1956 2016

60 Years of VP Bank

Annual Report 2015

Shareholder information

Tuesday, 8 March 2016
Media and analyst conference, 2015 annual results

Friday, 29 April 2016
53rd ordinary annual general meeting

Friday, 6 Mai 2016
Dividend payment

Tuesday, 30 August 2016
Round-table, 2016 semi-annual results

Tuesday, 7 March 2017
Media and analyst conference, 2016 annual results

Core data on shares
Bearer shares listed on SIX Swiss Exchange

Symbol SIX: VPB
Bloomberg ticker: VPB SW
Reuters ticker: VPB.S
Security number: 1073721
ISIN: LI0010737216

• • 1956 • Hungarian Revolution and invasion by the Soviet Army • Elvis Presley finds fame with "Hound Dog" • Global population reaches 2.8 billion • • • 1957 • The wo
Equal Rights Act is passed in Germany • • • 1959 • The revolution in Cuba is successful, and Fidel Castro becomes President • Tibetan uprising: China annexes Tibet, and the
barks on the first human space flight • Audrey Hepburn plays the leading role in Breakfast at Tiffany's • • • 1962 • The Cuban Missile Crisis between the USA and the USSR i
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lution is set in motion in China by Mao Zedong (Red Guards) • The Toyota Corolla, the world's best-selling car, is launched • "Yellow Submarine" is released by the Beatles • •
Pact • The student movement of the 1968 generation reaches a climax • • • 1969 • Apollo 11 lands the first humans on the moon • Payment transactions are • revolutionised
ain the right to vote at federal level in Switzerland • The organisations Doctors Without Borders and Greenpeace are established • The first e-mail is sent in Cambridge, USA •
The World Trade Center is opened in New York • Genetic engineering is born at Stanford • University • General Pinochet seizes power in a military coup in Chile • • • 1974
omes the logo of the anti-nuclear movement • • • 1976 • The first Apple personal computer becomes available on the market • • • 1977 • A wave of terror by the Red Army
r Habeler • • • 1979 • Margaret Thatcher becomes the first female head of government in Europe • Mother Teresa receives the Nobel Peace Prize • The Sony Walkman is la
ognised as a disease in its own right • Prince Charles and Lady Diana are married • The Columbia space shuttle makes its maiden flight • Premiere of the musical Cats • • • 19
famine • The Macintosh 128K is launched • • • 1985 • The 17-year-old Boris Becker wins Wimbledon • A colour version of the game Tetris is launched on the market • The
es the five-billion mark • • • 1988 • Soviet troops start to withdraw from Afghanistan • The first digital compact photo camera with a floppy disk for 50 photos is launched by
lobal scale • The second Gulf War begins • • • 1992 • The first GSM-compatible mobile phone is launched by Motorola • • • 1993 • Bill Clinton becomes President of the
he Srebrenica massacre takes place • The Schengen Agreement comes into effect • • • 1996 • Dolly, the first cloned sheep, is born • The BSE crisis hits the UK • • • 1997
ding Carl Lewis (athletics), Annemarie-Moser Pröll and Jean-Claude Killy (skiing), Pelé (football), Steffi Graf (tennis) and Muhammad Ali (boxing) • • • 2000 • Vladimir Putin
ević, former President of Yugoslavia, opens at the International Criminal Tribunal in The Hague • Queen Elizabeth The Queen Mother dies at the age of 101 • • • 2003 • The
s its maiden flight • Google Maps is officially launched • • • 2006 • A Mozart Year is held to mark the 250th anniversary of the birth of Wolfgang Amadeus Mozart • Silvio B
urth time in a row • • • 2009 • Barack Obama becomes the first black president of the United States • Usain Bolt runs 100 metres in 9.58 seconds – creating a new world rec
a nuclear disaster • Civil war breaks out in Libya and Syria • Osama bin Laden is killed • Amy Winehouse commits suicide • • • 2012 • The global population passes the sev
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Editorial

In 1956, VP Bank was founded in Liechtenstein. The thematic design of this year's annual report is therefore "60 Years of VP Bank".

The illustrated pages guide the reader through seven chapters on the key phases in VP Bank's 60-year history. Each period is marked by a guiding theme. The common element is the stylised globe, which depicts world events from each corresponding time period. Discover a multitude of memorable events that come together to form a harmonious whole. The themes presented are also listed and explained on the inside of the front cover and back cover of this annual report.

Alongside this illustrated retrospective of world events are the most significant events in VP Bank's own history during the corresponding periods, which are presented in text form. Join us on this trip through the past – from a small local bank to a successful, internationally active company and trustworthy bank.

We are proud to be this trustworthy bank that has served you for the past 60 years. A trove of details about the history of VP Bank can be found in our anniversary book **"A journey through time – 60 years of VP Bank"**. You can order the book via the email address corporate.communications@vpbank.com.

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

Dear Shareholders,
Ladies and Gentlemen

The 2015 financial year was marked by a significant gain in Group net income to a total of CHF 64.1 million (previous year: CHF 20.0 million), thanks in large part to the merger with Centrum Bank AG.

However, the abandonment of the 1.20 "floor" for the euro/Swiss franc exchange rate presented banks with a tremendous challenge. Moreover, the Swiss National Bank's (SNB) introduction of negative interest charges only exacerbated the problems caused by the strong Swiss franc.

Gratifying annual results

For the 2015 financial year, VP Bank Group recorded consolidated net income of CHF 64.1 million after having earned a profit of CHF 20.0 million in the previous year.

On an annualised basis, total net operating income rose by 37.7 per cent, from CHF 222.7 million to CHF 306.6 million. This CHF 83.9 million increase is largely attributable to VP Bank's merger with Centrum Bank. Factoring out the effects of "purchase price allocation", total net operating income amounted to CHF 256.6 million. Operating expenses increased versus the previous year by CHF 16.8 million, i.e. from CHF 165.3 million to CHF 182.1 million, entirely in line with the strategic orientation of VP Bank Group and the amalgamation of Centrum Bank.

Client assets under management grew by 12.4 per cent, from CHF 30.9 billion to CHF 34.8 billion. In 2015, VP Bank Group registered a net new money inflow of CHF 6.0 billion (previous year: net outflow of CHF 0.9 billion), of which a net CHF 6.3 billion is attributable to the merger with Centrum Bank (CHF 6.7 billion upon the takeover, less the anticipated CHF 0.4 billion outflows in 2015). In the operative business, net outflows of CHF 0.3 billion were recorded, whereas that amount needs to be viewed against the backdrop of a challenging regulatory environment and tax-related issues. Nonetheless, thanks to our intensive market-cultivation efforts especially in the Asia region, we were able to attract sizeable inflows of new money.

At 31 December 2015, VP Bank's tier 1 ratio calculated in accordance with the provisions of Basel III stood at a lofty 24.4 per cent (31 December 2014, in keeping with Basel II rules: 20.5 per cent).

Dividend increase to be proposed

At the annual general meeting on 29 April 2016, the Board of Directors will propose a dividend of CHF 4.00 per bearer share (previous year: CHF 3.00) and CHF 0.40 per registered share (previous year: CHF 0.30). This proposed dividend reflects the dividend policy adopted by the Board of Directors: 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 the Bank's higher net income of CHF 64.1 million.

Strategic orientation

In the summer of 2015, the Board of Directors adjusted the strategic orientation of VP Bank Group. "Strategy 2020", as it is referred to, defines three key areas of emphasis: growth, focus and culture.

The merger with Centrum Bank AG in Liechtenstein represents a significant growth driver; the amalgamation was successfully completed by the beginning of 2016.

We also strengthened our strategically important intermediaries business by restructuring those operations and centralising Group-wide specialist responsibility for the related activities. As to our growth efforts, emphasis will be placed on internationalising VP Bank Group even further as well as pressing ahead with the client-oriented digitalisation and automation of internal processes.

The activities associated with a sharpened focus include far-reaching measures aimed at reducing internal complexities as well as adapting and enhancing VP Bank's range of services. During the course of the past year, the Luxembourg facilities were fully integrated into the existing, proven Group-wide processes. This now helps us to exploit even more synergies and avoid redundancies within VP Bank Group. Another measure for leveraging synergy effects was to be seen in the consolidation of the Group's entire fund know-how under one roof: "VP Fund Solutions".

Great importance was also attached to the strengthening of VP Bank's advisory competence. In the second half of 2015, the client advisor teams augmented their skills by participating in a certification course.

On 31 August 2015, Standard & Poor's reconfirmed its excellent "A–" rating (A–/Negative/A–2) for VP Bank Group, thereby attesting to the outstanding creditworthiness of our Bank. In their report, Standard & Poor's underscored not only VP Bank's superior capital base, but also its stable client deposits and shareholder structure. This strong and steady "A–" vouches for our solid, successful business model.

Further details on our strategic orientation and positioning can be found in the section "The organisational structure of VP Bank Group" on pages 16 ff.

Adjustment of medium-term goals for 2020

Until mid-2015, our defined medium-term targets were a tier 1 ratio of at least 16 per cent, a cost/income ratio of 65 per cent, and an average annual 5 per cent increase in net new money. In connection with our "Strategy 2020", we reassessed those targets.

This exercise resulted in several significant adjustments. At the end of 2014, the legally prescribed minimum core capital ratio was 8 per cent; VP Bank's tier 1 ratio was more than twice that amount. Given that Liechtenstein's Financial Market Authority now deems VP Bank to be system-relevant, the corresponding equity capital requirement under Basel III (CRD IV – Capital Requirement Directive) increased as of February 2015 to 13 per cent. Hence a medium-term goal of at least 16 per cent no longer represents an added value for investors and clients; by the same token, an increase of the currently targeted ratio would unnecessarily limit the financial leeway for, say, acquisitions.

As already indicated in our semi-annual report 2015, the Board of Directors has set new medium-term targets for the period ending 31 December 2020, namely:
- 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 2015, assets under management totalled CHF 34.8 billion (previous year: CHF 30.9 billion) and total net income amounted to CHF 64.1 million (2014: CHF 20.0 million). The cost/income ratio on 31 December 2015 was 59.4 per cent (previous year: 74.2 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.

Successful capital increase

In connection with the merger of Centrum Bank AG and VP Bank Ltd, the "Marxer Stiftung für Bank- und Unternehmenswerte" foundation – which prior to the merger was the sole shareholder of Centrum Bank AG – acquired a CHF 60 million financial interest in VP Bank. In total, 700,653 bearer shares with a par value of CHF 10.00 were newly created. To that purpose, the Board of Directors of VP Bank conducted on 10 April 2015 an extraordinary general meeting of shareholders, where approval was granted for a capital increase with no pre-emptive rights for existing shareholders. From its own treasury holdings, VP Bank contributed 55,302 bearer shares.

As a consequence of this capital increase, the "Marxer Stiftung für Bank- und Unternehmenswerte" foundation now holds 11.4 per cent of the equity capital and 6.3 per cent of the voting rights of VP Bank. By adding this foundation to its circle of stable anchor shareholders, VP Bank has yet another institutional mainstay that endorses the business model of VP Bank Group and backs its strategic goals.

Share buyback successfully concluded

At the ordinary annual general meeting on 24 April 2015, shareholders authorised the Board of Directors to acquire by 22 April 2020 VP Bank bearer and registered shares in a maximum amount of 10 per cent of the outstanding equity capital. The Board subsequently decided to make two fixed-price public tender offers during the course of the year, each for a maximum of 5 per cent of the Bank's equity capital. The first buyback of bearer and registered shares was successfully completed on 3 July 2015; the second on 28 October 2015. In total, 599,192 bearer shares and 124,280 registered shares were repurchased in connection with these tender offers. The average price paid in both of the buyback programmes was CHF 83.00 per bearer share and CHF 8.38 per registered share.

Upon conclusion of the second tender offer, VP Bank held a total of 601,500 of its own bearer shares and 125,912 of its own registered shares. This is equivalent to a 9.28 per cent proportion of the Bank's outstanding equity capital and 6.05 per cent of the voting rights. The repurchased shares are to be used for future acquisitions or treasury management purposes. As no shares were cancelled in this process, the equity capital and voting rights proportions remain unchanged. At the end of 2015, the treasury held 594,774 bearer shares and 125,912 registered shares of VP Bank. The slight reduction in the former figure is attributable to shares granted in connection with various management equity participation programmes. Details in this regard can be found in the "Compensation report".

Other significant events

In March 2015, VP Bank conducted a public offering of bonds in the amount of CHF 200 million. This was accomplished in two tranches: one maturing in 6 years, and the other in 9.5 years. By having issued these bonds, VP Bank has at its disposal the means to refinance its long-term credit business. The bonds also serve as a precaution against a potential rise in interest rates.

Nurturing relationships with shareholders and interested parties is one of our primary missions. Again in 2015 we conducted numerous discussions with investors, shareholders and analysts. The 2nd annual VP Bank Investor Day was held in May 2015. The keynote speaker was Adrian Hasler, Head of Government of the Principality of Liechtenstein.

On the basis of our strategy and medium-term goals for 2020, VP Bank is adapting its organisational and leadership structures as well as apportioning the individual tasks within Group Executive Management in a more focused manner. At the same time, the altered organisational and structural requirements associated with the Centrum Bank merger, as well as the ever-changing economic and regulatory conditions, are being taken into account. For instance, the provisions of Basel III require amongst other things that an independent risk management body be in place and remain totally separate from the operative business areas in order to preclude the possibility that conflicts of interest arise in daily business activities.

Effects of the SNB decision

On 15 January 2015, the Swiss National Bank announced that it would cease to defend the CHF 1.20 "floor" versus the euro; simultaneously, the central bank shifted its 3-month Libor target band and introduced a 0.75 per cent negative interest charge on deposits it holds for commercial banks. These measures caused an immediate upheaval in the money and forex markets. The Swiss franc appreciated dramatically within the space of minutes, and CHF interest rates in general are now at record lows – in many instances, even in negative territory.

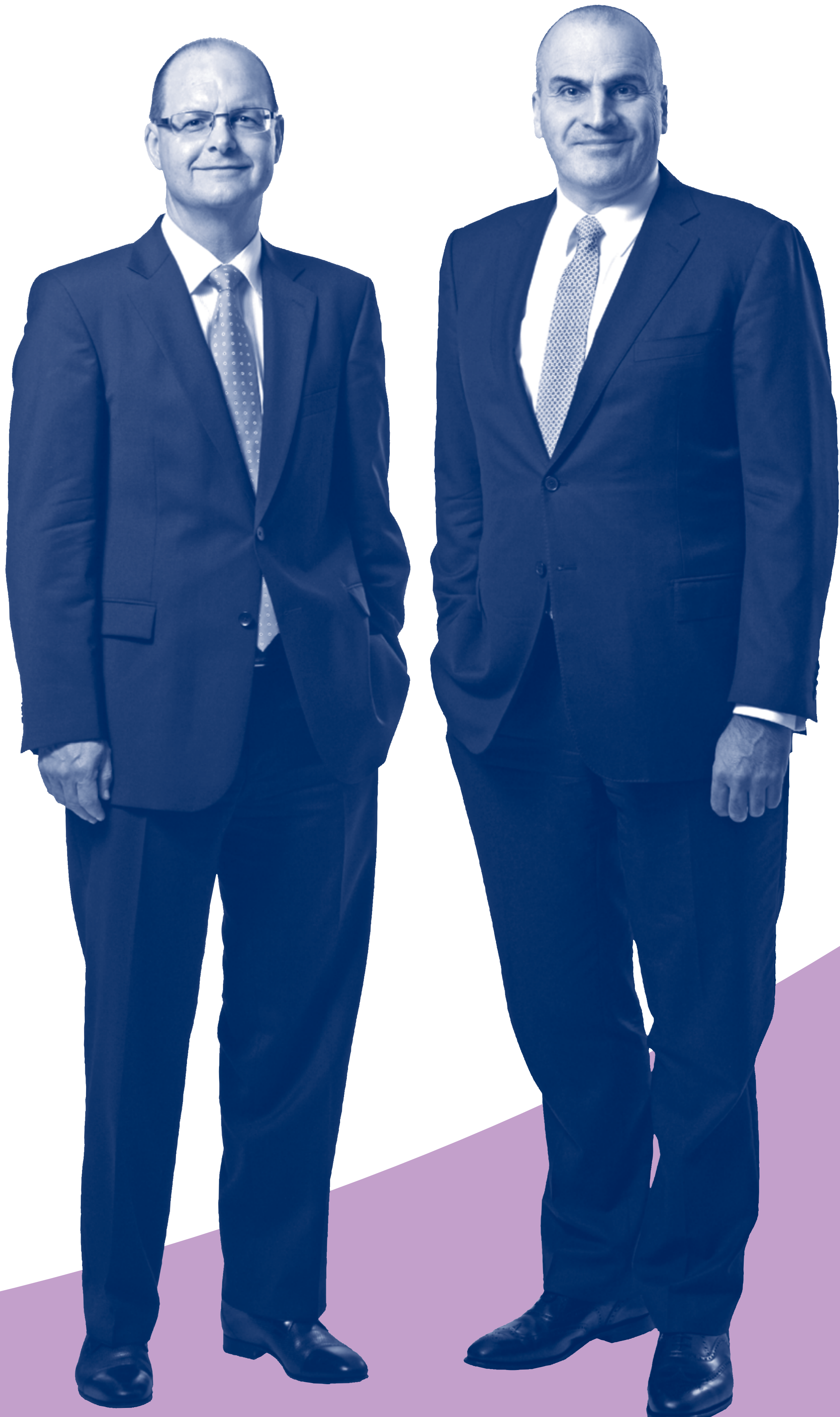
The SNB's decision has had a direct impact on business developments at VP Bank. A considerable portion of our client assets under management is allocated to investments denominated in foreign currencies. So when expressed in Swiss francs, the value of those assets declined in a heartbeat as a result of the moves on the part of the Swiss National Bank. If one takes a closer look at our cost and income structure, it becomes clear that the expenses in Swiss francs are higher than the revenues in Swiss francs.

In order to cushion these adverse effects on VP Bank's profitability, immediate measures were taken, including commensurate interest-rate adjustments and increased margins on new and prolonged mortgage loans. On the expense side, further cost reductions were initiated and implemented during the course of 2015.

Challenging regulatory environment

The increasing regulatory pressure continues to pose a challenge also for VP Bank Group, and it exerts a tremendous influence on banking activities in general. 2015 was marked by yet another series of significant changes to the rules and regulations.

The Basel III package of reforms is aimed at strengthening the resilience of financial institutions and the banking system as a whole against internal shocks as well as upheavals in the real economy. At the EU level, Basel III is being implemented via the CRD IV ordinances. The European rules have been adopted in Liechtenstein through a revision of the Banking Act and various other norms. The CRD IV package has been in force in the Principality since 1 February 2015. In close



Fredy Vogt
Chairman of the Board of Directors

Alfred W. Moeckli
Chief Executive Officer

coordination with the Financial Market Authority (FMA) of Liechtenstein and the Liechtenstein Bankers Association (LBA), the local banks implemented these new requirements mainly in the 2015 financial year.

In that VP Bank is considered by the FMA Liechtenstein to be domestically system-relevant, the Bank must also fulfil more extensive requirements. Apart from quantitative criteria such as a higher equity capital buffer, minimum liquidity standards and the introduction of a maximum debt-to-equity ratio, the reform package also includes an array of qualitative criteria. These apply mainly to the principle of good corporate governance and also cover aspects relating to internal organisation, special requirements for the Board of Directors and senior management, as well as the formation of Board committees.

Again in 2015, Liechtenstein concluded a number of international tax treaties. Of particular note is the comprehensive, OECD-consistent dual tax agreement between Switzerland and the Principality of Liechtenstein, which was signed on 10 July 2015. It is scheduled to take effect on 1 January 2017. However, the pact does not address the automatic exchange of information in tax matters (AEOI).

In November 2015, the Liechtenstein parliament adopted the Automatic Exchange of Information Implementation Act, thereby establishing the legal foundation for introducing the related OECD minimum standard. Accordingly, Liechtenstein and the EU member states will start to compile bank-account-related data as of January 2016 and exchange that information automatically as of 2017. In consequence, the EU savings tax agreement will be abrogated. The AEOI agreement represents an important milestone in the realisation of Liechtenstein's tax and financial centre strategy.

Implementation of the EU Markets in Financial Instruments Directive (MiFID II) is scheduled to commence in Liechtenstein as of January 2017. Here, the primary aim is to boost investor protection. Amongst other things, MiFID II will entail a revamp of the investment advisory and asset management processes as well as increased requirements for documenting client discussions and providing more detailed information on financial instruments. At present, the enactment of the implementing provisions is being discussed intensely at the European institutional level. MiFID II is to take effect one year later than originally planned, i.e. now as of January 2018.

Further details on the regulatory environment can be found in the section "Legislation and supervisory authorities in Liechtenstein" on pages 57 ff.

Personnel changes

At the 52nd annual general meeting of VP Bank on 24 April 2015, Fredy Vogt was re-elected to the Board of Directors for a further three-year term of office, and at the subsequent Board meeting was confirmed as Chairman of the Board of Directors.

Dr Florian Marxer was elected as a new member of the Board. Dr Florian Marxer is a trustee of our anchor shareholder, "Marxer Stiftung für Bank- und Unternehmenswerte" foundation, and from 2011 through 2014 was chairman of the board of Centrum Bank AG. He is a partner at Marxer & Partner Attorneys at Law, as well as a board member of Confida Holding AG in Vaduz and Belvédère Asset Management AG in Zurich.

In light of VP Bank's declared strategic goals and the ever-changing circumstances in the banking world, the Board of Directors has resolved to propose at the annual general meeting on 29 April 2016 that Dr Christian Camenzind, lic. iur. Ursula Lang and Dr Gabriela Maria Payer be elected to the Board of Directors. This is aimed at reinforcing the Board's existing skillset, even as it lays the groundwork for far-sighted succession planning.

Dr Guido Meier, Vice Chairman of the Board of Directors since 2001, will not stand for re-election and intends to step down from the Board at the annual general meeting on 29 April 2016. He was first elected to the Board in 1989 as a representative of VP Bank's largest anchor shareholder, Stiftung Fürstl. Kommerzienrat Guido Feger. Dr Guido Meier has been a member of the Committee of the Board of Directors and is currently a member of the Nomination & Compensation Committee. During his 27-year affiliation with VP Bank, he saw to the well-being of the Bank in keeping with the desire of the foundation's benefactor, Guido Feger, was an active functionary on the Board of Directors and its committees, and in particular fostered the successful and sustainable development of VP Bank. He stood out especially for his resolute client orientation and profound knowledge of the intermediaries and private banking business. Of equal importance to him were the employee leadership and corporate culture at VP Bank. The Board of Directors thanks Dr Guido Meier sincerely for his tremendous commitment to VP Bank and wishes him all the best for the future.

VP Bank is a system-relevant bank in Liechtenstein and therefore, in compliance with the requirements under Basel III, is obliged by the Regulator to divide its previously combined Audit & Risk Management Committee into two discrete corporate bodies. As a result, the Board of Directors on 1 November 2015 established an Audit Committee presided over by Michael Riesen, as well as a Risk Committee presided over by Dr Daniel H. Sigg.

For effect as of 1 January 2016, the "Chief Operating Officer" organisational unit was created to supplement the organisational units in existence prior to 31 December 2015. The Board of Directors of VP Bank Group designated Martin C. Beinhoff as a new member of Group Executive Management and appointed him Chief Operating Officer and head of the new unit. He has vast experience in the banking industry.

Conversion of bearer shares into registered shares

Developments at the international level make it necessary to provide more transparency on the ownership structure of legal entities. The Board of Directors of VP Bank shall therefore propose at the annual general meeting on 29 April 2016 that the Bank's bearer shares be converted into registered shares. The listed bearer shares of VP Bank (par value CHF 10.00) would then be exchanged for "A"-class registered shares with the same par value. The existing unlisted registered shares (par value CHF 1.00) are to remain unchanged but be referred to as "B"-class shares. Also in future, the latter will not be listed on the stock exchange. Completion of the conversion is scheduled for early May 2016.

Outlook

Apart from the integration of Centrum Bank AG into VP Bank Group, 2015 was a year devoted to the topics of efficiency enhancement and cost management. The related projects were all successfully completed by year's end so that we now have a lean and efficient organisation. In 2016, the task is to exploit these new advantages and synergies in the most profitable way.

Compliance with the due diligence requirements pertaining to the tax conformity of clients is something we view as a particularly important task also in the years ahead. VP Bank continues to help its existing clients achieve tax conformity. In addition, measures are gaining traction so that business relationships stay within the scope of application of the AEOI.

Growth of course remains a key topic at VP Bank: it will come from the continuing effort to enhance the quality of our client service and the augmentation of highly experienced teams, especially in Asia. We will also take advantage of market opportunities as they open up in order to invest in growth through acquisition. In this regard, we will keep a watchful eye mainly on our target markets of Liechtenstein, Switzerland and Luxembourg.

Our special focus in 2016 will be on the further development of VP Bank's fund activities as well as on strengthening our position in the intermediaries business. In view of the increasingly sophisticated demands of clients and the markets, we want to press ahead with the expansion of our international business and the continued development of new digital banking services. Moreover, we have identified various areas where the complexities and hence the costs of rendering the related services can be reduced.

All of these measures will help to reinforce the already solid foundation of VP Bank Group.

A word of thanks

In April 2016, VP Bank will celebrate its 60th anniversary. What once was a familiar local bank nestled in the alpine Principality of Liechtenstein is today a dynamic, globally active provider of financial services. We can look back with pride on that heritage. The illustrations placed throughout this annual report will take you on a tour of the major milestones in the history of our VP Bank Group.

Our clients and employees are the people who have made us a successful international banking group. And they deserve our very special thanks for their ardent support of VP Bank over the decades. Closeness to the client, reliability and personalised, first-class service will remain our guide as we proceed together into the future.

We would also like to express our special thanks to VP Bank's shareholders for the trust they have placed in us. We shall do everything in our power to sustain that trust in the years ahead.

Fredy Vogt
Chairman of the Board of Directors

Alfred W. Moeckli
Chief Executive Officer

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, the British Virgin Islands, Singapore, Hong Kong and Russia.

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 four anchor shareholders: "Stiftung Fürstl. Kommerzienrat Guido Feger" foundation, "U.M.M. Hilti-Stiftung" foundation, Ethenea Independent Investors S.A. 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 43.0 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 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 nearly 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.

2015 highlights

January

Centrum Bank

Purchase of all shares

VP Bank's acquisition of all shares in Centrum Bank was fully completed as planned on 7 January 2015. Centrum Bank thereby becomes a wholly owned subsidiary of VP Bank.

March

2014 results

CHF 20.0 million in group net income

In 2014, VP Bank Group recorded CHF 20.0 million in group net income and a 1.8% increase in client assets under management. Operating expense was further reduced. With a tier 1 ratio of 20.5%, VP Bank Group has a very solid equity position.

March

Online annual report

The 2014 online annual report is "safely ahead" and for the first time will be optimised with a responsive design for various screen sizes, i.e. smart phones, tablets and desktop PCs.

April

Extraordinary general meeting

At the extraordinary general meeting of VP Bank in Vaduz, the Board of Directors' proposals as regards a capital increase and the Centrum Bank merger were approved.

May

VP Bank Investors Day

On 20 May 2015 VP Bank held its second annual Investors Day with around 30 shareholders, investors and analysts in attendance. Adrian Hasler, the Prime Minister of the Principality of Liechtenstein, was the keynote speaker.

January

SNB decision

On 15 January 2015 the Swiss National Bank lifted its exchange rate floor of CHF 1.20 per euro. VP Bank adjusted its interest rates and adopted immediate cost-cutting measures.

March

VP Bank's CHF bond

VP Bank successfully issued a CHF 200 million bond in two tranches. This bond offering provides VP Bank with its first long-term instrument to refinance the long-term loan book. The bond also protects against the possibility of rising interest rates over the long term.

March

World Finance Award

The fund subsidiary VP Fund Solutions (formerly IFOS) received the "World Finance Award" as Liechtenstein's Best Investment Management company in 2015.

April

Annual general meeting

All proposals accepted

At VP Bank's 52nd annual general meeting in Vaduz, all Board of Directors proposals were approved. Fredy Vogt was re-elected to a three-year term on the Board, while Dr Florian Marxer was elected as a new Board member. The proposed share buyback was also approved.

June

5-star Morningstar rating

The "VP Bank Fund Selection Aktien Natural Resources" fund received five stars from Morningstar, the fund rating agency's highest rating.

June

First share buyback

The repurchase of bearer and registered shares as part of VP Bank's fixed-price offer was successfully completed. A total of 300,750 bearer shares and 114,080 registered shares were repurchased. The repurchased shares are intended to be used for future acquisitions or treasury management purposes.

August

New medium-term goals

Following the review of medium-term goals, VP Bank Group's Board of Directors set the following new targets to be achieved by end-2020:

- CHF 50 bn in assets under management
- CHF 80 million in Group net income
- Cost/income ratio of less than 70%

August

VP Fund Solutions

VP Bank Group's funds business was consolidated under one roof at "VP Fund Solutions," giving VP Bank Group an international funds competency centre.

August

2015 interim results

In the first half of 2015, VP Bank Group recorded group net income of CHF 40.9 million. Total operating income rose by 56.1%. VP Bank's client assets under management rose by 11.8% from 2014.

September

"A–" rating

The rating agency Standard & Poor's confirmed VP Bank's outstanding "A–" rating (A–/A–2), thereby emphasising VP Bank Group's excellent creditworthiness.

September

Excellence Award

Deutsche Bank again recognised the professional services of VP Bank for the execution of euro payments and gave it the Excellence Award.

October

Second share buy-back

The repurchase of treasury bearer and registered shares as part of VP Bank's second fixed-price public buy-back offer was successfully completed. VP Bank thereby repurchased 298,442 bearer shares and 10,200 registered shares. VP Bank currently owns 9.28% of the outstanding share capital and 6.05% of the voting rights.

November

High-quality annual report

VP Bank Group's 2014 annual report again received numerous international awards. The online annual report, which was further developed, won three awards.

November

"Lichtblick"

As part of the VP Bank Foundation's "Lichtblick" annual charity event, generous donations were made to a number of social and welfare institutions operating in Liechtenstein.

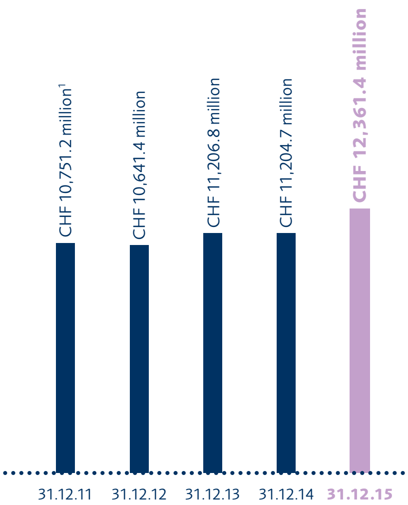
November

Outstanding advisory quality

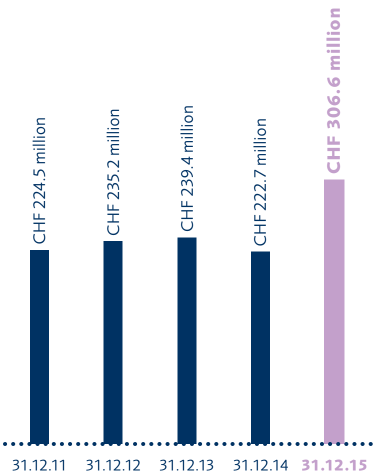
The quality of VP Bank's asset management advisory is affirmed by the recently upgraded rating in the "Fuchsbriefe Report" as well as the "cum laude" distinction in the Elite Report.

