was less satisfactory. The Euro Stoxx 50 Index, which includes the euro zone's 50 largest companies, posted only a meagre 4.7 per cent gain while the Swiss Market Index even ended the year on a down note.

For the most part, the rising share prices were not justified by higher earnings and therefore in effect reflect higher valuation.

VP Bank shares

In 2016, VP Bank's listed bearer shares with a nominal value of CHF 10.00 were converted to registered shares A with the same nominal value. The existing, unlisted registered shares with a nominal value of CHF 1.00 remained as registered shares B and will continue to be unlisted in the future. The first trading day for the registered shares A was 6 May 2016.

Since end-2012, VP Bank's shares have recorded significant gains of 66.2 per cent without reinvested dividends and 92.7 per cent with reinvested dividends. These strong returns outperformed both the Swiss Banking Index and the broader Swiss Market Index (SMI) by wide margins. The strongest share price gains occurred in 2013 as well as in 2016. In the period under review, the shares hit their low of CHF 65.00 in January 2013 and reached a high of CHF 111.90 at end-December 2016. Average volatility throughout this period was slightly greater than that of the overall market, but well below that of most competitors.

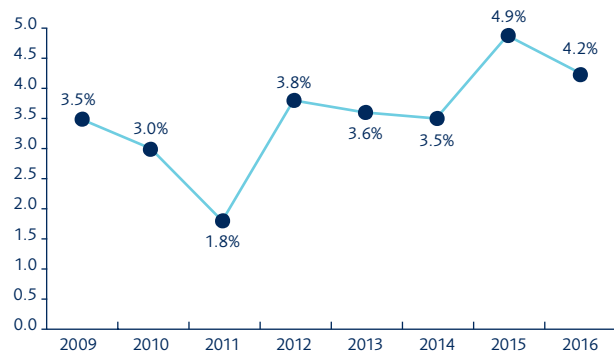
In 2016, VP Bank shares were also among the clear winners. With a 37.1 per cent gain (including dividend), they outperformed both the broader Swiss equity market as well as the Swiss banking sector by 40 per cent and 52 per cent, respectively. The share price performance in 2016 was particularly noteworthy due to its relatively steady upward trend. The low occurred in January (CHF 78.05) and the high in December (CHF 111.90). The average price for the registered shares A was CHF 93.20. In May 2016, VP Bank paid out a dividend of CHF 4.00 per share, which corresponds to a 4.2 per cent dividend yield.

Investor Relations

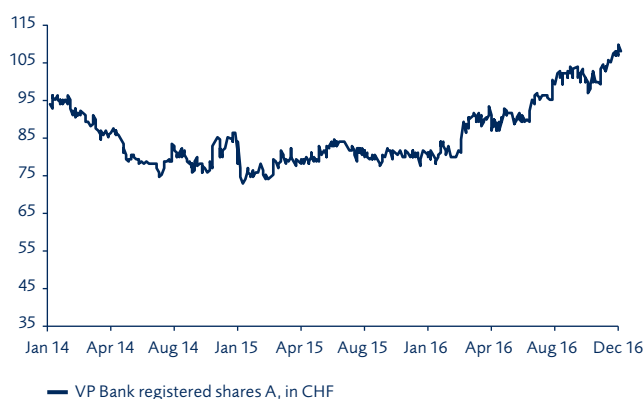
The goal of VP Bank's investor relations efforts is to foster an open, ongoing dialogue with shareholders and other capital market participants by providing them with a true and fair view of VP Bank Group, whilst also informing the interested public promptly about the company's latest developments.

Dividend yield performances

(calculated based on closing price at end of prior year)



Share price performance 2014 to 2016



The tasks involved in this investor relations work include conducting discussions with analysts and investors, disclosing ad hoc information regarding business issues of relevance under securities law, producing the company's annual and interim reports and publishing the related financial results, as well as organising the annual general meeting of shareholders.

For the 54th Annual General Meeting at 28 April 2017, the entire notice and invitation process was overhauled and optimised with the help of a renowned specialist. Shareholders now receive a convenient online announcement and also have the option of early online voting through electronic voting or voting at the meeting through televoting. As part of VP Bank's digitalisation strategy, these changes led to enhanced convenience, secure anonymity and quicker voting results.

As part of its investor relations activities in 2016, VP Bank held numerous analyst meetings and media conferences in order to further strengthen its communications with investors and financial intermediaries. The 3rd VP Bank Investor Day is scheduled for May 2017 in Luxembourg.

VP Bank's Investor Relations department is responsible for ensuring the Group's "Corporate Language", i.e. a common language used both inside and outside the company in order to speak to all target audiences in one voice. Through the corresponding interfaces, VP Bank ensures that consistent company information is disseminated across the various publications platforms.

VP Bank's regular presentations on current events lay the foundation for communications with institutional and private investors. The www.vpbank.com website and online annual report available at <http://report.vpbank.com> provide all the latest information on the company.

Since 2015, VP Bank's interim report is also available in an online version.

The continued improvements to VP Bank Group's annual report, in line with international trends and regulatory requirements, was also emphasized in 2016. The theme of that year's report was "60 Years of VP Bank."

The VP Bank Group's 2015 annual report won a total of five international awards last year, demonstrating the high quality

of VP Bank's information policy as well as its creative design excellence. The bank's annual report won gold at the ARC Awards for the compelling illustrations surrounding the theme of the company's 60-year anniversary. The prestigious ARC Awards have been held in the United States for the past 30 years. The annual report also won gold in the US "Stevie Awards" for "Best Annual Report – Print". Other awards included the "Galaxy Award", "Vision Award" and "League of American Communications Professionals" (LACP) award.

Meanwhile, VP Bank's 2015 online annual report received four international awards. For the 2015 Swiss Annual Report Ratings, a jury of communications and finance professionals also placed the VP Bank Group's annual report in the top 15 in Switzerland and Liechtenstein.

In July 2017, the Standard & Poor's rating agency confirmed VP Bank's "A-" rating and raised its outlook from "Negative" to "Stable". The confirmed rating and improved outlook reflected VP Bank's operating improvements and prudent risk management as well as the bank's very strong capital position and its successful integration of Centrum Bank. The favourable Standard & Poor's assessment cites VP Bank's ability to generate profitable growth without compromising its capital adequacy. As of 2 March 2017, Standard & Poor's improved the outlook from "Stable" to "Positive".

VP Bank therefore holds a rating of "A-/Positive/A-2". This outstanding rating and the positive outlook confirm VP Bank Group's sound and successful business model. VP Bank is one of the few private banks in Liechtenstein and Switzerland to be rated by an international rating agency. The current Standard & Poor's rating report can be downloaded as a pdf file from the VP Bank website under "Investors & Media".

Analysts from Mirabaud Securities LLP, Research Partners AG and Zürcher Kantonalbank provide analyses on VP Bank on a regular base.

Agenda

Publication of 2016 annual financial results	Tuesday, 7 March 2017
54th ordinary annual general meeting	Friday, 28 April 2017
Dividend payment	Friday, 5 May 2017
Publication of first-half 2017 financial results	Tuesday, 22 August 2017

VP Bank share details

Registered shares A, listed on SIX Swiss Exchange	
Number of listed shares	6'015'000
Free float	44.42 %
SIX symbol	VPBN
Bloomberg ticker	VPBN
Reuters ticker	VPBN.S
Securities number	31 548 726
ISIN	LI0315487269

Share-related statistics 2016

High (29.12.2016)	111.90
Low (22.01.2016)	78.05
Year-end close (final settlement value, 30.12.2016)	108.00
Average price	93.20
Market capitalisation in CHF million ¹	714
Consolidated net income per registered shares A	9.61
Price Earnings Ratio pro registered shares A	11.24
Dividend per A registered share (proposed)	4.50
Dividend yield (net) in %	4.2
Standard & Poor's rating ²	A (A-/Positive/A-2)

¹ Including registered shares B

² As of 2 March 2017

Further information on the capital structure and anchor shareholders of VP Bank can be found in the "Corporate governance" section on pages 77 ff.

Contact

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www.vpbank.com → Investors & Media

"How intelligent automation improves the experience of banking customers."

Hans Peter Wolf
CEO and founder of Appway

Our reality is characterised by ever quicker changing customer expectations, by an increasingly rapidly changing sequence of technological innovations and their assimilation by society. A new form of automation, which pursues a collaborative approach between man and machine, is becoming increasingly important.



Read the full post at
www.vpbank.com/NextBanking-CustomerExperience







2

Corporate strategy



Strategic orientation of VP Bank



Proven business model

The business model of VP Bank is based on two strategic pillars: private banking and the intermediaries business. The home market activities in Liechtenstein are supplemented by retail banking and the commercial business. Aside from these core capabilities, VP Bank Group maintains an international fund competency centre.

The primary strategic goal of VP Bank is to grow both in terms of profitability and quality through its activities as a group enterprise in the defined target markets and thereby preserve its independence over the long term. VP Bank fulfils all regulatory and crossborder requirements while offering a comprehensive range of services in keeping with VP Bank Group's business model.

From the various locations of VP Bank Group – namely Vaduz, Zurich, Luxembourg, Singapore, Hong Kong, Moscow and Tortola – clearly defined target markets and client segments are actively cultivated. The local offices bear responsibility

for developing their own markets and receive coordinative assistance from the Group. The target markets for Europe comprise Liechtenstein, Switzerland, Germany, Luxembourg, Russia and Ukraine; in Asia, the Group's focus is on Singapore, Hong Kong, Indonesia, Malaysia and Thailand.

Strategy 2020

Taking into account the rapidly changing circumstances in the financial services market, in 2015 the Board of Directors and Group Executive Management mapped out the route VP Bank will be taking in the coming years: "Strategy 2020". On the basis of this strategy, the Board determined the following medium-term targets for the end of 2020:

- CHF 50 billion in client assets under management;
- CHF 80 million in consolidated net income; and
- a cost/income ratio of less than 70 per cent.

Strategy 2020 is built upon three pillars, and each of them is of a lasting nature: growth, focus and culture.

Growth

In effort to reach its defined growth goals, VP Bank is taking a two-pronged approach.

First: organic growth

For VP Bank, organic growth means winning new clients in its target markets, expanding its existing client base, and thereby driving the qualitative growth of its client assets under management. To this end, the markets, client segments, as well as products and services are being developed further and continuously subjected to close analysis at all of the Bank's locations. Nonetheless, it would be difficult to achieve the Bank's ambitious medium-term goals through organic growth alone.

Growth can and should also be generated with the help of newly hired client advisors or entire teams of professionals. With this in mind, the "Relationship Manager Hiring" project was initiated in 2016. Here, the objective is to attract a total of some 75 additional client advisors over the next three years. Roughly half of those people will be hired at the Bank's locations in Asia, and the other half for the Swiss/Liechtenstein/Luxembourg markets. An international, interdivisional project team was formed to accomplish this task. The team provides assistance to those regional offices in their recruiting efforts and works together with established local executive search firms.

Second: growth through mergers and acquisitions

VP Bank actively and continuously examines acquisition possibilities at its Liechtenstein, Swiss, Luxembourg and Asian locations. The success of M&A (mergers & acquisitions) activities is not plannable – it depends entirely on the opportunities that arise in the market. And VP Bank will not simply pay any price for a takeover: the acquisitions must make sense and fit with the strategy and culture of VP Bank Group. The shares purchased in conjunction with the Bank's 2015 and 2016 open-market buyback programmes are earmarked primarily for that purpose.

Profitable growth

VP Bank sees the promise of additional growth impulses coming from its internationalisation push. Medium term, income from the Bank's foreign target markets should rise to 50 per cent of the total Group revenues. Aiding that effort will be measures aimed at reinforcing the Bank's position in the especially important business with financial intermediaries, as well as a further expansion of the funds business and continued development of the advisory concept.

Focus

At VP Bank, the term "focus" is understood to mean efficiency enhancement and a reduction of the complexities and costs of internal processes.

For years, the financial industry has been faced with the problem of higher cost structures and narrower margins. The increasing regulatory requirements bring about added costs. For those reasons, keen cost consciousness prevails at VP Bank.

Localising the potential for cost savings has been a major, and successful, activity in the past several years. Measures derived from various projects have been largely implemented and the findings incorporated into a disciplined, ongoing cost management process, which includes the identification and exploitation of savings potential within the Group as well as the optimisation of the Bank's range of products and services.

In a move to heighten operative excellence, new key performance indicators (KPIs) were defined for the area of Group Operations. Interdivisional teams were deployed to implement the related measures. In 2016, they managed to successfully reduce internal complexity, automate previously paper-based processes, further optimise segments and specific products, realign the target markets, and further advance digitalisation within the Group as indicated below. In terms of external relations, the number of counterparties was reduced and many of the terms and conditions for collaboration with third parties were renegotiated.

The cost and efficiency benefits from these measures will be reinvested in the Group's growth and digitalisation strategy.

Other projects in 2016 centred on fine-tuning the balance sheet through a reduction of the Bank's risk-weighted assets, as well as on the initiation of an in-depth analysis of outstanding credits. Details on the latter are provided below.

Culture

The third thrust of Strategy 2020 relates to the culture at VP Bank. In this regard, two aspects are of special importance: the encouragement of a sales and performance culture, as well as the corporate culture in general at VP Bank Group.

The measures aimed at reinforcing a sales and performance mentality have the goal of further increasing the quality of client advisors' advice. They get support in this regard not just from computerised tools, but also through further training. In 2016, a wide array of skill enhancement and continuing education courses were offered, as described in the "Employees of VP Bank" section under "Employee development" (page 44). Exemplary in this regard are the client advisors who successfully became certified in accordance with the SAQ standard. Moreover, in pressing ahead with our market development efforts, the necessary financial resources were made available in the Bank's growth markets.

In terms of corporate culture, the emphasis is on promoting a team-oriented mentality. Based on the employee survey conducted in 2015, wide-ranging measures were introduced at all levels, internal job-exchange programmes were intensified, and the possibilities for reaching out directly to top management were broadened.

The series of Leadership seminars initiated already in the fall of 2015 was continued this past year, with training sessions and workshops being conducted for managers from all operating units and locations of VP Bank Group. The training sessions focused on the role perception and role model function of a manager. This Leadership programme is divided into four modules, the next of which will be addressed in 2017.

Other major focal points in 2016 were the topics of Change Management, a "can-do" culture, visions, as well as talent recognition and advancement. Further measures were team and cooperation workshops, and expanded Key Management Meetings that included third- and fourth-level managers. All of these endeavours have the goal of strengthening the entrepreneurial culture at VP Bank Group, fostering commitment, as well as encouraging decisiveness and self-responsibility.

New organisational structure

In 2016, VP Bank Group adapted its organisational and management structure and refocused the tasks of Group Executive Management. This evolutionary step was taken in reflection of the Bank's strategy and its medium-term goals for 2020.

Effective as of 1 January 2016, the "Chief Operating Officer" organisational unit came into being as a supplement to the already existing "Chief Executive Officer", "Client Business" and "Chief Financial Officer" organisational units.

As a member of what since the start of 2016 has been VP Bank's four-man Group Executive Management team, the Chief Operating Officer oversees the Group Information Technology, Group Credit, Group Operations and Group Treasury & Execution operating units. This focus is consistent with a strengthening of the relevant support functions, greater implementation competency and stringent process optimisations. It also reflects the dramatically accelerating trend towards digitalisation as well as the significance of IT-based processes and solutions – both in the intermediaries business and in private banking.

In conjunction with the realisation of Strategy 2020, the start of 2017 also witnessed a further adjustment of the organisationally and management structure. On one hand, the function of General Counsel is now combined with that of Chief Risk Officer and, on the other, VP Bank Group's investment competence has been purposely fortified through the creation of the "Investment Solutions" organisational unit.

Group Executive Management is supported by a broad base of second-level managers, 19 persons in all.

Private banking at VP Bank

"We generate enthusiasm by offering our clients unique experiences" – the roughly 800 employees of VP Bank Group live by that claim. As an internationally active private bank, VP Bank offers its clients highly professional advice and convincing financial solutions – all with a personalised touch.

Our core competencies lie in portfolio management, investment advisory and wealth planning services for sophisticated private clients.

Portfolio management at VP Bank can involve the delegation of investment decisions as well as continuous portfolio monitoring. If clients prefer to receive investment advice only and make their own decisions, they can count on receiving personalised support, the latest market information, and details on

the most suitable products. Wealth planning involves comprehensive counselling and investment solutions that are individually structured to satisfy complex needs.

With its proven philosophy of "open architecture", VP Bank ensures the unbiased quality of the advice it provides in all of these disciplines. Together with VP Bank's Active Advisory Team and a global network of partners, our client advisors recommend the best investment instruments or develop innovative solutions on behalf of their clients.

VP Bank's strategy in the intermediaries business

Since its founding more than 60 years ago, VP Bank prides itself in being a reliable, leading-edge partner for financial intermediaries. Servicing this demanding segment successfully requires cognisance of the different and ever-changing needs of clients in Europe and Asia, a constant eye on the regulatory requirements, and simultaneously the ability to leverage the advantages of a digitised world.

VP Bank Group's "boutique" approach to private banking also applies to its intermediaries business. In other words, it is neither a pure online bank nor a garden-variety universal bank. With its differentiated, personalised air and flair, VP Bank stands out amongst its competitors.

The goal is to offer clients efficient, reliable, cost-effective and intuitively conceived banking services and data in a digital environment. Client segmentation helps VP Bank to tailor its services accordingly. In this regard, external asset managers receive targeted, proactive support from the Active Advisory Team of VP Bank and benefit from specific investment recommendations, switch ideas and portfolio consulting.

In October 2016, a new information platform for VP Bank's intermediary clients was implemented. It affords them a simple and speedy way to access the most important information and services they need for their daily work: from extensive coverage of financial market happenings, to regular publications on business and economic issues, to the latest news on tax and regulatory developments plus the relevant forms.

With its five international booking centres, VP Bank is one of the few banks of its size to have this unusually broad global presence.

The fund business of VP Bank

The investment fund business is of central importance to VP Bank. It is a key supplement to the Bank's private banking and intermediaries businesses and represents an especially attractive growth segment for VP Bank Group.

All of the Bank's fund-related activities – whether they pertain to third-party funds or the proprietary funds of VP Bank itself – are centrally conducted by VP Fund Solutions, an international fund competence centre and one-stop shop for the entire spectrum of services required for the formation, administration and distribution of investment funds. The unit is comprised of VP Fund Solutions (Liechtenstein) AG and

VP Fund Solutions (Luxembourg) SA, and the Group-wide management of this strategically crucial business is carried out in Luxembourg.

The Luxembourg and Liechtenstein entities work closely with each other in a cross-border collaboration. This enables their specialised know-how and technological infrastructure to be bundled, deployed more efficiently, and in a way that ideally fulfils international clients' needs as well as the regulatory requirements.

Having amassed close to 20 years of experience and expertise in the fund business, VP Fund Solutions is the trusted partner of renowned domestic and international advisory firms and fund management companies. Through its cooperation with VP Bank, which acts as custodian bank and paying agent, VP Fund Solutions has access to VP Bank Group's international reach and cost-optimised network of depositories for the clearing and settlement of fund managers' transactions.

By having had a presence at several fund trade fairs in Europe, VP Fund Solutions was able again in 2016 to offer its services to a sophisticated audience as well as intensify its involvement in various trade associations and workgroups. Of particular note: the "VP Bank Best Manager European Equities", "VP Bank Best Manager Swiss Equities" and "VP Bank Best Manager World Equities" were included in a 2016 Liechtenstein ranking of funds with the best sustainability profile. And like the year before, VP Fund Solutions (Liechtenstein) AG was in London during the financial year to receive World Finance magazine's "Investment Management Award" for the best investment management company in Liechtenstein.

VP Bank's lending business

In 2016, the Chief Operating Officer organisational unit initiated an in-depth credit analysis in order to assess the quality of VP Bank's loan portfolio – a key source of revenue for the entire VP Bank Group – and enhance the transparency of its lending practices. The credit business is of great importance to VP Bank and has recorded significant growth rates in certain areas. It centres especially on the Liechtenstein and Swiss mortgage business, a dynamic lombard loan business, as well as a small number of special credits.

The "Credit Review" project aims to define clear, more streamlined lending procedures and bolster VP Bank's credit risk management. The implementation of this project represents an important focal point for 2017. In conjunction with this effort, the newly created "Group Credit" unit under the Chief Operating Officer represents a realignment of the internal organisation. Based on a new credit policy, directives have been issued and their provisions will be implemented during the course of 2017.

VP Bank's digitalisation strategy

Digitising the product and service range represents a core element of VP Bank's internationalisation strategy. The relentless trend towards digitalisation and the increasing significance of IT-based processes and solutions – both in the intermediaries business and in private banking – call for a strategic

plan of attack, one which VP Bank is systematically executing within the framework of its digitalisation strategy. This involves an across-the-board modernisation of the communication channels with clients and employees as well as a broadening of the Bank's online offerings.

For example, VP Bank has started to apply a hybrid advisory model, one which combines tried and trusted personal financial consulting with modern technologies and digital services. Here, the future focus will be on tools that support the client advisors and various client segments.

Those who really place the client at the centre of the advisory process apply a trust-building mix of mind and machine to determine the needs of the client. The goal of all these measures is to convince current and future clients that they are in the best of hands with VP Bank.

As part of this move to digitise processes, data and communication paths, initial measures were conceived and successively introduced during 2016 by an interdivisional project team under the leadership of the Chief Operating Officer. For all these measures, the priority is to come up with solutions that are standardised and can be deployed on a Group-wide scale.

VP Bank's digitalisation strategy for the next three years centres on the following major objectives:

- a comprehensive modernisation of the communication channels to clients;
- an expansion of the online range of offerings;
- the Group-wide harmonisation of business processes;
- the harmonisation of IT-related services and data; and
- a reduction of complexities in the process, products and system environment.

Today's technological possibilities and increased mobility have changed human behaviour permanently and the results are already visible in the way people communicate and do their shopping. In anticipation of this evolutionary change amongst clients of today and tomorrow, VP Bank has identified concrete action fields which are to be addressed over the next three years in conjunction with a Group-wide programme. This will be accomplished in two phases:

The first phase centres on technical modernisation of the existing online services and will bring about noticeable improvements to specific functions for use in all client segments of VP Bank. Here, the focus will be on simplicity, and hence "usability" and client convenience. VP Bank's website is to be redesigned and the e-banking routine thoroughly modernised by early 2018 (see below).

In the second phase, VP Bank will be making targeted investments in its internal systems and data. The aim is to afford client advisors even more time to give their clients the best possible care and, together with them, arrive at the most suitable investment decisions. The online service offering will also be expanded.

Despite all of these digital innovations, technology will never be able to replace the human dimension of private banking. However, VP Bank's client advisors are armed already today with the latest technological tools that help them to provide optimal service. In the end, it will always be our clients who

decide what they want to do, where they need help and whether they are prepared to pay for it. And they also have the choice between taking advantage of round-the-clock online services, or discussing their banking matters in person with their own client advisor. Or actually doing both.

Many of the previously announced efficiency measures have already been successfully implemented in 2016. One notable example is the automation of paper-based processes. As a result of measures like this, VP Bank has achieved savings in the millions – not even counting those attributable to the insourcing of services from Group subsidiaries. So the digitalisation strategy is not just ensuring maximal client satisfaction; it is also enhancing the profitability of VP Bank.

Competent advisors and specialist teams

The financial industry is still in a state of flux. On one hand, clients are better informed, more mobile and more demanding than ever before. On the other hand, banks are constantly faced with increasingly strict regulations and the strident call for transparency.

For excellent, comprehensive client care, a heightened degree of competence is required. Asset management expertise must be combined with insight into crossborder tax law and international finance. In order to advise clients even more competently, VP Bank for years now has been increasing its efforts in the area of professional training for its employees.

The process for certifying client advisors, which started already in 2015, was successfully pursued in 2016. As one of the first banks in Liechtenstein able to make such a claim, VP Bank today has SAQ (Swiss Association for Quality) certified client advisors under its employ. Selected advisors at the Bank's locations in Liechtenstein and Switzerland attended a series of comprehensive training courses for international SAQ certification in the first half of 2016 and graduated in July with a professional degree.

The entire training course is comprised of various finance- and advisory-related modules and was conducted in collaboration with the AKAD School of Banking and Finance. SAQ certification is in keeping with the international ISO/IEC 17024 standard and is federally recognised by the Swiss Accreditation Service. Exams are held under the auspices of the "Swiss Association for Quality SAQ".

With these client advisor certifications, VP Bank will not only fulfil the regulatory requirements of the Liechtenstein and Swiss banking centres, but also keep pace with the highest advisory standards on an international scale.

This continuing education initiative is an integral part of the Group-wide Strategy 2020. Its goal: ensuring the Bank's continuing ability to convince its clients with top-notch solutions. SAQ certification is an important building block in VP Bank's ongoing effort to enhance the professionalism of the advice given to its clients and meet the requirements of the future. In addition to its continuous individualised, in-house as well as external development programmes, VP Bank plans to broaden the range of international certification courses available to its employees.

The projects conducted in recent years with the intent of heightening the advisory quality of advice at VP Bank paid off yet again in the past financial year. In November 2016, Germany's Elite Report, together with the Handelsblatt in Munich, presented awards for the best portfolio managers in the German-speaking region. VP Bank is one of them and was recognised with "cum laude" citation.

Dedicated employees

In the financial industry, motivated and service-oriented employees are the key to success. Again in 2016, VP Bank launched numerous initiatives aimed at furthering its employees and fostering a positive work environment.

"myContribution" is the completely revamped idea and innovation management tool that was introduced at VP Bank in 2015. Employees are encouraged to contribute to VP Bank's success by submitting suggestions on how processes and procedures can be improved. The ideas are evaluated by a panel of experts, and the successfully implemented ones are rewarded. In 2016, a total of 35 suggestions were submitted. Several of them have already been implemented and 13 are currently either under examination or in the process of being implemented by the specialist units. With myContribution, VP Bank is leveraging the brainpower of its employees and in this way boosting the Bank's competitiveness.

After a longer pause, VP Bank conducted another employee survey at the end of 2015. The participation rate of 88 per cent demonstrated the great interest our employees have in their company. Once the findings of the survey were presented in the spring of 2016, all department and location heads were instructed to sit with their employees and devise suitable measures for addressing areas in need of improvement in their field of activity. The main weak points were "Inclusion of employees", "Collaboration within the company", "Structures and processes", and "Knowledge transfer". Accompanying "flash polls" taken during the course of the year provided a snapshot of the progress being made in implementing the fixes. Those efforts will continue apace in 2017 with the goal of "improving together".

A comprehensive overview of all employee-related measures can be found in the section entitled "Employees of VP Bank" on page 41 et seq.

New advisory concept

The constantly changing environment in the banking industry calls for a flexible, innovative, and perpetually optimised service offering. Excellent client care is a top priority at VP Bank and is one of its most important differentiating traits. The overhaul of VP Bank's advisory process is a significant factor in the quest to offer clients noticeable, tangible added value.

To ensure that all clients receive consistently high-quality advice, the advisory process was optimised in 2016. New quality standards were defined for core elements such as the advisory philosophy, the relevant norms, digital and other aids, quality specifications, the precise allocation of responsi-

bilities, as well as the collaboration between internal and external partners.

The clients of VP Bank benefit in a number of ways from this newly introduced advisory concept. Through the structured optimisation of client care, the related systematics and a clearly stated performance claim with regard to investment advice, they enjoy genuine added value. And with VP Bank's new software solution, they receive even more precise account analyses and investment recommendations that also take into consideration the regulatory requirements in their given domicile. Comprehensive, ongoing portfolio monitoring rounds out this convincing approach to client care.

During the past financial year, training in the major aspects of this advisory concept took place and these new skills were put into actual practice. Already today, the redefined advisory standards are being successfully applied in client discussions.

With this systematic approach and the ongoing further development of VP Bank's services, the foundation has been laid for "investment advice of the future".

Further details can be found in the section "VP Bank's clients" on pages 36 ff.

Further enhancements in advice

Excellent client care and attention is one thing; but the quality of the advice given is also of central importance. To that end, VP Bank has revamped its range of services and installed a new advisory software application called "Finfox". Based on a scientific approach, it methodically facilitates top-quality financial planning and asset optimisation. The next steps will be to integrate this software and introduce new advisory packages.

Innovative e-banking

The online services for existing clients are being successively broadened through the addition of modern means of communication. For years, VP Bank has made available its e-banking platform, a system that fulfils the highest standards for security and ease of use. 2013 witnessed the introduction of a new version of "e-banking mobile" that turns a smartphone into a mobile bank counter and enables the environmentally friendly dispatch and receipt of e-post.

With their smartphones, clients have the possibility to query the status of their VP Bank accounts as well as to enter securities orders and money transfer instructions based on current market prices. Also, CH/FL payment slips can be scanned with the device's on-board camera, and notifications of incoming credits to the client's account can be received via a secure mobile "push" channel.

Two significant innovations were added to VP Bank e-banking in 2016. The Mobile Token is an alternative login process for accessing e-banking. With it, the smartphone and e-banking mobile app are used to confirm the authenticity of the login. When doing so via a PC, a push notification is sent to the smartphone to confirm the login. VP Bank's proprietary

Mobile Token is a leading-edge, user-friendly means of system login and is based on the latest technical standards. As a result, VP Bank is the first bank in Switzerland and Liechtenstein to offer a login process that features push notification.

The new ISO 20022 international standard for payment transactions (also referred to as UNIFI – Universal Financial Industry message scheme) regulates the exchange of inter-bank financial notices as well as those between banks and their clients. By having implemented the related functionality, VP Bank is in harmony with the new Swiss procedure for conducting payment transactions in which the previous TXT format of transmitted DTA files has been superseded by the uniform ISO 20022 standard. VP Bank is the first bank in Liechtenstein and the fifth in Switzerland to offer a functionality for ISO 20022.

These modern technologies have met with great favour amongst clients: after having risen by 56 percent in 2014, the usage of e-banking increased by a further 12 per cent in 2015 and rose again slightly this past financial year. Today, considerably more than 70 per cent of all payment instructions are entered online.

VP Bank's e-banking services are constantly evolving and a new platform is under development. The new e-banking is accessible via all mobile devices, be it smartphones, tablets, or PCs. The informational content and display of market data with high-quality graphics are being improved noticeably and further functional features will be introduced. The means of communicating with clients will also change: modern "chat" and video-based solutions will open up innovative possibilities for interaction between advisor and client. The new e-banking platform, with its completely redesigned user interface, will enable clients' needs to be addressed even faster than before and also feature special online offers. This platform should become available to VP Bank clients in the first quarter of 2018. Further releases with even more enhancements will follow.

Outlook

Our efforts in recent years to heighten efficiency and optimise resources at VP Bank Group are starting to pay off. In that knowledge, VP Bank will continue to press ahead with the aforementioned projects. In parallel, sizeable investments in new products and services are planned.

In 2017, special emphasis will be placed on the full implementation of the new advisory process and the marketing of the related product packages. The "Finfox" tool, which is one of the underpinnings of this new approach, will be constantly improved and expanded through new releases and functionalities.

VP Bank's deployment of the "Active Advisory" is an example of how the Bank's financial consulting competence is being furthered. This team bears responsibility for the investment product offering as well as for consulting on complex investment issues.

The fund expertise of VP Bank will gain even more significance in the years ahead and be successively broadened. In 2017, the target markets in Asia will be cultivated through increased activities.

With further investments in the areas of continuing education, e-banking and CRM (customer relationship management) tools, VP Bank will reinforce its already strong position and expand the range of services offered to intermediary clients. The Bank foresees additional chances for growth from the realignment of its intermediaries business.

VP Bank's digitalisation strategy is a forward-looking endeavour aimed at paving the way for modern, innovative services; one in which evolution rather than revolution takes centre stage. This topic will occupy VP Bank heavily over the next three years.

The revamp of the credit business which got under way in 2016 will be resolutely pursued also in the year ahead at the Bank's headquarters in Vaduz as well as at all of its subsidiary companies.

VP Bank Group is well equipped to meet the challenges of the future. This opinion is also shared by Standard & Poor's, which in July 2016 reaffirmed its excellent "A-" rating for VP Bank and raised its outlook from "Negative" to "Stable". As of 2 March 2017, Standard & Poor's again confirmed VP Bank's «A-» rating and improved the outlook from «Stable» to «Positive». As highlighted by Standard & Poor's, the strong capital adequacy of VP Bank showed that the Group would have the capacity to absorb the impact of any potential risk to a great extent. The reconfirmed rating and improved outlook also took account of the operational progress made by VP Bank, its low levels of credit risk and very strong capitalisation.

VP Bank therefore continues to hold a rating of «A-/A-2». The outstanding rating and positive outlook are testament to VP Bank Group's robust and successful business model.

The Asia strategy of VP Bank

Asia is considered one of the most important growth markets for private banking. According to a study by Boston Consulting Group, the continent is the only region of the world where new client money is growing at a double-digit pace. And the number of billionaires in Asia is steadily increasing – a target group which has a tremendous need for comprehensive, professional financial services.

For these reasons, VP Bank has defined the Asia/Pacific realm as one of its target markets and sees substantial growth opportunities there.

Steadfast strategy

However, this growth market, too, is faced with the challenges of today's consolidation within the private banking industry – in other words, narrower margins, rising costs due to regulatory pressure, and heightened competition. To stand the test of time, banks in Asia will not only have to position themselves as niche providers with a sharply defined profile, but, just as important, also render truly personalised customer service.

VP Bank meets these requirements to a tee and is pursuing a successful strategy in Asia. As a "boutique bank", it is clearly positioned as a source of top-notch financial solutions for a highly demanding clientele. VP Bank does not engage in risky investment banking activities, nor does it offer retail banking services in Asia.

Successful business model

VP Bank is present in Asia as a mid-sized bank with some 50 employees. Here as well, the Bank's business model is based on two strategic pillars: private banking and the intermediaries business. Its individual target markets are primarily in Southeast Asia, namely Singapore, Indonesia, Malaysia, Hong Kong and Thailand. The Bank's client advisors cater to the needs of high net worth individuals (HNWIs) with assets in excess of 1 million Singapore dollars, as well as to the very special requirements of ultra-high net worth individuals (UHNWIs).

The growing number of financial intermediaries in Asia opens up yet another promising opportunity. Ever since its founding more than 60 years ago, VP Bank has been actively engaged in this segment and today offers its excellent services also to intermediary clients in Asia. Efficient banking, securities trading and administration models for fiduciaries and external asset managers, as well as personalised attention and the cementing of strategic partnerships, are evidence of the Bank's resolute client orientation, optimal deployment of resources and outstanding service quality. And this offering is broadened continuously.

Thanks to its streamlined hierarchies, VP Bank is highly flexible. Decisions are taken expeditiously, and direct contact with top management can be arranged unbureaucratically. Intermediary clients benefit from the direct access they have to the trading rooms in Singapore and Liechtenstein/Switzerland, which cover the key time zones for securities transaction purposes.

Select locations

VP Bank is represented in two of Asia's most important financial centres.

VP Wealth Management (Hong Kong) Ltd was founded as an asset management company in 2006. Its core competencies are portfolio management and the administration of family offices for wealthy private clients. Investment advice, securities trading and safe custody services are also offered.

VP Bank (Singapore) Ltd is a wholly owned subsidiary of VP Bank Group with bank status and approximately 40 employees. Established in 2008, its core competencies include portfolio management and financial advice for wealthy private clients as well as services for external asset managers.

In recent years, VP Bank has expanded its presence considerably in Asia and thereby sent a clear signal to the market. VP Bank (Singapore) Ltd took up occupancy of new offices in 2016, which now enable a doubling of its staff and provide sufficient room for further expansion. Compared to the headcount at the end of 2015, the number of employees at the Singapore office increased this past year by 33 per cent.

Dynamic growth

Growth is of course a primary objective of VP Bank's strategic thrust. Compared to the saturated European markets, the trend in client assets from the Asia/Pacific region continues to rise. VP Bank is keying on that trend by reinforcing its Singapore office with added staff who offer their clients outstanding value in the Investment Advisory, Wealth Consulting and Succession Planning areas. In the next three years, the Bank intends to recruit up to 40 new advisors in Asia.

But internal expansion is not the only way VP Bank desires to grow in Asia. Here, as well, the Bank will invest in growth by seizing upon special opportunities as they arise in the market, for example through corporate acquisitions and the takeover of entire teams.

In the medium term, plans are that the proportion of total Group revenues attributable to VP Bank's foreign target markets will increase from the current 30 per cent to 50 per cent – and Asia will play a central role in this regard.

Stable outlook

Intensified regulatory pressure presents a challenge also in the Asian markets, one which VP Bank is mastering by means of various staff training courses and the recruitment of specifically skilled personnel. A compulsory Crossborder Policy addresses all risks in the area of law and compliance.

Given the recently augmented Executive Board in Singapore under the leadership of its new CEO, 2017 will mark a further milestone in the expansion of VP Bank in the Asia/Pacific region.

As a lean financial services provider with short decision-making paths, VP Bank in Asia will be one of the winners from the consolidation that is currently underway in the industry. The Bank's proven business model, which focuses on wealthy private clients and professional financial intermediaries, combined with its manageable size, means that VP Bank Group is well equipped for the ongoing changes in the Asian markets. And not of least importance, of course, are the Group's stable shareholder base, solid capitalisation and farsighted strategy.

Sustainability at VP Bank

Sustainability policy

Given today's global developments, corporate responsibility vis-à-vis society as a whole is having an ever-greater influence on the public's perception of companies. Sustainable corporate leadership, corporate social responsibility (CSR) and corporate citizenship are various terms used to describe the matter, but they essentially mean the same. The objective is to take a holistic view of the business activities and shape them in a way that is economically, ecologically and socially reconcilable.

The major changes in the financial industry are trending toward sustainability and transparency. The banking sector is one of the most significant industries in an economy and is therefore closely scrutinised by analysts and investors, who are increasingly demanding responsible business practices and incorporating them into their company valuations.

VP Bank's commitment

Die VP Bank's role in society is marked by its clearly perceivable sense of responsibility versus stakeholders and the environment. For VP Bank, a management mindset that embraces sustainable corporate leadership is a crucial factor in successful entrepreneurial activity.

VP Bank Group is committed to the principle of sustainability. It is convinced that responsible actions and economic success are interdependent. The business model of a bank is based on the trust of its clients. VP Bank's activities in the area of sustainability foster and reinforce that trust. Thus, responsible action is a key element of the corporate culture, the internal work processes and the operative business of VP Bank. Moreover, VP Bank maintains high standards with regard to corporate governance.

VP Bank maintains a constructive dialogue with its clients, employees and shareholders, as well as other constituents of broader society, and takes their feedback into account in its business decisions. By doing so, the Bank generates added value for all of its stakeholders.

Stiftung Fürstl. Kommerzienrat Guido Feger is the largest shareholder of VP Bank. Established by the Bank's founder in 1954, it supports social, charitable and cultural projects, thereby shaping the corporate culture at VP Bank Group and lending expression to the Bank's social character.

Since 2012, VP Bank has a sponsorship agreement with the Swiss Climate Foundation. As a partner of this foundation, VP Bank provides financial support for the energy efficiency and climate protection projects of small- and medium-sized companies in Switzerland and Liechtenstein. As part of this

process, VP Bank provides funding based on the net rebate on the incentive tax on hydrocarbons.

In addition, VP Bank strives to uphold its responsibility towards the environment by means of targeted measures for the sustainable use of resources. Moreover, due to its commercial activities, VP Bank is by definition in an active interrelationship with society as a whole, and thus contributes to the further development and preservation of Liechtenstein as a centre for finance and industry.

With its sustainability policy, VP Bank defines precise minimum standards for the products and services it offers. This policy applies just as much to collecting client funds as to the granting of loans and the conduct of the investment business. As a part of this, VP Bank makes every effort to keep its banking operations CO₂-neutral.

Encouragement of proper behaviour

In conducting its banking business, VP Bank actively works to prevent bribery (the core of corruption), the granting and receiving of undue advantage and money laundering. This is achieved through regular client advisor training sessions and by monitoring compliance with the rules laid down in the Service Regulations and the Code of Conduct.

Apart from the values and management principles of VP Bank, the Code of Conduct documents the Bank's commitment to ethically correct business practices. VP Bank pursues its vision of generating enthusiasm by offering its clients unique experiences. This requires trust and closeness to the client. VP Bank fosters both of these aspects by voluntarily observing ethical principles in its business activities and creating a viable foundation of rules for its conduct.

The Code of Conduct lays down the ethical principles of VP Bank that are binding on all employees, and serves as a guideline for proper behaviour. Each employee receives a copy of the Code of Conduct upon joining the company. The document is also available on the VP Bank intranet as well as on the Bank's website as a downloadable file. Breaches of the Code of Conduct are dealt with without compromise through disciplinary measures and penalties applicable under labour law.

In addition, the Service Regulations of VP Bank specify important manners of behaviour with regard to banking secrecy, discretion, data integrity, equal opportunity, social media guidelines, conflicts of interest, insider information and data protection. The Service Regulations take the form of a directive and are an integral part of each employment contract. They apply to all employees of VP Bank.

It is the goal of VP Bank to constantly broaden and improve all of its efforts in the area of sustainability. In 2015, Group Executive Management resolved to redouble those efforts, and the topic of CSR is being emphasised even more in all areas of VP Bank Group. This goal is being accomplished through, among other means:

- increased networking with the Bank's relevant interest groups
- VP Bank's adoption of the UN Global Compact (see below)
- active internal awareness-raising measures on these issues
- greater integration of sustainability aspects into the client advisory discussion

For the implementation of these activities, a CSR workgroup was established in 2015. Among the concrete measures taken in 2016 were the introduction of a so-called Volunteering Day, the procurement of electric bicycles, financial support for "Flüchtlingshilfe Liechtenstein" and the establishment of a CSR board for sustainability in the investment process.

The reports on the measures taken and results achieved are at present based mainly on data from Liechtenstein. VP Bank foresees being able in the next several years to introduce a reporting routine devoted specifically to environment-related numbers. Further information on the topic of sustainability/CSR can be found in the following sections of this annual report:

- "VP Bank's stakeholders" (p. 40)
- "VP Bank's suppliers" (p. 46)
- "VP Bank's business ecology" (p. 49)
- "The social engagement of VP Bank" (p. 52)

CSR – the obligation to report

Transparency is essential for doing business and assuming corporate responsibility in a sustainable way. This means disclosing information that is important to the key interest groups/stakeholders. As a socially responsible enterprise, VP Bank also wants to set an example with the reporting it provides to its stakeholders.

In effort to make Europe's economy more successful and competitive, the EU has prescribed that major companies with dealings in the capital markets must in future disclose not only financial, but also non-financial key figures. In February 2014, the EU member states agreed on a reporting obligation concerning social responsibility (CSR). As from 2017, large companies with more than 500 employees must report on their achievements in matters involving the environment, society, employees, human rights, the fight against corruption and diversity in management bodies. The UN Global Compact is one of the models that companies can draw on for this purpose.

UN Global Compact

The United Nations Global Compact is a universal convention concluded between companies and the UN with the aim of shaping globalisation in a more social and environmentally friendly way. It is the largest sustainability initiative the world has ever seen, with more than 12,000 signatories in nearly 170 countries, including more than 9,000 companies.

VP Bank has been a signatory company since 2016 and thereby made a commitment to the UN Global Compact (UNGC) "Ten Principles" of responsible business. VP Bank expects its employees and management as well as its partners and suppliers to demonstrate responsible conduct under these principles.

- **Principle 1:** VP Bank pledges to respect internationally proclaimed human rights and promote them within its sphere of influence.
- **Principle 2:** VP Bank ensures that it is not complicit in human rights abuses.
- **Principle 3:** VP Bank respects the rights of its employees to associate freely and recognises their right to collective bargaining.
- **Principle 4:** VP Bank prohibits all types of forced and compulsory labour.
- **Principle 5:** VP Bank advocates for the elimination of child labour.
- **Principle 6:** VP Bank prohibits any form of discrimination in respect of employment and occupation.
- **Principle 7:** VP Bank supports a precautionary approach to environmental challenges.
- **Principle 8:** VP Bank undertakes initiatives to promote greater environmental responsibility.
- **Principle 9:** VP Bank encourages the development and diffusion of environmentally friendly technologies.
- **Principle 10:** VP Bank works against corruption in all its forms, notably extortion and bribery.

The signatory companies must publish an annual report on compliance with these 10 principles. VP Bank's 2016 UN Global Compact Communication on Progress (COP) report is available on the website of the UN Global Compact as well as that of VP Bank under "Responsibility – Sustainability."

More information on the UN Global Compact can be found through the following link:

www.unglobalcompact.org

VP Bank's clients

VP Bank is an internationally positioned private bank which focuses on providing customised portfolio management services and investment advice as well as financings and investment fund solutions on behalf of sophisticated private clients. Equally spoken, VP Bank also regards itself as an established, reliable partner for financial intermediaries who greatly appreciate the Bank's modern technological infrastructure and decades of financial market savvy.

Business fields and client segments

Through its Private Banking, Intermediaries and Fund Solutions business divisions, VP Bank addresses a specified, limited number of target markets and client segments. Private banking services and the intermediaries business are performed at all VP Bank locations with bank status. In Liechtenstein and the neighbouring region, this offering is supplemented by retail banking services which include client-oriented package solutions. VP Bank also assists institutional and corporate clients, mainly in Liechtenstein and Eastern Switzerland, by financing their investment and working capital needs.

The clients of VP Bank benefit from user-friendly, innovative solutions in the areas of e-banking and mobile banking. Special account arrangements for youths, trainees and students are also on offer. The banking packages introduced in 2015, which cover the most important banking services associated with savings, debit/credit cards and online banking, are highly appreciated by clients who now benefit from these modern solutions, attractive prices and uncomplicated ways to conduct their banking business.

In the course of VP Bank's holistic approach to investment advice, our teams can draw on Group-wide competencies and the skills of external partners in order to design bespoke solutions that fulfil all the client's requirements. In this regard, a clearly defined allocation of the roles involved in client care ensures fine-tuned interaction between our client advisors and specialists in the fields of investment products and services, taxes, credits, funds and legal structures. The importance of interdisciplinary collaboration is steadily increasing as the clients of VP Bank are faced with ever more complex issues.

In 2016, VP Bank Group again invested extensively in enhancing the quality of client care and advice, fine-tuned the product and service offerings for the Bank's various client segments and markets, as well as adapted its organisational structure to reflect the importance of the Intermediaries business. Our increased client acquisition activities resulted in remarkable successes especially in Asia, Russia, Liechtenstein, Switzerland and Germany.

Client satisfaction

VP Bank Group focuses squarely on closeness to the client and service quality. As part of the Bank's feedback management effort, client advisors systematically document client's reactions to the service they receive. Openness to feedback of this nature, professional complaint management and the will to work continuously on improving are evidence of VP Bank's resolute client orientation.

In connection with this ongoing client dialogue, each year VP Bank receives and addresses close to 500 comments from its clients. The comments are made either to the client advisor directly or via the contact form available at the VP Bank website. With this ongoing process, VP Bank ensures the high quality of its services and fulfils the requirements of Liechtenstein's financial market supervisory authority (FMA) regarding complaint handling.

Client satisfaction was also confirmed in the public domain: similar to the year before, Germany's Elite Report awarded VP Bank its "cum laude" citation for excellence in financial advice.

A new client advisory approach

Individualised, portfolio-specific investment advice affords clients true added value. For that reason, VP Bank has added a digital dimension to its traditional advisory methods through the introduction of a computer-based application that reinforces our client advisors' ability to provide systematic, high-quality investment advice. This tool also ensures that regulatory requirements, especially those relating to portfolio supervision, are comprehensively heeded. The advantages to the client from this new approach are obvious: enhanced transparency and understandability of the advice they receive, improved documentation, and a heightened sense of security thanks to continuous portfolio monitoring.

Adjustments have also been made to Bank's traditional investment advisory business model, which still offers transparency and fairness in terms of the fees charged for these services. VP Bank has put together an array of advisory packages that bundle the individual services, each of which is clearly defined and priced in a way that clients always know what they are paying for.

The aforementioned advisory tool helps client advisors, together with their client, to analyse the portfolio from various perspectives, derive an appropriate investment strategy and then implement it appropriately. All the while, the portfolio is monitored for compliance with regulatory provisions, the particulars of the individual investments, as well as the client's risk profile and specific instructions.

Investment recommendations

VP Bank's open architecture concept enables clients to benefit from the "Best Manager Principle" in their selection of third-party investment funds. As to VP Bank's analysts, they also work closely with an independent "Best Partner" in arriving at decisions on the most attractive stocks and bonds at any given time. The select circle of professional asset managers and research partners VP Bank collaborates with are amongst the best in the business, enjoy an outstanding reputation, and have long won the trust of market participants.

Included in our analysts' recommendations are the products and services of leading financial institutions, as well as proprietary investment solutions developed by the Bank, itself.

Although the 2016 investment year ended on quite an upbeat note, it was nonetheless an extremely eventful and at times turbulent year. Right from day one, fears for the global economy drove the markets down with a ferocity not seen since the start of the financial crisis. However, market participants' pessimism proved to be exaggerated. As the year progressed, the tactic of staying invested – or, as VP Bank recommended, selectively adding to positions – during the stress phase turned out to be the best route. The markets came away from the correction stronger than before, and most segments managed to recover. What remained was an enormous resilience, albeit one that was tested repeatedly during the course of the year.

The memorable events in 2016 were of course the surprising political decisions in Great Britain (Brexit) and the USA (election of Donald Trump). But perhaps even more astonishing was the nonchalance the markets demonstrated in response to these surprises. Despite the challenging environment in the emerging markets, VP Bank recommended overweighting them – and in the end, they clearly outperformed the equity markets of the industrialised nations.

Although global yields rose noticeably in the fourth quarter, bond investments on the whole did rather well in 2016 – especially in the corporate bond area, where the downtrend in risk premiums persisted.

Quality and efficiency of advice

To ensure that all clients receive advice that is of consistently high quality, VP Bank has refined its advisory process even further. New quality standards have been defined and optimised – for example, core elements such as the advisory philosophy, the relevant norms, digital and other aids, quality specifications, the precise allocation of responsibilities, as well as the collaboration between internal and external partners, to name just a few. This clearly elucidated advisory process

forms the foundation of a goal-oriented service model which VP Bank has developed to facilitate the seamless interplay between personalised advice, specialist know-how and digitally assisted discipline.

The efficiency campaign launched in 2015 started to bear fruit in 2016. The optimisation of VP Bank's e-banking and mobile banking applications has resulted in an increase in the number of electronically conducted transactions. And thanks to the automation of the client lifecycle processes – e.g. the compilation, maintenance and deletion of client data – our client advisors have won valuable time that can be devoted to intensified client care.

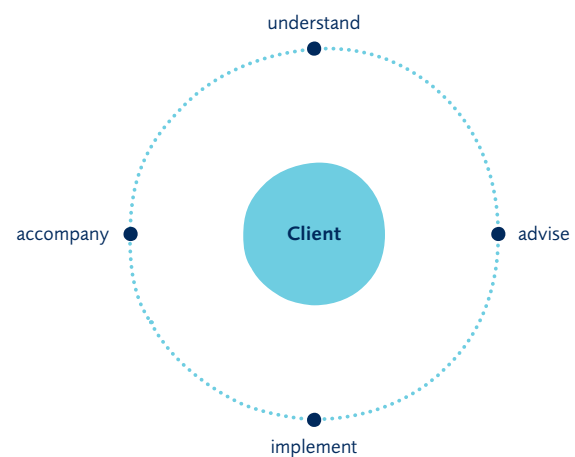
Advisory process

The acquisition of clients represents the starting point for the advisory process. Most of VP Bank's new clients come to the Bank at the recommendation of existing clients. Client care is accomplished via a systematic process that starts with a determination of the client's specific needs and ends with a precisely tailored solution.

1. Understand the client

Right from the very start, VP Bank wants to gain a comprehensive familiarity with its clients. Here, the primary questions are:

- Who is sitting across from me at the table?
- What are the obvious characteristics of that person?
- What were his or her motivators in the past; what are they today?
- What goals do they wish to pursue?
- How can we as a bank support them in achieving those goals?



The quality and quantity of the information requested/ received from the client are decisive factors in the subsequent advisory process and crucial to its being conducted in a goal-oriented manner. A prerequisite for successful collaboration with corporate clients or intermediaries is having a solid understanding of their specific business model.

2. Advise the client

In devising the most appropriate investment solutions, alternatives and various scenarios are always borne in mind. The client is not only shown the solutions that are "the closest fit", but also sensible possibilities in a broader context. VP Bank Group attaches great value to a team approach in the development of solutions. Accordingly, specialists as well as other sources of expertise are included in this process at an early stage and, if need be, are also in direct contact with the client.

3. Implement the client's wishes

If the client agrees to the presented solution, implementation is the next step. Quality and precise timing are crucial in this regard. The time taken for translating solutions into reality underscores VP Bank's performance capabilities and devotion to achieving the exceptional. VP Bank considers it extremely important that this implementation is conducted in a timely manner or in keeping with agreed milestones that fulfil the expectations of the client.

4. Accompany the client

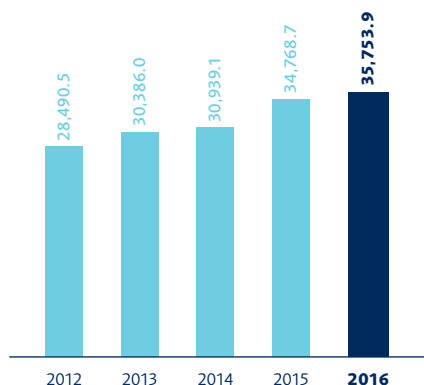
The advisory process does not simply end upon realisation of an agreed solution. Client wishes and the client profile change continuously. By periodically comparing the past and present client profile as well as the effects and performance of a previously agreed solution – this through proactive contact with the client – VP Bank generates true added value for its clients.

Ongoing training and education of client advisors

Clients are entitled to have a client advisor who is totally cognisant of their needs, always has a comprehensive understanding of their financial situation, and can propose optimally tailored solutions that fulfil those needs. And again in 2016, VP Bank paid the utmost attention to that entitlement – both in terms of its intermediary clients and private customers. To that end, our client advisors regularly attend training sessions and continuing education courses in a variety of fields.

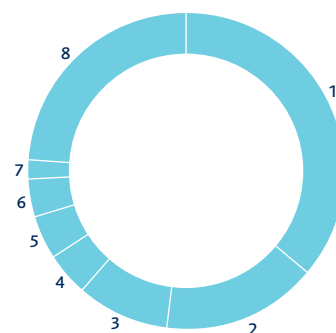
The foundation for outstanding quality in investment advice is cemented by the Liechtenstein Bankers Association directive which prescribes a binding, uniform base standard for the knowledge and competence of all client advisors at its member banks. The goal of this directive is to ensure that top quality investment advice is provided also in the years to

Client assets under management excluding custody assets (in CHF million)



The origin of assets under management in 2016

- 1 Liechtenstein 36.2%
- 2 Switzerland 16.0%
- 3 Luxembourg 9.2%
- 4 Germany 4.6%
- 5 Russian Fed. 4.5%
- 6 BVI 3.7%
- 7 Hong Kong 2.0%
- 8 Rest of the world 23.8%



come, and that members adhere to the stringent standards of the ICMA's (International Capital Markets Association) quality charter on professionalism in private asset management. The directive also addresses the skills and capabilities that will become mandatory as of January 2018 under MiFID II. Through its advanced employee training and education measures, VP Bank – as a member of the Liechtenstein Bankers Association – is complying fully with the word and spirit this directive, which is aimed at putting Liechtenstein in a leadership position amongst the world's major financial centres.

As one of the first banks in Liechtenstein able to make such a claim, VP Bank today has SAQ (Swiss Association for Quality) certified client advisors under its employ. Selected advisors at the Bank's locations in Liechtenstein and Switzerland attended in 2016 a series of comprehensive training courses for international SAQ certification and graduated with a professional degree. During the course of 2017, these certification efforts will be continued, as will specialised courses in tax, compliance and the rendering of cross-border financial services.

Cross-border banking

The legal and reputational risks involved in the cross-border financial services business have increased markedly in the

recent past. Foreign supervisory authorities are keeping a keen eye on the legal conformity of foreign banks' cross-border business activities, which include the acquisition, advising and servicing of clients located abroad.

As VP Bank Group renders cross-border services, the Bank has regulated those activities in a binding cross-border policy. This directive serves as an adequate instrument for recognising, managing and controlling the related legal and compliance risks. It also lays down the principles as well as the ways and means by which the cross-border services and products of the Bank are to be offered. For each of its target countries, VP Bank provides its client advisors with country manuals which describe the local behavioural dos and don'ts from a supervisory standpoint.

Client assets

As at 31 December 2016, VP Bank held client assets under management totalling CHF 35.8 billion, a 2.8 per cent increase over the previous year. Assets held in custody accounted for an additional CHF 5.8 billion. Total client assets at the end of the year therefore amounted to CHF 41.5 billion (previous year: CHF 41.4 billion). On balance, VP Bank Group recorded a net inflow of CHF 7.0 million in new client assets.

Classification of client assets under management

in %	31.12.2016	31.12.2015
Analysis by asset class		
Liquidity	29	30
Bonds	20	20
Equities	21	20
Investment funds	27	27
Other	3	3
Total	100	100

in %	31.12.2016	31.12.2015
Analysis by currency		
CHF	26	26
EUR	28	30
USD	33	31
Other	13	13
Total	100	100

VP Bank's stakeholders

One thing it takes to remain a successful banking group over the long term is an efficient, visionary management team. But it takes more than just that: VP Bank is committed to bearing in mind the expectations and needs of its stakeholders. Only in this way can VP Bank achieve sustainable success.