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

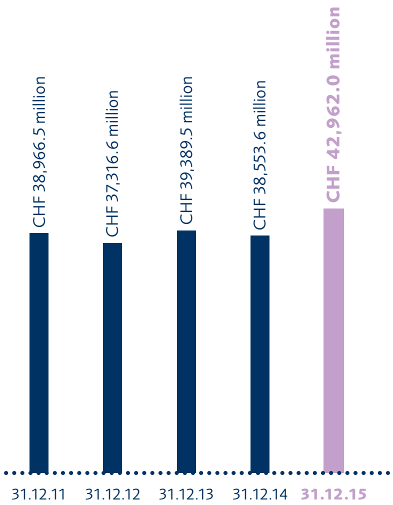
Key figures of VP Bank Group



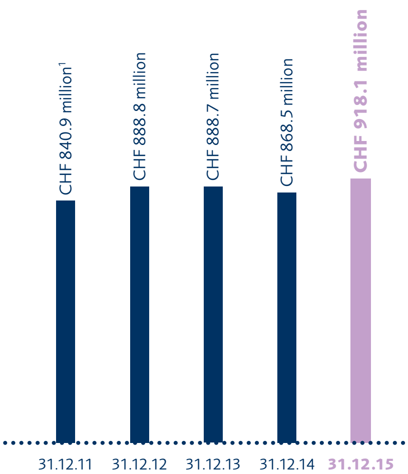
Total assets



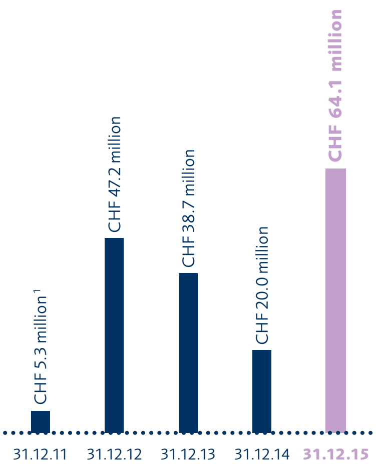
Total net operating income



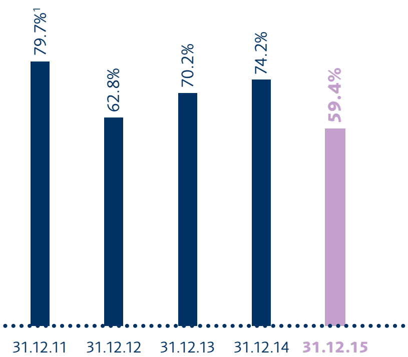
Client assets



Total shareholders' equity



Net income



Cost/income ratio

[1] adjusted (IAS 19R)

Key figures of VP Bank Group

	2015	2014	Variance in %
Key balance sheet data in CHF million[1]			
Total assets	12,361.4	11,204.7	10.3
Due from banks	2,060.3	3,282.2	–37.2
Due from customers	5,007.0	4,263.9	17.4
Due to customers	10,546.4	9,446.0	11.6
Total shareholders' equity	918.1	868.5	5.7
Equity ratio (in %)	7.4	7.8	–4.2
Tier 1 ratio (in %)[2]	24.4	20.5	19.3
Leverage ratio in accordance with Basel III (in %)	7.0	n.a.	n.a.
Key income statement data in CHF million[2]			
Total net operating income	306.6	222.7	37.7
Interest income	84.5	65.6	28.9
Income from commission business and services	126.4	118.4	6.7
Income from trading activities	46.1	25.4	81.6
Operating expenses	182.1	165.3	10.2
Net income	64.1	20.0	219.9
Client assets in CHF million[2]	**42,962.0**	**38,553.6**	**11.4**
On-balance-sheet customer deposits (excluding custody assets)	10,062.1	9,515.6	5.7
Fiduciary deposits (excluding custody assets)	512.7	404.8	26.6
Client securities accounts	24,193.8	21,018.7	15.1
Custody assets	8,193.3	7,614.5	7.6
Net new money	**6,045.5**	**–850.2**	**n.a.**
Key operating indicators			
Ratio of foreign assets (in %)	35.2	38.0	–7.4
Return on equity (in %)[1,3]	7.3	2.3	214.5
Cost/income ratio (in %)[4]	59.4	74.2	–20.0
Headcount (expressed as full-time equivalents, excluding trainees)[5]	734.4	694.9	5.7
Total net operating income per employee (in CHF 1,000)	417.4	320.4	30.3
Total operating expenses per employee (in CHF 1,000)	248.0	237.8	4.3
Net income per employee (in CHF 1,000)	87.2	28.8	202.7
Key indicators related to shares of VP Bank in CHF[1]			
Net income per bearer share[6]	10.17	3.45	194.9
Net income per registered share[6]	1.02	0.34	194.9
Dividend per bearer share	4.00[7]	3.00	33.3
Dividend per registered share	0.40[7]	0.30	33.3
Dividend yield (in %)	4.9	3.5	38.2
Payout ratio (in %)	39.3	n.a.	n.a.
Total shareholders' return on bearer shares (in %)	0.0	–9.2	–100.0
Shareholders' equity per bearer share on the balance-sheet date	154.01	149.98	2.7
Shareholders' equity per registered share on the balance-sheet date	14.18	14.68	–3.5
Quoted price per bearer share	82.00	85.00	–3.5
Quoted price per registered share	8.20	8.50	–3.5
Highest quoted price per bearer share	87.50	98.95	–11.6
Lowest quoted price per bearer share	71.15	74.40	–4.4
Market capitalisation (in CHF million)[8]	542	503	7.9
Price/earnings ratio per bearer share	8.06	24.65	–67.3
Price/earnings ratio per registered share	8.06	24.65	–67.3
Rating Standard & Poor's	A–/Negative/A–2	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 financial statement.
3 Net income / average shareholders' equity less dividend.
4 Total operating expenses / total net 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 Based on the weighted average number of shares (bearer) (note 11, page 136).
7 Subject to approval by the annual general meeting.
8 Including registered shares.

The organisational structure of VP Bank Group

VP Bank Group is subdivided into three organisational units: "Chief Executive Officer", "Client Business" and "Chief Financial Officer & Banking Services".

Changes in the organisational structure in the 2015 financial year

From an organisational standpoint, 2015 was a year that centred on the integration of Centrum Bank AG into VP Bank Ltd, whereas the actual legal merger of the two entities took effect on 30 April 2015. As of that date, the name Centrum Bank AG ceased to exist and all of that company's employees were shifted officially into a transitional organisation as of 1 May 2015. The primary goal of this transitional organisation was to maintain normal banking operations until Centrum Bank's existing system platforms were no longer needed. The new organisational structures were adapted as of 1 January 2016.

The Executive Board of VP Bank (Luxembourg) SA was expanded as of 9 March 2015 to include Antoine Baronnet, who, in his function as Head of Client Business, assumed responsibility for all client-related units.

On 31 March 2015, the employment relationship with Rolf Jermann, Head of Corporate Clients and Credits in the Commercial Banking unit, was terminated by mutual agreement. Werner Wessner took over responsibility for the unit on an ad interim basis.

Andreas Zimmerli, Head of Group Operations, left VP Bank Ltd at the end of April 2015. His successor, Jürg Mühlethaler, held the post of Chief Operating Officer at Centrum Bank.

Owing to the increasing importance of the intermediaries business, especially as a result of the merger with Centrum Bank AG and the demand at VP Bank's international locations, the Intermediaries business unit has been restructured. As of 1 November 2015, Tobias Wehrli took over as the unit's new head. Mr Wehrli's predecessor in that post, Günther Kaufmann, now devotes his efforts to key clients and increases acquisition activities.

VP Bank Group's two fund administration companies, IFOS AG and VPB Finance SA, officially changed their names as of 3 August 2015. Both firms now do business under the umbrella name of "VP Fund Solutions": IFOS AG was renamed to VP Fund Solutions (Liechtenstein) AG and VPB Finance SA to VP Fund Solutions (Luxembourg) SA. In this connection, Group-wide synergies are being emphasised and fund know-how is being consolidated under a uniform brand. Eduard von Kymmel, Head of VP Fund Solutions, has been in charge of VP Bank Group's entire fund-related business since January 2015.

Roberto Vogt, Head of Private Banking CEE and Member of the Executive Board of VP Bank (Switzerland) Ltd, left the Bank as of 28 September 2015. In his former function, he was responsible for the Central & Eastern Europe as well as the Russian Federation markets. His successor, Thomas Westh Olsen, commenced the related activities on 1 November 2015.

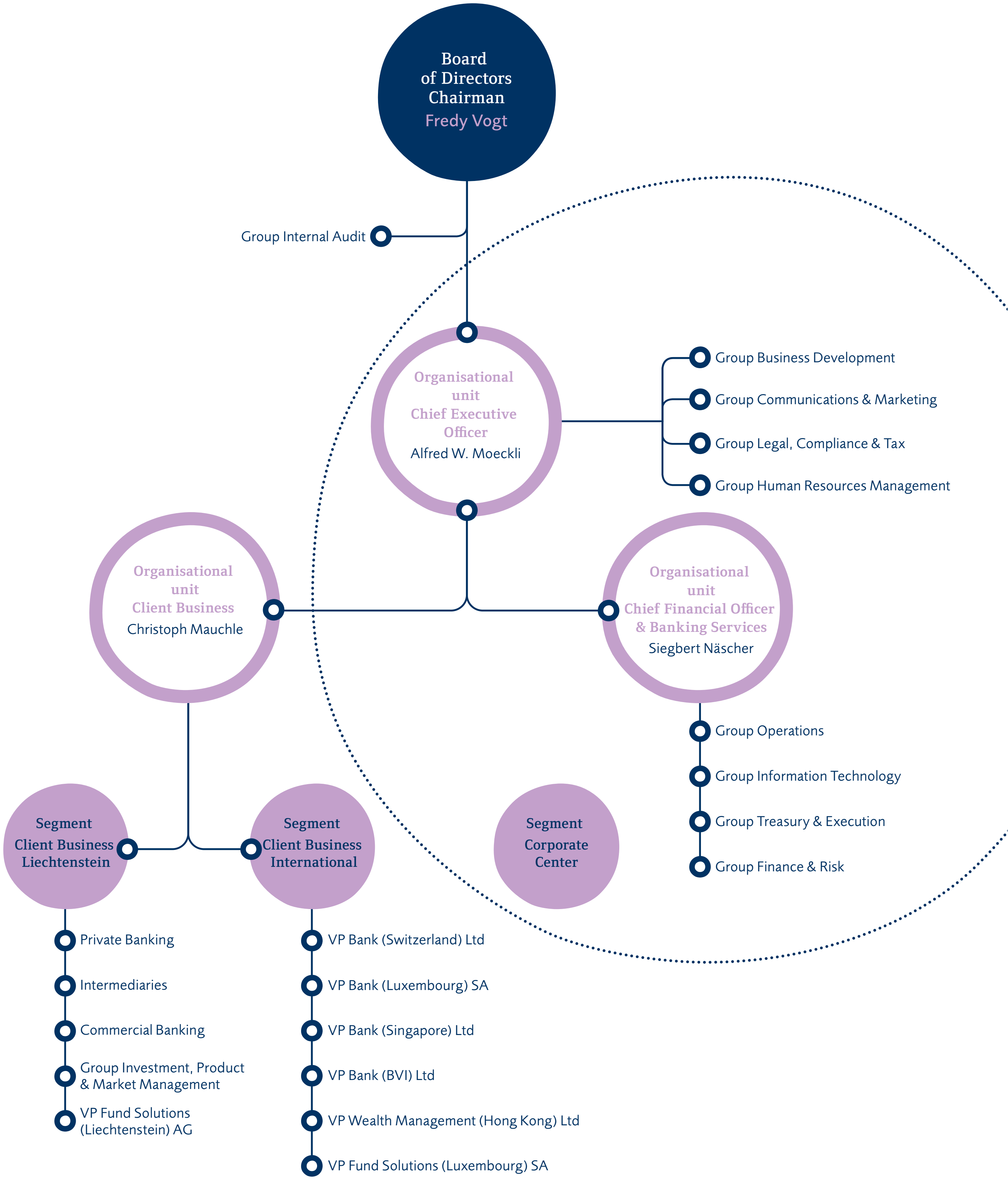
Joachim Künzi, Chief Executive Officer of VP Bank (Switzerland) Ltd, left the Bank on 2 November 2015 for personal reasons. He joined VP Bank (Switzerland) Ltd on 1 October 2013 and progressively turned it into a front-oriented subsidiary. Antony Lassanianos, Head of Private Banking Germany & Switzerland, Intermediaries and Member of the Executive Board of VP Bank (Switzerland) Ltd, took over Mr Künzi's tasks as of 2 November 2015 on an ad interim basis.

Changes to the organisational structure subsequent to 31 December 2015

Based on a comprehensive review of the Bank's credit policies and strategies, Group Executive Management, under the leadership of Martin C. Beinhoff, decided to split the Front- and Mid-/Backoffice units for effect as of 1 January 2016. As a result of this separation, the Mid- and Backoffice departments are now part of the Chief Operating Officer unit. The Frontoffice department remains with the Client Business unit.

Based on VP Bank Group's strategy and medium-term goals for 2020, as well as the merger with Centrum Bank AG and the related changes in the structural and organisational requirements, the Board of Directors of VP Bank Group has reallocated the tasks within Group Executive Management for effect as of 1 January 2016 and appointed Martin C. Beinhoff as the new Chief Operating Officer. Since that date, he bears responsibility for the Group Operations, Group Credit, Group Information Technology and Group Treasury & Execution business units.

Patrick D. Businger, Head of Group Treasury & Execution, decided to leave the Bank as of 5 January 2016 in order to pursue a new professional challenge. From March 2016 on, Claus Hug will be in charge of the unit.



Organisational chart as of 31.12.2015

Group Executive Management as of 31.12.2015.
From left to right: Christoph Mauchle, Alfred W. Moeckli, Siegbert Näscher

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 & Banking Services	Group Finance & Risk Group Operations Group Information Technology Group Treasury & Execution	Dr Hanspeter Kaspar Jürg Mühlethaler Dr Andreas Benz Patrick D. Businger
Client Business	Private Banking Intermediaries Commercial Banking Group Investment, Product & Market Management	Martin Engler Tobias Wehrli Werner Wessner a.i. Hendrik Breitenstein

Subsidiaries with bank status

Company	Country	City	Head
VP Bank Ltd	Liechtenstein	Vaduz	Alfred W. Moeckli, Siegbert Näscher, Christoph Mauchle
VP Bank (Switzerland) Ltd	Switzerland	Zurich	Antony Lassanianos, Thomas Westh Olsen
VP Bank (Luxembourg) SA	Luxembourg	Luxembourg	Thomas Steiger, Romain Moebus, Antoine Baronnet
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

Fund management companies

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

Representative offices

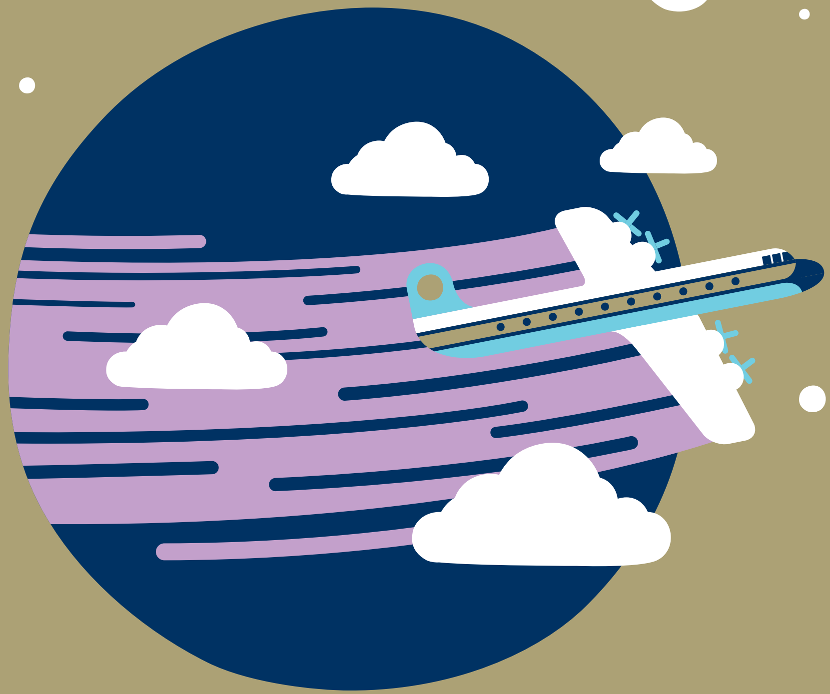
Company	Country	City	Head
VP Bank (Switzerland) Ltd Moscow Representative Office	Russia	Moscow	Jean-Michel Brunie
VP Bank Ltd Hong Kong Representative Office	China	Hong Kong	Clare Lam

An aspirational mindset

The Bank takes its first steps along the right path, meeting challenges along the way.

VP Bank between 1956 and 1962

1956–1962



1956

VP Bank

Princely Councillor of Commerce Guido Feger (1893–1976), owner of Allgemeines Treuunternehmen (ATU) in Liechtenstein, receives a license to "run a banking business" on 4 April. As this license is initially tied to Feger personally, the Bank has to refrain from conducting domestic transactions in order to avoid finding itself in competition with the LLB. On 6 April, Guido Feger founds Verwaltungs- und Privat-Bank Anstalt with an initial capital of CHF 2 million.

Financial centre

Up until 1956, there are only two banks in Liechtenstein: Liechtensteinische Landesbank (LLB) as a public-law institution and the private Bank in Liechtenstein AG (BiL).

1957

VP Bank

Olaf Walser (ATU), the long-time closest confidant of the founder Guido Feger, is appointed as VP Bank's first authorised officer. In January 1963, he is elected to the Board of Directors, of which he remains a member until 2001; he assumes the role of Vice Chairman for a quarter of a century.

1960

VP Bank

Princely Councillor of Commerce Dr Heinz Batliner takes over as General Manager and makes a decisive contribution to various aspects at the Bank.

Olaf Walser obtains a license for the operation of a currency exchange office and thus helps the ambitious VP Bank to open a counter at Städtle 14, Vaduz.

Financial centre

Switzerland joins the EFTA: due to the customs union, the agreement is also applied to Liechtenstein, which is not permitted to become an independent member.

1961

Financial centre

Liechtenstein's first banking law comes into force on 27 January.

1962

VP Bank

In accordance with the provisions of the new Banking Act, the Verwaltungs- und Privat-Bank Anstalt is converted into a joint-stock corporation at the end of the year. The equity capital is owned by the "Stiftung Fürstl. Kommerzienrat Guido Feger" foundation, with which the founder provides the shareholder base with a solid foundation that lasts beyond his lifetime.

Segments

Structure

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

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

Centrum Bank, which was merged with VP Bank in 2015, is included in the segment reporting for 2015. The non-recurring positive effect of the "bargain purchase" (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. The client assets transferred as well as the client-related revenues arising from this integration are reported in the business segment "Client Business Liechtenstein". The amortisation of the capitalised value of client assets acquired is also allocated to this business segment. The employment contracts of the employees of Centrum Bank, Vaduz, were transferred to VP Bank and integrated into the existing structure of VP Bank Group. Based upon this allocation, related ongoing regular costs were charged to the respective business unit ("Client Business Liechtenstein" or "Corporate Center"). The prior-year comparative figures exclude Centrum Bank.

Further information about the segments can be found on pages 124 ff.

Client Business Liechtenstein

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. From 2015 onwards, this segment includes the employees transferred and customer business of the above-mentioned units from the integration of Centrum Bank.

Segment results

	2015	2014
Total net operating income (in CHF million)	167.1	123.7
Income before income tax (in CHF million)	77.2	48.2
Client assets under management (in CHF billion)	24.3	19.5
Headcount (number of employees)	178	157

Client Business International

The business segment "Client Business International" encompasses the private banking business 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 results

	2015	2014
Total net operating income (in CHF million)	69.4	79.8
Income before income tax (in CHF million)	–2.6	14.4
Client assets under management (in CHF billion)	10.5	11.4
Headcount (number of employees)	245	259

Corporate Center

The business segment "Corporate Center" is responsible for banking operations and the processing of business transactions. It encompasses the areas Group Operations, Group Information Technology, Group Finance & Risk, Group Treasury & Execution, 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 the 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 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. From 2015 onwards, this segment includes the employees transferred from the above-mentioned units from the integration of Centrum Bank. The effect arising on the reduction of the rate on conversion (IAS 19) also flowed into this segment.

Segment results

	2015	2014
Total net operating income (in CHF million)	70.1	19.2
Income before income tax (in CHF million)	–14.4	–42.0
Client assets under management (in CHF billion)	0.0	0.0
Headcount (number of employees)	375	339

VP Bank shares

Economic environment in 2015

In terms of the global economy, 2015 had both its highlights and lowlights. Particularly gratifying was the favourable trend in the eurozone economy: certain debt-plagued member states of the common currency region put on a stellar performance. For instance, Spain managed to grow at a 3.2 per cent pace in 2015. On the whole, the eurozone made a good impression and surpassed expectations.

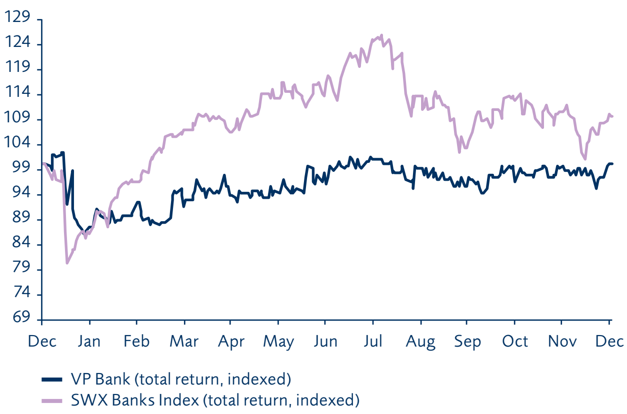
And precisely those better than anticipated developments helped the Swiss economy to absorb at least some of the shock from the dramatic appreciation of the franc following the abandonment of the minimum EUR/CHF exchange rate. But it was mainly the restructuring measures and tighter cost controls at Swiss companies that prevented the local economy from taking a nosedive. On balance, the Swiss economy recorded an annualised 0.9 per cent rate of growth in 2015, which in light of the exchange-rate shock was indeed a laudable achievement.

All the while, the US economy stayed its course: a solid increase in employment gave a boost to consumer spending. The US government also loosened its purse strings this past year, and that helped as well: the US economy expanded by 2.4 per cent in 2015.

The emerging nations, on the other hand, were faced with immense difficulties. The rapid decline in the price of oil and other raw materials in general put a damper on growth in many of the up-and-coming economies. The two emerging heavyweights – Brazil and Russia – took hard hits and fell into a severe recession. Making matters worse for Russia were the sanctions imposed on the country by Western nations. China made for negative headlines mainly due to the collapse in its domestic stock exchanges during the summer months of 2015. Almost forgotten in the fracas was the fact that the Chinese economy, despite the financial market turbulence, remained on target and ultimately grew by 6.9 per cent in 2015.

The inflation rates in the industrialised nations remained stuck at sub-zero levels or at best hovered around nil. Thus the massive year-on-year drop in oil prices clearly left its mark. The flow-through effect was especially noticeable in Switzerland, where the franc's appreciation pushed the inflation rate even deeper into negative territory: the federal consumer price index fell by an average annual rate of 1.1 per cent – a record. The developments were less extreme in the eurozone and the USA, but the inflation rates remained close to zero in both economic regions. Against this backdrop, the Swiss National Bank (SNB) and the European Central Bank (ECB) carried on with their ultra-lenient monetary policies. With the abandonment of the EUR/CHF exchange rate floor on 15 January 2015, the SNB also reduced its overnight deposit rate to −0.75 per cent. And then in an effort to curb an even further upside move in CHF, the SNB proceeded to intervene relentlessly in the forex market, thereby bloating its balance sheet to enormous proportions.

VP Bank bearer shares versus the SWX Banks Index in 2015



In January 2015, the ECB introduced a large-scale bond purchase programme. Since March 2015, the ECB has been buying a monthly 60 billion euros' worth of fixed-income securities issued by public and private entities. Although the Frankfurt central bankers have meanwhile abstained from increasing the monthly purchases, they nevertheless opted in December to reduce the deposit rate from −0.2 per cent to −0.3 per cent. Even though the base lending rate remained in positive territory, the initiation of the securities purchase programme led to an increase in surplus liquidity in the system and hence to negative money market rates. Consequently, banks as well as consumers were faced with an environment of negative interest also in the EUR space.

The US Federal Reserve Bank took the opposite stance. In December 2015, the Fed funds rate was notched up by 25 basis points for the first time in almost a decade. In that the Fed had already made its rate-hike intentions clear months earlier, the actual announcement caused no noteworthy upheavals in the financial markets.

The equity markets in 2015

After the sizeable gains recorded in previous years, 2015 was quite a drag for stock investors who had become so accustomed to success. On average, the share indices for the major industrialised nations managed to close out the year with a modest gain, but the emerging markets were far less fortunate (–15 per cent in USD). At the region-specific level, what in part were enormous divergences opened up: for instance, Japan (+10 per cent) and the eurozone (+11 per cent) came away the clear winners, while the already weak performance in the emerging markets was exacerbated further by the malaise in Latin American countries.

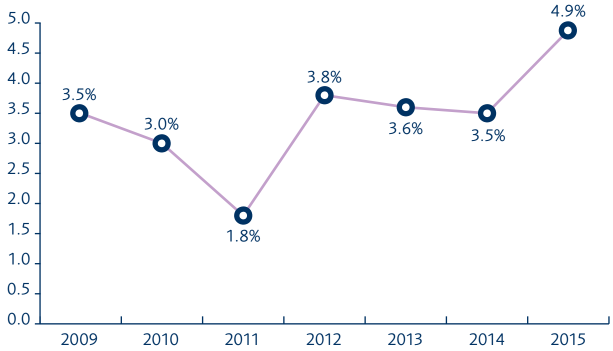
The first half of 2015 was still characterised by rising stock prices. The erstwhile omnipresent Greece crisis lost a bit of its bite at least in the media, and that led to a significant improvement in European investor sentiment. That positive underlying mood, combined with an expansive and reliable monetary policy, allowed the DAX to soar almost 24 per cent by mid-April. Also in Japan, monetary policy was the source of clear and pivotal stimuli which enabled the Topix to surmount the +30% mark in just the first three months of the year.

But after the euphoric first semester, sobriety returned in the second half of the year. Concerns about a growth slowdown in China caused the already heavily margined Chinese stock markets to collapse and led to heighted risk aversion across the globe. Moreover, the fundamentals no longer offered any substantial help. The waning price of crude oil had such a negative impact on earnings in the energy sector that the overall US market registered its worst annual performance since 2008. The waves of selling in August and September 2015 erased almost all of the previously achieved price gains.

The shares of VP Bank

By having recorded a gain in value of 0.08 per cent (incl. dividend) for the year, the shares of VP Bank marginally underperformed the overall domestic stock market (Swiss Performance Index). VP Bank distributed a dividend of CHF 3.00 per bearer share on an average stock price for the year of CHF 79.90. Hence the dividend yield of 4.9 per cent exceeded that of the overall market and the banking sector per se. Both the high and the low price for the year were recorded in the month of January at CHF 87.50 and CHF 71.15, respectively.

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



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 latest developments at the company.

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 semi-annual reports and publishing the related financial results, as well as organising the annual general meeting of shareholders.

In 2015, those investor relations activities also involved the organisation of numerous analyst and press conferences, which were important venues for fostering greater interaction and discussions with investors and financial intermediaries.

In May 2015, the 2nd VP Bank Investor Day was held in Zurich with approximately 30 shareholders, investors and analysts in attendance. Adrian Hasler, Head of Government of the Principality of Liechtenstein, was the prominent keynote speaker at the event.

Regular presentations addressing the current trend in VP Bank's financial results serve to enhance the dialogue with institutional and private investors. Additional means of communication are the www.vpbank.com website and the online version of the annual report under http://report.vpbank.com, where all up-to-date information on VP Bank can be accessed. In 2015, the content of the investor pages was reworked and supplemented with additional information.

In its dialogue with investors, shareholders and clients, VP Bank attaches great value to providing the latest information, and this in an extremely user-friendly way. Thus the further evolution of the online version of VP Bank Group's annual report was accorded special significance again in 2015. For the first time, VP Bank's full 2015 semi-annual report was also made available online.

A total of three commendations for the online 2014 annual report once again attested to the creativity of VP Bank. In connection with the "Galaxy Award", the online report of VP Bank received a Gold Award and was named "Best of Category" worldwide in the "Annual Reports Online" grouping. The Galaxy Awards are presented in the USA and in 2015 more than 700 participating companies from 20 countries vied for the honours.

The print version of the VP Bank annual report was also the winner of two international awards. Moreover, a jury comprised of communication and financial professionals ranked VP Bank Group's publication one of the fifteen best in Switzerland and Liechtenstein as a part of the "Swiss Annual Report Ratings 2015".

In August 2015, Standard & Poor's reconfirmed its "A–" (A–/A–2) rating of VP Bank Group, thereby underscoring the Bank's high creditworthiness. In its report, Standard & Poor's made special note of VP Bank Group's outstanding capital base, as well as its stable shareholder structure and steady customer deposits.

This good "A–" rating confirms the solid and successful business model of VP Bank Group. VP Bank is one of the few private banks in Liechtenstein and Switzerland that are evaluated by a major international rating agency.

In 2015, research coverage of VP Bank Group was provided by analysts at MainFirst Bank AG and Zürcher Kantonalbank.

Agenda	
Publication of 2015 annual financial results	Tuesday, 8 March 2016
53rd ordinary annual general meeting	Friday, 29 April 2016
Dividend payment	Friday, 6 May 2016
Publication of first-half 2016 financial results	Tuesday, 30 August 2016
Publication of 2016 annual financial results	Tuesday, 7 March 2017

VP Bank share details	
Bearer shares, listed on SIX Swiss Exchange	
Number of listed shares	6,015,000
Free float	40.02%
SIX symbol	VPB
Bloomberg ticker	VPB SW
Reuters ticker	VPB.S
Securities number	1073721
ISIN	LI0010737216

Share-related statistics 2015	
High (05.01.2015)	87.50
Low (22.01.2015)	71.15
Year-end close (final settlement value, 30.12.2015)	82.00
Average price	79.90
Market capitalisation in CHF million	542
Consolidated net income per bearer share	10.17
Price/earnings ratio	8.06
Dividend per bearer share (proposed)	4.00
Dividend yield (net) in %	4.9
Standard & Poor's rating	A– (A–/Negative/A–2)

Further information on the capital structure and anchor shareholders of VP Bank can be found in the "Corporate governance" section on pages 67 ff.

Contact

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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. Supplementing these core capabilities is VP Bank Group's international fund competency centre.

VP Bank considers it a matter of course and a central task to fulfil all regulatory and cross-border requirements as well as to offer a comprehensive range of services that correspond to the business model of VP Bank Group.

From the various locations of VP Bank Group – namely Vaduz, Zurich, Luxembourg, Tortola, Singapore, Hong Kong and Moscow – clearly defined target markets are actively cultivated. The local offices bear responsibility for developing their own markets and receive coordinative assistance from the Group. The defined target markets for Europe comprise Liechtenstein, Switzerland, Germany, Luxembourg, Russia, Ukraine and Kazakhstan; in Asia, the Group's focus is on Singapore, Hong Kong, Indonesia, Malaysia and Thailand.

In connection with its annual strategy review, the Board of Directors and Group Executive Management in 2015 conducted an in-depth assessment of the status quo throughout VP Bank Group and from the findings derived the "Strategy 2020". The primary strategic goal of VP Bank is to grow both in terms of profitability and quality through its activities as a Group in the defined target markets and thereby preserve its independence over the long term.

The key aspects of the strategy are threefold: growth, focus and culture.

Profitable growth

VP Bank Group plans to achieve both organic growth and growth through acquisitions. In achieving the goal of profitable growth, VP Bank's international branches and the VP Fund Solutions competence centre play a crucial role. Leveraging the benefits of targeted acquisitions is also an important element of this quest for growth.

Through its merger with Liechtenstein-based Centrum Bank in 2015, VP Bank proactively took advantage of an appealing market opportunity to gain an even stronger position in the Liechtenstein financial centre and simultaneously leverage the enormous capacity of its own booking platform. Not to mention that yet another reliable, long-term-oriented Liechtenstein family became an anchor shareholder of VP Bank as part of the deal.

Also in future VP Bank will be keeping an eye out for suitable acquisition opportunities in its target market of Liechtenstein, Switzerland and Luxembourg, whereas any such candidate must fit in with the strategy and culture of VP Bank Group. The shares acquired within the framework of the two repurchase programmes conducted in 2015 are primarily viewed as "funding in kind" for future acquisitions.

For VP Bank, organic growth means winning new clients in its target markets and 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.

VP Bank anticipates additional growth impulses from its internationalisation efforts. Here, the proportion of revenues attributable to the foreign target markets should increase to 50 per cent of the total over the medium term. Further measures in this regard include the resolute strengthening of the Bank's position in the especially important area of business dealings with financial intermediaries as well as the further expansion of its investment fund business.

In all of these activities, a prudent approach to dealing with risk is a core principle of VP Bank. The Bank's internal control system (ICS) is being constantly expanded and helps to manage operational risks actively and efficiently. Further information in this regard can be found in the "Risk management of VP Bank Group" section of this annual report (see pages 108 ff.).