Engaging interest groups in a transparent and trustworthy manner is one of the fundamental principles of VP Bank Group. It is part of its corporate responsibility to stay in close contact with them and inform them about the performance and activities of VP Bank.

VP Bank views stakeholders as being all those organisations and people who lay claim to a financial, legal, commercial or other special interest in the company.

The core stakeholders in VP Bank can be broken down into six groups:

- Clients
- Board of Directors, Group Executive Management and Employees
- Shareholders, investors and financial analysts
- The media and the general public
- Suppliers and business partners
- Legislative and supervisory authorities

While the dialogue with these stakeholders is planned and conducted systematically, it can also take place spontaneously in a direct exchange of ideas and opinions. Each stakeholder group has its own particular expectations; for that reason, VP Bank makes every effort to know and understand the interests of all its stakeholders. To achieve this, VP Bank maintains an ongoing discourse with them and, whenever

possible, incorporates the findings and insights into all of its activities and processes. Moreover, the dialogue helps VP Bank to identify emerging trends at an early stage as well as to intensify its social engagement.

This stakeholder dialogue takes various forms depending on the specific target groups, business fields and concrete issues – for example:

- Client discussions
- Cooperative interaction with schools, colleges and universities
- Employee discussions
- Internal events
- Theme-based conferences
- Financial industry trade fairs
- Press conferences
- Investor discussions
- Federation work and presence in external interest groups
- Industry-specific exchanges of best practice
- PR work on investment, market and commercial themes

Memberships

As a member of numerous federations and associations, VP Bank fosters a dialogue with business and society. The type of collaboration is multifaceted in reflection of the range of particular needs and objectives.

Depending on the given area, the dialogue is essentially institutionalised (clients, media, investors) or takes place sporadically. The relevant internal specialist departments and teams, for example Legal & Compliance, Corporate Communications, Investor Relations, Human Resources Management and IT, are responsible for maintaining this interaction.

These memberships pertain in part to important business and industry federations such as the Liechtenstein Bankers Association, the Liechtenstein Chamber of Industry and Commerce and the Swiss Bankers Association.

Other memberships, such as those in the International Center for Corporate Governance, the International Capital Market Association, the Occupational Health Managers Forum and the Swiss Investor Relations Association, are excellent venues for the transfer of know-how.

Memberships in the Swiss Business Council for Sustainable Development (Öbu) and the Liechtenstein Society for Environmental Protection serve as a means of sharing best practice in the area of sustainability.



Employees of VP Bank

In the service of the corporate strategy

The economic environment in private banking presents the finance sector with major challenges: higher regulatory requirements for products and services, more competition and falling revenues combined with changed client needs.

VP Bank meets the changes occurring in the environment with a focussed organisation and appropriately coordinated processes. The interaction across the business units and locations is a crucial factor in order to provide the whole array of services. In the final analysis, employees are to be found everywhere behind all of this. With their technical knowledge, their commitment and preparedness to make the necessary changes, they are the key to the success of VP Bank Group. This is true for all employees to the same degree, with or without direct client contact and across all hierarchical levels and disciplines.

Especially in the case of financial services, motivated, capable, service-oriented employees with a focus on service and skill in personal contacts are the decisive resource to gain the confidence of clients and thereafter to retain them on an on-going basis. VP Bank takes care to promote a positive working environment and enables its employees to take advantage of numerous opportunities. It is precisely in this permanently changing environment that VP Bank faces its employees with respect and openness and nurtures constructive cooperation in all situations.

Managing human resources (HR)

VP Bank's strategy rests on three pillars: growth, focus and culture. To successfully exploit the opportunities arising from this change, employees are needed everywhere in the final analysis. The HR vision «With the spirit of VP Bank for sure ahead: grow – move – enthuse. Only enthusiastic employees inspire our clients» seeks to demonstrate where the journey is heading. To get there, VP Bank focusses on three thrusts in its HR strategy: talent management, performance management and change management, which are inspired by the VP Bank strategy.

- Talent management: With the best-matching talents, we sustainably develop our competencies thus enabling profitable growth.
- Performance management: Strategy-oriented targets and target achievement, coupled to the recognition of performance brings our energy into focus.
- Change management: Our culture helps us most to exploit the opportunities arising from change. We work actively on change to be fit in future for the international and digital future and to further grow with our clients and partners.

The overarching goal of the HR strategy and daily personnel-related tasks associated therewith is: the necessary employees should be available in all locations on a timely basis, both in the required numbers and more particularly, with the necessary technical know-how and relevant capabilities. Insofar as they are known, future developments flowing into the activities are also taken into account on a pro-active basis.

Defined processes for a coordinated cooperation

The management of human resources is shared by many actors. These are, in particular, the line managers and local HR officers, the central HR employees as well as management on site and at the Group level. Accordingly, it is imperative to appropriately lay down how they all cooperate through assigned tasks, powers of authority and responsibilities and to define the processes for the most important events (such as recruitment, resignation, wage and salary setting, promotion etc. etc.). Especially also for employee development, a significant core element of personnel work, the orderly collaboration between responsible managers, the employees themselves and the HR specialists are important to obtain the desired results.

The defined HR processes with their sub-processes are an essential tool in joint personnel work. Any necessary amendments thereto become evident through repeated use. Any recognised optimisation potential is implemented, thus keeping HR processes, as a whole, always up-to-date.

The MbO (Management by Objectives) process takes on a pivotal role within the context of managing the company. At a company level, the goals of VP Bank Group are first split over the companies right up to the individual business units. On an individual level, the corresponding targets and principal tasks in succession are agreed for each individual employee. As a result, the activities of the employees are systematically guided in the desired direction and the achievement of the goals of the bank brought into line with the individual targets.

At the end of the period, the line managers assess and recognise the employee's performance as a basis for the performance-related part of total compensation. They take into consideration the achievement of targets, the performance of the employee's main tasks and, in particular, the degree to which regulatory directives, internal regulations and client-specific instructions are complied with. Through management by objectives, line managers place trust in their employees, give freedom to organise their work and recognise the necessary individual developmental measures.

Central staff function – Human Resources

The Management of each individual company is responsible, together with line managers, for the specific deployment of employees and the supply of the necessary resources. The members of the personnel department support them, in this regard, both as a staff function as well as through pertinent technical knowledge and by assuming specific administrative tasks. The decision-making power in the specific cases lies with the line managers.

In Liechtenstein locations, the unit Group Human Resources makes the whole spectrum of its services available. This encompasses all operational HR activities including counselling and supporting line managers and employees. In Liechtenstein, operations are assured for the entire VP Bank Group as well as the running of the central HR system as well as the management of the Group-wide organisational structure. In-house technical knowledge is available to Management for conceptual questions and thus flows into the further development of Group-wide human-resource management.

Local management at each further location must ensure that the necessary HR administration is in place either in-house or through external partners. Technical and administrative support is assured through the central unit in the Liechtenstein parent company. Appropriate HR specialists are on board in Zurich, Luxembourg and Singapore.

Involvement of employees

Employee representation (ER) was introduced in all Liechtenstein locations in 1988 as a result of the then recently adopted Employee Participation Act. The five members were elected at the end of 2012 for a four-year term of office. In the wake of the merger with Centrum Bank AG, the number of members was temporarily increased by the two previous personnel representatives of Centrum Bank AG to a total of seven. With the elections of 2017, ER will again operate with its original number of five members.

The work of ER is based on the Employee Participation Rules which were issued by the Executive Board. The ER must be informed by the Executive Board and heard whenever the general conditions of employment are to be amended or when a reduction in headcount is foreseen. Decision-making powers in the matter, however, lie with the Executive Board itself.

In VP Bank (Luxembourg) SA and VP Fund Solutions (Luxembourg) SA, there exists a joint Workers' Council which represents the interests of the employees of both companies. Because of the size of the companies, ten members are

elected to the delegation of the personnel, of which five are permanent members and five substitute members.

The Workers' Council represents the interests of the employees of a company and stands up for the protection and improvement of working conditions, the defence of the employment situation and jobs as well as for protecting the employees' social status. The employer must inform the Workers' Council on business operations and the development of the company as well as on the most recent and probable development of its activities and its financial situation. The Workers' Council has equally the right to request certain information at regular intervals.

Data platform SAP HCM

Since 2010, VP Bank, with SAP HCM, has a technical platform for the most varied HR activities at its disposal. The central system is the combined database for all locations and is developed constantly to tap further potential uses thereof, within the means available.

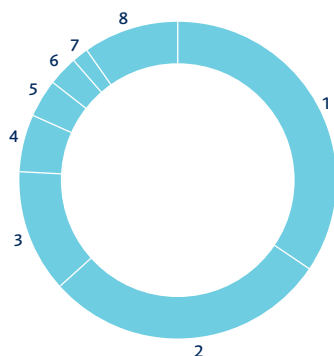
The information available within SAP HCM constitutes, so to speak, the "backbone" for managing human resources. It encompasses the entire organisational structure Group-wide with permanent positions and the individuals allocated there to as well as detailed information on employees such as the qualifications and authorisation of client advisors enabling them to work on a cross-border basis. The central database is necessary not only for HR processes, it flows into other business processes. In this manner, future personnel costs for the entire Group for the current year and subsequent years can be extrapolated on a quarterly basis, for instance.

The maintenance of the data is undertaken by the central HR unit in the parent company. Also, reports from the system are made available centrally for the various locations as and when the need arises. The function is available Group-wide to line managers on a "management self-service" basis. With the aid of this web-based application, the line manager has direct access to the time management and personal data of the employees reporting to him and the possibility to prepare reports himself (birthday lists, long-service anniversaries etc.) as well as managing employee absences. The "Employee Self Service" portal, which was introduced as of 1 January 2016, serves employees to retrieve their own absences, visualise their own employee master data as well as their own wage and salary slips.

During 2016, e-recruiting was introduced in the locations of Liechtenstein, Zurich and Luxembourg. This enables the Group to present an even more professional image to the

Nationality of VP Bank Group's employees

- 1 Switzerland 34.5%
- 2 Liechtenstein 29.1%
- 3 Germany 12.4%
- 4 Austria 5.7%
- 5 Luxembourg 3.9%
- 6 Singapore 3.2%
- 7 Italy 1.5%
- 8 Rest of the world 9.7%



outside world and a more efficient processing of job applications based on the joint platform for HR officers, line managers and recruitment agencies. Potential candidates rapidly obtain an overview over our vacancies internationally and can apply directly online. Their documents can thus be stored centrally and accessed at any time by line managers and HR officers. E-recruiting facilitates in-house cooperation between line personnel and HR and offers at any time a current overview on the status of the recruitment process.

Employee headcount

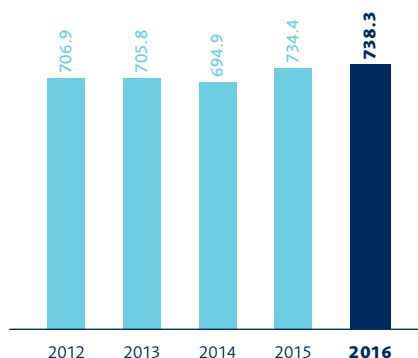
With a headcount of 804 people as of 31 December 2016, VP Bank Group employed 6 people more than at the beginning of the year.

At the Zurich location, a minor reduction in employee headcount of 2 (expressed as FTEs: -2.5) to 60 employees occurred.

There was also reduction of 4 to 95 employees in VP Bank in Luxembourg (expressed as FTEs: -6.9). As a result of the growth in Asia, the headcount in the subsidiary in Singapore increased by 10 to 40 employees in 2016 (prior year: 30). Minimal changes took place in Hong Kong (+ one employee) and in the British Virgin Islands (-2 employees).

At the beginning of 2017, several front-office functions were reorganised and a performance-oriented salary model for client advisors with direct client responsibility was introduced. This reallocation has a direct impact on the number of client advisors previously reported. VP Bank Group employed a total of 136 client advisors at the end of 2016, as a result.

Headcount of VP Bank Group (full-time equivalents)



In VP Bank, client advisors are defined as those which are client-facing and managing allocated assets.

Not defined as client advisors, as they have no allocated clients, are client-facing employees, such as active advisory personnel, investment consultants and counter staff.

Number of client advisors	31.12.2016		31.12.2015	
	FTE	HC	FTE	HC
New definition	132.3	136	128.9	132
Old definition	149.2	156	144.9	151

FTE = Full-time equivalents

HC = Headcount (employees in absolute terms)

The headcount of client advisors shows a slight increase. With a reported number of 136 client advisors (prior year: 132), VP Bank was able to recruit 4 new colleagues. This number equates to 17 per cent of all Group employees, as in the prior year. In Singapore, the number of client advisors increased by 4 to reach 14, in Switzerland by 1 to reach 21 and in Hong Kong by 1 to 5 individuals. In Liechtenstein, conversely, the number of client advisors declined by 2 to 69 individuals.

The average service period in VP Bank Group, at the end of 2016, remained stable at 10 years. Equally stable is the number for VP Bank, Vaduz with some 11.5 years.

Employees who are Swiss nationals continue to make up the largest group of all employees at 34.5 per cent (prior year: 34.8 per cent). The share of Liechtenstein citizens declined slightly from 29.6 to 29.1 per cent. The third-largest share with 12.4 per cent is still constituted by employees from Germany (prior year: 12.3 per cent) (cf. graph above).

Recruitment of employees and resignations

The recruitment of new employees was unequal in terms of distribution over the year. In 2016, VP Bank tended to have more unfilled positions in the 2nd half than in the 1st half of the year. Various profiles are currently not easy to find or fiercely fought over on the marketplace, such as, for instance, IT specialists. The recently-introduced candidate-management software has markedly contributed to making recruitment processes more efficient. Since the introduction of the recruitment tool as of mid-2016 up through to the end of 2016, over 1,000 applications were processed using the tool. In addition to the Liechtenstein parent company, the tool is also deployed in VP Bank (Switzerland) Ltd and VP Bank (Luxembourg) SA.

The recruitment of technically and socially competent individuals fitting the needs of VP Bank is and remains the main task of personnel work. VP Bank builds upon a standardised recruitment process comprising interviews and personality analyses.

When an employee leaves, they are also professionally accompanied. Exit interviews are conducted with them by line managers and the Human Resources department whereby leaving employees are interviewed using a standardised method.

In 2016, a total of 140 individuals (prior year: 129) left VP Bank Group. This equates to a fluctuation rate of 17.5 per cent. This value is to be viewed within the context of current reorganisation processes.

Retaining and remunerating staff

Job content which appears meaningful and satisfying, as well as the working atmosphere are demonstrably of enormous importance in order that employees should feel well. Many reasons can destroy a good working atmosphere: influences from within or because of economic circumstances just as much as events in the employee's personal or family environment.

To measure employee satisfaction, a Group-wide staff survey was conducted in the autumn of 2015 with 88 per cent of employees participating. The results were analysed in-depth and in the following year, 2016, measures were derived therefrom on all hierarchical levels in order to lay the foundation for future positive changes.

VP Bank is aware that employees are to be viewed as individuals with differing needs and within the context of their own living conditions. The contact persons in the HR departments stand willingly at the disposal of all employees to clarify issues

arising of any nature whatsoever. In addition to regular discussions with those involved, to searching for solutions as well as the following of conflictual and personal crisis situations, team analyses and coachings are held to assist employees and line managers. Individual evaluations or developmental counselling are also offered. A broad expertise is available in-house and, where required, is supplemented using external partners.

Compensation is also essential for the contentment of employees and their loyalty to the company. VP Bank subscribes to paying fair remuneration in line with the market. The guaranteed fixed remuneration varies according to function and related demands whereas any possible variable salary components are geared to the success of the company and to individual performance.

A good 35 employees took advantage of the "Volunteering Day" in 2016 and which had been introduced at the end of 2015. They undertook missions in a non-profit institution in one of the following areas: social issues, education programmes or ecology/environment. The bank makes one day per annum per employee available for this programme during working hours. The feedback both from the employees and the institutions in which such missions were undertaken was extremely positive.

Employee development

The finance industry has changed and developed significantly over recent years. New challenges such as digitalisation intensify and accelerate this process even more and modify the requirements profile for executives and bank employees substantially. In order to assert oneself in this highly competitive environment and fulfil the increased demands of clients, committed, enthusiastic and competent employees are required.

Already for years, VP Bank has, for this reason, invested in individual training and further education as well as the technical development of its employees, especially in the know-how of client advisors. In this respect, in-house specialised units and experts make an important contribution in training courses focussed on company-specific knowledge. This wealth of knowledge available in-house is supplemented by selected external partners. Also, the proprietary e-learning platform offers an instrument transcending time and locations in order to realise training courses efficiently and in a resource-friendly manner.

Various training initiatives and measures taken during 2016 exemplify the strategic significance of personnel development for VP Bank. For instance, the client advisors in Liechtenstein and Switzerland were amongst the first to obtain certification

according to the advisory standards based on "SAQ – Swiss Association for Quality" and thus operate in line with the highest professional standards. Furthermore, the certificate course for market-development activities in Germany was continued as well as various product-related courses undertaken; training courses on the advisory process and on the advisory tool, inter alia. These measures ensure a sounder quality of advice and a more comprehensive service.

The principal emphasis in cultural and leadership development was placed on the development and implementation during the year of the multi-stage programme "Leading@VPBank". The various training courses facilitate not only the advancement of specific leadership know-how but also a transfer of practical experience across all management levels and Group locations. The training courses were accompanied by Management and moderated by external partners. The leadership training courses are an important building-block in strategic employee development and are supplemented by various measures resulting from the employee survey.

In Liechtenstein, 40 individuals (prior year: 38) completed a vocational training course resulting in a recognised diploma, a further 46 employees were in continuing education at the end of 2016.

At the end of 2016, VP Bank was training 17 (prior year: 20) adolescents as commercial apprentices and a further 5 as IT specialists. In the summer of 2016, 8 (prior year: 10) trainees

successfully passed their final examinations and 7 took up the offer of employment.

Graduate programmes for students and graduates could also be expanded within the framework of developing junior staff and the number of volunteer posts markedly increased. Active marketing at universities, coupled with professional onboarding, bore fruit in 2016: three of the eight students of the University of Liechtenstein nominated at the same time for the banking award had been active in developmental programmes of VP Bank.

Further information is to be found in the chapter on "The social commitment of VP Bank" under "Responsibility as employer" on page 53.

Employee statistics of VP Bank Group

as of 31.12.2016	Men	Women	Total
Number of employees	475	329	804
Percentage share	59.1	40.9	100
Average age	42.9	41.0	42.1
Average length of service	9.9	10.0	10.0

as of 31.12.2015	Men	Women	Total
Number of employees	476	322	798
Percentage share	59.6	40.4	100
Average age	42.6	41.1	42.0
Average length of service	9.8	10.1	9.9

Numbers of employees by location

per 31.12.	2016		2015		Variance with previous year	
	Employees	Full-time equivalents	Employees	Full-time equivalents	Employees	Full-time equivalents
VP Bank Ltd, Vaduz	525	475.1	524	473	1	2.1
VP Bank (Switzerland) Ltd	60	55.5	62	57.9	-2	-2.4
VP Bank (Luxembourg) SA	95	86.6	99	93.5	-4	-6.9
VP Fund Solutions (Luxembourg) SA	31	29.2	31	29	0	0.2
VP Bank (BVI) Ltd	14	14	16	16	-2	-2
VP Wealth Management (Hong Kong) Ltd	8	8	7	7	1	1
VP Bank (Singapore) Ltd	40	40	30	30	10	10
VP Fund Solutions (Liechtenstein) Ltd	31	30	29	28	2	2
Total	804	738.3	798	734.4	6	3.9

VP Bank's suppliers

The way in which procurement is handled has a considerable influence on a company's environmental impact, image and, not least of all, on its cost structure. When commissioning goods and services, VP Bank considers not only the basic requirements, but also a range of criteria such as ecological standards, quality, energy consumption and waste disposal.

The "Procurement principles of VP Bank" is a directive that establishes guidelines for the way VP Bank conducts its purchasing activities. Transparent ordering criteria, clearly defined requirements for suppliers and uniform supplier evaluations ensure the quality of the procurement process and the relationship with those suppliers.

Centralised purchasing

The Central Purchasing unit at VP Bank supports the specialist departments and project heads in the solicitation and evaluation of offers, as well as in the quality assessment of suppliers. It also defines the preferred partners and suppliers of VP Bank Group. When it makes sense to do so, Central Purchasing concludes framework contracts with suppliers. In collaboration with the given specialist department, it defines specific procurement criteria for selected products that may also involve sustainability aspects.

The ecological principle of "avoid, reduce, recycle" is observed in VP Bank Group's purchasing practices. If they offer comparable characteristics at the same conditions, goods that are especially environmentally friendly or come from environmentally certified producers are given preference.

VP Bank's suppliers are urged to voluntarily propose environmentally friendly alternatives. They are also required to deliver only merchandise and goods that are in keeping with Liechtenstein's environmental laws and come from countries that comply with the conventions of the International Labour Organisation (ILO). These conventions establish minimum standards for the observance of human rights, equal opportunity (nationality, gender), working conditions (health and safety at work, wages), child labour, environmental pollution, etc.

Supplier selection

The main criteria in VP Bank Group's selection process are price, performance, specification-consistent product quality, creditworthiness, conformity with the law and adherence to

environmental and social standards. In this regard, VP Bank Group attaches great value to regional procurement: in cases of equivalent offers (price, quality), preference is given to local suppliers and manufacturers.

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

Supplier relations

To optimise its supply chain, VP Bank Group maintains a constant dialogue with its suppliers. For larger orders, specification sheets are drawn up and discussed with the suppliers.

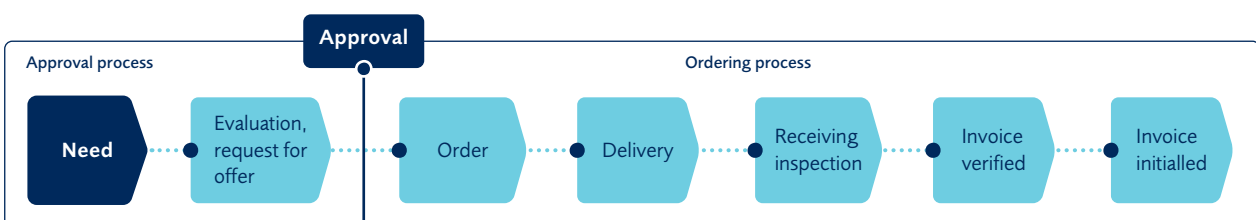
Suppliers that have not won the bid for large-scale orders are informed of this either in writing or by telephone. In both instances, the reasons for the negative decision are explained openly.

The suppliers are periodically assessed according to the following criteria: price/performance, quality, reliability, social and environmental compatibility and observance of delivery dates. Upon request, the results of the assessment are discussed verbally with the supplier.

In order to preserve objectivity and avoid conflicts of interest, employees of VP Bank Group may not accept any monetary rewards, gifts imposing an obligation, or other forms of remuneration from suppliers and service providers in connection with their professional activities. This applies from an amount of CHF 200 per supplier per year.

As a way of heightening efficiencies and reducing duplicated work processes, a project was initiated in with the aim of electronically compiling supplier invoices. Thanks to this high degree of automation, dual filing systems have been eliminated and payment approvals obtained significantly more expeditiously.

In addition to the savings effect of a paperless workflow, VP Bank also benefits from the ability to meet payment deadlines in good time. These new processes were launched in the second half of 2016.



Strategic partnerships at VP Bank

Strategic partnerships are a key component of VP Bank's business model. These cooperative ventures make it possible to combat rising costs while increasing efficiency. VP Bank seeks to achieve synergies with other companies through these partnerships; they lead to the establishment of new business models based on alliances. To that end, VP Bank is constantly sharing experiences with other banks and service providers, in order to jointly use and optimise existing resources. Sharing know-how mutually benefits all participants.

Printing and mailing

In the course of their daily business processes on behalf of clients, banks maintain extensive printing and mailing functions, e.g. in connection with sales campaign management or documenting payment transactions on client account statements. This requires an efficient solution extending from data collection, processing and storage to printing.

Since 2010, VP Bank has worked with Liechtensteinische Landesbank (LLB) on printing and mailing functions as well as through a joint purchasing company. The third-party service provider Trend-commerce supports VP Bank for its printing and mailing of account and deposit statements, quarterly and annual reporting and all types of bulk mailing requirements, all while maintaining the highest quality and security standards.

The outsourcing of printing and mailing to a professional partner provides significant long-term cost savings for VP Bank, increases the flexibility of the process through the use of the most modern printing technologies and enables the secure processing of sensitive data through the use of state-of-the-art technical and environmentally friendly infrastructure.

Data centre

The requirements for an up-to-date IT system include continuously optimising the complexity of the basic infrastructure operations while creating a sound foundation for future development and requirements. A decade ago, VP Bank faced a situation where it could no longer keep pace with future requirements while operating four data centres at different sites and the related complex networking between them.

As data centre complexity grows, potential simplifications through technological advances are partially offset by growing IT regulatory requirements.

VP Bank therefore sought out a strategic partnership with LLB, in which its business processes are supported through flexible, stable and effective IT and logistics services. As part of this cooperation, a new data centre was built at LLB's head office in Eschen (Liechtenstein), where VP Bank began leasing space in 2012. Through this partnership, the high leasing costs under the old arrangement were reduced while the groundwork was laid for increased future capacity requirements.

The technical aspect of this project involved integrating the new facility into the networked system and developing all of the required basic infrastructure, systems platforms and components at the new site. The choice of this new site required major overhauls to the technical infrastructure and the site had to be equipped with secure and effective communications and data services.

Today, VP Bank occupies one floor of the LLB data centre. The building was constructed as an energy efficient data centre. This successful partnership features the most up-to-date solutions and efficient data management.

Financial information systems

Speed, integrity and reliability are key parameters that banks, as providers of financial news in a competitive environment, must weigh on a daily basis. In virtually no other industry does timeliness play such a critical role. The availability of current economic and financial news provides the vital information edge that is crucial for investment decisions. With flexible access to global financial market data, financial information systems provide advisors with efficient support for their daily work processes. They serve as the foundation for an efficient advisory process and well-founded investment decisions.

In 2011, VP Bank together with LLB founded Data Info Service AG in order to pool their financial information systems purchasing. VP Bank also decided that year to outsource the management of its financial information systems to Information Performance AG, which specialises in cost optimisation and process advisory as well as application management in the banking IT sector. The company currently provides a broad range of IT services for 80 banks in Switzerland and Liechtenstein as well as for numerous asset managers.

All processes such as operating and contract management, reporting and support can be optimised in this manner. The cooperation with Information Performance AG includes support on various projects such as the switch in financial information providers for trading operations, which significantly reduced the licensing fees and internally generated IT costs. Other joint projects included the implementation of a Group-wide optimisation project as well as the transfer of existing contracts as part of the integration of Centrum Bank within VP Bank.

Through this partnership, VP Bank has been able to lower its annual costs in the financial information systems area in recent years despite steadily rising costs for data collection and preparation.

Partnering in the investment area

With a new partnering concept, the systematic outsourcing of products with leading asset manager and successful niche providers is continuing apace. VP Bank looks for close cooperation with selected partners in order to offer its clients tangible value added in the product segment.

The partnering concept gives clients an advantage in terms of price and performance while offering state-of-the-art products. This concept also enhances efficiency and reduces annual costs. The partnering concept was launched in 2016 and will be implemented over the course of 2017.

VP Bank's business ecology

Paper and water consumption

As a general rule, VP Bank sends out client asset statements only once a year; daily and quarterly statements are printed and dispatched only at the express request of the client. In recent years, this has led to a considerable reduction in the use of paper for forms and vouchers. For example, the number of printed forms has declined steadily from 655,000 in 2005 to 264,780 in 2016. The number of envelopes was lowered from von 1,500,000 in 2004 to 699,142 in the past financial year.

Paper consumption has decreased from 68.03 tonnes in 2004 to 46.90 tonnes in 2016, whereas the latter amount was admittedly 3.79 tonnes higher than in the previous year. e-banking has contributed greatly to this long-term reduction thanks to its e-post functionality, the trend of which is diametrically opposed to that of paper use. The increase over 2015 was attributable to the larger number of employees and a greater flow of communications pertaining to new products and services.

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

Thanks to the introduction of order cards and referral to documents in electronic form, the number of printed copies of the Bank's annual and semi-annual reports has declined by more than 76 per cent over the past eight years: while a total of 7,000 copies of those publications were printed as late as 2007, that number has declined to a mere 1,700 in 2013.

For the Vaduz and Zurich locations, the number of e-mail documents has increased continuously: in 2007, the total was approximately 130,250; by 2011 it had risen to more than 696,270; in 2013 it reached 1,204,603; by 2015 it stood at 1,669,433 and reached a total of 2,060,375 this past year. As to the number of e-post transmissions, the 25 per cent year-on-year increase recorded in 2014 was followed by a further rise of 11 per cent in 2015 and a full 23.4 per cent in 2016. Since 2010, the electronic communications of VP Bank Group include the footnote "Please consider the environment before printing this e-mail".

Water consumption trended steadily lower from 2008 through 2014 but, due to the increased number of employees, rose by 8 per cent in 2015 and by another 3 per cent in 2016. Water consumption per employee has decreased continuously from 15.3 m³ in 2009 to 9.6 m³ in 2015 and remained constant since

then. This reduction is spread equally over all facilities of VP Bank in Liechtenstein.

Energy

Through numerous initiatives, VP Bank Group is focusing on the prudent consumption of energy. The measures extend from the environmentally friendly manner in which the renovation of the Bank's headquarters in Vaduz and construction of the new service centre in Triesen were accomplished, to the use of geothermal energy for heating and cooling, right through to the use of motion-activated lighting. In 2016, the more than 20-year-old ventilation system in the Giessen building was renovated and will be replaced by an energy-efficient installation with heat recovery in 2017.

At the Liechtenstein facilities, most of the lighting is regulated by a light control system with motion detectors. This technology can reduce power consumption by 20 to 40 per cent compared to manually activated lighting. In the replacement or procurement of lamps, preference is given to today's very efficient LED technology. In 2014, LED lamps were purchased instead of the once-customary neon tubes. They successively replaced their predecessors during the course of 2015/2016 and will continue to do so. The energy savings afforded using LED lamps rather than traditional lighting sources amounts to roughly 75 per cent.

Total power consumption per employee at the Bank's Liechtenstein facilities has been on the decline for six years and, although roughly unchanged versus 2015, the latest reading is still far below the level seen in 2004. Electricity consumption at the head office has fallen steadily since 2008 thanks to efficiency-enhancing measures: in 2014, the central heating installation was replaced and the renovation of the building's ventilation system in 2016 led to a further 10 per cent reduction of overall energy consumption despite the unchanged headcount. The 5.6 per cent increase at the Triesen service center is attributable to the larger number of employees there.

For more than 15 years, a photovoltaic power generator has been in operation on the roof of the building Giessen in Vaduz. It supplies environmentally friendly energy that is fed into VP Bank's power grid. Owing to a rejuvenation of the control system for this installation, power generation from photovoltaics increased continually from 2009 to 2011. However, over the past five years it has declined mainly due to defective modules. As part of the general concept for all VP Bank buildings in Liechtenstein, this trend will be reversed through the installation of a more efficient system. Implementation is scheduled for 2018.

VP Bank meets a small portion of its demand for electricity through renewable energy provided by ESB (Energy Service

Biel, Switzerland). As of January 2017, Liechtenstein Electric Power (LKW) will supply VP Bank with electricity from water power and photovoltaics.

As a result of the switch from fuel oil to gas, natural gas consumption at VP Bank in Liechtenstein was recorded for the first time in 2015 and declined by 12 per cent in 2016. Modern ventilation plants with heat recovery systems use heat waste from offices and workspaces.

Overall concept

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

The energy supply project additionally foresees the continued use of leading-edge technologies that enable heating on the basis of heat recovery. A new central cooling aggregate in operation since 2014 affords both operational safety and energy efficiency. Each of the two units is equipped with an electronic control system that steers two distinct cooling peripheries. With the help of this control mechanism, the equipment can adapt its functions much more precisely than ever before to the climate conditions in individual areas. The by-product is warmth, which can then be recycled for heating purposes.

With the implementation of this system, the lion's share of the overall concept has been realised. The next step is to plan

the use of groundwater in Vaduz. Through realisation of this measure, the existing subterranean water can be applied for cooling purposes in summer and heating in winter. Discussions with the Environmental Protection Agency (EPA) have already been held and two pilot holes drilled. The EPA has examined the viability of the plan; the formal approval and realisation is expected in 2018.

A separate, more detailed energy report for the Liechtenstein facilities is produced each year and can be accessed on the website of VP Bank.

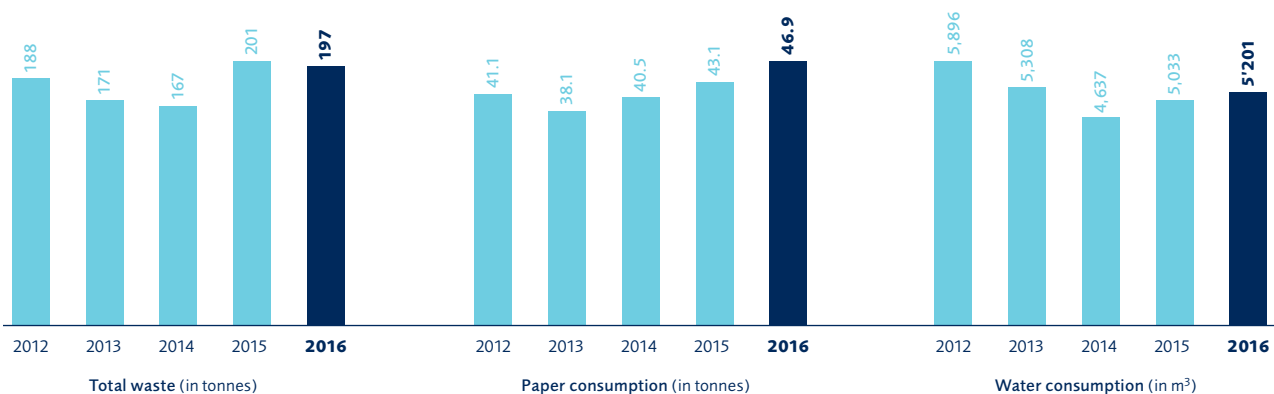
Waste avoidance

Ever since 2004, waste separation has been the order of the day at VP Bank Group in keeping with its waste disposal concept. Newspapers and magazines are collected and recycled separately from the other types of paper. Glass, cardboard, polystyrene, PET bottles and green waste each have their own receptacles. The total amount of waste generated in 2014 (167 tonnes) was the lowest since 2004, but it has increased in 2015 and 2016 due to the larger number of employees.

The residual paper discarded by VP Bank is shredded in an in-house recycling unit and compressed into briquettes. With this process, roughly 33 tonnes of paper briquettes were produced at the Liechtenstein location in 2016. The briquettes are collected by a local recycler and taken to an appropriate facility.

Environmental management

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



The Mobility Management Workgroup of the Liechtenstein Chamber of Commerce and Industry (LCCI) is a further body in which VP Bank actively participates. VP Bank is a member of Öbu, the Swiss think-tank for environmental, social and management topics and network for sustainable business operations.

Mobility management

Nine years ago, VP Bank introduced a mobility concept at the head office in Vaduz. It features financial incentives for using public transportation, as well as a graduated fee structure for employee parking spaces. The concept is self-financing: rental proceeds from the car park are used for bonus payments to employees who forgo the use of personal cars and therefore do not occupy parking spaces.

This concept also motivates employees to form carpools. In addition, VP Bank Group offers the cost-free use of Mobility Cars, an arrangement that has met with an enthusiastic response. A favourable trend was to be seen over the past four years in the total number of kilometres driven for business purposes with the Mobility Cars: in 2016, it was 11 per cent higher than in 2015. The use of a videoconferencing system has helped to reduce employees' business travel to the VP Bank's international locations.

Employees using public transport are also offered a free pass for bus and railway transport within Liechtenstein. The revenues from the Bank's mobility management are in part used for the reimbursement of tickets. 101 employees benefited from this in 2016.

The bottom line of the Mobility concept is successful. The goals were achieved – a reduction of automobile traffic, the fostering of environmental awareness, and the promotion of public transportation. This concept is exemplary throughout the region. In 2011, VP Bank Group's mobility management

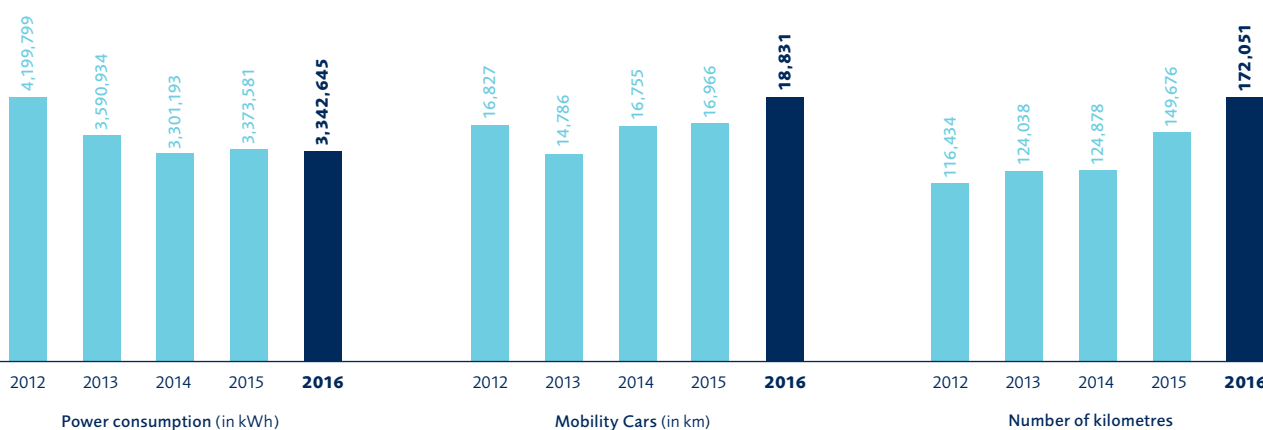
approach was awarded the "Zurich Climate Prize", which honours measures aimed at improving energy efficiency and reducing CO₂ emissions.

In 2015, a passenger vehicle with an all-electric drive was acquired by VP Bank. It is available for regional trips between Zurich and Vaduz as well as for client pick-up service. With this vehicle, some 8,500 kilometres were travelled in 2015; in 2016, the total came to 10,300 km.

As in the year before, quite a few VP Bank employees took part in the 2016 "By bike to work" competition organised by the Liechtenstein Chamber of Commerce and Industry. In September 2016, VP Bank participated in the European Mobility Week and in doing so supported the "Car-free – Have fun at the same time" campaign, this with the aim of getting to work without the use of a car or motorcycle and instead experiencing the attractiveness of public transport.

With a campaign entitled "Tailwind", the Principality of Liechtenstein certifies bicycle-friendly businesses. VP Bank, too, endorses the use of two-wheelers as an integral part of corporate mobility and, as was the case already in 2013, received a silver certificate for its efforts in this regard. Moreover, within the LCCI Mobility Management Workgroup, discussions have been held on the introduction of an inter-company carpooling platform, the launch of which is scheduled for 2017. It is intended as a means of achieving a further reduction/improvement of commuter traffic, parking problems and the environmental impact of people getting to and from work.

Be it for meetings, training sessions or any number of reasons, VP Bank employees in Liechtenstein are frequently on the move between the offices in Vaduz and Triesen. And for that, they have free bus tickets at their disposal. Also, in the summer of 2016, VP Bank purchased four e-bikes which employees may use at no cost. These measures should lead to a further reduction of automobile traffic.



The social engagement of VP Bank

Social and cultural engagement

At home in Liechtenstein as well as selectively at all of its global locations, VP Bank upholds its responsibility towards society through charitable donations. These contributions are directly related to the local marketing strategy, client acquisition and servicing efforts, as well as brand management. Since 2014, VP Bank has focused on the annually alternating donation categories of recreational sports and broad-impact cultural institutions. In addition, employees of VP Bank Group who are active in a public organisation receive a patronage allowance. For a number of years now, a wide array of projects and initiatives have benefited from this commitment.

At VP Bank Group, sponsoring is used as a supportive marketing and communication measure that plays an important role by enhancing the name recognition and image of the company. The sponsoring projects must be linked to the strategic goals of VP Bank Group in some way. VP Bank Group concentrates on sponsoring commitments to the areas of sports, culture and entrepreneurship, each of which is unique in its own way.

VP Bank Art Foundation

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

Hans Brunhart is Chairman of the Board of Trustees. Other board members are Fredy Vogt, Chairman of the Board of VP Bank Group, and Dr Uwe Wiczorek, curator of the Hilti Art Foundation. Petra Büchel is curator of the Foundation.

In its acquisition activities, the VP Bank Art Foundation has become increasingly focused on artists who have not yet gained full recognition in the art market. During 2016, four acquisitions were made thus complementing the collection and consolidating its focus on «painting». The acquisitions were made purposefully for the client area in Vaduz and in this manner, provide for the promotion of art within business premises. One painting from the Art Foundation's portfolio was made available for an exhibition in Switzerland as a loan item. The VP Bank Art Foundation receives an annual financial contribution from VP Bank.

VP Bank Foundation

The VP Bank Foundation was initiated in 2006 and established in 2007 to mark the 50th anniversary of VP Bank. In keeping with its Articles of Association, the Foundation supports projects, individuals and institutions that have gained an outstanding profile in the areas of ecology, art, education, science or culture. Charitable activities in the interest of the public at large are also supported. Moreover, this patronage is intended to be connected in some way with Liechtenstein as well as the corporate values of VP Bank. Donations can also be made for welfare and social purposes.

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

Promoting science and education has occupied an important place within the scope of the VP Bank Foundation's activities from the outset. With this objective, the Foundation supports scientific institutions and their projects.

During the year, the research project «Characteristics and Origins of the Increase in Productivity in Liechtenstein» was completed; the project analyses the fundamental economic trends and renders them of use for political and economic strategies.

VP Bank Foundation supports the recently established foundation Zukunft.li for the coming five years by making annual contributions in the conviction that a scientifically-based and politically-neutral handling of important issues concerning the future is of great significance for Liechtenstein and can contribute to surmounting the issues confronting the country in the future.

In addition, the Foundation Council resolved in 2016 to make contributions for several years to the «UFL Private University in the Principality of Liechtenstein» in recognition of services to Liechtenstein as a centre of education.

In addition to promoting university activities, VP Bank Foundation sponsors the journalistic activity of the Liechtenstein Academic Society. Its scientific publications on Liechtenstein-related issues are often in connection with events and research projects of the Liechtenstein Institute and constitute a valuable fundus for politics and the society.

For many years, VP Bank Foundation has supported the Gutenberg Education and Seminar Institute in the conviction that permanent education and lifelong learning are necessary not only for professional purposes but also contribute to mastering one's life tasks in the private sphere.

In connection with the promotion of culture, contributions were made in 2016 for a catalogue for an exhibition at the

Liechtenstein National Museum as well as a contribution to the Schösslekeller small theatre.

The project initiated in 2015 with the Liechtenstein House of Literature and the literary magazine «Literary Month» was continued in 2016. In addition to promoting literature in Liechtenstein, the goal of supporting a platform for Liechtenstein authors has already produced welcome results.

It is a particular desire of VP Bank Foundation to sponsor not only projects of larger institutions but also young initiators of innovative projects, in particular. With this goal, personal undertakings in the field of literature, of human rights and in promoting professional education, received support during the year.

In the area of ecology, the Foundation gave its support yet again in 2015 to the "pro natura – pro ski" foundation, which was initiated by VP Bank. The foundation works closely with the University of Natural Resources and Life Sciences in Vienna and through the development of an "Öko-Audit" (ecology audit) for skiing areas, has made an internationally recognised contribution to the ecological development of the Alpine region which is one characterised by the balancing of opposing interests. In 2016, the symposium "BERGumWELT" was held in Saalfelden (Austria) for the goal of dealing with this subject and which was attended by numerous scientists and practitioners from Alpine countries.

In connection with the current-year's "Lichtblick" campaign, over 30 social institutions in Liechtenstein received grants from the Foundation in 2016: it disbursed a total of almost CHF 70,000 for this initiative and other projects of social institutions and organisations and associations in Liechtenstein.

Through CSSP (Center for Social and Sustainable Products), the Board of Trustees commissioned an ESG screening of the Foundation's invested assets. In this connection, an analysis of the potential risks and impact on environmental, social and governance factors (ESG) was prepared, thus creating a basis for the Board of Trustees to systematically gear its investment policy to these objectives. The entire portfolio of the Foundation obtained an "A-" rating, thus exceeding the most important benchmarks. The risk diversification also received a positive assessment.

Again, this past year, a portion of the Foundation's resources was invested in the EMF Microfinance Fund AGmvK as well as in VP Bank Balanced (CHF) Strategy Fund class C units. Via returns from the latter exposure, the relief organisation "SolidarMed" received financial aid. As a result of the recognised accomplishments of this organisation, the purpose-related funding agreement was renewed.

The VP Bank Foundation is a member of the Association of Liechtenstein Non-profit Foundations e.V. and the Swiss association of charitable institutions "SwissFoundations". The Board of Trustees is involved in the management and development of the Liechtenstein association and benefits from the valuable exchange of ideas and experiences in both federations.

Responsibility as an employer

VP Bank Group demonstrates its responsibility as an employer by providing modern, pleasant working conditions. Motivation and good health have just as much influence on the work environment as the personal performance of each and every employee, and these factors also influence the success of the entire company. Through attractive career opportunities and a wide array of continuing education possibilities, VP Bank desires to attract and retain the best talents.

Motivated, well-educated employees exude the kind of competence, service orientation and candidness that clients appreciate. One of the prerequisites for this is a working environment in which all of the employees feel comfortable and are simultaneously encouraged to accomplish their very best. VP Bank offers them not only leeway to develop and realise their own ideas, but also staff training and further education.

Private banking has become more demanding and sound training and further education for committed junior employees is increasingly gaining in importance. VP Bank recognises this in that it offers traineeships in the commercial area, IT traineeships, as well as varied developmental programmes for high-school graduates.

In the case of the graduate programmes, VP Bank offers two developmental models for students with attractive future perspectives. Under the programme «Career Start», graduates of high-schools or universities have the opportunity of acquiring detailed knowledge in selected banking-related subjects. As a rule, the training lasts 18 months and is oriented individually to the respective specialist subject area. The «support model» is focussed on masters students who desire to combine their banking knowledge with practical experience. The programme lasting between 12 and 24 months offers tailored hands-on experience within the selected specialist areas.

With these two programmes, VP Bank targets the sponsoring of potential junior employees. Furthermore, the planned assignments in the various specialist areas are linked to the possibility of gaining valuable practical experience at another location of VP Bank.

To mark the Liechtenstein banking awards on the occasion of which awards are handed out for outstanding scientific and practice-relevant achievements, three participants in VP Bank's training programmes were under those nominated. This clearly demonstrates how successful know-how transfer of theory and practical experience can function.

On 10 November 2016, the National Day of the Future took place in Switzerland and Liechtenstein. Many firms on this day open their doors and give school pupils of the 5th to the 7th classes the possibility of discovering the world of work through practical experiences. In this way, the National Day of the Future contributes to widening horizons in the selection of future employment as well as the future perspectives of the pupils and to taking their future into their own hands, detached from rigid gender images.

In 2016, VP Bank in Vaduz participated already for the fourth time in the National Day of the Future. 12 adolescents aged 10 to 13 took advantage of the possibility of taking a glimpse into professional life together with a contact person during one whole day. They received comprehensive information on VP Bank, became acquainted the work processes in the various departments and showed great interest in the various types of professions existing within a bank. The highlights were the dismantling and reassembling of a PC, the visit to the vault and the trading room as well as a video conference between the locations in Vaduz and Triesen at the conclusion of the day.

In 1974, the sports' club of VP Bank was founded in Liechtenstein with the purpose of promoting sport and camaraderie amongst the employees. The club organises numerous activities which can be used free-of-charge or at greatly reduced prices. These include, inter alia, spinning, skiing, tennis, Nordic walking, bowling, mini-golf, walks and sports weekends.

VP Bank's intranet contains extensive information on the topics «fit at work», «promoting good health through movement» and «healthy nutrition». Related topics are stress-checks and tips on ergonomics whilst using computers as well as accident prevention. Employees receive discounts for the purchase of skis and snowboards and products for the outdoors as well as price reductions for massages, fitness centres, kinesiological treatment, dancing classes and spectacles for the workplace. In addition to this, VP Bank in Liechtenstein offers its employees the opportunity to have massages during working hours. The massages are tailored specially to the needs and problems of office workers.

Diversity at VP Bank

Diversity and equality of opportunity constitute a solid foundation for developing strong relationships between VP Bank and its employees as well as with its external stakeholder groups. VP Bank subscribes to the concept of diversity at the level of each employee and management level. This diversity in the company guarantees that decision takers are put in the position of challenging issues constructively and of being more open to innovative ideas.

The criteria for hiring managers are based strictly on qualifications regardless of age, gender or nationality. VP Bank offers all employees equal employment and promotion opportunities. The performance evaluation of employees is undertaken in a fair, objective and comprehensible manner.

Diversity at VP Bank – Proportion of women and men in management bodies

as of 31.12.2016	Total number of women	Number of women in %	Total number of men	Number of men in %
Board of Directors	2	20.0	8	80.0
Management level 1	0	0.0	4	100.0
Management level 2	5	26.0	14	74.0
Total number of employees	329	40.9	475	59.1

As of 31 December 2016, women made up 40.9 per cent of the total headcount. The proportion of women in the Board of Directors increased in 2016 year-on-year by 20 per cent. From 2017 onwards, one female person will be represented at management level 1.

Legislation and supervisory authorities in Liechtenstein

VP Bank Ltd, Vaduz, is constituted as a joint-stock company under Liechtenstein law. It is the parent company of VP Bank Group. The competent supervisory body in its country of its registered office is the Liechtenstein Financial Market Authority (FMA). As the bearer shares of the parent company are listed on the SIX Swiss Exchange, VP Bank is also subject to the rules laid down by SIX based on the Swiss Federal Act on Stock Exchanges and Securities Trading and the related implementing ordinances and, as from 1 January 2016, on the basis of the Financial Market Infrastructure Law. The business activities of VP Bank Group are supervised by the local competent authorities of each country in which the Group is active through subsidiary companies or representative offices.

General

In Liechtenstein, the activities of VP Bank are subject primarily to the Act on Banks and Securities Firms (Banking Act, BankA) of 21 October 1992, as well as the Ordinance on Banks and Securities Firms (Banking Ordinance, FL-BankO) of 22 February 1994. The Banking Act lays down the framework for the supervisory activities of the FMA. The latter – together with the external banking-law auditors, who must in turn possess a licence from the FMA and are also under its supervision – constitutes the main pillar of the Liechtenstein system of supervision.

Under the Banking Act, banks and securities firms in Liechtenstein can offer a comprehensive array of financial services. The Law on Professional Due Diligence to Combat Money Laundering, Organised Crime and Terrorist Financing (Due Diligence Act, DDA) of 11 December 2008 and its related Ordinance (Due Diligence Ordinance, DDO) of 17 February 2009 – in conjunction with the article on money-laundering contained in Art. 165 of the Liechtenstein Penal Code – constitute the relevant legal foundations for the entire financial services sector in Liechtenstein. These were revised on repeated occasions and comply with international requirements and standards.

Within the scope of its business activities, and the financial services offered by it, VP Bank must, in particular, observe the following laws and related ordinances:

- Payment Services Act (PSA);
- Law on Certain Undertakings for Collective Investments in Transferable Securities (UCITSA);
- Investment Undertakings Act, (IUA);
- Law on Alternative Investment Fund Managers (AIFMA)
- Law Governing the Disclosure of Information Relating to Issuers of Securities (Disclosure Act, DA);
- Securities Prospectus Act (SPA);
- Law Against Market Abuse in the Trading of Financial Instruments (Market Abuse Act, MAA);
- Law Governing Takeover Offers (Takeover Act, TOA);
- Act on the Recovery and Resolution of Banks and Securities Firms (Bank Recovery and Resolution Law; BRR);
- Persons and Companies Act (PCA).

The following discusses several developments and the legal foundations of relevance to financial market regulation which have been revised or put into effect during the past financial year or are likely to be of relevance in the future.

International Taxation Agreements

With its announcement of 12 March 2009, Liechtenstein undertook to implement the global standards on transparency and the exchange of information in matters of taxation in accordance with the OECD Standard. Since then, Liechtenstein has concluded numerous international taxation treaties, both Double-Taxation Agreements (DTA) as well as Tax Information Exchange Agreements (TIEA) along the OECD model. Since 1 January 2017, Liechtenstein has defined 32 new countries (excluding Austria) as AIE partner states in Appendix 1 of the Liechtenstein AIE Ordinance.

In this connection, particularly worth mentioning is the fact that the Principality of Liechtenstein and Switzerland have signed a comprehensive double-taxation agreement based on the OECD model on 10 July 2015 which took effect on 1 January 2017. The agreement does not contain a provision concerning the automatic exchange of information in taxation matters (AIE).

The Agreement with Austria signed on 29 January 2013 on cooperation in the field of taxation as well as the Protocol on the amendment of the existing double taxation agreement (DTA) took effect on 1 January 2014. Based on the Taxation Agreement, all assets of persons resident in Austria recorded or administered by a Liechtenstein paying agent will be subject to an additional tax assessment on the basis of an anonymous one-off payment or disclosure of the banking relationship at 31 May 2014 or 30 June 2014, respectively. Since 1 January 2014, the current taxation of income from capital on the accounts affected is levied using a lump-sum tax rate of 25 per cent or on the basis of voluntary disclosure on an annual basis. By analogy to the amendment of the Austrian capital gains tax (KeSt), the flat-rate compensatory tax rate provided for in the Agreement between the Republic of Austria and the Principality of Liechtenstein for dividends, capital gains and realised gains on sale, income from derivatives, distributions as well as deemed distributions from investment funds has also been increased to 27.5 per cent as from 1 January 2017. The tax rate for interest on savings remains unaffected by this change.

On the basis of the Protocol concerning the amendment of the Agreement on cooperation in the area of taxes between Liechtenstein and Austria, which was ratified by the Austrian National Council in its session of 15 December 2016 (158/NRSITZ), the following amendments took effect principally on 1 January 2017:

As from 1 January 2017, only opaque asset structures and transparent asset structures established prior to 31 December 2016 are still caught by the Austrian/Liechtenstein Compensatory Tax Treaty. All other business relationships form part of the provisions on the automatic exchange of information.

Furthermore, double-taxation agreements with Iceland and Austria were signed by Liechtenstein in 2016 (Protocol of Amendment DTA).

Automatic Exchange of Information

With the Government declaration of 14 November 2013 and drawing on the previous financial-centre strategy, Liechtenstein again reaffirmed its commitment to the applicable OECD standards. On 21 November 2013, Liechtenstein thus signed the Multilateral Convention of Mutual Administrative Assistance in Tax Matters, which regulates the various forms of cooperation in the field of taxation (in particular, the exchange of information). In October 2014, Liechtenstein committed itself politically in front of the Global Forum on Transparency and Exchange of Information (Global Forum) to commence the automatic exchange of information for the first time in September 2017 in respect of the calendar year 2016. On 7 July 2015, the Government of Liechtenstein adopted the Law concerning the Automatic Exchange of Information in Tax Matters (AIE Law). The current AIE Act serves to implement the applicable international agreements with partner states which provides for an automatic exchange of financial account information. The AIE Act as well as the related implementing Ordinance took effect as of 1 January 2016.

On 28 October 2015, Liechtenstein and the EU signed an agreement to implement the automatic exchange of financial account information. On this basis, Liechtenstein and the EU member states will collect account data as from 2016 and mutually exchange this data automatically as from 2017. The necessary national legal bases in this respect were thus put in place in all EU member states as well as in Liechtenstein by 1 January 2016. An exception in this respect for the automatic exchange of information (AIE) relates to Austria which will become effective only on 1 January 2017.

At the same time as the signing decision, all EU member states have issued a declaration that they will take account of the new agreement in their bilateral relationship with Liechtenstein. An important signal was thus sent by the EU member states and with the signing and implementation of the agreement, significant outstanding tax inequalities encountered by Liechtenstein in individual member states still existing because of the lack of information exchange can be eliminated.

Formally, the signed agreement is a protocol of amendment which replaces the agreement on the taxation of interest between Liechtenstein and the EU existing since 2005.

Switzerland has begun with the implementation of the OECD standard which takes effect as of 1 January 2017. Various further countries, including Singapore, have announced that the implementation of the OECD standard will be delayed by one year until 2018 in their countries. In summary, it is to be assumed that the automatic exchange of information will be an internationally implemented standard by 2018 at the latest.

Amendments to Due-Diligence Ordinance

Regarding the automatic exchange of information in matters of taxation (AIE), Liechtenstein joined the «Early Adopters Group». As the «Common Reporting Standard» (CRS) published by the OECD in July 2014 essentially makes reference to the standards of the Financial Action Task Force on Money Laundering (FATF), amendments to the legislation on due-diligence obligations were necessary in order to implement certain requirements of the CRS in the Due-Diligence Ordinance (DDO) ahead of schedule and to amend the term "economic beneficiary" in accordance with the definition of the controlling person in the CRS and in the draft bill for an AIE Law.