Resolute focus

At VP Bank, the term "focus" relates to the reduction of complexities and the 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 was a major, and successful, activity this past year. Measures derived from various projects were 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 palette of products and services.

In recent years, the Luxembourg location has been a target of measures aimed at increased efficiency. In October 2014, VP Bank initiated a project which on one hand brought the local business processes in line with the Group standards and, on the other, contributed to the avoidance of location-transcending service redundancies. In this connection, it was necessary to introduce in Luxembourg the Group standards under observance of the domestic regulatory requirements. VP Bank successfully concluded the project in late 2015 and now a solid, systematised fundament of processes and procedures that take into account the country-specific rules and regulations is in place.

Other aspects of our "focus" in 2015 were to be seen in the further optimisation of the Bank's business segments and products, a revised definition of the target markets, determined efforts in the area of digitisation (as explained below in greater detail) as well as the fine-tuning of VP Bank's capital adequacy.

Personification of the culture

The third thrust of Strategy 2020 relates to the culture at VP Bank, in particular two main areas: The first deals with measures for reinforcing the selling and performance culture throughout the Group. Here, the goal is to further enhance the advisory skills of front-office staff. They receive support in this effort through consulting tools as well as targeted training courses.

In terms of corporate culture, the emphasis is on promoting team thinking, this with the objective of increasing the transparency of the organisation and its structures and, on that basis, achieving more dynamic processes as well as a heightened "winner" mentality. By emphasising the strengths of VP Bank, this kind of culture establishes a clearly distinguished profile both internally and externally and is a potent force in the competitive arena. A comprehensive seminar addressing the theme "A culture of leadership" was conducted in the autumn of 2015 and a second round is being planned for 2016.

Owing to these extensive changes, the question arises at VP Bank as to which culture is best suited to today's new challenges. Group Executive Management has drawn up guidelines under which each employee is encouraged to assume more self-responsibility. To foster a results- and performance-oriented culture, various methodological principles and work practices have been defined in keeping with the spirit of "Culture and Leadership". Special emphasis was placed in 2015 on the organisational and cultural transition at the Luxembourg location as well as on the integration of Centrum Bank.

New medium-term goals

Based on Strategy 2020, VP Bank's medium-term goals have been examined and adapted. Until mid-2015, the declared target for the medium term were a tier 1 ratio of at least 16 per cent, a cost/income ratio of 65 per cent, and an average annual growth rate of 5 per cent in net new money. Closer scrutiny of these goals revealed the necessity for adjustments.

At the end of 2014, the legally prescribed minimum core capital ratio was 8 per cent; VP Bank's tier 1 ratio was more than twice that amount. Given that VP Bank in Liechtenstein is now deemed to be system-relevant, the corresponding equity capital requirement under Basel III (CRD IV) increased as of February 2015 to 13 per cent. Hence a medium-term goal of at least 16 per cent no longer represents an added value for investors and clients; by the same token, any increase of the currently target level would severely limit the financial leeway – for example, to conduct acquisitions.

For those reasons, the Board of Directors has defined the following new medium-term targets for the end of 2020:

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

New organisational structure

In 2015, 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. At the same time, it takes into account the new structural and organisational requirements arising from the merger with Centrum Bank as well as the ever-changing economic and regulatory circumstances. For instance, the rules of Basel III prescribe that a risk management function be in place and totally separate from the operative business units in order to exclude the possibility of conflicts of interest in the course of daily business. The reasonable reconfiguration defined by the Board of Directors is taking place simultaneously with the redoubled focus on clearly delineated client segments and selling channels. This not only underpins the Group's efforts to grow qualitatively and profitably in its target markets, but also generates added value for clients.

Effective as of 1 January 2016, the organisational unit "Chief Operating Officer" has been established to supplement the previously existing "Chief Executive Officer", "Client Business" and "Chief Financial Officer" organisational units.

As the newest member of what is now a four-man Group Executive Management team, the Chief Operating Officer bears responsibility for the Group Information Technology, Group Treasury & Execution, Group Credit and Group Operations divisions. This focused allocation of tasks is consistent with a strengthening of the relevant support functions and the resolute optimisation of processes. It also reflects the relentless move towards digitalisation as well as the increasing significance of IT-based processes and solutions – both in the intermediaries business and the private banking area.

Going forward, the Chief Financial Officer will devote his efforts to implementing and steering the Group-wide financing strategy and future planning processes of the Bank. In so doing, he will still be in charge of the Group Finance and Group Risk offices, as well as assume the function of Chief Risk Officer for the Group in keeping with the requirements of Basel III.

Group Executive Management can rely on the assistance of a broadly based second-level management corps of 17 individuals.

The client groups at VP Bank

VP Bank focuses on three main client groups and has developed specific service models for each of those groups.

In the private banking area, the offer for direct clients is being successively broadened with an optimised range of products and services as well as innovative forms of communication; this, of course, in combination with VP Bank's decades of investment competence.

The intermediaries business is steadily gaining in importance, due on one hand to the merger with Centrum Bank but also to increasing demand at the Bank's international locations. VP Bank is expanding its partnerships with this target group and making new models available for their use – for example, expanded platforms that provide banking services, training courses, research, cross-border and compliance know-how, as well as investment controlling, all of which are already available inhouse and are now being offered to a broader circle of intermediaries. Efficient service models for fiduciaries and external asset managers, the personal nurturing of relationships and the establishment of strategic partnerships are evidence of VP Bank's intensified client orientation, optimal deployment of resources and heightened service quality. Through "Key Account Management", a new and more comprehensive advisory approach has been introduced and offers mid- and large-sized fiduciary clients as well as asset managers VP Bank's vast range of services in a tailored, suitable manner. In connection with the expansion of these activities, the Intermediaries organisational unit was restructured as of 1 November 2015 and simultaneously the function of unit head was broadened to include specialist responsibility for VP Bank Group's entire intermediaries business.

VP Bank is also intensifying its personal relationships with external asset managers and positioning itself more distinctly as a top provider of banking services.

VP Fund Solutions

VP Bank Group has outstanding competence in the investment fund business, which encompasses the entire spectrum of relevant services – from the planning to the founding and ultimately to the operative administration of funds – and has been successfully pursued for decades out of the Bank's Liechtenstein and Luxembourg locations.

The fund business represents an especially attractive growth segment for VP Bank Group. Upon the arrival of a new general manager as of 1 January 2015, responsibility for the entire Luxembourg and Liechtenstein fund business was centrally consolidated. Group-wide leadership of this strategically important business is now handled out of Luxembourg. Since August 2015, the two fund companies of VP Bank in Luxembourg and Liechtenstein do business under the unified name of "VP Fund Solutions".

Also in the years ahead, VP Bank's fund competence will grow in importance and be successively broadened. It represents an excellent supplement to the two main pillars of VP Bank's commercial activities, i.e. private banking and the intermediaries business. Further information in this regard can be found in the section "VP Bank's fund business" on pages 34 f.

Efficiency and digitalisation

The intentional concentration of key functions and processes in the newly created "Chief Operating Officer" organisational unit makes it possible to reduce superfluous complexities and costs.

In connection with the digitalisation of processes, data and communication channels, numerous measures are being planned or have already been implemented. At the forefront are standardised solutions that can be deployed on a Group-wide scale, and this always with a sharp eye on client needs.

VP Bank's digitalisation strategy centres on the following major objectives:
- modernising the communication channels to clients;
- expanding the online range of offerings;
- the Group-wide harmonisation of business processes;
- the harmonisation of IT-related services; and
- a reduction of complexities in the process and system environment.

The following examples describe how these ambitions are being realised.

Within the framework of the "POOLIT" project, existing IT infrastructures and systems are being adapted and expanded. The project should enable the centralised rendering of IT services and broaden Group-wide communication links. The goal here is to simplify the compilation of data and optimise the related operating costs.

As of mid-2016, a new investment advisory software application is to be deployed internally. This tool enables the client advisor to render professional, individualised and risk-optimised investment advice based on automated analytical processes, even as it lowers the costs and heightens the quality of that advice.

The centralisation of routine tasks and the automation of certain procedures lead to enhanced quality and facilitate the precise analysis of all of the company's processes. For that reason, VP Bank is building a Business Process Management (BPM) platform with which processes can be conducted fully by electronic means. The BPM platform is a strategic tool for simplifying these Group-wide processes and reducing the manual work. Processes that are highly standardised and/or require considerable automation are replicated on the BPM platform. The platform is also intended to become a tool for use by client advisors as they attend to the many tasks involved in the "client life cycle". The software solution utilised is seamlessly integratable into the existing Avaloq core banking application. It forms the basis for savings and makes it possible for the advisors to conduct uniform processes for each client. This way, best practices can be applied comprehensively to the benefit of the entire VP Bank Group. Thanks to its automated business processes, VP Bank can enhance its efficiency throughout the client life cycle, whilst reliably fulfilling the applicable compliance requirements and achieving the complete digitalisation of client records. Clients benefit from the shorter throughput times afforded by these automated processes. In 2015, the account-opening procedure for natural persons became the first in a wide array of processes to be digitalised.

Plans are also for the implementation of a digital invoice management routine aimed at minimising the manual work involved in dealing with invoices from suppliers – this by means of scanning, archiving and optical character recognition of the data automatically extracted from those invoices.

Thriftiness is also being pursued in a targeted manner at the top management level. For example, the "Online Boardroom" has been in use at VP Bank since 2014. This tool adheres to the principle that confidential documents no longer need to be forwarded physically via normal post or electronically via e-mail, but rather be made accessible securely at a central location for all authorised parties. The corporate bodies of VP Bank Group (Board of Directors, Group Executive Management and various committees) have the ability to inspect all relevant documentation by means of a tablet, regardless of where or when those individuals might require that information. This way, meetings can be held in a "paperless environment" and the participants are confident that they always have at their disposal the latest version of a given document. This document management system also ensures that the internal requirements for document administration and compliance are fulfilled.

Further projects relate to new digital tools for use in the areas of payment transactions, securities trading, client contact and the administration of business forms, as well as to the further development of the already proven e-banking and e-banking mobile systems. Also, in a cooperative effort by select client advisors in Liechtenstein, a pilot project has been launched with the primary aim of using tablets as a way to reduce the number of paper printouts during advisory discussions with clients.

This broad-based digitalisation strategy is making a significant contribution not only towards the maximisation of client satisfaction, but also the enhancement of VP Bank's profitability.

Partnerships

Via partnerships, VP Bank also strives to exploit intercompany synergies. Especially in the Liechtenstein financial centre, cooperative ventures afford a way of countering increasing costs. They allow for the establishment of alliance-based business models. To that end, VP Bank maintains a permanent policy of best-practice sharing with other banks in order to jointly utilise and optimise available resources. In the age of globalisation, a reciprocal transfer of know-how is advantageous for all parties involved.

Strategic partnerships are therefore an important element of VP Bank Group's business model. VP Bank cooperates with Liechtensteinische Landesbank (LLB) in the area of printing and shipment as well as via a joint procurement company. VP Bank also leases one floor of the LLB data processing centre. The building was conceived and constructed specifically as an energy-efficient data processing centre. In this collaboration, the latest IT solutions and efficient data management are the main motivation for both partners. In the years ahead, VP Bank will continue to examine the feasibility of partnerships and joint projects.

Competent advisors and teams

The private banking industry is still in a state of flux. The rendering of financial advice is different today than it was just several years ago. Clients are better informed, more mobile and more demanding. Additional challenges are posed by ever-stricter regulations and the increasing call for transparency. And due to those client demands, the requirements profile for client advisors has also changed. For excellent, comprehensive client care, a heightened degree of competence is required. Asset management expertise must be combined with insight into cross-border tax law and international finance.

In this environment, VP Bank is in the process of expanding its client base further. The tax transparency and conformity issue is progressively taking centre stage. In order to advise clients even more competently, the Bank is redoubling its efforts in the area of professional training.

In 2015, VP Bank introduced a certification course for client advisors who service the German market. This course, in which a total of 54 client advisors participated, was conducted in collaboration with an external partner and included oral as well as written examinations. With that, VP Bank has laid an additional cornerstone for a location- and division-transcending approach to cultivating its target market in Germany. Thanks to this increased wealth of know-how, the competitiveness of VP Bank and the quality of the advice it provides has been improved significantly. The certifications of personnel will continue in 2016.

Advisory excellence

Outstanding advisory services and tailored solutions are of tremendous importance to the marketing effort. Therefore, issues relating to increased efficiency and quality, resources and processes, first-rate services and products, as well as the qualifications of personnel are of central importance. The successful outcome of the quality-enhancement projects conducted in recent years was evidenced in the Fuchsbriefe Report 2015. This Germany-based private banking assessment organisation once again scrutinised the quality of advice provided in the areas of private banking and private wealth management. Four criteria were evaluated: the advisory discussion, the written wealth investment strategy, the quality of the ultimate portfolio and the transparency of the institution. In a comparison with all other tested providers, VP Bank was rated "commendable" and in the latest Fuchsbriefe ranking holds 20th place out of the 89 examined asset managers from Germany, Austria, Switzerland, Liechtenstein and Luxembourg.

Moreover, in November 2015 the "Elite Report" and the Munich-based "Handelsblatt" newspaper jointly awarded citations for the best asset managers in the German-speaking region. A total of 45 out of the 362 examined asset managers were recognised, and VP Bank made its way into the ranks of the best. Just 12 per cent of the participating firms are deemed commendable by the Elite Report. VP Bank is one of them – and this with the distinction of "cum laude".

Dedicated employees

In the financial industry, motivated and service-oriented employees are the key to success. Again in 2015, VP Bank launched numerous initiatives aimed at furthering its employees and fostering a positive work environment. The integration of Centrum Bank into VP Bank presented many staff members with challenging tasks that were all successfully accomplished in 2015.

With "myContribution", VP Bank completely revamped its approach to idea management. This in-house suggestion box has the objective of constantly improving the processes and hence the competitiveness of VP Bank on the basis of ideas submitted by employees. The successfully implemented ideas are rewarded. The spotlight is on people who think, create and venture together in the best interests of the company, because new ideas help VP Bank to advance. In 2015, a total of 53 ideas were submitted compared to only five in 2014.

Last autumn, VP Bank held the internal competition "move – every step counts". The idea was to journey together, symbolically of course, around the world of VP Bank. The winner was the person who took the most steps, and to that purpose each participant received a cost-free pedometer. This campaign to foster at-work health was a tremendous success. Within the space of 51 days, 249 employees put 60 million paces behind them – the equivalent of 31,965 miles. As a result, the goal of "virtually" visiting all of VP Bank's global offices was achieved.

After a longer pause, an employee survey was conducted again in late 2015. The participation rate of 88 per cent attests to the great interest VP Bank employees have in their company. The detailed findings will be presented in the spring of 2016.

A comprehensive overview of all employee-related measures can be found in the section "Employees of VP Bank" on pages 42 ff.

Further development of products and services

VP Bank's traditional range of offers is regularly examined for its currentness and is supplemented whenever necessary with need-oriented services and products.

In 2015, three new banking service packages were introduced at VP Bank. They offer a wide range of solutions and enhance the comprehensibility and transparency of the Bank's products and services. These new packages are in keeping with the corporate strategy and have been tailored to reflect the constantly changing needs of clients.

The product offer for existing clients is being successively broadened to include modern forms of communication. For years, VP Bank has made available its highly refined e-banking platform, and already in 2013 a new version of "e-banking mobile" was introduced. The latest release turns a smartphone into a mobile bank and enables the environmentally friendly transmission and receipt of "e-Post". Clients have the possibility to conduct smartphone-based queries of their securities and safekeeping balances, as well as to enter orders for securities trades and payment transactions. In addition, payment slips can be scanned in using the smartphone's inbuilt camera.

In the summer of 2015, e-banking and e-banking mobile were augmented through the integration of the most current market data. And now there is even the possibility to receive automatic notification of payments that have been paid into the account. To that purpose, a secure "push channel" is utilised.

The modern technological features are highly popular: for instance, the use of VP Bank e-banking in 2015 increased over the previous year by another 12 per cent after having recorded an impressive 56 per cent gain in 2014. Today, far more than 70 per cent of all payment orders are entered online.

Outlook

VP Bank has achieved the major objectives it defined for 2015, namely the integration of Centrum Bank into VP Bank, the optimisation of resource allocation and the avoidance redundancies at VP Bank (Luxembourg) SA, as well as the bundling and uniform coordination of VP Bank Group's investment fund know-how. Now, the task is to build on the results of those processes.

VP Bank continues to foresee a low interest-rate environment and a further increase in rules and regulations applicable to the financial industry. For 2016, the topics of growth, expanding the skillset applied in client advisory activities, as well as intensifying VP Bank's market cultivation efforts will take centre stage.

VP Bank Group is well equipped to meet the challenges that lie ahead. This is also vouched for by the Bank's excellent "A–" rating (A–/Negative/A–2) from Standard & Poor's, which the rating agency reconfirmed in August 2015. VP Bank's solid equity base enables investments in growth by means of targeted acquisitions.

VP Bank's fund business

The fund business is of central importance to VP Bank. Alongside the private banking and brokerage activities, it significantly enhances the Bank's core competencies.

VP Bank Group's fund business includes the activity with third-party funds as well as in-house funds, all under the single "VP Fund Solutions" roof. With VP Fund Solutions, VP Bank Group has an international funds competency centre offering a one-stop shop for all of the services making up the fund business.

Comprehensive fund solutions

Clients are offered comprehensive fund services across the entire value-added chain. These include AIFMD and UCITS management company services, including risk management, fund administration, custody banking and distribution support. Asset management services, in particular best manager selection services, are also available.

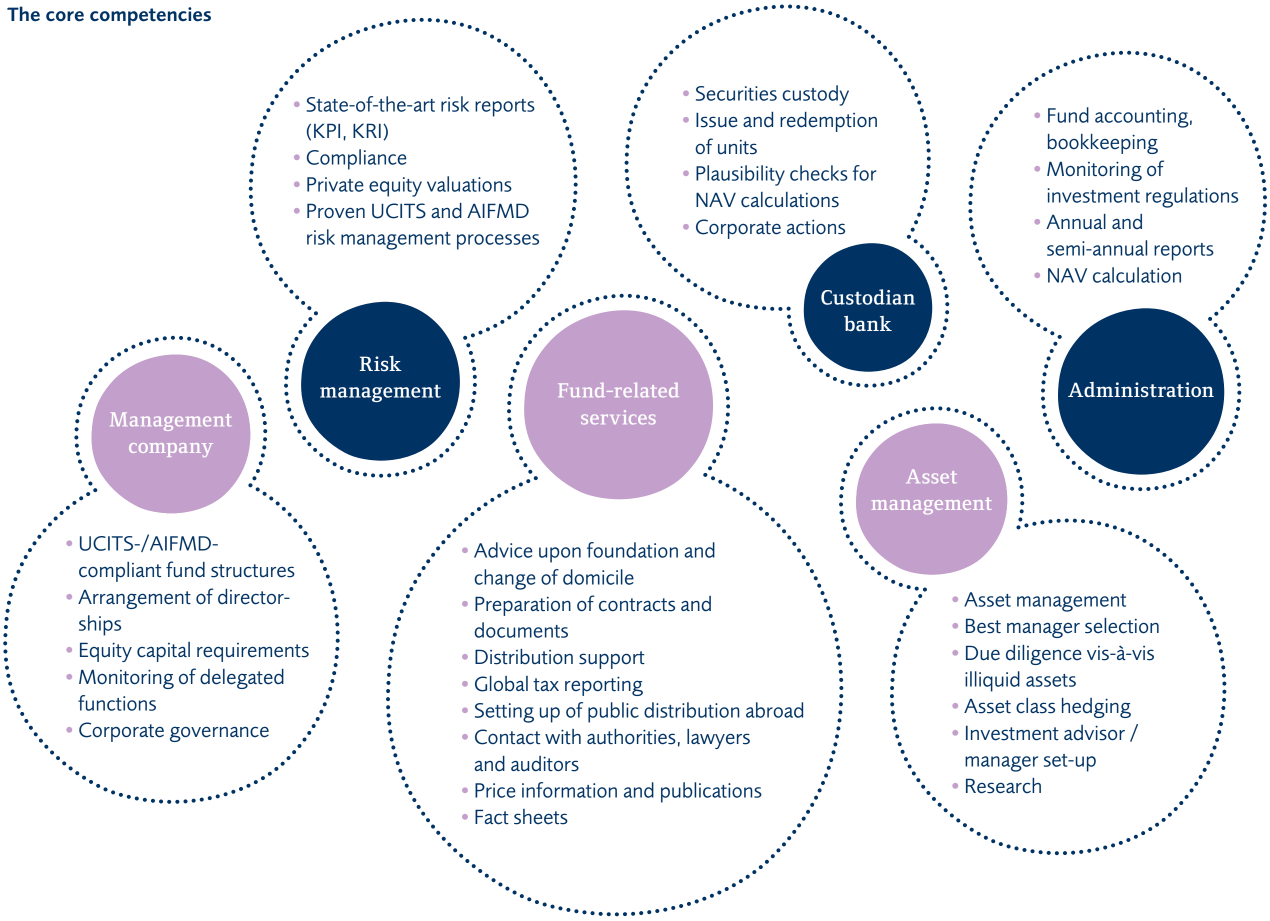
Clients have a single point of contact for everything from fund planning and creation to the operational management of the funds.

VP Fund Solutions' services are oriented worldwide towards family offices, asset managers, banks, insurance companies and high-net-worth individuals.

As regards investment classes and instruments, clients can choose from traditional stocks and bonds as well as alternative investment such as private equity or real estate.

The advantage for the client is perfectly clear. With targeted outsourcing of fund-related services, the client can optimise his company's profitability. All of the regulatory and supervisory challenges, risks and responsibilities are transferred to VP Fund Solutions.

The core competencies



Bundled know-how

VP Fund Solutions is an innovative and long-term fund services provider with outstanding expertise and longstanding experience. The competency centre comprises VP Fund Solutions (Liechtenstein) AG and VP Fund Solutions (Luxembourg) SA.

VP Fund Solutions (Luxembourg) SA was founded in 1998 as a subsidiary of VP Bank (Luxembourg) SA, while VP Fund Solutions (Liechtenstein) AG has been a subsidiary of VP Bank AG in Liechtenstein since 1999. Both companies appear as fund competency centres under the single roof of "VP Fund Solutions".

The sites in Luxembourg and Liechtenstein work closely together across borders. This collaboration makes it possible to combine the specialised expertise and technical infrastructure and work more efficiently in order to satisfy international customer demands and regulatory requirements optimally. For example, cross-border responsibilities were set such that VP Fund Solutions (Liechtenstein) AG became the IT network node for the business unit. VP Fund Solutions can thus offer its clients identical, state-of-the-art services with secure processes and the same quality standards. Clients simply decide in which domicile they wish to place the investment funds.

With more than 15 years' experience, VP Fund Solutions offers close, cross-border collaboration with highly regarded local and international advisory institutions. By working with VP Bank as a custody bank and paying agent, VP Fund Solutions uses the VP Bank Group's comprehensive, international know-how and cost-optimised custody network to process fund managers' investment decisions.

Outstanding investment funds

In the first half of 2015, the "VP Bank Best Manager Aktien Natural Resources" fund received five stars from the Morningstar agency, the highest possible rating. This product ranks among the top 10% in the natural resources investment universe and in the first quartile of its peer group.

The umbrella fund gives the investor access to a diversified investment theme strategy that goes beyond the simple energy and mining sector. The portfolio also covers themes such as water and agri-business as well as alternative energies and clean tech. Over the long term the fund thereby benefits from secular trends such as ongoing population growth, rising resource consumption and related impacts.

The excellent Morningstar rating confirms the exceptional manager and product selection skills that VP Fund Solutions makes available to its clients not only through the VP Bank Best Manager fund categories but also through its publications.

Private label funds

By participating in various fund industry trade shows in Europe, VP Fund Solutions presented its services to fund industry professionals for the first time in 2015. The "VP Fund Solutions" brand was rolled out and the range of services was demonstrated. Given the success of this approach, VP Fund Solutions will participate in additional fund industry events in 2016 and pursue its efforts in various fund industry associations and working groups.

Value added for clients

The current market environment has sparked a boom in the fund business. Funds are considered a promising investment not just by pension funds and insurance companies but also, to a growing extent, by private savers. In 2015 VP Fund Solutions therefore made considerable investments in infrastructure, IT and human resources in order to keep pace with this trend and be able to offer fund customers state-of-the-art services. VP Fund Solutions will continue to develop and expand its offerings in the private equity and real estate areas in particular.

With the Liechtenstein fund centre providing a stable financial market with attractive conditions, and with the Luxembourg fund centre ranked number one in Europe and number two worldwide, VP Fund Solutions can deploy its core competencies in the professional environment.

Each client is given a personal contact person who looks after the day-to-day business, foreign distribution authorisations, forex hedging of an investment class, the launch of a new fund or adjustments to the investment strategy. VP Fund Solutions is a member of fund industry trade associations. Stability and security are the cornerstone of the trust that investors – private and institutional clients as well as qualified investors – place in VP Bank's funds competency centre.

VP Fund Solutions	VP Fund Solutions (Liechtenstein) AG	VP Fund Solutions (Luxembourg) SA
Year founded	1999	1998
Ownership	100% VP Bank Ltd, Vaduz	100% VP Bank (Luxembourg) SA, Luxembourg
Management company licenses	UCITSG, AIFMG, IUG	UCITSG, AIFMG
Number of employees	28	29
Number of portfolios (sub-funds)	81	76
AUM 2015	Approximately CHF 4.0 billion	Approximately CHF 2.8 billion
Number of investment classes	151	126

Position: 31.12.2015

Sustainability at VP Bank

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 banking sector is one of the most significant industries in an economy and is therefore closely scrutinised by analysts and investors. In their assessment of a company, they are placing more weight on responsible corporate dealings.

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's commitment

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 with its ancillary social environment, 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.

As a partner of the Swiss Climate Foundation, VP Bank provides financial support for the energy efficiency and climate protection projects of small- and medium-sized companies in Switzerland and Liechtenstein.

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 the acceptance of savings deposits as it does 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 CO_2-neutral.

Encouragement of proper behaviour

In conducting its banking business, VP Bank actively hinders bribery – which represents the core of corruption –, the granting and receiving of undue advantage, and money laundering. This is achieved, on the one hand, through regular client advisor training sessions and, on the other hand, 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. Contraventions of the Code of Conduct are dealt with without compromise through disciplinary measures and the consequences 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 August 2015, Group Executive Management resolved to redouble those

efforts: the topic of CSR is being emphasised even more in all areas of VP Bank Group. Several examples of how this is being accomplished:
- increased networking with the Bank's relevant interest groups;
- VP Bank's adoption of the UN Global Compact (see below);
- active internal fostering of consciousness with regard to the related issues;
- greater integration of sustainability aspects into the client advisory discussion; and
- the introduction of a "Volunteering Day".

For the implementation of these activities, a CSR workgroup was established in 2015.

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" (page 38)
- "VP Bank's suppliers" (page 47)
- "VP Bank's business ecology" (pages 50 ff.)
- "The social engagement of VP Bank" (pages 54 f.)

CSR – the obligation to report

Absolute transparency is pivotal in the ability to do business and assume 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 an 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 readings. In February 2014, the EU member states agreed on a reporting obligation concerning social responsibility (CSR). Going forward, large companies should report on their achievements in the areas of society, the environment, their employees, human rights, the fight against corruption and the diversity in their corporate bodies. One of the framework ordinances the companies can draw on for this purpose is the UN Global Compact.

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: more than 12,000 signatories in 170 countries, 8,000 of them companies, have committed to this endeavour.

By signing the Compact, companies assume the obligation to comply with certain social and ecological minimum standards in the years ahead. The tenets are codified in the form of ten principles – companies are called upon to:

1. support and respect within their sphere of influence the protection of internationally proclaimed human rights;
2. make sure that they are not complicit in human rights abuses;
3. uphold their employees' right to freedom of association and the effective recognition of the right to collective bargaining;
4. eliminate all forms of forced and compulsory labour;
5. effectively abolish child labour;
6. eliminate discrimination in respect of employment and occupation;
7. support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility;
9. encourage the development and diffusion of environmentally friendly technologies; and
10. work against corruption in all its forms, including extortion and bribery.

The signatory companies are to draw up an annual report on their compliance with the foregoing principles.

VP Bank has decided to adopt the provisions and spirit of the UN Global Compact. The Bank's membership commenced in early 2016. In its 2016 annual report, VP Bank for the first time will give an account of its compliance with the guidelines of the Compact.

Further information on the UN Global Compact can be accessed via the following link: www.unglobalcompact.org

VP Bank's stakeholders

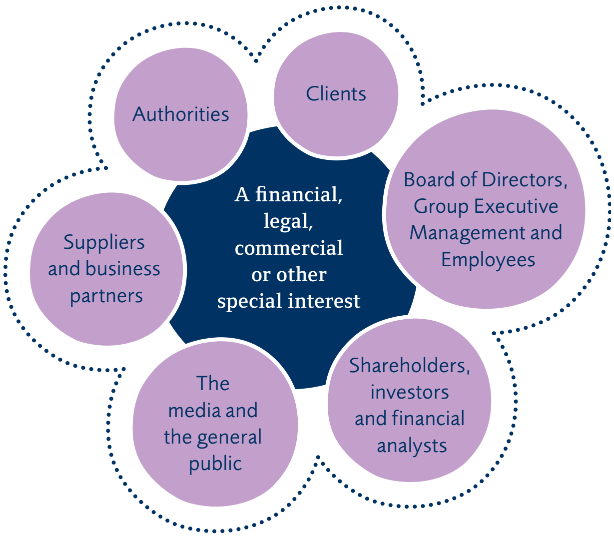
One thing it takes to remain a successful banking group over the long term is an efficient, visionary management team. But it takes more than just that: VP Bank is committed to bearing in mind the expectations and needs of its stakeholders. Only in this way can VP Bank achieve sustainable success.

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.

VP Bank's clients

VP Bank Group renders comprehensive, personalised services for private individuals and financial intermediaries – from portfolio management to investment advice, credit facilities and fund solutions. Thanks to what is referred to as open architecture, our clients benefit from the "best manager principle" when selecting third-party investment funds: the asset managers selected by VP Bank continuously rank amongst the top performers in the industry, have an outstanding reputation and enjoy the trust of market participants. As a result, the highest possible security is afforded by the "best manager funds".

Taken into consideration in VP Bank's recommendations are the products and services of leading financial institutions as well as VP Bank's own best-performing investment solutions.

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

In 2015, VP Bank Group again invested considerable sums in enhancing the quality of client advice as well as in intensifying its market cultivation efforts and optimising the structures at all of the Bank's international locations. Increased client acquisition activities resulted in remarkable successes especially in Switzerland and Asia.

In connection with the Bank's intensified focus on specific target markets and client segments, a programme was launched in 2014 with the aim of redefining the client segments. Along with this reorientation, VP Bank developed customised service models and refined them even further in the past year.

In that the entire VP Bank organisation is now more clearly focused on the client business, the "Commercial Banking" organisational unit was restructured in 2015. Through the separation of client contact activities and credit administration, VP Bank's client advisors can now concentrate fully on providing advice. This redoubled client orientation has resulted in the heightened quality of the Bank's services.

Client satisfaction

VP Bank Group focuses squarely on closeness to the client and service quality. For that reason, the Bank conducts client feedback management activities that include regular surveys of client satisfaction and systematic reporting. Open feedback paths, professional complaint management and a continuous dialogue with clients are evidence of this resolute client orientation.

Within the scope of this ongoing client dialogue process, each year VP Bank receives and addresses close to 500 comments from its clients. In 2015, two-thirds of that feedback was of a positive nature and pertained to the quality of client care.

Client satisfaction was also confirmed in the public domain: Germany's business and finance journal "Fuchsbriefe" each year examines the quality of advice provided in the areas of private banking and private wealth management. In 2015, VP Bank was once again rated "Recommendable". Also, Germany's "Elite Report" in November 2015 distinguished VP Bank with its "cum laude" certification.

Business fields and client segments

Through its Private Banking and Intermediaries business units, VP Bank addresses a defined and limited number of target markets and client segments. Private banking services and the intermediaries business are performed at all VP Bank locations. In Liechtenstein and the neighbouring region, this range is supplemented by retail banking services that include client-oriented package solutions.

VP Bank also caters to institutional clients and regional companies in need of capital-spending and operating finance mainly in Liechtenstein and Eastern Switzerland. All these clients benefit from user-friendly, innovative solutions in the areas of e-banking and mobile banking. Youth packages for students and trainees round out the range of services on offer. Moreover, in 2015 three new banking packages were introduced. They include the most important banking services associated with the topics of savings, debit/credit cards and online banking. Clients benefit from modern solutions, attractive prices and uncomplicated ways to conduct their banking business.

New challenges

Whereas in the past the primary emphasis was on offering classical investment advice, i.e. expertise on specific asset classes or individual stocks and bonds, increasing focus is today being placed on regulatory issues. Hence the advisory process has been subjected to the tug of war between an array of new regulatory decrees and the individual investment and wealth objectives of clients. Client advisors are therefore faced with new methodological and professional challenges that make ongoing higher education a necessity.

VP Bank has risen to these challenges. In addition to comprehensive training sessions for client advisors in the important areas of tax and cross-border regulations, the Bank's clients are also being accompanied more frequently by teams of specialists who can offer the all-encompassing competence of VP Bank.

Clients have a right to be served by an advisor who has a keen understanding of their requirements and a comprehensive grasp of their individual financial circumstances. Given that knowledge, the advisor can devise solutions that are best suited to the short term as well as the longer run. In 2015, VP Bank paid the utmost attention to that right on the part of intermediaries as well as its private clients. In today's environment, staying focused on specific client groups and markets is of particular importance. For instance, in 2015 a certification process was conducted for client advisors who service the German market. And with VP Bank's "Key Account Management", a new, comprehensive advisory approach was introduced for fiduciaries and asset managers. Our clients' reactions prove that VP Bank is on the right path with all of these measures.

Quality and efficiency in the advisory process

One of VP Bank's major objectives in 2015 was to achieve a significant increase in efficiency. Various initiatives were launched in this regard:

- Electronic communication: ongoing optimisation of the e-channels as well as e-banking and the mobile banking application;
- Development of needs-oriented advisory packages;
- Establishment of a Business Process Management platform: automation of the client life cycle processes for optimising client-data compilation as well as account administration and balancing, with the goal of affording clients and advisors more time to focus on the essential and less on the formalities.

In addition, a new advisory tool was evaluated in 2015. It is aimed at helping the client advisor, together with the client, to develop and implement the most suitable investment strategy, whilst also ensuring that all regulatory aspects have been taken into account and all requirements concerning the investments are met. The tool can be utilised during visits to the Bank as well as at the client's preferred meeting location.

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 legal standpoint.

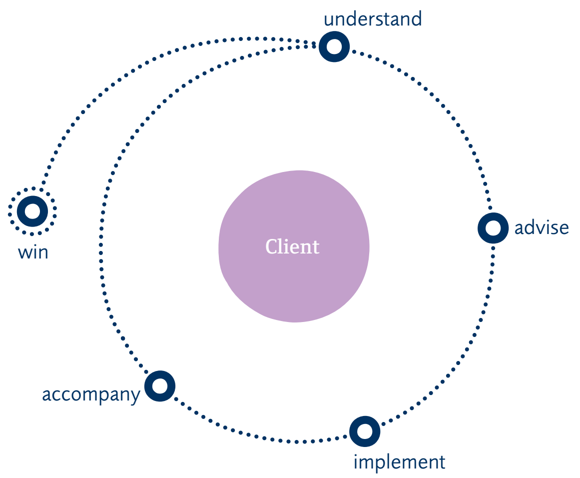
Advisory process

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 centres on the specific needs of the given client.

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.

Investment recommendations

At the outset of 2015, VP Bank's investment experts reckoned that the rally in the global financial markets would gradually lose steam. In end effect, this actually came to pass: returns on the main asset classes were generally much lower than in the previous years and equity market volatility picked up again.

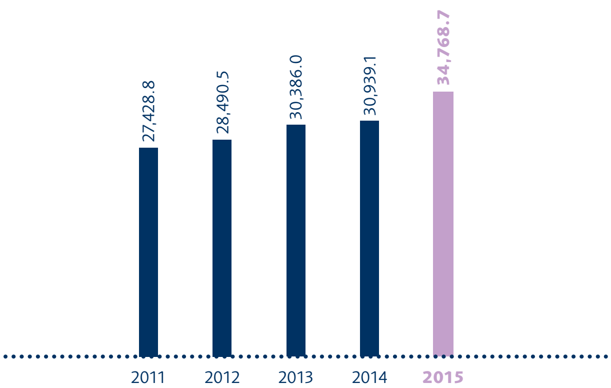
In that their yields remained essentially unchanged throughout the year, government bonds once again performed better than expected. As to other fixed-income securities, it paid to be cautiously positioned in the corporate bond segment. During the course of the year, high-yield bonds in particular came under pressure, as was the case also with emerging nation bonds denominated in local currency.

Due to the increasing or already high stock valuations, differentiating between the various equity markets proved to be the right approach. By regional comparison, generously valued markets like the USA and Switzerland only managed to record very modest returns for the year, and this mostly due to their dividend payments. The eurozone equity markets performed clearly better. Disappointing, however, were the emerging markets, where unfavourable conditions prevailed in 2015.

Client assets

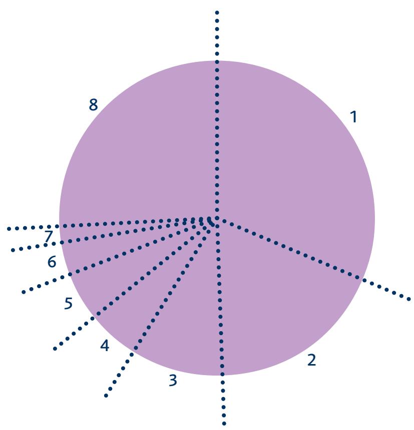
As at 31 December 2015, VP Bank held client assets under management totalling CHF 34.8 billion, a 12.4 per cent increase over the previous year. Assets held in custody accounted for an additional CHF 8.2 billion. Total client assets at the end of the year therefore amounted to CHF 43.0 billion (previous year: CHF 38.6 billion). On balance, VP Bank Group recorded a net inflow of CHF 6.0 billion in new client assets (previous year: a net outflow of CHF 0.9 billion).

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



The origin of assets under management in 2015

1 Liechtenstein 31.4%
2 Switzerland 18.3%
3 Luxembourg 9.2%
4 Germany 5.3%
5 Russian Fed. 5.1%
6 BVI 3.3%
7 Hong Kong 1.8%
8 Rest of the world 25.6%



Employees of VP Bank

In service of the corporate strategy

For a number of years now, the business environment for private banking has posed tremendous challenges for the financial services industry: heightened regulatory requirements for products and services, more intense competition and lower margins, combined with the changed needs of clients.

VP Bank Group faces these challenges by having a correspondingly aligned organisation and appropriately fine-tuned processes. The interplay between the business units and various local offices is a crucial element in rendering the Bank's wide array of services. But ultimately, it is the Bank's employees who carry out those functions. With their specialised know-how, commitment and readiness for any necessary adjustments, they are the key to VP Bank Group's success. And that applies to all of the Bank's people, across all hierarchical levels and areas of expertise, and regardless of whether or not they have direct client contact.

Especially in the financial services business, the decisive resource for gaining and maintaining the trust of clients is a team of motivated, competent and service-oriented employees who possess keen interpersonal skills. VP Bank Group is mindful of what a positive office environment means to employees, and offers them the chance to take advantage of numerous opportunities. Precisely in trying times when the goal posts are constantly being shifted, VP Bank Group treats its employees with respect and openness in all situations and fosters constructive collaboration.

Managing human capital

The existing Human Resources (HR) management strategy, which is derived from the 2020 company strategy, has been redesigned and thoroughly revamped. The pillars of the HR strategy include support for a service and company culture in connection with performance-based pay, consistent with regulatory provisions and employee and management trends. Spheres of activity were defined and will be gradually implemented in line with the Bank's overall goals in the years ahead.

The paramount objective of the HR strategy, i.e. handling the daily personnel-related matters, has never changed: at all locations, the proper people must be in place at the proper time and in sufficient numbers, and in particular have the requisite professional know-how and the relevant skills. Provided they are already identifiable, future developments are also taken into account and proactively included in the activities.

Defined processes for coordinated collaboration

Many people are involved in the management of human resources. They include in particular the line supervisors and local HR heads, the central HR employees, as well as local management and that of the Group. It is therefore necessary to appropriately define and coordinate the interactions through the allocation of tasks, competencies and responsibilities, as well as to establish the procedures for the most important situations (such as recruitment, departure, salary determination, promotion, etc.). Particularly in terms of employee development – a core element of personnel work – the proper interaction between the responsible supervisors, the employees themselves and the HR specialists is decisive in achieving the desired results.

The defined HR process and its various sub-processes is an indispensable aid in this shared personnel work. Any necessary adjustments come to light from its repeated application. Identified possibilities for optimisation are promptly translated into reality, thereby keeping the various processes up to date.

In terms of corporate management, the MbO (Management by Objectives) process is accorded a central role. At Group level, the first step is to break down the agreed goals of VP Bank Group and assign the related responsibilities to the Group companies and business units. At the individual level, the corresponding goals and primary tasks are subsequently agreed for each employee. Through this process, the employees' activities are systematically steered in the desired direction and the ultimate achievement of the Bank's goals is coordinated with the individual goals.

At the end of the given period, the supervisor assesses the accomplishments of the employee in order to establish the basis for a performance-oriented remuneration component. The supervisor takes into account the extent to which the employees have achieved their goals and fulfilled their primary tasks and in particular their compliance with regulatory provisions, internal rules and client-specific instructions. Through Management by Objectives, supervisors place trust in their employees, afford them leeway for shaping their own approach to work, and identify the necessary personal development measures.

Human Resources central staff office

In collaboration with the supervisors, the management of each Group company bear responsibility for the actual deployment of their employees and for making the necessary resources available. In their staff function, local employees of the personnel department provide assistance through their relevant know-how as well as by performing specific administrative tasks. The line supervisor has decision-making authority in addressing concrete issues.

From the Liechtenstein head office, the Group Human Resources unit offers its entire spectrum of services. This encompasses all operative HR activities, including the rendering of advice and support to supervisors and employees. In Liechtenstein, the operation of the central HR system as well as management of the Group-wide structural organisation is handled for the entire VP Bank Group. This internal specialised know-how is at the disposal of management for deciding on conceptual matters, and thereby flows into the further development of Group-wide human resources management.

At the branch offices and subsidiary companies, local management sees to the necessary HR administrative tasks or retains external partners to do so. Since the beginning of 2014, the central HR unit at the head office in Liechtenstein accompanies the local HR personnel in administrative and professional matters. The Zurich and Luxembourg offices each have one local HR specialist.

Inclusion of employees

In 1998, the Employee Representative Body (ERB) was established at the Liechtenstein headquarters in response to the newly adopted Workers' Participation Act. In its current composition, the five members were elected at the end of 2012 to a four-year term of office. Following the merger with Centrum Bank AG, two former Centrum Bank AG employee representatives were added, bringing the total number of members up to seven.

The activities of the ERB are based on the internal workers' participation ordinance, which was enacted by Group Executive Management. The latter must inform and include the ERB if and when the general terms of employment are to be changed or if a reduction of the workforce is envisaged. However, the decision-making competence for any given matter rests with Group Executive Management.

SAP HCM data platform

Since the introduction of SAP HCM in 2010, VP Bank Group has at its disposal a technological platform for the widest array of HR-related activities. This centralised system represents the common database for all of the Bank's locations and, in line with the available funding, is continuously expanded in order to accommodate new potential uses and benefits.

The information available in SAP HCM constitutes the backbone of human resources management at VP Bank Group. It reflects the entire Group-wide structural organisation, with budgeted positions and the allocated persons, as well as detailed information on the employees, such as the qualification and authorisation of client advisors to conduct cross-border activities. This central database is not only necessary for the Bank's HR processes; it also flows into other business processes. For example, on a quarterly basis the future personnel costs are extrapolated for the current year and the year to come.

The central HR unit at the head office is in charge of administering the data. Reports generated by the system are also made available centrally for use by the various locations according to their needs. Line supervisors throughout VP Bank Group have at their disposal a number of "Management Self-Service" functions.

Using this web application, the line supervisor has direct access to the employees' time management and personal data along with the ability to create reports independently (birthday lists, length of service anniversaries, etc.).

Extensive preparations have also been made to ensure that the launch of an "Employee Self-Service" system goes smoothly. This system, which allows employees to enter their own absences and review their own basic employee data and payroll information, has been operational as from 1 January 2016. It represents another step toward a fully integrated system that reduces manual labour and cuts down on paper consumption. Further automation of support processes is planned.

Headcount

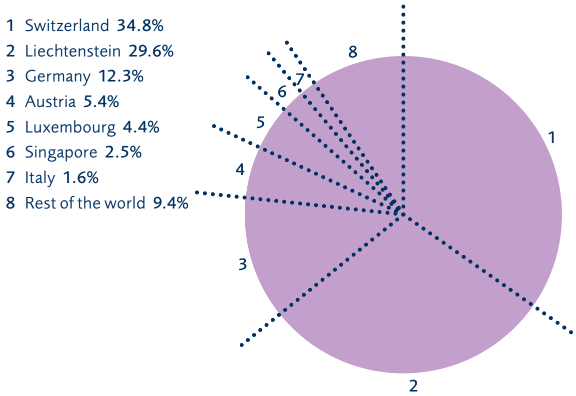
Following the integration of Centrum Bank, the number of VP Bank Group employees rose to 777 in January 2015.

The continued implementation of the initiative begun in 2014 to transfer functions from the country organisations to the head office as well as the consolidation of the client service units led to a significant reduction in headcount at the Zurich site, where the number of employees contracted by 12 (12.7 full-time-equivalent) to 62.

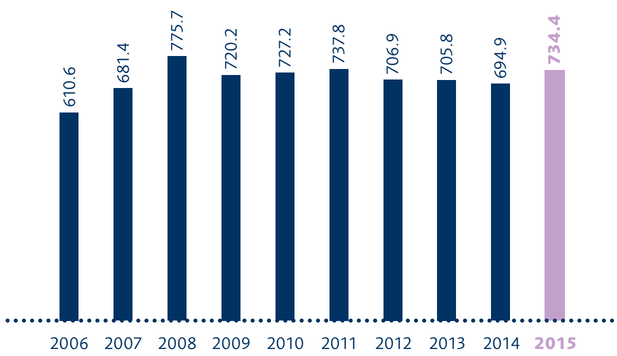
At VP Bank in Luxembourg, the headcount also contracted by six employees (6.6 full-time-equivalents) to 99. Thanks to growth in Asia, the number of employees at the Singapore subsidiary increased by five from 25 to 30, while the respective headcounts of the other sites remained unchanged from the previous year.

The number of client advisors increased. VP Bank recruited 18 new client advisors, bringing the total to 151 qualified client advisors (2014: 133). They made up 19 per cent of the Group's overall headcount, up from 18 per cent the previous year. In Liechtenstein, the number of client advisors increased

Nationality of VP Bank Group's employees



Headcount of VP Bank Group
(full-time equivalents)



by 12 to 84, while Switzerland and Luxembourg each added two new client advisors, bringing the respective totals up to 23 and 22.

At 31 December 2015, VP Bank Group had a total of 798 employees, 43 more than at the start of the year.

At end-2015, the average length of service in the VP Bank Group increased further from 9.8 to 9.94 years. At VP Bank, Vaduz, the corresponding figure contracted slightly from 11.4 to 11.37 years.

Swiss nationals accounted for 34.8 per cent of all employees and remained the largest country representation (2014: 35 per cent). The relative number of Liechtenstein nationals increased slightly from 29 per cent to 29.6 per cent. German nationals remained the third-largest country representation at 12.3 per cent (2014: 12 per cent) (see chart above).

New hires and departures

2015 was a year of special challenges and marked by merger activity at the head office in Liechtenstein. It was essential to notify as many employees as possible about their job security in a timely manner. Given some overlap in certain functions at VP Bank and Centrum Bank, a process was established to organise the appointments in as fair and transparent a way as possible. To that end, Nomination Committees were created that included representatives from management and Human Resources. Thanks to intensive communications and the proactive and flexible conduct of employees, managers and Human Resources staff, the number of job reductions resulting from the merger was trimmed from the initial December 2014 estimate of between 30 and 40 to only 16. The downsizing affected both Centrum Bank and VP Bank employees.

A generous severance package was negotiated for the affected employees. In particular, this package included an extended notice period based on age and length of service.

A so-called new placement advisory service was also made available, where specialised firms provide close support to employees affected by the job cuts and use various means to help them prepare for the job market and future employment. Alternatively, the company provided a contribution to an employability measure such as continuing education. The redundancy programme runs through end-December 2016.

On 15 January 2015 the Swiss National Bank discontinued the minimum exchange rate of CHF 1.20 per euro. Given the challenging environment that followed as well as the merger with Centrum Bank, a Group-wide hiring freeze was implemented for outside personnel at end-January 2015. In the spring, this freeze was gradually lifted and external recruitment was again allowed in special situations. This measure helped VP Bank in its efforts to bring certain former Centrum Bank employees back to positions with VP Bank. Meanwhile, over the summer VP Bank was able to offer a fixed position to all trainees who wanted to remain with the Bank.

Attracting professionally competent individuals with good interpersonal skills who fit into the VP Bank Group family is one of the main tasks involved in HR work. The starting point in the recruitment process is the determination of the need for skills that are intended to enhance a given team. This process, which has been applied for many years now, takes into account not only the professional capabilities of candidates but also their personality, the latter by means of psychological tests.

Measures have been taken to make administrative processes more modern and efficient, so that during the course of 2016 the recruiting process will be standardised and electronically processed, with system-based online job applications also possible.

Major personnel changes also occurred at sites outside Liechtenstein. The streamlining measures were most noteworthy at the Luxembourg and Zurich sites, as some of their functions were transferred to the head office in order to allow them to focus primarily on front office and client activities. In Singapore, VP Bank continues to grow. Competition for good client advisors is intense, but VP Bank was nevertheless able to increase its staffing with the addition of 18 advisors, bringing the total to 151.

In 2015 a total of 140 employees left VP Bank Group (2014: 105), resulting in an employee turnover rate of 16.6 per cent. This figure was expected given the context of the ongoing restructuring and integration of Centrum Bank.

Employee retention and remuneration

As has been recognised for years, work that is perceived to be meaningful and satisfying, as well as the work environment itself, are enormously important in making employees feel comfortable. Many factors can have a negative effect on the work environment: internal influences or external influences due to economic conditions, not to mention events in one's personal life or family surroundings.

In order to measure employee satisfaction, an anonymous, Group-wide employee survey was implemented in autumn 2015 that had an 88 per cent participation rate. In 2016, working areas will be defined for all management levels, with measures identified on that basis in order to lay the foundation for positive changes.

VP Bank Group is fully aware that it must view its employees within the context of their personal situation in life and differing needs. The members of the Bank's HR departments are pleased to be at the disposal of all staff and supervisors in order to be of assistance in clarifying any personal issues that may arise. In addition to individual discussions with the affected persons, searching for possible solutions and accompanying those individuals in crisis situations, team analyses and coaching are also some of the tools applied in addressing the issue. Status assessments and career development counselling can also be offered. A broad spectrum of specialised know-how is available internally and, if need be, it can be supplemented by drawing on the skills of external partners.

Remuneration is of course also an essential element when it comes to the satisfaction of employees and their loyalty to the company. VP Bank Group subscribes to the principle of paying fair, competitive compensation. The fixed salary is reflective of the given function and the related requirements, whilst any variable remuneration components are based on the success of the company and individual performance of the employee.

As part of the Bank's corporate social responsibility, a Volunteering Day was introduced. Each year, employees can spend one day doing charitable volunteer work for a non-profit organisation, which the Bank counts as a normal paid work day. There are no restrictions on the type of work as long as it involves social services, training programmes or ecological/environmental matters.

Employee career development

The financial industry finds itself in a period of change and new challenges. The key for VP Bank is to manage growing complexity and current trends through innovation and entrepreneurial initiative in order to provide clients with the best possible advice. Client advisory is therefore the most important aspect of employee development, since it deals with the broadest range of demands and expectations and constitutes the closest link between the service and the client. As regards employee development measures, the issue is always what type of experience, attributes and skills are needed by employees, regardless of the target group (e.g. client advisors), for them to perform their current or future roles or functions successfully. Development steps can be determined by matching up existing abilities with needed requirements.

In 2015, VP Bank made substantial, targeted investments to develop the know-how of its client advisors. Training was provided in-house with content specific to VP Bank's business lines and in-house technical areas, supplemented by individual, external development measures.

VP Bank's training sessions during the year focused mainly on a wide range of technical subjects in the product area as well as compliance and tax law matters. The objective of the training is for clients to be advised in a more targeted and competent manner while improving the quality of the advice through greater depth of knowledge. As part of an even more well-grounded market development initiative, selected client advisors completed a multi-step certification process for the German market. In doing so, they were able to demonstrate their wide-ranging knowledge through real-time discussions with clients.

In order to facilitate access to educational content at all sites regardless of time and location, VP Bank uses efficient e-Learning to convey basic knowledge. For more in-depth and interconnected knowledge, the Bank uses classroom training and various information sessions. The Bank's own proprietary training platform has more than 100 different learning modules and course offerings in multiple languages. In some cases they constitute mandatory training for all employees through e-Testing. Training is available at all sites in multiple languages.

Managers play an integral role in employee development. In 2015, a majority of the managers at all sites received cultural and leadership development training.

As part of the merger between VP Bank and Centrum Bank, wide-ranging training was offered in the systems, IT and technical areas. This training was enhanced through team-building and cultural sensitivity measures in order to promote learning from one another and to ensure a smooth transition to the new work environment.

At the Liechtenstein site, 38 employees (2014: 28) successfully completed a multi-semester, diploma-based work study programme, while 58 others (2014: 21) were still participating in continuing education at end-2015.

At 31 December 2015, VP Bank had 20 young apprentices (2014: 19) in sales and another four in computer science. During the year, 10 apprentices successfully completed their final exams (2014: eight) and eight of the 10 were offered positions.

VP Bank offers two development models for post-secondary students. The support model offers them the possibility of 50 per cent employment at VP Bank while they complete their studies. VP Bank also offers a career entry track for talented students once they have completed their studies. The Career Start Program is an 18-to-24-month programme that generally involves participating in a wide range of technical areas and functions. At 31 December 2015, three people were participating in these programmes.

Further information is available in the section "The social engagement of VP Bank" under "Responsibility as an employer" on pages 55 f.

Employee statistics of VP Bank Group

as of 31.12.2015	Men	Women	Total
Number of employees	476	322	798
Quota in per cent	59.6	40.4	100
Average age	42.6	41.1	42.0
Average years of service	9.8	10.1	9.9

as of 31.12.2014	Men	Women	Total
Number of employees	444	311	755
Quota in per cent	58.8	41.2	100
Average age	42.1	40.3	41.3
Average years of service	9.8	9.7	9.8

Headcount per company

as of 31.12.	2015		2014		Variance with previous year	
	Employees	Full-time equivalents	Employees	Full-time equivalents	Employees	Full-time equivalents
VP Bank Ltd, Vaduz	524	473.0	472	424.9	52	48.1
VP Bank (Switzerland) Ltd	62	57.9	74	70.6	–12	–12.7
VP Bank (Luxembourg) SA	99	93.5	105	100.1	–6	–6.6
VP Fund Solutions (Luxembourg) SA	31	29.0	31	28.2	0	0.8
VP Bank (BVI) Ltd	16	16.0	17	16.9	–1	–0.9
VP Wealth Management (Hong Kong) Ltd	7	7.0	6	6.0	1	1.0
VP Bank (Singapore) Ltd	30	30.0	25	25.0	5	5.0
VP Fund Solutions (Liechtenstein) AG	29	28.0	25	23.2	4	4.8
Total	**798**	**734.4**	**755**	**694.9**	**43**	**39.5**

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, 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 Organization (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.

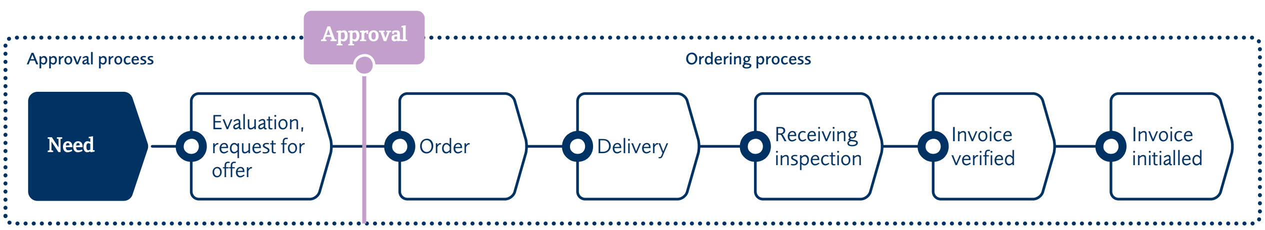
Supplier relations

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 2015 with the aim of electronically compiling supplier invoices. Thanks to this high degree of automation, dual filing systems have been eliminated and payment approvals are obtaining 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 will be launched in the second half of 2016.



VP Bank's social networks

Social media is a general term used to cover media in which Internet users share experiences, opinions, impressions and information. These media include such well-known social networks as XING, Facebook and LinkedIn, as well as information portals such as Wikipedia or music, photo and video sharing platforms such as YouTube and flickr.

Global networks

Using social media, companies can expand their reach and the frequency of their communications and create greater proximity for dialogue with their target audiences.

The rapid growth in user numbers attests to the power of these networks. At end-2015, Facebook had approximately 1.5 billion active users worldwide, and in Liechtenstein and Switzerland the number is more than 3.5 million – more than half of all online users. Twitter has nearly 320 million subscribers, while the LinkedIn business network has more than 400 million profiles. Meanwhile, companies are increasingly opening up to these new, direct channels. International studies show that the majority of companies already communicate using social media for both their client business and their business-to-business activities.

Social media in the financial world

The nature of communications has changed dramatically through social media. It is no longer sufficient to simply have a web page and pick up clients with brochures. Clients are better informed than ever and can easily compare products and services amongst themselves. The easier it is for potential clients to find information on companies online, the more likely they are to deal with and contact the corresponding companies.

While the regulatory conditions surrounding privacy protection cause users to be cautious online, these communications channels nevertheless open up new opportunities for banks. The vast world of knowledge and topics of interest involving asset management and financing lend themselves to web research, the publication of knowledge and the exchange of information amongst experts.

Large banks use Facebook in order to promote their corporate involvement (events, sponsoring) and publicise product information to a broad public. Bank of America, one of the largest banks worldwide, uses most of the currently popular platforms. In addition to well-known channels such as Facebook, Twitter, YouTube and Instagram, newer platforms such as the video channel Vine also play a role. So far nearly 2.3 million people have "liked" Bank of America on Facebook, and the bank's Twitter feed has 421,000 followers.

In the German-speaking banking world, Deutsche Bank set up a "Social Media Service", where it engages in fast and direct dialogue through Twitter and Facebook. On the separate Facebook careers page, potential employees share their views with the bank.

VP Bank's use of social media

Research studies show that when it comes to social media, private banks have some catching up to do. VP Bank is keeping its eye on the ball and increasingly tapping the benefits of social media. VP Bank's motto is "safely ahead", which also applies to communications.

VP Bank sees seven benefits of social media:
- Vast reach
- Proximity to interest groups
- Easier know-how transfer with brief content
- Rapid dissemination of information
- Direct dialogue to strengthen client loyalty
- More channels by which to distribute existing content
- More efficient means to recruit new employees

Since more than 56 per cent of VP Bank Group's client assets come from the German-speaking regions (Liechtenstein, Switzerland, Austria and Germany), VP Bank's social media content is mainly in German.

VP Bank's channels

Wikipedia – the reference guide
English and German entries on Wikipedia contain general information about VP Bank, its history and the company's key figures.

XING – the talent showroom
VP Bank uses this platform as an employer and to support its recruiting efforts with job offers. VP Bank maintains a company profile. All of VP Bank's press releases and job listings are posted in the news stream. Many VP Bank employees network through this application and thereby increase the Bank's visibility.

LinkedIn – business networking platform
Much like XING, LinkedIn serves as an employer platform. It is widely used in the English-speaking countries. VP Bank is present on this platform through a company profile in both German and English. Job listings and all VP Bank press releases are posted in the news feed.

Twitter – rapid news service

VP Bank is positioned on Twitter with company and financial information. This channel is for the most part specialised; it is popular with financial media and journalists as a source of quick information. The news service offers the latest developments about the Bank such as press releases, financial market commentary and sponsoring activities. Since Twitter limits the length of the messages, the news releases sometimes include a direct link to the corresponding entry on the VP Bank web page.

Facebook – the best-known network

VP Bank is present on Facebook with an apprenticeship page. Apprentices and interns report on their day-to-day activity. They use Facebook to recount their personal impressions and experiences at VP Bank. These include experiences with the instructors as well as reports on trips, school and tests. The Facebook page is designed to give future and prospective apprentices a look behind the scenes and make them curious to learn more about apprenticeships at VP Bank.

Blog on www.vpbank.com

The www.vpbank.com website hosts a blog where VP Bank's analysis and financial information is posted. It gives those interested an easy way to be in contact with VP Bank experts through the comments function.

In addition to social media channels where it is already active, VP Bank is also looking into other channels such as YouTube and Google+. The social media commitment is administered centrally by the Corporate Communications department.

VP Bank website

On VP Bank's website, the "Social Media" section lists the various social media channels used by VP Bank. Links lead the user directly to the platforms and thereby facilitate interaction with VP Bank. Readers can also share interesting news and press releases by adding the corresponding Facebook, Twitter, XING and LinkedIn icons to their personal pages.

Internal communications

Although social media primarily targets external audiences, employees are key multipliers. The intranet therefore includes a page that informs them about VP Bank's social media channels and content as well as concepts and guidelines.

Employees are regularly informed about social media activities and encouraged to participate by liking or sharing items. VP Bank has published social media guidelines on how to use social media. They define the policies for all employees and control the communications behaviour. The staff regulations and code of conduct are also binding for all social network activities. As a publicly listed company, stock market rules on ad-hoc disclosures must also be followed.

Outlook

Where does the online dialogue go from here? How will we communicate with clients, partners and (potential) employees in 10 years? Photo-sharing platforms such as Instagram have surged in popularity, with more than 400 million profiles worldwide, while the chat application Whatsapp now has more than 900 million users. Live streaming services such as Meercat or Periscope make it possible to provide a live feed on the Internet using just a smartphone, which was unthinkable just a few years ago given the limited bandwidth and hardware capabilities at the time.

These services are being used in ways that extend far beyond their original purpose of, say, sharing photos. Now people and companies use them for information, discussions and research. For VP Bank and its messages, these services create opportunities for closer client relations, an expanded reach and new channels for dialogue. VP Bank's social media team carefully monitors the developments and evaluates the experiences in order to continuously expand its social media footprint.

VP Bank is currently weighing the pros and cons of a social media intranet for employees. This intranet would use the tools and principles from known external social networks and make them available internally. VP Bank would thereby enable employees to make decisions more quickly, have more efficient work processes and faster information.

VP Bank's social media channels

Channel	Address
Facebook	www.facebook.com/vpbankausbildung
LinkedIn	https://www.linkedin.com/company/vp-bank
Twitter	https://twitter.com/vpbank
Wikipedia	https://de.wikipedia.org/wiki/VP_Bank
XING	www.xing.com/companies/vpbankag

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 196,060 in 2015. The number of envelopes was lowered from 1,500,000 in 2004 to 766,163 in the past financial year.

Paper consumption has decreased from 68.03 tonnes in 2004 to 43.11 tonnes in 2014. e-banking has contributed greatly to this reduction thanks to its e-Post functionality, which has developed in the opposite direction to the consumption of paper. The increase in the use of envelopes and paper over the prior year can be explained by the additional communication needs surrounding the integration of Centrum Bank.

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 by using exemplary, carefully managed forestry practices. Since 2010, payment order forms have also been printed on environmentally friendly 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 just under 76 per cent over the past seven years. In 2007, a total of 7,000 reports were still being printed, whilst in 2014, the total printed was a mere 1,700.