The amendments are introduced in two stages. The first stage, which took effect on 31 December 2015 (LGBl. 2015 No. 249), comprised the reappraisal of existing clients, who, by virtue of a transitional provision, were not yet required to be aligned until this date with the disclosure rules in force. In view of the implementation of the 4th EU Money-Laundering Directive planned to take place during 2016, a second stage, however, was enacted as of 1 January 2016 (LGBl. 2015 No. 250), as a result of which the related regulations regarding the definition of economic beneficiary as well as the standard forms used to ascertain the latter were introduced, ahead of schedule, with risk-based implementation deadlines of 31 December 2018 and 2020, respectively.

Extension of Legal Administrative Assistance in Taxation-Related Penal Matters

In November 2015, the Liechtenstein Parliament (Landtag) adopted in second reading the proposed amendment of the Legal Mutual Assistance Act. In future, Liechtenstein will also provide legal assistance in tax-related criminal cases. The amendment of the Legal Mutual Assistance Act came into force as of 1 January 2016.

US Tax Legislation: Foreign Account Tax Compliance Act (FATCA)

With the Foreign Account Tax Compliance Act (FATCA), the USA has issued a law which pursues the objective of obligating so-called foreign financial institutions (FFIs), by way of contract, to identify those clients of theirs who are liable to tax in the USA and disclose those clients' assets and income to the US tax authorities (Internal Revenue Service, IRS).

Compliance with these disclosure and reporting obligations resulting from FATCA is ensured principally through bilateral agreements between the USA and the respective target state which, at the same time, represent, together with related national legislation, the legal basis for the aforementioned obligations.

At present, two different models are employed world-wide which are designated as intergovernmental agreements (IGA). The two models differ principally in that under IGA-1, the FFIs discharge their reporting obligations to the respective national tax authority which then passes on the data to the IRS, whereas under IGA-2, the reporting obligations are discharged directly to the IRS. Liechtenstein has opted for IGA-1, whereas Switzerland has taken the path of IGA-2 although a change of model is under discussion.

Through FATCA, the USA is thus attempting to introduce a seamless system for the global exchange of information on persons who are liable to tax in the US (US persons), as well as attaining a higher degree of tax transparency. To ensure this, FATCA provides for the introduction of a 30 per cent withholding tax on all US payment flows (dividends, interest, proceeds from sales of US securities, etc.). The levying of this tax is waived, however, insofar as the respective financial institutions fulfil their obligations resulting from FATCA, IGA and the duties imposed on them under the respective national implementing legislation. In order to attain the status of a so-called participating FFI (Participating FFI or Reporting Model 1/2 FFI) under the FATCA regime, the FFI must register with the IRS in order to receive a Global Intermediary Identification Number (GIIN). With this GIIN which is published in a

central IRS register, the Participating/Reporting FFI identifies itself in future in business transactions as FATCA participant thereby avoiding, in particular, the requirement to withhold 30% withholding tax on all incoming US payment flows. The GIIN is further required to meet the reporting obligations under the FATCA regime (FATCA reporting) and to complete and submit in an orderly manner the necessary US reporting forms (e.g. electronic FATCA reporting / QI reporting)

In the meantime, two FATCA reports were sent by VP Bank Group companies for all customer relationships identified as US-Reportable Accounts covering the 2014 and 2015 reporting periods either directly to the IRS – in the case of VP Bank (Switzerland) Ltd. – or the respective national taxing authorities (all other VP Bank Group companies covered by the reporting obligation).

The FATCA reporting obligation is phased in three stages with the result that the complete reporting content is reached only with the 2016 reporting year (FATCA reporting to be undertaken in 2017).

Customer relationships of VP Bank both with individuals (US persons) as well as corporate entities (only US entity and/or passive NFFE with controlling US persons) may be affected by FATCA reporting.

A Participating/Reporting FFI – such as VP Bank – must, on the one hand, review all accounts of individuals to ascertain whether these are held, directly or indirectly, by US persons and as part of this review, identify and document the status as a US person or non-US person. As regards customer relationships with individuals existing already on 30 June 2014, only those customer relationships where a so-called FATCA indicator exists, pointing to the fact that the account holder is subject to full tax liability in the USA, are to be processed in this manner.

On the other hand, VP Bank Group companies must have their FATCA status documented by their corporate-entity clients via a self-certification of the entity.

In the case of corporate-entity clients, VP Bank Group companies are only obligated to undertake FATCA reporting in those cases where the corporate entity has indicated the FATCA status as a «passive NFFE» in the case of which so-called controlling US persons exist which were reported to the VP Bank Group company. In the case of all other FATCA statuses, FATCA reporting obligations and the prior duties of identification and documentation in connection with the FATCA relevant persons of these entities reside with the respective entity or its sponsor.

In the case of all customer relationships first entered into since 1 July 2014, the aforementioned identification and documentation was and is undertaken and completed as part of the account opening process.

VP Bank and all Group companies are registered with the IRS and have a corresponding GIIN.

Implementation of the Amended Markets in Financial Instruments Directive (MiFID II)

The background of the revised MiFID is the experience gained in the financial crisis in 2007-8. The revised version of the MiFID Directive 2014/65/EU as well as the directly applicable Ordinance No. 600/2014 (MiFIR) are designed to make financial markets more efficient, more resilient and more transparent, strengthen investor protection, enhance the supervision of less well-regulated markets and tackle the problem of excessive price volatility on commodity markets. MiFID II now encompasses the whole chain of added value from the distribution of to trading in financial instruments. In contrast to the original directive, both the European Commission as well as the ESMA (European Securities and Markets Authority) have been given extensive powers of authority in issuing implementing ordinances for MiFID II to which great importance is attached.

The issuance of these implementing ordinances has fallen behind schedule, for which reason the EU has delayed the implementation of MiFID II until 3 January 2018. Nevertheless, the deadline for the implementation remains tight. Even after the introduction of MiFID II, the competence of ESMA to issue regulations will ensure a considerably more dynamic regulatory environment than under MiFID.

MiFID II introduces the following central innovations:

- **Dependent/independent investment advisory services:** Banks must decide whether they wish to profile themselves as dependent or independent investment advisors on the market. As independent investment advisors, banks may, inter alia, no longer accept retrocessions or similar benefits from third parties.
- **Suitability report:** Increased duties of documentation and of disclosure shall apply to both dependent and independent investment advisors. In particular, banks must inform their clients as to the extent to which their investment advice was aligned with his/her objectives and personal circumstances.
- **Portfolio management:** In portfolio management, the acceptance of retrocessions or similar benefits from third parties is forbidden across the board. In periodic suitability reports, the client must be informed as to the extent the investment guidelines have been complied with and if not, of the reasons why not.

- **Product governance:** Banks must identify the risks associated with the financial instruments recommended or offered, determine the client base to whose needs the financial instrument corresponds. It must be assured on an on-going basis that distribution is undertaken only to the defined client base. The analysis of the financial instruments must be repeated periodically.
- **Duty to maintain records:** Additional recording duties are established for telephone conversations or other forms of electronic communications dealing with the area of investment advisory services and placing of orders in connection with financial instruments.
- **Cost transparency:** MiFID II places increased emphasis on cost transparency for clients, both regarding the services offered by the banks as well as the financial instruments recommended or distributed by them.
- **Notification of trades:** Notification and publication obligations regarding trading in financial instruments have been in part reinstated or considerably expanded.

The implementation of MiFID II will require strategic decisions to be taken by financial institutions at an early stage and to amend business models and will lead to considerably increased costs particularly as regards IT infrastructure. The delays in issuing implementing provisions by the European Commission and ESMA constitute an additional challenge in this respect.

Tightening of regulations in the area of market abuse

The Market Abuse Regulation (MAR) was published in the Official Journal of the European Union on 12 June 2014 and is in force in EU states since 3 July 2016. The goal of these reforms on a European level is the creation of a common legal framework regarding insider trades, the disclosure of insider information and market manipulation as well as measures to prevent market abuse. In this manner, the integrity of the market and the protection of investors should be enhanced. The MAR is supplemented through the new CRIM-MAD (Market Abuse Directive; Directive on penal sanctions in case of market manipulation) as well as delegated acts and the technical standards of the European Securities and Market Authority (ESMA). It will apply directly in Liechtenstein once it has been transposed into the EEA Agreement which is anticipated during 2017. To enable its implementation, a national implementing law will be passed, thus replacing the previous law on market abuse.

Although the previous focus of the EU market-abuse regulations remains unchanged, they will, however, become more precise and the guidelines, in part, noticeably more stringent (e.g. insider lists, duties of documentation). New rules on

market soundings and trading bans for executives within certain time windows are introduced. In future, financial penalties will be in relation to Group turnover. The public naming and shaming of the offending individuals is also new.

VP Bank has already effective measures in place to combat market abuse. The introduction of MAD/MAR will, however, involve a noticeable deepening and enhancement thereof.

Amendment of Corruption Law and Ratification of the Criminal Law Convention on Corruption

On 2 October 2015, the Liechtenstein Parliament ("Landtag") deliberated in first reading on the Report and Petition No. 94/2015 concerning the amendment to the Penal Code, the Code of Criminal Procedure, the Law on Taxation and further laws (revision of the Corruption Law and of the decrees concerning proprietary rights). The second reading took place on 3 March 2016 (Report and Petition No. 4/2016).

With this bill, the Liechtenstein Corruption Law was aligned with international standards, thus creating the national legal basis for the ratification of the Criminal Law Convention of the Council of Europe concerning Corruption and the United Nations' Convention against Corruption, UNCAC as well as the supplementary Protocol to the Convention on Corruption (Report and Petition No. 110/2016).

The key aspects of the revision of the Corruption Law were the introduction of the new offence of passive corruption and corruption in business dealings (§ 309 Penal Code), the overhaul of the existing criminal offences relating to corruption (§§ 304 to 308 Penal Code) as well the new legal definition of the office holder (§ 74 par. 1 sect. 4a lit. a to c Penal Code).

As a result of the criticism raised in the Moneyval/IMF evaluation of Liechtenstein, the system of decrees concerning proprietary rights was overhauled. In addition to the introduction of a provision on confiscation in § 19a Penal Code, the rules and provisions on forfeiture were also amended (§§ 20ff. Penal Code).

Cross-border transactions

Within the framework of cross-border transactions, VP Bank is obligated, by virtue of supervisory law, to appropriately identify and manage the legal and reputational risks arising from these activities and to take measures to minimise the risks. Compliance with applicable foreign law constitutes a central task of VP Bank. In this connection, foreign regulations regarding the distribution of products are of increasing importance and must be taken account of and complied with when distributing products across borders. Furthermore, taxation

aspects also play a significant role. The client should be made increasingly aware of the fact that investment transactions can have taxation consequences and that, depending on the circumstances, consultation with external professional support may be advisable.

Using so-called "country manuals" and the holding of in-house training courses, the client-relationship officers of VP Bank are briefed in-depth on cross-border activities as well as on the need to comply with applicable foreign law, thus rendering them "fit" for their tasks.

PRIIP – Key information documents for packaged retail and insurance-based investment products

The EU Regulation No. 1286/2014 concerning Key Information Documents, KIDs for packaged retail and insurance-based investment products (PRIIPs) will come into force on 31 December 2017. It obligates all issuers of PRIIPs to prepare, maintain and distribute a large number of clearly written KIDs.

All financial institutions distributing products are to make these KIDs available to their retail clients from the EU/EEA in anticipation of an investment transaction. Affected by this rule in particular are structured products, investment funds and insurance-based investment products. Some time ago, VP Bank initiated a project in view of implementing this EU legislation.

EU Passport for Alternative Investment Funds (AIA)

After a protracted tailback period, the EEA Joint Committee resolved to adopt, on 30 September 2016, the first package of legal acts concerning the European (Financial) Supervisory Authorities (ESAs). This EEA package of laws to be transposed comprised, inter alia, the so-called AIFM Guideline und its EU implementing acts. It took effect on 1 October 2016 with the result that Liechtenstein, as a member state of the EEA, now also possesses, from this date onwards, the long-awaited EU passport for alternative investment funds (AIA). As of this date, the related regulations of the Liechtenstein Implementing Act (Law of 19 December 2012 concerning the Managers of Alternative Investment Funds, AIFMA) were amended accordingly.

Effective Date of the New IUA

With the transposition of the AIFM Directive into EEA Law on 1 October 2016, the previous Law on Investment Enterprises (IUA) of 19 May 2005 was repealed and replaced by the new IUA of 4 December 2015.

Following the above transposition of the AIFM Directive, the largest part of Liechtenstein investment-fund legislation (UCITS i.e. securities investment funds and alternative investment funds) is bound by European requirements (UCITS and AIFM Directives). Although only little time thus remains for purely national investment-fund legislation, the Landtag has exploited this by adopting the new Investment Company Law (IUA) of 4 December 2015. This purely national investment-fund law regulates four categories of funds (investment companies for single investors, families, interest groups and groups of corporate entities) which fall neither under the UCITS nor the AIFM Directives. It relates to investment companies for qualified investors where no amassing of capital within the meaning of the AIFM Directive or the specifying ESMA Guidelines 2013/611 occurs and which are not distributed.

Payment Accounts Directive

On 23 July 2014, the EU issued the Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (Payment Accounts Directive).

This Directive encompasses essentially the following points:

- A right to a payment account with basic features (so-called "basic account");
- Transparency and comparability of fees for payment accounts (fee information and fee overview as well as a website with comparative details);
- Provision of payment account exchange services by banks.

The EU Directive is to be implemented in Liechtenstein by the creation of a new Law on Payment Accounts (PAL) (expected as of 1 January 2018).

European Market Infrastructure Regulation (EMIR)

In September 2009, the G20 countries agreed that all standardised OTC derivatives contracts are to be processed via a central counterparty and OTC derivatives contracts are to be reported to a transaction register. The EU Commission gave recognition to this matter by issuing Ordinance (EU) No. 648/2012 of 4 July 2012 concerning OTC derivatives, central counterparties and a transaction register ("European Market Infrastructure Regulation, EMIR"). The obligations under EMIR are already in force, in part, in the EU.

EMIR will be transposed into the EEA Agreement, in all probability, during 2017. The obligations arising under EMIR, however, will only become applicable in Liechtenstein when all legal and implementing acts of law delegated to EMIR have also been transferred into the EEA Agreement. The time on which this transfer (and any applicable implementation deadline) will take place, is currently unknown and thus the validity of the obligations introduced with EMIR is pending.

Bank Recovery and Resolution Directive / Bank Recovery and Resolution Law

The EU has issued a Directive establishing a framework for the recovery and resolution of banks (RL 2014/59/EU) in order to be able in future to take preventive measures to surmount a banking crisis as well as the insolvency of a system-relevant bank. Based upon the aforementioned Directive, the Bank Recovery and Resolution Act (BRRR) was enacted in Liechtenstein and took effect on 1 January 2017. It is designed to enhance financial stability and replaces the existing provisions on the recovery and liquidation of banks.

The BRRR contains three main elements: Firstly, there exists an obligation for every bank to prepare a recovery plan and a Group recovery plan for the attention of the supervisory authority and to update it regularly. Subsequently, the possibility is introduced for the authorities to take early intervention measures and finally for the new resolution authority to draw up an institution-specific resolution plan in order to be able to implement the latter when called for.

If all prerequisites are met and there is public interest, the resolution instruments provided in the recovery plan can be implemented. These measures range from the possibility of selling the enterprise through to a bail-in and can be implemented against the will of the shareholders.

The effective use of the resolution instruments shall be assured through a resolution fund which is financed by the banks and is designed to protect taxpayers from additional burdens. Details are contained in the Law concerning the foundation to finance financial-market stabilising measures which took effect at the same time as the BRRR.

Important links to legislation and the Liechtenstein financial centre

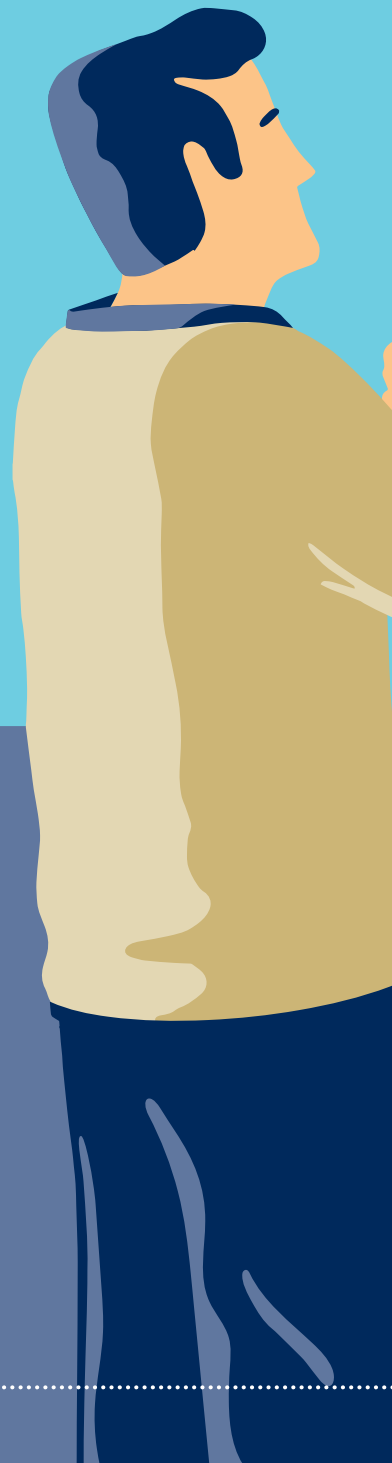
FMA, Financial Market Authority Liechtenstein	www.fma-li.li
Body of Liechtenstein law	www.gesetze.li
Official website of the Principality of Liechtenstein	www.liechtenstein.li
Liechtenstein Government Authority	www.llv.li
Landtag of the Principality of Liechtenstein	www.landtag.li
Liechtenstein Bankers' Association	www.bankenverband.li
Liechtenstein Investment Fund Association	www.lafv.li
Liechtenstein Chamber of Professional Trustees	www.thv.li
Liechtenstein Association of Auditors	www.wpv.li
Liechtenstein Chamber of Industry and Commerce	www.lihk.li
Liechtenstein Economics Chamber	www.wirtschaftskammer.li
Liechtenstein Insurance Association	www.versicherungsverband.li
Association of Independent Asset Managers in Liechtenstein	www.vuvl.li
Association of Non-Profit Foundations in Liechtenstein	www.vlgs.li
Deposit-Insurance and Investor-Compensation Foundation SV	www.eas-liechtenstein.li
Government of the Principality of Liechtenstein	www.regierung.li
Finance Liechtenstein	www.finance.li

"From banking secrecy to crypto-banking."

Peter Schnürer

**Member of the Board of Management
(Professional Services Banking Unit), Inventx**

Much is designated as revolutionary under the term "digitalisation", which, in reality, only represents a long-overdue further development of existing services. The true revolution is driven by technologies requiring a complete re-think in customer relationships.

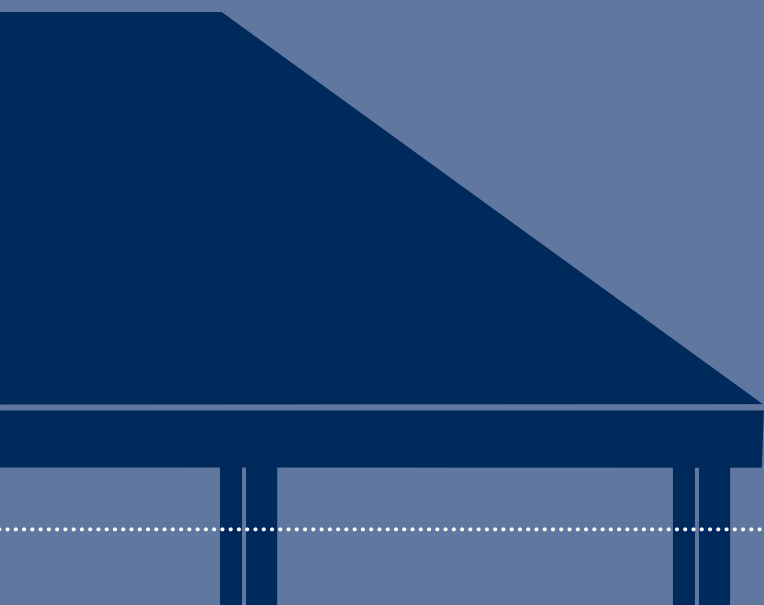


Read the full post at
www.vpbank.com/NextBanking-Crypto-banking





Segments



Segment reporting

As of 1 January 2016, VP Bank amended its organisational structure by creating a new organisational unit "Chief Operating Officer". An in-depth review of credit and strategy policies of the Group Executive Management resulted a segregation of the front and mid- and back-office units. As part of this process, the front and mid- and back-office units were transferred to "Chief Operating Officer". The front-office area remained in "Client Business". As already communicated in the 2015 Annual Report of VP Bank Group (page 17), the management structure consists, from this date on, of the four organisational units "Chief Executive Officer", "Client Business", "Chief Financial Officer" and "Chief Operating Officer".

The organisational unit "Client Business" is divided into two business segments "Client Business Liechtenstein" and "Client Business International". The three organisational units "Chief Executive Officer", "Chief Financial Officer & Banking Services" and "Chief Operating Officer" are regrouped together under the business segment "Corporate Center".

As a result of the segregation of the front- and mid/back-office units, the prior year's comparatives for segment reporting have been restated accordingly.

Business segment reporting 2016

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income ¹	67,609	24,936	9,827	102,372
Total net income from commission business and services	90,176	33,878	-5,265	118,789
Income from trading activities ¹	20,267	6,565	17,664	44,496
Income from financial instruments	10	396	7,240	7,646
Other income	0	1,078	-1,149	-71
Total operating income	178,062	66,853	28,317	273,232
Personnel expenses	33,768	39,000	62,561	135,329
General and administrative expenses	3,292	21,544	26,839	51,675
Depreciation and amortisation	3,682	3,336	15,393	22,411
Valuation allowances, provisions and losses	2,270	716	-218	2,768
Services to/from other segments	40,389	0	-40,389	0
Operating expenses	83,401	64,596	64,186	212,183
Earnings before income tax	94,661	2,257	-35,869	61,049
Taxes on income				3,063
Group net income				57,986
Segment assets (in CHF million)	4,108	3,581	4,106	11,794
Segment liabilities (in CHF million)	7,160	3,048	649	10,857
Client assets under management (in CHF billion) ²	24.6	11.2	0.0	35.8
Net new money (in CHF billion)	-0.2	0.2	0.0	0.0
Headcount (number of employees)	185	248	371	804
Headcount (expressed as full-time equivalents)	174.1	233.2	331.0	738.3

¹ Change of accounting principles (note 1 and principles underlying financial statement reporting)

² Calculation in accordance with Table P of the Guidelines to the Liechtenstein Banking Ordinance issued by the Government of Liechtenstein (FL-BankO).

Business segment reporting 2015

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income ¹	51,366	20,672	16,328	88,366
Total net income from commission business and services	91,847	38,853	-4,330	126,370
Income from trading activities ¹	23,866	9,790	8,527	42,183
Income from financial instruments	16	-897	139	-742
Other income ²	0	983	49,394	50,377
Total operating income	167,095	69,401	70,058	306,554
Personnel expenses	32,565	36,752	52,563	121,880
General and administrative expenses	2,952	19,071	38,212	60,235
Depreciation and amortisation	3,672	4,455	30,126	38,253
Valuation allowances, provisions and losses	2,917	11,761	11,350	26,028
Services to/from other segments	47,691	0	-47,691	0
Operating expenses	89,797	72,039	84,560	246,396
Earnings before income tax⁵	77,298	-2,638	-14,502	60,158
Taxes on income				-3,898
Group net income				64,056
Segment assets (in CHF million)	4,467	3,247	4,647	12,361
Segment liabilities (in CHF million)	7,792	2,928	723	11,443
Client assets under management (in CHF billion) ^{3,4}	24.3	10.5	0.0	34.8
Net new money (in CHF billion) ⁴	5.8	0.2	0.0	6.0
Headcount (number of employees)	171	245	382	798
Headcount (expressed as full-time equivalents)	161.5	233.4	339.5	734.4

¹ Change of accounting principles (note 1 and principles underlying financial statement reporting)

² The non-recurring positive effect of the «bargain purchase» (goodwill arising on acquisition) is disclosed in the Corporate Center.

³ Calculation in accordance with Table P of the Guidelines to the Liechtenstein Banking Ordinance issued by the Government of Liechtenstein (FL-BankO).

⁴ Acquired client relationships (note 45) of CHF 6.7 billion are included in this position.

⁵ Centralisation of the investment management operations of VP Bank (Switzerland) Ltd in Liechtenstein as of 1 July 2015 (net CHF 2.7 billion).

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

Client Business Liechtenstein

Segment results

in CHF 1,000	2016	2015	Variance absolute	Variance in %
Total net interest income ¹	67,609	51,366	16,243	31.6
Total net income from commission business and services	90,176	91,847	-1,671	-1.8
Income from trading activities ¹	20,267	23,866	-3,599	-15.1
Income from financial instruments	10	16	-6	-37.5
Other income	0	0	0	0.0
Total operating income	178,062	167,095	10,967	6.6
Personnel expenses	33,768	32,565	1,203	3.7
General and administrative expenses	3,292	2,952	340	11.5
Depreciation and amortisation	3,682	3,672	10	0.3
Valuation allowances, provisions and losses	2,270	2,917	-647	-22.2
Services to/from other segments	40,389	47,691	-7,302	-15.3
Operating expenses	83,401	89,797	-6,396	-7.1
Segment income before income tax	94,661	77,298	17,363	22.5
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	43.5	49.8		
Operating expenses excluding valuation allowances, provisions and losses / total operating income (in %)	45.6	52.0		
Client assets under management (in CHF billion)	24.6	24.3		
Change in client assets under management compared to 31.12. prior year (in %)	1.3	24.4		
Net new money (in CHF billion)	-0.2	5.8		
Gross income / average client assets under management (bp) ¹	72.8	76.3		
Segment result / average client assets under management (bp) ¹	38.7	35.3		
Cost/income ratio operating income (in %) ²	43.5	49.8	-6.3	-12.7
Headcount (number of employees)	185	171	14.0	8.2
Headcount (expressed as full-time equivalents)	174.1	161.5	12.6	7.8

¹ Annualised, average values.

² Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / gross income less other income and income from financial instruments.

Structure

The business segment "Client Business Liechtenstein" encompasses the international private banking business and the business with intermediaries located in Liechtenstein as well as the local universal banking and credit-granting businesses. It includes the units of VP Bank Ltd, Vaduz which are in direct client contact. In addition, Group Investment, Product & Market Management and VP Fund Solutions (Liechtenstein) AG are allocated to this business segment.

Segment result

The pre-tax segment result in 2016 increased by CHF 17.4 million (22.5 per cent) over the prior year. In 2016, operating income could be improved by CHF 11.0 million (6.6 per cent). This growth results from interest income from clients (+31.6 per cent). Primarily trends in USD interest rates as well as margin increases in credit-granting activities contributed to this positive result. Operating expenses could be reduced by CHF 6.4 million (7.1 per cent) to CHF 83.4 million (prior year: CHF 89.8 million). This decrease is primarily attributable to a lower level of inter-segmental recharges. The lower recharges are due to the synergy effects of the Centrum Bank merger.

Intersegmental recharges in Client Business Liechtenstein are based upon fixed internal transfer prices. Indirect costs for internal services are reported in the caption "services to/from other segment(s)". In 2016, the charges for valuation allowances, provisions and losses fell, year-on-year, by CHF 0.6 million to CHF 2.3 million (prior year: CHF 2.9 Mio.). The gross margin fell to 72.8 basis points (prior-year: 76.3 basis points). The cost/income ratio improved from 49.8 per cent to 43.5 per cent.

In the financial year, the segment reported a lower level of net new money inflows from clients in the amount of CHF 0.2 billion. Net new money inflows resulting from market-development activities could not completely offset money outflows resulting from the regulatory environment and taxation-related issues. Assets under management on 31 December 2016 totalled CHF 24.6 billion (31 December 2015: CHF 24.3 billion). The employee headcount rose from 162 (31 December 2015) to 174 individuals.

Client Business International

Segment results

in CHF 1,000	2016	2015	Variance absolute	Variance in %
Total net interest income ¹	24,936	20,672	4,264	20.6
Total net income from commission business and services	33,878	38,853	-4,975	-12.8
Income from trading activities ¹	6,565	9,790	-3,225	-32.9
Income from financial instruments	396	-897	1,293	144.1
Other income	1,078	983	95	9.7
Total operating income	66,853	69,401	-2,548	-3.7
Personnel expenses	39,000	36,752	2,248	6.1
General and administrative expenses	21,544	19,071	2,473	13.0
Depreciation and amortisation	3,336	4,455	-1,119	-25.1
Valuation allowances, provisions and losses	716	11,761	-11,045	-93.9
Services to/from other segments	0	0	0	0.0
Operating expenses	64,596	72,039	-7,443	-10.3
Segment income before income tax	2,257	-2,638	4,895	185.6
Additional information				
Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / total operating income (in %)	90.6	80.4		
Operating expenses excluding valuation allowances, provisions and losses / total operating income (in %)	95.6	86.9		
Client assets under management (in CHF billion)	11.2	10.5		
Change in client assets under management compared to 31.12. prior year (in %)	6.6	-8.2		
Net new money (in CHF billion)	0.2	0.2		
Gross income / average client assets under management (bp) ¹	61.7	63.4		
Segment result / average client assets under management (bp) ¹	2.1	-2.4		
Cost/income ratio operating income (in %) ²	92.6	80.5	12.1	15.0
Headcount (number of employees)	248	245	3.0	1.2
Headcount (expressed as full-time equivalents)	233.2	233.4	-0.2	-0.1

¹ Annualised, average values.

² Operating expenses excluding depreciation and amortisation, valuation allowances, provisions and losses / gross income less other income and income from financial instruments.

Structure

The business segment "Client Business International" encompasses the business conducted in international locations. VP Bank (Switzerland) Ltd, VP Bank (Luxembourg) SA, VP Bank (BVI) Ltd, VP Bank (Singapore) Ltd, VP Wealth Management (Hong Kong) Ltd and VP Fund Solutions (Luxembourg) SA are allocated to this business segment.

Segment result

In 2016, the pre-tax segment result could be improved, year-on-year, by CHF 4.9 million. Operating income fell by 3.7 per cent from CHF 69.4 million to CHF 66.9 million, particularly resulting from declining commission and service income and trading income. This is attributable, inter alia, to the centralisation of the investment-management activities of VP Bank (Switzerland) Ltd within Liechtenstein which was undertaken in the prior year. Interest income and income from financial investments developed positively and could be increased, year-on-year, by CHF 4.3 million and CHF 1.3 million, respectively. Operating expenses could be reduced by CHF 7.4 million, or 10.3 per cent, to CHF 64.6 million. This decline results from the charges for valuation allowances, provisions and losses as well as amortisation and depreciation. In 2015, higher valuation allowances for credit risks and restructuring provisions in connection with the operational integration of all Luxembourg locations had been required. Personnel and general and administrative expenses rose as a result of expanded market-development activities. In the business segment "Client Business International", the recharging of services is based on actual invoices and recorded under general and administrative expenses.

The gross margin declined to 61.7 basis points (prior year: 63.4 basis points). The cost/income ratio improved from 80.5 per cent to 92.6 per cent.

Net new money developed positively in 2016 in an amount of CHF 0.2 billion. Net new money inflows could again be achieved in Asian markets. Other markets reported money outflows caused by the regulatory environment and tax-related issues. Assets under management at 31 December 2016 totalled CHF 11.2 billion (31 December 2015: CHF 10.5 billion). The employee headcount of 233 individuals remained unchanged from the prior year.

Corporate Center

Segment results

in CHF 1,000	2016	2015	Variance absolute	Variance in %
Total net interest income ¹	9,827	16,328	-6,501	-39.8
Total net income from commission business and services	-5,265	-4,330	-935	-21.6
Income from trading activities ¹	17,664	8,527	9,137	107.2
Income from financial instruments	7,240	139	7,101	n.a.
Other income	-1,149	49,394	-50,543	-102.3
Total operating income	28,317	70,058	-41,741	-59.6
Personnel expenses	62,561	52,563	9,998	19.0
General and administrative expenses	26,839	38,212	-11,373	-29.8
Depreciation and amortisation	15,393	30,126	-14,733	-48.9
Valuation allowances, provisions and losses	-218	11,350	-11,568	-101.9
Services to/from other segments	-40,389	-47,691	7,302	15.3
Operating expenses	64,186	84,560	-20,374	-24.1
Segment income before income tax	-35,869	-14,502	-21,367	-147.3
Additional information				
Headcount (number of employees)	371	382	-11.0	-2.9
Headcount (expressed as full-time equivalents)	331.0	339.5	-8.6	-2.5

Structure

The business segment "Corporate Center" is of great importance for banking operations and the processing of business transactions. It encompasses the areas Group Operations, Group Information Technology, Group Credit, Group Treasury & Execution, Group Finance, Group Risk, Group Legal, Compliance & Tax, Group Human Resources Management, Group Communications & Marketing and Group Business Development. In addition, those revenues and expenses of VP Bank Ltd having no direct relationship to client-oriented operating divisions, as well as consolidation adjustments are reported under the Corporate Center. Revenue-generating business activities of the segment Corporate Center arise in connection with the Group Treasury Function. The results of the Group's own financial investments, the structural contribution and the changes in the value of interest-rate hedges are reported in this segment. The prior-year's non-recurring positive effect of the "bargain purchase" arising from the merger with Centrum Bank (gain from the acquisition of Centrum Bank) as well as the charges for restructuring costs (including social plan) and project costs are reported in the Corporate Center business segment.

Segment result

The pre-tax segment result in 2016 amounted to minus CHF 35.9 million as opposed to minus CHF 14.5 million in the prior year. Year-on-year, operating income fell by CHF 41.7 million. This is due to the non-recurring impact of the "bargain purchase", which was recorded under "Other income" in the prior year. Interest income declined, year-on-year, by CHF 6.5 million. This, in part, is attributable to the negative interest level and, as a consequence, to the decline in interest revenues from maturity transformation (SNB negative interest). Commission and service income reports a drop in revenues. This comprises third-party bank commissions which were invoiced to front business units by the service units through internal recharging.

Income received by Group Treasury & Execution is reported under trading income. This relates to income generated from the execution of client trades. The caption also includes the results of derivatives employed to minimize risks as well as gains/losses from balance-sheet management activities. In 2016, income from financial investments amounted to 2016 CHF 7.2 million. This improvement of CHF 7.1 million is to be mainly attributed to the non-recurring prior year's impact of the decision by the SNB to discontinue the minimum exchange rate of the Euro to the Swiss franc and which gave rise to revaluation losses. Interest and dividend income show a slight decline. The gain arising on the acquisition of Centrum Bank ("bargain purchase") was taken to income in the prior year under the caption "Other income".

Operating expenses in the financial year could be reduced by CHF 20.4 million from CHF 84.6 million to CHF 64.2 million. On the one hand, this is the result of synergy effects in personnel and general and administrative expenses. On the other hand, no integration costs were incurred during the reporting period. The increase in personnel costs results above all from the prior-year's change in the conversion rate of the pension fund (IAS 19) amounting to CHF 8.5 million; this non-recurring amount was credited to expenses in 2015. Depreciation and amortisation fell by CHF 14.7 million to CHF 15.4 million. The reason for this decline was the fact that no amortisation was charged any longer on the Avaloq banking platform as well as one-off merger-related write-downs. Charges for valuation allowances, provisions and losses in the reporting period were CHF 11.6 million lower as a result of the merger. Because of the lower level of operating expenses in the Corporate Center of CHF 40.4 million, there were less inter-segmental recharges than in the 2015 prior-year (CHF 47.7 million).

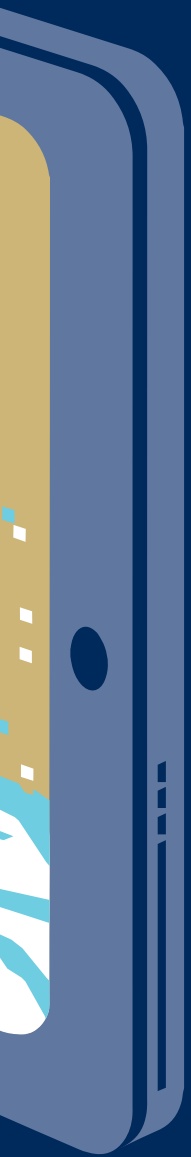
Basically because of the synergy effects from the merger, employee headcount could be reduced from 340 (31 December 2015) to 331 positions.



"Is Switzerland prepared for digitalisation?"

Dr Urs Rügsegger
Group CEO SIX

Switzerland is one of the most competitive national economies in the world. Nevertheless, digitalisation presents the country with new challenges. It still has not succeeded in turning traditional strengths into a leading role as regards digitalisation.



Read the full post at
www.vpbank.com/NextBanking-DigitalFutureSwitzerland





4

Corporate governance and
compensation report

Corporate governance 2016

Corporate Governance stands for responsible corporate management and control. The "Swiss Code of Best Practice for Corporate Governance" defines corporate governance as the entirety of principles focused on the interests of shareholders which aim to strike a healthy balance of management and control whilst maintaining decision-making capability as well as efficiency at the highest level of a company and transparency.

Good corporate governance ensures transparent management aimed at sustainable achievement. It is designed to serve not only the company but also external stakeholder groups. The overall framework of corporate governance is determined to a significant degree by the legislator and shareholders; the specific manner in which it is designed is the responsibility of the Board of Directors.

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

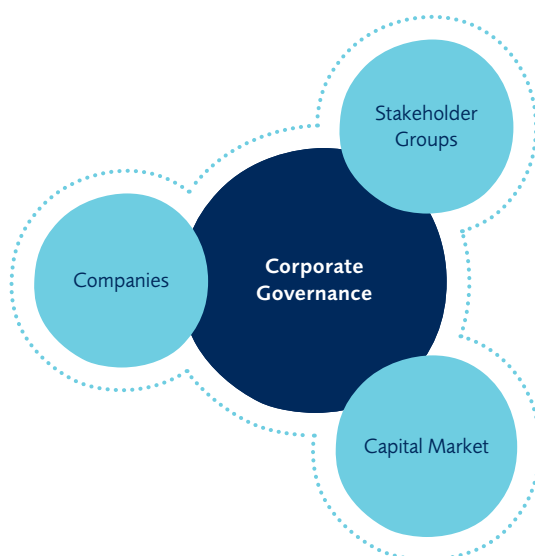
This report describes the basic principles underlying the corporate management of VP Bank Ltd, Vaduz¹, as required by the revised "Directive on Information Relating to Corporate Governance" (DCG) of the Swiss Stock Exchange, SIX Swiss Exchange dated 1 September 2014 as well as the relevant laws of Liechtenstein.

The regulations of SIX Swiss Exchange stipulate that companies whose shares are listed on the Swiss Exchange but not in their home country must apply the provisions of Art. 663b^{bis} CO by analogy. The respective disclosures are set out under point 5.2 (page 91) as well as in the notes to the annual financial statements (page 187 ff).

Unless otherwise indicated, all corporate-governance disclosures herein are valid as of 31 December 2016.

¹ Hereinafter referred to as VP Bank.

Equilibrium achieved through Corporate Governance



1. Group structure and shareholders

1.1 Group structure

1.1.1 Description of operating Group structure

VP Bank is a joint-stock company constituted in accordance with Liechtenstein law. It is the parent company of VP Bank Group. The organisation chart on page 16 shows the Group's operating structure and reflects the organisation of VP Bank Group according to segments.

The subsidiary companies and material shareholdings included in the scope of consolidation are listed in the Financial Report (see page 165) together with their name, registered office, share capital and percentage of share capital held.

The Executive Board of the parent bank is designated as "Group Executive Management (GEM)". It bears responsibility for the operational management of the parent bank as well as assuming the function as Executive Board for VP Bank Group.² The members of the Executive Board are represented on the boards of directors of the subsidiary companies. As a general rule, either the Chief Executive Officer or another member of the Group Executive Management acts as Board Chairman of the given subsidiary company.

1.1.2 Listed companies included in the scope of consolidation

The registered shares A of VP Bank, Vaduz, are listed on SIX Swiss Exchange; the registered shares B of the company are not listed.

	ISIN	Year-end price in CHF	market value in CHF million
Registered shares A (listed)	LI0315487269	108.00	649
Registered shares B (not listed)	LI0010737596	10.80	65 ¹
Total (market capitalisation of registered shares A plus market value of registered shares B)			714

¹ Stock-market capitalisation of listed registered shares A as of 31.12.2016

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

1.2 Significant shareholders (anchor shareholders)

As at 31 December 2016, the following shareholders declared that they own more than 10 per cent of the share capital of VP Bank or exercise more than 5 per cent of the voting rights.

Shareholders	Registered shares A	Registered shares B	Voting rights	Voting rights as % of total	Ownership of total share capital
Stiftung Fürstl. Kommerzienrat Guido Feger, Vaduz ¹	1,066,426	4,530,047	5,596,473	46.6%	23.0%
U.M.M. Hilti-Stiftung, Schaan	546,718	658,370	1,205,088	10.0%	9.3%
Marxer Stiftung für Bank- und Unternehmenswerte, Vaduz	756,381	0	756,381	6.3%	11.4%

¹ incl. entities controlled by the Foundation

During the period under review, no further disclosure notifications were received as foreseen by Art. 25 of the Liechtenstein Law Governing the Disclosure of Significant Shareholdings in a Listed Company and by Art. 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading. No shareholder agreements exist.

1.3 Cross-shareholdings

VP Bank has entered into no cross-shareholdings with other companies involving share capital or voting rights.

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

2. Capital structure

2.1 Share capital

The share capital of VP Bank amounts to CHF 66,154,167 and is divided into 6,015,000 fully paid-up registered shares A with a par value of CHF 10.00 each, as well as 6,004,167 registered shares B with a par value of CHF 1.00 each (see Financial Report, page 156).

	Number	Balance as of 31.12.2016 Share capital in CHF
Registered shares A	6,015,000	60,150,000
Registered shares B	6,004,167	6,004,167
Total	12,019,167	66,154,167

2.2 Conditional and authorised capital

VP Bank has neither authorised nor conditional capital.

2.3 Changes in share capital

During the extraordinary general meeting held on 10 April 2015, a capital increase of CHF 7,006,530 together with the issuance of 700,653 bearer shares with a par value of CHF 10.00 was approved. At the Annual General Meeting of 29 April 2016, it was resolved to convert the previous bearer shares each with a par value of CHF 10.00 into new registered shares A. The previously unlisted registered shares each with a par value of CHF 1.00 were renamed as new registered shares B. The total shareholders' equity of VP Bank for the past three financial years (as of the respective balance-sheet date) has developed as follows:

in CHF 1,000	31.12.2016	31.12.2015	31.12.2014
Share capital	66,154	66,154	59,148
Capital reserves	47,143	47,239	0
Legal reserves	239,800	239,800	239,800
Other reserves	346,646	344,481	344,446
Provisions for general banking risks	63,150	63,150	63,150
Retained earnings	118,847	77,330	55,958
Total	881,741	838,154	762,501

2.4 Shares and participation certificates

The registered shares A of VP Bank are freely tradable on SIX Swiss Exchange. The registered shares B are not listed, but are widely held among the regional population. Both share categories bestow the membership rights provided for in the Liechtenstein Persons and Companies Act (PCA) and the company's Articles of Incorporation. Each registered share A (par value of CHF 10.00) and each registered share B (par value of CHF 1.00) grants the holder the right to one vote at the annual general meeting of VP Bank, irrespective of the par value of the share.

VP Bank has issued no profit-sharing certificates.

2.5 Profit-sharing certificates

VP Bank has issued no profit-sharing certificates.

2.6 Limitations on transferability and nominee registrations

The registration and transfer of registered shares is regulated in detail in Art. 7 of the Articles of Incorporation.³ Only those shareholders entered into the share register are entitled to exercise membership rights of the company. The Board of Directors may refuse entry into the share register of registered shares B for compelling reasons (Art.7a of the Articles).

2.7 Convertible bonds and options

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

³ The Articles of Incorporation in the Internet: www.vpbank.com
(→ Investors & Media
→ Publications → Regulations)

3. Board of Directors

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

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

3.1 Members of the Board of Directors

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

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

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

Name	Year of birth	Function	Joined Board of Directors in	Elected until AGM in
Fredy Vogt	1958	Chairman of the Board ¹	2012	2018
Lic. oec. Markus Thomas Hilti	1951	Vice Chairman of the Board ²	1992	2019
Dr Christian Camenzind	1960	Board Member ⁸	2016	2019
Prof. Dr Teodoro D. Cocca	1972	Board Member ⁷	2011	2017
Dr Beat Graf	1964	Board Member ⁴	2014	2017
Lic. iur. Ursula Lang	1967	Board Member ⁶	2016	2019
Dr Florian Marxer	1976	Board Member ⁸	2015	2018
Dr Gabriela Maria Payer	1962	Board Member ^{2,8}	2016	2019
Michael Riesen	1962	Board Member ^{3,6}	2014	2017
Dr Daniel H. Sigg	1956	Board Member ^{4,5}	2008	2017

¹ Chairman of the Nomination & Compensation Committee

⁵ Chairman of the Risk Committee

² Member of the Nomination & Compensation Committee

⁶ Member of the Risk Committee

³ Chairman of the Audit Committee

⁷ Chairman of the Strategy & Digitalisation Committee

⁴ Member of the Audit Committee

⁸ Member of the Strategy & Digitalisation Committee



Fredy Vogt (born 11 September 1958, citizen of Liechtenstein) is Chairman of the Board of Directors. In addition, he is Chairman of the Nomination & Compensation Committee. He participates in the meetings of the other Board Committees as a guest.

- **Education:** Swiss Certified Public Accountant (1988); Swiss Certified Expert in Accounting and Controlling (1984).
- **Professional background:** 1987–2012 VP Bank Ltd, Vaduz; 1996–2012 member of the Executive Board (responsible for finance, corporate clients and intermediaries, trading, real estate and security) as well as from 2003–2012 CFO. In addition, he held the office of CEO ad interim from 25 August 2009 to 31 March 2010; 1994–1996 Department Head of Corporate Planning and Accounting; 1990–1994 Organisation and Head of the Controlling Department; 1987–1990 Deputy Head of Internal Audit; 1985–1987 Lead Auditor Revikon Revision und Beratungs AG, Vaduz; 1984–1985 Managing Director Revikon Revision und Beratungs AG, Vaduz; 1983–1984 Auditor Neutra Treuhand AG, St. Gallen; 1980–1983 assistant (later Department Head) in Trustee Operations Confida Treuhand- und Revisions AG, Vaduz; 1979–1980 assistant in bookkeeping department Trevisor Treuhand- und Kontrollstellen AG, Vaduz; 1979 assistant in credit department Liechtensteinische Landesbank, Vaduz.
- **Other activities and vested interests:** Chairman of the Board of Directors of VPB Finanz Holding AG, Zurich; Chairman of the Board of Trustees of Privatbank-Personalstiftung, Vaduz; member of the Foundation Council of the VP Bank Foundation and of the VP Bank Art Foundation; member of the Board of Directors of Helios Aviation AG, Triesen; member the Executive Board of the Liechtenstein Chamber of Commerce and Industry (LIHK).



F.l.t.r.: Ursula Lang, Dr Beat Graf, Markus Thomas Hilti, Dr Daniel H. Sigg, Fredy Vogt, Dr Christian Camenzind,
Dr Gabriela Maria Payer, Prof. Dr Teodoro D. Cocca, Dr Florian Marxer, Michael Riesen



Markus Thomas Hilti (born 3 January 1951, citizen of Liechtenstein) is Vice-Chairman of the Board of Directors and member of the Nomination & Compensation Committee.

- **Education:** lic. oec. HSG University of St. Gallen (1976).
- **Professional background:** since 2010 Protector of the Martin Hilti-Familientreuhänderschaft, Schaan; 1990–2010 Administrative Trustee of the Martin Hilti-Treuhänderschaft, Schaan; 1981–1990 Hilti Western Hemisphere, Tulsa/USA; 1987–1990 Member of Management and responsible for product management, procurement, development and quality control as well as the management of the Tulsa/USA factory; 1981–1987 various activities in the field of finances, product management and sales; 1977–1980 Auditor Coopers & Lybrand, White Plains N.Y.
- **Other activities and vested interests:** Member of the Council of Trustees of U.M.M. Hilti-Stiftung, Schaan (point 1.2).



Dr Christian Camenzind (born 10 May 1960, Swiss citizen) is member of the Strategy & Digitalisation Committee.

- **Education:** Asian International Executive Program, INSEAD, Singapore (2011); Advanced Management Program, Wharton School, University of Pennsylvania, USA (1999); Dr. iur. University of Zurich (1989); Lic. iur. University of Zurich (1986).
- **Professional background:** since 2013 independent management consultant, Zurich and Singapore; 2011-2013 Chief Operating Officer, Wealth Management Asia/Pacific Deutsche Bank, Singapore; 2000–2011 Chairman of the Management, Bank Sal. Oppenheim jr. & Cie (Switzerland) AG, Zurich; 1998–1999 Member of Management and Head Private Banking International, Bank Leu AG, Zurich; 1997 Head of Market and Product Management, CS Private Banking Credit Suisse, Zurich; 1994–1996 Head of Private Banking and Member of the Directorate, Credit Suisse, Luxembourg; 1993–1994 Head of Financial Products Private Banking Credit Suisse, London; 1989–1994 Analyst Capital Markets, Advisor Investment Advice International/CS Life Credit Suisse, Zurich; 1987–1989 assistant to Prof. Ernst Kilgus, Institute for Swiss Banking, University of Zurich.
- **Other activities and vested interests:** Chairman of the Board of Directors of B&I Capital AG, Zurich and Singapore; Advisory Council of Corecam Investment Group, Zurich and Singapore.



Prof. Dr Teodoro D. Cocca (born 25 July 1972, Swiss citizen) is Chairman of the Strategy & Digitalisation Committee.

- **Education:** Dr. oec. University of Zurich (2001).
- **Professional background:** since 2006 Johannes Kepler University Linz; since 2006 Professor for Asset Management; since 2007 member of the Research Institute for Banking and Finance; 2011–2013 Dean of the Social and Economic Sciences Faculty; since 2010 Adjunct Professor at the Swiss Finance Institute in Zurich; 2004–2006 Project Associate Swiss Financial Center Watch as well as Finance Group (with Prof. Thorsten Hens) University of Zurich; 2003–2004 research activity with Prof. Ingo Walter at the Stern School of Business, New York/USA; 2001–2005 Project Associate at NCCR FINRISK (National Center of Competence in Research in Finance, Project: Financial Valuation and Risk Management); 1998–2006 Scientific Assistant and from 2001 onwards, Senior Assistant and Senior Researcher at the Swiss Banking Institute of Zurich University; 1995–1998 activities in Private Banking/Financial Control with Citibank Switzerland, Zurich; 1995–1996 President of the Organizing Committee of AIESEC Zurich.
- **Other activities and vested interests:** Deputy Chairman of the Board of Directors of Geneva Group International, Zurich; member of the investment committee of various Austrian investment funds; owner of Cocca Asset Management KG, Weisskirchen an der Traun/Austria.

Dr Beat Graf (born 25 April 1964, Swiss citizen) is member of the Audit Committee.

- **Education:** Master of Advanced Studies in Risk Management at the Lucerne University of Applied Sciences and Arts (2007); Doctorate in Law (Dr iur.), University of Fribourg (1996).
- **Professional background:** since 2004 Allgemeines Treuunternehmen (ATU), Vaduz; since 2015 Chairman of the Council of Trustees and Board of Directors in various ATU Group companies; 2012–2015 Member of Management and responsible for the coordination of all ATU subsidiaries, compliance and marketing; 2007–2012 Member of Management and Head of Compliance; 2004–2007 Head of Compliance; 1999–2004 Founding Partner and Managing Director LM Legal Management AG, St. Gallen; 1991–1999 Swiss Bank Corporation (UBS), St. Gallen; 1998–1999 Deputy Head of Legal Services Eastern Switzerland; 1993–1998 assistant in legal department; 1991–1993 Trainee Corporate Client Advisor.
- **Other activities and vested interests:** none.



Ursula Lang (born 15 February 1967, Swiss citizen) is member of the Risk Committee.

- **Education:** Admitted to the bar (1996); studies at the Faculty of Law of Zurich University, master's degree in law (1993).
- **Professional background:** since 2015 independent lawyer (specialising in criminal law, commercial criminal law, compliance) Sintzel Krapf Lang Attorneys-at-Law, Zurich; 1998–2013 Credit Suisse, Zurich; 2011–2013 General Counsel for Switzerland and the Private Banking & Wealth Management segment; 2008–2011 Head of Compliance Switzerland; from 2009 in addition Co-Head of Global Compliance; 2006–2008 Global Head of Anti-Money Laundering Compliance; 2000–2006 compliance assistant in Credit Suisse Private Banking and Credit Suisse Financial Services; 1998–2000 employee in the legal department; 1996–1998 lawyer Stiffler & Nater Attorneys-at-Law, Zurich; 1994–1996 auditor und legal secretary Horgen District Court, Zurich.
- **Other activities and vested interests:** Vice-chairwoman of the Board of Directors and member of the Audit Committee of responsAbility Investments AG, Zurich.



Dr Florian Marxer (born 17 August 1976, Liechtenstein citizen) is member of the Strategy & Digitalisation Committee

- **Education:** Admitted to the bar in Liechtenstein (2008); Doctorate in law (Dr iur.) University of Zurich (2007); admitted to the bar, New York (2005); Master of Laws (LL.M.), Yale Law School, USA (2005); Mag. iur. University of Innsbruck (2002).
- **Professional background:** since 2010 partner with Marxer & Partner Attorneys-at-Law, Vaduz; 2010–2015 member and during 2011–2014 Chairman of the Board of Directors Centrum Bank Ltd, Vaduz; 2009 trainee with Bank Julius Bär & Co. AG, Zurich und Singapore; 2005–2009 legal assistant with Marxer & Partner Attorneys-at-Law, Vaduz; 2003 legal trainee with the Princely Court of Justice ("Landgericht") and Public Prosecutor's Office in Liechtenstein; 2000–2001 project assistant at the Institute for Civil Law at the University of Innsbruck; 1997–1998 Stagiaire with the Permanent Representation of Liechtenstein with the Council of Europe.
- **Other activities and vested interests:** Chairman of the Board of Directors of Belvédère Asset Management AG, Zurich; Chairman of the Board of Directors Centrum Beratungs- und Beteiligungen AG, Zurich; member of the Board of Directors of Confida Holding AG, Vaduz; member of the Board of Directors, Domar Treuhand- und Verwaltungs-Anstalt, Vaduz; President of the Foundation Council of Marxer Stiftung für Bank- und Unternehmenswerte, Vaduz (see point 1.2); Council and Board member of various non-profit and private-benefit establishments.





Dr Gabriela Maria Payer (born 14 July 1962, Swiss citizen) is member of the Nomination & Compensation Committee and of the Strategy & Digitalisation Committee.

- **Education:** Advanced HR Executive Program at the Michigan Business School, Michigan/USA (2004); Doctorate at the university of Zurich (1990); study of languages and business management at the universities of Zurich and of the Sorbonne, Paris/France (1987).
- **Professional background:** since 2012 Head of Training and Member of Management Swiss Finance Institute, Zurich; since 2012 Creative Business Development and Management Consulting PAYERPARTNER, St. Moritz; 1993–2012 UBS AG, Zurich; 2009–2012 Founder and Head of UBS Business University for the entire divisions of the bank, 2005–2009 Head of Personnel Worldwide, Asset Management and Corporate Banking Businesses, 1998–2004 Founder and Head UBS e-banking and Marketing Technology, 1993–1998 Head of Marketing and Distribution Channels, Switzerland; 1990–1993 American Express, Zurich – London – Frankfurt; 1988–1989 Head of Communication Scheller Informatik Group, Brugg; 1984–1987 student traineeship IBM Switzerland, Zurich.
- **Other activities and vested interests:** member of the Board of Directors and member of the Nomination and Compensation Committee of Helvetia Group AG; member of the Advisory Council of Swiss Leadership Forum; member of the Advisory Council "CAS in General Management for Boards of Directors", University of Berne; Chairwoman of the "Association of Compensation and Benefits Experts – acbe", Zurich.



Michael Riesen (born 24. June 1962, Swiss citizen) is Chairman of the Audit Committee and member of the Risk Committee.

- **Education:** Swiss Certified Public Accountant (1992), Certified Trustee with Federal Diploma (1988), degree in Business Administration HKG (1985).
- **Professional background:** since 2014 independent management consultant; 1987–2013 various audit and advisory activities (as from 1998 as partner) with Ernst & Young AG, Zurich; 2010–2012 Sponsoring Partner of the Global Programme "Assessment of Service Quality (ASQ)" of Ernst & Young EMEIA Sub-Area Financial Services; 2008–2012 Managing Partner Quality & Risk Management as well as Member of the Management Committee of Ernst & Young EMEIA Sub-Area Financial Services; 2008–2010 Managing Partner Financial Services and Member of the Board of Management; 2006–2008 Country Managing Partner Assurance Financial Services as well as Member of the Board of Management; 2005–2006 Head Assurance Financial Services as well as Member of Management of Ernst & Young AG; 2004 Head of one unit of Assurance Financial Services; 2000–2003 Head Professional Practice Banking Audit of Ernst & Young AG; 1985–1987 Internal Auditor with Swiss Federal Railways, department of Organisation & Audit, Berne; 1981–1984 assistant in municipal office of the commune of Steffisburg; 1980–1981 Member of the Project Team on Conversion to Natural Gas Energy and Transport Operations Thun.
- **Other activities and vested interests:** Member of the Board of Directors of VPB Finanz Holding AG.



Dr Daniel H. Sigg (born 22 September 1956, Swiss citizen) is Chairman of the Risk Committee and member of the Audit Committee.

- **Education:** Doctorate in Law (Dr iur.) University of Zurich (1984).
- **Professional background:** since 2006 consultant in the field of financial services at DHS International Advisors LLC, New York; 2000–2005 President of Times Square Capital Management Inc., New York; 1997–1999 Senior Managing Director and Global Head of Institutional Asset Management UBS, Zurich and New York; 1990–1997 member of Senior Management and CFO BEA Associates, New York; 1987–1990 Vice-President and Head of International Securities Trading and Sales at Swiss American Securities Inc., New York; 1985–1987 activities in the area of Fixed Income Credit Suisse First Boston Inc., New York; 1984–1985 Financial Analyst Credit Suisse Zurich and New York.
- **Other activities and vested interests:** Member of the Board of Directors of Bellevue Group AG, Zurich; Member of the Board of Directors of Auerbach Grayson & Co., New York; President of Asset Management BAB, N.V., Curaçao, Member of the Board of the Swiss Institute, New York.

3.2 Other activities and vested interests

Details of other activities of the Board members and any vested interests may be found in their biographies set out in point 3.1.

3.3 Interlocking relationships

There are no interlocking directorships between the Board members of VP Bank and any other listed companies.

3.4 Election and term of office

Details concerning the election and terms of office of the current members of the Board of Directors can be found in the analysis shown in Point 3.1. Pursuant to Art. 16 of the Articles of Incorporation, the Board of Directors comprises at least five members who are elected for a term of three years. The members of the Board of Directors are elected individually (re-election is permitted).

The Board of Directors elects the Chairman and Vice-Chairman from amongst its members for a term of three years (re-election is permitted).

3.5 Internal organisation

The internal organisation and modus operandi of the Board of Directors are set out in the Articles of Incorporation (Arts. 17 to 19) and in the Organisation and Business Rules (OBR Sections 2 to 4)⁴.

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

3.5.1 Division of tasks within Board of Directors

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

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

The tasks, competencies, rights and obligations of the various Committees are laid down in the Organisation and Business Rules. In addition, the functions of the Audit and of the Risk Committees are governed by way of business regulations.

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

Nomination & Compensation Committee

The Nomination & Compensation Committee comprises the following members: Fredy Vogt (Chairman), Markus Thomas Hilti and Prof. Dr. Gabriela Maria Payer. Pursuant to Section 3.2 OBR, the Committee is primarily responsible for the following:

- assisting the Chairman of the Board of Directors in the fulfilment of his management and coordination duties, as well as the entire Board of Directors on matters of corporate governance, organisation and monitoring of business developments;
- defining the criteria for the election of Board members; performing the evaluation and submitting the related motions to the Board of Directors;

⁴ The Organisation and Business Rules in the Internet: www.vpbank.com (→ Investors & Media → Publications → Regulations)

- submitting motions to the Board of Directors on the composition of the Committees of the Board of Directors;
- preparing and submitting motions for the post of Chief Executive Officer and – in collaboration with the Chief Executive Officer – of the remaining members of the Executive Board;
- submitting proposals to the Board as to the compensation to be paid to the members Executive Board;
- dealing with fundamental issues concerning personnel policy (e.g. salary and equity-participation systems, management development, succession planning, staff welfare benefits) for the attention of the Board of Directors;
- submitting motions to the Board with regard to the compensation paid to the Chairman and other members of the Board of Directors.

Audit Committee

The Audit Committee comprises Michael Riesen (Chairman), Dr Beat Graf and Dr Daniel H. Sigg. The Audit Committee assists the Board of Directors in fulfilling the tasks assigned to it under the Banking Act with regard to the overall management, supervision and control of the parent bank and of VP Bank Group. The Audit Committee is responsible in particular for the following tasks (pursuant to OBR Section 3.3):

- receiving and dealing with the reports of Group Internal Audit and the Banking-Law Auditors as well as assessing the appropriateness of the procedures deployed to remedy the pending matters arising from the audit;
- critically assessing financial reporting as well as discussion thereof with the CFO, the Head of Group Internal Audit and representatives of the Banking-Law auditing firm;
- deciding whether the individual company and consolidated financial statements can be recommended to the Board of Directors for submission to the annual general meeting of shareholders;
- assessing the functional capability of the internal control system;
- evaluating the measures taken to ensure compliance with and the enforcement of legal (e.g. capital-adequacy, liquidity and risk diversification provisions) and internal provisions (compliance);
- taking note of significant interactions with the respective supervisory authorities as well as assessing the corrective action taken to implement any conditions imposed;
- assessing the quality of the internal and external auditors, as well as the collaboration between the two sets of auditors;
- defining the multi-year audit plan of Group Internal Audit, as well as informing themselves as to and discussing the audit planning of the Group and Banking-Law auditors;
- assessing the performance, fees paid to and independence of the external auditors, especially in terms of the compatibility of their auditing activities with any consulting mandates they may have;
- deliberations of the Board of Directors on the appointment and removal of external auditors;
- submitting motions to the Board of Directors for the appointment and removal of the Head of Group Internal Audit;
- advising the Board of Directors on the appointment and removal of the Chief Financial Officer.

Risk Committee

Dr Daniel H. Sigg (Chairman), Ursula Lang and Michael Riesen belong to the Risk Committee. The Risk Committee assists the Board of Directors in fulfilling the tasks assigned to it under the Banking Act with regard to the overall management, supervision and control of the parent bank and of VP Bank Group. The Risk Committee is responsible in particular for the following tasks (pursuant to OBR Section 3.4):

- receiving and dealing with the reports of Group Risk as well as assessing the appropriateness of procedures deployed to manage and monitor risks;
- critically assessing financial, business, reputational and operational risks as well as discussing these with the Chief Risk Officer and the Head of Group Risk;
- assessing the functional capability of risk management and monitoring as well as of the internal control system;
- assessing the measures taken designed to ensure compliance with and observance of legal provisions (such as, for example, compliance with capital-adequacy, liquidity and risk-diversification provisions) and internal regulations (compliance) and the observance of these provisions;
- informing themselves as to significant interactions with the respective supervisory authorities as well as assessing the measures taken to implement conditions imposed by the latter as well as assessing the appropriateness of the procedures designed to ensure compliance with conditions imposed by supervisory authorities and of measures taken;

- assessing the quality (effectiveness) of risk governance as well as the cooperation between Risk Management, Risk Monitoring, Group Executive Management, Risk Committee and the Board of Directors;
- evaluating whether the incentives offered by the Board of Directors as part of the system of remuneration take into account the risk, equity, liquidity as well as the probability and timing of revenues.
- advising the Board of Directors on the appointment or removal of the Chief Risk Officer.

Strategy & Digitalisation Committee

Prof. Dr Teodoro D. Cocca (Chairman), Dr Christian Camenzind, Dr Florian Marxer and Dr Gabriela Maria Payer belong to the Strategy & Digitalisation Committee. The Strategy & Digitalisation Committee assists and advises the Board on strategic issues and projects. The following tasks, in particular, are incumbent on it (in accordance with OBR Section 3.5):

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

3.5.3 Modus operandi of the Board of Directors and its committees

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

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

Specific topics addressed by the Board of Directors and its committees can require that further individuals are called upon to attend (executives of VP Bank Group, representatives of the Banking-Law auditors, as well as internal or external specialists and advisors).

During 2016, the Board of Directors held nine ordinary meetings and one extraordinary meeting. In addition, the Board of Directors and Executive Board jointly conducted a full-day strategy workshop.

The Nomination & Compensation Committee usually meets six to ten times annually. When required, the CEO participates in the Nomination & Compensation Committee meetings in an advisory capacity. During 2016, the Nomination & Compensation Committee met on a total of twelve occasions.

The Audit Committee usually meets on five to eight occasions per annum, with the meeting dates being set to accommodate the needs arising from specific tasks (closing of accounts, financial reporting, Auditors' reports, etc.). The CFO and the Head of Group Internal Audit attend the meetings. At one joint meeting with the Risk Committee, there is an exchange of information with the Executive Board regarding the quality of internal control systems and other matters. For the purpose of addressing audit-specific topics, representatives of the external auditing firm (as a general rule, the Auditor-in-Charge) participate. Last year, the Audit Committee met for seven ordinary meetings and one extraordinary meeting. In four of these meetings, specific issues were dealt with together with the Risk Committee.

The Risk Committee usually meets on five to eight occasions per annum. The CRO, the Head of Group Internal Audit as well as the Head of Group Risk attend the meetings. At one joint meeting with the Audit Committee, there is an exchange of information with the Executive Board regarding the quality of internal control systems and other matters. Last year, the Risk Committee met for seven ordinary meetings and one extraordinary meeting. In four of these meetings, specific issues were dealt with together with the Audit Committee.

The Strategy & Digitalisation Committee usually meets on six to eight occasions per annum. The CEO, and representatives of the Group Executive Board attend the meetings. In 2016, the Strategy & Digitalisation Committee met for a total of six meetings.

Name	Board of Directors	Nomination & Compensation Committee	Audit & Risk Management Committee	Audit Committee	Risk Committee
Number of meetings	11	12	8	7	6
Fredy Vogt	11	12	2 ¹	1 ¹	
Lic. oec. Markus Thomas Hilti	11	12			
Dr. Christian Camenzind ³	8				4
Prof. Dr. Teodoro D. Cocca	11	3 ¹			6
Dr. Beat Graf	11		6 ²		
Lic. iur. Ursula Lang ³	5			6	
Dr. Florian Marxer	11				6
Dr. Gabriela Maria Payer ³	8	9			4
Michael Riesen	11		8	7	
Dr. Daniel H. Sigg	11		8	7	

¹ Committee member until 29 April 2016

² Committee member from 29 April 2016

³ Member of the Board of Directors since 29 April 2016

Chairman Emeritus

Fürstlicher Kommerzienrat Dr Heinz Batliner, Vaduz, has been Chairman Emeritus of VP Bank since 1996. The Board of Directors bestowed this honorary title upon him for his services to VP Bank. From 1961 to 1990, Dr Heinz Batliner was Manager/General Manager and Head of the Management Board, and from 1990 through 1996 Chairman of the Board of Directors.

3.6 Regulations governing responsibilities and powers of authority

The Board of Directors is the corporate body in charge of overall management, supervision and control of the Executive Board. It bears ultimate responsibility for the strategic direction of VP Bank Group.

The powers and duties of the Board of Directors are laid down in detail in Art. 17 of the Articles of Incorporation as well as in Section 2.2–2.4 OBR. The tasks and competencies of the four Board committees are described in Section 3 OBR.

The Board of Directors has delegated to the Executive Board the responsibility for the operational management of VP Bank as well as the overall management, supervision and control of the subsidiary companies of VP Bank Group. The tasks and competencies of the Executive Board are laid down in the Articles of Incorporation (Art. 21) and in the OBR. The OBR contains more detailed provisions regarding the Executive Board/Group Executive Management in Section 5 thereof.

The segregation of functions between the Board of Directors and the Executive Board / Group Executive Management is also evident in the organisational chart ("Structure of VP Bank Group" on page 16).

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

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

The members of the Board of Directors regularly receive various reports: monthly financial reports, risk-controlling reports, as well as periodic reports on the quarterly, semi-annual and annual financial statements (consolidated and individual company accounts). The latter also include quantitative and qualitative information, as well as budget variances, period-specific and multiyear comparisons, key performance indicators for management purposes, and risk analyses, all of which cover the parent bank, the subsidiaries and the Group in aggregate. These reports enable the Board of Directors at all times to obtain a picture of significant trends and the risk situation. Those reports that lie within the scope of tasks of the Audit or Risk Committees are dealt with by the respective body, and corresponding proposals are forwarded to the Board of Directors for approval. The most recent reports undergo a comprehensive review at each Board meeting.

On the basis of reporting by the Executive Board, the Board of Directors reviews the implementation of business strategies and strategy controlling twice a year.

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

The Chairman of the Board receives all minutes of the Executive Board meetings. In addition, he exchanges information with the CEO on a weekly basis as well as with the other Executive Board members.

4. Executive Board and Group Executive Management

The Executive Board is responsible for the operational management of the parent company and, at the same time, for the management of VP Bank Group and is designated as Group Executive Management. Its tasks and competencies are specified in the OBR as well as in the functional descriptions for the individual members of the Executive Board. The head of the Executive Board (CEO) is responsible for the overall management of the Group and Group-wide coordination.

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

4.1 Members of the Executive Board and Group Executive Management

As at 31 December 2016, the Executive Board and Group Executive Management were made up of the following individuals:

Name	Year of birth	Function	Joined VP Bank in	GEM member since
Alfred W. Moeckli	1960	Chief Executive Officer	2013	2013
Siegbert Näscher	1965	Deputy CEO, Chief Financial Officer (CFO) and Chief Risk Officer (CRO)	2010	2012
Martin C. Beinhoff	1970	Chief Operating Officer (COO)	2015	2016
Christoph Mauchle	1961	Head of Client Business	2013	2013



Alfred W. Moeckli (born 2 July 1960, Swiss citizen) is Chief Executive Officer (CEO) of VP Bank Group. (Segment reporting, page 65 ff)

- **Education:** Master of Business Administration, Kellogg School of Management, Northwestern University, Evanston, Illinois/USA (1993); Bank employee with Federal Certificate of Competence (1980).
- **Professional background:** since 2013 Chief Executive Officer VP Bank Ltd, Vaduz; 2008–2013 bank zweiplus ag, Zurich; 2010–2013 Chief Executive Officer; 2008–2010 Member of the Board of Directors; 2008–2010 Deputy Chief Executive Officer and Chief Operating Officer Falcon Private Bank Ltd., Zurich; 2004–2010 Founder, Chief Executive Officer and Chairman of the Board of Directors Tradejet Ltd., Zurich; 2003–2008 Founder and Chief Executive Officer INIVEST AG, Zug; 1999–2002 Chief Executive Officer Swissquote Bank, Gland and Schwerzenbach; 1993–1999 Head of Capital Markets Citibank (Switzerland), Zurich and Geneva; 1987–1990 Head of Trading Banque Paribas (Suisse) S.A., Geneva; 1984–1987 Head of Trading Banque Gutzwiller, Kurz, Bungener S.A., Geneva; 1982–1984 Senior Sales Yamaichi (Switzerland) Ltd., Zurich and Geneva; 1981–1982 Stock-exchange trader/broker Carr, Sebag & Co. Geneva and London; 1980–1981 Assistant in Private Banking department Credit Suisse, Zurich.
- **Other activities and vested interests:** Member of the Board of the Liechtenstein Bankers' Association; Member of the Board of the Financial Services Chapters of the Swiss-American Chamber of Commerce.



Siegbert Näscher (born 25 December 1965, citizen of Liechtenstein) is Chief Financial Officer (CFO) as well as Chief Risk Officer (CRO) of VP Bank Group und Deputy to the Chief Executive Officer. (Segment reporting, page 65 ff)

- **Education:** Executive Programme of the Swiss Banking School (2003); Swiss Certified Public Accountant (1996); Federal Certified Accounting and Controlling Expert (1993).
- **Professional background:** since 1 September 2010 with VP Bank Ltd, Vaduz; since 2013 Chief Financial Officer and Deputy to the Chief Executive Officer; 2012–2013 Chief Financial Officer and Head of the Corporate Center, Chief Executive Officer (CEO) ad interim; 2010–2012 Head of Group Finance & Risk; 2012 Chief Financial Officer and Head of Corporate Center; 1998–2010 Head of Group Finance & Risk at Liechtensteinische Landesbank AG, Vaduz; 1994–1998 Head of Finance and Controlling at Schoeller Textil AG, Sevelen; 1992–1994 Controller at Maschinenfabrik Rieter AG, Winterthur; 1991–1992 Asst. Head of Finance and Accounting at Schild Mode AG, Lucerne; 1987–1991 Bookkeeping and Audit – Revitrust Treuhand AG, Schaan; 1982–1987 Accounting Bank in Liechtenstein AG, Vaduz.
- **Other activities and vested interests:** Chairman of the Board of Trustees of the Treuhand Personalstiftung, Vaduz; Member of the Board of Trustees of the Privatbank-Personalstiftung, Vaduz; Chairman of the Board of Directors of Data Info Services AG, Vaduz; Chairman of the Foundation Council of Deposit Insurance and Investor Protection Foundation SV; member of Specialist Group on Finances and Taxation of the Liechtenstein Chamber of Industry and Trade.



Martin C. Beinhoff (born 15 January 1970, citizen of Switzerland/Germany) is Chief Operating Officer (COO). (Segment reporting, page 65 ff)

- **Education:** Dealer license on SIX Swiss Exchange, Switzerland (2009); US-Certified Public Accountant (CPA), USA (2007); Financial Risk Manager (FRM), Global Association of Risk Professionals, New Jersey/USA (2005); lic. oec. HSG, University of St. Gallen, Switzerland (1998).
- **Professional background:** since 1 November 2015 with VP Bank Ltd, Vaduz and from 1 January 2016 onwards, Chief Operating Officer; 2008–2015 Chief Financial Officer, Deputy General Director and member of the Management Saxo Bank (Switzerland) AG, Zollikon; 2003–2008 Director, Head of Financial Services M&A Team KPMG Ltd., Transaction Services, Zurich; 1998–2003 management consultant, member der Financial-Service and IT-Practice Groups, The Boston Consulting Group AG, Frankfurt and Zurich; 1989–1991 reserve officer and lieutenant in the German-French Brigade, Germany.
- **Other activities and vested interests:** none.

Christoph Mauchle (born 5 May 1961, Swiss citizen) is Head of Client Business of VP Bank Group (Segment reporting, page 65 ff).



- **Education:** Advanced Management Program, Kellogg School of Management, Northwestern University, Evanston, Illinois/USA (2007); Certified Financial Planner CFP (1999); INSEAD Management Program Business Administration/Mgt., INSEAD, France (1998); MA Economics, HWV, St. Gallen (1986).
- **Professional background:** since 2013 member of the Group Executive Management and Head of Client Business of VP Bank Ltd, Vaduz; 1992–2013 Credit Suisse, Switzerland; 2008–2012 Head Private Banking Germany, Austria and Luxembourg; 2001–2008 Head Private Banking and Zurich Region; 1998–2001 Head External Asset Managers; 1997–1998 Head Competence Centre Eastern Switzerland; 1995–1997 Sector Head Private Banking St. Gallen; 1992–1995 Sector Head Individual Clients Zurich; 1989–1992 Chief of Staff Private Banking Bank Vontobel, Zurich; 1986–1989 Research Analyst & Account Manager, Institutional Sales Brown Brothers Harriman & Co., New York; 1980–1983 Assistant Private Banking, Swiss Bank Corporation/UBS, St. Gallen.
- **Other activities and vested interests:** none.

4.2 Other activities and vested interests

The other activities of the Executive Board members and any relevant vested interests can be found in the biographies shown in Point 4.1.

4.3 Management contracts

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

5. Compensation, shareholdings and loans

5.1 Content and process to determine compensation and share-ownership programmes

The details and procedures to determine compensation and share-ownership programmes of the Board of Directors and Executive Board are described in the Remuneration Report from page 94 onwards.

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

As a SIX Swiss Exchange-listed issuer domiciled outside Switzerland, VP Bank discloses information on compensation, shareholdings and loans within the context of Article 5.2 of the Appendix to the Corporate Governance Directive dated 1 September 2014, i.e. by analogy to Art. 663b^{bis} of the Swiss Code of Obligations. The details in this regard can be found in the Financial Report and individual company accounts of VP Bank Ltd, Vaduz (see pages 179 ff).

6. Shareholders' participation rights

6.1 Voting right restrictions and proxies

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

6.2 Statutory quorums

Amendments to the Articles of Incorporation regarding a change in the ratio of the registered shares A to registered shares B (Articles of Incorporation, Art. 4 par. 2) as well as to the provisions governing the restriction on registration of registered shares B (Articles of Incorporation, Art. 7 par. 2) require the approval of at least a two-thirds' majority of all shares issued by VP Bank (Articles of Incorporation, Art. 14 par. 4).

6.3 Convocation of Annual General Meeting

Convocation of the annual general meeting is made in accordance with the provisions of law and the Articles of Incorporation (Art. 11).

6.4 Agenda items

The agenda for the annual general meeting is based upon the provisions of law and those of the Articles of Incorporation (Arts. 11 to 14).

6.5 Entries in the share register/invitation to the annual general meeting

Registered shares are entered into the share register with the name, citizenship, address and date of birth of the owner. Only registered shareholders are entitled to exercise membership rights vis-à-vis the company.

Registered shareholders who have been entered into the share register receive an invitation to the annual general meeting, including the related agenda, sent to the address known to VP Bank. Upon successful registration, shareholders receive an entry pass together with the relevant voting material.

The invitation to the annual general meeting is also published in Liechtenstein newspapers and the Swiss financial press.

7. Change of control and defensive measures

The provisions of the Stock Exchange Act concerning Public Takeover Bids apply only to companies which are domiciled in Switzerland. Accordingly, the Articles of Incorporation of VP Bank contain no clauses governing the duty to make an offer or regarding changes in control.

8. Auditors

8.1 Duration of mandate and term of office of the lead auditor

Ernst & Young Ltd, Berne, has acted as auditor of VP Bank since 1956 (in accordance with PCA) and since 1994 as Group auditor of VP Bank Group. In addition, Ernst & Young Ltd undertakes the mandate as Banking-Law auditor within the meaning of the Liechtenstein Banking Act (BankA Art. 37 ff). The Auditor-in-Charge, Bruno Patusi, has been responsible for the VP Bank mandate since 2014 (annual general meeting of 25 April 2014).

8.2 Audit fee

In 2016, Ernst & Young Ltd, Berne, charged VP Bank Group fees in the amount of CHF 1.45 million (previous year: CHF 1.83 million) for services rendered in connection with the legally prescribed audits of the annual financial statements of VP Bank and the Group subsidiaries, as well as the audit of the consolidated financial statements of VP Bank Group.

8.3 Additional fees

Ernst & Young Ltd also rendered auditing-related services to VP Bank in the amount of CHF 0.21 million (previous year: CHF 0.16 million).

8.4 Supervisory and control instruments pertaining to the external audit

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

All reports by the external auditors are reviewed at meetings of the Audit Committee. In 2016, the external auditors were present at all meetings of the Audit Management Committee in which external audit-related items were on the agenda. In addition, the Auditor-in-Charge was in attendance at a Board of Director's meeting to present and discuss the Auditors' Report prescribed under the Banking Act.

Each year, the Audit Committee examines and evaluates the effectiveness and independence of the external auditors. In doing so, it bases itself on documents generated by the external auditors, such as the Auditors' Report prescribed under the Banking Act, management letters, as well as oral and written statements of position on individual aspects and technical questions in connection with financial-statement reporting and the audit. In addition, a systematic annual assessment is made on the basis of checklists and fee comparisons within the auditing sector. Based on this evaluation, a proposal is submitted to the Board of Directors for the attention of the annual general meeting with regard to the election of the external auditors and Group auditors.

9. Information policy

All publications of VP Bank required by law are made in a legally binding manner in the official Liechtenstein publication media (Articles of Incorporation, Art. 25 section 1).

VP Bank informs shareholders and capital market participants in an open, comprehensive and timely manner. Its information policy is based on the principle of equal treatment of all capital market participants. VP Bank informs shareholders and capital market participants by means of detailed annual and semi-annual reports, which are prepared for VP Bank Group in accordance with International Financial Reporting Standards (IFRS), as well as via media releases concerning the latest changes and developments at VP Bank. As a company listed on SIX Swiss Exchange, VP Bank is also subject in particular to the obligation to immediately publicise any price-sensitive events (ad hoc publicity obligation).

Agenda

Annual General Meeting: 28 April 2017
2017 semi-annual report: 22 August 2017

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

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Compensation report

Regulatory framework

The basis of this compensation report of VP Bank is the implementation of the EU Regulation No. 575/2013 (with reference to EU Directive 2013/36/EU CRD IV), which, amongst other things, regulates the risks associated with compensation policies and practices.

On the one hand, Liechtenstein has implemented this Directive in the Law on Banks and Securities Firms, in particular in Art. 7a Par. 6 thereof: "Banks and securities firms shall introduce a compensation policy and practices and shall ensure continuously that they are consistent with robust and effective risk management within the spirit of this Article. The Government shall regulate the details of the compensation policy and practices in a related ordinance".

On the other hand, the content of Annex 4.4 of the "Ordinance on Banks and Securities Firms" (FL-BankO) has been supplemented accordingly. This Ordinance took effect on 1. January 2012. The remuneration policy of VP Bank Group corresponds to the size of VP Bank and its business model. This encompasses the offering of banking services for private clients and financial intermediaries in the disclosed target markets, in Liechtenstein and in the other locations as well as services for investment funds.

Principles of remuneration

Compensation plays a central role in the recruitment and retention of employees. It also has an influence on the future success of the company. VP Bank professes to pursue fair, performance-oriented and balanced practices in terms of compensation, one which is in keeping with the longterm interests of shareholders, employees and clients alike.

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

- Performance orientation and performance differentiation are substantive components of the remuneration policy and ensure the interlinking of variable compensation with the achievement of the strategic goals of the company.
- The remuneration policy is compatible with and helps promote robust and effective risk management. It makes sure that remuneration-based conflicts of interests of the functions or persons involved are avoided. The assumption of excessive risks by employees to increase remuneration should be optimally prevented by appropriate incentives.
- The remuneration policy renders possible a fair and attractive remuneration which is in line with the market in order to attract qualified and talented employees and to enhance their commitment to VP Bank Group. Conformity with market conditions is reviewed regularly.
- The remuneration system is not based on a purely formula-based approach and therefore possesses sufficient flexibility to take account of the business performance of VP Bank Group or its subsidiary companies.
- Remuneration practices follow the principle of equal treatment. The level of fixed remuneration varies according to function. The level of variable remuneration reflects Group performance, the performance of the segment or team and/or individual performance.
- The remuneration policy is subject to regular review. Relevant legal provisions are applied and implemented in remuneration practices. Prescriptions specific to functions, in particular, those relating to identified employees, are taken into account.

With these principles, VP Bank achieves a remuneration which is in line with the market, with performance and with requirements. They set the right performance incentives for individual employees and management thus fostering the achievement of the goals set out in VP Bank's strategy. Remuneration-related conflicts of interest of the involved functions and/or individuals are avoided.

Structure of total remuneration

The total remuneration of the employees of VP Bank Group comprises a fixed remuneration, an additional variable salary, equity-share participation models as well as additional perquisites ("fringe benefits"). In laying down the structure of remuneration, an appropriate relationship between the fixed components and variable remuneration as well as a function-specific compensation is taken into consideration. In particular, identified employees which include the Group Executive Management members, receive a maximum variable remuneration component which observes the legal relationship to the annual salary (maximum of 1:2).

Fixed salary

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

Variable, performance- and earnings-related salary

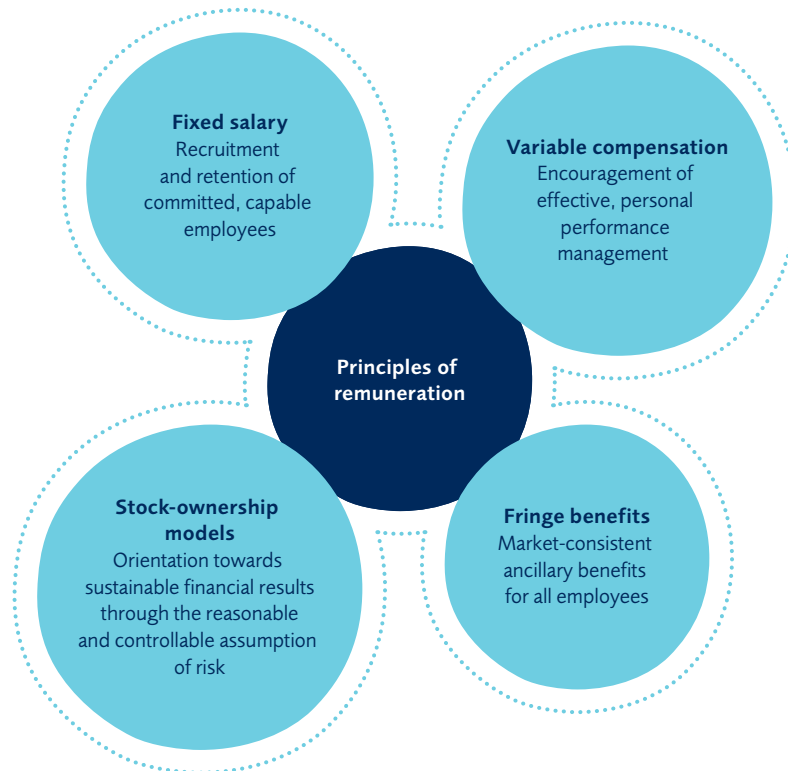
The variable remuneration can consist of a directly paid-out portion as well as of deferred remuneration instruments. In this respect, it constitutes an additional voluntary benefit payable by VP Bank Group to which no legal entitlement exists not even after repeated, unconditional payment thereof.

Funding of variable remuneration

The overall amount of variable remuneration is determined by the Board of Directors and is based upon performance indicators as well as qualitative performance criteria. The overall amount takes into consideration the multi-annual, risk-adjusted profitability of VP Bank Group, the sustainable level of profitability, capital costs and thus takes account of current and future risks. The Board of Directors makes a facts-based assessment of the total amount of variable remuneration and can adapt the amount on a limited scale. In times of adverse operating conditions, the overall amount of variable remuneration is reduced accordingly and can even amount to zero. The level of provisions for variable remuneration must be affordable in aggregate. Never should VP Bank Group nor any individual Group subsidiary fall into financial difficulties as a result. The impact on the Group's equity situation is taken into consideration in this process.

Allocation of variable remuneration

The allocation of variable payments is made on a discretionary basis and in addition to the attainment of quantitative and/or qualitative goals, takes account also of the degree of compliance with the directives of the legislator, the guidelines set by the company including the Code of Conduct as well as any requirements defined by the customer. Longer-term perspectives may also flow into the performance evaluation. The performance evaluation of identified employees is performed based upon the individual's goals as well as the goals of the team, the business segment, the subsidiary as well as the overall result of VP Bank Group. Performance is evaluated using quantitative and qualitative criteria. The variable compensation of employees in controlling functions, internal audit or with legal and compliance tasks is determined based upon the achievement of the targets related to their tasks irrespective of the results of the business units being controlled. A participation in the results of the company or of VP Bank Group is admissible within normal limits and is appropriate within the framework of equal treatment. Achievement of targets is evaluated after the end of the business year within the scope of the performance management process. The amount of the individual variable compensation is determined by the employee's superior.



Payment of variable remuneration

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

Participation programmes

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

The Board of Directors modified the participation in VP Bank Ltd by members of the first- and second-levels of management and laid down two new programmes from 2014 onwards.

The Performance Share Plan (PSP) is a long-term variable management participation programme in the form of registered shares A of VP Bank Ltd. The Restricted Share Plan (RSP) is settled in equal annual instalments in the form of registered shares A over the three-year plan period. The

RSP programme may be also implemented in justified cases in order to settle a deferred variable salary portion or to implement particular retention measures.

At the time of the merger with Centrum Bank, a restricted shares plan subject to retention was drawn up. In 2016, 4,067 shares with a market value on the day of allocation of CHF 363,590 were allocated.

Content and method of determining compensation and share-ownership programmes

The Compensation Policy Rules as well as the Risk Policy Framework Rules of VP Bank stipulate that the Bank's compensation systems and human resources management are to be designed in a manner that minimises the potential for personal conflicts of interest and behavioural risks.

The Nomination & Compensation Committee (see chapter on Corporate Governance under Point 3.5.2. Page 85) makes proposals to the Board of Directors on the principles underlying compensation as well as the level of compensation paid to the members of the Board of Directors and the Executive Board. The Board of Directors approves these principles and determines the amount of total compensation payable to itself and the members of the Executive Board in keeping with the applicable rules.

Board of Directors

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

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

Executive Board

On 27 March 2014, the Board of Directors adopted a new compensation model. In accordance with this model, compensation paid to management consists of four components:

1. A fixed base salary that is contractually agreed between Nomination & Compensation Committee and the individual members. In addition to the base salary, VP Bank pays proportionate contributions to the management insurance scheme and the pension fund.
2. A Performance Share Plan (PSP), a long-term variable management participation (in the form of registered shares A of VP Bank Ltd). The basis thereof is the risk-adjusted profit (operating annual result adjusted for non-recurring items, less capital costs), weighted over three years as well as the long-term commitment of management to a variable compensation component in the form of equity shares. At the end of the plan period and depending upon performance, 0–200 per cent of the allocated vested benefits are transferred in the form of shares. This vesting multiple results from the weighting of an average return on equity (RoE) and the average cost-income ratio (CIR). Until the time of transfer of ownership, the Board of Directors reserves the right to reduce or suspend the allocated vested benefits in the case of defined occurrences or in extraordinary situations. The share of the PSP makes up half of the total variable performance-related remuneration.
3. A Restricted Share Plan (RSP), which is based upon a risk-adjusted profit weighted over three years and is settled in equal annual instalments in the form of equity shares over a three-year plan period. Until the time of transfer of ownership, the Board of Directors reserves the right to reduce or suspend the allocated vested benefits in the case of defined occurrences or in extraordinary situations. The share of the RSP makes up a quarter of the total variable performance-related remuneration.
4. A cash compensation which also depends on the risk-adjusted profit weighted over three years. The share of this performance-related participation amounts to one quarter of the total variable performance-related remuneration.

Every year, the Board of Directors lays down the planning parameters of the performance-related remuneration (PSP, RSP and cash-based compensation) for the following three years. The target share of total compensation varies according to function and market customs.

In 2016, 23,477 shares with a market value as of the date of allocation aggregating CHF 2,098,843.80 were transferred to management as part of the 2013–2015 management equity-share participation plan and the RSP 2014–2016 as well as the RSP 2015–2017. The vested benefits from previous management equity-share participation plans (2014–2016, 2015–2017 as well as 2016–2018) will continue to run unchanged until the end of the plan period.

VP Bank has concluded no agreements on severance compensation with members of the Executive Board.

An external advisor who has no other mandates from VP Bank Group was commissioned to structure the compensation model.

Fringe Benefits

Fringe benefits are ancillary benefits which VP Bank offers its employees on a voluntary basis, often as a result of practices which are customary in the given location or business segment. In principle, the benefits are only of a minor nature. They are settled and reported in accordance with local regulations.

They relate principally to the following benefits:

- insurance benefits in excess of legal prescriptions
- retirement-benefit-related amounts, in particular voluntary employer contributions
- preferential conditions for employees in the case of banking transactions, such as reduced-rate mortgages for residential property
- further fringe benefits which are customary in the given location.

Individuals and functions subject to particular provisions

Employees having a particularly large influence on the risk profile of the bank are designated as "risk takers". VP Bank identifies the members of the Executive Board as decision-makers and substantial "risk takers" as well as selected functions in the second management level. These are in particular the heads of the "Group Internal Audit", "Group Legal, Compliance & Tax", "Group Finance & Risk", "Group Risk Control", "Group Investment, Product & Market Management", "Group Operations", "Intermediaries", "Private Banking", "Group Information Technology", "Group Human Resources" as well as the CEOs of Group subsidiaries.

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

Compliance with remuneration provisions

The remuneration practices of VP Bank are in compliance with appendix 4.4 of the Banking Ordinance (BankO) as well as the EU Directive. They are oriented towards long-term success: there are no events which trigger the automatic payment of variable salary components. The decision concerning the earmarking of a total amount for remuneration lies ultimately with the Board of Directors.

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

The Remuneration Policy allows for individual performance agreements in specific cases in order to compute the amount of a bonus depending on an objectively measurable success. Group Executive Management must consent to the related method of computation. The safeguarding of client interests and compliance with all regulatory directives must continue to exist in an unequivocal manner.

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

The sum of variable-salary provisions must be tolerable in the aggregate. VP Bank Group or an individual subsidiary company should never fall into financial difficulty as a result thereof. In the case of adverse trading conditions, the Bank shall refrain from paying variable remuneration components.

Determination of remuneration (Governance)

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

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

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

Quantitative information on remuneration

Information on the remuneration of members of the Board of Directors as well as the members of the Executive Board are to be found in the Financial Report, the stand-alone financial statements of VP Bank Ltd, Vaduz, under "Remuneration paid to Members of Governing Bodies" (page 193).

Disclosures regarding personnel expenses are set out in the 2016 Financial Report of VP Bank Group under "6 Personnel Expenses" (page 143).

The total remuneration of all risk takers amounted to the following values in 2016:

	CHF	Share of total compensation
Fixed basis salary	6,972,832.43	52.8%
Short-Term Incentive (STI, cash) for performance year 2014	1,322,000.00	10.0%
Restricted Share Plan (RSP) entitlement for performance year 2014	1,280,000.00	9.7%
Performance Share Plan (PSP) entitlement corresponding to performance 2016 through 2018	2,660,000.00	20.2%
Management pension fund employer contributions	960,517.87	7.3%
Total compensation	13,195,350.30	100.0%
Vesting 2016, share value PSP 2013–2015/RSP 2014–2016 RSP 2015–2017	3,949,513.20	

"When do we notice that we were a victim of a cyber-attack?"

Walter Sprenger

Board Member of the Compass Security
Network Computing AG (Holding)

So long as the data is online in one form or another, it will be difficult to protect data from a well thought-through and targeted attack. The more digital it all becomes and the more is transferred to the digital world, the more areas there are in which cyber security is required.



Read the full post at
www.vpbank.com/NextBanking-Cyber-Security



5

Financial report 2016 of
VP Bank Group

Consolidated annual report of VP Bank Group

Consolidated results

The year 2016 was characterised by an on-going low to negative interest-rate environment and volatile markets. The regulatory pressure also continued to be high. VP Bank held its ground very well in this demanding environment. The planned synergies arising from the Centrum Bank merger were realised, leading to a marked decline in operating expenses. The adjusted operating income, on the other hand, could be increased. Net new money inflows developed positively.

In a challenging stock-market and interest-rate environment, VP Bank Group generated excellent business results in the 2016 calendar year. The 2016 consolidated financial statements of VP Bank Group prepared in accordance with International Financial Reporting Standards (IFRS) report a consolidated net income of CHF 58.0 million.

In the preceding year, a net income CHF 64.1 million had been achieved. This result was positively impacted by the merger with Centrum Bank as well as the non-recurring effect resulting from the application of IAS 19. Excluding these non-recurring items, the 2016 net income was 89.5 per cent or CHF 27.4 million more than the adjusted prior year's consolidated net income of CHF 30.6 million. Welcome progress was achieved in market-development activities. In 2016, a marginally positive net new money inflow could be reported whereas in the prior year, an outflow of some CHF 658 million had been registered.

Medium-term goals

The Board of Directors of VP Bank Group has defined the following target values for 2020:

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

Following the successful merger with Centrum Bank in 2015, VP Bank Group continued to pursue its growth strategy in 2016. Market-development activities could be strengthened and a good client-acquisition performance achieved in VP Bank's growth markets. Assets under management developed noticeably and profitability was strengthened in a sustainable manner.

VP Bank intends to make further acquisitions of banks or whole teams in its target markets which ideally shall supplement VP Bank Group on the basis of their business model with comparable core competencies, target markets and client structures. In order to advance organic growth, it is planned, as part of a recruitment offensive, to hire some 25 new senior client advisors (with corresponding client assets under management) per annum during the next three years. In addition,

as part of the digitalisation strategy, new innovative services are being developed with urgency and targeted investments made in digital tools.

Assets under management at 31 December 2016 totalled CHF 35.8 billion (prior year: CHF 34.8 billion). Consolidated net income for the year ending on 31.12.2016 amounted to CHF 58 million and the cost/income ratio was 68.4 per cent (prior year: 59.4 per cent).

The Management of VP Bank is convinced of achieving the defined goals in 2020 through the targeted exploitation of its organic and acquisition-related growth potential whilst maintaining strict management of costs at the same time. The achievement of the goals is underpinned by the robust level of VP Bank Group's equity resources which are above average compared to the norm in the industry.

As of 31 December 2016, VP Bank Group possessed a tier 1 ratio of 27.1 per cent and adequate equity to support further acquisitions. On 25 July 2016, Standard & Poor's confirmed the very good rating of "A-" and raised the outlook from "Negative" to "Stable". As of 2 March 2017, the outlook was improved again from "Stable" to "Positive". The high level of equity resources as well as the successful business model of VP Bank Group form an outstanding basis to be able to assume an active role in future in the process of consolidation of banks.

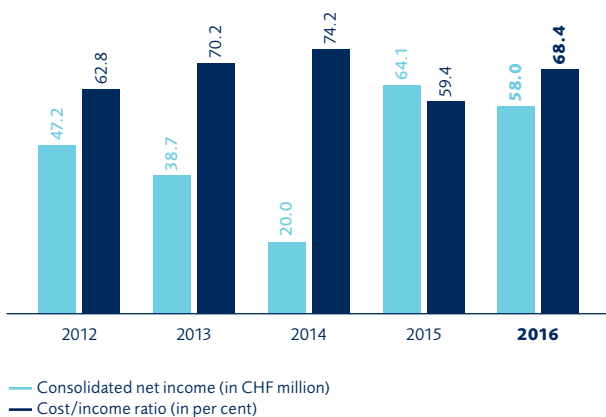
Having regard to the annual results and the balanced long-term dividend policy, the Board of Directors will propose a dividend of CHF 4.50 per registered share A and CHF 0.45 per registered share B to the Annual General Meeting to be held on 28 April 2017.

Client assets under management

As of the end of 2016, client assets under management of VP Bank Group aggregated CHF 35.8 billion. Compared with the prior year's comparative value of CHF 34.8 billion, this represents an increase of 2.8 per cent.

Compared to the organic development of net new client money in 2015, net new client money inflows during the year showed a marked improvement. Particularly in Asian markets as a result of intensive market-development activities, gratifying net new money inflows could be achieved. In Europe, outflows continued to be recorded against the backdrop of the regulatory environment and taxation-related issues. In aggregate, VP Bank Group recorded net new client money inflows of CHF 7 million in 2016 (prior year: organic net new client money inflows of minus CHF 658 million).

Consolidated net income combined with cost/income ratio



The performance-related increase in assets under management was CHF 978 million in 2016 (prior year: decrease of CHF 2,216 million). This increase is essentially to be ascribed to rising stock-market prices and the rise in the USD and the related upward revaluation of foreign-currency denominated assets under management.

Custody assets declined by 12.2 per cent to CHF 5.8 billion (prior year: CHF 6.6 billion).

As of 31 December 2016, client assets including custody assets totalled CHF 41.5 billion (prior year: CHF 41.4 billion).

Income statement

Operating income

Year-on-year, 2016 operating income declined by 10.9 per cent from CHF 306.6 million to CHF 273.2 million. Excluding the one-off item in the prior year (bargain purchase arising on the merger with Centrum Bank) of CHF 50.0 million, operating income increased by CHF 16.7 million (6.5 per cent).

Through active balance-sheet management as well as margin adjustments and volume increases, interest income could be increased, year-on-year, by CHF 14.0 million, or 15.8 per cent to CHF 102.4 million. Based upon risk/return considerations, client deposits denominated in foreign currencies were, in part, no longer invested on the interbank market but were swapped into Swiss francs using currency swaps and deposited with the Swiss National Bank. Income from the interest component of currency swaps exceeded the expense of SNB negative interest and the reduced level of interest from banks. The increase in interest income from client activities is the result of margin adjustments and volume increases. Interest

income on financial instruments valued at amortised cost rose by CHF 0.8 million to CHF 18.6 million principally because of higher balance-sheet positions. Interest income includes also changes in the value of interest-rate hedging transactions in the amount of CHF –2.0 million (prior year: CHF –8.1 million).

Income from commissions and services during the year declined by CHF 7.6 million to CHF 118.8 million (–6 per cent) whereby a positive trend emerged in the 4th quarter of 2016. The volatile market environment reduced the risk appetite of clients leading to a lower level of client activities in securities. Particularly hit was brokerage income which declined by CHF 1.4 million (–4.2 per cent) to CHF 32.3 million. The drop in prices on equity markets occurring in the first half-year of 2016 took its toll on portfolio-based revenues: as a result, commission income from asset management and investing activities recorded a reduction of –12.2 per cent from CHF 46.9 million in the prior year to CHF 41.2 million in 2016.

Fees from investment fund management activities could be increased from CHF 58.5 to CHF 59.4 million (plus 1.5 per cent).

Trading income rose in 2016 by 5.5 per cent from CHF 42.2 million to CHF 44.5 million. Trading on behalf of clients increased slightly by 1.3 per cent to CHF 47.7 million. Realised and unrealised revaluation differences arising from hedging transactions for financial investments are recognised in securities trading. The loss of CHF 3.2 million is slightly better than in the previous year by minus CHF 4.9 million.

Financial investments gave rise to an income of CHF 7.6 million (prior year: loss of CHF 0.7 million). This improvement of CHF 8.4 million is, for the main, the consequence of the discontinuation of the minimum exchange-rate policy against the Euro by the SNB on 15.1.2015 and which had triggered corresponding revaluation losses on foreign-currency positions in the prior year.

The decline on "other income" is to be explained by the non-recurring item in the prior year arising from the Centrum Bank merger. It concerns a gain of CHF 50.0 million relating to the "bargain purchase" arising from the "purchase price allocation".

Operating expenses

Year-on-year, operating expenses fell in the financial year by CHF 34.2 million from CHF 246.4 million to CHF 212.2 million (reduction of 13.9 per cent).

On the one hand, this reduction fully reflects anticipated benefits of the merger with Centrum Bank and its related non-recurring items which weighed on the expenses of the prior year. The integration of Centrum Bank was completed

successfully and realised synergies are already visible in lower operating expenses. On the other hand, a one-off pension-fund-related reduction in personnel expense was recognised.

Year-on-year, personnel expenses increased by CHF 13.4 million, or 11.0 per cent to CHF 135.3 million. The lion's share of this increase can be ascribed to the non-recurring adjustment to the rate of conversion in the pension fund occurring last year, which reduced personnel expense by a one-off credit of CHF 8.5 million. Compared to 31 December 2015, the employee headcount increased moderately by 3.9 to 738.3 FTEs. In line with the strategic growth initiatives, VP Bank has recruited on a targeted basis and concurrently, eliminated duplications during the merger with Centrum Bank.

General and administrative expenses fell by 14.2 per cent from CHF 60.2 million to CHF 51.7 million in 2016. This decline arises also in connection with the Centrum Bank merger and the related running of parallel operations for a limited period. Synergies were successively exploited with the integration into the existing infrastructure and process landscape and associated costs sustainably reduced. This reduction in expenses manifests itself in the case of external advisory costs in the income-statement caption "Fees" with a reduction of CHF 4.7 million (minus 36.9 per cent) and in "IT systems" with cost savings of CHF 6.2 million.

Depreciation and amortisation as of 31 December 2016 was CHF 15.8 million, or 41.4 per cent less than in the prior year and amounted CHF 22.4 million. This decline reflects principally the non-recurring write-down on intangible assets arising in connection with the Centrum Bank merger in the prior year. In addition, the income statement is no longer burdened by amortisation on the initial capitalisation of the Avaloq banking platform which is now fully amortised.

Charges for valuation allowances, provisions and losses in 2016 amounted to CHF 2.8 million (prior year: CHF 26.0 million). This clear reduction of CHF 23.3 million is to be explained as follows: firstly, a specific valuation allowance had been raised on one client loan in the prior year, and secondly, restructuring provisions had been raised in connection with the Centrum Bank merger and the operational integration of the entities located in Luxembourg.

Taxes on income

Taxes on income in the financial year amounted to CHF 3.1 million which is CHF 7.0 million more than in the prior year in which a minus expense of CHF 3.9 million was recognised. This minus expense arises in connection with changes in deferred taxes as well as the impact of tax-exempted receipts from the Centrum Bank merger.

Consolidated net income

Consolidated net income in 2016 amounted to CHF 58.0 million (prior year: CHF 64.1 million and excluding non-recurring items: CHF 30.6 million). Consolidated net earnings per registered share A was CHF 9.61 (prior year: CHF 10.17).

Comprehensive income

Comprehensive income comprises all revenues and expenses recognised in the income statement and in equity. Items recorded directly in equity principally concern actuarial adjustments relating to pension funds. VP Bank Group generated comprehensive income in 2016 of CHF 46.1 million as against CHF 51.9 million in the preceding year.

Balance sheet

Total assets declined year-on-year by CHF 0.6 billion to CHF 11.8 billion as of 31 December 2016. This decline in total assets is to be explained by the active management of client deposits under "other amounts due to clients". On the assets' side, cash and cash equivalents again markedly rose to CHF 3.5 billion (31 December 2015: CHF 3.0 billion) which signifies a very comfortable liquidity situation in VP Bank. As noted under the section on interest income, increased amounts of client monies were deposited with the SNB in order to optimise interest income through the active management of risk and returns. The consequence of this was that amounts due to banks and the related counterparty risks could be reduced by CHF 2.1 billion to CHF 0.7 billion since 31 December 2015.

Client loans in the caption "Receivables from clients" increased during the year by CHF 0.2 billion (4.8 per cent) to CHF 5.2 billion, in particular, as a result of lombard loans. VP Bank continues unchanged its conservative credit-granting policies focusing on qualitative growth in client loans as well as a high level of discipline in credit-granting activities.

At the same time, financial instruments valued at amortised cost rose by CHF 0.2 billion from CHF 1.7 billion in the prior year to CHF 1.8 billion in 2016 (plus 9.5 per cent).

On the liabilities' side, client deposits (amounts due to clients) and medium-term notes fell since the beginning of 2016 by CHF 0.7 billion (-6.5 per cent) to CHF 10.1 billion as of 31.12.2016. The balance-sheet caption "Debenture bonds" declined year-on-year by CHF 149.2 million to CHF 200.7 million because of the repayment of a maturing bond.

Within the framework of the authorisation granted by the Annual Shareholders' Meeting of 24 April 2015, VP Bank Ltd

launched a further share repayment programme thus picking up from the two successful programmes from 2015. The repurchases of registered shares A which will last from 7 June 2016 through to 31 May 2017, at the latest, are made over the regular trading line of SIX Swiss Exchange. As part of the public repurchase programme, VP Bank Ltd is prepared to repurchase up to a maximum of 120,000 registered shares A. This fact was taken into consideration by the establishment of a corresponding liability which is deducted from equity. The registered shares A so repurchased are to be used for acquisitions or treasury management purposes.

Consolidated equity of VP Bank Ltd at the end of 2016 totalled CHF 936.9 million (end of 2015: CHF 918.1 million). This represents an increase of CHF 18.8 million.

The tier-1 ratio computed in accordance with the Basel III rules at 31 December 2016 was 27.1 per cent (31 December 2015: 24.4 per cent). In comparison with other banks, this is an outstanding value.

Outlook

Unlike the prior year, financial markets have commenced 2017 in a truly friendly manner. The good investor sentiment should, however, be put to the test during the year on numerous occasions. Important elections in several European countries could at least temporarily lead to a return of political risks on financial markets.

2017 will most probably continue to be challenging. This will impact business performance and the results of VP Bank Group.

VP Bank is optimally equipped to meet the challenges of the future and will continue to pursue its sustainable growth strategy. The high level of equity resources and stable shareholder base form a healthy basis to be able to assume an active role in future in the process of consolidation of banks.

Consolidated income statement

in CHF 1,000	Note	2016	2015	Variance absolute	Variance in %
Interest income		125,875	105,332	20,543	19.5
Interest expense		23,503	16,966	6,537	38.5
Total net interest income¹	1	102,372	88,366	14,006	15.8
Commission income		172,571	177,181	-4,610	-2.6
Commission expenses		53,782	50,811	2,971	5.8
Total net income from commission business and services	2	118,789	126,370	-7,581	-6.0
Income from trading activities ¹	3	44,496	42,183	2,313	5.5
Income from financial instruments	4	7,646	-742	8,388	n.a.
Other income	5	-71	50,377	-50,448	-100.1
Total operating income		273,232	306,554	-33,322	-10.9
Personnel expenses	6	135,329	121,880	13,449	11.0
General and administrative expenses	7	51,675	60,235	-8,560	-14.2
Depreciation and amortisation	8	22,411	38,253	-15,842	-41.4
Valuation allowances, provisions and losses	9	2,768	26,028	-23,260	-89.4
Operating expenses		212,183	246,396	-34,213	-13.9
Earnings before income tax		61,049	60,158	891	1.5
Taxes on income	10	3,063	-3,898	6,961	n.a.
Group net income		57,986	64,056	-6,070	-9.5
Share information²					
Undiluted group net income per registered share A		9.61	10.17		
Undiluted group net income per registered share B		0.96	1.02		
Diluted group net income per registered share A		9.61	10.17		
Diluted group net income per registered share B		0.96	1.02		

¹ Change of accounting principals (note 1 and principals underlying financial statement) and restatement of prior year figures.

² Conversion of bearer shares into registered shares A (note 30).

Consolidated statement of comprehensive income

in CHF 1,000	2016	2015	Variance absolute	Variance in %
Group net income	57,986	64,056	-6,070	-9.5
Other comprehensive income, net of tax				
Other comprehensive income which will be transferred to the income statement upon realisation				
• Changes in foreign-currency translation differences	1,561	538	1,023	190.1
• Foreign-currency translation difference transferred to the income statement from shareholders' equity	537	0	537	n.a.
Total other comprehensive income which will be transferred to the income statement upon realisation	2,098	538	1,560	290.0
Other comprehensive income which will not be transferred subsequent to the income statement				
• Changes in value of FVTOCI financial instruments	-1,904	-1,026	-878	n.a.
• Actuarial gains/losses from defined-benefit pension plans	-12,102	-11,644	-458	n.a.
Total other comprehensive income which will not be transferred subsequent to the income statement	-14,006	-12,670	-1,336	n.a.
Total comprehensive income in shareholders' equity	-11,908	-12,132	224	n.a.
Total comprehensive income in income statement and shareholders' equity	46,078	51,924	-5,846	-11.3
Attributable to shareholders of VP Bank Ltd, Vaduz	46,078	51,924	-5,846	-11.3

Consolidated balance sheet

Assets

in CHF 1,000	Note	31.12.2016	31.12.2015	Variance absolute	Variance in %
Cash and cash equivalents	13	3,524,512	2,955,527	568,985	19.3
Receivables arising from money market papers	14	15,248	14,652	596	4.1
Due from banks	15/16	660,760	2,060,270	-1,399,510	-67.9
Due from customers	15/16	5,248,717	5,007,009	241,708	4.8
Trading portfolios	17	100	154	-54	-35.1
Derivative financial instruments	18	43,699	36,883	6,816	18.5
Financial instruments at fair value	19	280,143	396,877	-116,734	-29.4
Financial instruments measured at amortised cost	20	1,823,882	1,665,607	158,275	9.5
Associated companies	21	66	56	10	17.9
Property and equipment	22	82,738	89,611	-6,873	-7.7
Goodwill and other intangible assets	23	51,469	57,968	-6,499	-11.2
Tax receivables	10c	1,359	1,760	-401	-22.8
Deferred tax assets	10b	22,041	23,878	-1,837	-7.7
Accrued receivables and prepaid expenses		22,854	25,081	-2,227	-8.9
Assets held for sale	24	0	15,000	-15,000	-100.0
Other assets	25	16,138	11,083	5,055	45.6
Total assets		11,793,726	12,361,416	-567,690	-4.6

Liabilities and shareholders' equity

in CHF 1,000	Note	31.12.2016	31.12.2015	Variance absolute	Variance in %
Due to banks		357,771	100,156	257,615	257.2
Due to customers – savings and deposits		705,223	757,294	-52,071	-6.9
Due to customers – other liabilities		9,133,724	9,789,069	-655,345	-6.7
Derivative financial instruments	18	57,178	53,235	3,943	7.4
Medium-term notes	26	219,823	215,486	4,337	2.0
Debentures issued	27	200,720	349,961	-149,241	-42.6
Tax liabilities	10c	3,892	2,641	1,251	47.4
Deferred tax liabilities	10b	8,204	14,153	-5,949	-42.0
Accrued liabilities and deferred items		28,509	30,059	-1,550	-5.2
Other liabilities	28	132,989	116,845	16,144	13.8
Provisions	29	8,755	14,393	-5,638	-39.2
Total liabilities		10,856,788	11,443,292	-586,504	-5.1
Share capital	30	66,154	66,154	0	0.0
Less: treasury shares	31	-52,466	-50,499	-1,967	-3.9
Capital reserves		21,857	22,857	-1,000	-4.4
Income reserves		929,428	907,841	21,587	2.4
Unrealised gains/losses on FVTOCI financial instruments		-12,723	-10,819	-1,904	-17.6
Foreign-currency translation differences		-15,312	-17,410	2,098	12.1
Total shareholders' equity		936,938	918,124	18,814	2.0
Total liabilities and shareholders' equity		11,793,726	12,361,416	-567,690	-4.6

Consolidated changes in shareholders' equity

in CHF 1,000	Share capital	Treasury shares	Capital reserves	Income reserves	Unrealised FVTOCI gains/losses	Actuarial gains/losses from defined-benefit pension plans	Foreign-currency translation differences	Total shareholders' equity
Total shareholders' equity 01.01.2016	66,154	-50,499	22,857	977,101	-10,819	-69,260	-17,410	918,124
Other comprehensive income, after income tax								
Foreign-currency translation differences							1,561	1,561
Changes in value transferred to profit reserves							537	537
Changes in value of FVTOCI financial instruments					-1,904			-1,904
Actuarial gains/losses from defined-benefit pension plans						-12,102		-12,102
Group net income				57,986				57,986
Total reported result 31.12.2016	0	0	0	57,986	-1,904	-12,102	2,098	46,078
Dividends 2015				-24,297				-24,297
Management equity participation plan (LTI)			-297					-297
Public tender own shares		-8,005						-8,005
Movement in treasury shares ¹		6,038	-703					5,335
Total shareholders' equity 31.12.2016	66,154	-52,466	21,857	1,010,790	-12,723	-81,362	-15,312	936,938
Total shareholders' equity 01.01.2015	59,148	-21,017	-17,173	932,856	-9,793	-57,616	-17,948	868,457
Other comprehensive income, after income tax								
Foreign-currency translation differences							538	538
Changes in value transferred to profit reserves								0
Changes in value of FVTOCI financial instruments					-1,026			-1,026
Actuarial gains/losses from defined-benefit pension plans						-11,644		-11,644
Group net income				64,056				64,056
Total reported result 31.12.2015	0	0	0	64,056	-1,026	-11,644	538	51,924
Dividends 2014				-19,811				-19,811
Management equity participation plan (LTI)			-1,013					-1,013
Acquisition-related changes ²	7,006	13,990	43,304					64,300
Public tender own shares		-50,853						-50,853
Movement in treasury shares ¹		7,382	-2,261					5,121
Total shareholders' equity 31.12.2015	66,154	-50,499	22,857	977,101	-10,819	-69,260	-17,410	918,124

¹ Details on transactions with treasury shares can be found in note 31 and 45.