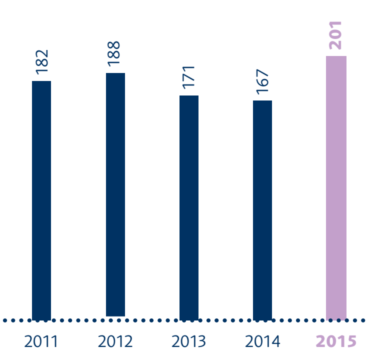
For the Vaduz and Zurich locations, the number of documents sent by electronic post has increased continuously: in 2007, the total was approximately 130,250; by 2011 it had risen to more than 696,270; in 2013 it reached 1,204,603 and in 2015 the total stood at 1,669,433. Following an increase in 2014 over the 2013 level, the number of electronic post mailings again increased by 11 per cent in 2015. Since 2012, the statistics include the Luxembourg facilities. The electronic communications of VP Bank Group since 2010 include the footnote "Please consider the environment before printing this e-mail".

Water consumption has declined continuously since 2008, but rose again in 2015 as a result of the 8 per cent higher employee headcount. This value, however, is still the second lowest level of all consumption readings achieved since 2004. Water consumption per employee has dropped continuously from 15.3 m³ in 2005 to 9.6 m³ in 2015. This reduction is spread equally over all facilities of VP Bank in Liechtenstein.

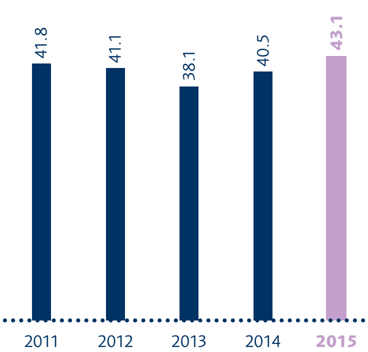
Energy

Through numerous initiatives, VP Bank Group focuses on the responsible handling 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 2015, the over 30-year-old ventilation system in the main building was renovated and replaced by an energy-efficient installation with heat recovery.

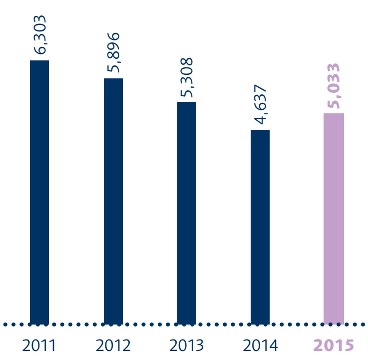
At the Liechtenstein facilities, most of the lighting is regulated by a light control system with motion detectors. This technology can reduce power consumption by 20 to 40 per cent compared to manually activated lighting. In the replacement



Total waste (in tonnes)



Paper consumption (in tonnes)



Water consumption (in m^3)

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 which will be replaced during the course of 2016. The energy savings afforded by the use of LED lamps rather than traditional lighting sources amount to roughly 75 per cent.

Total power consumption by employee at the Bank's Liechtenstein facilities has been on the decline for five years and in 2015 stood again well below the level last seen in 2004. Electricity consumption at the head office has been on the decline since 2008 thanks to efficiency-enhancing measures: in 2014, the central heating installation was replaced and energy-efficient pumps deployed. At the same time, the system converted from oil to gas. A further factor in the reduction of power consumption is the renewal of the ventilation installations. Instead of energy-intensive steam humidification, an energy-efficient hygiene air humidifier is now used. The system possesses a low-pressure pump and an additional evaporation unit and makes possible the lowest possible power and water consumption.

For more than 15 years, a photovoltaic power generator has been in operation on the roof of the building in Vaduz. It supplies environmentally friendly energy that is fed into VP Bank's power grid. 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 four years it has decreased mainly due to defective modules. Through the installation of a more efficient system, it is planned that this recent trend will be reversed.

In September 2014, the old oil heating system in the main building was finally turned off. Since 2015, heating is generated with natural gas and heat recovery from the refrigeration equipment.

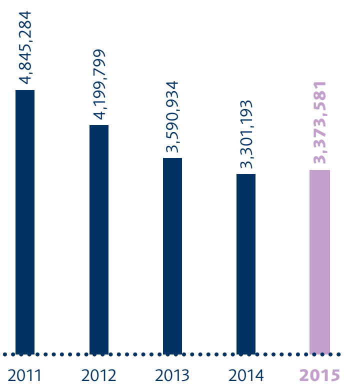
In addition, optimised waste heat utilisation has been the name of the game in the Giessen building in Vaduz since 2013. Modern ventilation plants with heat recovery use heat waste from office and workspaces.

Overall concept

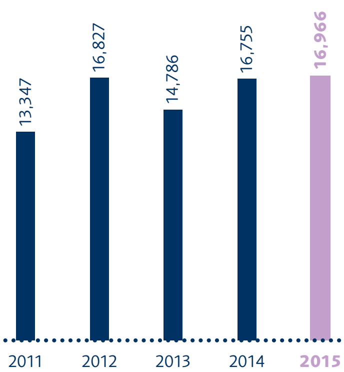
The differing types of buildings at VP Bank call for an overall concept that brings all of its Liechtenstein facilities up to the same level in terms of power technology. The goal of this concept is to harmonise all of the existing installations, optimise the distribution of power and efficiently exploit 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 used in the measures for fine-tuning the Bank's overall energy supply. In addition, the ventilation control centre was renovated in 2015.

The energy supply project foresees additionally the continued use of leading-edge technologies that enable heating on the basis of heat recovery. Since 2014, the new cooling control centre affords both operational safety and energy efficiency. Each of the two units is equipped with an electronic control system that steers two distinct cooling cycles. 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.

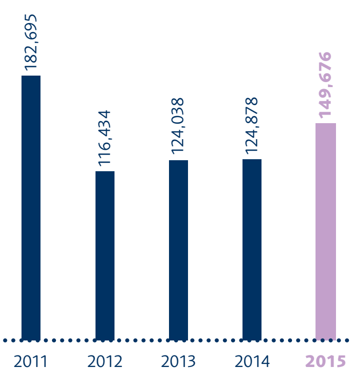
Now that this system has been put into service, the lion's share of the overall concept has been realised. The next step is to plan the use of groundwater in Vaduz. Through implementation of this measure, the existing subterranean water can be used for cooling purposes in summer and heating in



Power consumption (in kWh)



Mobility Cars (in km)



Number of kilometres

winter. Initial 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 2017.

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

Photocopiers

As a result of a new service contract, the previously existing photocopiers at the offices in Liechtenstein were replaced with new devices during the course of 2013 and 2014. The new copiers are made of recyclable components and use environmentally friendly polymerised toner, which, in its production, generates 40 per cent less CO_2 emissions than conventional toners. Another major advantage is their low TEC (typical electricity consumption) rate, which expresses the average weekly power consumption of electronic products based on their normal office use.

This new generation of equipment is an all-in-one solution (printer, scanner, copier and fax). It switches more rapidly to the sleep mode and requires considerably less energy than previous models. That in turn helps VP Bank to reduce its operating costs and fulfils the goal of continually applying new technologies to minimise energy consumption and hence further reduce CO_2 emissions. An external service provider has been commissioned to handle the maintenance of these devices.

The forecasts of hoped-for savings came true in 2015: they amount to roughly CHF 100,000 per year. The useful life of this new generation of equipment has been estimated at 5 years.

In the coming years, it is planned to align all photocopiers to a Group-wide standard. For 2016, internal measures are foreseen to raise awareness on the theme of paper consumption.

Waste avoidance

Ever since 2004, waste separation has been the order of the day at VP Bank using the Bank's waste disposal concept. Newspapers and magazines are collected and recycled separately from the remaining types of paper. Glass, cardboard, polystyrene, PET bottles and green waste each have their own receptacles. The total amount of waste generated in 2014 was the lowest since 2004 but increased again in 2015 as a result of the higher employee headcount.

The residual paper discarded by VP Bank is shredded in an in-house recycling unit and compressed into briquettes. With this process, roughly 51 tons of paper briquettes were produced at the Liechtenstein location in 2015 which are collected by a local recycler and taken to an incinerator. In 2016, an excursion to this recycling enterprise for employees is planned.

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 project group of the Liechtenstein Chamber of Commerce and Industry is a further body in which VP Bank actively participates. VP Bank is also a member of Öbu, the Swiss think-tank for environmental, social and management topics and network for sustainable business operations.

VP Bank has been participating in the Carbon Disclosure Project (CDP) since 2008. CDP is an international non-profit organisation that has the goal of motivating companies and communities to lower their CO_2 emissions and use water in a sustainable manner. On behalf of investors, CDP Switzerland gathers data and information on CO_2 emissions, climate risks as well as the reduction goals and strategies of the largest exchange-listed Swiss companies. The findings are published in an annual report.

Tailwind

The tempo increases, buoyed up by the favourable environment.

VP Bank between 1963 and 1969

1963–1969

1963

VP Bank

VP Bank publishes a printed annual report for the first time for the 1963 financial year.

1964

Financial centre

The agreement between the Swiss National Bank and the Swiss Bankers Association to prevent the inflow of foreign funds declares Liechtenstein a foreign country in terms of currency.

1965

VP Bank

VP Bank gains in prestige: it is admitted to the Swiss Bankers Association in 1965 and to the Association of Swiss Exchanges in 1966.

Financial centre

The Liechtenstein government passes similar deflationary measures to those passed by Switzerland one year earlier in order to avoid being considered a foreign country in currency terms.

1967

VP Bank

The tying of the banking license to the founder and the time limit imposed on VP Bank are lifted by the Liechtenstein Landtag. In return, the Bank undertakes to ensure that at least 60 per cent of the voting rights and 51 per cent of the share capital remain under the legal and economic ownership of Liechtenstein citizens at all times.

Financial centre

Liechtenstein introduces a coupon tax of 3 per cent.

1968

VP Bank

VP Bank and Allgemeines Treuunternehmen (ATU) establish the Treuhand-Personalstiftung as an endowment fund with an initial injection of CHF 1 million.

1969

VP Bank

VP Bank is the first bank in Liechtenstein to introduce a salary account for cashless payment transactions – named the "personal account" – as well as the Swiss Cheque. In doing so, the Bank has its finger firmly on the pulse of the times.

Financial centre

The Liechtenstein Bankers' Association is established.

Mobility management

Eight years ago, VP Bank introduced a mobility concept at the head office in Vaduz which 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, mobility management offers the cost-free use of Mobility Cars, an arrangement that has met with an enthusiastic response. A favourable trend was to be seen again in the total number of kilometres driven for business purposes in Mobility Cars in the last three years. In 2015, it was 1.3 per cent higher than in 2014. The use of a videoconferencing system has helped to reduce the business travel activities of employees.

Employees using public transport are also offered a free ticket for bus and railway transport within Liechtenstein. The revenues from the Bank's mobility management are in part used for the reimbursement of tickets. 92 employees benefited from this in 2015.

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 March 2011, the Group's mobility management approach received the "Zurich Climate Prize", which honours measures aimed at improving energy efficiency and reducing CO_2 emissions. As of 1 January 2016, the attractiveness of using public transport was further enhanced by financial incentives.

In summer of 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 covered in 2015.

In the spring of 2015, VP Bank participated in the campaign of the LIFE Climate Foundation Liechtenstein for the fulfilment of the government's electric mobility strategy. Bank employees could borrow and test-drive three electric-driven vehicles for several days free of charge. In the summer of 2015, quite a few employees participated in the "By Bike to Work" competition of the Liechtenstein Chamber of Commerce and Industry.

In September 2015, VP Bank participated in the European Mobility Week and in doing so, supported the campaign "Car-free – Have fun at the same time"; VP Bank hosted the prize-giving ceremony held in October 2015. In November 2015, just under 180 employees of VP Bank took part in a survey of the Liechtenstein Chamber of Commerce and Industry on the theme "mobility behaviour". The results of the survey as well as the ideas submitted in the process flowed into the overhaul of VP Bank's mobility concept. As an initial measure, the attractiveness of using public transport was further enhanced by financial incentives.

The social engagement of VP Bank

Commitment to society and culture

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 projects. 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 has 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 (golf, tennis, mountaineering), culture (artworks and design, culinary art) and entrepreneurship, each of which is unique in its own way. The Bank lends a hand to its commercial partners (persons, groups, organisers of special events, etc.) by donating money and/or services.

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 Wieczorek, curator of the Hilti Art Foundation. Eva Frommelt is curator of the VP Bank Art Foundation itself.

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. No purchases were made in 2015. 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 broad public 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 300,000 to worthy causes.

Through a recent contribution, in 2015 the VP Bank Foundation has supported a project for facilitating access to data on sustainability investments, which are being made available to specific participants in the continuing education programme of the CEPS Centre for Philanthropy Studies as well as students at the University of Basel. A further commitment to education was the long-standing annual contribution to the Seminarhaus Gutenberg Education and seminar centre in Liechtenstein.

In connection with the Foundation's support of scientific research at the University of Liechtenstein, the Board of Trustees joined the government in approving a grant for the research project entitled "Characteristics and sources of productivity growth in Liechtenstein": this in the belief that economic analyses bring to light long-term trends and represent core elements of the Principality's political strategies.

In the area of ecology, the Foundation lent support yet again in 2015 to the "pro natura – pro ski" foundation, which was initiated by VP Bank more than a decade ago. In close collaboration with the University of Natural Resources and Life Sciences in Vienna, the Foundation's activities make a recognised contribution towards the ecologically conscious development of winter sport resorts in a way that balances the interests of all stakeholders.

In 2015, the Foundation's widely noted activities precipitated in the form of a jointly conducted symposium entitled "BERG-UM-WELT" in Zell am See (Austria), where numerous scientists and practitioners from the Alpine nations were in attendance (http://bergumwelt.boku.ac.at).

Ever since its establishment, the VP Bank Foundation has attached the utmost importance to continuity in its support of the environment, education and science, and will also pursue this policy in the years to come.

In accordance with an active Foundation policy and the concentrated deployment of resources, the Board decided in 2015 to initiate and implement a key project: two years of targeted funding for "Literaturhaus Liechtenstein" and "Der literarische Monat" literary magazine. This support is designed to help promote literature in Liechtenstein and provide a platform for Liechtenstein authors.

As to the Foundation's cultural patronage, contributions to exhibitions by the Liechtenstein National Museum and the "Werdenberger Namenbuch" are just two examples.

In connection with the annual "Lichtblick" campaign, in November 2015, 33 social institutions in Liechtenstein received grants from the Foundation: it disbursed a total of almost CHF 72,000 to this initiative and other projects of social institutions and associations in Liechtenstein and the surrounding region.

With the objective of providing greater support to young people, the Foundation sponsors various projects in the area of youth theatre and music as well as offers for preschool children.

The decision was taken to fund a multi-year sponsorship of the Liechtenstein Academic Society's publishing activities. These scientific papers on themes of relevance to the Principality are frequently associated with forums and research projects of the Liechtenstein Institute and represent a source of knowledge for political and social purposes.

Again this past year, a portion of the Foundation's capital 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 commitment, the relief organisation "SolidarMed" received financial aid. Owing to 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 SwissFoundations association of charitable institutions. 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 organisations.

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.

Special emphasis is placed on the training of young people: VP Bank wants to ease their entry into business life and offer them attractive prospects for the future. The demands on young professionals are increasing constantly. For this reason, VP Bank continuously adapts its training approaches in order to enable it to develop the next up-and-coming generations of talented individuals in a flexible and practice-oriented manner. Apart from the classical bank apprenticeship and computer scientist apprenticeship, VP Bank also makes it possible for students to have a part-time job at the Bank during their years of studies, or otherwise be granted an entry-level job once they have earned their master's degree.

VP Bank is seeking certification from the Swiss Bankers Association in order to enhance the quality and standing of vocational training. In this connection, the training concept was already adapted in 2014 and now has an increased focus on practical networking. In doing so, VP Bank has evidenced its responsibility as a training organisation.

On 12 November 2015, the National Future Day was held in Switzerland and Liechtenstein. A large number of companies took that opportunity to open their doors to pupils from years five to seven and allow them to discover the world of business first hand. National Future Day therefore broadens the career horizon and future perspectives of young girls and boys and helps them to map out their own futures unconstrained by strict gender roles.

VP Bank in Vaduz participated in the National Future Day for the third time. 17 young people aged between 10 and 13 took advantage of the opportunity to spend a day with a "mentor" and gain a sense of what professional life is all about. They received lots of information about VP Bank, familiarised themselves with the processes of the respective departments and showed great interest in the various types of job that actually exist at a bank.

Ever since 1974, the VP Bank Sports Club has been organising numerous activities in Liechtenstein that are either free or available at sharply reduced prices. The VP Bank in-house intranet provides a vast array of information on themes such as "Fit at work", "Health promotion through movement" and "Healthy nutrition". Additional features include stress-checks as well as tips on accident prevention and ergonomics in a desktop world. Employees are granted discounts on massages, fitness centres, kinesiological treatments and glasses for use at work. In addition, VP Bank in Liechtenstein offers the use of the "well.system", which enables individualised management of an individual's personal health-related behaviour and offers personal care through a trained coach.

In autumn 2015, VP Bank implemented a very successful initiative to promote a healthy workplace. The concept of the "move – every step counts" in-house challenge was to walk around the VP Bank world symbolically, and the person who recorded the most steps was declared the winner. Each participant received a free step counter.

Diversity at VP Bank

VP Bank is committed to the diversity of its governance, which ensures that decision-makers are put in a position to assess matters constructively and be more open to innovative ideas.

The criteria for hiring managers are based strictly on qualifications regardless of age, gender or nationality. VP Bank Group does not yet have a specific diversity policy but is currently in the process of establishing one.

Diversity at VP Bank – men and women on the Board of Directors and in senior management positions

as of 31.12.2015	Total number of women	Relative number of women in %	Total number of men	Relative number of men in %
Board of Directors	0	0	7	100
Management Level 1	0	0	3	100
Management Level 2	5	29	12	71

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 domicile is the Liechtenstein Financial Market Authority (FMA). As the bearer shares of the parent company are listed on SIX Swiss Exchange, VP Bank is also subject to the rules laid down by SIX on the basis of 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 broad 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 Law – 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);
- Law on Investment Undertakings for Other Assets or Real Estate (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);
- Persons and Companies Act (PCA).

The following discusses a number of 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.

In this connection, particularly worth mentioning is the fact that the Principality of Liechtenstein and Switzerland on 10 July 2015 signed a comprehensive double-taxation agreement based on the OECD model which is planned to take effect on 1 January 2017. The agreement contains a provision concerning the automatic exchange of information in taxation matters (AEOI).

The agreement with Austria signed on 29 January 2013 on cooperation in the area of taxation as well as the protocol on the amendment of the existing double taxation agreement (DTA) entered into force on 1 January 2014. On the basis of the taxation agreement, all assets of persons resident in Austria held 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 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 withholding 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 as well as distributions as well as deemed distributions from investment funds has 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 23 February 2015, the Government of Liechtenstein also signed a tax information exchange agreement (TIEA) with a supplementary protocol with Italy. The TIEA follows currently valid international standards. The rules set out in the supplementary protocol enable Italian taxpayers with assets in Liechtenstein to participate in the current Italian programme of voluntary declaration (VDP) on the best possible conditions.

The supplementary protocol foresees the possibility of making requests, on the basis of current OECD standards, to identify persons who have not participated in the Italian voluntary disclosure programme and continue not to wish to disclose untaxed assets. The supplementary protocol will be applicable for requests concerning the tax years or assessment periods commencing on 26 February 2015. The Agreement enters into force upon conclusion of the mutual approval process. The accord reached forms the basis for an enhanced cooperation between the two countries in which the commencement of negotiations on the conclusion of a double-taxation agreement is foreseen as a next step.

Furthermore, during 2015 the following double-taxation agreements were signed by Liechtenstein: Andorra, Georgia, Hungary and the United Arab Emirates. In addition, the following agreements apply as from 2015: Belgium (TIEA), China (TIEA), Canada (TIEA), Malta (DBA), Mexico (TIEA) and Singapore (DTA).

UK Liechtenstein Disclosure Facility

On 9 July 2015, the Government and the Liechtenstein Tax Administration published a further joint declaration as to the Government Agreement from 2009 and the Liechtenstein Disclosure Facility (LDF). This "fifth joint declaration" contains in particular the necessary clarification in connection with the accelerated deadline as of 31 December 2015.

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. Liechtenstein thus signed the Multilateral Convention of Mutual Administrative Assistance in Tax Matters on 21 November 2013, 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 in September 2017 in respect of the calendar year 2016. On 7 July 2017, the Government of Liechtenstein submitted to the Liechtenstein Parliament ("Landtag") a draft bill concerning the automatic exchange of information in tax matters (AEOI Law). The current AEOI Act serves to implement the applicable international accord with partner states which will foresee an automatic exchange of financial account information. The AEOI Act as well as the related implementing Ordinance entered into law as of 1 January 2016.

On 28 October 2015, Liechtenstein and the EU signed an agreement of the implementation of 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 must thus be in place in all EU member states as well as Liechtenstein by 1 January 2016. An exception in this respect for the automatic exchange of information (AEOI) relates to Austria which will commence only one year later.

At the same time as the decision on signature, 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. With the signing and implementation of the agreement, significant outstanding tax inequalities encountered by Liechtenstein in individual member states as a result 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.

Various further countries, including Switzerland and Singapore, have announced that the implementation of the OECD standard will be delayed by one year until 2018 in their countries. As a whole, it is to be assumed that the automatic exchange of information will be an internationally implemented standard by 2018 at the latest.

Enlarged Directive of the Bankers' Association on Tax Compliance

With the Directive of 1 September 2013, Liechtenstein banks have agreed on uniform minimum standards to be applied in relation to the due-diligence obligations concerning tax compliance by their clients. This Directive was extended as of 1 February 2015. The most important amendment is the extension of due-diligence obligations for existing clients. In addition, measures were taken to prevent customer relationships circumventing the scope of application of the automatic exchange of information.

Amendments to Legislation on Due-Diligence Obligations

Regarding the automatic exchange of information in matters of taxation (AIA), 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" to conform to the definition of controlling person in the CRS and in the draft bill for an AIA Law.

The amendments are introduced in two stages. The first stage, which entered into law as of 31 December 2015, had principally the goal of overhauling the existing documentation on the basis of the 3rd EU Money-Laundering Directive. In view of the overall implementation of the 4th EU Money-Laundering Directive due to occur later, a second stage was enacted as of the beginning of 2016, which, however, institutes, ahead of schedule, the corresponding regulations in the area of the definition of economic beneficiary with deadlines for implementation.

Revision of the Tax Administration Assistance Act and Tax Administration Assistance Act-USA

In June 2015, the Landtag created the legal framework, in certain exceptional cases, to enable the persons involved only to be informed after the information had been transmitted to the foreign authorities (so-called derogation proceedings). Furthermore, two provisions of law were amended to conform with constitutional requirements. These amendments came into law as from 1 August 2015.

Under the enhanced OECD standard, it is also allowed, under certain conditions, to address requests for information for a group of taxpayers which can be identified by a certain behavioural pattern (group queries). The previous legal position in Liechtenstein did not permit such group queries. Accordingly, the Tax Administration Assistance Act as well as the Tax Administration Assistance Act-USA were expected to be amended.

In November 2015, the Landtag deliberated on and adopted the related modifications in second reading. The amendments came into force as of 1 January 2016.

Amendment of the List of Tax Offences as Predicate Offence to Money Laundering

Already on 16 February 2012, the Financial Action Task Force (FATF) issued its revised recommendations for combating money laundering, the financing of terrorism and the proliferation of weapons of mass destruction. The revised recommendations provide, amongst other changes, for an extension of the list of punishable predicate offences to also include severe tax offences. Against this backdrop, the list of tax offences as predicate offence to money laundering of the related legal provision (Art. 165 of the Criminal Code (Penal Code)) was expanded as from 1 January 2016 to include the offences of tax evasion and qualified tax fraud. This means that, from this date on, those persons who are subject to due-diligence obligations are to report to the Financial Intelligence Unit (FIU) in cases of suspicious facts or occurrences. The overall implementation of the 4th EU Money-Laundering Directive is already anticipated in this area.

Extension of Legal Administrative Assistance in Tax-Related Criminal Cases

In November 2015, the Landtag adopted 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 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).

These disclosure and reporting obligations resulting from this Act are assured 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). Both 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 consideration.

Through FATCA, the USA is thus attempting to introduce a seamless system for the global exchange of information on individuals who are liable to tax in the US (US persons), as well as attaining a higher degree of tax transparency. To ensure that, 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 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 per cent withholding tax on all incoming US payment flows. The GIIN is further required in order 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).

The initial FATCA reporting was sent by VP Bank Group companies for all customer relationships identified as US reportable accounts in April, June and July 2015 covering the 2014 reporting period 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 in such a manner with the complete reporting content reached only with the 2016 reporting year (FATCA reporting is then made 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 perform 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 and its sponsor.

In the case of all customer relationships commenced 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.

As of the middle of November 2015, 70 countries have concluded a model 1 IGA with the USA and 8 countries a model 2 IGA. A further 28 countries have reached a substantial and thus acceptable stage in negotiations with the USA concerning a model 1 IGA and 6 further countries have reached a similar stage in negotiations regarding a model 2 IGA.

The Liechtenstein Landtag adopted the FATCA Law on 4 December 2014 and it became effective on 22 January 2015, together with the FATCA Agreement.

Implementation of the revised 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 transparent, reinforce 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 and the commitment to the financial sector to have finalised all implementing ordinances by the end of 2015 could not be honoured. With this background, a postponement of the deadline for the implementation of MiFID II by one year i.e. to the 3 January 2018, is presently being intensively discussed at the level of the European institutions. Notwithstanding this, the process of transposing the MiFID Directive 2014/65/EU into local laws, such as the Banking Act, is moving ahead in Liechtenstein.

MiFID II introduces the following central innovations, the implementation of which will set new strategic directions as a consequence:

- 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 no longer accept retrocessions or similar benefits from third parties. In elaborating investment recommendations, independent investment advisors must take into consideration a sufficient number of financial instruments offered on the market (diversified in terms of product type and issuer). In this respect and more particularly, they may not restrict themselves only to financial instruments of issuers or product providers which are closely related to the advisory bank (e.g. through distribution contracts).
- Suitability Report: Increased duties of documentation and of disclosure shall apply to both dependent and independent investment advisors. In particular, the client must be informed as to the extent to which the advice was aligned with his preferences, objectives and other attributes.
- 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 create actual product governance. They must identify the risks associated with the financial instruments offered, determine the customer base whose needs correspond to the financial instrument and ensure that the latter is only distributed to the defined target groups. 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 communication which deal with the area of investment advisory services and placing of orders in connection with financial instruments. Private means of communication (e.g. private mobile phones) in principle may not be used for contact with the clients.
- Rules pertaining to third countries: There exists a uniform regime for the services to eligible counterparties and professional clients (e.g. insurance companies, investment-fund companies, etc.) regarding the cross-border activity of financial institutions from third countries (countries outside the EU/EEA, e.g. Switzerland). In these cases, only registration with the ESMA is required which, however, depends on whether the rules applicable to the financial institution in the respective third country were recognised by a decision of the EU Commission as being equivalent. After registration is complete, financial institutions will be able to service clients EU-wide from the third country concerned. The national rules currently in force may still be applied during a transitional period of three years from the date of the decision on equivalence.

In the case of contacting private clients on a cross-border basis, there is only a partially standardised regime available. Each EU/EEA member state continues to be free to prevent the servicing of clients in a cross-border relationship and to prescribe the mandatory establishment of a branch. If this should be the case, the same requirements for the establishment of a branch shall apply but EU/EEA-wide. The provision of banking services on a cross-border basis continues to be possible upon sole initiative of the client (passive freedom to provide services).

As already mentioned, the implementation of MiFID II will require already strategic decisions to be taken by financial institutions, in particular as regards the manner in which investment advisory services are organised. Delays in the issuance of implementing provisions by the European Commission and ESMA constitute in this respect an additional challenge.

In Switzerland, several legislative projects are pending which have, as their object, a partial alignment of the currently applicable provisions of MiFID and MiFID II. In addition to the planned Law on Financial Services (FIDLEG) and the Law on Financial Institutions (FinIG), the new Federal Law on the Financial Market Infrastructure (FinfraG) as well as the revised Law on the Federal Authority for the Supervision of Financial Markets (FINMAG) have already become law as of 1 January 2016.

Revision of FIUA

On 4 December 2015, the Landtag adopted the amendment of the Act on the Financial Intelligence Unit (FIUA) as well as further laws such as the Due-Diligence Act or the Act on Market Abuse.

Following the modifications made to the Standards of the Financial Action Task Force (FATF) in 2003 and 2012 regulating the combating of money-laundering and the financing of terrorism as well as after the Moneyval country assessments (2008 and 2014) which were based thereon, it was the view of the Liechtenstein Government that the FIUA dating from 2002 required a fundamental overhaul.

The most significant modifications concern the following points:

- creation of a clear legal basis for the FIU's right to information as well as a clarification that this right may not be opposed by professional or official secrecy instituted under special laws;
- creation of sanction norms in case the right to information is denied;
- limitation of freeze of assets to suspicious activity reports in connection as the financing of terrorism (whilst doubling the previous embargo period from five to ten working days);
- extension of the ban on information for the period until the filing of a suspicious activity report and the request for information by the FIU;
- harmonisation of the unlimited validity of information bans through corresponding amendments on the Act on Market Abuse;
- creation of the basis for the appropriate deletion of amassed data relating to individuals;
- improved protection of persons subject to due-diligence obligations which make reports to the FIU whilst the report itself in future is no longer to be forwarded to the prosecuting authorities.

Amendment of Financial Market Supervisory Act (FMA-Act)

As part of a revision of the FMA Act, new procedural provisions were introduced regarding the cooperation with foreign supervisory authorities in the area of the supervision of securities in order to align them with current international standards (international legal administrative assistance).

Amendment of the Criminal Law on Corruption

On 2 October 2015, the Landtag deliberated on the Report and Petition No. 94/2015 concerning the revision of the Criminal Code, the Code of Criminal Procedure, the Tax Act and further laws (revision of the Criminal Law on Corruption and decrees on proprietary rights) in first reading. The second reading takes place in March 2016.

With this draft, the Liechtenstein Criminal Law on Corruption is to be adapted to international standards (Accord on Criminal Law of the Council of Europe on Corruption and the Agreement of the United Nations against Corruption, UNCAC).

A material element of both of these enactments of international law is the sanctioning of active and passive bribery in the private sector.

These international implementation obligations are now fulfilled with the introduction of the new punishable charges of corruption and bribery in business relationships (Art. 309 Penal Code), the overhaul of the existing criminal offenses regarding corruption (Art. 304 through Art. 308 Penal Code) and the new legal definition of the office holder (Art. 74 para. 1 point. 4a lit. a to c Penal Code).

A further focus of the proposals is the revision of the system of decrees relating to property rights which had given rise to criticism in the recent past in the Moneyval/IMF assessment of Liechtenstein. In addition to the introduction of a provision on confiscation in Art. 19a Penal Law, the discontinuation of the prescriptions concerning asset recovery and the introduction of new provisions on forfeiture as well a reform of the existing prescriptions on forfeiture (Art. 20 et seq. Penal Code) are to be highlighted as the most significant amendment.

Cross-border transactions

In its Announcement 2015/3, the Financial Market Authority of Liechtenstein (FMA) formulated its expectations from banks active in Liechtenstein concerning the handling of risks in the provision of services to persons abroad (cross-border announcement). In this respect, these latter are to have comprehensive internal risk management procedures in place addressing the risks resulting from cross-border services in order to minimise the legal and reputational risks resulting from such business. Banks are to identify, classify, document and finally to limit cross-border risks through the establishment of internal business rules, processes, controls and internal sanctions. These requirements are designed to ensure, from a supervisory-law perspective, that applicable foreign law is observed and complied within the scope of providing cross-border services.

Amendment of Consumer Protection Law, E-Commerce Law, Law on Remote Financial Services (Implementation of EU Directive 2011/83/EU)

The EU Directive 2011/83/EU has established new binding standards in consumer law in the field of consumer protection which were to be transposed in national law. The new provisions regulate aspects of the distance selling business (e.g. online trading) as well as so-called doorstep selling. Thus in future a 14-day cancellation right shall apply Europe-wide in many cases for online trades.

Implementation of Basel III

As the direct reaction to the 2008 financial-market crisis, tighter requirements on the supervisory regime became necessary, in particular the level and quality of the equity of banking institutions. At the end of 2010, the country and government heads of the G20 states committed to implement a recommendation of the Basel Committee on Banking Supervision for new capital-adequacy and liquidity standards for internationally active credit institutions (Basel III).

The goal of the Basel III reform package is to enhance the strength of financial institutions and the banking system to withstand shocks from the field of finance and the real economy. To achieve these goals, the Basel III reforms act both on the level of individual institutions (micro-prudential regulations) as well as the banking sector (macro-prudential approach).