² Details on transactions can be found in note 45.

Consolidated statement of cash flow

in CHF 1,000	Note	2016	2015
Cash flow from operating activities			
Group net income		57,986	64,056
Reconciliation to cash flow from operating activities			
Non-cash-related positions in Group results			
• Depreciation and amortisation	22/23	22,411	38,253
• Creation of retirement pension provisions	41	18,863	10,649
• Creation/dissolution of other provisions	28	-4,483	15,765
• Non-cash-related income from capitalisation of assets	23	0	-34,045
• Unrealised gains on assets held for trading	3	0	73
• Unrealised gains on financial instruments measured at fair value	4	-1,780	-5,780
• Unrealised gains on financial instruments measured at amortised cost	4	-63	3,123
• Deferred income taxes	10b	-5,764	-5,127
Net increase/reduction in banking			
• Amounts due from/to banks		1,717,763	1,349,694
• Trading portfolios incl. replacement values, net		-2,726	23,061
• Amounts due from/to clients		-967,325	-683,536
• Accrued receivables and other assets		-2,843	-8,157
• Accruals and other liabilities		2,655	-788
Income taxes paid	10a	-4,190	-1,403
Foreign-currency impact on intragroup payments		2,088	-4,675
Net cash flow from operating activities		832,592	761,163
Cash flow from investment activities			
Purchase of financial instruments measured at fair value	17/19	-8,555	-28,948
Proceeds from sale of/maturing financial instruments measured at fair value	4	122,225	179,624
Purchase of financial instruments measurement at amortised cost	20	-427,665	-759,053
Proceeds from sale of/maturing financial instruments measured at amortised cost	4	275,472	209,555
Acquisition of property and equipment and intangible assets	22/23	-9,727	-10,555
Sale of property and equipment and intangible assets	22/23	15,000	0
Acquisition of subsidiary companies	46	0	348,387
Disposal of subsidiary companies	45/46	0	0
Net cash flow from investment activities		-33,250	-60,990
Cash flow from financing activities			
Purchase of treasury shares	31	-8,022	-51,093
Proceeds from sale of treasury shares		512	4,390
Dividend distributions	12	-24,297	-19,811
Redemption/issuance of medium-term bonds	25	4,337	13,733
Issuance of debentures ¹	27	0	200,000
Redemption of debentures ¹	27	-149,280	-49,000
Net cash flow from financing activities		-176,750	98,219
Foreign-currency translation impact		6,547	2,982
Net increase/reduction in cash and cash equivalents		629,139	801,374
Cash and cash equivalents at the beginning of the financial year	36	3,415,841	2,614,467
Cash and cash equivalents at the end of the financial year	36	4,044,980	3,415,841
Net increase/reduction in cash and cash equivalents		629,139	801,374

Consolidated statement of cash flow (continued)

in CHF 1,000	Note	2016	2015
Cash and cash equivalents are represented by			
Cash	36	3,524,512	2,955,527
Receivables arising from money market paper	36	15,248	14,652
Due from banks – at-sight balances	36	505,220	445,662
Total cash and cash equivalents		4,044,980	3,415,841
Consolidated statement of cash flow (summarised)			
Cash and cash equivalents at beginning of accounting period		3,415,841	2,614,467
Cash flow from operating activities, net of taxes		832,592	761,163
Cash flow from investing activities		–33,250	–60,990
Cash flow from financing activities		–176,750	98,219
Foreign-currency translation impact		6,547	2,982
Cash and cash equivalents at end of accounting period		4,044,980	3,415,841
Cash flow from operating activities from interest and dividends			
Interest paid		–9,216	–11,375
Interest received		109,061	104,386
Dividends received		3,336	3,993

¹ Issuance and redemption of debentures are stated separately. The prior-year comparative figures were restated.

Demand deposits due to banks are invested or charged interest at daily rates or in short-term funds between one day and three months, depending on the VP Bank Group's liquidity needs. Interest rates are based on the corresponding market rates. Receivables arising from money-market papers have a maximum initial maturity of three months. The fair value of cash and cash equivalents amounts to CHF 4,045.0 million (previous year: CHF 3,415.8 million).

Principles underlying financial statement reporting and notes

1. Fundamental principles underlying financial statement reporting

VP Bank Ltd, which has its registered office in Vaduz, was established in 1956 and is one of the three largest banks in Liechtenstein. Today, VP Bank Group has subsidiaries in Zurich, Luxembourg, the British Virgin Islands, Singapore and Hong Kong, as well as representative offices in Moscow and Hong Kong. As of 31 December 2016, VP Bank Group employed 738.3 persons, expressed as full-time equivalents (previous year: 734.4).

Asset management and portfolio advisory services for private and institutional investors, as well as lending, constitute its core activities.

Values disclosed in the financial statements are expressed in thousands of Swiss francs. The 2016 financial statements were drawn up in accordance with International Financial Reporting Standards (IFRS). IFRS contain provisions requiring the Management of VP Bank Group to make assumptions and estimates in drawing up the consolidated financial statements. The most important fundamental principles underlying financial statement reporting are described in this section in order to show how their application impacts the reported results and informational disclosures of VP Bank Group.

Changes in accounting and valuation principles and presentation

The annual financial statements were drawn up on the basis of the accounting and valuation principles used for the 2015 annual financial statements, with the exception of the forward components arising from certain foreign currency contracts which are now recorded under interest income (previously trading income). Furthermore, because of its increasing relevance, negative interest is reported separately as "interest income from financial liabilities" in interest income and "interest expense from financial assets" in interest expense. The comparative figures regarding prior years were restated accordingly. As a result of the reclassification of above-mentioned foreign currency contracts, interest income in the 2015 prior year increased by CHF 3.9 million and trading income fell in the same prior-year period by the same amount. The amount recorded in 2016 under trading income amounts to CHF 5.3 million.

In addition, the presentation of the income statement (and segment reporting) was amended to conform to current practice in the sector. The sub-total "gross operating income"

was replaced by the term "operating income". Furthermore, the captions "depreciation and amortisation" and "valuation allowances, provisions and losses" are now recorded under "operating expense". The prior sub-total "gross income" is dropped for the future. Because of the revised presentation, the sub-total "operating expenses" for 2015 of CHF 182.1 million increased to CHF 246.4 million. The other positions remain unchanged or are dropped.

Post-balance-sheet-date events

There were no post-balance-sheet-date events that materially affected the balance sheet and income statement for 2016.

The Board of Directors reviewed and approved the consolidated financial statements in its meeting of 16 February 2017 and released it for publication. These consolidated financial statements will be submitted for approval to the Annual General Meeting of 28 April 2017.

2. Assumptions and uncertainties in estimates

IFRS contain guidelines which require certain assumptions and estimates to be made by the Management of VP Bank Group in drawing up the consolidated financial statements. The assumptions and estimates are continually reviewed and are based upon historical experience and other factors, including anticipated trends arising from probable future events. Actual future occurrences may differ from these estimates.

Non-performing loans

A review of collectability is undertaken at least once a year for all loans of doubtful collectability. Should changes have occurred as to the amount and timing of anticipated future payment flows in comparison to previous estimates, the valuation allowance for credit risks is adjusted accordingly. The amount of the value impairment is measured essentially by reference to the difference between the carrying value and the probable amount which will be recovered, after taking into account the proceeds of realisation from the sale of any collateral. A change in the net present value of the estimated future monetary flows of +/-5 per cent increases or decreases, respectively, the amount of the valuation allowance by CHF 1.1 million (prior year: CHF 0.6 million).

Changes in estimates

No material changes in estimates were made or applied. Further details on estimates are described in the tables included in the Notes (e.g. goodwill, litigation, taxes on income, retirement benefit schemes etc.).

3. Summary of the principal financial statement accounting policies

3.1. Principles of consolidation

Fully consolidated companies

The consolidated financial statements encompass the financial statements of VP Bank Ltd, Vaduz, as well as those of its subsidiary companies, which are all presented as a single economic unit. Subsidiary companies which are directly or indirectly controlled by VP Bank Group are consolidated. Subsidiary companies are consolidated as of the date on which control is transferred and deconsolidated as of the date control ends.

Method of capital consolidation

Capital consolidation is undertaken in accordance with the purchase method, whereby the shareholders' equity of the consolidated company is set off against the carrying value of the shareholding in the parent company as of the date of acquisition or the date of establishment.

After initial consolidation, changes arising from business activities which are reflected in the current results of the accounting period in the consolidated financial statements are allocated to income reserves. The effects of intra-group transactions are eliminated in preparing the consolidated annual financial statements.

The share of non-controlling interests in shareholders' equity and Group net income is shown separately in the consolidated balance sheet and income statement.

Shareholdings in associated companies

Shareholdings on which VP Bank Group exercises a material influence are recorded using the equity method. A material influence is generally assumed to exist whenever VP Bank Group holds, directly or indirectly, 20 to 50 per cent of voting rights.

According to the equity method of accounting, the shares of an enterprise are accounted for at acquisition cost as of the date of acquisition. After acquisition, the carrying value of the associated company is increased or reduced by the Group's share of the profits or losses and of the non-income-statement-related movements in the shareholders' equity of the associated company.

In applying the equity method, the Group ascertains whether it is necessary to recognise an additional impairment loss for its investments in associated companies. As of each balance-sheet date, the Group ascertains whether objective indications exist that the investment in an associated company may be value-impaired. Should this be the case, the difference between the realisable value of the share in the associated company and its carrying value is recorded as a charge to income.

3.2. General principles

Trade versus settlement date

The trade-date method of recording purchases or sales of financial assets and liabilities is applied. This means that transactions are recorded in the balance sheet as of the date when the trade is entered into and not on the date when trade is subsequently settled.

Revenue recognition

Revenues from services are recorded when the related service is rendered. Portfolio management fees, securities account fees and similar revenues are recorded on a pro-rata basis over the period during which the service is rendered. Interest is recorded in the period during which it accrues. Dividends are recorded as and when they are received.

Foreign currency translation

Functional currency and reporting currency:

The consolidated financial statements are expressed in Swiss francs.

The foreign exchange translation into the functional currency is undertaken at the rate of exchange prevailing as of the date of the transaction. Translation differences arising from such transactions and gains and losses arising from translation at balance-sheet date rates for monetary financial assets and financial liabilities in foreign currencies are recognised in the income statement.

Unrealised foreign currency translation differences in non-monetary financial assets are part of the movement in their fair value.

For the purpose of drawing up the consolidated financial statements, balance sheets of Group companies denominated in a foreign currency are translated into Swiss francs at the year-end exchange rate. Average exchange rates for the reporting period are applied for the translation of income statement captions as well as those in the statements of other comprehensive income and of cash flows. Foreign currency translation differences resulting from exchange rate movements between the beginning and the end of the year and the difference in annual results at average and closing exchange rates are recognised in other comprehensive income.

Group companies

All balance-sheet items (excluding shareholders' equity) are translated into the Group reporting currency at the rate of exchange prevailing as of the balance-sheet date. The individual items in the income statement are translated at average rates for the period. Foreign-currency differences arising from the translation of financial statements expressed in foreign currencies are offset against shareholders' equity (income reserves) without impacting operating results.

Foreign currency translation differences arising in connection with net investments in foreign companies are reflected under shareholders' equity. Upon disposal, such foreign currency translation differences are recorded in the income statement as a part of the gain or loss on disposal.

Goodwill and fair value adjustments from acquisitions of foreign companies are treated as receivables and liabilities of these foreign companies and are translated at the closing rates prevailing on the balance-sheet date.

Domestic versus foreign

The term "domestic" also includes Switzerland.

Cash and cash equivalents

Cash and cash equivalents encompass the captions "cash and cash equivalents", "receivables from money-market paper" with an initial maximum term of three months as well as "sight balances due from banks".

3.3. Financial instruments

General

VP Bank Group subdivides the financial instruments, to which traditional financial assets and liabilities as well as equity capital instruments also belong, as follows:

- financial instruments to be recorded via the income statement ("fair value through profit or loss" (FVTPL)) – "trading portfolios" and "financial instruments at fair value"
- financial instruments valued at amortised cost
- financial instruments at fair value with changes in value and impairment losses recorded in other comprehensive income ("fair value through other comprehensive income" (FVTOCI)).

The allocation of financial instruments is made at the time of initial recognition using the criteria set out in IFRS 9. Since 1 January 2011, VP Bank Group has applied IFRS 9 (2010), and since 1 January 2015, has made early application of IFRS 9 (2013). Should the hedging conditions be met, VP Bank Group makes early application of hedge accounting in accordance with IFRS 9 (2013). IFRS 9 (2014) including the ECL model will be applied for the first time from the 2018 financial year onwards (see also Chapter 4).

Trading portfolios

Trading portfolios comprise shares, bonds, precious metals and structured products. Financial assets held for trading purposes are valued at fair value. Short positions in securities are disclosed as liabilities arising from trading portfolios. Realised and unrealised gains and losses are recorded under income from trading activities after deduction of related transaction costs. Interest and dividends from trading activities are recorded under interest income.

Fair values are based on quoted market prices if an active market exists. Should no active market exist, the fair value is determined by reference to traders' quotes or external pricing models.

Financial instruments valued at amortised cost

Investments where the objective consists of holding the financial asset in order to realise the contractual payment flows therefrom and which are made up solely of interest as well as the redemption of parts of the nominal value are recognised at amortised cost using the effective interest method.

A financial investment recognised at amortised cost is classified as being value-impaired whenever it is probable that the total contractually agreed amount due will not be collected in full. Causes giving rise to an impairment loss can be counterparty-specific or country-specific. Whenever impairment occurs, the carrying value of the financial investment is reduced to its realisable value by charges to income and is reported under the item "income from financial investments".

Interest is recognised in the period when it accrues using the effective interest method and is reported in interest income under "interest income from financial instruments at amortised cost".

Financial instruments valued at fair value (FVTPL)

Financial instruments not meeting the aforementioned criteria are recorded at fair value. The ensuing gains/losses are reported in "income on financial instruments at fair value" under "income from financial investments".

Insofar as the criteria of IFRS 9 are not met, a financial instrument may be designated and recorded under this category upon initial recognition.

Interest and dividend income are recorded in "income from financial investments" under the captions "interest income from FVTPL financial instruments" and "dividend income from FVTPL financial instruments".

Financial instruments at fair value with recording of changes in value and impairment losses through other comprehensive income (FVTOCI)

Investments in equity instruments are recognised in the balance sheet at fair value. Changes in value are taken to income, except in those cases for which VP Bank Group has decided that they are to be recognised at fair value through other comprehensive income.

The OCI option is applied in the case of equity instruments with a long-term investment horizon of approx. ten years. Primarily in the case of private-equity investments, the focus is on long-term value generation. Dividends are reported in income from financial investments under the caption "dividend income from FVTOCI financial instruments".

Loans granted to banks and clients

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

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

Value-impaired loans

Value-impaired loans are amounts outstanding from clients and banks where it is improbable that the debtor can meet its obligations. The reasons for an impairment in value are of a nature which is specific to the counterparty or country. Interest on value-impaired loans is recorded throughout the period during which the interest accrues. A valuation allowance for credit risks is recorded as a reduction in the carrying value of a receivable in the balance sheet. The amount of the reduction in value is measured essentially by reference to the difference between the carrying value and the amount which will probably be recovered after taking into account the realisable proceeds from the disposal of any applicable collateral. For off-balance-sheet positions, on the other hand, such as a fixed facility granted, a provision for credit risks is recorded under provisions. Global valuation allowances exist to cover latent, as yet unidentified credit risks on a portfolio basis. A collectability test is performed at least once a year for all non-performing receivables. Should changes have occurred as to the amount and timing of anticipated future flows in comparison to previous estimates, the valuation allowance for credit risks is adjusted accordingly and released to income under "valuation allowances for credit risks" or "release of valuation allowances and provisions that are no longer required".

Overdue loans

A loan is considered to be overdue or non-performing if a material contractually agreed payment remains outstanding for a period of 90 days or more. Such loans are not to be classified as value-impaired if it can be assumed that they are still covered by existing collateral.

Amounts due to banks and clients

Within the scope of micro fair-value hedge accounting, hedged liabilities are adjusted by the changes in fair value attributable to the hedged risk. In the cases when portfolio fair-value hedge accounting is applied, the changes in fair value are recognised in the balance-sheet caption "other liabilities".

Derivative financial instruments

Derivative financial instruments are valued and reported in the balance sheet at their fair value. The fair value is determined on the basis of stock-exchange quotations or option pricing models. Realised and unrealized gains and losses are taken to income.

VP Bank Group deploys the following derivatives both for trading and hedging purposes. They may be subdivided into the following categories:

- Swaps: Swaps are transactions in which two parties swap cash-flows for a defined nominal amount during a period agreed in advance. Interest-rate swaps: Interest-rate swaps are interest-rate derivatives which protect fixed-interest-bearing instruments (e.g. non-structured, fixed-interest-bearing bonds or covered bonds) against changes in fair value as a result of changes in market interest rates.
- Currency swaps: Currency swaps comprise the swapping of interest payments which are based on the swapping of two base amounts with two differing currencies and reference interest rates and encompass in general also the swapping of nominal amounts at the inception or end of the contractually stipulated duration. Currency swaps are usually traded over-the-counter.
- Forward contracts and futures: Forward contracts and futures are contractual obligations to purchase or sell a financial instrument or commodities at a future date and at a stipulated price. Forward contracts are customised agreements which are transacted between parties over-the-counter (OTC). Futures, on the other hand, are standardised contracts which are entered into on regulated exchanges.
- Options and warrants: Options and warrants are contractual agreements as part of which the seller (writer) grants the acquirer, in general, the right but not the obligation, to purchase (call option) or sell (put option) a specified quantity of a financial instrument or commodity at a price agreed in advance on or prior to a stipulated date. The acquirer pays the seller a premium for this right. There are also options with more complex payment structures. Options can be traded over-the-counter or on regulated exchanges. They may also be traded in the form of a security (warrant).

Hedge Accounting

VP Bank Group has applied IFRS 9 (2010) since 1 January 2011 and has made early application of IFRS 9 (2013) since 1 January 2015. Should the hedging conditions be met, VP Bank Group applies hedge accounting in accordance with IFRS 9 (2013).

In accordance with its Risk Policy, VP Bank deploys certain derivatives for hedging purposes. From an economic point of view, the opposing valuation effects resulting from the underlying and hedging transactions offset each other. As these transactions do not, however, correspond to the strict and specific IFRS provisions, there ensues an asymmetrical mapping in bookkeeping terms of the changes in value of the underlying transaction and the hedge. Fair-value changes of such derivatives are reported in trading and interest income, respectively, in the appropriate period.

The rules of hedge accounting can be used voluntarily. Under certain conditions, the use of hedge accounting enables the risk-management activities of a company to be mapped out in the annual financial statements. This occurs through the juxtapositioning of expenses and income from hedging instruments with those from the designated underlying transactions with regard to certain risks.

A hedging relationship qualifies for hedge accounting if all of the following qualitative attributes are fulfilled:

- the hedging relationship consists of eligible hedging instruments and eligible underlying transactions;
- at the inception of the hedging relationship there is a formal designation and documentation of the hedging relationship and the company's risk-management strategy and objective for this hedge;
- the hedging relationship meets the effectiveness requirements.

The hedging relationship must be documented at inception. The documentation must encompass, in particular, the identification of the hedging instrument and of the hedged underlying transaction as well as designating the hedged risk and the method to determine the effectiveness of the hedging relationship. In order to qualify for hedge accounting, the hedging relationship must satisfy the following effectiveness requirements at the inception of the hedging period:

- there must exist an economic relationship between the underlying transaction and the hedging instrument;
- default risk does not dominate the changes in value resulting from the economic hedge; and
- the hedge ratio accurately reflects the quantity of the underlying transaction used for the actual economic hedge as well as the quantity of the hedging instrument.

Derivative financial instruments are employed by the Group for risk management principally to manage interest-rate and foreign-currency risks. Whenever derivative and non-derivative financial instruments fulfil certain criteria, they

may be classified as hedging instruments and indeed to hedge fair-value changes in recognised assets and liabilities (fair-value hedge accounting), to hedge fluctuations in anticipated future cash-flows which are allocated to recognised assets and liabilities (cash-flow hedge accounting) or to hedge a net investment in a foreign business operation (hedge of net investments).

Fair value hedge accounting

IFRS 9 provides for the use of fair value hedge accounting to avoid one-sided resultant effects for derivatives which serve to hedge the fair value of on-balance-sheet assets or liabilities against one or several defined risks. Subjected to market risk and/or interest-rate risk, in particular, are the Group's credit transactions and its portfolio of securities insofar as they relate to fixed interest-bearing paper. Interest-rate swaps are used primarily to hedge these risks. In accordance with fair value hedge accounting rules, the derivative financial instruments deployed for hedging purposes are valued at fair value as market values of derivative hedging instruments. For the hedged asset and/or hedged liability, the opposing changes in fair value resulting from the hedged risk are also to be recognised in the balance sheet. The opposing valuation changes from the hedging instruments as well as from the hedged underlying items are recognised in the income statement as gains/losses from hedge accounting. That portion of the changes in fair value which is not related to the hedged risk is dealt with in accordance with the rules pertaining to the respective valuation category.

Cash flow hedge accounting as well as portfolio fair-value hedges were used neither in the current financial year, nor the prior year.

Debt securities issued

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

At the time of their initial recording, debentures are recorded at their fair value less transaction costs. The fair value equates to the consideration received. Subsequently, they are valued at amortised cost for balance-sheet reporting purposes. In this connection, the effective interest method is employed in order to amortise the difference between the issue price and redemption amount over the duration of the debt instrument.

Treasury shares

Shares in VP Bank Ltd, Vaduz, held by VP Bank Group are disclosed as treasury shares and the acquisition cost thereof is deducted from shareholders' equity. The difference between sales proceeds of treasury shares and the related acquisition cost is shown under capital reserves.

Repurchase and reverse repurchase transactions

Repurchase and reverse repurchase transactions serve to refinance or finance, respectively, or to acquire securities of a certain class. These are recorded as an advance against collateral in the form of securities or as a cash deposit with collateral in the form of own securities.

Securities received and delivered are only recorded in the balance sheet or closed out when the control over the contractual rights (risks and opportunities of ownership) inherent in these securities has been ceded. The fair values of the securities received or delivered are monitored on an ongoing basis in order to provide or demand additional collateral in accordance with the contractual agreements.

Securities lending and borrowing transactions

Financial instruments which are lent out or borrowed and valued at fair value and in respect of which VP Bank Group appears as principal are recorded in the balance sheet under amounts due to/from customers and banks. Securities lending and borrowing transactions in which VP Bank Group appears as agent are recorded under off-balance-sheet items.

Fees received or paid are recorded under commission income.

3.4. Other principles

Provisions

Provisions are only recorded in the balance sheet if VP Bank Group has a liability to a third party which is to be attributed to an occurrence in the past, if the outflow of resources with economic benefit to fulfil this liability is probable, and if this liability can be reliably estimated. If an outflow of funds is unlikely to occur or the amount of the liability cannot be reliably estimated, a contingent liability is shown.

Impairment in the value of non-current assets

The value of property and equipment is reviewed whenever it appears that the carrying value is over-valued because of occurrences or changed circumstances. If the carrying value exceeds the realisable value, an extraordinary write-down is made. Any subsequent recovery in value is taken to income.

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

Property and equipment

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

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

Depreciation and amortisation is charged on a straight-line basis over the estimated useful lives:

Depreciation and amortisation	Estimated useful life
Bank premises and other real estate	25 years
Land	no depreciation
Furniture and equipment	5 to 8 years
IT systems	3 to 7 years

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

Minor purchases are charged directly to general and administrative expenses. Maintenance and renovation expenses are generally recorded under general and administrative expenses. If the expense is substantial and results in a significant increase in value, the amounts are capitalised. These are depreciated or amortised over their useful lives. Gains on disposal of property and equipment are disclosed as other income. Losses on sale lead to additional depreciation and amortisation on property and equipment.

Goodwill

In the case of a takeover, should the acquisition costs be greater than the net assets acquired and valued in accordance with uniform Group guidelines (including identifiable and capitalizable intangible assets), the remaining amount constitutes the acquired goodwill. Goodwill is capitalised and subject to an annual review for any required valuation allowances. The recording of goodwill is made in the original currency and is translated on the balance-sheet date at rates prevailing at year-end.

Intangible assets

Purchased software is capitalised and amortised over three to seven years. Minor purchases are charged directly to general and administrative expenses.

Internally generated intangible assets such as software are capitalised insofar as the prerequisites for capitalisation set forth in IAS 38 are met, i.e. it is probable that the Group will derive a future economic benefit from the asset and the costs of the asset can be both identified and measured in a reliable manner. Internally produced software meeting these criteria and purchased software are recorded in the balance sheet under software. The amounts so capitalised are amortised on a straight-line basis over their useful lives. The period of amortisation is three to seven years.

Other intangible assets include separately identifiable intangible assets arising from business combinations, as well as certain purchased client-related assets and the like and are amortised on a straight-line basis over an estimated useful life of five to ten years. Other intangible assets are recorded in the balance sheet at purchase cost at the time of acquisition.

Current and deferred taxes

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

The taxation effects of temporary differences between the values attributed to the assets and liabilities as reported in the consolidated balance sheet and their values reported for tax reporting purposes are recorded as deferred tax assets or deferred tax liabilities. Deferred tax assets arising from temporary differences or from the utilisation of tax loss carry-forwards are only recognised when it is probable that sufficient taxable profits are available, against which these temporary differences or tax loss carry-forwards can be offset.

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

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

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

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

Retirement pension plans

VP Bank Group maintains several retirement pension plans for employees in Liechtenstein and abroad, among which there are both defined-benefit and defined-contribution plans. In addition, there are plans for long-service anniversaries which qualify as other long-term benefits to employees.

Recorded receivables from and liabilities to these pension funds are computed on the basis of statistical and actuarial calculations by experts.

As regards defined-benefit pension plans, pension costs are determined on the basis of various economic and demographic assumptions using the projected unit credit method, which takes into account the number of insurance years actually earned through the date of valuation. Amongst the computational assumptions considered by the Group are, inter alia, the expected future rate of salary increases, long-term interest earned on retirement assets, retirement patterns and life expectancy. The valuations are undertaken annually by independent actuaries. Plan assets are re-measured annually at fair values.

Pension costs comprise three components:

- service costs which are recognised in the income statement;
- net interest expense, which is also recognised in the income statement; and
- revaluation components which are recognised in the statement of comprehensive income.

Service costs encompass current service costs, past service costs and gains and losses from non-routine plan settlements. Gains and losses from plan curtailments are deemed to equate to past service costs.

Employee contributions and contributions from third parties reduce service cost expense and are deducted therefrom provided that these derive from pension plan rules or a de facto obligation.

Net interest expense corresponds to the amount derived from multiplying the discount rate with the pension liability or plan assets at the beginning of the year. In the process, capital flows of less than one year are taken into account on a weighted basis.

Revaluation components encompass actuarial gains and losses from the movement in the present value of pension obligations and plan assets. Actuarial gains and losses result from changes in assumptions and experience adjustments. Gains and losses on plan assets equate to the income from plan assets minus the amounts contained in net interest expense. Revaluation components also encompass movements in unrecognised assets less the effects contained in net interest expense. Revaluation components are recognised in the statement of comprehensive income and cannot be reclassified to income in future periods (recycling). The amounts recognised in the statement of comprehensive income can be reclassified within shareholders' equity. Service costs and net interest expense are recorded in the consolidated financial statements under personnel expense. Revaluation components are recognised in the statement of comprehensive income.

The pension liabilities or plan assets recognised in the consolidated financial statements correspond to the deficit or excess of funding of defined-benefit pension plans. The recognised pension assets are limited to the present value of the economic benefit of the Group arising from the future reduction in contributions or repayments.

Liabilities arising in connection with the termination of employment are recognised at the time when the Group has no other alternative but to finance the benefits offered. In any event, the expense is to be recorded at the earliest when the other restructuring cost is also recognised.

For other long-term benefits, the present value of the acquired commitment is recorded as of the balance-sheet date. Movements in present values are recorded directly in the income statement as personnel expense.

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

4. Changes in financial statement accounting policies and comparability

New and revised International Financial Reporting Standards

Since 1 January 2016, the following new or revised standards or interpretations have taken effect:

Improvements to IFRS 2012–2014 Cycles

In September 2014, the IASB published numerous amendments to existing IFRS as part of its annual improvement project "Improvements to IFRS 2012–2014 Cycles". These encompass both amendments to various IFRS impacting the recognition, measurement and disclosure of business transactions as well as terminological and editorial corrections. The amendments have no material impact on the consolidated financial statements.

IFRS 11 – Joint Arrangements (amendments to IFRS 11)

With the recording of acquisitions of shares in joint business ventures (amendments to IFRS 11), IFRS 11 is amended with the result that the acquirer of shares in a joint venture constituting a business venture as defined in IFRS 3 is to apply all the principles relating to the accounting for business combinations from IFRS 3 provided that these are not in contradiction to the guidelines set out in IFRS 11. The amendments have no material impact on the consolidated financial statements.

IAS 1

In December 2014, the IASB published amendments to IAS 1 "Presentation of Financial Statements" ("IAS 1") as part of an initiative to improve annual financial statements regarding presentation and note disclosures. These amendments make it clear that the principle of materiality is to be applied to the whole financial statements in their entirety, that professional estimates in determining disclosure items are to be applied and that the inclusion of non-material items can lead to a reduced effectiveness of note-disclosure items. The amendments to IAS 1 have only an impact on Group's note disclosures.

International Financial Reporting Standards which are to be introduced in 2017 or later

Numerous new standards, revisions and interpretations of existing standards were published, the application of which is compulsory for accounting periods commencing on or after 1 January 2017. The following new or amended IFRS standards and/or interpretations are currently being analysed or are without significance for VP Bank Group. VP Bank Group did not avail itself of the possibility of early adoption thereof.

IFRS 9 (2014) – Financial Instruments

This standard contains provisions relating to the recognition, measurement, de-recognition and hedge accounting. On 24 July 2014, the IASB published the final version of the Standard during the completion of various phases of its comprehensive project on financial instruments. Thus, the previous accounting for financial instruments under IAS 39 "Financial Instruments: Recognition and Measurement" can now be replaced completely by the accounting requirements of IFRS 9.

The latest published version of IFRS 9 replaces all previous versions. The first-time binding adoption thereof is foreseen for accounting periods beginning on or after 1 January 2018. Subject to local rules, early application thereof is allowed. Previous versions of IFRS 9 may be applied prematurely within a limited period (if not done already) provided that the relevant date for the initial adoption in this regard is not prior to 1 February 2015.

The rules concerning a portfolio fair-value hedge against interest-rate risks in accordance with IAS 39 are not replaced by IFRS 9. Against this background, the possibility exists of continuing to apply optionally the rules for a portfolio fair-value hedge against interest-rate risks in accordance with IAS 39 or even undertaking the mapping of hedging relationships in accordance with the general rules of IAS 39.

VP Bank Group has applied IFRS 9 (2010) since 1 January 2011 and has made early adoption of IFRS 9 (2013) from 1 January 2015 onwards. Should the hedging conditions be

met, VP Bank Group has opted for the early adoption of hedge accounting in accordance with IFRS 9 (2013). The entire new IFRS 9 must be adopted as from 1 January 2018 onwards. VP Bank Group is currently analysing the impact of the provisions not implemented yet.

Application of IFRS 9 Impairment

The expected credit-loss method under IFRS 9 replaces the current valuation allowances for credit risks of VP Bank. The computation and reporting of provisions for default risks (collectability) will be performed for the last time using the current methodology as per 31 December 2017. On 1 January 2018, the valuation allowance for collectability will be derecognised over equity and expected credit losses in accordance with IFRS 9 recognised under equity. Changes to expected credit losses will thereafter be recorded in the income statement.

The new standard encompasses all asset positions which are subject to potential credit risk and are not already recorded at fair value over the income statement. This includes particularly loans to clients, receivables due from banks and financial investments measured at amortised cost. Also affected are off-balance-sheet positions, such as credit commitments and guarantees.

The introduction of the new standard places high demands on VP Bank regarding methods, data and systems. To fulfil the requirements, VP Bank is creating the necessary bases. This concerns, in particular, the following areas:

- further development and adaptation of internal models and methods to compute expected credit losses whilst taking account of regulatory and accounting guidelines
- ensuring the availability of the internal data required (inter alia, default probability, loss given default, exposure at default by instrument)
- computation of expected losses on the basis of prospective information (e.g. impact of the macro-economic environment on the expected loss)
- implementation of a system to compute expected credit losses for the individual business transactions on the basis of internal models
- definition of an operating model to compute the expected losses for the current financial reporting.

The preparations for the introduction of the standard in VP Bank were commenced at the end of 2015. This will occur in 2017 within the framework of a Group-wide project encompassing the following significant phases:

- conception of a framework for modelling expected credit losses
- implementation of the framework, in particular the preparation of in-house bank data and analyses as well as the technical and substantive implementation of a systems-based solution
- changes to the process organisation (operating model)
- application with the context of disclosure.

The adoption of IFRS 9 Impairment will have an impact in the 2018 financial year on the equity and income statement of VP Bank. The extent thereof depends primarily on the methodology selected, the underlying parameters and on the scenario assumptions and cannot be conclusively quantified at the present time. VP Bank will further analyse the impact during 2017 on the basis of the available prospective information.

Various studies suggest that the volatility of the income statement will increase in future as a result of fluctuating impairment losses. The initial adoption of IFRS 9 Impairment will have an adverse effect on the equity and thus the regulatory equity ratio of the bank.

IFRS 15 – Revenues from Contracts with Customers

IFRS 15 prescribes when and in which amount a company reporting under IFRS is to recognise revenue. In addition, it is demanded from companies preparing annual financial statements that more informative and relevant disclosures be made available than at present. In this respect, the standard offers a single, principles-based, five-stage model which is to be applied to all contracts with clients.

IFRS 15 was issued in May 2014 and is to be applied for all financial years commencing on or after 1 January 2018.

IFRS 16 – Leases

The International Accounting Standards Board has published IFRS 16 "Leases" which regulates the accounting for lease arrangements. For lessees, the new standard provides for a new accounting model which does away with a differentiation between finance leases and rental contracts. In future, most leasing agreements will require to be recognised in the balance sheet. For lessors, the rules of IAS 17 "Leases" will continue to apply with the result that a differentiation between finance leases and leasing agreements will continue to be made as currently with the related differing accounting consequences. IFRS 16 replaces IAS 17 as well as the related interpretations and is to be adopted for the first time for accounting periods beginning on or after 1 January 2019. Early adoption is possible insofar as IFRS 15 "Revenues from Contracts with Customers" is adopted simultaneously.

IAS 12 – Amendments relating to Recognition of Deferred-Tax Liabilities for Unrealised Losses

With the amendments relating to the recognition of deferred-tax liabilities for unrealised losses, the following matters are clarified:

- unrealised losses in the case of a debt instrument which is measured at fair value, but for which acquisition costs constitute the valuation basis for tax purposes, lead to deductible temporary differences. This applies irrespective of whether the holder expects to recover the carrying value by holding it until maturity and collecting all contractual payments or whether he intends to sell it.

- the carrying value of the asset does not represent the upper limit for estimating probable, future taxable gains.
- in estimating future taxable gains, tax deductions from the reversal of deductible temporary differences are to be subtracted.
- A company is to evaluate a deferred tax asset in combination with other deferred tax assets. Whenever taxation law limits the realisation of tax losses, a company is to evaluate a deferred tax asset in combination with other deferred tax assets of the same (admissible) type.

The amendments take effect for accounting periods commencing on or after 1 January 2017. Early adoption is permitted. As transitional relief, a company is allowed, in the case of the initial adoption, to add the equity changes to the revenue reserves in opening balance sheet of the earliest indicated comparative period without having to split these between revenue reserves and other components of equity.

IAS 7 – Statement of Cash Flows, Changes resulting from the Disclosure Initiative

The amendments in the disclosure initiative (amendments to IAS 7) pursue the goal that a company shall make disclosures in order to enable addressees of financial statements to evaluate changes in financial liabilities.

To achieve this goal, IASB requires that the following changes in third-party debt as a result of financing activities are to be disclosed (to the extent necessary): (i) changes in the case of cash-flows from financing activities; (ii) changes as a result of gaining or losing control over subsidiaries or other companies; (iii) effect of changes in foreign currency rates; (iv) changes in fair values; and (v) other changes. The amendments take effect for financial years beginning on or after 1 January 2017.

IFRS 2 – Share-Based Payments, Changes to Classification and Measurement

In classifying and valuing business transactions settled through share-based payments (amendments to IFRS 2), the following clarifications and amendments are included:

Recording of cash-settled share-based payments containing a performance condition:

Until now, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. The IASB has now included guidance in the standard and introduced financial statement accounting policies for cash-settled payments which follow the same approach as in the case of accounting for payments settled with equity securities.

Classification of share-based payments which are settled through the withholding of tax:

The IASB has included an exemption in IFRS 2 in that a share-based payment in the case of which the company settles the share-based payment agreement by the withholding of taxes, is to be classified fully as being equity-settled if the share-based payment would have classified as being equity-settled had it not had the attribute of being settled through the withholding of tax.

Accounting for modifications to share-based payment transactions from cash-settled to equity-settled transactions:

Until now, situations in which a cash-settled payment transaction is transformed into an equity-settled payment transaction as a result of changes in the terms and conditions are not addressed separately. The IASB has issued the following clarification:

- in the case of such modifications, the liability originally recognised for the cash-settled payment is derecognised and the equity-settled share-based payment is recognised at its fair value as of the modification-date, to the extent services have been rendered up to the modification date.
- any differences between the carrying amount of the liability as of the modification date and the amount recognised in equity at the same date are to be recognised in the income statement for the period immediately.

The amendments take effect for accounting periods beginning on or after 1 January 2018.

5. Management of equity resources

The focus of value-oriented risk management is to achieve a sustainable return on the capital invested and one which, from the shareholders' perspective, is commensurate with the risks involved. To reach this goal, VP Bank supports a rigorous dovetailing of profitability and risk within the scope of the management of its own equity resources; it consciously abandons the goal of gaining short-term interest advantages at the expense of the security of capital. VP Bank avoids extreme risks which can jeopardise the ability to bear risk and in this respect the health and existence of the Group, and manages all risks within the annual risk budget laid down by the Board of Directors. Thanks to the strong capitalisation, VP Bank can invest in the expansion of its business. In managing the equity resources, VP Bank measures both the equity required (minimum amount of equity to cover the Bank's risks in accordance with the requirements of applicable supervisory law) and the available eligible equity (VP Bank's equity is computed in accordance with the criteria of the supervisory authorities) and project their future development. Equity resources which the Bank does not need for its growth or business activities are returned through dividend payments

according to its long-term policy. Thus, through active management, VP Bank is in a position to maintain the robust capitalisation as well as the credit rating and continue to create sustainable value for the shareholders.

Share repurchase

Within the framework of the authorisation given to it by the Annual General Meeting of Shareholders of 24 April 2016, VP Bank Ltd resolved to increase the number of its own shares through a further share repurchase programme up to 10 per cent of the share capital. VP Bank Ltd thus picks up from the two successful programmes from 2015. The repurchases of the registered shares A which will last from 7 June 2016 to 31 May 2017, at the latest, are to be made over the regular trading line of SIX Swiss Exchange.

As part of the public repurchase programme, VP Bank Ltd is prepared to repurchase up to a maximum of 120,000 registered shares A. At no time, however, will it hold more of its own registered shares A than it is allowed to hold within the framework of the above-mentioned authorisation by the Annual General Meeting (up to a maximum of 601,500 shares which equals 10 per cent of all registered shares A).

The registered shares A so repurchased are to be used for acquisitions or treasury management purposes. VP Bank Ltd has commissioned Zürcher Kantonalbank to undertake the repurchase of the listed registered shares A.

Up until 31 December 2016, VP Bank Ltd has repurchased 81,786 registered shares A from the repurchase programme. As of 31 December 2016, VP Bank Group held a total of 593,777 registered shares A and 127'812 registered shares B. This equates to a share of 9.17 per cent of the outstanding share capital and 6.0 per cent of the voting rights.

Capital indicators

The determination of the required capital and tier capital pursuant to Basel III is undertaken based on the IFRS consolidated financial statements, whereby unrealised gains are deducted from core capital. Total capital (core capital and supplementary capital) must amount to a minimum of 13 per cent of the risk-weighted assets.

Risk-weighted assets as of 31 December 2016 aggregated CHF 3.5 billion as compared to CHF 3.7 billion in the prior year. Core capital as of 31 December 2016 was CHF 938.5 million as compared to CHF 911.2 million in the prior year. The overall equity ratio increased by 2.7 percentage points from 24.4 per cent at 31 December 2015 to 27.1 per cent at 31 December 2016. Both as at 31 December 2015 and 31 December 2016, VP Bank Group was adequately capitalised in accordance with the respective guidelines of the FMA (Financial Market Authority of Liechtenstein) and the BIS (Bank for International Settlements) currently in force.

Risk management of VP Bank Group

1. Overview

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

It contains an overarching framework as well as a risk strategy for each risk group (financial risks, operational risks, business risks). Described and clearly regulated therein are the specific goals and principles, organisational structures and processes, methods and instruments as well as target measures and limits.

On 1 February 2015, the CRD IV package became law in Liechtenstein (Basel III). As a locally system-relevant institution, VP Bank must possess equity amounting to at least 13 per cent of its risk-weighted assets. As of 1 January 2018, the leverage ratio (maximum indebtedness ratio) must not fall below the regulatory limit of 3 per cent. On the liquidity side, compliance with a regulatory ratio (liquidity coverage ratio / LCR) of at least 70 per cent as of 31 December 2016 resp. 80 per cent as of 1 January 2017 is required. Thanks to its eminently robust equity basis, its balance-sheet structure and its comfortable liquidity situation, VP Bank has at all times markedly over-fulfilled the 2016 regulatory limits.

In addition to quantitative measures, Basel III imposes a range of qualitative requirements as regards the identification, measurement, steering and monitoring of financial and operational risks. These had been implemented by VP Bank for the most part during the 2015 business year.

Capital and balance-sheet structure management

The minimum capital ratio of VP Bank of 13 per cent of risk-weighted assets comprises the regulatory minimum requirement of 8 per cent as well as a capital conservation and systemic risk buffer each of 2.5 per cent. Furthermore, Basel III provides for an anti-cyclical capital buffer which was set at 0 per cent by the FMA for 2016.

Thanks to an exceedingly robust tier-1 ratio of 27.1 per cent as of the end of 2016, it continues to guarantee sufficient freedom of action. This enables VP Bank to continue to assume risks associated with the conduct of banking operations. At the same time, there remains potential for corporate acquisitions through free equity resources, even after covering all risks.

The Leverage Ratio of VP Bank amounted to 7.8 per cent at the end of 2016. The regulatory minimum ratio of 3 per cent as of 1 January 2018 is thus observed. VP Bank must publish its degree of indebtedness since 2015 within the scope of a pillar 3 disclosure.

As part of equity and balance-sheet-structure management, compliance with regulatory requirements and the observance of the requirements deriving from its business needs is monitored on an on-going basis. Using an internal process to assess the adequacy of capital resources (Internal Capital Adequacy Assessment Process), the possible adverse effect on the equity basis in stress situations are simulated and analysed.

Liquidity management

The relevant standards for VP Bank under Basel III are derived from in the Capital Requirements Regulation (CRR). This requires compliance with a Liquidity Coverage Ratio (LCR) for short-term liquidity. As of the end of 2016, a minimum ratio of 70 per cent applies on a European level. Thanks to a comfortable liquidity situation, this target can be achieved with a value of 110 per cent.

The maintenance of liquidity at all times within VP Bank Group continues to have the highest priority. This is assured with a large balance of cash and cash equivalents and high quality liquid assets (HQLA).

In future, in the area of liquidity, a so-called Net Stable Funding Ratio (NSFR) will need to be complied with, in addition to the Liquidity Coverage Ratio. It dictates the structural liquidity of credit institutions whereby a time horizon of one year is considered and is designed to ensure matched financing on a long-term basis. As of the end of 2016, concrete details as of the manner in which it is to be structured in Liechtenstein are not yet available, so that no assertions can yet be made as to compliance with the future required ratio by VP Bank.

In future, liquidity requirements will be further developed on a European level. Additional parameters to monitor liquidity are planned (additional liquidity monitoring metrics), as well as a plan of refinancing (funding plans) and a process to ensure appropriate liquidity (internal liquidity adequacy assessment process).

On the basis of the qualitative requirements of Basel III in Liechtenstein, VP Bank has drawn up and implemented an emergency liquidity plan. This plan serves, inter alia, to monitor early-warning indicators which could point to a possible future deterioration in the liquidity situation.

As part of liquidity management, compliance with regulatory requirements and the fulfilment of business needs is subjected to on-going monitoring. Using stress tests, possible adverse scenarios are simulated and the impact on liquidity in stress situations analysed.

Credit risks

Because of the importance of the client lending business (CHF 5.2 billion as of 31.12.2016), the management and monitoring of credit risks continues to play a central role. In 2016, the volume of client loans increased by CHF 0.2 billion to CHF 5.2 billion. In the interbank business, the volumes in 2016 fell by CHF 1.4 billion to CHF 0.7 billion at the end of the year.

Market risks

The interest-rate environment in the Swiss franc and in the Euro in 2016 was characterised by negative interest rates for short-term maturities. The negative interest-rate environment in both principal currencies presents balance-sheet management with major challenges. The investment of client deposits continues to present difficulties. VP Bank has continued to pursue the measures it took as a reaction to the abandonment of the minimum exchange-rate policy to the Euro and the shift into negative territory of the target band by the SNB. Because of its comfortable liquidity and equity situation, the risk tolerance of the Bank was assured at all times even after the SNB decision. The monitoring and management of market risks remains of central importance in 2017.

Operational risks

The systematic management of operational risks was further continuously developed in VP Bank in 2016. The focus of efforts in this respect was the conduct of risk assessments in the parent bank and in Group subsidiaries as well as the further consolidation and optimisation of the existing internal control system (ICS).

2. Principles underlying the risk policy

Risk management is predicated on the following principles:

Alignment of risk tolerance and risk tolerance

Risk tolerance 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 competencies and responsibilities

Risk tolerance 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. If required, the risk coverage potential, risk capital and limits are reviewed at least once a year, and adjusted if necessary. The risk coverage potential results from net present value of equity, less operating and risk costs as well as regulatory capital-adequacy requirements.

Conscientious attitude to 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 and 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.

3. Organisation of capital, liquidity and risk management

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).

Whilst financial risks are consciously entered into to generate revenues, operational risks are to be avoided through appropriate controls and measures or, if that is not possible, to be reduced to a level laid down by the bank.

Unlike business risks, financial and operational risks are the result of a bottom-up process in the risk management process of the bank. Measures designed to contain them are elaborated by the responsible functions, organisational units or committees and approved by the Board of Directors or Group Executive Management. Business risks, on the other hand, are analysed by the Board of Directors and Group Executive Management after considering the banking environment and the internal situation of the company. Company management derives top risk scenarios from the analysis and designs related measures, the implementation of which is delegated to the competent function or organisational unit (top-down process).

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 share prices and commodity quotations) or other price-influencing parameters such as volatility.

Liquidity risks comprise 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 met on the due date or to the full extent. Market liquidity risk includes cases where it is not possible, as a result of insufficient market liquidity, to liquidate positions

subject to risk on a timely basis and in the desired amount and on acceptable conditions.

Credit risks comprise both counterparty and country 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.

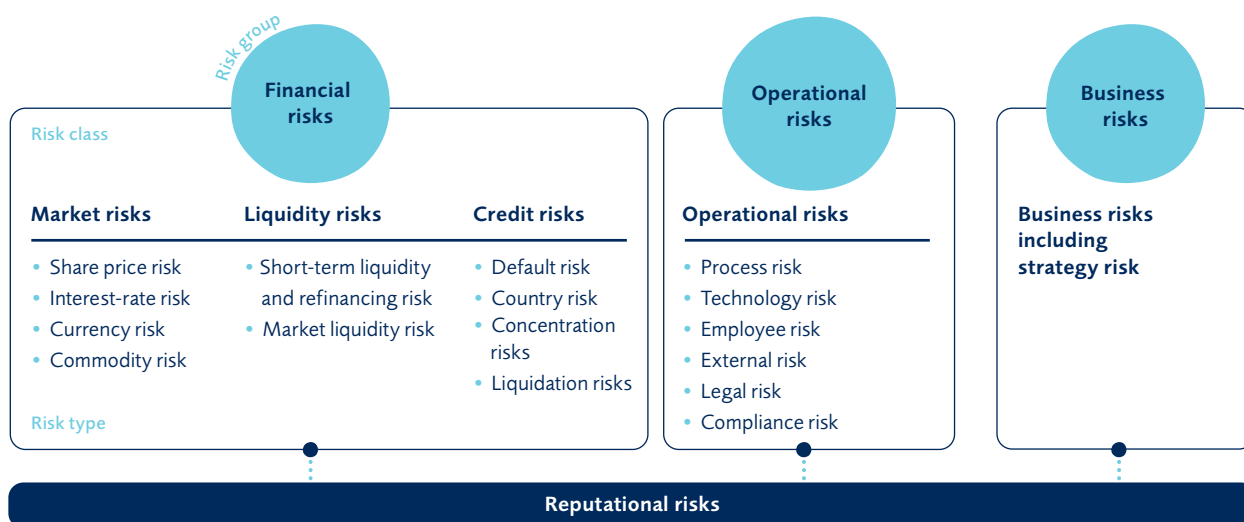
Operational risks represent the danger of incurring losses arising from the inappropriateness or failure of internal procedures, people or systems or as a result of external events.

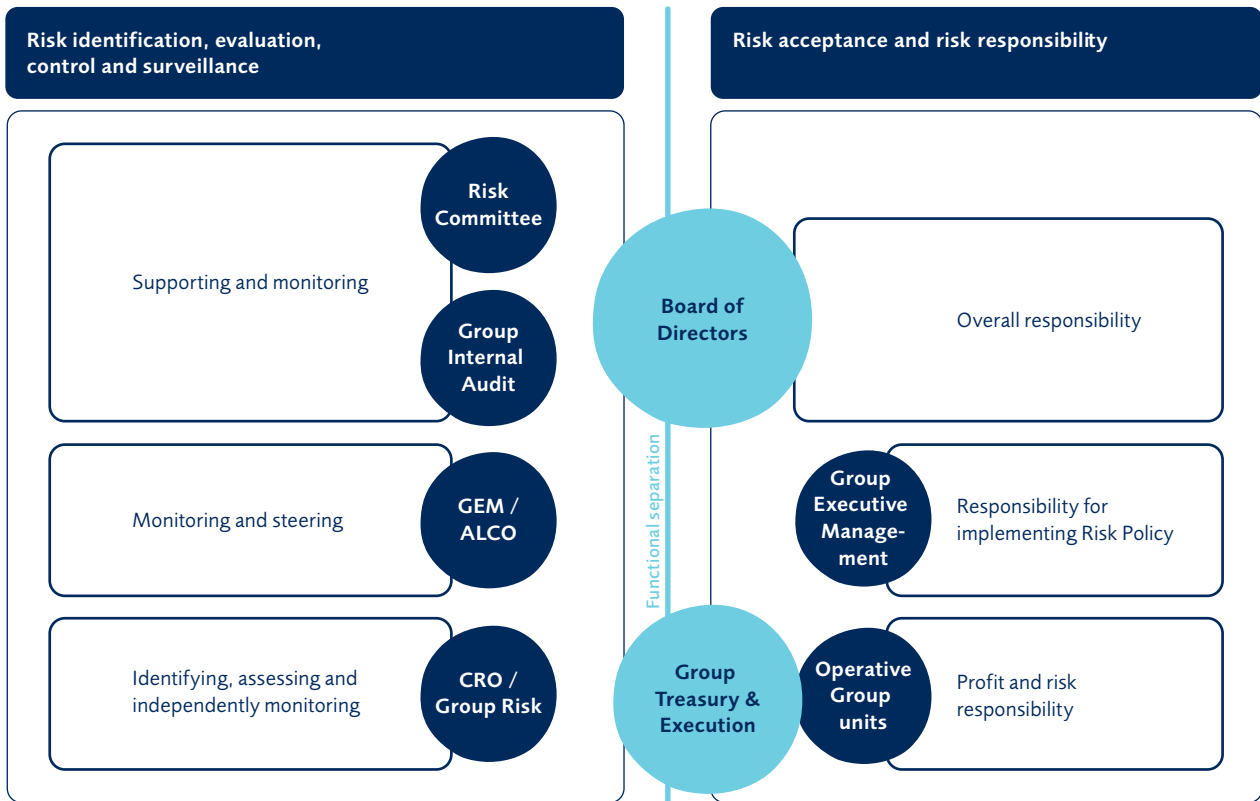
Business risks, on the one hand, result from unexpected changes in market conditions and environment having a negative impact on profitability; on the other, they describe the danger of unexpected losses resulting from management decisions concerning the business policy orientation of the Group (strategic risks).

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 separate risk category but rather the danger of losses resulting from the individual types of risk of the other risk categories. Management of reputational risks is incumbent on Group Executive Management.

Duties, powers of authority and responsibilities

In relation to the organisation of capital, liquidity and risk management, the Basel III rules require that a risk-management function be in place with is segregated from the operational business areas. In accordance with the Liechtenstein Banking Ordinance currently in force, a member of the Executive Board shall head up the risk-management function (Chief





Risk Officer) who specifically is responsible for this function. Insofar as no conflict of interest exists, another management member within the bank may assume this function. In VP Bank, the role of Chief Risk Officer will be embedded, from 2017 onwards, in the organisational unit "General Counsel & Chief Risk Officer" at the level of the Group Executive Management.

In addition to the CRO, a series of committees and operational units are involved in risk- and capital-management processes. The table above gives an overview in diagram form of the organisational structure in VP Bank.

The **Board of Directors** bears the ultimate 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 is responsible for approving the Risk Policy and monitoring its implementation, laying down the risk tolerance on a Group level and stipulating 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** is responsible for the implementation and observance of the Risk Policy. Amongst its core tasks are the allocation of the target measures and limits laid down by the Board of Directors to the individual

Group companies, the Group-wide management of credit, market, liquidity, operational, business and reputational risks as well as capital-management activities.

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, the Chief Risk Officer supports the Board of Directors and Group Executive Management in assuming their respective duties. A task of **Group Risk** consists of ensuring that existing legal, regulatory and internal bank prescriptions in force in Liechtenstein are complied with and new prescriptions implemented. In addition thereto is the on-going review and assessment of the effectiveness and appropriateness of the methods, performance indicators and systems deployed in risk management.

Group Treasury & Execution bears the responsibility for the day-to-day management 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 balance-sheet structure management whilst taking account of the profitability, risks and equity situation of VP Bank as well as bank capital management, liquidity management, collateral management and the management of limits for banks and countries.

All risk-taking functions and **organisational units** belong to the operating units.