On the European level, Basel III is implemented by the so-called CRD IV package; this consists on the one hand of an ordinance (Capital Requirements Regulation, CRR) which represents directly applicable law, and on the other, of a directive (Capital Requirements Directive IV, CRD IV) which is to be transposed into national law. In order to ensure a uniform set of regulations (single rulebook), the European Banking Authority (EBA) issues technical standards of implementation and regulation for certain areas.

The European requirements were implemented in Liechtenstein by an amendment to the Banking Law and of various further normative texts and were transposed into the body of law of the country. The CRD IV package became law on 1 February 2015 within the framework of the revision of Liechtenstein banking legislation. Liechtenstein banks had to implement the new requirements predominantly during 2015 in close conjunction with Finance Market Supervisory Authority of Liechtenstein (FMA) and the Liechtenstein Bankers Association (LBA). As VP Bank is classified by the Finance Market Authority of Liechtenstein (FMA) as a locally system-relevant bank, it has to fulfil the far-reaching requirements accordingly.

The new legislation involves increased requirements on the quantity and quality of the capital base of banks in Liechtenstein. The minimum capital requirements are increased markedly through an additional capital buffer over the previous level. Increased quality of equity is achieved by more stringent eligibility requirements for core capital.

For the first time, stress-based bank liquidity standards were introduced additionally with the CRR as a reaction to the crisis in financial markets. The question whether an institution possesses adequate liquidity in the event of a crisis is assessed on the basis of two new indicators, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

As a supplement to the computation of minimum capital requirements which are based on risk weightings, a leverage ratio was introduced. Total assets and off-balance-sheet positions are thereby expressed as ratio of equity in order to equally take into account arbitrary but risk-exposed transactions.

Besides quantitative requirements (e.g. capital-adequacy, liquidity, indebtedness), the package of reforms includes a series of qualitative targets. This concerns in particular principles of corporate governance and encompasses aspects of the internal organisation, requirements for members of the Board of Directors and Management as well as the establishment of Board Committees. Corporate governance covers equally the rules governing compensation policies of banks with the objective of avoiding misplaced incentives in this area.

Brief Overview on Investment-Fund Legislation

As regards securities-based investment funds, the Liechtenstein Landtag already had issued the Act on Certain Undertakings for Collective Investments in Transferable Securities (UCITSA) on 28 June 2011 in implementation of the so-called UCITS IV Directive of the EU.

In contrast, two laws exist currently as regards non-securities-based investment funds, viz.:

- the Act on Alternative Investment Fund Managers (AIFMA) which entered into force on 22 July 2013 and was issued to implement the AIFM Directive of the EU as well as
- the already previously existing Act on Investment Undertakings for Other Assets or Real Estate (IUA).

The AIFMA and the IUA will remain in effect in parallel for the time being as the AIFM Directive of the EU has yet to be adopted in EEA law and accordingly, Liechtenstein has not yet received the EU passport for alternative investment funds (AIF). With the transposition of the AIFM Directive into EEA law, the previous IUA will be repealed.

Outstanding EU Passport for Alternative Investment Funds (AIF)

The reason for the absence of the EU passport for alternative investments pursuant to the AIFM Directive is that various acts of law of the EU, which include the AIFM Directive, could not yet be adopted in EEA law because of concerns about unconstitutionality raised by Iceland and Norway concerning the new European Financial Supervisory Authorities.

During a meeting of the EFTA finance ministers with the Council of Europe on 14 October 2014, however, it was made known that the EU and EEA/EFTA countries were able to find a solution for the adoption in the EEA Agreement of the legislation concerning the new European Financial Supervisory Authorities thereby including the adoption of the AIFM Directive.

The technical EEA procedural steps necessary for adoption will, however, still require a certain time. Currently, it is estimated that the adoption of the AIFM Directive in EEA law will take place during the first quarter or first half of 2016.

Establishment of a new IUA

Following the imminent transposition of the AIFM Directive into EEA legislation, the largest part of Liechtenstein investment-fund legislation (UCITS i.e. securities investment funds and alternative investment funds) will be tied to European requirements (UCITS and AIFM Directives).

Thereafter, although only little time will remain 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 group companies) 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 are not distributed.

Amendment of UCITSA

On 4 March 2015, the Landtag adopted the amendments to UCITSA and the Financial Market Supervisory Law in order to eliminate excessive regulations which occurred in the process of implementing the UCITS IV Directive of the EU.

The previous Art. 49 UCITSA prescribed the applicability of the onerous merger provisions also for other "structural measures" of the UCITS Directive (such as change of management company or depositary) although this is not foreseen in the UCITS Directive itself. Accordingly, the other structural changes are now viewed, as in other countries of Europe, as a modification of the constituent documents (Art. 11 UCITSA), for which a simpler procedure applies.

On 4 December 2015, the Landtag adopted changes to the UCITSA which were rendered necessary by virtue of the European Directive 2014/91/EU (UCITS V Directive) and also the Directives 2010/78/EU and 2013/14/EU. The aforementioned UCITS V Directive guarantees investor protection equivalent to that provided under the AIFM Directive, in particular through a reinforcement of the regulations applicable to depositaries, through the introduction of principles and practices of remuneration in management companies and through an enhanced harmonised regime of sanctions. The aforementioned Directive 2010/78/EU, on the other hand, regulates the obligations for information exchange and cooperation of the national supervisory authorities with the European Securities and Markets Authority ESMA. Finally, the Directive 2013/14/EU prohibits management companies from excessive recourse on the ratings of external rating agencies by stipulating that management companies should make independent assessments within the scope of their risk-management processes.

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 pertaining to OTC derivatives, central counterparties and a transaction register ("European Market Infrastructure Regulation, EMIR"). The EMIR obligations on the agreement of risk mitigation techniques and the reporting of OTC derivative contracts to a transaction register are already in force in the EU. Depending on the categorisation of market participants, a step-by-step introduction of OTC derivative contracts which must be processed over central counterparties will start in 2015.

It is thus estimated that EMIR will be adopted in the EEA Agreement during the course of 2016, after which the EMIR obligations will also apply – directly – in Liechtenstein. In order that EMIR can develop the desired effect in Liechtenstein and that all necessary legal bases on a national level exist, an EMIR Implementing Law will be issued additionally in Liechtenstein (and concurrently with the date on which EMIR becomes law).

In Switzerland, the obligations which flow from EMIR and which serve to regulate trading in derivatives were implemented by means of the Financial Market Infrastructure Law (FinfraG). In all probability, the FinfraG will take effect in the first quarter of 2016.

Legislative Changes in the Area of Credit (Amendment of Property Law / Law on Official Property Assessments / Residential Real-Estate Credit Contracts)

During 2015, various legislative amendments were initiated having an impact in the field of credit-granting, which should become law in all probability in 2016. The Liechtenstein Law on Property, inter alia, was amended and the register of mortgages was introduced for the purpose of securing charges over real property as well as the promulgation of the Law on Official Property Assessments. In addition, the Directive on Mortgages 2014/48/EG (Residential Property Credit Contracts for Consumers) was issued by the EU, which introduces obligations for banks in the area of consumer protection. The Directive on Mortgages provides that the obligations shall be transposed into national legislation through a corresponding law in 2016.

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 credit institutions and investment firms (RL 2014/59/EU) in order to be able in future to take preventive measures to surmount a banking crisis as well as overcoming the insolvency situation of a system-relevant bank. This Directive must first be transposed into national law before it can become applicable in Liechtenstein. It is assumed that the Bank Recovery and Resolution Law will become law in Liechtenstein on 1 January 2017.

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
Landesverwaltung Fürstentum Liechtenstein	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 Association 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	www.vuvl.li
Association of Non-Profit Foundations in Liechtenstein	www.vlgs.li
Office for International Financial Affairs (SIFA)	www.sifa.llv.li
Government of the Principality of Liechtenstein	www.regierung.li
Finance Liechtenstein	www.finance.li

Corporate governance and compensation report

Corporate governance 2015

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 should serve not only the company and its shareholders but also external stakeholder groups. The overall framework of corporate governance is determined to a significant degree by the legislator and shareholders, the specific manner in which it is designed is the responsibility of the Board of Directors.

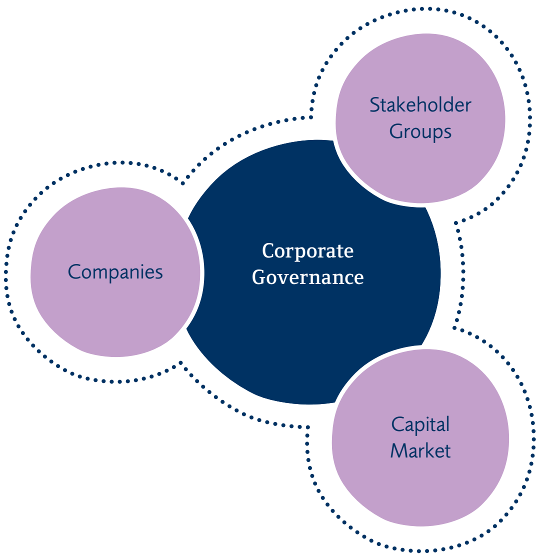
VP Bank Group strives to win the trust of all stakeholder groups. It thus acts in a fair and transparent manner, demonstrates integrity and responsibility at all times and grants its stakeholder groups insight into its decision-taking and control processes. For years, it has thus published, of its own 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, Vaduz[1], as required by the revised "Directive on Information Relating to Corporate Governance" (DCG) of SIX Swiss Exchange Ltd dated 1 September 2014 as well as the relevant laws of Liechtenstein.

The regulations of SIX Swiss Exchange Ltd stipulate that companies whose shares are listed on the Swiss Exchange but not in their own home country must apply the provisions of Art. 663b^{bis} CO by analogy. The respective details are set out under point 5.2 (page 80) and in the notes to the annual financial statements (see pages 176 f.). Unless otherwise indicated, all corporate governance disclosures herein are valid as at 31 December 2015.

[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 operational 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 18 shows the Group's operating structure and reflects the organisation according to segments of VP Bank Group.

The subsidiary companies and material shareholdings included in the scope of consolidation are listed in the Financial Report (see page 153) 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 Executive Board acts as Board Chairman of the given subsidiary company.

1.1.2 Listed companies included in the scope of consolidation

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

	ISIN	Security number	Year-end closing price in CHF	Market value in CHF million
Registered shares (unlisted)	LI0010737596	1.073.759	8.20	49
Bearer shares (listed)	LI0010737216	1.073.721	82.00	493[1]
Total (market capitalisation of the bearer shares plus market value of the registered shares)				**542**

[1] Stock-market capitalisation of listed bearer shares as of 31.12.2015

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

1.2 Significant shareholders (anchor shareholders)

As at 31 December 2015, 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	Bearer shares	Voting rights	Voting rights as % of total	Ownership of total share capital
Stiftung Fürstl. Kommerzienrat Guido Feger, Vaduz[1]	4,530,047	1,066,426	5,596,473	46.6%	23.0%
U.M.M. Hilti-Stiftung, Schaan	658,370	546,409	1,204,779	10.0%	9.3%
Marxer Stiftung für Bank- und Unternehmenswerte, Vaduz	0	755,955	755,955	6.3%	11.4%
Ethenea Independent Investors S.A., Luxembourg	0	644,457	644,457	5.4%	9.7%

[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. There exist no shareholder agreements.

1.3 Cross-shareholdings

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

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

2. Capital structure

2.1 Share capital

The share capital of VP Bank amounts to CHF 66,154,167 and is divided into 6,004,167 fully paid-up registered shares with a par value of CHF 1.00 each, as well as 6,015,000 bearer shares with a par value of CHF 10 each (see Financial Report, page 145).

	Number	Balance as at 31.12.2015 Share capital in CHF
Registered shares	6,004,167	6,004,167
Bearer shares	6,015,000	60,150,000
Total	**12,019,167**	**66,154,167**

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

in CHF 1,000	31.12.2013	31.12.2014	31.12.2015
Share capital	59,148	59,148	66,154
Capital reserves	0	0	47,239
Legal reserves	239,800	239,800	239,800
Other reserves	344,089	344,446	344,481
Provisions for general banking risks	63,150	63,150	63,150
Retained earnings	55,893	55,958	77,330
Total	**762,080**	**762,501**	**838,154**

2.4 Shares and participation certificates

The bearer shares of VP Bank are freely tradable on SIX Swiss Exchange. The registered shares 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 (par value of CHF 1.00) and each bearer share (par value of CHF 10.00) grants the holder the right to one vote at the annual general meeting of VP Bank, irrespective of the par value of the share.

VP Bank has issued no participation certificates.

2.5 Profit-sharing certificates

VP Bank has issued no profit-sharing certificates.

2.6 Limitations on transferability and nominee registrations

The recording 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 allowed to exercise membership rights of the company. The Board of Directors may refuse entry into the share register for compelling reasons.

2.7 Convertible bonds and warrants/options

VP Bank has issued neither convertible bonds nor warrants/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 law provides for a clear separation of the overall management, supervision and control duties performed by the Board of Directors, and the duties performed by operational management. Accordingly, the Board of Directors of VP Bank consists exclusively of non-executive members (i.e. members not actively involved in management).

3.1 Members of the Board of Directors

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

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

The 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 [1,4,6]	2012	2018
Dr Guido Meier	1948	Vice Chairman [2]	1989	2016
Prof. Dr Teodoro D. Cocca	1972	Board Member [2]	2011	2017
Dr Beat Graf	1964	Board Member	2014	2017
Markus Thomas Hilti	1951	Board Member [2]	1992	2016
Dr Florian Marxer	1976	Board Member	2015	2018
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
[2] Member of the Nomination & Compensation Committee
[3] Chairman of the Audit Committee
[4] Member of the Audit Committee
[5] Chairman of the Risk Committee
[6] Member of the Risk Committee

Fredy Vogt (born 11 September 1958, citizen of Liechtenstein) has been Chairman of the Board of Directors since April 2012. He is also Chairman of the Nomination & Compensation Committee and a member of both the Audit & Risk Committees of VP Bank. Until March 2012, Fredy Vogt was Chief Financial Officer of VP Bank and member of Group Executive Management.

- **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 to 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 book-keeping 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).

From left to right: Dr Beat Graf, Markus Thomas Hilti, Dr Guido Meier, Fredy Vogt, Prof. Dr Teodoro D. Cocca, Dr Daniel H. Sigg, Michael Riesen, Dr Florian Marxer

Dr Guido Meier (born 8 January 1948, citizen of Liechtenstein) is Vice-Chairman of the Board of Directors and a member of the Nomination & Compensation Committee of VP Bank.

- **Education:** Admission to the bar (1979); Doctorate in law (Dr iur.) University of Basel (1977).
- **Professional background:** since 1977 Allgemeines Treuunternehmen (ATU), Vaduz; since 2015 Counsel; 2002–2015 Chairman of the Council of Trustees; 1980–2002 member of the Council of Trustees; since 2008 Partner of the Law Office Meier & Kieber, Vaduz; 2004–2008 partner of Chancellery Meier Attorneys-at-Law, Vaduz; 1979–2004 owner of the Law Office Meier, Vaduz.
- **Other activities and vested interests:** Chairman of the Liechtenstein Institute; Chairman of the Council of Trustees of Stiftung Fürstlicher Kommerzienrat Guido Feger, Vaduz (point 1.2.).

Prof. Dr Teodoro D. Cocca (born 25 July 1972, Swiss citizen) is a Member of the Nomination & Compensation Committee.

- **Education:** Doctorate in Economics 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 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)

- **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 Traineeship Corporate Client Advisor.
- **Other activities and vested interests:** none.

Markus Thomas Hilti (born 3 January 1951, citizen of Liechtenstein) is a member of the Nomination & Compensation Committee of VP Bank.

- **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 Florian Marxer (born 17 August 1976, citizen of Liechtenstein) is a member of the Board of Directors of VP Bank.

- **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 court trainee with the regional court ("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 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.

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 September 22, 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).

From amongst its members, the Board of Directors elects the Chairman and Vice-Chairman 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 Allocation of tasks within the Board of Directors

The Chairman – or, in his absence, the Vice-Chairman – conducts in the name of the Board of Directors the direct supervision and control of the Executive Board and Group Executive Management. In order to be able to fulfil its duties in an optimal manner, the Board of Directors is supported by three committees: the Nomination & Compensation Committee, the Audit Committee and the Risk Committee. As of 1 November 2015, the tasks of the Audit & Risk Management Committee were divided up into the Audit Committee and the Risk Committee.

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

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

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

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

Nomination & Compensation Committee

The Nomination & Compensation Committee comprises the following members: Fredy Vogt (Chairman), Dr Guido Meier, Markus Thomas Hilti and Prof. Dr Teodoro D. Cocca. 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 proposals to the Board of Directors;
- submitting proposals to the Board of Directors concerning the composition of the Nomination & Compensation Committee, the Audit & Risk Management Committee and the Audit and Risk Committees;
- preparing and submitting proposals 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 of the Executive Board;
- dealing with fundamental issues concerning personnel policy (e.g. salary and equity-participation systems, management development, succession planning, staff welfare benefits, etc.) for the attention of the Board of Directors;
- submitting proposals to the Board with regard to the compensation paid to the Chairman and other members of the Board of Directors.

Audit & Risk Management Committee (until 31 October 2015)

The Audit & Risk Management Committee comprised Michael Riesen (Chairman), Fredy Vogt and Dr Daniel Sigg. The Audit & Risk Management Committee assisted 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.

Audit Committee (as from 1 November 2015)

The Audit Committee comprises Michael Riesen (Chairman), Fredy Vogt 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:

- 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 (individual company and consolidated financial statements, statement of cash flows, interim financial statements, etc.) as well as discussion thereof with the CFO, the Head of Group Internal Audit and representatives of the Group's 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 and internal regulations;
- 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 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;
- advising the Board of Directors on the appointment and removal of external auditors;
- submitting proposals to the Board of Directors for the appointment and removal of the Head of Group Internal Audit.

Risk Committee (as from 1 November 2015)
Dr Daniel H. Sigg (Chairman), Fredy Vogt 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:

- receiving and dealing with the reports on group risk as well as assessing the 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 prescriptions (compliance);
- 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;
- assessing 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.

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 this part.

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 2015, the Board of Directors held eight ordinary meetings and one extraordinary meeting. In addition, the Board of Directors and Executive Board jointly conducted a full-day strategy workshop. With one exception, all Board meetings were held with a full complement of members.

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 2015, the Nomination & Compensation Committee met on a total of seven occasions. At three meetings of the Nomination & Compensation Committee, one member did not participate.

The Audit & Risk Management Committee (as from 1 November 2015 split into Audit Committee and Risk Committee) usually holds five to eight meetings per year, with the meeting dates being

Turbulent weather

Unfavourable conditions hinder progress.

VP Bank between 1970 and 1979

1970

VP Bank

In a further first for Liechtenstein, VP Bank puts an ATM into operation in 1970 and introduces the night safe.

1971

VP Bank

As the first Liechtenstein bank to do so, VP Bank joins the Swiss bank clearing system. Clients and the Bank immediately benefit from quicker payment processing.

1972

Financial centre

The Swiss Federal Council approves measures aimed at preventing the inflow of foreign money and once again declares Liechtenstein a foreign country in terms of currency. The Liechtenstein government decides to coordinate its own currency policy with that of Switzerland and is once again accepted back into the fold.

1973

VP Bank

Together with Allgemeines Treuunternehmen (ATU), VP Bank purchases an IT system and on 1 April 1975 introduces electronic data processing.

1974

VP Bank

Within the framework of a capital increase the "Stiftung Fürstl. Kommerzienrat Guido Feger" foundation only exercises half of its subscription rights in support of new shareholders. As the first bank in Liechtenstein to do so, VP Bank opens itself up and gives up shares to the public and its employees.

1975

VP Bank

VP Bank receives a full license for the processing of all banking transactions. From this time on, the Bank also offers savings accounts, accounts for young persons, retirement savings accounts and mortgages.

1976

VP Bank

The founder of VP Bank, Princely Councillor of Commerce Guido Feger, dies on 1 September at the age of 83. His nephew, Dr Wolfgang Feger, becomes the new Chairman.

1977

Financial centre

The Chiasso scandal becomes a watershed in the history of Switzerland as a financial centre and its banking secrecy.
In response to the scandal, the Swiss banks conclude a Due Diligence Agreement. A similar agreement is signed by the Liechtenstein banks.

1978

VP Bank

VP Bank participates in the first Liechtenstein Industry, Commerce and Trade Exhibition (LIHGA) with the slogan "VPB – the Bank for everyone. Your Bank for everything".

Financial centre

The European Monetary System (EMS) is established.

1979

VP Bank

In the form of Martin Hilti Familientreuhänderschaft (today known as U.M.M. Hilti-Stiftung) a second anchor shareholder is thus added.

The counter hall at the Bank's premises in Städtle, Vaduz, undergoes a lavish refurbishment.

Financial centre

In response to the Chiasso scandal, the Social Democratic Party of Switzerland (SP) and the Swiss Federation of Trade Unions launch an initiative "against the abuse of banking secrecy and the power of the banks". The initiative is clearly rejected in May 1984.

1970–1979


JA

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 meeting, 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 & Risk Management Committee met for five ordinary meetings and one extraordinary meeting, and the Audit and Risk Committees each met for five ordinary meetings and one joint extraordinary meeting. The meetings of the Audit & Risk Management Committee and of its successor committees were held with a full complement of members.

Name	Board of Directors	Nomination & Compensation Committee	Audit & Risk Management Committee	Audit Committee	Risk Committee
Number of meetings	**10**	**7**	**6**	**3**	**3**
Fredy Vogt	10	7	6	3	3
Dr Guido Meier	10	6			
Prof. Dr Teodoro D. Cocca	10	6			
Dr Beat Graf	10				
Markus Thomas Hilti	10	6			
Dr Florian Marxer[1]	6				
Michael Riesen	10		6	3	3
Dr Daniel H. Sigg	10		6	3	3

[1] Member of the Board of Directors from 24 April 2015

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 Division of powers and authorities

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

The powers and duties of the Board of Directors are laid down in detail in Art. 17 of the Articles of Incorporation as well as in Section 2.2–2.4 OBR. The tasks and competencies of the two 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 18).

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

The Board of Directors and its committees have at their disposal various 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 internal 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 gain a picture of significant developments and the risk situation. Those reports that lie within the scope of tasks of the Audit or Risk Committees are dealt with by the respective 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 twice a year the implementation of business strategies and strategy controlling.

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 2015, 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	Chief Financial Officer Member of Group Executive Management	2010	2012
Christoph Mauchle	1961	Head of Client Business Member of Group Executive Management	2013	2013

Alfred W. Moeckli (born 2 July 1960, Swiss citizen) is Chief Executive Officer (CEO) of VP Bank Group (segment reporting, pages 124 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:** Deputy Chairman of the Board of the Liechtenstein Bankers Association.

Siegbert Näscher (born 25 December 1965, Liechtenstein citizen) is Chief Financial Officer (CFO) of VP Bank Group und Deputy Chief Executive Officer (segment reporting, page 124 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 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.

Christoph Mauchle (born 5 May 1961, Swiss citizen) is a member of Group Executive Management and Head of Client Business of VP Bank Group (segment reporting, pages 124 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 Region Zurich; 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 Zürich; 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 method of determining 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 83 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 163 f.).

6. Shareholders' participation rights

6.1 Voting right restrictions and proxies

Each registered share and bearer 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 bearer shares to registered shares (Articles of Incorporation, Art. 4 par. 2) as well as to the provisions governing the restriction on registration of registered shares (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 the annual general meeting of shareholders

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

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 into 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. The relevant deadline for registration and entitlement to participate (as per the Articles of Incorporation, Art. 11 par. 1) is 21 days prior to the date of the annual general meeting.

Registered shareholders who have been entered into the share register by that deadline, as well as bearer shareholders whose shares are held in the custody of VP Bank, receive an invitation to the annual general meeting, including the related agenda, sent to the address known to VP Bank. Upon returning their reply card, 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. Changes 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 the 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 context 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 fees

In 2015, Ernst & Young Ltd, Berne, charged VP Bank Group fees in the amount of CHF 1.83 million (previous year: CHF 1.49 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 0.16 million (previous year: CHF 0.34 million).

8.4 Informational 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 2015, 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 Directors 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: 29 April 2016
2016 semi-annual report: 30 August 2016

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.

Contact

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Compensation report

Regulatory framework

The basis of this compensation report of VP Bank is the implementation of the EU Ordinance 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 (BankG) 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-BankV) has been supplemented accordingly. This Ordinance entered into force 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 long-term interests of shareholders, employees and clients alike.

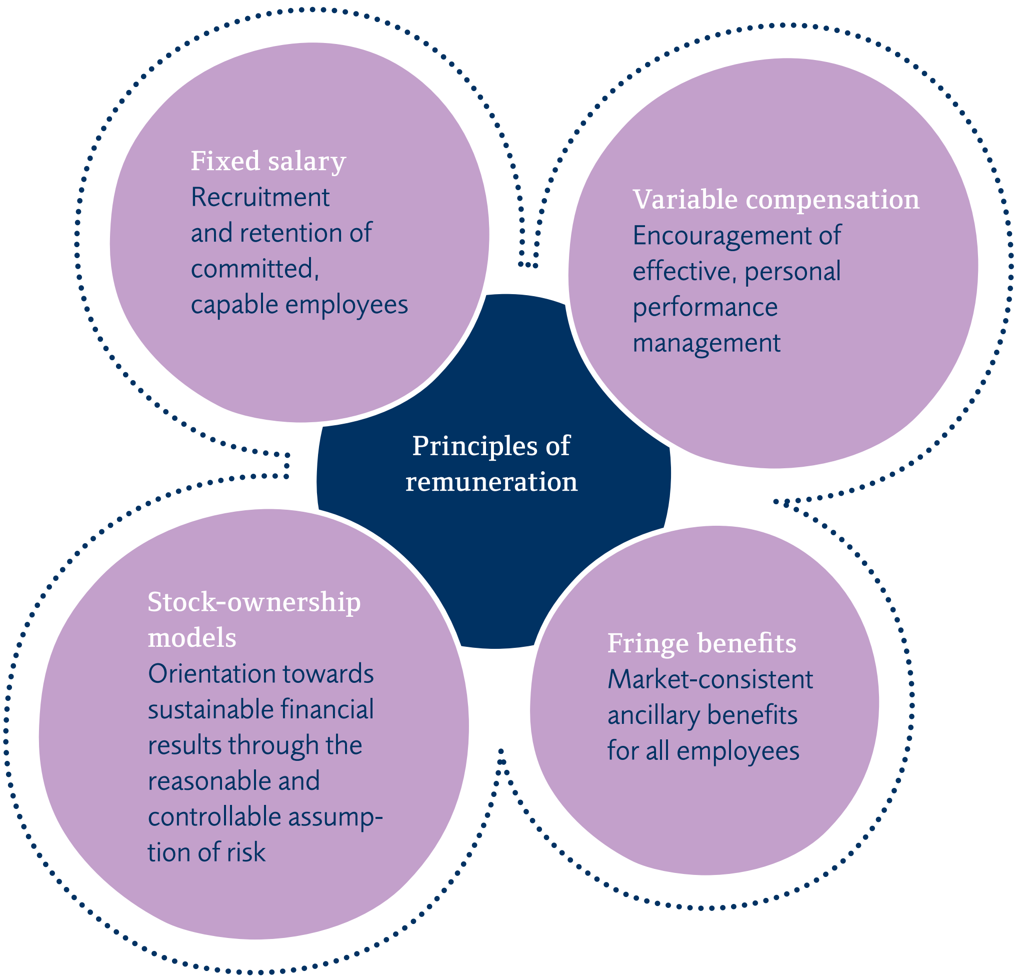
The long-standing remuneration practices of VP Bank correspond to the business model of VP Bank as asset manager and private bank. The principles applied are laid down in the Remuneration Policy.

- Performance orientation and differentiation: VP Bank remunerates employees according to their performance.
- Gender- and age-neutral remuneration and equal treatment: the function determines the level of fixed annual salary.
- Fair and market-oriented pay: VP Bank is guided by market conditions and regularly reviews these.
- Focus of decision-makers on a stable, success-oriented and forward-looking management and the avoidance of excessive risk-taking: VP Bank rewards sustainable positive actions and does not maximise revenues on a short-term basis.

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).



Fixed salary

The level of the fixed salary component as a base salary varies in principle according to the function performed and the related requirements. The local labour market is also taken into account. The fixed salary is a contractually agreed salary component which is paid out regularly in cash.

Variable, performance- and profit-related salary

Variable remuneration can, but need not, be granted. Even after repeated payouts, no entitlement to a variable salary arises in the subsequent year.

On the one hand, variable compensation is dependent on the success of the Bank or individual companies, on the other hand, on individual performance. The latter is evaluated by the employee's supervisor at the end of a year on the basis of the agreed-upon tasks and goals. Taken into consideration is also the extent to which all relevant provisions of the legislator, the Bank and of the individual client are observed. The level of profit participation has to be in reasonable relationship to the fixed portion of income and varies according to function and market practices.

Payment is made in principle in cash in the first quarter of the following year and, as a general rule, in the full amount. In the case of particularly high variable salary portions, VP Bank may spread a part of the payment thereof over several years and/or settle a part in the form of VP Bank shares or vested entitlements thereto.

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 bearer shares of VP Bank Ltd.

The Restricted Share Plan (RSP) is settled in equal annual instalments in the form of equity shares over the three-year plan period. The RSP programme may be also implemented in justified cases in order to remunerate a deferred variable salary portion or to implement particular retention measures.

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 74) 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 bearer shares, 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 the 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 bearer shares of VP Bank Ltd). The basis thereof are the risk-adjusted profit (operating annual result adjusted for non-recurring items, less capital costs), weighted over three years as well as the long-term commitment of management to a variable compensation component in the form of equity shares. At the end of the plan period and depending upon performance, 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 approximately 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 approximately 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 approximately one quarter of the total variable performance-related remuneration.

The Board of Directors lays down each year 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. Within the 2015 to 2017 programme, the calculation basis for the target bonus (PSP, RSP and cash compensation) will lie between 56 and 100 per cent of the fixed annual salary if the annual and three-year targets have been achieved.

In 2015, 8,409 performance shares with a market value on the date of allocation of CHF 678,606.30 were transferred to management as part of the 2012–2014 management equity participation plan and the RSP 2014–2016. The vested benefits from previous management equity participation plans (2013–2015, 2014–2016 as well as 2015–2017) 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 Treasury & Execution", "Group Information Technology" as well as "Group Human Resources Management". Details of the remuneration of the Executive Board members are set out on page 85.

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 (BankV) 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 to 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 to 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 is 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 176).

Disclosures regarding personnel expenses are set out in the 2015 Financial Report of VP Bank Group under "6 Personnel Expenses" (page 133).

Aggregate compensation paid to all risk takers in 2015 amounted to:

	CHF	Share of total compensation
Fixed basis salary	3,650,045.00	56.2%
Short-Term Incentive (STI, cash) for performance year 2014	557,750.00	8.6%
Restricted Share Plan (RSP) entitlement for performance year 2014	557,750.00	8.6%
Performance Share Plan (PSP) entitlement corresponding to performance 2015 through 2017	1,115,500.00	17.2%
Management pension fund employer contributions	612,430.80	9.4%
Total compensation	**6,493,475.80**	**100.0%**
Vesting 2015, share value PSP 2012–2014/RSP 2014–2016	1,427,018.10	

Financial report 2015 of VP Bank Group

Consolidated annual report of VP Bank Group

Consolidated results

The consolidated financial statements for 2015 of VP Bank Group, prepared in accordance with International Financial Reporting Standards (IFRS), disclose Group net income of CHF 64.1 million. In the prior year, a Group net income of CHF 20.0 million was realised.

The annual results reflect the impact of the merger of VP Bank with Centrum Bank and the associated increase in revenues and expenses. The result is also impacted to a significant degree by the abandonment of the minimum exchange-rate policy of the Swiss franc to the euro as well as the shift in the three monthly Libor target range by the Swiss National Bank (SNB) on 15 January 2015.

Even if the appreciation of the Swiss franc has weakened during the course of the year, it caused a decline in the value of client-related positions denominated in foreign currencies once translated into Swiss francs, the currency in which the balance sheet is expressed. Client assets form the basis for the major share of the revenues of VP Bank Group.