Process to ensure an appropriate capital base

VP Bank Group employs the Internal Capital Adequacy Assessment Process (ICAAP) to ensure a capital base appropriate to the risk situation of VP Bank even in the event of adverse market developments and extreme events. It is briefly described below and presented in the following diagram:

The **risk strategy** and **risk appetite** which is derived from the global and individual limits is laid down during the annual planning process based on a risk tolerance analysis and taking into account stress scenarios, strategic initiatives and changes in regulatory directives on the part of the Board of Directors. The risk capital includes the regulatory capital required to support business activities and the economic capital for extreme unexpected losses arising from market, credit and operational risks. For the latter, the Board of Directors makes available only a part of the maximum available risk cover potential in the form of an overall bank limit. Accordingly, not all of the freely available equity (after deducting the regulatory required capital as well as funds planned for future capital expenditure) is made available; a portion thereof is retained rather as a risk buffer for unquantifiable or not fully identified risks. To ensure that VP Bank has always enough equity to cover all significant risks, a rolling three-year capital plan is prepared which takes into account differing high degrees of stress level.

The annual **inventory of risks** 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.

Risk tolerance is determined on the basis of the extent to which the economic required capital is used up, measured by reference to the freely available equity of the bank less the risk buffer as laid down by the Board of Directors. 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. Over and above this, VP Bank resorts to a broad panoply of methods and indicators which are described in greater detail in the sections on the individual risk groups.

Day-to-day **risk management** is performed on a strategic level by setting goals, limits, principles of conduct as well as process guidelines. On an operating level, risk diversification 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 control and reporting on the risk situation. An impetus for extended controls is given by any applicable exceeded limits highlighted during a regular target to actual performance comparison. The reference standard results 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.

In addition to the ICAAP report, VP Bank prepares a Group Recovery Plan for the attention of the Liechtenstein supervisory authorities. With the Bank Recovery and Resolution Law

Process supervision (Group Internal Audit, External Audit)



(BBRL), there now exists a corresponding legal basis in Liechtenstein as from 1 January 2017 onwards (cf. section on Legislation and Supervisory Authorities in Liechtenstein). The Recovery Plan shows various options of dealing with a corporate reorganisation which assist the bank in the event of a crisis to be able to continue to fulfil the requirements regarding capital adequacy and liquidity. The goal of each measure is to ensure or restore the financial solidity in a sustainable manner and thus guarantee the ability to continue as a going concern even in the event of a crisis. Taking precedence are measures which are already taken within the scope of current business operations and of the ICAAP report (including the three-year capital plan) in order to ensure the status as a going concern and comply with the capital-adequacy requirement. Should these measures remain ineffectual, the options of dealing with a corporate reorganisation of the Recovery Plan shall be implemented.

4. Disclosure on Basel capital-adequacy provisions

The required qualitative and quantitative information on capital adequacy, on the strategies and processes for risk management as well as on the risk situation of VP Bank are set forth in the commentary on the consolidated financial statements. Over and above this, VP Bank Group has drawn up a Disclosure Report for the 2016 business year. In this manner, the bank fulfils the supervisory requirements reflected in the

amendments to the Banking Ordinance (BankO) and the Banking Act (BankA) which took effect on 1 February 2015 which are the result of transposing into local law the Directive 2013/36/EU (CRD IV) and Regulation (EU) No. 575/2013 (CRR), respectively.

The capital-adequacy and liquidity requirements for credit institutions in Liechtenstein are based on the European directives regarding Basel III rules. As one of the three system-relevant banks in Liechtenstein, VP Bank is to fulfil the requirement of additional buffers. Increased regulatory capital-adequacy requirements enhance the stability of the financial system and improve creditor protection.

The Basel III rules which apply as of the balance-sheet date provides for various approaches for each risk category for the computation of required equity. VP Bank uses the standard approach for credit and market risks and the basis indicator approach for operational risks.

As of 31 December 2016, the business activities of VP Bank Group required equity totalling CHF 450.3 million (prior year: CHF 485.0 million). This represents 13 per cent of the eligible assets of CHF 3,464.0 million (prior year: CHF 3,731.1 million). The excess of equity (based upon a requirement of 13.0 per cent) as at 31.12.2016 amounted to CHF 488.2 million (prior year: CHF 426.2 million). The tier 1 ratio of 27.1 per cent (prior year: 24.4 per cent) reflects the on-going extremely robust equity situation of VP Bank. In 2016, VP Bank Group used no hybrid capital under eligible equity and, in accordance with International Financial Reporting Standards (IFRS), had netted no assets against liabilities (balance-sheet reduction).

The following table shows the capital-adequacy situation of the Group as of 31 December 2016.

Capital-adequacy computation (Basel III)

in CHF 1,000	31.12.2016	31.12.2015
Core capital		
• Paid-in capital	66,154	66,154
• Disclosed reserves	877,987	849,232
• Group net income	57,986	64,056
• Deduction for treasury shares	-52,466	-50,499
Deduction for dividends as per proposal of Board of Directors	-29,769	-26,462
Deduction for goodwill and intangible assets	-36,454	-41,083
Other adjustments	55,099	49,806
Eligible core capital (tier 1)	938,537	911,204
Eligible core capital (adjusted)	938,537	911,204
Credit risk (in accordance with Liechtenstein standard approach)	347,965	389,288
• thereof price risk regarding equity securities in the banking book	8,760	9,643
Market risk (in accordance with Liechtenstein standard approach)	28,345	25,591
Operational risk (in accordance with basic indicator approach)	72,880	69,067
Credit Value Adjustment (CVA)	1,131	1,102
Total required equity	450,321	485,048
CET1 equity ratio	27.1%	24.4%
Tier 1 ratio	27.1%	24.4%
Overall equity ratio	27.1%	24.4%
Total risk-weighted assets	3,464,005	3,731,142
Return on investment (net income / average balance sheet total)	0.5%	0.5%

5. Financial risks

Whilst complying with the relevant legal and regulatory provisions, the monitoring and daily steering of financial risks is based upon internal bank target measures and limits relating to volumes and sensitivities. In addition, scenario analyses and stress tests demonstrate the effect of events which were not or not sufficiently taken into consideration within the scope of ordinary risk evaluation.

The unit Group Treasury & Execution with its already mentioned areas of duty is responsible for the centralised management of financial risks within the limits laid down. Group Executive Management distributes the value-at-risk (VaR) limit for financial risks, as set by the Board of Directors, over the individual Group companies and risk categories, within which the individual companies manage the risks under their own responsibility. The unit Group Risk monitors observance of the limits throughout the Group.

Market risks

Market risks arise as a result of positions being entered into in debt securities, equity shares and other securities under financial investments, foreign currencies, precious metals and in related derivatives, arising both from activities for clients as well as for Group companies whose functional currency is denominated in a foreign currency.

The Bank employs a comprehensive set of methods and indicators for the monitoring and management of market risks. In this respect, the value-at-risk approach has established itself as the standard method to measure general market risk. The value-at-risk for market risks quantifies the negative deviation, expressed in Swiss francs, from the value of all positions exposed to market risk as of the date of the evaluation. The value-at-risk indicator is computed on a Group-wide basis with the aid of historic simulation. In this process, the historical movements in market data over a period of at least five years are read in order to measure all positions subject to market risk. The projected loss is valid for a holding period of one year and will not be exceeded with a probability of 99 per cent. To compute the value-at-risk for interest-rate risk, fixed interest-bearing positions are mapped with the interest lock-up period and variable interest positions using an internal replication model.

The market risk value-at-risk of VP Bank Group at 31 December 2016 amounted to CHF 119.0 million. In the prior year, the calculation is based upon a holding period of one month so that the corresponding figure of CHF 58.5 million as of 31 December 2015 cannot be compared directly. The increase is to be ascribed, primarily, to the change in the manner of calculation.

The following table shows the value-at-risk (on a monthly basis) analysed by types of risk and the market value-at-risk computed over all risk categories. The computation of the average, highest, lowest and aggregate values is based on a separate year-on-year perspective; the total value does not therefore equate to the sum of the respective individual values by risk type.

Value-at-Risk (value at end of month)

in CHF million	Total	Interest-rate risk	Equity price and commodity risk	Currency risk
2016				
Year-end	119.0	65.8	17.6	35.7
Average	121.0	67.2	17.6	36.2
Highest value	125.9	70.3	19.7	38.5
Lowest Value	112.4	64.3	15.9	31.7
2015				
Year-end	58.5	26.4	6.8	25.2
Average	49.9	20.6	6.7	22.7
Highest value	58.5	26.4	7.8	26.2
Lowest Value	43.7	17.9	5.8	19.2

As the maximum losses arising from extreme market situations cannot be determined with the value-at-risk approach, the market risk analysis is supplemented by stress tests. Such tests render possible an estimate of the effects on the net present value of equity of extreme market fluctuations in the risk factors. In this manner, the fluctuations in net present value of all balance-sheet positions in the area of market risks are computed with the aid of sensitivity indicators on the basis of synthetically produced market movements (parallel shift, rotation or inclination changes in interest-rate curves, exchange-rate fluctuations by a multiple of their implicit volatility, slump in equity share prices).

The following table exemplifies the results of the key rate duration process. First, the present values of all asset and liability positions as well as derivative financial instruments are determined. Subsequently, the interest rates of the relevant interest-rate curves in each maturity band and per currency are increased by one per cent (+100 basis points). The respective movements represent the gain or loss of the present value resulting from the shift in the interest-rate curve. Negative values point to an excess of assets, positive values to an excess of liabilities in the maturity band.

Key rate duration profile per 100 basis increase

in CHF 1,000	within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
31.12.2016						
CHF	1,314	2,145	984	-25,515	-14,132	-35,204
EUR	609	-585	1,842	-6,913	-7,566	-12,613
USD	737	-685	1,051	-11,306	-658	-10,861
Other currencies	90	-129	644	1,457	0	2,062
Total	2,750	746	4,521	-42,277	-22,356	-56,616
31.12.2015						
CHF	1,196	1,843	2,126	-24,006	-18,928	-37,769
EUR	591	-752	2,335	-6,442	-5,357	-9,625
USD	832	-768	1,854	-13,191	-612	-11,885
Other currencies	61	-36	520	1,435	0	1,980
Total	2,680	287	6,835	-42,204	-24,897	-57,299

In the following table the effects of a negative movement in the principal currencies on consolidated net income and shareholders' equity are set out. The implicit volatility as of 31 December 2016 and 2015, respectively, is responsible for the underlying fluctuation of the Swiss franc against the Euro and the US dollar.

Movements in significant foreign currencies

Currency	Variance in %	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
2016			
EUR	-8	-3,057	0
USD	-10	-9,401	-9,621
2015			
EUR	-8	-2,897	0
USD	-10	-7,665	-8,595

The impact of a possible downturn in equity markets of 10, 20 and 30 per cent, respectively, on consolidated net income and equity is illustrated by the following table.

Movement in relevant equity share markets

Variance	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
2016		
-10%	-6,020	-1,224
-20%	-12,039	-2,447
-30%	-18,059	-3,671
2015		
-10%	-6,891	-1,446
-20%	-13,782	-2,891
-30%	-20,673	-4,337

For daily risk management purposes, derivative financial instruments are entered into exclusively in the banking book and serve to hedge equity price, interest-rate and currency risks as well as to manage the banking book. The derivatives approved for this purpose are laid down in the Risk Policy.

VP Bank refinances its medium- and long-term client loans primarily with short-term client deposits and thus is subject to an interest-rate risk. Rising interest rates have an adverse impact on the net present value of interest-bearing credits and increase refinancing costs. As part of its asset & liability management, mostly interest-rate swaps measured at fair value are deployed to hedge this risk. VP Bank applies fair-value hedge accounting under IFRS in order to record in the balance sheet the contra effect of changes in value of the hedged credit transactions. For this, a portion of the underlying transactions (fixed-interest credits) are linked to the hedging transactions (payer swaps) in hedging relationships. In the event of fair-value changes relating to interest-rate movements, the carrying value of the underlying transactions concerned are adjusted in the event of movements in fair values provoked by interest-rate changes and the gains/losses taken to income.

Because the unsettled fixed-interest positions are transformed into variable interest-rate positions through the conclusion of payer swaps, a close economic relationship exists between the underlying and hedging transactions in relation to the hedged risk. Therefore, the hedging relationship between the designated amount of the underlying transactions and the designated amount of the hedging instruments (hedge ratio) is set on a one-to-one basis. A hedging relationship is efficient and effective whenever the movements in the value of the underlying and hedging transactions which are induced by interest-rate changes offset each other. Ineffectiveness is a result primarily of deviations in duration e.g. as a result of differing interest rates, timing of interest payments or differing maturities.

The initial efficiency of a hedging relationship is proven with a prospective effectiveness test. In addition, future changes in the fair value of the underlying and hedging transactions are simulated based upon scenarios and subjected to a regression analysis. Effectiveness is assessed on the basis of the analysis results. Repeated reviews take place during the duration of the hedging relationship.

VP Bank has hedged its own financial investments against currency fluctuations in the main currencies through the conclusion of foreign-currency forward contracts. In principle, no currency risks should arise from client activities; residual unsettled foreign-currency positions are closed out over the foreign-currency spot market. Group Trading & Execution is responsible for the management of foreign-currency risks arising from client activities.

Liquidity risks

Liquidity risks may arise through contractual mismatches between the in- and outflows of liquidity in the individual maturity bands. Any differences arising demonstrate how much liquidity the bank must eventually procure in each maturity band should there be an outflow of all volumes at the earliest possible time. Furthermore, concentrations of refinancing may lead to a liquidity risk if they are so great that a massive withdrawal of the related funds could trigger liquidity problems.

Liquidity risks are monitored and managed using internal targets and limits for interbank and client-related activities – whilst complying with the legal liquidity standards and provisions regarding risk concentrations on the assets' and liabilities' side.

As part of the introduction of the Basel III rules in Liechtenstein, the Liquidity Coverage Ratio (LCR) has been computed since the end of June 2015 and reported to the Financial Market Authority (FMA). Since the end of 2016, a lower limit of 70 per cent for the LCR applies on a European level which will be gradually be raised to 100 per cent by 2019. At the end of 2016, VP Bank presents a comfortable liquidity situation with a value for the LCR of 110 per cent.

The guidelines regarding the Net Stable Funding Ratio (NSFR) are not yet available as of the end of 2016 so that no value can yet be computed.

In the area of short-term maturities, the Bank refinances itself to a significant extent using sight balances from clients. The following table shows the maturity structure of the liabilities according to maturity bands. The cash flows (non-discounted capital and interest payments) as of 31 December 2016 and 2015 may be analysed as follows:

Cash flows on the liabilities' side

in CHF 1,000	At sight	Cancellable	Maturing within 3 months	Maturing after 3 to 12 months	Maturing after 12 months to 5 years	Maturing after 5 years	Total
31.12.2016							
Due to banks	306,951		50,892				357,843
Due to customers – savings and deposits		705,223					705,223
Due to customers – other liabilities	7,538,006	853,562	627,184	106,343	10,000		9,135,095
Derivative financial instruments	57,178						57,178
Securitised liabilities			28,701	51,491	245,495	106,421	432,108
Total	7,902,135	1,558,785	706,777	157,834	255,495	106,421	10,687,447
31.12.2015							
Due to banks	100,156						100,156
Due to customers – savings and deposits		757,294					757,294
Due to customers – other liabilities	8,633,137	637,706	344,422	67,529	107,318		9,790,112
Derivative financial instruments	53,235						53,235
Securitised liabilities			9,246	219,387	144,878	209,920	583,431
Total	8,786,528	1,395,000	353,668	286,916	252,196	209,920	11,284,228

VP Bank can rapidly procure liquidity on a secured basis in case of need through its access to the Eurex repo market. The risk of an extraordinary, nevertheless plausible event which will take place with a very small degree of probability can be

measured with the aid of stress tests. In this manner, VP Bank can take all applicable remedial action on a timely basis and, where necessary, set limits.

Credit risks

Credit risks arise from all transactions for which payment obligations of third parties in favour of the bank exist or can arise. Credit risks accrue to VP Bank from client lending activities, the money-market business including bank guarantees, correspondent and metal accounts, the reverse repo business, the Bank's own investments in securities, securities lending and borrowing, collateral management as well as OTC derivative trades.

As of 31 December 2016, total credit exposures amounted to CHF 8.0 billion (31 December 2015: CHF 9.1 billion). The following table shows the composition thereof by on- and off-balance sheet positions.

Credit exposures

in CHF 1,000	31.12.2016	31.12.2015
On-balance-sheet assets		
Receivables arising from money market papers	15,248	14,652
Due from banks	660,760	2,060,270
Due from customers	5,248,209	5,006,508
Public-law enterprises	508	501
Trading portfolios		
Derivative financial instruments	43,699	36,883
Financial instruments at fair value	207,702	316,421
Financial instruments measured at amortised cost	1,823,882	1,665,607
Total	8,000,008	9,100,841
Off-balance-sheet transactions		
Contingent liabilities	114,630	60,521
Irrevocable facilities granted	45,426	47,922
Total	160,056	108,443

Credit exposures by counterparty

in CHF 1,000	Central governments and central banks	Banks and securities dealers	Other institutions	Corporates	Privat customers and small enterprises	Other positions	Total
On-balance-sheet assets as of 31.12.2016							
Receivables arising from money market papers	15,248						15,248
Due from banks		660,612	148				660,760
Due from customers		15,353	39,536	1,901,550	3,291,769		5,248,209
Public-law enterprises			508				508
Trading portfolios							0
Derivative financial instruments		12,405	5,252	2,003	5,281	18,758	43,699
Financial instruments at fair value	13,826	89,522	60,178	44,165		12	207,702
Financial instruments measured at amortised cost	641,192	444,546	292,644	438,196		7,304	1,823,882
Total	670,266	1,222,439	398,267	2,385,913	3,297,051	26,073	8,000,008
Off-balance-sheet transactions as of 31.12.2016							
Contingent liabilities		63,251		23,499	12,083	15,797	114,630
Irrevocable facilities granted			1,664	23,631	20,131		45,426
Total	0	63,251	1,664	47,130	32,214	15,797	160,056
On-balance-sheet assets as of 31.12.2015							
Receivables arising from money market papers	14,652						14,652
Due from banks		2,060,121	148				2,060,270
Due from customers		12,718	1,844	1,608,750	3,383,177	19	5,006,508
Public-law enterprises			501				501
Trading portfolios							0
Derivative financial instruments		17,719	227	5,196	2,646	11,095	36,883
Financial instruments at fair value	12,134	166,539	75,365	62,371		12	316,421
Financial instruments measured at amortised cost	652,470	412,122	267,586	325,980		7,448	1,665,607
Total	679,257	2,669,220	345,670	2,002,298	3,385,823	18,574	9,100,841
Off-balance-sheet transactions as of 31.12.2015							
Contingent liabilities		48	29	17,211	16,692	26,541	60,521
Irrevocable facilities granted			1,721		29,315	16,886	47,922
Total	0	48	1,750	17,211	46,006	43,427	108,443

Credit exposures by collateral

in CHF 1,000	Secured by recognised financial collateral	Not secured by recognised financial collateral	Total
On-balance-sheet assets as of 31.12.2016			
Receivables arising from money market papers		15,248	15,248
Due from banks	1,256	659,504	660,760
Due from customers	4,908,808	339,401	5,248,209
Public-law enterprises		508	508
Trading portfolios			0
Derivative financial instruments	23,150	20,549	43,699
Financial instruments at fair value		207,702	207,702
Financial instruments measured at amortised cost		1,823,882	1,823,882
Total	4,933,213	3,066,795	8,000,008
Off-balance-sheet transactions as of 31.12.2016			
Contingent liabilities	65,027	49,603	114,630
Irrevocable facilities granted	9,135	36,292	45,426
Total	74,161	85,895	160,056

On-balance-sheet assets as of 31.12.2015			
Receivables arising from money market papers		14,652	14,652
Due from banks	210,210	1,850,060	2,060,270
Due from customers	4,675,993	330,515	5,006,508
Public-law enterprises		501	501
Trading portfolios			0
Derivative financial instruments	24,045	12,838	36,883
Financial instruments at fair value		316,421	316,421
Financial instruments measured at amortised cost		1,665,607	1,665,607
Total	4,910,248	4,190,593	9,100,841

Off-balance-sheet transactions as of 31.12.2015			
Contingent liabilities	35,054	25,467	60,521
Irrevocable facilities granted	7,121	40,801	47,922
Total	42,175	66,268	108,443

In the case of amounts due from banks, money-market paper as well as nostro positions in interest-bearing securities, the valuation is based upon external ratings.

The following tables show the individual on- and off-balance-sheet positions according to rating classes, risk-weighting classes and country of domicile.

Credit exposures by rating classes

in CHF 1,000	Investment grade (AAA to BBB-)	Not-value-adjusted positions		Without external rating	Value-adjusted positions	Total
		Safe (BB+ to BB-)	Unsafe (B+ to C)			
On-balance-sheet assets as of 31.12.2016						
Receivables arising from money market papers	15,248					15,248
Due from banks	654,597			7,031	-868	660,760
Due from customers				5,310,493	-62,284	5,248,209
Public-law enterprises				508		508
Trading portfolios						0
Derivative financial instruments	11,748			31,951		43,699
Financial instruments at fair value	205,698			2,004		207,702
Financial instruments measured at amortised cost	1,798,871			25,011		1,823,882
Total	2,686,162	0	0	5,376,999	-63,152	8,000,008
Off-balance-sheet transactions as of 31.12.2016						
Contingent liabilities				114,630		114,630
Irrevocable facilities granted				45,426		45,426
Total	0	0	0	160,056	0	160,056

in CHF 1,000	Not-value-adjusted positions			Without external rating	Value-adjusted positions	Total
	Investment grade (AAA to BBB-)	Safe (BB+ to BB-)	Unsafe (B+ to C)			
On-balance-sheet assets as of 31.12.2015						
Receivables arising from money market papers	14,652					14,652
Due from banks	2,016,304			45,712	-1,747	2,060,270
Due from customers				5,067,390	-60,882	5,006,508
Public-law enterprises				501		501
Trading portfolios						0
Derivative financial instruments	19,808			17,075		36,883
Financial instruments at fair value	313,951			2,470		316,421
Financial instruments measured at amortised cost	1,637,006	1,105		27,496		1,665,607
Total	4,001,722	1,105	0	5,160,643	-62,629	9,100,841
Off-balance-sheet transactions as of 31.12.2015						
Contingent liabilities				60,521		60,521
Irrevocable facilities granted				47,922		47,922
Total	0	0	0	108,443	0	108,443

Credit exposures by risk-weighting classes¹

in CHF 1,000	0%	10%	20%	35%	50%	75%	100%	150%	Total
On-balance-sheet assets as of 31.12.2016									
Receivables arising from money market papers	15,248								15,248
Due from banks	207,235	453,492		33					660,760
Due from customers	1,687,830	6,711	1,997,297	952,280	13,739	568,714	22,146		5,248,717
Derivative financial instruments	23,833	11,453		365	544	7,503			43,699
Financial instruments	1,190,409	478,644		295,053		67,478			2,031,584
Other assets	6,048	2,369	410	7,243	99	69,077			85,246
Total	3,130,603	0	952,669	1,997,706	1,254,975	14,383	712,773	22,146	8,085,255
Off-balance-sheet transactions as of 31.12.2016									
Contingent liabilities	27,186	34	80	35,081	386	51,863			114,630
Irrevocable facilities granted		1,664				43,762			45,426
Total	27,186	0	1,698	80	35,081	386	95,625	0	160,056
On-balance-sheet assets as of 31.12.2015									
Receivables arising from money market papers	14,652								14,652
Due from banks	210,358	1,573,051		276,861					2,060,270
Due from customers	1,212,549	252,912	1,975,614	890,056	78,526	584,797	12,556		5,007,009
Derivative financial instruments	14,915	17,628	2,022	91	109	2,119			36,883
Financial instruments	818,798	867,189		262,047		33,994			1,982,028
Other assets	5,604	7,961	189	9,378	191	38,533			61,856
Total	2,276,876	0	2,718,741	1,977,826	1,438,432	78,825	659,442	12,556	9,162,698
Off-balance-sheet transactions as of 31.12.2015									
Contingent liabilities	42,177	100	211	73	1,019	16,941			60,521
Irrevocable facilities granted		1,721			549	45,652			47,922
Total	42,177	0	1,821	211	73	1,568	62,593	0	108,443

¹ In contrast to the remaining tables in the section on credit risks, the tables regarding credit exposures by risk-weighting classes include other assets, not, however, trading portfolios.

Credit exposures by country of domicile

in CHF 1,000	Liechtenstein and Switzerland	Europe	North America	South America	Asia	Other	Total
On-balance-sheet assets as of 31.12.2016							
Receivables arising from money market papers					15,248		15,248
Due from banks	525,849	125,117	5,087	139	3,181	1,387	660,760
Due from customers	3,632,390	654,275	68,712	3,713	387,695	501,424	5,248,209
Public-law enterprises						508	508
Trading portfolios							0
Derivative financial instruments	28,063	13,180	448	89	91	1,829	43,699
Financial instruments at fair value		167,280	21,582		8,637	10,203	207,702
Financial instruments measured at amortised cost	143,635	823,238	758,426	13,015	45,035	40,533	1,823,882
Total	4,329,935	1,783,090	854,255	16,956	459,887	555,884	8,000,008
Off-balance-sheet transactions as of 31.12.2016							
Contingent liabilities	72,079	23,931	1,216	1,149	2,494	13,761	114,630
Irrevocable facilities granted	17,706		155		78	27,487	45,426
Total	89,786	23,931	1,371	1,149	2,572	41,248	160,056
On-balance-sheet assets as of 31.12.2015							
Receivables arising from money market papers					14,652		14,652
Due from banks	982,804	930,309	81,922	50,232	3,115	11,887	2,060,270
Due from customers	3,535,911	529,667	152,432	35,320	184,534	568,644	5,006,508
Public-law enterprises						501	501
Trading portfolios							0
Derivative financial instruments	25,545	7,090	625	107	259	3,258	36,883
Financial instruments at fair value		228,230	41,477	2,538	15,294	28,883	316,421
Financial instruments measured at amortised cost	84,279	785,480	679,363	21,518	44,331	50,636	1,665,607
Total	4,628,539	2,480,777	955,819	109,714	262,184	663,808	9,100,841
Off-balance-sheet transactions as of 31.12.2015							
Contingent liabilities	14,981	20,629	278	2,739	2,167	19,728	60,521
Irrevocable facilities granted	20,116		86		76	27,643	47,922
Total	35,097	20,629	364	2,739	2,243	47,371	108,443

Within the scope of the client lending business, credits are granted on a regional and international basis to private and commercial clients whereby the focus is on the private client business with CHF 3.3 billion of mortgage credits (31 December 2015: CHF 3.4 billion). From a regional perspective, VP Bank conducts the lion's share of this business in the Principality of Liechtenstein and on the Eastern part of Switzerland. Given the broad diversification of exposures, there are no risk concentrations by industry or segment.

The ten largest single exposures encompass 13 per cent of total credit exposures (31 December 2015: 16 per cent). Exposures to banks relate exclusively to institutions with a high credit capacity (investment grade rating) and a registered office in an OECD country (excluding GIIPS countries).

In addition to the Risk Policy, the Business Rules on Credit constitute the binding framework regulating client lending

activities. Set out therein are not only the general guidelines governing credit granting as well as the framework conditions for the conclusion of all types of credit business; they also designate those can take valid decisions and the corresponding bandwidths within the framework of which credits may be approved (powers of authority).

With only few exceptions in the area of private and commercial clients, client lending exposures must be covered by the collateral value of the security (collateral less a deduction for risk). Counterparty risks in the loan business are governed by limits which restrict the amount of exposure depending on credit-worthiness, industry segment, collateral and risk domicile of the client. VP Bank employs an internal rating procedure to evaluate credit-worthiness. Deviations from credit-granting principles (exceptions to policy) are dealt with as part of the credit-risk management process depending on the risk content.

VP Bank enters into both secured and unsecured positions in the interbank business. Unsecured positions result from money-market activities (incl. bank guarantees, correspondent and metal accounts), secured positions arising from the reverse repo business, securities & lending activities, collateral management as well as OTC derivative transactions. As repo deposits are fully secured and the collateral received serves as a reliable source of liquidity in a crisis situation, not only counterparty but also liquidity risk is reduced.

Counterparty risks in the interbank business may only be entered into in approved countries and with approved counterparties. A comprehensive system of limits contains the level of exposure depending on the duration, rating, risk domicile and collateral of the counterparty. In this connection, VP Bank uses for banks the ratings of the two rating agencies, Standard & Poor's and Moody's. OTC derivative transactions may only be concluded with counterparties with whom a netting contract has been agreed.

Credit risks are managed and monitored not only on an individual client level but also on a portfolio level. At the portfolio

level, VP Bank uses the expected and unexpected credit loss to monitor and measure credit risk. The expected credit loss calculates – on the basis of historical loss data and estimated default probabilities – the loss per credit portfolio which may be anticipated within a year. In addition, the results of the analysis flow into the calculation of the general lump-sum valuation allowances in the annual financial statements. The unexpected credit loss values the deviation of the actual loss, expressed as the value-at-risk, from the expected loss assuming a certain probability.

During the past financial year, VP Bank has further reduced the volume of credit derivatives in its own portfolio. The following table shows the contract volume of credit derivatives by type of product.

Credit derivatives (contract volume)

in CHF 1,000	Provider of collateral as of 31.12.2016	Provider of collateral as of 31.12.2015
Collateralised debt obligations	10	12
Total	10	12

The following table shows impaired and non-performing receivables, as well as specific valuation allowances, by domicile.

Impaired, non-performing and valuation-adjusted credit exposures by country of domicile

in CHF 1,000	Impaired receivables subject to default risk (gross amount)	Overdue receivables (gross amount)	Individual value adjustments
31.12.2016			
Liechtenstein and Switzerland	49,598	13,350	16,929
Europe	12,694	11,611	11,382
North America		1,084	
South America	87	87	87
Asia			
Other	8,760	19,069	8,136
Total	71,140	45,201	36,535
31.12.2015			
Liechtenstein and Switzerland	51,894	8,828	18,023
Europe	15,363	10,707	11,733
North America	21		21
South America	142	123	129
Asia			
Other	9,364	5	8,331
Total	76,784	19,663	38,238

Non-interest-bearing receivables according to remaining duration

in CHF 1,000	Due within 3 months	Due within 3 to 6 months	Due within 6 to 12 months	Due after 12 months	Total
Total, 2016 reporting period	45,201				45,201
Total, 2015 reporting period	19,663				19,663

Country risk

Country risks arise whenever political or economic conditions specific to a country impinge on the value of an exposure abroad.

The monitoring and management of country risks is undertaken using volume limits which restrict the respective aggregate exposures per country rating (Standard & Poor's and Moody's). All on- and off-balance sheet receivables are considered in this process; positions in the Principality of Liechtenstein and Switzerland do not fall under this country limit rule. The risk domicile of an exposure is the basis for recognising country risk. In the case of secured exposures, in principle the country in which the collateral is located is considered.

The following table shows the distribution of credit exposures by country rating. Non-rated positions are mostly exposures from local business activities (receivables secured by mortgage) of VP Bank (BVI) Ltd.

Country exposures according to rating

in %	31.12.2016	31.12.2015
AAA	90.1	93.0
AA	7.3	3.7
A	0.6	1.0
BBB - B	0.6	0.7
CCC - C	0.0	0.1
Not Rated	1.4	1.5
Total	100.0	100.0

As regards the country risk of Russia and Ukraine, VP Bank has no noteworthy risk-domicile exposures in these countries.

Financial instruments in GIIPS countries

in CHF 1,000	Valued at fair value	Valued at amortised cost	Total 31.12.2016	Total 31.12.2015
Greece				
Ireland ¹				2,018
Italy				
Portugal				
Spain				
Total	0	0	0	2,018

¹ As of 31.12.2015, the holdings of debenture included one debenture maturing in April 2016 which was guaranteed by the parent company in the USA.

6. Operational risks

The causes for operational risks are multiple. People make mistakes, IT systems fail or business processes are inoperative. Therefore, it is necessary to detect the events which trigger important risk events and to determine their impact in order to contain them with suitable preventive measures.

The management of operational risks is understood in VP Bank to be an integral cross-divisional function which is to be implemented on a uniform Group-wide basis over all business units and processes.

Each person in a management position is responsible for the identification and evaluation of operational risks as well as for the definition and performance of key controls and measures to contain risks. This responsibility may not be delegated. Each person in a management position shall make a critical annual assessment of whether the key controls have on-going validity and whether key controls are missing. Each management member in levels 1 and 2 shall undertake an annual self-assessment of that part of the internal control system for which he is responsible. The results of this self-analysis are communicated annually to the central unit Group Risk.

Within the scope of their powers of authority, these make available, on a Group-wide basis, the instruments for a systematic management of operational risks and ensures their on-going development. These include the conduct of risk assessments (scenario analyses) as part of risk identification and evaluation, the performance of key controls, the maintenance of a data bank of incidents as well as the deployment of early warning indicators.

Risk consciousness could be reinforced at all levels as a result of intense co-operation amongst specialist departments to further develop the complete system of management of operational risks. In this connection, a catalogue of key controls was further developed. Knowledge and experience was exchanged within the Group in order to ensure a coordinated approach. Thanks to a uniform implementation of the project, it is possible to provide the relevant target groups (Board of Directors, Group Executive Management and Senior Management) with a meaningful quarterly status report on operational risks within VP Bank Group.

Business Continuity Management (BCM), as a further important sub-area, is systematically pursued by VP Bank with expert and specialised knowledge along the lines of ISO standard 22301:2012. The basis thereof is the BCM strategy which is successively implemented by Group Executive Management and reviewed on an on-going basis for compliance and accuracy. Operationally critical processes are reviewed in detail, discussed and, where necessary, documented with a clear course of action whenever risks crystallise. The organisation necessary for crisis management is established and its members routinely trained and instructed.

7. Business risks

Business risks are the object of a qualitative management process within VP Bank. Within the scope of the ordinary strategy process, business risks are identified by Group Executive Management and taken account of in an appropriate manner. In view of the multi-faceted nature of the effects which can impact the future development of the business and the profitability of the bank, potential business risks and their probability of occurrence and effects thereof are discussed on the basis of scenarios and appropriate measures decided upon to contain the risks. The results serve as a basis for the strategic planning process and thus flow into the medium-term and annual planning and budgeting process.

Segment reporting

Business segment reporting 2016

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income ¹	67,609	24,936	9,827	102,372
Total net income from commission business and services	90,176	33,878	-5,265	118,789
Income from trading activities ¹	20,267	6,565	17,664	44,496
Income from financial instruments	10	396	7,240	7,646
Other income	0	1,078	-1,149	-71
Total operating income	178,062	66,853	28,317	273,232
Personnel expenses	33,768	39,000	62,561	135,329
General and administrative expenses	3,292	21,544	26,839	51,675
Depreciation and amortisation	3,682	3,336	15,393	22,411
Valuation allowances, provisions and losses	2,270	716	-218	2,768
Services to/from other segments	40,389	0	-40,389	0
Operating expenses	83,401	64,596	64,186	212,183
Earnings before income tax	94,661	2,257	-35,869	61,049
Taxes on income				3,063
Group net income				57,986
Segment assets (in CHF million)	4,108	3,581	4,106	11,794
Segment liabilities (in CHF million)	7,160	3,048	649	10,857
Client assets under management (in CHF billion) ²	24.6	11.2	0.0	35.8
Net new money (in CHF billion)	-0.2	0.2	0.0	0.0
Headcount (number of employees)	185	248	371	804
Headcount (expressed as full-time equivalents)	174.1	233.2	331.0	738.3

¹ Change of accounting principles (note 1 and principles underlying financial statement reporting)

² Calculation in accordance with Table P of the Guidelines to the Liechtenstein Banking Ordinance issued by the Government of Liechtenstein (FL-BankO).

Business segment reporting 2015

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total net interest income ¹	51,366	20,672	16,328	88,366
Total net income from commission business and services	91,847	38,853	-4,330	126,370
Income from trading activities ¹	23,866	9,790	8,527	42,183
Income from financial instruments	16	-897	139	-742
Other income ²	0	983	49,394	50,377
Total operating income	167,095	69,401	70,058	306,554
Personnel expenses	32,565	36,752	52,563	121,880
General and administrative expenses	2,952	19,071	38,212	60,235
Depreciation and amortisation	3,672	4,455	30,126	38,253
Valuation allowances, provisions and losses	2,917	11,761	11,350	26,028
Services to/from other segments	47,691	0	-47,691	0
Operating expenses	89,797	72,039	84,560	246,396
Earnings before income tax⁵	77,298	-2,638	-14,502	60,158
Taxes on income				-3,898
Group net income				64,056
Segment assets (in CHF million)	4,467	3,247	4,647	12,361
Segment liabilities (in CHF million)	7,792	2,928	723	11,443
Client assets under management (in CHF billion) ^{3,4}	24.3	10.5	0.0	34.8
Net new money (in CHF billion) ⁴	5.8	0.2	0.0	6.0
Headcount (number of employees)	171	245	382	798
Headcount (expressed as full-time equivalents)	161.5	233.4	339.5	734.4

¹ Change of accounting principles (note 1 and principles underlying financial statement reporting)

² The non-recurring positive effect of the «bargain purchase» (badwill arising on acquisition) is disclosed in the Corporate Center.

³ Calculation in accordance with Table P of the Guidelines to the Liechtenstein Banking Ordinance issued by the Government of Liechtenstein (FL-BankO).

⁴ Acquired client relationships (note 45) of CHF 6.7 billion are included in this position.

⁵ Centralisation of the investment management operations of VP Bank (Switzerland) Ltd in Liechtenstein as of 1 July 2015 (net CHF 2.7 billion).

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

Geographic segment reporting

in CHF 1,000	Liechtenstein and Switzerland	Rest of Europe	Other countries	Total Group
2016				
Total operating income	233,836	20,709	18,687	273,232
Total assets	10,913	463	418	11,794
2015				
Total operating income	261,819	29,418	15,317	306,554
Total assets	11,109	898	354	12,361

Segment reporting follows the principle of branch accounting.

Notes to the consolidated financial statement

1 Interest income

in CHF 1,000	2016	2015 restated ¹	Variance absolute	Variance in %
Interest and discount income	108	174	-66	-37.9
Interest income from banks	3,573	10,319	-6,746	-65.4
Interest income from customers	78,452	75,443	3,009	4.0
Interest income from financial instruments measured at amortised cost	18,569	17,780	789	4.4
Interest income from financial liabilities	2,173	1,153	1,020	88.5
Interest-rate instruments	-1,968	-8,086	6,118	75.7
Trading derivatives (forward points) ¹	23,524	7,806	15,718	201.4
Hedge accounting	163	-106	269	253.8
Loan commissions with the character of interest	1,281	849	432	50.9
Total interest income	125,875	105,332	20,543	19.5
Interest expenses on amounts due to banks	743	229	514	224.5
Interest expenses on amounts due to customers	3,994	4,184	-190	-4.5
Interest expenses on medium-term notes	1,403	1,902	-499	-26.2
Interest expenses on debentures issued	2,958	5,881	-2,923	-49.7
Interest expense from financial assets	14,405	4,770	9,635	202.0
Total interest expenses	23,503	16,966	6,537	38.5
Total net interest income	102,372	88,366	14,006	15.8
Fair-value hedges²				
Movements arising from hedges	371	-2,840	3,211	113.1
• Micro fair-value hedges	371	-2,840	3,211	113.1
• Portfolio fair-value hedges	0	0	0	n.a.
Movements in underlying transactions	-208	2,734	-2,942	-107.6
• Micro fair-value hedges	-208	2,734	-2,942	-107.6
• Portfolio fair-value hedges	0	0	0	n.a.
Cash-flow hedges²				
Result of effectively hedged cash-flow hedges (only ineffective portion)	0	0	0	n.a.
Total hedge accounting³	163	-106	269	253.8

¹ Change of accounting principles (note 3 and principles underlying financial statement). The prior-year comparative figures were restated by CHF 3.9 Mio.

² Cash-flow hedge accounting as well as portfolio fair-value hedges were employed in neither the current nor the prior-year period.

³ Hedge ineffectiveness, disclosed in the income statement; further details in note 38.

2 Income from commission business and services

in CHF 1,000	2016	2015	Variance absolute	Variance in %
Commission income from credit business	862	1,059	-197	-18.6
Asset management and investment business ¹	41,162	46,885	-5,723	-12.2
Brokerage fees	32,288	33,709	-1,421	-4.2
Securities account fees	19,742	17,979	1,763	9.8
Fund management fees	59,399	58,496	903	1.5
Fiduciary commissions	1,110	796	314	39.4
Other commission and service income	18,008	18,257	-249	-1.4
Total income from commission business and services	172,571	177,181	-4,610	-2.6
Brokerage expenses	1,694	2,072	-378	-18.2
Other commission and services-related expenses	52,088	48,739	3,349	6.9
Total expenses from commission business and services	53,782	50,811	2,971	5.8
Total net income from commission business and services	118,789	126,370	-7,581	-6.0

¹ Income from corporate actions, asset management commissions, investment advisory services, all-in fees, securities lending and borrowing.

3 Income from trading activities

in CHF 1,000	2016	2015 restated ¹	Variance absolute	Variance in %
Securities trading ¹	-3,219	-4,945	1,726	34.9
Interest income from trading portfolios	0	8	-8	-100.0
Foreign currency ²	45,410	47,181	-1,771	-3.8
Banknotes, precious metals and other	2,305	-61	2,366	n.a.
Total income from trading activities	44,496	42,183	2,313	5.5

¹ The results from derivatives for the purposes of risk minimisation (other than interest-rate derivatives) are included in this item.

² Change of accounting principles (note 1 and principles underlying financial statement). The prior-year comparative figures were restated by CHF 3.9 million.

4 Income from financial instruments

in CHF 1,000	2016	2015	Variance absolute	Variance in %
Income from financial instruments at fair value	6,932	4,230	2,702	63.9
Income from financial instruments at amortised cost (foreign exchange)	714	-4,972	5,686	114.4
Total income from financial instruments	7,646	-742	8,388	n.a.
Income from financial instruments at fair value				
Income from FVTPL assets	-715	-5,445	4,730	86.9
Interest income from FVTPL financial instruments	4,311	5,682	-1,371	-24.1
Dividend income from FVTPL financial instruments	1,051	1,197	-146	-12.2
Dividend income from FVTOCI financial instruments	2,285	2,796	-511	-18.3
• thereof from FVTOCI financial instruments sold	0	0	0	n.a.
Total	6,932	4,230	2,702	63.9
Income from financial instruments at amortised cost (foreign exchange)				
Revaluation gains/losses on financial instruments at amortised cost	61	-3,257	3,318	101.9
Realised gains/losses on financial instruments at amortised cost	653	-1,715	2,368	138.1
Total	714	-4,972	5,686	114.4

5 Other income

in CHF 1,000	Note	2016	2015	Variance absolute	Variance in %
Income from real estate ¹		186	-1,791	1,977	110.4
Income from associated companies		10	-9	19	211.1
Bargain purchase arising upon acquisition	45	0	49,982	-49,982	-100.0
Miscellaneous other income		-267	2,195	-2,462	-112.2
Total other income		-71	50,377	-50,448	-100.1

¹ Includes a result of CHF -1.7 million from the sale of real estate (note 24) in 2015.

6 Personnel expenses

in CHF 1,000	2016	2015	Variance absolute	Variance in %
Salaries and wages	106,559	106,107	452	0.4
Social contributions required by law	9,030	8,807	223	2.5
Contributions to pension plans / defined-benefit plans ¹	13,404	2,019	11,385	n.a.
Contributions to pension plans / defined-contribution plans	1,393	1,208	185	15.3
Other personnel expenses	4,943	3,739	1,204	32.2
Total personnel expenses	135,329	121,880	13,449	11.0

¹ Includes a profit of CHF 8.5 million net from the conversion rate reduction and the integration of Centrum Bank (notes 41 and 45) in 2015.

7 General and administrative expenses

in CHF 1,000		2016	2015	Variance absolute	Variance in %
Occupancy expenses		7,625	8,097	-472	-5.8
Insurance		917	912	5	0.5
Professional fees		7,981	12,653	-4,672	-36.9
Financial information procurement		6,543	6,453	90	1.4
Telecommunication and postage		1,059	1,229	-170	-13.8
IT systems		14,760	20,961	-6,201	-29.6
Marketing and public relations		5,115	4,020	1,095	27.2
Capital taxes		818	154	664	431.2
Other general and administrative expenses		6,857	5,756	1,101	19.1
Total general and administrative expenses		51,675	60,235	-8,560	-14.2

8 Depreciation and amortisation

in CHF 1,000	Note	2016	2015	Variance absolute	Variance in %
Depreciation and amortisation of property and equipment	22	9,260	11,678	-2,418	-20.7
Depreciation and amortisation of intangible assets	23	13,151	26,575	-13,424	-50.5
Total depreciation and amortisation		22,411	38,253	-15,842	-41.4

9 Valuation allowances, provisions and losses

in CHF 1,000	Note	2016	2015	Variance absolute	Variance in %
Credit risks ¹	16	7,325	23,221	-15,896	-68.5
Legal and litigation risks		1,219	1,084	135	12.5
Other ²		576	14,612	-14,036	-96.1
Release of valuation allowances and provisions no longer required		-6,352	-12,889	6,537	50.7
Total valuation allowances, provisions and losses		2,768	26,028	-23,260	-89.4

¹ Additions including currency effects.

² Includes restructuring provisions in connection with the Centrum Bank merger, of which CHF 7.9 million for cancellation of an outsourcing contract and CHF 4.1 million for employees, e.g. social plan in 2015.

10a Taxes on income

in CHF 1,000		2016	2015
Domestic			
Current taxes		8,888	1,592
Deferred taxes		-3,913	-3,113
Foreign			
Current taxes		-62	-363
Deferred taxes		-1,850	-2,014
Total current taxes		8,826	1,229
Total deferred taxes		-5,763	-5,127
Total taxes on income		3,063	-3,898

Actual payments for domestic and foreign taxes made by the Group in 2016 totalled CHF 4.2 million (2015: CHF 1.4 million).

Proof – taxes on income

All anticipated liabilities arising in connection with taxes on income earned during the reporting period are reflected in the financial statements. They are computed in accordance with the laws governing taxation in the respective countries. Deferred tax liabilities arising from differences between the values in the financial statements drawn up for legal and/or tax purposes and those in the consolidation are computed using the following tax rates:

	2016	2015
Liechtenstein	12.5%	12.5%
Switzerland	25.0%	25.0%
Luxembourg	18.2%	18.2%
British Virgin Islands	0.0%	0.0%
Singapore	17.0%	17.0%
Hong Kong	16.5%	16.5%

Pre-tax results, as well as differences between the tax charge in the income statement and the tax charge arrived at on the basis of a standard assumed average rate of 15 per cent (prior year: 15 per cent), may be analysed as follows:

in CHF 1,000	Note	2016	2015
Income before income tax			
Domestic		64,836	61,376
Foreign		-3,787	-1,218
Taxes on income using an assumed average charge		9,157	9,024
Reasons for increased/decreased taxable income			
Effect on tax free income / effect on non taxable expenses		396	-6,248
Difference between actual and assumed tax rates		-2,096	-1,896
Lower tax charges as a result of changes in laws or taxation agreements		-135	-2,843
Use of tax loss carry-forwards ¹		-4,259	-1,935
Total income tax		3,063	-3,898

¹ Releases of provisions concerning the acquisition of Centrum Bank (note 45) are included in this position in 2016.

10b Deferred tax assets and liabilities

in CHF 1,000	Note	2016	2015
Deferred tax assets			
Real estate and property and equipment		4,800	4,678
Tax loss carry-forwards ¹		1,573	5,179
Defined-benefit pension plans		12,438	10,082
Securities		3,230	3,939
Total deferred tax assets		22,041	23,878
Deferred tax liabilities			
Real estate and property and equipment		4,317	5,284
Financial instruments		2,190	2,439
Financial instruments directly offset within shareholders' equity		345	384
Valuation allowances for credit risks		363	1,053
Other provisions		989	4,993
Total deferred tax liabilities		8,204	14,153
Deferred tax assets			
Balance at the beginning of the financial year		23,878	16,236
Offset within shareholders' equity		2,354	1,462
Tax loss carry-forwards ¹		1,361	0
Charged to income statement		216	1,001
Changes in scope of consolidation	45	0	5,179
Released to income statement		-5,768	0
Total deferred tax assets		22,041	23,878

in CHF 1,000	Note	2016	2015
Deferred tax liabilities			
Balance at the beginning of the financial year		14,153	8,755
Reclassifications		-37	-4,092
Charged to income statement		20	3,421
Changes in scope of consolidation	45	0	9,360
Released to income statement		-5,932	-1,943
Effects of changes in deferred tax rates		0	-1,348
Total deferred tax liabilities		8,204	14,153

¹ Providing that the realisation of future tax benefits is considered probable, these must be treated as an asset. The offset of deferred tax assets and liabilities is only possible if they are due to/from the same taxing authority.

Deferred taxes arise because of timing differences between the IFRS financial statements and the statutory accounts as a result of differing valuation policies.

Loss carry-forwards not reflected in the balance sheet expire as follows:

Within 1 year	0	0
Within 2 to 4 years	0	589
After 4 years	0	318
Total	0	907

10c Tax assets and liabilities

in CHF 1,000	Note	31.12.2016	31.12.2015
Tax assets			
Amounts receivable arising on current taxes on income		1,359	1,760
Deferred tax assets	10b	22,041	23,878
Total tax assets		23,400	25,638
Tax liabilities			
Liabilities arising on current taxes on income		3,892	2,641
Deferred tax liabilities	10b	8,204	14,153
Total tax liabilities		12,096	16,794

11 Earnings per share¹

	31.12.2016	31.12.2015
Consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000) ²	57,986	64,056
Weighted average of registered shares A	5,445,642	5,706,486
Weighted average of registered shares B	5,877,167	5,924,810
Total weighted average number of shares (registered share A)	6,033,359	6,298,967
Undiluted consolidated earnings per registered share A	9.61	10.17
Undiluted consolidated earnings per registered share B	0.96	1.02
Fully diluted consolidated earnings per share of VP Bank Ltd, Vaduz		
Group net income (in CHF 1,000) ²	57,986	64,056
Adjusted group net income (in CHF 1,000)	57,986	64,056
Number of shares used to compute the fully diluted consolidated net income	6,033,359	6,298,967
Fully diluted consolidated earnings per registered share A	9.61	10.17
Fully diluted consolidated earnings per registered share B	0.96	1.02

¹ Conversion of bearer shares into registered shares A (note 30).

² On the basis of Group profits attributable to the shareholders of VP Bank Ltd, Vaduz.

12 Dividend¹

	2016	2015
Approved and paid dividend of VP Bank Ltd, Vaduz		
Dividend (in CHF 1,000) for the financial year 2015 (2014)	26,462	19,846
Dividend per registered share A	4.00	3.00
Dividend per registered share B	0.40	0.30
Payout ratio (in %)	39.3	n.a.
Proposed dividend to be approved by the annual general meeting of VP Bank Ltd, Vaduz (not reflected as a liability as of 31 December)		
Dividend (in CHF 1,000) for the financial year 2016	29,769	
Dividend per bearer share	4.50	
Dividend per registered share	0.45	
Payout ratio (in %)	46.8	

¹ Conversion of bearer shares into registered shares A (note 30).

13 Cash and cash equivalents

in CHF 1,000	31.12.2016	31.12.2015
Cash on hand	14,982	13,815
At-sight balances with national and central banks	3,509,530	2,941,712
Total cash and cash equivalents	3,524,512	2,955,527

14 Receivables arising from money-market paper

in CHF 1,000	31.12.2016	31.12.2015
Money-market paper (qualifying for refinancing purposes)	15,248	14,652
Other money-market paper	0	0
Total receivables arising from money-market paper	15,248	14,652

15 Due from banks and customers

in CHF 1,000	Note	31.12.2016	31.12.2015
By type of exposure			
Due from banks – at-sight balances		505,220	445,662
Due from banks – term balances		156,408	1,616,355
Valuation allowances for credit risks	16	-868	-1,747
Due from banks		660,760	2,060,270
Mortgage receivables		3,354,903	3,355,131
Other receivables		1,956,098	1,712,760
Valuation allowances for credit risks	16	-62,284	-60,882
Due from customers		5,248,717	5,007,009
Total due from banks and customers		5,909,477	7,067,279
Due from customers by type of collateral			
Mortgage collateral		3,323,492	3,352,140
Other collateral		1,731,564	1,490,306
Without collateral		255,945	225,445
Subtotal		5,311,001	5,067,891
Valuation allowances for credit risks		-62,284	-60,882
Total due from customers		5,248,717	5,007,009

16 Valuation allowances for credit risks

in CHF 1,000	Note	2016	2015
Balance at the beginning of the financial year		62,629	47,139
Amounts written off on loans / utilisation in accordance with purpose		-2,213	-603
Creation of valuation allowances and provisions for credit risks	9	7,346	23,045
Release of valuation allowances and provisions for credit risks		-4,589	-11,906
Changes in scope of consolidation		0	4,778
Foreign-currency translation differences and other adjustments	9	-21	176
Balance at the end of the financial year		63,152	62,629
As valuation adjustment for due from banks		868	1,747
As valuation adjustment for due from customers		62,284	60,882
Total valuation allowances for credit risks		63,152	62,629

in CHF 1,000	Banks	Mortgage receivables	Other receivables ¹	Total 2016
By type of exposure				
Balance at the beginning of the financial year	1,747	17,416	43,466	62,629
Amounts written off on loans / utilisation in accordance with purpose	0	-915	-1,298	-2,213
Creation of valuation allowances and provisions for credit risks	47	1,956	5,343	7,346
Release of valuation allowances and provisions for credit risks	-926	-1,264	-2,399	-4,589
Changes in scope of consolidation	0	0	0	0
Foreign-currency translation differences and other adjustments	0	9	-30	-21
Balance at the end of the financial year	868	17,202	45,082	63,152
of which				
Individual valuation allowances	0	10,535	26,000	36,535
Lump-sum valuation allowances	868	6,667	19,082	26,617
Total	868	17,202	45,082	63,152

¹ Other receivables primarily comprise lombard loans, debit balances on accounts and unsecured loans.

in CHF 1,000	Banks	Mortgage receivables	Other receivables ¹	Total 2015
By type of exposure				
Balance at the beginning of the financial year	2,993	16,168	27,978	47,139
Amounts written off on loans / utilisation in accordance with purpose	0	-319	-284	-603
Creation of valuation allowances and provisions for credit risks	16	6,044	16,985	23,045
Release of valuation allowances and provisions for credit risks	-1,844	-5,490	-4,572	-11,906
Changes in scope of consolidation	582	998	3,198	4,778
Foreign-currency translation differences and other adjustments	0	15	161	176
Balance at the end of the financial year	1,747	17,416	43,466	62,629
of which				
Individual valuation allowances	0	10,782	27,456	38,238
Lump-sum valuation allowances	1,747	6,634	16,010	24,391
Total	1,747	17,416	43,466	62,629

in CHF 1,000	2016 Individual	2016 Lump-sum	2015 Individual	2015 Lump-sum
By type of valuation allowance				
Balance at the beginning of the financial year	38,238	24,391	22,794	24,345
Amounts written off on loans / utilisation in accordance with purpose	-2,213	0	-603	0
Creation of valuation allowances and provisions for credit risks	3,832	3,514	20,858	2,187
Release of valuation allowances and provisions for credit risks	-3,272	-1,317	-6,303	-5,603
Changes in scope of consolidation	0	0	1,333	3,445
Foreign-currency translation differences and other adjustments	-50	29	159	17
Balance at the end of the financial year	36,535	26,617	38,238	24,391

Individual valuation allowances relate to loans that are not covered by the liquidation proceeds of collateral or unsecured loans.

Value-impaired loans

Value-impaired loans are amounts outstanding from customers and banks where it is improbable that the debtor can meet its obligations.

in CHF 1,000	2016	2015
Value-impaired loans ¹	71,140	76,784
Amount of valuation allowances for credit losses from non-performing loans	36,535	38,238
Net amounts due	34,605	38,546
Estimated realisable value of value-impaired loans	35,673	38,546
Average amount of value-impaired loans	73,962	73,291
Recoveries from loans already written off (other income)	10	200

¹ Interest receivable on non-performing loans in 2016 was CHF 0.735 million (2015: CHF 1.125 million).