Following the successful consummation of the acquisition in 2014 of the private-banking activities of HSBC Trinkaus & Burkhardt (International) SA and the investment-fund business of HSBC Trinkaus Investment Managers SA in Luxembourg relating to private banking, VP Bank Group continued to pursue its growth strategy with the merger with Centrum Bank in 2015. The merger with Centrum Bank could be successfully completed with the transfer of client data to VP Bank's IT platform by the beginning of 2016.

Having regard to the annual results and the balanced long-term dividend policy, the Board of Directors will propose a dividend of CHF 4.00 per bearer share and CHF 0.40 per registered share to the annual general meeting to be held on 29 April 2016.

Client assets under management

As of the end of 2015, client assets under management of VP Bank Group totalled CHF 34.8 billion. Compared with the prior year's comparative of CHF 30.9 billion, this represents an increase of 12.4 per cent.

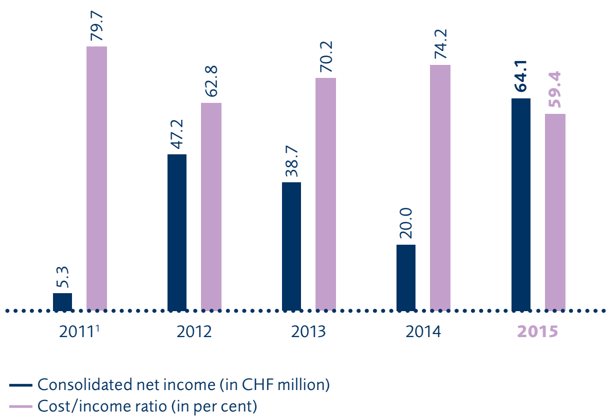
In 2015, VP Bank Group recorded a net inflow of new client assets of CHF 6.0 billion (prior year: net outflow of CHF 0.9 billion). Of this amount, CHF 6.3 billion relates to the merger with Centrum Bank (CHF 6.7 billion upon acquisition less CHF 0.4 billion of outflows anticipated in the wake of the merger). Net outflows of CHF 0.3 billion were recorded in the operating business. These outflows should be viewed against the backdrop of the regulatory environment and taxation-related issues. On the other hand, welcome inflows of new client assets could be achieved thanks to intensive market-development activities, particularly in Asian markets.

The performance-related decrease in client assets in 2015 amounted to CHF 2.2 billion (prior year: increase of CHF 1.4 billion) resulting from the devaluation of foreign-currency-denominated client assets under management provoked by the discontinuation of the minimum euro exchange-rate policy to the Swiss franc.

Custody assets grew by 7.6 per cent to CHF 8.2 billion (prior year: CHF 7.6 billion).

As of 31 December 2015, client assets including custody assets totalled CHF 43.0 billion (prior year: CHF 38.6 billion).

Consolidated net income combined with cost/income ratio



[1] adjusted (IAS 19R)

Income statement

Total operating income

Year-on-year, total operating income grew by 37.7 per cent from CHF 222.7 million to CHF 306.6 million. This increase of CHF 83.9 million is primarily related to the merger of VP Bank with Centrum Bank. Ignoring the effects of the "purchase price allocation", total operating income amounted to CHF 256.6 million.

Interest income rose by 28.9 per cent from CHF 65.6 million to CHF 84.5 million. Net interest income from client-related activities grew as a result of changes in current market conditions. Interest income from financial instruments valued at amortised cost rose by CHF 2.5 million, principally as a result of a higher level of balance-sheet positions. Interest income includes also changes in the value of interest-rate hedging transactions. As a result of the introduction in 2015 of hedge accounting, revaluation losses of CHF 2.8 million could be offset and reduced to CHF 4.2 million (prior year: revaluation losses of CHF 16.0 million).

Income from commissions and services in 2015 again rose by 6.7 per cent to CHF 126.4 million (prior year: CHF 118.4 million). The abandonment of the minimum exchange-rate policy against the euro left its mark on net commission income. As a result of the merger with Centrum Bank, welcome sustainable increases could be achieved in portfolio-based revenues, such as asset management and investment business as well as securities account fees (increase of CHF 12.1 million). Year-on-year, the level of client activities in the securities business declined thus resulting in lower brokerage income. The decline in investment-fund management fees by CHF 4.3 million to CHF 58.5 million, or 6.9 per cent, is linked to foreign-currency-related declines in volumes which spurred also a decline in commission and service-related expense of CHF 1.7 million to CHF 53.9 million.

Income from trading activities in 2015 could be increased from CHF 25.4 million to CHF 46.1 million, or by 81.6 per cent. This increase is to be ascribed to higher volumes of foreign-exchange transactions in the wake of the abandonment of the minimum euro exchange-rate mechanism. A loss of CHF 0.7 million resulted from financial investments (prior year: gain of CHF 12.5 million). Interest and dividend income could be increased by 43.7 per cent to CHF 9.7 million (prior year: CHF 6.7 million) as a result of higher investment volumes. This increase in revenues, however, was unable to offset the revaluation losses resulting from movements in foreign-exchange rates and price reductions.

The gain on the acquisition of Centrum Bank ("bargain purchase") aggregating CHF 50.0 million resulting from the "purchase price allocation" was recorded in other income.

Operating expenses

Year-on-year, operating expenses increased by CHF 16.8 million from CHF 165.3 million to CHF 182.1 million (increase of 10.2 per cent). This increase is in keeping with the strategic orientation of VP Bank Group and the merger with Centrum Bank.

The growth in personnel expense is a result of the higher headcount in the wake of the merger with Centrum Bank. At the end of 2015, VP Bank Group had 734 employees, expressed as full-time equivalents (prior year: 695). As a result of the change in the conversion factor for the pension fund, personnel expense was credited with a non-recurring amount of CHF 8.5 million. Year-on-year, personnel expense rose by CHF 3.4 million, or 2.9 per cent, to CHF 121.9 million.

General and administrative expenses increased by 28.8 per cent from CHF 46.8 million to CHF 60.2 million in 2015. This increase is a result of the merger with Centrum Bank 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 future associated costs reduced. The merger with Centrum Bank could be successfully completed with the transfer of client data to VP Bank's IT platform by the beginning of 2016.

Depreciation and amortisation, valuation allowances, provision and losses

Depreciation and amortisation amounted to CHF 38.3 million or some CHF 8.9 million or 30.3 per cent more than the prior year. This increase is primarily due to the amortisation of intangible assets arising on the merger with Centrum Bank.

The charges for valuation allowances, provisions and losses aggregated CHF 26.0 million (prior year: CHF 7.4 million). During the financial year, valuation allowances, provisions and losses for credit risks amounted to CHF 23.2 million (prior year: CHF 12.1 million). The increase of CHF 11.1 million relates to individual valuation allowances on client credits. At the same time, releases of no longer required valuation allowances and provisions in 2015 increased by 4.8 million from CHF 8.1 million to CHF 12.9 million.

The annual results of 2015 were charged with an amount of CHF 15.3 million for restructuring provisions in connection with Centrum Bank and the operational integration of activities conducted in Luxembourg.

Taxes on income

During 2015, effective taxes on income in an amount of CHF 1.4 million were paid. A minus charge of CHF 3.9 million resulted from the decline in deferred taxation as well as tax-exempt income as a result of the merger with Centrum Bank.

Group net income

Group net income in 2015 amounts to CHF 64.1 million (prior year: CHF 20.0 million). The Group net income per bearer share increased from CHF 3.45 to CHF 10.17 in the 2015 reporting period.

Total comprehensive income

Total comprehensive income encompasses all revenues and expenses recorded in the income statement and under equity. Principally actuarial adjustments relating to pension funds are recorded directly in equity. VP Bank Group achieved a total comprehensive income of CHF 51.9 million as opposed to CHF 0.5 million in the prior year.

Balance sheet

Year on year, total assets grew by CHF 1.2 billion to CHF 12.4 billion. This increase of 10.3 per cent mainly relates to the balance-sheet assets acquired from Centrum Bank. Client liabilities rose similarly to CHF 10.8 billion. On the assets' side, cash and cash equivalents again increased markedly to CHF 3.0 billion (31.12.2014: CHF 1.9 billion), which reflects a very comfortable liquidity basis of VP Bank. The increase in cash and cash equivalents occurred at the expense of amounts due from banks which declined by CHF 1.2 billion to CHF 2.1 billion. At the same time, financial instruments measured at amortised cost rose by CHF 0.6 billion from CHF 1.1 billion in the prior year to CHF 1.7 billion (plus 55.1 per cent).

Client loans in the caption "due from customers" increased by CHF 0.7 billion to CHF 5.0 billion. This increase is primarily due to the client receivables acquired from Centrum Bank. VP Bank continues unchanged its conservative credit-granting policies focusing on qualitative growth in customer loans as well as a high level of discipline in credit-granting activities. Three fifths of the increase related to mortgage loans and two fifths to credits secured by other types of collateral. Mortgage loans recorded an increase of 14.0 per cent to CHF 3.4 billion.

Consolidated shareholders' equity of VP Bank Ltd at the end of 2015 totalled CHF 918.1 million (end of 2014: CHF 868.5 million). This equates to an increase of CHF 49.7 million. Marxer Stiftung für Bank- und Unternehmenswerte participated in the share-capital increase approved at the extraordinary general meeting of 10 April 2015, thus becoming a further anchor shareholder of VP Bank. On the occasion of the annual general meeting of shareholders held on 24 April 2015, the shareholders authorised the Board of Directors to acquire a maximum of 10 per cent of the share capital. VP Bank made use of this authorisation and as of 31 December 2015, holds treasury shares amounting to 9.2 per cent of the share capital.

The tier 1 ratio computed using the new Basel III rules as at 31 December 2015 amounted to 24.4 per cent (31 December 2014, computed using the Basel II rules: 20.5 per cent).

Outlook

2016 has commenced turbulently on financial markets and we assume that 2016 will continue to be a challenging year. 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 for VP Bank Group in order 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	2015	2014	Variance absolute	Variance in %
Interest income		95,530	80,930	14,600	18.0
Interest expense		11,043	15,379	–4,336	–28.2
Total interest income	1	84,487	**65,551**	**18,936**	**28.9**
Commission income		180,281	174,065	6,216	3.6
Commission expense		53,911	55,647	–1,736	–3.1
Total income from commission business and services	2	126,370	**118,418**	**7,952**	**6.7**
Income from trading activities	3	46,062	25,363	20,699	81.6
Income from financial instruments	4	–742	12,493	–13,235	–105.9
Other income	5	50,377	832	49,545	n.a.
Total net operating income		306,554	**222,657**	**83,897**	**37.7**
Personnel expenses	6	121,880	118,499	3,381	2.9
General and administrative expenses	7	60,235	46,772	13,463	28.8
Operating expenses		182,115	**165,271**	**16,844**	**10.2**
Gross income		124,439	**57,386**	**67,053**	**116.8**
Depreciation and amortisation	8	38,253	29,348	8,905	30.3
Valuation allowances, provisions and losses	9	26,028	7,416	18,612	251.0
Earnings before income tax		60,158	**20,622**	**39,536**	**191.7**
Taxes on income	10a	–3,898	597	–4,495	n.a.
Group net income		64,056	**20,025**	**44,031**	**219.9**

Undiluted consolidated earnings per share of VP Bank Ltd, Vaduz		
Undiluted group net income per bearer share	10.17	3.45
Undiluted group net income per registered share	1.02	0.34
Fully diluted consolidated earnings per share of VP Bank Ltd, Vaduz		
Diluted group net income per bearer share	10.17	3.45
Diluted group net income per registered share	1.02	0.34

The road to success

Strong markets enable impressive progress and sustained growth.

VP Bank between 1980 and 2000

1980
The new VP Bank head office at Aeulestrasse 6, Vaduz, is built in the years preceding 1984.

1982
The share of total assets accounted for by equity increases to 10.3 per cent. This figure is significantly higher than the average for Swiss banks.

1983
On 7 March, VP Bank launches its own shares on the Zurich Exchange's side market. In the form of the VP Bank shares, a Liechtenstein equity security is traded on an exchange for the first time.

1984
The spatial conditions for the 150 employees, which had been very cramped until this time, are improved significantly upon occupancy being taken of the prestigious new Bank building at Aeulestrasse 6, Vaduz.

The International Advisory Board is created as a consultative body, which goes on to advise VP Bank until 2010.

1987
From 18 March, the VP Bank securities are traded on the main stock exchanges in Zurich, Basel, Geneva and St. Gallen. The participation capital is increased to CHF 30 million and participation certificates commence trading on the exchanges in Frankfurt a. M. and Munich.

1988
VP Bank strengthens its international activities. It establishes VP Bank (Luxembourg) SA, which receives a full license in 1989. In Zurich, the Bank sets up VPB Finance Ltd.

1990
On 20 April, the annual general meeting elects Princely Councillor of Commerce Dr Heinz Batliner as the first full-time Chairman of the VP Bank Board of Directors.

1991
To alleviate the need for space, VP Bank expands the main building in Vaduz between 1991 and 1994 with the new modernly designed "Giessen" building, where a trading centre is developed.

1995
Together with Allgemeines Treuunternehmen (ATU), VP Bank sets up VP Bank and Trust Company (BVI) Ltd as a joint venture on the British Virgin Islands. Its subsidiary, VP Bank (BVI) Ltd, receives its banking license on 29 September.

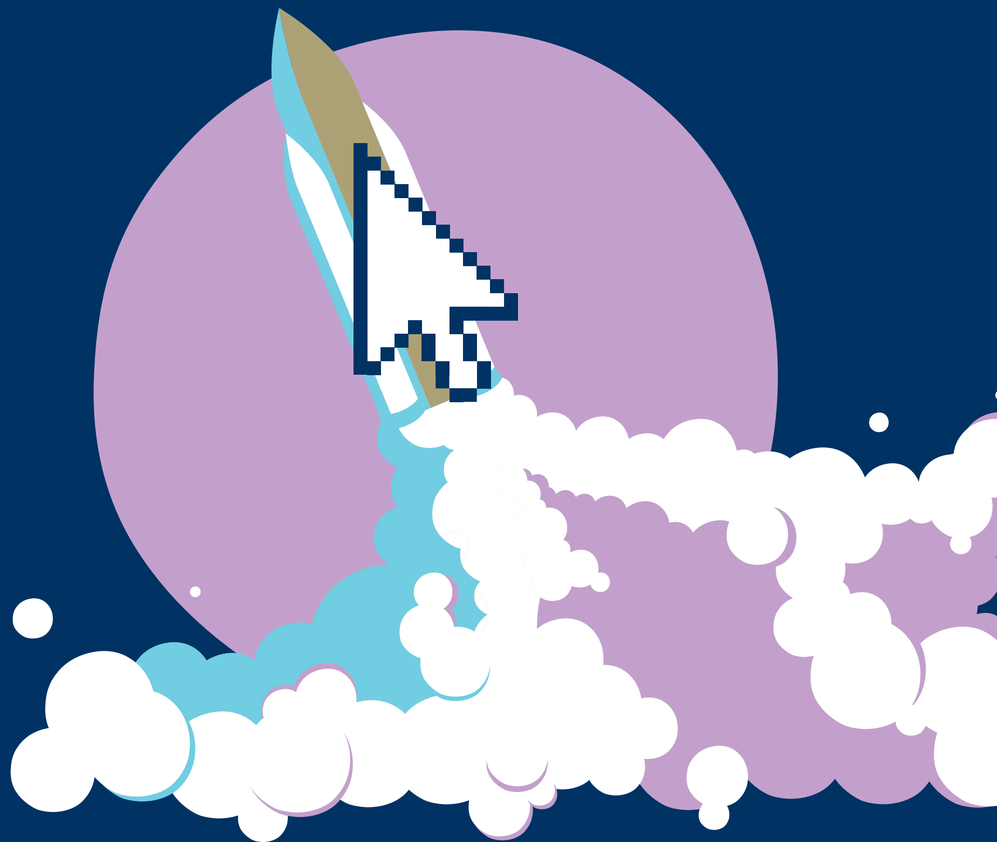
1996
Between 1996 and 1998, VP Bank's top management undergoes a generation change. At the annual general meeting of 19 April, Princely Counsel Hans Brunhart, the long-time Liechtenstein head of government, takes over as Chairman of the Board of Directors from Heinz Batliner, who is appointed Honorary Chairman. The Executive Board is supplemented by the corporate planning area headed up by Fredy Vogt. In 1998, Dr Rolf Kormann hands over the position as Chairman of the Executive Board to Adolf E. Real.

1999
With "VP Link", professional clients are given the opportunity to process their transactions electronically. This option is also provided to private clients from December 2000 with "more4u". Both products are replaced by the "VP Bank e-banking" platform in 2004.

IFOS Internationale Fonds Service Aktiengesellschaft, Vaduz, (today VP Fund Solutions (Liechtenstein) AG), is founded.

2000
In the 2000 financial year, VP Bank generates the best result since its foundation with a Group net income of CHF 197 million.

1980–2000



Consolidated statement of comprehensive income

in CHF 1,000	2015	2014	Variance absolute	Variance in %
Net income	64,056	20,025	44,031	219.9
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	538	7,458	−6,920	−92.8
• Foreign-currency translation difference transferred to the income statement from shareholders' equity	0	0	0	0.0
Total other comprehensive income which will be transferred to the income statement upon realisation	**538**	**7,458**	**−6,920**	**−92.8**
Other comprehensive income which will not be transferred subsequent to the income statement				
• Changes in value of FVTOCI financial instruments	−1,026	−752	−274	n.a.
• Actuarial gains/losses from defined-benefit pension plans	−11,644	−26,188	14,544	n.a.
Total other comprehensive income which will not be transferred subsequent to the income statement	**−12,670**	**−26,940**	**14,270**	**n.a.**
Total comprehensive income in shareholders' equity	**−12,132**	**−19,482**	**7,350**	**n.a.**
Total comprehensive income in income statement and shareholders' equity	**51,924**	**543**	**51,381**	**n.a.**
Attributable to shareholders of VP Bank Ltd, Vaduz	51,924	543	51,381	n.a.

Consolidated balance sheet

Assets

in CHF 1,000	Note	31.12.2015	31.12.2014	Variance absolute	Variance in %
Cash and cash equivalents	13	2,955,527	1,926,968	1,028,559	53.4
Receivables arising from money-market papers	14	14,652	22,027	–7,375	–33.5
Due from banks	15/16	2,060,270	3,282,226	–1,221,956	–37.2
Due from customers	15/16	5,007,009	4,263,943	743,066	17.4
Trading portfolios	17	154	189	–35	–18.5
Derivative financial instruments	18	36,883	56,126	–19,243	–34.3
Financial instruments at fair value	19	396,877	371,241	25,636	6.9
Financial instruments measured at amortised cost	20	1,665,607	1,074,109	591,498	55.1
Associated companies	21	56	65	–9	–13.8
Property and equipment	22	89,611	112,617	–23,006	–20.4
Goodwill and other intangible assets	23	57,968	38,407	19,561	50.9
Tax receivables	10c	1,760	569	1,191	209.3
Deferred tax assets	10b	23,878	16,236	7,642	47.1
Accrued receivables and prepaid expenses		25,081	24,597	484	2.0
Assets held for sale	24	15,000	0	15,000	100.0
Other assets	25	11,083	15,337	–4,254	–27.7
Total assets		**12,361,416**	**11,204,657**	**1,156,759**	**10.3**

Liabilities and shareholders' equity

in CHF 1,000	Note	31.12.2015	31.12.2014	Variance absolute	Variance in %
Due to banks		100,156	304,054	–203,898	–67.1
Due to customers – savings and deposits		757,294	859,101	–101,807	–11.9
Due to customers – other liabilities		9,789,069	8,586,926	1,202,143	14.0
Derivative financial instruments	18	53,235	45,917	7,318	15.9
Medium-term notes	26	215,486	193,309	22,177	11.5
Debentures issued	27	349,961	199,370	150,591	75.5
Tax liabilities	10c	2,641	2,467	174	7.1
Deferred tax liabilities	10b	14,153	8,755	5,398	61.7
Accrued liabilities and deferred items		30,059	22,994	7,065	30.7
Other liabilities	28	116,845	104,177	12,668	12.2
Provisions	29	14,393	9,130	5,263	57.6
Total liabilities		**11,443,292**	**10,336,200**	**1,107,092**	**10.7**
Share capital	30	66,154	59,148	7,006	11.8
Less: treasury shares	31	–50,499	–21,017	–29,482	140.3
Capital reserves		22,857	–17,173	40,030	n.a.
Income reserves		907,841	875,240	32,601	3.7
Unrealised gains/losses on FVTOCI financial instruments		–10,819	–9,793	–1,026	10.5
Foreign-currency translation differences		–17,410	–17,948	538	–3.0
Total shareholders' equity		**918,124**	**868,457**	**49,667**	**5.7**
Total liabilities and shareholders' equity		**12,361,416**	**11,204,657**	**1,156,759**	**10.3**

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 share-holders' equity
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
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[1]	7,006	13,990	43,304					64,300
Public tender own shares		–50,853						–50,853
Movement in treasury shares[2]		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**

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 share-holders' equity
Total shareholders' equity 01.01.2014	**59,148**	**–25,903**	**–11,803**	**933,176**	**–9,041**	**–31,428**	**–25,406**	**888,743**
Other comprehensive income, after income tax								
Foreign-currency translation differences							7,458	7,458
Changes in value transferred to profit reserves								0
Changes in value of FVTOCI financial instruments					–752			–752
Actuarial gains/losses from defined-benefit pension plans						–26,188		–26,188
Net income				20,025				20,025
Total reported result 31.12.2014	**0**	**0**	**0**	**20,025**	**–752**	**–26,188**	**7,458**	**543**
Dividends 2013				–20,345				–20,345
Management equity participation plan (LTI)			–1,274					–1,274
Movement in treasury shares[2]		4,886	–4,096					790
Total shareholders' equity 31.12.2014	**59,148**	**–21,017**	**–17,173**	**932,856**	**–9,793**	**–57,616**	**–17,948**	**868,457**

1 Details on transactions can be found in note 45.
2 Details on transactions with treasury shares can be found in note 31.

Consolidated statement of cash flow

in CHF 1,000	Note	2015	2014
Cash flow from operating activities			
Group net income		64,056	20,025
Reconciliation to cash flow from operating activities			
Non-cash-related positions in Group results			
• Depreciation and amortisation	22, 23	38,253	29,348
• Creation of retirement pension provisions	41	10,649	29,300
• Creation/dissolution of other provisions	28	15,765	1,630
• Non-cash-related income from capitalisation of assets	22	–34,045	0
• Unrealised gains on assets held for trading	3	73	0
• Unrealised gains on financial instruments measured at fair value	4	–5,780	–2,530
• Unrealised gains on financial instruments measured at amortised cost	4	3,123	3,205
• Deferred income taxes	10b	–5,127	–2,061
Net increase/reduction in banking			
• Amounts due from/to banks		1,349,694	1,035,219
• Trading portfolios incl. replacement values, net		23,061	–22,291
• Amounts due from/to clients		–683,536	–366,449
• Accrued receivables and other assets		–8,157	–73,119
• Accruals and other liabilities		–788	–5,190
Income taxes paid	10a	–1,403	–703
Foreign-currency impact on intragroup payments		–4,675	14,415
Net cash flow from operating activities		**761,163**	**660,799**
Cash flow from investment activities			
Purchase of financial instruments measured at fair value	17, 19	–28,948	–145,740
Proceeds from sale of/maturing financial instruments measured at fair value	4	179,624	69,927
Purchase of financial instruments measurement at amortised cost	20	–759,053	–351,622
Proceeds from sale of/maturing financial instruments measured at amortised cost	4	209,555	138,189
Acquisition of property and equipment and intangible assets	22, 23	–10,555	–9,564
Sale of property and equipment and intangible assets	22, 23	0	11
Acquisition of subsidiary companies	46	348,387	–13,436
Disposal of subsidiary companies	45, 46	0	50
Net cash flow from investment activities		**–60,990**	**–312,185**
Cash flow from financing activities			
Purchase of treasury shares	31	–51,093	–7,787
Proceeds from sale of treasury shares		4,390	3,842
Dividend distributions	12	–19,811	–20,345
Redemption/issuance of medium-term bonds	25	13,733	–50,413
Issuance/redemption of debentures	26	151,000	0
Net cash flow from financing activities		**98,219**	**–74,703**
Foreign-currency translation impact (incl. minority interests)		2,982	9,981
Net increase in cash and cash equivalents		**801,374**	**283,892**
Cash and cash equivalents at the beginning of the financial year	36	2,614,467	2,330,575
Cash and cash equivalents at the end of the financial year	36	3,415,841	2,614,467
Net increase in cash and cash equivalents		**801,374**	**283,892**

in CHF 1,000		2015	2014
Cash and cash equivalents are represented by			
Cash	36	2,955,527	1,926,968
Receivables arising from money-market papers	36	14,652	22,027
Due from banks – at-sight balances	36	445,662	665,472
Total		**3,415,841**	**2,614,467**
Consolidated statement of cash flow (summarised)			
Cash and cash equivalents at beginning of accounting period		2,614,467	2,330,575
Cash flow from operating activities, net of taxes		761,163	660,799
Cash flow from investing activities		–60,990	–312,185
Cash flow from financing activities		98,219	–74,703
Foreign-currency translation impact		2,982	9,981
Cash and cash equivalents at end of accounting period		**3,415,841**	**2,614,467**
Cash flow from operating activities from interest and dividends			
Interest paid		–11,375	–15,880
Interest received		104,386	96,315
Dividends received		3,993	2,419

At-sight balances due from banks bear interest at daily rates or are invested in interest-bearing short-term money-market deposits for between one day and three months, depending upon the liquidity requirements of VP Bank Group. Interest rates are based upon equivalent market rates. Short-term money-market deposits have an original maturity of a maximum of three months. The fair value of cash and cash equivalents amounts to CHF 3,415.8 million (2014: CHF 2,614.5 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, Liechtenstein, 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 2015, VP Bank Group had 734.4 full-time-equivalent employees (previous year: 694.9).

VP Bank Group's core activities comprise asset management and portfolio advisory services for private and institutional investors as well as lending.

Amounts disclosed in the financial statements are expressed in thousands of Swiss francs. The 2015 financial statements were drawn up in accordance with International Financial Reporting Standards (IFRS). IFRS contain guidelines which require assumptions and estimates to be made by VP Bank Group in preparing the consolidated financial statements. The significant accounting policies are described in this section in order to show how their application impacts the VP Bank Group's reported results and disclosures.

Events after the reporting period

There were no events after the reporting period that materially affected the balance sheet and income statement for 2015.

The Board of Directors reviewed and approved the consolidated financial statements in its meeting of 18 February 2016 and released it for publication. These consolidated financial statements will be submitted for approval to the Annual General Meeting of Shareholders on 29 April 2016.

2. Assumptions and uncertainties in estimates

IFRS contain guidelines which require the VP Bank Group's management to make certain assumptions and estimates in preparing the consolidated financial statements. The assumptions and estimates are continually reviewed and are based upon historical experience and other factors, including anticipated developments arising from probable future events. Actual future occurrences may differ from these estimates.

Value-impaired loans

A credit review is undertaken at least once a year for all value-impaired loans. 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 allowance amount is measured essentially by reference to the difference between the carrying amount and the probable amount which will be recovered, after taking into account the proceeds from the sale of any collateral. A change in the net present value of the estimated future monetary flows of plus or minus 5 per cent increases or decreases, respectively, the amount of the allowance by CHF 0.4 million (previous year: CHF 0.6 million).

Changes in estimates

No material changes in estimates were made or applied. Additional information on estimates is provided in the corresponding tables of the notes to the financial statements (e.g. goodwill, legal disputes, income tax, pension funds, etc.).

3. Summary of significant accounting policies

3.1. Consolidation principles

Fully consolidated companies

The consolidated financial statements encompass the financial statements of VP Bank Ltd, Vaduz, as well as those of its subsidiaries, which are all presented as a single economic unit. Subsidiaries which are directly or indirectly controlled by VP Bank Group are consolidated. Subsidiaries are consolidated as of the date on which control is transferred and deconsolidated as of the date when control ends.

Changes in the consolidation scope

At 7 January 2015, VP Bank Ltd, Vaduz, acquired all of the shares of Centrum Bank AG, Vaduz. In accordance with International Financial Reporting Standards (IFRS), Centrum Bank AG was fully consolidated in VP Bank Group's reporting as from this date. The legally binding merger between VP Bank Ltd and Centrum Bank AG took effect on 30 April 2015.

Capital consolidation method

Capital consolidation is undertaken in accordance with the purchase method, whereby the shareholders' equity of the consolidated company is netted against the carrying amount of the shareholding in the parent company's financial statements as of the date of acquisition or the date of establishment. Subsequent to initial consolidation, changes occurring through profit or loss and recognised in the consolidated financial statements are allocated to profit 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 for which VP Bank Group exercises material influence are recognised using the equity method. A material influence is generally assumed to exist whenever VP Bank Group holds, directly or indirectly, 20 per cent to 50 per cent of the voting rights.

Under the equity method, shares of a company are recognised at their acquisition cost at the time of acquisition. Subsequently, the carrying amount of the associated company is increased or reduced by the Group's share of the profits or losses and by changes in the shareholders' equity of the associated company not shown through profit or loss.

In applying the equity method, the Group ascertains whether it is necessary to record an additional impairment loss for its investments in associated companies. At each reporting date, the Group ascertains whether indicators of impairment exist for the associated company. If so, the difference between the realisable value of the shares in the associated company and its carrying amount is charged against income.

3.2. General principles

Trade date 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 the subsequent settlement date.

Revenue recognition

Revenues from services are recorded when the related service is rendered. Portfolio management fees, securities account fees and similar revenues are recorded on a pro-rata basis over the period during which the service is rendered. Interest is recorded in the period during which it accrues. Dividends are recorded as and when they are received.

Foreign currency translation

Functional currency and reporting currency: the consolidated financial statements are expressed in Swiss francs.

The foreign currency translation into the functional currency is undertaken at the rate of exchange prevailing as of the transaction date. Translation differences arising from such transactions and gains and losses arising from currency translation rates at the end of the reporting period as regards monetary financial assets and financial liabilities are shown through profit or loss.

Unrealised foreign currency translation differences in non-monetary financial assets are recognised as changes in fair value.

For the purpose of the preparation of 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 items on the income statement, statement of other comprehensive income and cash flow statement. Foreign currency translation differences resulting from exchange rate movements between the beginning and end of the year and the difference in annual results at average and closing exchange rates are recognised in other comprehensive income.

Group companies

All balance sheet items (excluding shareholders' equity) are converted into the Group reporting currency at the rate of exchange prevailing at the end of the reporting period. 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 recognised directly in shareholders' equity (profit reserves).

Foreign currency translation differences arising in connection with net investments in foreign companies are recognised in 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 payables of these foreign companies and are translated at the closing rates prevailing at the end of the reporting period.

Domestic versus foreign

The term "domestic" includes Switzerland.

Cash and cash equivalents

Cash and cash equivalents encompass cash, receivables arising from money-market paper with an original maturity of no more than 90 days as well as sight balances with banks.

3.3. Financial instruments

General

VP Bank Group classifies financial instruments, which also include traditional financial assets and liabilities as well as equity instruments, 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 at amortised cost
- Financial instruments at fair value with changes in value and impairment losses recorded in other comprehensive income (FVTOCI)

The classification of financial instruments occurs when they are first recognised in accordance with the criteria of IFRS 9. VP Bank Group early applied both IFRS 9 (2010) as from 1 January 2011 and IFRS 9 (2013) as from 1 January 2015. If hedge conditions are satisfied, VP Bank early applies hedge accounting in accordance with IFRS 9 (2013).

Trading portfolios

Trading portfolios comprise shares, bonds, precious metals and structured products. Financial assets held for trading purposes are measured at fair value. Short positions in securities are recognised 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. If no active market exists, fair value is determined by reference to listed quotes or external pricing models.

Financial instruments measured at amortised cost

Investments where the objective consists of holding the financial asset in order to realise the contractual payment flows therefrom and which are made up solely of interest as well as the redemption of parts of the nominal value are recognised at amortised cost using the effective interest method.

A financial investment recognised at amortised cost is classified as being 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- or country-specific. Whenever impairment occurs, the carrying amount of the financial investment is reduced to its realisable value and the difference is charged against 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 at fair value (FVTPL)

Financial instruments not meeting the aforementioned criteria are recognised at fair value. The ensuing gains/losses are reported in "income on financial instruments at fair value" under "income from financial investments".

Insofar as the criteria of IFRS 9 are met, a financial instrument may be designated and recorded under this category upon initial recognition.

Interest and dividend income are recorded in "income from financial investments" under the items "interest income from FVTPL financial instruments" and "dividend income from FVTPL financial instruments".