Non-performing loans

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

in CHF 1,000	2016	2015
Non-performing loans	45,201	19,663
Amount of valuation allowances for credit losses from non-performing loans	23,033	12,630
Net amounts due	22,168	7,033
Average amount of non-performing loans	32,432	16,006
Valuation allowances on non-performing loans at the beginning of the financial year	12,630	2,354
Net decrease/increase	10,414	10,288
Amounts written off and disposals / utilisation in conformity with purpose	-11	-12
Valuation allowances on non-performing loans at the end of the financial year	23,033	12,630

in CHF 1,000	31.12.2016	31.12.2015
According to type of exposure		
Banks	0	0
Mortgage receivables	25,409	7,601
Other receivables	19,792	12,062
Customers	45,201	19,663
Total non-performing loans	45,201	19,663
According to region (domicile of debtor)		
Liechtenstein and Switzerland	13,350	8,828
Rest of Europe	11,611	10,707
North and South America	1,171	0
Other countries	19,069	128
Total non-performing loans	45,201	19,663

17 Trading portfolios

in CHF 1,000	31.12.2016	31.12.2015
Debt securities valued at fair value		
• Public-law institutions in Liechtenstein and Switzerland	0	0
• Other public-law institutions	0	0
• Exchange-listed	0	0
• Non-exchange-listed	0	0
• Own medium-term notes	0	0
Total	0	0
Equity securities / investment-fund units valued at fair value		
• Exchange-listed	0	0
• Non-exchange-listed	0	0
Total	0	0
Other	100	154
Total trading portfolios	100	154

18 Derivative financial instruments

31.12.2016 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments			
Forward contracts			
Swaps	568	21,497	314,198
Futures			50,537
Options (OTC)			
Options (exchange-traded)			
Total interest rate instruments 31.12.2016	568	21,497	364,735
Foreign currencies			
Forward contracts	3,516	8,674	480,617
Combined interest rate/currency swaps	39,188	25,237	4,516,904
Futures			
Options (OTC)	220	220	18,646
Options (exchange-traded)			
Total foreign currencies 31.12.2016	42,924	34,131	5,016,167
Equity securities/indices			
Forward contracts			
Futures			4,384
Options (OTC)			
Options (exchange-traded)		331	8,465
Total equity securities/indices 31.12.2016	0	331	12,849
Precious metals			
Forward contracts			
Swaps	56	1,068	33,584
Options (OTC)	151	151	10,044
Options (exchange-traded)			
Total precious metals 31.12.2016	207	1,219	43,628
Total derivative financial instruments 31.12.2016	43,699	57,178	5,437,379

The fair value of derivative financial instruments without market value is arrived at by recognised valuation models. These models take account of the relevant parameters such as contract specifications, the market price of the underlying security, the yield curve and volatility.

31.12.2015 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments			
Forward contracts			
Swaps		26,152	276,775
Futures			60,245
Options (OTC)			
Options (exchange-traded)			
Total interest rate instruments 31.12.2015	0	26,152	337,020
Foreign currencies			
Forward contracts			
	6,603	8,898	885,008
Combined interest rate/currency swaps	28,365	16,224	3,621,898
Futures			
Options (OTC)	1,456	1,430	177,875
Options (exchange-traded)			
Total foreign currencies 31.12.2015	36,424	26,552	4,684,781
Equity securities/indices			
Forward contracts			
Futures			2,918
Options (OTC)			
Options (exchange-traded)		159	7,903
Total equity securities/indices 31.12.2015	0	159	10,821
Precious metals			
Forward contracts			
Swaps	87		4,443
Options (OTC)	372	372	31,838
Options (exchange-traded)			
Total precious metals 31.12.2015	459	372	36,281
Total derivative financial instruments 31.12.2015	36,883	53,235	5,068,903

19 Financial instruments at fair value

in CHF 1,000	31.12.2016	31.12.2015
Debt instruments		
Public-law institutions in Liechtenstein and Switzerland	0	0
Public-law institutions outside Liechtenstein and Switzerland	34,205	42,651
Exchange-listed	172,471	272,408
Non-exchange-listed	1,025	0
Total	207,701	315,059
Equity shares / investment fund units		
Exchange-listed	50,974	32,398
Non-exchange-listed	19,476	46,962
Total	70,450	79,360
Structured products		
Exchange-listed	0	0
Non-exchange-listed ¹	1,992	2,458
Total	1,992	2,458
Total financial instruments at fair value	280,143	396,877

¹ Principally structured credit notes (credit-linked notes and credit-default notes).

The fair value of non-exchange-listed financial instruments is determined exclusively on the basis of traders' quotations or external pricing models based upon prices and interest rates of a supervised, active and liquid market. Management is convinced that the prices arrived at by these techniques constitute the most appropriate value for the balance sheet as of the date of the transactions, as well as for the related revaluation entries in the income statement.

20 Financial instruments at amortised cost

in CHF 1,000	31.12.2016	31.12.2015
Debt instruments		
Public-law institutions in Liechtenstein and Switzerland	25,404	4,000
Public-law institutions outside Liechtenstein and Switzerland	781,225	789,643
Exchange-listed	988,325	819,660
Non-exchange-listed	28,928	52,304
Total	1,823,882	1,665,607
Total financial instruments at amortised cost	1,823,882	1,665,607

21 Associated companies

in CHF 1,000	2016	2015
Balance at the beginning of the financial year	56	65
Additions	10	-9
Value impairments	0	0
Balance as of balance-sheet date	66	56

Details of material companies reflected in the consolidation using the equity method

Name	Registered office	Activity	Share capital	Capital held in %	
				31.12.2016	31.12.2015
VAM Corporate Holdings Ltd.	Mauritius	Fund promoter company	GBP 50,000	20	20
Data Info Services AG	Vaduz	Procurement, trade and exchange of goods and services	CHF 50,000	50	50

22 Property and equipment

in CHF 1,000	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total 2016
Acquisition cost					
Balance on 01.01.2016	202,340	5,160	20,309	33,285	261,094
Additions	1,118	177	241	1,561	3,097
Disposals/derecognitions ¹	-1,616	-505	-6,315	-15,656	-24,092
Changes in scope of consolidation					0
Foreign-currency translation	15	-8	-1	-14	-8
Balance on 31.12.2016	201,857	4,824	14,234	19,176	240,091
Accumulated depreciation and amortisation					
Balance on 01.01.2016	-118,749	-4,661	-19,328	-28,745	-171,483
Depreciation and amortisation	-5,981	-233	-307	-2,739	-9,260
Valuation allowances					0
Disposals/derecognitions ¹	895	500	6,309	15,658	23,362
Changes in scope of consolidation					0
Foreign-currency translation	-8	13	5	18	28
Balance on 31.12.2016	-123,843	-4,381	-13,321	-15,808	-157,353
Net book values on 31.12.2016	78,014	443	913	3,368	82,738

¹ Includes the derecognitions of completely depreciated and amortised assets.

in CHF 1,000	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total 2015
Acquisition cost					
Balance on 01.01.2015	200,851	22,176	20,184	19,569	262,780
Additions	1,482	195	147	2,472	4,296
Disposals/derecognitions ¹		-17,214	-26	-500	-17,740
Changes in scope of consolidation				11,736	11,736
Foreign-currency translation	7	3	4	8	22
Balance on 31.12.2015	202,340	5,160	20,309	33,285	261,094
Accumulated depreciation and amortisation					
Balance on 01.01.2015	-112,720	-5,171	-18,196	-14,076	-150,163
Depreciation and amortisation	-6,024	-199	-1,153	-4,302	-11,678
Valuation allowances					0
Disposals/derecognitions ¹		714	26	500	1,240
Changes in scope of consolidation				-10,857	-10,857
Foreign-currency translation	-5	-5	-5	-10	-25
Balance on 31.12.2015	-118,749	-4,661	-19,328	-28,745	-171,483
Net book values on 31.12.2015	83,591	499	981	4,540	89,611

¹ Includes the derecognitions of completely depreciated and amortised assets.

Additional information regarding property and equipment

in CHF 1,000	2016	2015
Fire insurance value of real estate	180,702	182,202
Fire insurance value of other property and equipment	40,970	38,537
Fair value of other real estate	443	499

There is no property and equipment arising from financing leasing contracts.

23 Goodwill and other intangible assets

in CHF 1,000	Software	Other assets capitalised	Goodwill	Total 2016
Acquisition cost				
Balance on 01.01.2016	157,997	44,123	46,112	248,232
Additions	6,747			6,747
Disposals/derecognitions	-21,580			-21,580
Changes in scope of consolidation				0
Foreign-currency translation	59			59
Balance on 31.12.2016	143,223	44,123	46,112	233,458
Accumulated amortisation				
Balance on 01.01.2016	-147,362	-7,600	-35,302	-190,264
Depreciation and amortisation	-7,730	-5,421		-13,151
Valuation allowances				0
Disposals/derecognitions	21,485			21,485
Changes in scope of consolidation				0
Foreign-currency translation	-59			-59
Balance on 31.12.2016	-133,666	-13,021	-35,302	-181,989
Net book values on 31.12.2016	9,557	31,102	10,810	51,469

in CHF 1,000	Software	Other assets capitalised	Goodwill	Total 2015
Acquisition cost				
Balance on 01.01.2015	142,105	10,078	46,112	198,295
Additions	6,390	34,045		40,435
Disposals/derecognitions	-151			-151
Changes in scope of consolidation	9,625			9,625
Foreign-currency translation	28			28
Balance on 31.12.2015	157,997	44,123	46,112	248,232
Accumulated amortisation				
Balance on 01.01.2015	-122,406	-2,180	-35,302	-159,888
Depreciation and amortisation	-21,155	-5,420		-26,575
Valuation allowances				0
Disposals/derecognitions	147			147
Changes in scope of consolidation	-3,905			-3,905
Foreign-currency translation	-43			-43
Balance on 31.12.2015	-147,362	-7,600	-35,302	-190,264
Net book values on 31.12.2015	10,635	36,523	10,810	57,968

There are no other capitalised intangible assets on the consolidated balance sheet of VP Bank Group with an unlimited estimated useful life.

Review of impairment in value of goodwill

The existing goodwill of CHF 10.810 million arises from the acquisition of VP Bank (Luxembourg) SA in 2001 and is allocated to the cash-generating unit Client Business International. Since 1 January 2005, this goodwill amount has no longer been subject to amortisation, but rather to an annual impairment test.

For the purposes of the impairment test carried out in 2015, the realisable amount was based upon the fair value (Level 3), minus selling costs. The level of the implicit premium (74 basis points) for client assets was computed on the basis of stock exchange quotes for enterprises which focus on the business of asset management, as well as acquisition prices paid on the occasion of corporate mergers, and was used to determine the recoverable amount. The recoverable amount exceeded the book value to such an extent that a decline in the value of the goodwill could be viewed as improbable. For this reason, a supplementary computation of the recoverable amount based upon the value in use was dispensed with.

24 Assets held for sale

The municipality of Vaduz purchased real estate from VP Bank in the municipality of Vaduz. At the balance sheet date of 31.12.2015 all the formalities have not been completed and therefore the property was disclosed as an asset held for sale. The sale was completed at the start of 2016.

in CHF 1,000	31.12.2016	31.12.2015
Real estate held for sale	0	15,000
Total assets held for sale	0	15,000

25 Other assets

in CHF 1,000	31.12.2016	31.12.2015
Value-added taxes and other tax receivables	2,090	1,648
Prepaid retirement pension contributions	0	0
Miscellaneous other assets ¹	14,048	9,435
Total other assets	16,138	11,083

¹ Compensation accounts, settlement accounts and miscellaneous other assets.

26 Medium-term notes

in CHF 1,000	Interest rate	Interest rate	Interest rate	Interest rate	Total
Maturity	0-0.9999 %	1-1.9999 %	2-2.9999 %	3-3.9999 %	
2017	60,459	12,242	4,726	263	77,690
2018	59,052	4,733	2,016	111	65,912
2019	24,768	5,293	1,550	0	31,611
2020	28,343	6,870	853	0	36,066
2021	2,324	1,479	1,035	0	4,837
2022	295	521	244	0	1,060
2023	765	686	0	0	1,451
2024	47	426	0	0	473
2025	149	289	55	0	493
2026	230	0	0	0	230
Total 31.12.2016	176,432	32,538	10,478	374	219,823
Total 31.12.2015	92,938	121,425	1,123	0	215,486

The average interest rate as of 31 December 2016 was 0.51 per cent (prior year: 1.25 per cent).

27 Debentures, VP Bank Ltd, Vaduz

Year of issue	ISIN	Interest rate in %	Currency	Maturity	Nominal amount	in CHF 1,000	
						Total 31.12.2016	Total 31.12.2015
2010	CH0112734469	2.5	CHF	27.05.2016	0	0	149,119
2015	CH0262888933	0.5	CHF	07.04.2021	100,000	100,296	100,365
2015	CH0262888941	0.875	CHF	07.10.2024	100,000	100,424	100,477
Total					200,000	200,720	349,961

Debt securities issued are recorded at fair value plus transaction costs upon initial recognition. Fair value corresponds to the consideration received. Subsequently, they are re-measured at amortised cost. In this process, the effective interest method (0.43 per cent debenture 2021; 0.82 per cent debenture 2024) is applied in order to amortise the difference between the issuance price and redemption value over the duration of the debentures.

28 Other liabilities

in CHF 1,000	31.12.2016	31.12.2015
Value-added taxes and other tax receivables	7,950	8,463
Accrued retirement pension contributions	93,856	71,736
Accrued expense for long service awards ¹	3,014	3,257
Miscellaneous other liabilities ²	28,169	33,389
Total other liabilities	132,989	116,845

¹ Note 41

² Compensation accounts, settlement accounts and miscellaneous other liabilities.

29 Provisions

in CHF 1,000	Default risk	Legal and litigation risks	Other provisions	Restructuring provisions	Total 2016	Total 2015
Carrying value at the beginning of the financial year	266	6,293	2,558	5,276	14,393	9,130
Utilisation in accordance with purpose		-337	-2,349	-4,511	-7,197	-9,955
New provisions charged to income statement	55	1,219	463	1,622	3,359	17,010
Provisions releases to income statement	-90	-1,408	-258	-28	-1,784	-2,021
Foreign-currency translation differences and other adjustments		7	-7	-16	-16	229
Carrying value at the end of the financial year	231	5,774	407	2,343	8,755	14,393
Maturity of provisions						
• within one year					8,755	14,393
• over one year					0	0

30 Share capital

	31.12.2016 No. of shares	Nominal CHF	31.12.2015 No. of shares	Nominal CHF
Registered shares A of CHF 10.00 nominal value	6,015,000	60,150,000	6,015,000	60,150,000
Registered shares B of CHF 1.00 nominal value	6,004,167	6,004,167	6,004,167	6,004,167
Total share capital		66,154,167		66,154,167

All shares are fully paid up.

All proposals made by the Board of Directors were approved at the 53rd annual general meeting of VP Bank in Vaduz on Friday, 29 April 2016. The annual general meeting also approved the proposal of the Board of Directors that the Articles of Incorporation be changed for the conversion of bearer shares into registered shares. Developments at an international level necessitate greater transparency regarding the ownership structures of legal entities. In this context, the Board of Directors proposed that the listed VP Bank bearer shares each with a nominal value of CHF 10.00 be converted into registered shares A with the same nominal value. The existing, non-exchange-listed registered shares with a nominal value of CHF 1.00 remain unchanged as registered shares B and will not be traded on the stock exchange in future either. The first trading day for the registered shares A was on 6 May 2016.

31 Treasury shares¹

	31.12.2016		31.12.2015	
	No. of shares	in CHF 1,000	No. of shares	in CHF 1,000
Registered shares A at the beginning of the financial year	594,774	49,443	111,634	21,015
Purchases	81,786	8,005	602,060	50,039
Sales	-82,783	-6,889	-118,920	-21,611
Balance of registered shares A as of balance-sheet date^{2,3}	593,777	50,559	594,774	49,443
Registered shares B at the beginning of the financial year	125,912	1,056	209	2
Purchases	1,900	17	125,713	1,055
Sales	0	0	-10	-1
Balance of registered shares B as of balance-sheet date²	127,812	1,073	125,912	1,056

¹ Conversion of bearer shares into registered shares A (note 30).

² Within the framework of the public share buyback programme, VP Bank Ltd is prepared to acquire a maximum of 120,000 registered shares A. However, VP Bank's holdings of registered shares A will not exceed the amount permitted under authorisation given by the annual general meeting of shareholders at any time (up to a maximum of 601,500 shares, which corresponds to 10% of all registered shares A). The buyback programme for the registered shares A on the ordinary trading line on the SIX Swiss Exchange will run from 7 June 2016 up to 31 May 2017. The maximum amount to be paid under this bid amounts to CHF 0.8 million (open permitted buyback of 7,723 registered shares A multiplied with closing price as per 31 December 2016) and is deducted from its own shares. In the table above, these shares are not disclosed, as they are not yet in the possession of VP Bank Ltd.

³ VP Bank Ltd carried out a repurchase programme of bearer and registered shares from 22 June to 3 July 2015. In the context of the repurchase programme, VP Bank acquired 300,750 bearer shares at a price of CHF 84.00 and 114,080 registered shares at a price of CHF 8.40, par-value-adjusted compared to the bearer share. From 13 to 28 October 2015, VP Bank carried out a further repurchase programme of bearer shares and registered shares. In the context of this repurchase programme VP Bank acquired 298,442 bearer shares at a price of CHF 82.00 and 10,200 registered shares at a price of CHF 8.20, par-value-adjusted compared to the bearer share. The repurchased shares are to be used for future acquisitions or for treasury management purposes. Own shares are offset against equity in line with IAS 32.

32 Assets pledged or assigned to secure own liabilities and assets subject to reservation of title

in CHF 1,000	31.12.2016		31.12.2015	
	Market value	Actual liability	Market value	Actual liability
Securities	665,387	0	627,112	0
Money-market paper	0	0	0	0
Other	0	0	0	0
Total pledged assets	665,387	0	627,112	0

The assets are pledged to limits for the repo business with national and central banks, for stock exchange deposits and to secure the business activities of overseas organisations pursuant to local legal provisions. Pledged or assigned assets within the framework of securities lending transactions or of re-purchase and reverse repurchase transactions are not reflected in the above analysis. They are shown in the table "Securities lending and repurchase and reverse repurchase transactions with securities" (note 46).

33 Future commitments under operating leases

At the end of the year, there were several operating lease contracts for real estate and other property and equipment, which are principally used for the conduct of business activities of the Bank. The equipment leasing contracts contain renewal options as well as escape clauses.

in CHF 1,000	31.12.2016	31.12.2015
Remaining duration of up to 1 year	5,268	5,587
Remaining duration of 1 to 5 years	5,861	12,448
Remaining duration of over 5 years	3,755	9,805
Total minimum commitments under operating leases	14,884	27,840

As of 31 December 2016, general and administrative expenses include CHF 6.412 million of operating lease costs (prior year: CHF 5.979 million).

34 Litigation

VP Bank Group is involved in various legal, regulatory and administrative proceedings within the normal course of business. The legal and regulatory environment in which VP Bank Group operates involves significant litigation, compliance, reputation and other risks in connection with legal disputes and regulatory proceedings. Depending on the status of the relevant proceedings, the influence on the financial strength and/or the profitability of VP Bank Group is hard to assess.

VP Bank Group creates provisions for ongoing and imminent proceedings if the probability that such proceedings will result in a financial obligation or a loss or that financial conflicts can be resolved without acknowledging a legal obligation on part of VP Bank Group is assessed higher than the probability that this will not be the case, and if the amount of such an obligation or loss can already be reliably assessed.

In isolated cases when the amount cannot be reliably assessed, e.g. due to the early stage, the complexity and/or other factors, no provision is created, but a contingent liability is recognised at best. The contingent liabilities may materially affect VP Bank Group, or may be of interest to investors and other persons for other reasons.

The insolvency administrators of two Russian banks claim that the third party pledges appointed in connection with the lending to a foreign company should not have been realised freely shortly before the withdrawal of the bank licence and the opening of insolvency proceedings.

The German tax authorities are currently investigating a large number of Swiss, Liechtenstein and Luxembourg banks due to the suspicion of aiding and abetting tax evasion. The affected banks also include VP Bank Ltd.

All provisions are recorded in the item "Other provisions" in the consolidated balance sheet (note 29).

35 Balance sheet per currency

in CHF 1,000	CHF	USD	EUR	Other	Total 2016
Assets					
Cash and cash equivalents	3,508,957	650	14,310	595	3,524,512
Receivables arising from money-market paper				15,248	15,248
Due from banks	171,436	232,505	103,640	153,179	660,760
Due from customers	3,443,446	1,162,349	541,136	101,786	5,248,717
Trading portfolios				100	100
Derivative financial instruments	42,811	888			43,699
Financial instruments at fair value	123,542	100,207	54,896	1,498	280,143
Financial instruments at amortised cost	335,938	871,656	616,288		1,823,882
Associated companies	66				66
Property and equipment	81,546	1,072		120	82,738
Intangible assets	51,469				51,469
Tax receivables			1,359		1,359
Deferred tax assets	22,041				22,041
Accrued liabilities and deferred items	11,972	6,159	4,183	540	22,854
Assets held for sale					0
Other assets	12,643	764	2,357	374	16,138
Total assets 31.12.2016	7,805,867	2,376,250	1,338,169	273,440	11,793,726
Liabilities and shareholders' equity					
Due to banks	191,155	93,388	48,883	24,345	357,771
Due to customers – savings and deposits	704,768		455		705,223
Due to customers – other liabilities	2,327,359	3,594,011	2,466,416	745,938	9,133,724
Derivative financial instruments	52,625	3,971	582		57,178
Medium-term notes	190,780	4,972	24,071		219,823
Debenture issues	200,720				200,720
Tax liabilities	3,579		313		3,892
Deferred tax liabilities	8,204				8,204
Accrued liabilities and deferred items	22,327	1,140	2,771	2,271	28,509
Other liabilities	117,071	6,162	9,006	750	132,989
Provisions	6,035	407	2,313		8,755
Total liabilities	3,824,623	3,704,051	2,554,810	773,304	10,856,788
Total shareholders' equity	839,661	96,212	0	1,065	936,938
Total liabilities and shareholders' equity 31.12.2016	4,664,284	3,800,263	2,554,810	774,369	11,793,726

in CHF 1,000	CHF	USD	EUR	Other	Total 2015
Assets					
Cash and cash equivalents	2,935,784	638	18,510	595	2,955,527
Receivables arising from money-market paper				14,652	14,652
Due from banks	52,707	951,213	596,175	460,175	2,060,270
Due from customers	3,434,253	852,097	589,308	131,351	5,007,009
Trading portfolios				154	154
Derivative financial instruments	33,664	2,308		911	36,883
Financial instruments at fair value	208,209	112,112	75,060	1,496	396,877
Financial instruments at amortised cost	287,857	839,891	537,859		1,665,607
Associated companies	56				56
Property and equipment	88,444	1,115		52	89,611
Intangible assets	57,958	10			57,968
Tax receivables	7		1,753		1,760
Deferred tax assets	23,877			1	23,878
Accrued liabilities and deferred items	12,962	6,275	4,927	917	25,081
Assets held for sale	15,000				15,000
Other assets	8,205	600	1,815	463	11,083
Total assets 31.12.2015	7,158,983	2,766,259	1,825,407	610,767	12,361,416

in CHF 1'000	CHF	USD	EUR	Other	Total
Liabilities and shareholders' equity					
Due to banks	7,831	46,504	31,379	14,442	100,156
Due to customers – savings and deposits	756,905		389		757,294
Due to customers – other liabilities	2,308,470	4,057,345	2,674,851	748,403	9,789,069
Derivative financial instruments	46,810	4,373	1,144	908	53,235
Medium-term notes	190,964	4,280	20,242		215,486
Debenture issues	349,961				349,961
Tax liabilities	2,455		186		2,641
Deferred tax liabilities	14,153				14,153
Accrued liabilities and deferred items	26,117	980	2,393	569	30,059
Other liabilities	104,974	6,432	4,773	666	116,845
Provisions	12,011	400	1,752	230	14,393
Total liabilities	3,820,651	4,120,314	2,737,109	765,218	11,443,292
Total shareholders' equity	831,001	85,946	0	1,177	918,124
Total liabilities and shareholders' equity 31.12.2015	4,651,652	4,206,260	2,737,109	766,395	12,361,416

36 Maturity structure of assets and liabilities

in CHF 1,000	At sight	Callable	1 year	Due within 1 to 5 years	Over 5 years	Total 2016
Assets						
Cash and cash equivalents	3,524,512					3,524,512
Receivables arising from money-market paper			15,248			15,248
Due from banks	505,220		155,540			660,760
Due from customers	132,196	406,460	2,768,401	1,555,037	386,623	5,248,717
Trading portfolios	100					100
Derivative financial instruments	43,699					43,699
Financial instruments at fair value	265,829		1,490	10,231	2,593	280,143
Financial instruments at amortised cost			230,012	1,279,533	314,337	1,823,882
Associated companies	66					66
Property and equipment ¹					82,738	82,738
Intangible assets					51,469	51,469
Tax receivables	1,359					1,359
Deferred tax assets				22,041		22,041
Accrued liabilities and deferred items	22,854					22,854
Assets held for sale						0
Other assets	15,950	188				16,138
Total assets 31.12.2016	4,511,785	406,648	3,170,691	2,866,842	837,760	11,793,726
Liabilities and shareholders' equity						
Due to banks	306,951		50,820			357,771
Due to customers – savings and deposits		705,223				705,223
Due to customers – other liabilities	7,538,006	853,562	732,156	10,000		9,133,724
Derivative financial instruments	57,178					57,178
Medium-term notes			77,690	138,427	3,706	219,823
Debenture issues				100,296	100,424	200,720
Tax liabilities	3,892					3,892
Deferred tax liabilities				8,204		8,204
Accrued liabilities and deferred items	28,509					28,509
Other liabilities	132,989					132,989
Provisions	8,755					8,755
Total liabilities 31.12.2016	8,076,280	1,558,785	860,666	256,927	104,130	10,856,788

¹ Without maturity

in CHF 1,000	At sight	Callable	1 year	Due within 1 to 5 years	Over 5 years	Total 2015
Assets						
Cash and cash equivalents	2,955,527					2,955,527
Receivables arising from money-market paper			14,652			14,652
Due from banks	445,662	94	1,614,514			2,060,270
Due from customers	193,141	447,787	2,378,831	1,504,661	482,589	5,007,009
Trading portfolios	154					154
Derivative financial instruments	36,883					36,883
Financial instruments at fair value	382,413				14,464	396,877
Financial instruments at amortised cost	163,204		188,168	1,074,268	239,967	1,665,607
Associated companies	56					56
Property and equipment ¹					89,611	89,611
Intangible assets					57,968	57,968
Tax receivables	1,760					1,760
Deferred tax assets				23,878		23,878
Accrued liabilities and deferred items	24,768		313			25,081
Assets held for sale			15,000			15,000
Other assets	10,844	239				11,083
Total assets 31.12.2015	4,214,412	448,120	4,211,478	2,602,807	884,599	12,361,416
Liabilities and shareholders' equity						
Due to banks	100,156					100,156
Due to customers – savings and deposits		757,294				757,294
Due to customers – other liabilities	8,633,137	637,706	411,129	107,097		9,789,069
Derivative financial instruments	53,235					53,235
Medium-term notes			72,566	137,155	5,765	215,486
Debenture issues			149,119		200,842	349,961
Tax liabilities	2,557			84		2,641
Deferred tax liabilities				14,153		14,153
Accrued liabilities and deferred items	30,059					30,059
Other liabilities	116,845					116,845
Provisions	14,393					14,393
Total liabilities 31.12.2015	8,950,382	1,395,000	632,814	258,489	206,607	11,443,292

¹ Without maturity

37 Classification of assets by country or groups of countries

	31.12.2016		31.12.2015	
	in CHF 1,000	Proportion in %	in CHF 1,000	Proportion in %
Liechtenstein and Switzerland	8,044,742	68.2	8,013,460	64.9
Rest of Europe	1,677,160	14.2	2,363,810	19.1
North America	789,353	6.7	754,957	6.1
Other countries	1,282,471	10.9	1,229,189	9.9
Total assets	11,793,726	100.0	12,361,416	100.0

The classification is made according to the principle of domicile of the counterparties. Diversified collateral existing in the area of lombard loans is not taken into consideration in this respect.

38 Financial instruments

Fair value of financial instruments

The following table shows the fair values of financial instruments based on the valuation methods and assumptions set out below. This table is presented because not all financial instruments are disclosed at their fair values in the consolidated financial statements. The fair value equates to the price at the date of measurement which could be realised from the sale of the asset, or which must be settled for the transfer of the liability, in an orderly transaction between market participants.

in CHF million	Carrying value 31.12.2016	Fair value 31.12.2016	Variance	Carrying value 31.12.2015	Fair value 31.12.2015	Variance
Assets						
Cash and cash equivalents	3,525	3,525	0	2,956	2,956	0
Receivables arising from money market paper	15	15	0	15	15	0
Due from banks	661	661	0	2,060	2,061	1
Due from customers	5,249	5,396	147	5,007	5,167	160
Trading portfolios	0	0	0	0	0	0
Derivative financial instruments	44	44	0	37	37	0
Financial instruments at fair value	280	280	0	397	397	0
• of which designated on initial recognition	0	0	0	0	0	0
• of which mandatory under IFRS 9	268	268	0	383	383	0
• of which recognised in other comprehensive income with no effect on net income	12	12	0	14	14	0
Financial instruments at amortised cost	1,824	1,843	19	1,666	1,679	13
Subtotal			166			174
Liabilities						
Due to banks	358	358	0	100	100	0
Due to customers	9,839	9,833	6	10,546	10,541	5
Derivative financial instruments	57	57	0	53	53	0
Medium-term notes	220	224	-4	215	220	-5
Debentures issued	201	204	-3	350	351	-1
Subtotal			-1			-1
Total variance			165			173

The following valuation methods are used to determine the fair value of on-balance-sheet financial instruments:

Cash and cash equivalents, money-market paper

For the balance-sheet-items "Cash and cash equivalents" and "Receivables arising from money-market paper", which do not have a published market value on a recognised stock exchange or on a representative market, the fair value corresponds to the amount payable at the balance-sheet date.

Due from/to banks and customers, medium-term notes, debenture issues

In determining the fair value of amounts due from/to banks, due from/to customers (including mortgage receivables and due to customers in the form of savings and deposits), as well as of medium-term notes and debenture issues with a fixed maturity or a refinancing profile, the net present value method is applied (discounting of monetary flows with swap rates corresponding to the respective term). For products whose interest or payment flows cannot be determined in advance, replicating portfolios are used.

Trading portfolios, trading portfolios pledged as security, financial instruments at fair value

Fair value corresponds to market value for the majority of these financial instruments. The fair value of non-exchange-listed financial instruments (in particular for structured credit loans) is determined only on the basis of external traders' prices or pricing models which are based on prices and interest rates in an observable, active and liquid market.

Derivative financial instruments

For the majority of the positive and negative replacement values (see note 18), the fair value equates to the market value. The fair value for derivative instruments without market value is determined using uniform models. These valuation models take account of the relevant parameters such as contract specifications, the market price of the underlying security, the yield curve and volatility.

Fair-value hedges (interest-rate hedges)

	Nominal value of hedging instruments	Book value of hedging instruments		Balance sheet position under which hedging instruments are disclosed
		Assets	Liabilities	
Interest-rate swaps	165,706	568	11,590	Derivative financial instruments

	Book value of underlying transactions		Accumulated valuation adjustments, included in the book value of the underlying transactions		Balance sheet position under which hedging instruments are disclosed
	Assets	Liabilities	Assets	Liabilities	
Client receivables	168,151	0	2,447	0	Due from customers
• of which closed hedging relationships (client receivables)	2,015	0	69	0	Due from customers

Valuation methods for financial instruments

The fair value of listed securities held for trading purposes or as financial instruments, as well as that of listed derivatives and other financial instruments with a price established in an active market, is determined on the basis of current market value (Level 1). Valuation methods or pricing models are used to determine the fair value of financial instruments if no direct market prices are available. If possible, the underlying assumptions are based on observed market prices or other market indicators as at the balance-sheet date (Level 2). For most of the derivatives traded over the counter, as well as for other financial instruments that are not traded in an active market, fair value is determined by means of valuation methods or pricing models. Among the most frequently applied of those methods and models are cash-value-based forward pricing and swap models, as well as options pricing models such as the Black-Scholes model or derivations thereof. The fair values arrived at on the basis of these methods and models are influenced to a significant degree by the choice of the specific valuation model and the underlying assumptions applied, for example the amounts and time sequence of future cash flows, discount rates, volatilities and/or credit risks.

If neither current market prices nor valuation methods/models based on observable market data can be drawn on for the purpose of determining fair value, then valuation methods or pricing models supported by realistic assumptions derived from actual market data are used (Level 3). Level 3 principally includes investment funds, for which an obligatory net asset value is not published at least on a quarterly basis. The fair value of these positions is, as a rule, computed on the basis of external estimates by experts in relation to the level of future distributions of fund units, or equates to the acquisition cost of the securities less any applicable valuation allowances.

Valuation methods for financial instruments

in CHF million at fair value	Quoted market prices, Level 1	Valuation methods, based on market data, Level 2	Valuation methods, with assumptions based on market data, Level 3	Total 31.12.2016
Assets				
Cash and cash equivalents	3,525			3,525
Receivables arising from money market paper	15			15
Due from banks		661		661
Due from customers		5,396		5,396
Trading portfolios				0
Derivative financial instruments		44		44
Financial instruments at fair value	258	18	4	280
Financial instruments at amortised cost	1,825	15	3	1,843
Liabilities				
Due to banks		358		358
Due to customers		9,833		9,833
Derivative financial instruments		57		57
Medium-term notes		224		224
Debentures issued	204			204

In the financial year 2016, positions with a fair value of CHF 0.0 million (2015: CHF 4.5 million) were reclassified from Level 1 (quoted market prices) to Level 2 (valuation methods based on market data), CHF 0.0 million (2015: CHF 0.0 million) from Level 2 to Level 3 (valuation methods, based on non market-data-related assumptions) as well as CHF 0.0 million from Level 3 to Level 2 (2015: CHF 4.3 million). The reclassifications are made as of the end of the reporting period in the case of changes in the availability of market prices (market liquidity). Additionally, in financial year 2016, CHF 3,525 million in cash and cash equivalents were reclassified from Level 2 (valuation methods, based on market data) to Level 1 (quoted market prices).

in CHF million at fair value	Quoted market prices, Level 1	Valuation methods, based on market data, Level 2	Valuation methods, with assumptions, based on market data, Level 3	Total 31.12.2015
Assets				
Cash and cash equivalents		2,956		2,956
Receivables arising from money market paper	15			15
Due from banks		2,061		2,061
Due from customers		5,167		5,167
Trading portfolios				0
Derivative financial instruments		37		37
Financial instruments at fair value	347	45	5	397
Financial instruments at amortised cost	1,664	15		1,679
Liabilities				
Due to banks		100		100
Due to customers		10,541		10,541
Derivative financial instruments		53		53
Medium-term notes		220		220
Debentures issued	351			351

Level 3 financial instruments in CHF million	2016	2015
Balance sheet		
Holdings at the beginning of the year	4.4	4.5
Investments	3.1	0.0
Disposals	-0.1	0.0
Issues	0.0	0.0
Redemptions	0.0	0.0
Losses recognised in the income statement	-0.4	1.5
Losses recognised as other comprehensive income	0.0	-0.5
Gains recognised in the income statement	0.0	3.2
Gains recognised as other comprehensive income	0.0	0.0
Reclassification to Level 3	0.0	0.0
Reclassification from Level 3	0.0	-4.3
Translation differences	0.0	0.0
Total book value at balance-sheet date	6.9	4.4
Income on holdings at balance-sheet date		
Unrealised losses recognised in the income statement	-0.4	1.5
Unrealised losses recognised as other comprehensive income	0.0	-0.5
Unrealised gains recognised in the income statement	0.0	3.2
Unrealised gains recognised as other comprehensive income	0.0	0.0

No deferred day 1 profit or loss (difference between the transaction price and the fair value calculated on the transaction day) was reported for Level 3 positions as of 31 December 2016 or 31 December 2015.

Sensitivity of fair values of Level 3 financial instruments

Changes in the net asset values of investment funds lead to corresponding changes in the fair values of these financial instruments. A realistic change in the basic assumptions or estimated values has no material impact on the statement of income, other comprehensive income or the equity of VP Bank Group's shareholders.

Netting agreements

In order to reduce the credit risks in connection with financial derivatives, repurchase and reverse repurchase as well as securities-lending and -borrowing transactions, VP Bank Group enters into global offset agreements or similar arrangements (netting agreements) with its counter-parties. These include ISDA Master Netting Agreements, Global Master Securities Lending Agreements and Global Master Repo Agreements. Using netting agreements, VP Bank Group can protect itself against losses arising from possible insolvency proceedings or other circumstances in which the counterparty is unable to meet its obligations. In such cases, netting agreements foresee the immediate offset and/or settlement of all financial instruments falling under the related agreement. A right of offset, in principle, exists only whenever a default in payment or other circumstances occur which are not expected in the ordinary course of business. Financial instruments falling under a netting agreement do not meet the set-off requirements for balance-sheet purposes, which is why the related financial instruments are not netted in the balance sheet.

Netting agreements

31.12.2016 in CHF 1,000	Balance-sheet netting Amount prior to balance- sheet netting	Balance-sheet netting Balance- sheet netting	Carrying value	Netting potential Financial liabilities	Collateral received	Assets after taking ac- count of netting potential
Financial assets						
Reverse repurchase transactions	1,256		1,256		1,145	111
Positive replacement values	43,699		43,699	25,635		18,064
Collateral deposited for transactions with derivatives	73,931		73,931	23,469		50,462
Total assets	118,886	0	118,886	49,104	1,145	68,637

31.12.2016 in CHF 1,000	Balance-sheet netting Amount prior to balance- sheet netting	Balance-sheet netting Balance- sheet netting	Carrying value	Netting potential Financial assets	Collateral provided	Liabilities after taking ac- count of netting potential
Financial liabilities						
Repurchase transactions	50,883		50,883		50,865	18
Negative replacement values	57,178		57,178	25,659	2,385	29,134
Collateral received from transactions with derivatives			0			0
Total liabilities	108,061	0	108,061	25,659	53,250	29,152

31.12.2015 in CHF 1,000	Balance-sheet netting Amount prior to balance- sheet netting	Balance-sheet netting Balance- sheet netting	Carrying value	Netting potential Financial assets	Collateral provided	Assets after taking ac- count of netting potential
Financial assets						
Reverse repurchase transactions	210,210		210,210		210,210	0
Positive replacement values	36,883		36,883	20,494		16,389
Collateral deposited for transactions with derivatives	42,608		42,608	17,633		24,975
Total assets	289,701	0	289,701	38,127	210,210	41,364

31.12.2015 in CHF 1,000	Balance-sheet netting Amount prior to balance- sheet netting	Balance-sheet netting Balance- sheet netting	Carrying value	Netting potential Financial assets	Collateral provided	Liabilities after taking ac- count of netting potential
Financial liabilities						
Repurchase transactions			0			0
Negative replacement values	53,235		53,235	38,127	14,938	170
Collateral received from transactions with derivatives			0			0
Total liabilities	53,235	0	53,235	38,127	14,938	170

39 Scope of consolidation

Company	Registered office	Base currency	Capital	Group share of equity
VP Bank Ltd	Vaduz	CHF	66,154,167	100%
VP Fund Solutions (Liechtenstein) AG	Vaduz	CHF	1,000,000	100%
VP Verwaltung GmbH – in liquidation	Munich	EUR	500,000	100%
VP Bank (Singapore) Ltd	Singapore	SGD	81,000,000	100%
VP Wealth Management (Hong Kong) Ltd	Hong Kong	HKD	5,000,000	100%
VP Bank (Luxembourg) SA	Luxembourg	CHF	20,000,000	100%
• which holds the following sub-participation:				
• VP Fund Solutions (Luxembourg) SA	Luxembourg	CHF	5,000,000	100%
VPB Finanz Holding AG	Zurich	CHF	20,000,000	100%
• which holds the following sub-participation:				
• VP Bank (Switzerland) Ltd	Zurich	CHF	20,000,000	100%
VP Bank (BVI) Ltd	Tortola	USD	10,000,000	100%
Shareholdings excluded from the scope of consolidation	none			
Associated companies	VAM Corporate Holdings Ltd., Mauritius Data Info Services AG, Vaduz			
Companies integrated during the financial year	none			
Shareholdings accounted for the first time in accordance with the equity method	none			
Name changes during the financial year	VP Verwaltung GmbH, Munich – in liquidation			

40 Transactions with related companies and individuals

Members of the Board of Directors and Group Management as well as their next of kin, and companies which are controlled by these individuals either by virtue of a majority shareholding or as a result of their role as Chairman of the Board and/or Chief Executive Officer in these companies, are considered to be related companies and individuals.

in CHF 1,000	2016	2015
Remuneration of the members of the Board of Directors		
Remuneration due in the short term ^{1,2}	1,391	1,097
Post-employment benefits		
Other long-term remuneration due		
Remuneration due upon termination of contract of employment		
Share-based payment ^{1,2,3}	409	320
Remuneration of the members of Group Management		
Remuneration due in the short term ²	3,306	2,556
Post-employment benefits		
Other long-term remuneration due		
Remuneration due upon termination of contract of employment		
Share-based payments ^{2,4}	1,600	1,133

¹ The social-security costs and any applicable value-added taxes on the emoluments paid to Board members are not included.

² Compensation for out-of-pocket expenses is not included.

³ The shares are not subject to any minimum holding period (see notes 43 and 44).

⁴ Performance-related and restricted shares with conditional entitlement to receive registered shares A of VP Bank.

VP Bank Group also makes payments to related persons within the framework of brokerage services and bought-in advisory services. These correspond to customary market conditions. The aggregate amount of such payments and fees in 2016 was CHF 0.911 million (previous year: CHF 0.906 million). The Board of Directors and the Group Management as well as parties related thereto (excluding qualifying shareholders) and retirement pension plans as of 31 December 2016, held 87,604 registered shares A and 100,000 registered shares B of VP Bank Ltd, Vaduz (previous year: 87,604 registered shares A and 139,750 registered shares B).

in CHF 1,000	2016	2015
Mortgages and loans at the beginning of the financial year	8,380	8,950
Additions	20,200	145
Repayments	-6,675	-715
Mortgages and loans at the end of the financial year	21,905	8,380

With regard to members of the Board of Directors and Group Executive Management, basically the same conditions apply as for all other employees. They correspond to customary market conditions excluding a credit margin. Loans to related individuals and companies were granted under normal market conditions. A guarantee of CHF 55.272 million was issued for related party. The collateral/surety for this guarantee is considerably above the usual market requirements.

41 Retirement pension plans

Benefits after termination of employment

The Group maintains a number of pension plans in the Principality of Liechtenstein and abroad for employees meeting the criteria for admission to the pension plans. Amongst these are both defined-benefit and defined-contribution plans which insure most employees against the effects of death, invalidity and retirement. In addition, there are schemes for service anniversaries which qualify as other long-term employee benefits.

Defined-contribution pension plans

The Group offers defined-contribution pension plans to those employees who meet the appropriate admission criteria. The company is obligated to transfer a predetermined percentage of the annual salary to the pension plans. For certain plans, the employees are also obligated to make contributions. These contributions are deducted by the employer from the salary typically each month and also passed on to the pension plans. Apart from the payment of contributions and the transfer of employee contributions, there are presently no further obligations incumbent on the employer. The employee contributions to contribution-defined pension plans for 2016 amounted to CHF 1.393 million (prior year: CHF 1.208 million).

Defined-benefit pension plans

The Group finances defined-benefit pension plans for employees who meet the admission criteria. The most significant of such plans are located in the Principality of Liechtenstein and Switzerland. Following the takeover of Centrum Bank a further pension plan was added. Since then, the employees involved have been transferred into existing plans.

For employees in the Principality of Liechtenstein and Switzerland, the Group operates several pension plans with fixed, predefined admission criteria. The largest of the plans are operated using an autonomous foundation, the remaining plans are handled using collective foundations of insurance companies. In these foundations, the assets available to meet the pension obligations are segregated out.

For the pension plans which are operated using collective foundations, there are pension commissions which comprise an equal number of representatives.

The Council of the Foundation of the autonomous pension plan is also made up of an equal number of employer and employee representatives. On the basis of the Law and the Rules of the Pension Fund, the Foundation Council is obligated to act solely in the interests of the Foundation and of the beneficiaries (current actively insured employees and pensioners). Thus, in this plan, the employer cannot himself determine pension benefits and their financing, but resolutions are taken on an equal representation basis. The Council of the Foundation is responsible for setting the investment strategy, for changes to the Rules of the Pension Fund and in particular also for determining how pension benefits are to be financed.

Retirement benefits in this plan are based upon the balance of accumulated capital savings. Annual savings credits and interest (no negative interest is possible) are added to the employee's capital savings account. Upon retirement, the insured person has the option between a lifetime pension which includes a reversionary spouse's pension, or the payment of a capital sum. In addition to retirement benefits, employee benefits also include an invalidity pension and a partner pension. These are computed as a percentage of the insured annual salary. An insured person can also purchase additional benefits to improve his/her pension situation up to a maximum allowed under the pension rules.

Upon termination of employment, the accumulated savings capital is transferred to the pension plan of the new employer or to a vested benefits scheme. This form of employment benefit can lead to a situation where pension payments may vary significantly between the various years.

The minimum provisions of the Law on Occupational Pension Plans and its Implementing Provisions (BPVG) are to be observed in determining employee benefits. The minimum insurable salary and the minimum savings credits are laid down in the BPVG.

As a result of the form of the pension plan and the legal provisions of the BPVG, the employer is exposed to actuarial risks, the most significant of which are investment risk, interest-rate risk, invalidity risk and longevity risk. The employee and employer contributions are laid down by the Councils of the Foundations. In this connection, the employer must bear, at a minimum, half of all contributions. In the event of a funding deficit, restructuring contributions to eliminate the funding deficit may be demanded both from the employer and employees.

The latest actuarial valuation of the present value of the defined-benefit obligations and service costs was carried out as of 31 December 2016 by independent actuaries using the Projected Unit Credit Method. The fair value of plan assets as of 31 December 2016 was determined based upon information available at the time of preparation of the annual financial statements.

The most significant assumptions underlying the actuarial computations may be summarised as follows:

	31.12.2016	31.12.2015
Discount rate	0.65%	0.90%
Rate of future salary increases	1.00%	1.00%
Rate of future pension increases	0.00%	0.00%
Life expectancy at the age of 65, in years		
Year of birth	1951	1950
men	22.26	21.49
women	24.32	23.96
Year of birth	1971	1970
men	24.18	23.24
women	26.22	25.67

The amounts recognised in the income statement may be summarised as follows:

Pension costs

in CHF 1,000	2016	2015
Pension expense recognised in income statement		
Service cost		
• current service cost	12,521	12,791
• past service cost	0	-11,776
• plan settlements	0	0
Net interest expense	611	722
Administrative costs	272	282
Total pension cost expense of the period	13,404	2,019
Revaluation components recognised in comprehensive income		
Actuarial gains/losses		
Result of changes to demographic assumptions	-3,720	0
Result of changes to economic assumptions	11,259	10,371
Experience adjustments	6,121	-6,586
Return on plan assets (excluding amounts in net interest expense)	752	8,626
Total expense recognised in comprehensive income	14,412	12,411
Total pension cost	27,816	14,430

The movement in pension obligations and plan assets may be summarised as follows:

Movement in present value of defined-benefit obligations

in CHF 1,000	2016	2015
Present value of defined-benefit obligations at beginning of financial year	318,078	283,922
Current service cost	12,521	12,791
Employee contributions	5,481	5,488
Interest expense on present value of pension obligations	2,791	3,606
Actuarial gains/losses	13,660	3,785
Past service cost	0	-11,776
Acquisitions	0	38,353
Pension payments financed by plan assets	-15,998	-18,091
Balance at end of financial year	336,533	318,078

Movement in plan assets

in CHF 1,000	2016	2015
Plan assets at beginning of financial year	243,085	219,578
Employee contributions	5,481	5,488
Employer contributions	8,953	9,049
Interest income on plan assets	2,180	2,884
Return on plan assets (excluding amounts under interest income)	-752	-8,626
Acquisitions	0	33,085
Pension payments financed by plan assets	-15,998	-18,091
Administrative costs	-272	-282
Balance at end of financial year	242,677	243,085

The net position of pension obligations recognised in the balance sheet may be summarised as follows:

Net position of pension obligations recognised in balance sheet

in CHF 1,000	31.12.2016	31.12.2015
Present value of pension obligations financed through a fund	336,533	318,078
Market value of plan assets	-242,677	-243,085
Under- / excess of funding	93,856	74,993
Present value of pension obligations not financed through a fund	0	0
Unrecognised assets	0	0
Recognised pension obligations	93,856	74,993

In the case of the autonomous pension plan, the Foundation Council issues investment guidelines for the investment of the plan's assets which contain the tactical asset allocation and the benchmarks for comparing the results with those of the general investment universe. The plan assets are well diversified and, in addition, the legal provisions of the BPVG are to be observed. The plan assets of collective pension foundations are invested in insurance policies with insurance companies. The Council of the Foundation reviews on an ongoing basis whether the investment strategy chosen is appropriate to cover the pension benefits and whether the risk budget corresponds to the demographic structure. Compliance with investment guidelines and the investment performance of investment advisors are also subject to ongoing review.

Plan assets primarily consist of the following categories of securities:

in CHF 1,000	31.12.2016	31.12.2015
Equity shares	47,072	50,511
• thereof quoted market prices (Level 1)	47,072	48,026
Bonds	98,721	106,316
• thereof quoted market prices (Level 1)	98,721	101,383
Alternative financial investments	21,165	13,853
• thereof quoted market prices (Level 1)	5,295	4,512
Real estate	11,876	11,837
• thereof quoted market prices (Level 1)	0	0
Qualifying insurance paper	39,581	41,502
Cash equivalents	24,851	22,932
Other financial investments	-589	-3,866
Total	242,677	243,085
• thereof quoted market prices (Level 1)	151,088	153,921

The pension plans hold shares in VP Bank Ltd, Vaduz, with a market value totalling CHF 1.6 million (previous year: CHF 1.2 million). In 2016, the return on plan assets was CHF 1.428 million (previous year: -CHF 5.742 million).

The defined-benefit pension obligations may be allocated as follows to the currently active insured employees, those who have left the Group with vested rights and pensioners as well as the duration of the pension obligations:

in CHF 1,000	31.12.2016	31.12.2015
Current actively insured employees	245,895	241,047
Pensioners	90,638	77,031
Total	336,533	318,078

The duration of pension obligations is approximately 18 years (previous year: 18 years).

Presented in the following table are the sensitivities for the most important factors in the computation of the present value of pension obligations.

Changes in present value of defined-benefit obligations

in CHF 1,000 Variance	31.12.2016		31.12.2015	
	0.25%	-0.25%	0.25%	-0.25%
Discount rate	-13,733	14,790	-12,418	13,206
Interest on pension capital accounts	3,935	-3,735	2,645	-2,677
Development of salaries	1,284	-1,267	1,088	-1,101

Other employee benefits payable in the long term

in CHF 1,000	31.12.2016	31.12.2015
Balance at the beginning of the financial year	3,258	0
Expenses financial year	216	3,452
Acquisitions	0	545
Employee payments	-462	-737
Exchange differences	2	-2
Balance at end of financial year	3,014	3,258

Other employee benefits payable in the long term exist in the form of long service awards. Analogously to the defined benefit pension plans, actuarial calculations have been performed and an accrued expense recognized for these benefits. In 2015, the Group introduced a uniform regulation for the calculation of benefits from long service awards for most Group employees. For some employees abroad, separate regulations apply. These regulations qualify as plans for other employee benefits payable in the long term.

42 Significant foreign exchange rates

The following exchange rates were used for the most important currencies:

	Year-end rates		Annual average rates	
	31.12.2016	31.12.2015	2016	2015
USD/CHF	1.0164	1.0010	0.98525	0.96329
EUR/CHF	1.0720	1.0874	1.08969	1.06830
SGD/CHF	0.7035	0.7056	0.71369	0.70026
HKD/CHF	0.1311	0.1292	0.12693	0.12425
GBP/CHF	1.2559	1.4754	1.33328	1.47225

43 Employee stock-ownership plan

The stock-ownership plan enables employees to subscribe annually to a defined number of bearer shares of VP Bank Ltd, Vaduz, at a preferential price subject to a four-year restriction on selling. Upon expiration of the sales restriction period, or at the time of resignation from VP Bank Group, the related shares become freely available. As the employees are therefore ultimately able to take up the shares at any time and in full, the expense arising from the employee participation plans is recorded in full at the time of their respective allocation. The number of bearer shares that can be subscribed to depends upon the years of service, rank and management level.

The purchase price is determined annually in relation to the market value of the bearer shares on the Swiss Exchange (ex-dividend). The shares issued in this manner derive either from shareholdings of VP Bank Group or must be purchased for this purpose over the exchange. The expense thereby incurred is charged directly to personnel costs.

During 2016, 12,494 shares were issued at a preferential price (2015: 12,085 shares). Share issue expenses in 2016 were CHF 0.5 million (2015: CHF 0.5 million). There is no profit-sharing plan for the Board of Directors. Its members, however, receive a part of their remuneration/bonuses in the form of equity shares which are not subject to any lock-up period (note 40). A profit-sharing plan exists for Group Executive Management and other management members (note 44). VP Bank has defined waiting periods for the Board of Directors, Group Executive Management and selected executives and employees, during which it is forbidden to trade in the shares of VP Bank.

44 Management profit-sharing plan

A long-term and value-oriented compensation model exists for the Executive Board and second-level management. Details thereof are to be found in the "compensation report" on page 94.

Management equity-sharing plan (LTI)

Number	2016	2015	Variance in %
Balance of entitlements at the beginning of the year	62,598	72,698	-13.9
New entitlements	37,962	36,102	5.2
Changes in entitlements as a result of allocation	-62,102	-46,176	34.5
Changes in entitlements as a result of expiry	6,675	-14,386	-146.4
Changes in entitlements as a result of changes in factors	6,454	14,360	-55.1
Balance of calculated entitlements at the end of the year	51,587	62,598	-17.6
in CHF 1,000	2016	2015	Variance in %
Personnel expense recorded over vesting period for allocated management sharing plan	4,382	3,921	11.8
Fair value of management sharing plan at date of allocation	5,587	3,727	49.9
Personnel expense for management sharing plan (LTI) expense for reporting period	4,106	2,590	58.5
Accrual for management sharing plan (LTI) in equity at the end of the year	4,335	4,610	-6.0

45 Acquisitions in 2015

VP Bank Group continues to pursue the strategy of growth through acquisition. Following receipt of the regulatory approval of the Financial Market Authority (FMA) Liechtenstein, VP Bank Ltd, Vaduz, acquired the entire share capital of Centrum Bank AG, Vaduz, as of 7 January 2015. Centrum Bank AG, Vaduz, thus became a 100-per cent owned subsidiary company of VP Bank Ltd, Vaduz. The legal merger between VP Bank Ltd and Centrum Bank AG was consummated on 30 April 2015.

Marxer Stiftung für Bank- und Unternehmenswerte participated in the capital of VP Bank to the equivalent amount. VP Bank Group thereby welcomes a further anchor shareholder in this reliable and long-term-oriented Liechtenstein family.

The following assets and liabilities were acquired as part of the merger:

in CHF 1,000	Fair value
Amounts due from banks and clients	1,487,633
Financial instruments	294,924
Software	5,720
Other intangible assets	34,045
Deferred tax assets	5,179
All other assets	129,570
Total assets	1,957,071
Amounts due to banks and clients	-1,790,650
Deferred tax liabilities	-9,360
Provisions	-185
All other liabilities	-37,650
Total liabilities	-1,837,845
Total net assets	119,226
Net assets acquired	119,226
Purchase price settled in cash and cash equivalents	3,854
Purchase price settled in shares of VP Bank (755,955 bearer shares at the price (as per 07.01.2015) of CHF 86.50)	65,390
Purchase consideration	69,244
Bargain purchase arising from acquisition	-49,982
Cash and cash equivalents on hand in the company acquired	352,241
Purchase consideration settled in cash and cash equivalents	-3,854
Cash inflow arising from the transaction	348,387

Assets under management of CHF 6.7 billion and custody assets of CHF 0.4 billion were taken over as part of the acquisition. The transaction gave rise to a "bargain purchase" of TCHF 49,982 as well as intangible assets (client relationships) of TCHF 34,045. The client relationships will be amortised over 10 years.

The costs of the transaction incurred in the reporting period (advisory, legal, auditing, valuation costs, etc.) amount to CHF 2.8 million and are recognised in general and administrative expenses (note 7) (financial year 2014: CHF 1.2 million). The costs for the capital increase accompanying the transaction, in compliance with IFRS, were not taken to income but charged to capital reserves and amount to CHF 1.1 million for the current period.

The resulting "bargain purchase" can be ascribed in particular to two specific reasons. On the one hand, it must be taken into consideration that the whole restructuring and integration costs in connection with this transaction are borne by VP Bank. On the other hand, the fact that the seller has become an anchor shareholder in VP Bank in an equivalent amount is also to be taken into account. The market values underlying the sales price of the bearer shares are significantly lower than the intrinsic value of the bearer share. The bearer shares of VP Bank have been traded on the stock exchange at a price under their carrying value. Both effects combined led to the disclosed "bargain purchase". The latter was taken to income under "Other income" (note 5).

Centrum Bank was merged with VP Bank Ltd on 30 April 2015 and fully integrated into VP Bank, Vaduz. Because of the merger of the various organisational units, it is not always possible to show the impact of the acquired company on the profit and loss account.

46 Consolidated off-balance-sheet transactions

in CHF 1,000	31.12.2016	31.12.2015
Contingent liabilities		
Credit guarantees and similar	28,842	34,761
Performance guarantees and similar	85,788	25,760
Irrevocable commitments	0	0
Other contingent liabilities	0	0
Total contingent liabilities	114,630	60,521
Credit risks		
Irrevocable facilities granted	45,426	47,922
Capital subscription and margin obligations	0	0
Commitment credits	0	0
• Liabilities arising from deferred payments	0	0
• Liabilities arising from acceptances	0	0
• Other commitment credits	0	0
Commitments arising from artificial repurchase transactions	0	0
Total credit risks	45,426	47,922
Fiduciary transactions		
Fiduciary deposits ¹	728,681	648,924
Fiduciary loans	0	0
Other fiduciary financial transactions	0	10,874
Total fiduciary transactions	728,681	659,798

¹ Placements that Group companies made with banks outside the scope of consolidation in their own name but at the risk and expense of the client.

Maturity structure

in CHF 1,000	At sight	Maturing within		Over 5 years	Total
		1 year	1 to 5 years		
31.12.2016					
Contingent liabilities	23,816	9,658	16,270	64,886	114,630
Credit risks	2,250	39,057	2,618	1,501	45,426
31.12.2015					
Contingent liabilities	31,537	8,559	18,385	2,040	60,521
Credit risks	3,529	37,796	4,902	1,694	47,922

Securities lending and repurchase and reverse repurchase transactions

in CHF 1,000	31.12.2016	31.12.2015
Accounts receivable arising from cash deposits in connection with securities borrowing and reverse repurchase transactions	1,256	210,262
Accounts payable arising from cash deposits in connection with securities borrowing and reverse repurchase transactions	50,883	0
Securities lent out within the scope of securities lending or delivered as collateral within the scope of securities borrowing activities, as well as securities in own portfolio transferred within the framework of repurchase transactions	478,910	399,728
• of which securities where the unlimited right to sell on or pledge has been granted	410,780	333,459
Securities received as collateral within the scope of securities lending or borrowed within the scope of securities borrowing activities, as well as received under reverse repurchase transactions, where the unlimited right to resell or repledge has been granted	426,254	643,207
• of which securities which have been resold or repledged	68,130	66,269

These transactions were conducted in accordance with conditions which are customary for securities lending and borrowing activities as well as trades for which VP Bank acts as intermediary.t.

Client assets

in CHF million	31.12.2016	31.12.2015	Variance absolute	Variance in %
Analysis of client assets under management				
Assets in self-administered investment funds	5,813.4	5,905.1	-91.7	-1.6
Assets in discretionary asset management accounts	3,439.1	3,365.4	73.7	2.2
Other client assets under management	26,501.4	25,498.2	1,003.2	3.9
Total client assets under management¹ (including amounts counted twice)	35,753.9	34,768.7	985.2	2.8
• of which amounts counted twice	1,972.4	1,797.3	175.0	9.7
Change of assets under management				
Total client assets under management (including amounts counted twice) at the beginning of the financial year	34,768.7	30,939.1	3,829.6	12.4
• of which net new money	7.4	-658.0	665.4	n.a.
• of which change in market value	977.8	-2,215.9	3,193.8	n.a.
• of which other effects ¹	0.0	6,703.5	-6,703.5	-100.0
Total client assets under management (including amounts counted twice) as of balance-sheet date	35,753.9	34,768.7	985.2	2.8
Custody assets^{2,3}	5,790.4	6,592.3	-801.9	-12.2
Total client assets				
Total client assets under management (including amounts counted twice) ¹	35,753.9	34,768.7	985.2	2.8
Custody assets ^{2,3}	5,790.4	6,592.3	-801.9	-12.2
Total client assets	41,544.3	41,361.0	183.4	0.4
Net new money¹	7.4	6,045.5	-6,038.1	n.a.

¹ Acquired client relationships (note 45) of CHF 6.7 billion are included in this position in 2015.

² Acquired client relationships (note 45) of CHF 0.4 billion are included in this position in 2015.

³ During the closing operations we determined that the published custody assets as per 31 December 2015 were overvalued by CHF 1.6 billion. The figures were restated accordingly.

Calculation method

All client assets that are managed or held for investment purposes for which investment-advisory and asset-management services are provided are considered as client assets under management. In principle, all amounts owed to clients, fiduciary deposits and all assets in security deposits with a value are included therein. The calculation is made on the basis of the provisions of the Liechtenstein Banking Ordinance (Note 3, Point 88a, FL-BankO) and the internal guidelines of VP Bank Group.

Assets in self-administered investment funds

This item contains the assets of all administered investment funds of VP Bank Group.

Assets in discretionary asset-management accounts

The assets in discretionary asset-management accounts encompass securities, uncertificated securities, precious metals, fiduciary deposits placed with third parties valued at market value and client deposits. The data include both assets deposited with Group companies and with third parties which are the object of a discretionary asset-management agreement with a Group company.

Other client assets under management

Other client assets under management encompass securities, uncertificated securities, precious metals, fiduciary deposits placed with third parties valued at market value and client deposits. The data encompass assets which are the object of an administration or advisory mandate.

Amounts counted twice

This item encompasses unit shares in self-administered investment funds which are in client portfolios subject to a discretionary asset-management agreement and other security deposits of clients.

Net new money inflows/outflows

This item comprises the acquisition of new clients, lost clients and inflows or outflows from existing clients. Performance-related changes in assets such as share price movements, interest and dividend payments, as well as interest charged to clients, are not considered as inflows and outflows. Acquisition related changes in assets are presented separately. If the service provided changes and if assets under management are reclassified as assets held for custody purposes, or vice versa, this will generally be recognised, respectively, as an outflow or inflow of new client assets. In 2016, net new money includes reclassifications amounting to CHF 25.1 million (2015: CHF 0).

Custody assets

Assets held exclusively for the purposes of trading and custody for which the involvement of VP Bank Group is limited to custodian and collection activities.

Statutory auditor's report on the audit of the consolidated financial statements

To the General Meeting of VP Bank Ltd, Vaduz

Opinion

We have audited the consolidated financial statements of VP Bank Ltd and its subsidiaries (the Group) – which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated changes in shareholders equity, consolidated statement of cash flow and notes for the year ended 31 December 2016, including a summary of significant accounting policies (pages 107 to 172) – and the consolidated annual report (pages 103 to 106).

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Liechtenstein law.

The consolidated annual report is in accordance with the consolidated financial statements.

Basis for opinion

We conducted our audit in accordance with Liechtenstein law and International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Liechtenstein law and the requirements of the audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Valuation of due from customers

Area of focus

As of 31 December 2016 the amount Due from customers was CHF 5.2 billion or 44.5% of the Group's balance sheet, of which CHF 3.3 billion relate to Mortgages and CHF 1.9 billion to Other loans.

Due from customers are valued at amortized cost, which equates to the fair value at the time the loans were granted. An allowance for credit losses is considered in case of a credit deterioration of the counterparty or country. An allowance for credit losses is reported as a decrease in carrying value of a loan on the balance sheet. Collective allowances and provisions are recorded to cover potential, yet unidentified credit risks. All impaired loans are reviewed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared with prior estimates result in a change in the allowance for credit losses. Judgment is used in making assumptions about timing and amount of impairment losses.

We focused on this area due to the judgmental nature and the magnitude of the mentioned balance sheet items.

The Group describes its accounting policies for the item Due from customers on page 116 and notes 15 and 16 to the consolidated financial statements.

Our audit response

We tested the design and operating effectiveness of the key controls over the process for granting and monitoring loans. We also assessed the process and controls over the identification of non-performing loans.

We selected a sample of individual loans and independently performed impairment testing and evaluated the assumptions used for the calculation of allowances for credit losses. In addition, we evaluated the appropriateness of the accounting principles used and examined the disclosures in the notes to the consolidated financial statements.

Fair value measurement of financial instruments

Area of focus

The Group recognizes financial instruments at fair value, particularly in the balance sheet items Trading portfolio, Derivative financial instruments and Financial instruments at fair value.

Fair values are based on quoted market prices if an active market exists. If no active market exists, fair values are determined by reference to listed quotes or external pricing models (level 2). The use of valuation models is highly dependent on the assumptions applied, including interest rates, forward rates, swap rates, spread curves, volatilities and estimates of future cash flows. The determination of these assumptions involves the exercise of significant judgment.

We focused on this area due to the judgmental nature and the magnitude of the mentioned balance sheet items.

The Group describes its accounting policies on page 115 f. and notes 17 to 19 and note 38 to the consolidated financial statements.

Our audit response

We assessed the selection process for the key assumptions used for valuation and tested them on a sample basis with the assistance of our valuation specialists. In addition, we performed combined model and parameter tests, i.e., we validated the Group's measurements using independent valuation models and inputs. We also tested the fair values available in an active market on a sample basis, including comparing values to available market data.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Liechtenstein law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Liechtenstein law and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://www.expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young AG



Bruno Patusi
Swiss Certified Accountant
(Auditor in charge)



Moreno Halter
Certified Accountant

Berne, 28 February 2017

"The end of discretion for private banks?"

Dominik Allemann

Co-owner and Joint Managing Director of Bernet PR

It is the innate characteristics of social networks which appear to contradict their deployment in the world of finance. How do we exploit the power of the rapid, direct and far-reaching social-media channels without exposing ourselves to communication risks and dangers?



Read the full post at
www.vpbank.com/NextBanking-Social-Media







6

Financial report 2016 of
VP Bank Ltd, Vaduz

Annual report of VP Bank Ltd, Vaduz

The annual report of VP Bank Ltd is largely evident from the consolidated annual report of VP Bank Group.

As of the balance-sheet date, VP Bank Ltd, Vaduz, and its subsidiaries held in total 593,777 registered shares A as well as 127,812 registered shares B (prior year: 594,774 registered shares A and 125,912 registered shares B). This equates to a capital share of approximately 9.2 per cent (prior year: 9.2 per cent). In addition, reference is made to the notes to the relevant annual financial statements regarding the number of and changes in treasury shares in the parent company.

In keeping with the spirit of the Group's long-term dividend policy, the Board of Directors will propose a dividend of CHF 4.50 per registered share A and CHF 0.45 per registered share B (prior year: CHF 4.00 per registered share A and CHF 0.40 per registered share B) at the annual general meeting of shareholders to be held on 28 April 2017.

Balance sheet

Assets

in CHF 1,000 Art. 24b FL-BankO	31.12.2016	31.12.2015	Variance absolute	Variance in %
Cash and cash equivalents	3,380,818	2,839,016	541,802	19.1
Due from banks	916,082	1,806,548	-890,466	-49.3
• maturing daily	550,569	423,302	127,267	30.1
• other receivables	365,513	1,383,246	-1,017,733	-73.6
Due from customers	4,400,435	4,222,969	177,466	4.2
• of which mortgage receivables	3,098,641	3,106,736	-8,095	-0.3
Debentures and other interest-bearing securities	1,806,782	1,780,371	26,411	1.5
• money-market papers	0	0	0	0.0
• debt securities	1,806,782	1,780,371	26,411	1.5
• from public-sector issuers	715,547	676,381	39,166	5.8
• from other issuers	1,091,235	1,103,990	-12,755	-1.2
Equity shares and other non-interest-bearing securities	62,911	72,030	-9,119	-12.7
Participations	35	35	0	0.0
Shares in affiliated companies	124,155	119,190	4,965	4.2
Intangible assets	7,632	6,980	652	9.3
Property and equipment	79,168	85,689	-6,521	-7.6
Treasury shares	51,559	49,804	1,755	3.5
Other assets	67,155	76,705	-9,550	-12.5
Accrued receivables and prepaid expenses	21,268	23,729	-2,461	-10.4
Total assets	10,918,000	11,083,066	-165,066	-1.5

Liabilities and shareholders' equity

in CHF 1,000 Art. 24b FL-BankO	31.12.2016	31.12.2015	Variance absolute	Variance in %
Due to banks	2,265,523	1,493,790	771,733	51.7
• maturing daily	1,474,568	1,097,723	376,845	34.3
• with agreed duration or term of notice	790,955	396,067	394,888	99.7
Due to customers	7,230,224	8,064,298	-834,074	-10.3
• savings deposits	702,634	754,557	-51,923	-6.9
• other liabilities	6,527,590	7,309,741	-782,151	-10.7
• maturing daily	6,057,804	7,098,362	-1,040,558	-14.7
• with agreed duration or term of notice	469,786	211,379	258,407	122.2
Securitised liabilities	424,323	570,986	-146,663	-25.7
• debentures issued	424,323	570,986	-146,663	-25.7
• of which medium-term notes	224,323	219,986	4,337	2.0
Other liabilities	81,074	70,540	10,534	14.9
Accrued liabilities and deferred items	17,131	20,406	-3,275	-16.0
Provisions	17,984	24,892	-6,908	-27.8
• tax provisions	7,217	4,983	2,234	44.8
• other provisions	10,767	19,909	-9,142	-45.9
Provisions for general banking risks	63,150	63,150	0	0.0
Share capital	66,154	66,154	0	0.0
Capital reserves	47,143	47,239	-96	-0.2
Income reserves	586,446	584,281	2,165	0.4
• legal reserves	239,800	239,800	0	0.0
• reserves for treasury shares	51,559	49,804	1,755	3.5
• other reserves	295,087	294,677	410	0.1
Balance brought forward	50,868	36,112	14,756	40.9
Net income for the year	67,980	41,218	26,762	64.9
Total liabilities and shareholders' equity	10,918,000	11,083,066	-165,066	-1.5

Off-balance-sheet transactions

in CHF 1,000 Art. 24b FL-BankO	31.12.2016	31.12.2015	Variance absolute	Variance in %
Contingent liabilities	100,344	42,655	57,689	135.2
Credit risks	17,543	21,136	-3,593	-17.0
• irrevocable facilities granted	17,543	21,136	-3,593	-17.0
Derivative financial instruments				
• positive replacement values	43,593	33,067	10,526	31.8
• negative replacement values	58,154	50,285	7,869	15.6
• contract volumes	5,452,567	4,828,503	624,064	12.9
Fiduciary transactions	416,867	443,725	-26,858	-6.1

Income statement

in CHF 1,000 Art. 24c FL-BankO	2016	2015	Variance absolute	Variance in %
Interest income	64,348	72,649	-8,301	-11.4
• of which from interest-bearing securities	20,961	20,768	193	0.9
• of which from trading transactions	25	-336	361	-107.5
Interest expense	8,904	9,389	-485	-5.2
Net interest income	55,444	63,260	-7,816	-12.4
Current income from securities	7,566	7,938	-372	-4.7
• shares and other non-interest-bearing securities	3,336	3,984	-648	-16.3
• of which from trading transactions	0	0	0	0.0
• participations	2	0	2	n.a.
• shares in affiliated companies	4,228	3,954	274	6.9
Income from commission business and services	94,370	86,106	8,264	9.6
• commission income from credit business	450	694	-244	-35.2
• commission income from securities and investment business	79,694	71,788	7,906	11.0
• commission income from other services	14,226	13,624	602	4.4
Commission expense	16,831	13,485	3,346	24.8
Net income from commission business and services	77,539	72,621	4,918	6.8
Income from financial transactions	61,513	29,832	31,681	106.2
• of which from trading transactions	61,760	36,924	24,836	67.3
Other ordinary income	3,489	20,397	-16,908	-82.9
• income from real estate	176	372	-196	-52.8
• other ordinary income	3,313	20,025	-16,712	-83.5
Total net operating income	205,551	194,048	11,503	5.9
Operating expenses	122,677	117,801	4,876	4.1
• personnel expenses	89,516	79,935	9,581	12.0
• general and administrative expenses	33,161	37,866	-4,705	-12.4
Gross income	82,874	76,247	6,627	8.7
Depreciation and amortisation of intangible assets and property and equipment	14,035	18,946	-4,911	-25.9
Other ordinary expenses	1,552	2,125	-573	-27.0
Valuation allowances on receivables and increases in provisions for contingent liabilities and credit risks	5,652	22,523	-16,871	-74.9
Income from release of valuation allowances on receivables and from the release of provisions for contingent liabilities and credit risks	10,404	9,458	946	10.0
Write-offs on participations, shares in affiliated companies and securities dealt with as non-current assets	0	0	0	0.0
Gains from appreciations on participations, shares in affiliated companies and securities dealt with as non-current assets	0	0	0	0.0
Income from normal business operations	72,039	42,111	29,928	71.1
Extraordinary income	1	1	0	0.0
Extraordinary expenses	0	0	0	0.0
Taxes on income	4,057	885	3,172	358.6
Other taxes if not included in above items	3	9	-6	-69.9
Net income for the year	67,980	41,218	26,762	64.9

Appropriation of profit

in CHF 1,000 Art. 24c FL-BankO	2016	2015	Variance absolute	Variance in %
Net income for the year	67,980	41,218	26,762	64.9
Retained earnings brought forward	50,868	36,112	14,756	40.9
Retained earnings	118,847	77,329	41,518	53.7
Appropriation of profit				
Appropriation to other reserves	0	0	0	0.0
Distribution on the basis of company capital	29,769	26,462	3,307	12.5
Other appropriation of profit	2,000	0	2,000	n.a.
Retained earnings to be carried forward	87,078	50,868	36,210	71.2

The Board of Directors proposes that the profit be distributed as follows:

At the disposal of the annual general meeting	118,847,149.83
Distribution of a dividend of CHF 4.50 per registered share A CHF 0.45 per registered share B	29,769,375.15
Other appropriation of profit	2,000,000.00
Retained earnings to be carried forward	87,077,774.68

Information regarding business activities and number of employees

Art. 24e Par. 1 Point 1 FL-BankO

VP Bank Ltd, which has its registered office in Vaduz, Liechtenstein, was established in 1956 and is one of the three largest banks in Liechtenstein. As of 31 December 2016, VP Bank Group owns subsidiary companies in Zurich, Luxembourg, the British Virgin Islands, Singapore and Hong Kong, as well as representative offices in Moscow and Hong Kong. Adjusted to reflect full-time equivalents, at year-end 2016 VP Bank Ltd had 475.1 individuals under its employment (previous year: 473.0).

VP Bank's core activities consist of asset-management and investment-advisory services for private and institutional investors, as well as lending operations.

Commission business and services

In addition to general banking operations, commission- and service-related business encompasses asset-management services for private clients, financial intermediaries and institutional clients, as well as investment advice, safekeeping and trustee services. VP Bank Ltd earns a significant portion of its total commission-related revenue from transactions in securities on behalf of clients.

Lending business

The credit business of the Bank is primarily geared to providing financing of residential properties for private clients, as well as asset-management and investment-advisory services for private clients. The Bank also grants commercial loans to commercial clients.

Money-market and interbank activities

To the extent that they are not used for the Bank's lending operations, client funds are invested with first-rate banks.

Trading activities

Clients are afforded a full range of execution and settlement services for all customary types of financial transaction. A significant portion of the trading activities is related to foreign exchange dealings on behalf of private clients.

For liquidity-management and investment purposes, VP Bank Ltd maintains a portfolio of interest-bearing security and equity positions.

Principles of accounting and valuation, disclosures on risk management

Art. 24e Par. 1 Point 2 FL-BankO

Principles of accounting and valuation

General principles

Accounting and valuation follow the prescriptions of the Liechtenstein Persons and Companies Act, as well as the Liechtenstein Banking Act and its related Ordinance.

Recording of transactions

In accordance with the valuation policies laid down, all business transactions are recorded in the Bank's accounts as of their trading date. Forward contracts are recorded under off-balance-sheet transactions as of their settlement or value date.

Income and expenditure in foreign currencies are converted into Swiss francs at their respective daily rates; assets and liabilities are converted at the rates prevailing at year-end. Foreign-exchange gains and losses resulting from revaluation are recorded in the income statement.

Cash balances, public-sector debt securities and bills of exchange which are eligible for refinancing with central banks, amounts due from banks, liabilities

Recording is made at nominal values minus any applicable unearned discount in the case of money-market paper. Valuation allowances are established to cover identifiable risks taking into account the principle of prudence. Individual and lump-sum valuation allowances are deducted directly from the related balance-sheet positions.

Interest overdue for more than 90 days is provided for and recorded in the income statement as and when received.

Amounts due from clients

Receivables from clients are recorded in the balance sheet at their nominal values minus any applicable valuation allowances. A receivable is considered as being value-impaired when there is a probability that the total contractually owed amount is no longer recoverable.

A valuation allowance is recorded in the balance sheet as a reduction of the carrying value of the receivable to its probable realisable value. On the other hand, provisions for credit risks are established for off-balance-sheet positions. In add-

ition to individual valuation allowances, VP Bank Ltd creates lump-sum individual valuation allowances as well as lump-sum valuation allowances to cover latent credit risks.

A review of collectability is undertaken at least annually for all non-performing loans.

Debentures and other interest-bearing securities, equity shares and other non-interest-bearing securities

Trading portfolios of securities and precious metals are valued at the quoted market price as of the balance-sheet date.

Portfolios of securities and precious metals classified as current assets are valued at the lower of cost and market. Interest on interest-bearing securities is reflected in the interest income items, dividend income in the current income from securities items. Gains and losses from revaluation are disclosed in the item gains/losses arising from financial transactions.

Participations

Equity shareholdings in companies owned by the Bank representing a non-controlling interest held on a long-term basis are recorded as participations. Participations are valued at acquisition cost minus economically required valuation allowances.

Shares in affiliated companies

The existing majority shareholdings of VP Bank Ltd are recorded as shares in affiliated companies. Shares in affiliated companies are valued at acquisition cost minus economically required valuation allowances.

These affiliated companies are fully consolidated for the purposes of the published consolidated financial statements.

Intangible assets

Value-enhancing expenditures in connection with the acquisition and installation of software are capitalised and amortised on a straight-line basis over the estimated service life of three to seven years. Self-developed intangible assets are not capitalised. Minor purchases are charged directly to general and administrative expenses.

Property and equipment

Property and equipment encompasses buildings used by the Bank, other real estate, furniture and equipment as well as IT installations. Investments in new and existing property and equipment are capitalised and valued at acquisition cost. Minor purchases are charged directly to general and administrative expenses.

In subsequent valuations, property and equipment is recorded at acquisition cost, minus accumulated depreciation and amortisation. Depreciation and amortisation is charged on a systematic basis over the estimated useful lives (buildings used by the Bank and other real estate: 25 years; furniture and equipment: 8 years; computer hardware: 3 years; software: 3 to 7 years). The property and equipment is reviewed annually for impairment in value.

Other assets, other liabilities

Other assets and liabilities include the positive and negative replacement values, respectively, of all financial derivative instruments open at the balance-sheet date arising from nostro transactions as well as over-the-counter contracts (OTC) arising from transactions on behalf of clients. In addition, these positions include balances of various settlement and clearing accounts.

Valuation allowances and provisions

Valuation allowances and provisions are established to reflect identifiable risks, as dictated by the principle of prudence. Individual and lump-sum valuation allowances for receivables from banks and clients as well as on mortgage receivables are deducted directly from the corresponding asset position. Provisions can be raised for receivables subject to a country risk as dictated by the principle of prudence.

Provisions for general banking risks

Provisions for general banking risks are prudently established reserves to cover latent risks arising from the normal course of business of the Bank. As required by the prescriptions governing financial statement reporting, they are shown as a separate item in the balance sheet. Changes thereto are disclosed separately in the income statement.

Contingent liabilities, irrevocable facilities granted, capital subscription and margin obligations

Amounts disclosed as off-balance-sheet items are stated at nominal values. Lump-sum provisions exist in the balance sheet for latent default risks.

Statement of cash flow

VP Bank Ltd is exempted from drawing up a statement of cash flow as a result of the obligation to prepare consolidated financial statements (Art. 241 FL-BankO). The consolidated statement of cash flow of VP Bank Group is a part of the consolidated financial statements.

Post-balance-sheet-date events

There were no material occurrences having an impact on the balance sheet and income statement to be reported for the 2016 financial year.

Commentaries on risk management

Appropriate risk management is the basic prerequisite for the sustainable development and continuing success of VP Bank Ltd, Vaduz. By "appropriate" it is to be understood that VP Bank Ltd, as a value-oriented enterprise, although it takes on financial, operational and business risks in a conscious manner, does not hinder growth through innovation and initiatives, but realistically evaluates and realises profit opportunities.

The principles for identifying, evaluating, controlling and monitoring financial, operational and business risks apply to VP Bank Ltd to the same extent as to the subsidiary companies and exactly mirror the risk management and control framework of VP Bank Group, for which reason reference is made at this point to the commentaries on risk management of VP Bank Group set out on pages 124 ff.

Notes regarding balance sheet and income statement

Analysis of collateral

in CHF 1,000 Art. 24e Par. 1 Point 3.1 FL-BankO	Mortgage collateral	Other collateral	Without collateral	Total
Loans				
Due from customers	21,094	1,036,498	244,202	1,301,794
Mortgage receivables	3,045,366	38,695	14,580	3,098,641
• Residential property	1,980,688	36,961	5,399	2,023,048
• Office and business premises	141,761	0	0	141,761
• Commercial and industrial premises	844,426	93	4,996	849,515
• Other	78,491	1,641	4,185	84,317
Total loans, 31.12.2016	3,066,460	1,075,193	258,782	4,400,435
Total loans, 31.12.2015	3,089,354	880,398	253,217	4,222,969
Off-balance-sheet transactions				
Contingent liabilities	573	91,449	8,322	100,344
Irrevocable facilities granted	4,755	4,379	8,409	17,543
Total off-balance-sheet transactions, 31.12.2016	5,328	95,828	16,731	117,887
Total off-balance-sheet transactions, 31.12.2015	5,181	37,228	21,382	63,791

Value-impaired loans

in CHF 1,000	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
Total value-impaired loans, 31.12.2016	63,748	33,100	30,648	30,648
Total value-impaired loans, 31.12.2015	69,613	37,420	32,193	32,193

Trading portfolios of securities and precious metals

in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankO	Carrying value		Acquisition cost		Market value	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Trading portfolios of securities and precious metals						
Debt securities	0	1,742	0	1,747	0	1,742
• listed on a stock exchange (traded on a recognised market)	0	1,742	0	1,747	0	1,742
• of which own bonds and medium-term notes	0	1,742	0	1,747	0	1,742
Equity shares	33	13	26	13	33	13
• of which equity shares in the treasury	33	13	26	13	33	13
Precious metals	100	155	104	156	100	155
Total	133	1,910	130	1,916	133	1,910

Material receivables and liabilities included in other balance-sheet positions which are marked to market value and whose revaluation is recorded in the item "gains/losses from trading transactions":

Positive replacement values of derivative financial instruments in trading portfolios (other assets)	43,025	33,067			43,025	33,067
Negative replacement values of derivative financial instruments in trading portfolios (other liabilities)	36,657	23,382			36,657	23,382
Total	79,682	56,449			79,682	56,449

Portfolios of securities and precious metals in current assets (excluding trading portfolios)

Debt securities	1,806,782	1,778,629	1,798,726	1,769,569	1,835,287	1,806,375
Equity shares	114,437	121,820	146,872	151,522	138,614	130,250
• of which equity shares in the treasury	51,526	49,791	51,527	50,486	65,476	49,791
Total	1,921,219	1,900,449	1,945,598	1,921,091	1,973,901	1,936,625
• of which repo-eligible securities	755,422	770,741	780,753	796,314	772,470	789,211
• of which exchange-listed securities	1,886,563	1,760,693	1,882,314	1,755,733	1,934,973	1,789,744

Disclosures on treasury shares included in current assets (excluding trading portfolios)

in numbers / in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankO	Number 2016	2015	Carrying value 2016	2015
Registered shares A				
Balance at the beginning of the year	594,774	69,000	48,771	5,865
Purchase	81,786	599,192	8,005	49,810
Disposals	-82,783	-73,418	-7,392	-5,855
Valuation allowances				-1,048
Appreciation			1,094	
Balance at the end of the year	593,777	594,774	50,478	48,771
Registered shares B				
Balance at the beginning of the year	124,280	0	1,019	0
Purchase	500	124,280	5	1,043
Disposals				
Valuation allowances				-24
Appreciation			24	
Balance at the end of the year	124,780	124,280	1,048	1,019

Participations and shares in affiliated companies

in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankO	Carrying value 31.12.2016	Carrying value 31.12.2015
Participations		
without quoted market value	35	35
Total participations	35	35
Shares in affiliated companies		
without quoted market value ¹	124,155	119,190
Total shares in affiliated companies	124,155	119,190

¹ In 2016, no recoveries in value pursuant to Art. 1090 PGR were recorded (prior year: CHF 0.0 million).

in CHF 1,000 Art. 24e Par. 1 Point 3.3 FL-BankO	Currency	31.12.2016 Corporate capital	Percentage ownership	Currency	31.12.2015 Corporate capital	Percentage ownership
Shares in affiliated companies						
Data Info Services AG, Vaduz (procurement, trade and exchange of goods and services)	CHF	50	50%	CHF	50	50%
Shares in affiliated companies						
VP Fund Solutions (Liechtenstein) AG (fund management company)	CHF	1,000	100%	CHF	1,000	100%
VPB Finanz Holding AG, Zurich ¹ (holding company)	CHF	20,000	100%	CHF	20,000	100%
VP Bank (Luxembourg) SA, Luxembourg (bank)	CHF	20,000	100%	CHF	20,000	100%
VP Verwaltung GmbH, Munich - in liquidation (management company)	EUR	500	100%	EUR	500	100%
VP Wealth Management (Hong Kong) Ltd, Hong Kong (asset management company)	HKD	5,000	100%	HKD	5,000	100%
VP Bank (Singapore) Ltd, Singapore (bank)	SGD	81,000	100%	SGD	74,000	100%
VP Bank (BVI) Ltd, Tortola (bank)	USD	10,000	100%	USD	10,000	100%

¹ There is a subordinated loan of CHF 10 million in favour of VPB Finanz Holding AG.

The carrying value of affiliated banks included under shares in affiliated companies amounts to CHF 118.8 million including subordinated loans (previous year: CHF 113.8 million).

Overview of investments

in CHF 1,000 Art. 24e Par.1 Point 3.4 FL-BankO	Acqui- sition cost	Cumulative deprecia- tion to date	Carrying value 31.12.2015	Financial year 2016				Carrying value 31.12.2016
				Invest- ments	Divest- ments	Depr. and amort- isation	Depr. and amort. on disposal	
Total participations (minority participations)	163	-128	35					35
Total shares in affiliated companies	170,426	-51,236	119,190	4,965				124,155
Total intangible assets (excluding goodwill)	132,000	-125,020	6,980	6,610	-4,530	-5,908	4,480	7,632
Real estate								
• bank premises	201,388	-119,104	82,284	1,117	-1,616	-5,869	915	76,831
• other real estate			0					0
Other property and equipment	30,493	-27,088	3,405	1,191	-3,097	-2,258	3,096	2,337
Total property and equipment	231,881	-146,192	85,689	2,308	-4,713	-8,127	4,011	79,168
Fire-insurance values of real estate			172,880					171,500
Fire-insurance values of other property and equipment			27,700					28,200

Future commitments under operating leases

At year-end, there were various operating lease contracts for real estate and other property and equipment which are principally used to conduct the business activities of the Bank. The material lease contracts include renewal options as well as escape clauses.

in CHF 1,000 Art. 1092 Point 3 PGR	31.12.2016	31.12.2015
Total minimum commitments arising from operating leases	8,619	8,855

Operating expenses as of 31 December 2016 include CHF 1.946 million arising from operating leases (previous year: CHF 1.969 million).

Assets pledged or assigned to secure own or third-party liabilities and assets subject to reservation of title

in CHF 1,000 Art. 24e Par. 1 Point 3.6 FL-BankO	31.12.2016	31.12.2015
Assets pledged or assigned to secure own or third-party liabilities and assets subject to reservation of title excluding securities lending/borrowing and repo transactions		
Carrying value of assets pledged or assigned as security	650,478	499,287
Effective liabilities	0	0
Securities lending/borrowing and repurchase transactions		
Amounts receivable arising from cash deposits in connection with securities borrowing and reverse repurchase transactions	1,256	210,262
Amounts payable arising from cash deposits in connection with securities lending and repurchase transactions	50,883	0
Securities owned by the Bank lent out within the scope of securities lending or delivered as collateral within the scope of securities borrowing or transferred within the scope of repurchase transactions	478,910	399,728
• of which securities for which an unconditional right has been granted to sell on or repledge	410,780	333,459
Securities received as collateral within the scope of securities lending or borrowed within the scope of securities borrowing or received within the scope of reverse repurchase transactions in the case of which the unconditional right to sell on or repledge was granted	426,254	643,207
• of which securities repledged or sold on	68,130	66,269

Liabilities to own retirement pension plans

in CHF 1,000 Art. 24e Par. 1 Point 3.7 FL-BankO	31.12.2016	31.12.2015
Due to customers	29,677	27,255
Securitised liabilities	150	150
Other liabilities ¹	53	1,321
Total liabilities to own retirement pension plans¹	29,880	28,726

¹ During the closing operations we determined that the published other liabilities to own retirement pension plans as per 31 December 2015 were CHF 0.9 million undervalued. The figures were restated accordingly.

Outstanding debenture issues

in CHF 1,000 Art. 24e Abs. 1 Ziff. 3.8 FL-BankO	Interest rate in %	Year of issue	Maturity	Nominal amount 31.12.2016	Nominal amount 31.12.2015
VP Bank debenture issue	0.875	2015	07.10.2024	100,000	100,000
VP Bank debenture issue	0.500	2015	07.04.2021	100,000	100,000
VP Bank debenture issue	2.500	2010	27.05.2016		151,000

Valuation allowances / provisions for general banking risks

in CHF 1,000 Art. 24e Par. 1 Point 3.9 FL-BankO	Balance on 01.01.2016	Utilisation in accord- ance with purpose	Recoveries, overdue interest, forex diff.	Releases to income statement	Provisions released to income statement	Balance on 31.12.2016
Valuation allowances for default risks						
• Individual valuation allowances	32,194	1,375	516	2,344	3,031	30,648
• Lump-sum valuation allowances	20,290			2,246	420	22,116
• Individual valuation allowances made on lump-sum basis for country risks	5,750				5,750	0
Provisions for contingent liabilities and credit risks	275			55	85	245
Provisions for taxes and deferred taxes	4,983	1,822		4,075	19	7,217
Other provisions	13,884	8,523	-7	6,432	1,264	10,522
Total valuation allowances and provisions	77,376	11,720	509	15,152	10,569	70,748
minus: valuation allowances	52,484					52,764
Total provisions as per balance sheet	24,892					17,984
Provisions for general banking risks	63,150					63,150

Company capital

in CHF 1,000 Art. 24e Par. 1 Point 3.10 FL-BankO	Total par value	31.12.2016 Number	Capital entitled to dividends	Total par value	31.12.2015 Number	Capital entitled to dividends
Registered shares A	60,150	6,015,000	60,150	60,150	6,015,000	60,150
Registered shares B	6,004	6,004,167	6,004	6,004	6,004,167	6,004
Total company capital	66,154	12,019,167	66,154	66,154	12,019,167	66,154

Significant shareholders and groups of shareholders with interlinking voting rights

in CHF 1,000 Art. 24e Abs. 1 Ziff. 3.10.1 FL-BankO	Par value	31.12.2016 Share in % of par value	Share of voting rights in %	Par value	31.12.2015 Share in % of par value	Share of voting rights in %
With voting rights						
Stiftung Fürstl. Kommerzienrat Guido Feger, Vaduz	15,194	23.0	46.6	15,194	23.0	46.6
U.M.M. Hilti-Stiftung, Schaan	6,126	9.3	10.0	6,122	9.3	10.0
Marxer Stiftung für Bank- und Unternehmenswerte, Vaduz	7,564	11.4	6.3	7,560	11.4	6.3
Ethenea Independent Investors S.A., Luxembourg	n.a.	n.a.	n.a. ¹	6,445	9.7	5.4

¹ Voting rights < 5%, thereof no disclosure required

Statement of changes in shareholders' equity

in CHF 1,000 Art. 24e Par. 1 Point 3.11 FL-BankO	2016
Shareholders' equity at the beginning of the financial year	
Subscribed and paid-up capital	66,154
Capital reserves	47,239
Legal reserves	239,800
Reserve for treasury shares	49,804
Other reserves	294,677
Provisions for general banking risks	63,150
Retained earnings	77,330
Total shareholders' equity at the beginning of the financial year	838,154
Other appropriations / releases from reserves (–)	2,069
Dividends and other distributions from net income of the previous year ¹	–26,462
Net income/loss for the financial year	67,980
Total shareholders' equity at the end of the financial year	881,741
of which	
Subscribed and paid-up capital	66,154
Capital reserves	47,143
Legal reserves	239,800
Reserve for treasury shares	51,559
Other reserves	295,087
Provisions for general banking risks	63,150
Retained earnings	118,848

¹ Only dividends to third parties.

Maturity structure of assets as well as liabilities and provisions

in CHF 1,000 Art. 24e Par. 1 Point 3.12 FL-BankO	Sight	Callable	Due within 3 months	Due within 3 to 12 months	Due within 1 year to 5 years	Due after 5 years	Without maturity	Total
Assets								
Cash and cash equivalents	3,380,818							3,380,818
Due from banks	549,549	0	246,750	117,318	2,033	432		916,082
Due from customers	9,672	362,666	1,793,161	405,029	1,465,275	364,632		4,400,435
• of which mortgage receivables	1,403	95,755	1,021,756	273,527	1,341,968	364,232		3,098,641
Trading portfolios of securities and precious metals	133							133
Portfolios of securities and precious metals in current assets (excluding trading portfolios)	1,921,219							1,921,219
Other assets	222,062		420				76,831	299,313
Total assets, 31.12.2016	6,083,453	362,666	2,040,331	522,347	1,467,308	365,064	76,831	10,918,000
Total assets, 31.12.2015	5,401,864	371,395	2,737,442	637,698	1,392,347	460,036	82,284	11,083,066
Liabilities and provisions								
Due to banks	1,474,568	477,324	253,157	60,474				2,265,523
Due to customers	5,627,656	1,132,781	420,443	39,344	10,000			7,230,224
• savings deposits		702,634						702,634
• other liabilities	5,627,656	430,147	420,443	39,344	10,000			6,527,590
Securitised liabilities			28,338	53,852	238,427	103,706		424,323
• debentures issued			28,338	53,852	238,427	103,706		424,323
• of which medium-term notes			28,338	53,852	138,427	3,706		224,323
Provisions (excluding provisions for general banking risks)	17,984							17,984
Other liabilities	97,415		790					98,205
Total liabilities, 31.12.2016	7,217,623	1,610,105	702,728	153,670	248,427	103,706		10,036,259
Total liabilities, 31.12.2015	8,031,511	1,143,133	333,660	282,091	248,752	205,765		10,244,912
Debentures and other interest-bearing securities which mature in the following financial year								291,496
Issued debentures which mature in the following financial year								82,190

Receivables from and payables to participations, affiliated companies and qualifying participants, as well as loans to governing bodies and material transactions with related persons

in CHF 1,000 Art. 24e Par. 1 Point 3.13 FL-BankO	31.12.2016	31.12.2015
Receivables from and payables to participations, affiliated companies and qualifying participants		
Receivables from participations	0	0
Payables to participations	253	220
Receivables from affiliated companies	351,892	293,628
Payables to affiliated companies	1,918,949	1,415,508
Receivables from qualifying participants	20,025	247
Payables to qualifying participants	76,451	57,281
Loans to governing bodies		
Members of the Executive Board and parties related thereto	1,135	1,235
Members of the Board of Directors and parties related thereto ¹	20,770	7,145

¹ Excluding receivables from related qualifying participants.

VP Bank also makes payments to related persons within the framework of brokerage services and bought-in advisory services. These correspond to customary market conditions. The aggregate amount of such payments and fees in 2016 totalled CHF 0.911 million (prior year: CHF 0.906 million).

Remuneration paid to members of governing bodies

in CHF 1,000		Remuneration ^{1,2,3}						Total remuneration	
		Fixed		thereof in registered shares A (market value)		Pension fund, senior employee insurance		2016	2015
Art. 663b ^{bis} Swiss Code of Obligations		2016	2015	2016	2015	2016	2015	2016	2015
Board of Directors									
Fredy Vogt	Chairman ^A	560	560	140	140	84	85	644	645
Markus Thomas Hilti	Vice Chairman ^B	123	105	31	26			123	105
Dr. Christian Camenzind	BoD ^{H,L}	84		18				84	0
Prof. Dr. Teodoro D. Cocca	BoD ^G	132	105	33	26			132	105
Dr. Beat Graf	BoD ^D	120 ⁴	105 ⁴	26	21			120	105
Ursula Lang	BoD ^{F,L}	84		18				84	0
Dr. Florian Marxer	BoD ^{H,1}	105	53	26	13			105	53
Dr. Guido Meier	BoD ^K	58	115	14	29			58	115
Dr. Gabriela Payer	BoD ^{B,H,L}	107		23				107	0
Michael Riesen	BoD ^{C,F}	183	169	40	34			183	169
Dr. Daniel H. Sigg	BoD ^{D,E}	160	118	40	30			160	118
Total Board of Directors		1,716	1,330	409	319	84	85	1,800	1,415

^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 Chairman of the Risk Committee

^F Member of the Risk Committee

^G Chairman of the Strategy & Digitalisation Committee

^H Member of the Strategy & Digitalisation Committee

¹ Member of the Board of Directors as from 24 April 2015

^K Member of the Board of Directors up to 29 April 2016

^L Member of the Board of Directors as from 29 April 2016

¹ Social-security costs and any applicable value-added taxes 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.

⁴ Including remuneration as representative of the Board of Directors in the pension fund.

in CHF 1,000		Remuneration ¹								Total remuneration			
		Fixed basic salary ²		Short Term Incentive (STI)		Performance Share Plan (PSP)		Restricted Share Plan (RSP)		Pension fund, senior employee insurance			
Art. 663b ^{bis} Swiss Code of Obligations		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015		
Executive Management		2,380	1,840	500	378	1,100	755	500	378	426	338	4,906	3,690
Highest remuneration													
Alfred W. Moeckli		700	700	250	175	500	350	250	175	148	138	1,848	1,538

¹ Compensation for out-of-pocket expenses is not included.

² Gifts for length of service are included.

The compensation model described in the section on corporate governance (pages 94 et seq.) includes both the fixed basic salary and the cash compensation (STI), and the entitlement to performance and restricted shares. The number of registered shares A (entitlement from the Performance Share Plan) as well as the related monetary benefit are only definitively fixed at the end of the respective planning period (or at the time of transferring the registered shares A). As part of the 2016–2018 plan, Group Executive Management received 13,647 performance units (prior year: 9,479) from the PSP and 6,204 restricted units (prior year: 4,740) from the Restricted Share Plan (RSP). The computation of the number of shares transferred upon expiry of the plan period is dependent upon the achievement of the targets (return on equity and cost income ratio). The monetary benefit from the respective PSP and RSP programmes will by definition be determined by the equity share price at the time of transfer of title to the shares. In the 2016 financial year, 23,477 performance shares (prior year: 8,409) with a market value of CHF 2,098,843.80 on the date of allocation (prior year: CHF 678,606.30) were transferred from the Management Plan 2013–2015 and the RSP 2014–2016 and RSP 2015–2017.

Shareholdings and loans to governing bodies and related parties

in CHF 1,000 Art. 663b ^{bis} Swiss Code of Obligations	Shareholdings in VP Bank Number of shares (including related parties, excluding qualifying participants)				Loans and credits		Related parties ¹			
	Registered shares A		Registered shares B				Loans and credits		Remuneration for service provided	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Board of Directors										
Fredy Vogt	20,784	19,384			770	775				
Markus Thomas Hilti	6,009 ²	5,700 ²								
Dr. Christian Camenzind ^c	184									
Prof. Dr. Teodoro D. Cocca	1,744	1,414								57
Dr. Beat Graf	706 ²	443 ²							500	500
Ursula Lang ^c	184									
Dr. Florian Marxer ^a	426 ²	163 ²					20,000		411	345
Dr. Guido Meier ^b		22,554 ²		39,750 ²		3,100		3,270		
Dr. Gabriela Payer ^c	234									
Michael Riesen	1,115	715								
Dr. Daniel H. Sigg	4,630	4,230								4
Total Board of Directors	36,016	54,603	0	39,750	770	3,875	20,000	3,270	911	906
Executive Management										
Alfred W. Moeckli, CEO	19,639	9,011			200					
Siegbert Näscher, CFO, CRO	15,883	8,402			500	800				
Martin C. Beinhoff, COO ^d	1,400									
Christoph Mauchle	11,706	10,588			435	435				
Total Executive Management	48,628	28,001	0	0	1,135	1,235	0	0	0	0

^a Member of the Board of Directors as from 24 April 2015

^b Member of the Board of Directors up to 29 April 2016

^c Member of the Board of Directors as from 29 April 2016

^d Member of the Executive Management as from 1 January 2016

¹ Individual or legal entities which are economically, legally or de facto closely related to a member of one of the governing bodies.

² Excluding the number of shares of the significant shareholders (qualifying participants).

Assets and liabilities by domestic and foreign origin

in CHF 1,000 Art. 24e Par. 1 Point 3.14 FL-BankO	31.12.2016		31.12.2015	
	Domestic	Foreign	Domestic	Foreign
Assets				
Cash and cash equivalents	3,380,818		2,839,016	
Due from banks	579,751	336,331	1,079,209	727,339
Due from customers	3,601,498	798,937	3,540,169	682,800
• of which mortgage receivables	3,035,812	62,829	3,039,308	67,428
Debentures and other interest-bearing securities	99,393	1,707,389	37,740	1,742,631
Equity shares and other non-interest-bearing securities	24,913	37,998	26,602	45,428
Participations	35		35	
Shares in affiliated companies	4,600	119,555	4,600	114,590
Intangible assets	7,632		6,980	
Property and equipment	79,168		85,689	
Treasury shares	51,559		49,804	
Other assets	53,117	14,038	64,959	11,746
Accrued receivables and prepaid expenses	12,289	8,979	12,961	10,768
Total assets	7,894,773	3,023,227	7,747,764	3,335,302
Liabilities and shareholders' equity				
Due to banks	1,186,878	1,078,645	765,563	728,227
Due to customers	4,681,239	2,548,985	4,772,366	3,291,932
• savings deposits	572,718	129,916	619,352	135,205
• other liabilities	4,108,521	2,419,069	4,153,014	3,156,727
Securitised liabilities	424,323		570,986	
Other liabilities	66,276	14,798	60,369	10,171
Accrued liabilities and deferred items	16,759	372	20,149	257
Provisions	17,984		24,892	
Provisions for general banking risks	63,150		63,150	
Share capital	66,154		66,154	
Capital reserves	47,143		47,239	
Income reserves	586,446		584,281	
• legal reserves	239,800		239,800	
• reserves for treasury shares	51,559		49,804	
• other reserves	295,087		294,677	
Balance brought forward	50,868		36,112	
Net income for the year	67,980		41,218	
Total liabilities and shareholders' equity	7,275,200	3,642,800	7,052,479	4,030,587

In accordance with the Banking Ordinance (Art. 24e Par. 1), Switzerland counts as domestic.

Total assets by country or group of countries (domicile principle)

in CHF 1,000 Art. 24e Par. 1 Point 3.15 FL-BankO	31.12.2016		31.12.2015	
	Absolute	Share in %	Absolute	Share in %
Assets				
Liechtenstein/Switzerland	7,894,773	72.3	7,747,764	69.9
Europe (excluding Liechtenstein/Switzerland)	1,403,806	12.9	1,904,200	17.1
North America	652,555	6.0	604,086	5.5
Asia	605,144	5.5	450,546	4.1
Caribbean	289,194	2.6	273,010	2.5
Other	72,528	0.7	103,460	0.9
Total assets	10,918,000	100.0	11,083,066	100.0

Balance sheet by currency

in CHF 1,000 Art. 24e Par. 1 Point 3.16 FL-BankO	CHF	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	3,375,079	420	4,904	415	3,380,818
Due from banks	229,032	405,730	103,760	177,560	916,082
Due from customers	3,342,244	673,604	320,166	64,421	4,400,435
• of which mortgage receivables	3,017,863	26,731	50,823	3,224	3,098,641
Debentures and other interest-bearing securities	389,935	622,271	794,576		1,806,782
Equity shares and other non-interest-bearing securities	18,335	17,458	27,118		62,911
Participations	35				35
Shares in affiliated companies	124,155				124,155
Intangible assets	7,632				7,632
Property and equipment	79,168				79,168
Treasury shares	51,559				51,559
Other assets	65,768	949	295	143	67,155
Accrued receivables and prepaid expenses	13,112	4,309	3,629	218	21,268
Total on-balance-sheet assets	7,696,054	1,724,741	1,254,448	242,757	10,918,000
Delivery claims arising from foreign-exchange spot, forward and option transactions	220,876	2,045,046	1,938,541	870,520	5,074,983
Total Assets, 31.12.2016	7,916,930	3,769,787	3,192,989	1,113,277	15,992,983
Total Assets, 31.12.2015	7,267,921	4,238,207	2,913,218	1,144,383	15,563,729
Liabilities and shareholders' equity					
Due to banks	372,956	1,053,015	528,577	310,975	2,265,523
Due to customers	2,787,957	2,242,851	1,750,984	448,432	7,230,224
• savings deposits	702,179		455		702,634
• other liabilities	2,085,778	2,242,851	1,750,529	448,432	6,527,590
Securitised liabilities	395,280	4,972	24,071		424,323
Other liabilities	69,697	5,663	4,920	794	81,074
Accrued liabilities and deferred items	16,679	422		30	17,131
Provisions	17,984				17,984
Provisions for general banking risks	63,150				63,150
Share capital	66,154				66,154
Capital reserves	47,143				47,143
Income reserves	586,446				586,446
• legal reserves	239,800				239,800
• reserves for treasury shares	51,559				51,559
• other reserves	295,087				295,087
Balance brought forward	50,868				50,868
Net income for the year	67,980				67,980
Total on-balance-sheet liabilities	4,542,294	3,306,923	2,308,552	760,231	10,918,000
Delivery obligations arising from foreign-exchange spot, forward and option transactions	3,355,191	645,126	715,008	352,961	5,068,286
Total liabilities, 31.12.2016	7,897,485	3,952,049	3,023,560	1,113,192	15,986,286
Total liabilities, 31.12.2015	7,249,629	4,248,835	2,914,195	1,141,674	15,554,333
Net position per currency	19,445	-182,262	169,429	85	

Contingent liabilities

in CHF 1,000 Art. 24e Par. 1 Point 4.1 FL-BankO	31.12.2016	31.12.2015	Variance absolute	Variance in %
Contingent liabilities				
Credit guarantees and similar	21,129	16,010	5,119	32.0
Performance guarantees and similar	79,215	26,645	52,570	197.3
Other contingent liabilities	0	0	0	0.0
Total contingent liabilities	100,344	42,655	57,689	135.2

Unsettled derivative financial instruments

in CHF 1,000 Art. 24e Par. 1 Point 4.3 FL-BankO	Trading instruments		Contract volumes	Hedging instruments		Contract volumes
	Positive replacement values	Negative replacement values		Positive replacement values	Negative replacement values	
Interest-rate instruments						
Swaps				568	21,497	314,198
Futures						50,537
Options (OTC)						
Foreign exchange / precious metals						
Forward contracts	7,982	13,423	846,826			
Combined interest-rate /currency swaps	34,671	22,531	4,199,469			
Options (OTC)	372	372	28,689			
Equity instruments/Indices						
Futures						4,384
Options (exchange-traded)		331	8,465			
Total prior to consideration of netting agreements, 31.12.2016	43,025	36,657	5,083,449	568	21,497	369,119
Total prior to consideration of netting agreements, 31.12.2015	33,067	23,382	4,488,566	0	26,903	339,937

Financial instruments falling under a netting agreement do not meet the requirements for offsetting for balance-sheet purposes, which is why the carrying values of the related financial instruments are not netted in the balance sheet (Group financial statements – note 38, page 161).

Fiduciary transactions

in CHF 1,000 Art. 24e Par. 1 Point 4.2 FL-BankO	31.12.2016	31.12.2015	Variance absolute	Variance in %
Fiduciary transactions				
Fiduciary deposits	416,867	432,851	-15,984	-3.7
• Fiduciary deposits with third-party banks	415,088	431,376	-16,288	-3.8
• Fiduciary deposits with affiliated banks and finance companies	1,779	1,475	304	20.6
Fiduciary loans	0	0	0	0.0
Other fiduciary transactions of financial nature	0	10,874	-10,874	-100.0
Total fiduciary transactions	416,867	443,725	-26,858	-6.1

Information regarding the income statement

in CHF 1,000 Art. 24e Par. 1 Point 5.2 FL-BankO	2016	2015	Variance absolute	Variance in %
Income from trading activities				
Gains from securities	24	-1,180	1,204	-102.0
Gains from foreign-exchange derivatives	-3,203	-4,872	1,669	-34.3
Gains from foreign-exchange transactions	62,687	42,378	20,309	47.9
Gains from trading in banknotes	1,982	375	1,607	426.5
Gains from precious metals	270	223	47	21.2
Total income from trading activities	61,760	36,924	24,836	67.3

in CHF 1,000 Art. 24e Par. 1 Point 5.3 FL-BankO	2016	2015	Variance absolute	Variance in %
Personnel expenses				
Salaries and wages	71,816	65,142	6,674	10.2
Social security costs and staff retirement pensions and assistance costs	14,693	13,097	1,596	12.2
• of which for staff retirement pensions	13,319	11,688	1,631	14.0
Other personnel expenses	3,007	1,696	1,311	77.3
Total personnel expenses	89,516	79,935	9,581	12.0

Salaries of members of the Board of Directors and the Executive Board are disclosed under "Remuneration paid to members of governing bodies" (pages 193 f).

Information regarding the income statement (continued)

in CHF 1,000 Art. 24e Par. 1 Point 5.4 FL-BankO	2016	2015	Variance absolute	Variance in %
General and administrative expenses				
Occupancy expenses	2,600	2,839	-239	-8.4
Expenses for IT, equipment, furniture, motor vehicles and other installations	9,907	14,439	-4,532	-31.4
Other operating expenses	20,654	20,588	66	0.3
Total general and administrative expenses	33,161	37,866	-4,705	-12.4

in % Art. 24e Par. 1 Point 6 FL-BankO	2016	2015	Variance absolute	Variance in %
Return on capital¹	0.62	0.40	0.22	55.0

¹ Net income/average balance sheet total.

in CHF 1,000 Art. 24e Par. 2 Point 6e FL-BankO	2016	2015	Variance absolute	Variance in %
Other ordinary income				
Income from real estate	176	372	-196	-52.8
Other ordinary income ¹	3,313	20,025	-16,712	-83.5
Total other ordinary income	3,489	20,397	-16,908	-82.9

¹ 2016: thereof CHF 2.601 million resulting from service level agreements within the Group.

2015: thereof CHF 3.249 million resulting from service level agreements within the Group, CHF 16.160 million, from merger gains.

Other assets and liabilities

in CHF 1,000 Art. 24e Par. 2 Point 6 a+b FL-BankO	31.12.2016	31.12.2015	Variance absolute	Variance in %
Other assets				
Precious metals	100	155	-55	-35.5
Unsettled derivative financial instruments (positive replacement values)	43,593	33,067	10,526	31.8
• Trading positions	43,025	33,067	9,958	30.1
• Liquidity positions	568	0	568	0.0
Compensation accounts	19,107	26,048	-6,941	-26.6
Settlement accounts	3,688	1,623	2,065	127.3
Miscellaneous other assets	667	15,812	-15,145	-95.8
Total other assets	67,155	76,705	-9,550	-12.5
Other liabilities				
Accounts for disbursement of taxes and fees	3,998	5,716	-1,718	-30.0
Unsettled derivative financial instruments (negative replacement values)	58,154	50,285	7,869	15.6
• Trading positions	36,657	23,382	13,275	56.8
• Liquidity positions	21,497	26,903	-5,406	-20.1
Compensation accounts	571	0	571	0.0
Settlement accounts	18,434	21,825	-3,391	-15.5
Miscellaneous other liabilities	-83	-7,286	7,203	-98.9
Total other liabilities	81,074	70,540	10,534	14.9

Report of the statutory auditor on the financial statements

To the general meeting of VP Bank Ltd, Vaduz **Opinion**

As statutory auditor, we have audited the accounting records, the financial statements (balance sheet, income statement and notes, pages 180 to 198) and the annual report (page 179) of VP Bank Ltd for the year ended 31 December 2016.

Board of Directors' responsibility

These financial statements and the annual report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Auditor's responsibility

Our audit was conducted in accordance with auditing standards promulgated by the Liechtenstein profession, which require that an audit be planned and performed to obtain reasonable assurance that the financial statements and annual report are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position, the result of operations and the cash flows in accordance with Liechtenstein law. Furthermore, the accounting records, the financial statements and the annual report as well as the proposed appropriation of available earnings comply with Liechtenstein law and the Company's articles of incorporation.

Report on other legal requirements

The annual report corresponds to the annual financial statements and contains no significant incorrect information according to our assessment.

We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd



Bruno Patusi
Swiss Certified Accountant
(Auditor in charge)



Moreno Halter
Certified Accountant

Berne, 28 February 2017

VP Bank Group

VP Bank Ltd is a bank domiciled in Liechtenstein and is subject to the Financial Market Authority (FMA) Liechtenstein, Landstrasse 109, PO Box 279, 9490 Vaduz, Liechtenstein, www.fma-li.li

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Imprint

This annual report has been produced with the greatest possible care and all data have been closely examined. Rounding, typeset or printing errors, however, cannot be ruled out.

This annual report includes information and forecasts relating to the future development of VP Bank Group. Those forecasts represent estimates based on all information available at the time of publication.

Any such forward-looking statement is subject to risks and uncertainties that could lead to significant variances in actual future results.

No guarantee can be made as to the reliability of the prognoses, planned quantities or forward-looking statements contained herein.

This annual report has been produced in German and English, whereas the German version shall prevail in case of doubt.

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