Financial instruments at fair value with recording of changes in value and impairment losses through other comprehensive income (FVTOCI)

Investments in equity instruments are recognised in the balance sheet at fair value. Changes in value are shown through profit or loss, except in cases where VP Bank Group has decided that they are to be recognised at fair value through other comprehensive income.

For equity instruments with a long-term investment horizon of around 10 years, the OCI option is applied. Long-term value creation is of particular significance in the case of private equity investments.

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

Loans to banks and customers

Loans to banks and customers are valued at their effective cost, which equates to fair value at the time the loans are granted. Subsequent valuations correspond to the amortised cost using the effective interest method. Interest on performing loans is recognised on an accrual basis and reported under interest income using the effective interest method.

The carrying amounts of loans on which micro fair value hedge accounting is applied are adjusted for changes in fair value attributable to the hedged risk. When portfolio fair value hedge accounting is applied, changes in fair value are recognised under 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 causes of impairment are of a counterparty- or country-specific nature. Interest on value-impaired loans is recorded on an accrual basis. A valuation allowance for credit risk is recorded as a reduction in the carrying amount of a loan in the balance sheet. The allowance is measured essentially by reference to the difference between the carrying amount and the amount likely to be recovered after taking into account the realisable proceeds from the disposal of any applicable collateral. Meanwhile, for off-balance-sheet positions such as a fixed facility granted, a provision for credit risks is recorded under provisions. General portfolio-based impairment is recorded to cover potential, as yet unidentified credit risks. A credit review is performed at least once a year for all value-impaired loans. If changes have occurred as regards the amount and timing of anticipated future flows in comparison to previous estimates, the valuation allowance for credit risks is adjusted and shown through profit and loss under valuation allowances for credit risks or release of valuation allowances and provisions.

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 classified as value-impaired if it can be shown that they are still covered by existing collateral.

Liabilities to banks and customers

In cases involving micro fair value hedge accounting, hedged liabilities are adjusted for changes in fair value attributable to the hedged risk. When portfolio fair value hedge accounting is applied, changes in fair value are recognised under Other liabilities.

Derivative financial instruments

Derivative financial instruments are measured at fair value and recognised in the balance sheet. Fair value is determined using listed prices or options pricing models. Realised and unrealised gains and losses are shown through profit or loss.

VP Bank Group uses the following derivatives for both trading and hedging purposes. They can be classified into the following main categories:

- **Swaps:** These are transactions in which two parties exchange cash flows on a nominal set amount for a previously determined period. Interest-rate swaps are interest-rate derivatives used to hedge fixed-rate instruments (e.g. unstructured fixed-rate bonds or covered bonds) against changes in fair value due to market interest-rate changes. Currency swaps involve the exchange of interest-rate payments on underlying amounts in two different currencies with different benchmark interest rates and also generally include the swapping of the nominal amount at the beginning or end of the contractual period. Currency swaps are typically traded over the counter.
- **Forward agreements and futures:** These are contractual obligations to purchase or sell a financial instrument or commodity at a future date and set price. Forward agreements are customised agreements negotiated by parties over the counter. Futures, on the other hand, are standardised contracts traded in regulated markets.

- **Options and warrants:** These are contractual agreements in which the seller grants the buyer the right but not the obligation to buy (call option) or sell (put option) a set amount of a financial instrument or commodity for a set price before a specified date. The buyer pays the seller a premium for this right. Some options also have complex payment structures. Options may be traded over the counter or in regulated markets. They may also be traded in the form of a warrant.

Hedge accounting

VP Bank Group early applied both IFRS 9 (2010) as from 1 January 2011 and IFRS 9 (2013) as from 1 January 2015. If hedge conditions are satisfied, VP Bank early applies hedge accounting in accordance with IFRS 9 (2013).

Under the Group's risk management policy, VP Bank uses certain derivatives as part of hedge transactions. From an economic perspective, the opposing valuation effects of the underlying and hedging transactions offset one another. However, because these transactions do not satisfy strict and specific IFRS guidelines, asymmetrical valuation differences between the underlying and hedging transactions arise from an accounting standpoint. Fair value changes for such derivatives are shown through profit or loss for the corresponding periods under trading and interest income.

Hedge accounting rules may be applied voluntarily. In some circumstances, the application of hedge accounting makes it possible to present a company's risk management activities in the financial statements. This occurs by comparing gains and losses on the hedging instruments with those on the hedged items designated for specific risks.

A hedging relationship may be presented in connection with hedge accounting when the following qualitative characteristics are satisfied:
- The hedging relationship consists in permissible hedging instruments and hedged items.
- The company's risk management strategy and the objective of the hedge is formally designated and documented at the inception of the hedging relationship.
- The hedging relationship fulfils the effectiveness requirements.

The hedging relationship must be documented at inception. The documentation includes in particular the identification of the hedging instruments and hedged items as well as the designation of the hedged risk and method for assessing the effectiveness of the hedging relationship. To qualify for hedge accounting, the hedging relationship must satisfy the following effectiveness requirements at the start of each hedge period:
- An economic relationship exists between the hedged item and the hedging instrument.
- Credit risk does not dominate the fair value changes that occur as a result of the economic hedge.
- The hedge ratio reflects the quantities of the hedged item and hedging instrument for the actual economic hedge.

The Group uses derivative financial instruments for risk management primarily in connection with interest-rate and currency risk. When derivative and non-derivative financial instruments satisfy specific criteria, they may be classified as hedging instruments and used to hedge the following risks: changes in the fair value of a recognised asset or liability (fair value hedge accounting); variability in expected future cash flows that can be assigned with a high probability of occurrence to recognised assets or liabilities or planned transactions (cash flow hedge accounting); a net investment in a foreign operation (net investment hedging).

Fair value hedge accounting

IFRS 9 allows for the application of fair value hedge accounting in order to avoid one-sided effects on profit or loss of derivatives used to hedge the fair value of recognised assets or liabilities against one or more designated risks. In particular, the Group's credit business and marketable securities used for liquidity management are subject to market risk and interest-rate risk insofar as they relate to fixed-rate instruments. These risks are hedged primarily through interest-rate swaps. In accordance with fair value hedge accounting rules, the derivative financial instruments used for hedging are recognised at fair value based on the market value of derivative hedging instruments. For the hedged asset or liability, opposing fair value gains and losses resulting from the hedged risk must also be recognised. These gains and losses from the hedging instruments and hedged items are shown through profit or loss. The portion of fair value changes not attributable to the hedged risk is recognised in accordance with the rules for the appropriate valuation category.

Cash flow hedge accounting and portfolio fair value hedges were not applied in either the current or previous years.

Debt securities issued

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

At the time of their initial recording, bonds are recorded at fair value less transaction costs. Fair value corresponds to consideration received. They are subsequently valued at their amortised cost. As such, the effective interest method is employed in order to amortise the difference between the issue price and redemption amount over the life of the debt instrument.

Treasury shares

Shares in VP Bank AG, Vaduz, held by VP Bank Group are recognised as treasury shares under shareholders' equity and deducted at acquisition cost. 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 third-party liability arising from a previous event, the outflow of resources with economic benefit to fulfil this liability is probable, and 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 of non-current assets

Impairment of property, plant and equipment is always reviewed any time their carrying amounts appear to be overvalued due to events or a change in circumstances. If the carrying amount exceeds the realisable value, an impairment charge is recorded. Any release of impairment at a later date is shown through profit or loss.

Goodwill is reviewed for impairment at least once a year. If the carrying amount exceeds the realisable value, a special impairment charge is recorded.

Property, plant and equipment

Property, plant and equipment comprises bank premises, other real estate, furnishings and equipment, as well as IT systems. These assets are valued at acquisition cost less depreciation related to operations.

Property, plant and equipment are capitalised, provided their purchase or manufacturing cost can be determined reliably, their value exceeds a minimum limit for capitalisation and the assets represent future economic benefits.

Depreciation and amortisation is charged on a straight-line basis over the estimated useful lives:

Depreciation and amortisation	Estimated useful lives
Bank premises and other property	25 years
Land	not depreciated
Fixtures and equipment	5 to 8 years
IT systems	3 to 7 years

The depreciation methods and useful lives are reviewed at the end of each year.

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. The capitalised assets are then depreciated over their useful lives. Gains on disposal of property, plant and equipment are reported as other income. Losses on disposal lead to additional depreciation of property, plant and equipment.

Goodwill

As regards acquisitions, if the acquisition costs exceed the value of the net assets acquired and measured in accordance with uniform Group guidelines (including identifiable and capitalisable intangible assets), the remaining amount constitutes the acquired goodwill. Goodwill is capitalised and subject to an annual review for any impairment. Goodwill is recorded in the original currency and translated on the balance-sheet date at prevailing year-end rates.

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 conditions 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 reliably measured. Internally produced software meeting these criteria and purchased software are recorded in the balance sheet under software. The capitalised amounts 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 acquisitions, as well as certain purchased client-related assets, etc., and are amortised on a straight-line basis over an estimated useful life of 5 to 10 years. Other intangible assets are recorded in the balance sheet at their purchase cost at the time of acquisition.

Taxes and deferred taxes

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

The tax impact of timing differences between the amounts attributed to the assets and liabilities as reported in the consolidated balance sheet and their values reported for tax purposes are recorded as deferred tax assets or deferred tax liabilities. Deferred tax assets arising from timing differences or from the utilisation of tax loss carry-forwards are only recognised when it is probable that sufficient taxable profits will exist against which these timing differences or tax loss carry-forwards can be offset.

Deferred tax assets and tax liabilities are computed using the tax rates 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 offset 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 directly 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 tax benefits is taken into account when valuing a capitalised asset for future tax relief. Tax assets arising from future tax relief encompass deferred taxes on timing differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and those used for tax purposes as well as estimated future realisable loss carry-forwards. Deferred tax receivables in one sovereign tax jurisdiction are offset against deferred tax liabilities of the same jurisdiction if the company has a right of offset between actual tax liabilities and tax claims and the taxes are levied by the same tax authorities; amounts are offset insofar as the maturities match.

Pension plans

VP Bank Group maintains a number of pension plans for employees of its domestic and foreign entities, including both defined-benefit and defined-contribution plans.

Accrued benefits from and liabilities to these pension funds are computed on the basis of statistical and actuarial calculations of 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 contribution years actually earned through the date of valuation. Computational assumptions taken into account by the Group include the expected future rate of salary increases, long-term interest earned on retirement assets, retirement patterns and life expectancy. The valuations are 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 applying the discount rate to the pension liability or plan assets at the beginning of the year. In the process, capital flows of less than one year are recognised on a weighted basis.

Revaluation components encompass actuarial gains and losses from the change in the present value of pension obligations and plan assets. Actuarial gains and losses result from changes in assumptions and adjustments reflecting actual results. Gains and losses on plan assets equate to the income from plan assets less 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 booked as earnings 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 funding deficit or surplus 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. Changes 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 to principles of financial statement reporting and comparability

New and revised International Financial Reporting Standards

Since 1 January 2015 the following new or revised standards and interpretations have taken effect:

Improvements to IFRS 2010–2012 and IFRS 2011–2013 cycles

At 1 January 2015 the Group implemented several changes to existing IFRS. These changes resulted from the IASB annual improvement project "Improvements to IFRS 2010–2012 and IFRS 2011–2013 cycles". They include changes to various IFRS affecting recognition, measurement and disclosure of transactions as well as terminology and drafting corrections. The implementation of these changes had no material impact on the consolidated financial statements.

International Financial Reporting Standards which must be applied by 2016 or later

Numerous new standards, amendments and interpretations of existing standards whose application is mandatory for periods starting 1 January 2016 or later were issued. The following new or amended International Financial Reporting Standards or interpretations are currently being reviewed or are immaterial for VP Bank Group. No early application was made by VP Bank Group.

Improvements to IFRS 2012–2014 cycles

In September 2014, the IASB published several changes to existing IFRS as part of its annual improvement project "Improvements to IFRS 2012–2014 cycles". They include changes to various IFRS affecting recognition, measurement and disclosure of transactions as well as terminology and drafting corrections. The changes take effect for financial years beginning at or after 1 January 2016. Early adoption is authorised. The implementation of these changes is not expected to have a material impact on the consolidated financial statements.

IFRS 9 (2014) – Financial instruments

This standard contains requirements for recognition and measurement, derecognition and general hedge accounting. The IASB issued its final version of the standards on 24 July 2014 after having completed the various phases of its comprehensive financial instruments project. The accounting of financial instruments, previously covered by IAS 39 Financial Instruments: Recognition and Measurement, has now been totally replaced by the accounting provisions of IFRS 9. This latest version of IFRS 9 supersedes all previous versions. The mandatory first-time application is planned for financial years beginning on or after 1 January 2018. Early adoption is authorised, subject to local regulations. For a limited time, the early adoption of previous versions of IFRS 9 is authorised (if not already done), provided the relevant date of initial application is before 1 February 2015.

IFRS 9 does not replace the requirements for portfolio fair value hedge accounting for interest-rate risk under IAS 39. It is therefore still possible to apply the regulations governing fair value hedges of a portfolio's interest-rate exposure or even designate hedging relationships in accordance with the general provisions of IAS 39.

VP Bank Group early applied both IFRS 9 (2010) as from 1 January 2011 and IFRS 9 (2013) as from 1 January 2015. If hedge conditions are satisfied, VP Bank early applies hedge accounting in accordance with IFRS 9 (2013). The entire new IFRS 9 must be applied as from 1 January 2018. VP Bank is currently reviewing the impacts of new provisions that have not yet been implemented.

IFRS 11 – Joint arrangements (Amendments to IFRS 11)

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) amends IFRS 11 such that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRS, with the exception of those principles that conflict with the guidance in IFRS 11. Accordingly, a joint operator that is an acquirer of such an interest has to:

- measure the most identifiable assets and liabilities at fair value,
- expense acquisition-related costs (other than debt or equity issuance costs),
- recognise deferred taxes,
- recognise any goodwill or bargain purchase gain,
- perform impairment tests for the cash generating units to which goodwill has been allocated,
- disclose required information relevant for business combinations.

The amendments apply to the acquisition of an interest in an existing joint operation and also to the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business.

The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier adoption is permitted, but corresponding disclosures are required. The amendments apply prospectively.

IFRS 15 – Revenue from contracts with customers

IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers.

IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after 1 January 2018.

IAS 1

In December 2014, as part of an initiative to improve financial statements presentation and disclosures, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" ("IAS 1"). These changes make clear that the principle of materiality should be applied to the financial statements as a whole, that professional judgment be used in determining which information to disclose and that the use of immaterial information can lead to reduced effectiveness of disclosures. The amendments take effect for financial years beginning on or after 1 January 2016. Early adoption is allowed. The amendments to IAS 1 affect only the Group's disclosures.

5. Equity management

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 deliberately chooses not to seek short-term interest gains 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 its 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 in accordance with the long-term dividend 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.

Capital indicators

The determination of the required capital and core capital is carried out on the basis of 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.

At 31 December 2015, risk-weighted assets totalled CHF 3.7 billion, compared with CHF 4.2 billion the previous year, while core capital was CHF 911.2 million, compared with CHF 860.5 million the previous year. The overall equity ratio increased by 3.9 percentage points from 20.5 per cent on 31 December 2014 to 24.4 per cent on 31 December 2015. On both 31 December 2014 and 31 December 2015, VP Bank Group was adequately capitalised in accordance with the respective guidelines of the Financial Market Authority (FMA) of Liechtenstein and the Bank for International Settlements (BIS).

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 within the framework of the revision of banking legislation (Basel III). The new legislation is linked to enhanced requirements in particular as regards capital adequacy, leverage, and liquidity.

As a locally systematically important bank, VP Bank must possess equity amounting to at least 13 per cent of its risk-weighted assets (previously 8 per cent). The leverage ratio (maximum indebtedness ratio) may not go below the regulatory limit expected to be 3 per cent. In terms of liquidity, at the European level there is a requirement to maintain a regulatory ratio (Liquidity Coverage Ratio – LCR) of at least 60 per cent as at the end of 2015. This is not yet required in Liechtenstein. Thanks to its eminently robust equity basis and comfortable liquidity situation, VP Bank has at all times markedly overfulfilled the 2015 regulatory limits even after the integration of Centrum Bank.

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 to be 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 however set at 0 per cent by the FMA for 2015.

Although the new minimum capital ratio markedly reduces the regulatory excess equity of VP Bank as existed under the previous rules, it still continues to give sufficient freedom of action thanks to an exceedingly robust tier 1 ratio of 24.4 per cent as of the end of 2015. This enables VP Bank to continue to assume banking risks at the same level under Basel III as it could previously. At the same time, there remains potential for corporate acquisitions through free equity resources, even after covering all risks.

In 2015, as part of the merger with Centrum Bank, an extraordinary general meeting of VP Bank authorised a share-capital increase by CHF 7 million to CHF 66 million under exclusion of any subscription rights of the existing shareholders.

The leverage ratio of VP Bank amounted to 7.0 per cent at the end of 2015. The anticipated regulatory minimum ratio of 3 per cent is thus observed. The ultimate manner in which the leverage ratio will be arrived at has not yet been finally adopted, either at a European or Liechtenstein level. It will be the obligatory minimum only from 2018 onwards. From 2015 onwards, VP Bank is required to disclose its debt level as part of the Pillar 3 disclosures. VP Bank must publish the degree of indebtedness, from 2015 within the scope of a pillar 3 disclosure.

As part of capital and balance-sheet-structure management, compliance with regulatory requirements and the fulfilment of business needs is monitored on an ongoing basis. Using an internal process to assess the adequacy of capital resources (Internal Capital Adequacy Assessment Process), the possible adverse effects 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 2015, a minimum ratio of 60 per cent applies on a European level. Thanks to a comfortable liquidity situation, this target can be achieved with a value of 98 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). The liquidity situation of VP Bank was not significantly impacted in 2015 by the merger with Centrum Bank.

The introduction on 15 January 2015 by the Swiss National Bank (SNB) of negative interest on clearing bank balances affected the liquidity management of VP Bank. In this manner, balances of VP Bank with the SNB exceeding a certain allowance attract interest of –0.75 per cent from this date onwards. As a reaction to the SNB's decision, VP Bank has taken a number of measures to optimise the costs of holding liquidity.

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 2015, concrete details as of the manner in which it is to be structured are not yet available, so that no assertions can yet be made as to compliance with the future required ratio by VP Bank.

Liquidity requirements will be further developed in future on a European level. For example, additional parameters to monitor liquidity are planned (additional liquidity monitoring metrics), 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 of the liquidity situation.

Within the scope of liquidity management, compliance with regulatory requirements and the fulfilment of business needs is subjected to ongoing monitoring. Using stress tests, possible adverse scenarios are simulated and the impact on liquidity in stress situations is analysed.

Credit risks

Because of the importance of the client lending business (CHF 5.0 billion as of 31.12.2015), the management and monitoring of credit risks continues to play a central role.

In 2015, the volume of client loans increased by CHF 0.7 billion. This trend was influenced to a significant degree by the merger with Centrum Bank.

With the interbank business, the volume of deposits fell by CHF 1.2 billion to CHF 2.1 billion compared to the end of 2014.

Since the onset of the debt crisis, several of the countries affected have made progress on the economic front. The limits in these countries which had been fully or partially withdrawn were in part reinstated.

Market risks

There has been a marked increase in the volatility of interest rates, currencies and equities in the 2015 financial year, especially in VP Bank Group's core markets. This was caused by the SNB's lifting of the minimum euro exchange rate and the further movement of the 3-month Libor target range into negative territory in January 2015. These events, particularly the interest-rate situation in Swiss francs, posed great challenges in relation to balance-sheet-structure management. VP Bank reacted thereto by a number of targeted measures. Of paramount importance in this respect is the stabilisation of interest income as well as the day-to-day management of interest-rate and currency risks. As a result 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 2016.

Operational risks

The systematic management of operational risks was further continuously developed in VP Bank in 2015. 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 risk policy

Risk and capital management is predicated on the following principles:

Alignment of risk tolerance and risk appetite

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

Clear competencies and responsibilities

Risk appetite is rendered operational with the aid of a comprehensive system of limits and implemented in an effective manner together with a clear set of guidelines governing the tasks, limits of authority and responsibility of all functions, organisational units and bodies participating in risk- and capital-management processes. The risk coverage potential, the risk capital and limits are reviewed as and when required, but at a minimum once a year and are adjusted whenever necessary.

Conscientious attitude to risks

Strategic and operational decisions are taken on the basis of 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 Control) 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

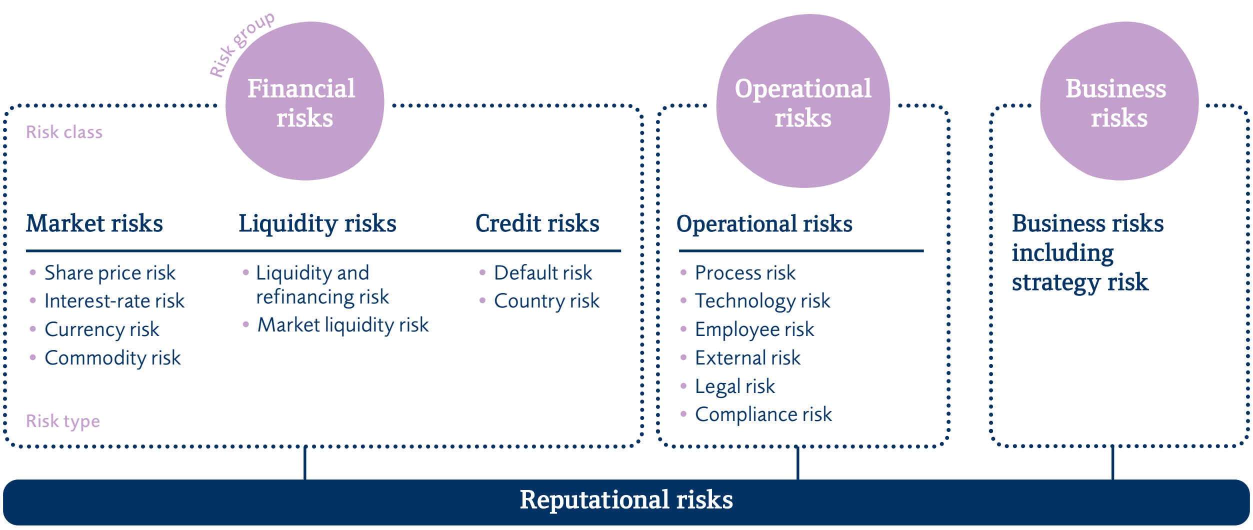
The following table gives an overview over the risks to which VP Bank is exposed in its ordinary course of business. These are allocated to three risk groups – financial risks, operational risks and business risks (including strategic risks).

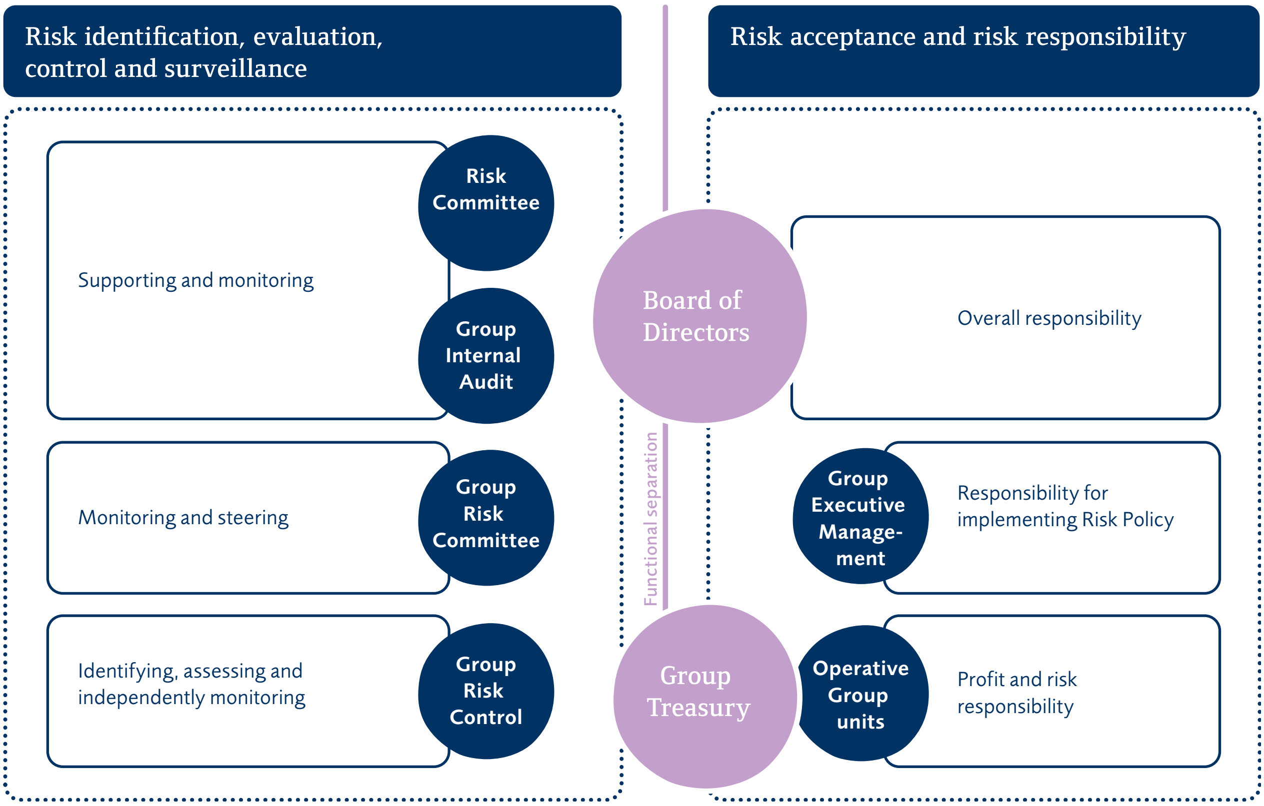
Whilst financial risks are consciously entered into in order to generate revenues, operational risks are to be avoided through appropriate controls and measures or, if that is not possible, to be reduced to a level laid down by the Bank.

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 which 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 performed by the Chief Financial Officer from 2016 onwards.

In addition to the Chief Risk Officer, a series of committees and operational units are involved in risk- and capital-management processes. The illustration 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 appetite 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. Group Executive Management is supported by the **Group Risk Committee**. As the supreme body for the day-to-day management of risks and risk monitoring, it is also responsible for the implementation of a risk strategy.

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

Group Treasury bears the responsibility for the day-to-day 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.

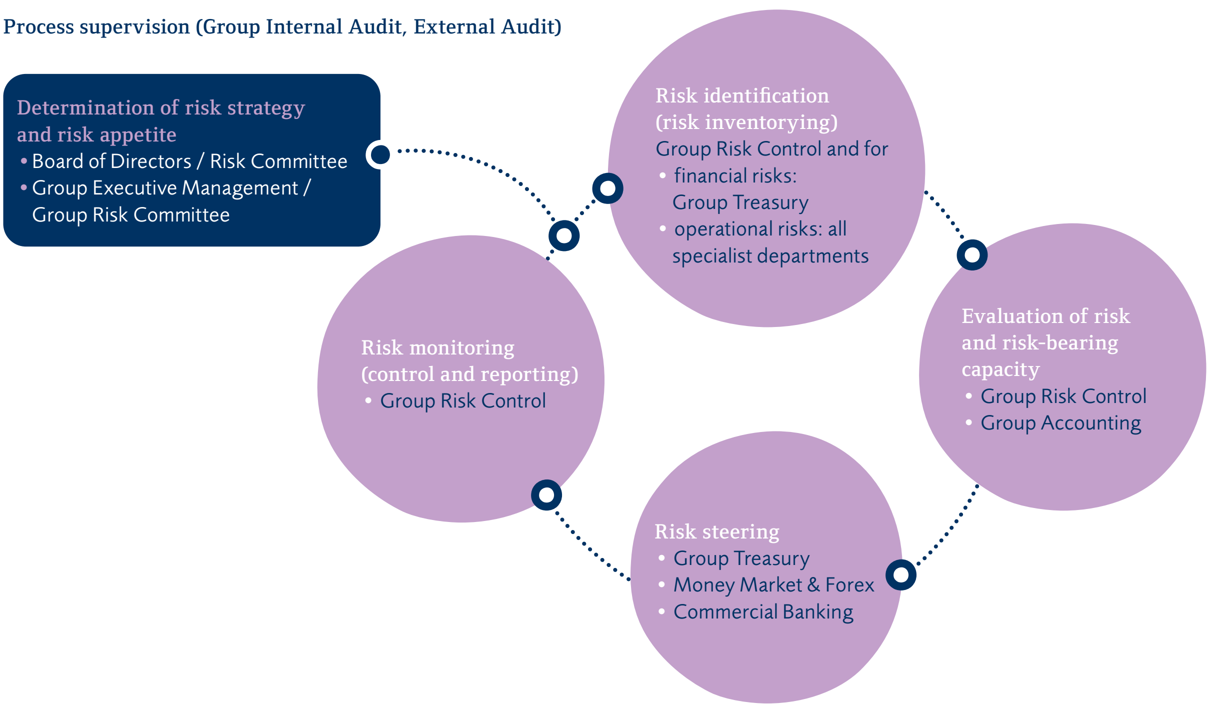
Process to ensure an appropriate capital base

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 course of the annual planning process on the basis of 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 losses. 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. In order 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.

Process supervision (Group Internal Audit, External Audit)



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 panoply of methods and indicators which are described in greater detail in the sections on the individual risk groups.

Day-to-day **risk diversification** 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 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 an ICAAP report, VP Bank, as a locally systematically important bank, is to draw up annually a Recovery Plan (plan of reorganisation) at a Group level which shall be submitted to the Financial Market Authority (FMA). The Recovery Plan is designed to serve as a preparation for managing crisis situations and contribute to the marked improvement of the ability of systemically important bank to withstand and respond to possible crisis scenarios. Central elements of the Recovery Plan, in this connection, are both the awareness of possible crisis scenarios as well as the preparation of strategic and organisational measures to be taken in the event of a crisis.

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 13 per cent 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 for the first time a Disclosure Report for the 2015 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. These amendments are the result of transposing into local law the Directive 2013/36/EU (CRD IV) and Regulation (EU) No. 575/2013 (CRR), respectively.

The implementation of the Basel III rules imposes more stringent capital-adequacy and liquidity requirements on credit institutions. As one of the three systemically important 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 provide 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 2015, the business activities of VP Bank Group required equity totalling CHF 485.0 million. This represents 13 per cent of the eligible assets of CHF 3,731.1 million. As of 31 December 2014, the required equity was based upon a regulatory requirement of 8.0 per cent. This equated to CHF 336.3 million as of 31 December 2014. Eligible adjusted core capital at the end of 2015 amounted to CHF 911.2 million (as of 31 December 2014: CHF 860.5 million). The excess of equity (based upon a requirement of 13.0 per cent) as at 31 December 2015 amounted to CHF 426.2 million (as of 31 December 2014, based upon a required 8.0 per cent, CHF 524.2 million). The tier 1 ratio of 24.4 per cent (as of 31 December 2014: 20.5 per cent) reflects the ongoing extremely robust equity situation of VP Bank. In 2015, 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 2015.

Capital-adequacy computation (Basel III)

in CHF 1,000	31.12.2015 Basel III	31.12.2014 Basel II
Core capital (unadjusted)		
• Paid-in capital	66,154	59,148
• Disclosed reserves	849,232	820,094
• Group net income	64,056	20,025
• Deduction for treasury shares	–50,499	–21,017
Deduction for dividends as per proposal of Board of Directors	–26,462	–19,846
Deduction for goodwill and intangible assets	–41,083	–38,407
Other adjustments	49,806	40,621
Eligible core capital (tier 1)	911,204	**860,618**
Eligible core capital (adjusted)	911,204	**860,523**
Credit risk (in accordance with Liechtenstein standard approach)	389,288	263,371
thereof price risk regarding equity securities in the banking book	9,643	6,321
Risks unrelated to counterparties		9,009
Market risk (in accordance with Liechtenstein standard approach)	25,591	29,075
Operational risk (in accordance with basic indicator approach)	69,067	34,865
Credit Value Adjustment (CVA)	1,102	n.a.
Total required equity	485,048	**336,320**
CET1 equity ratio	24.4%	20.5%
Tier 1 ratio	24.4%	20.5%
Overall equity ratio	24.4%	20.5%
Total risk-weighted assets	3,731,142	**4,203,993**
Return on investment (net income/average balance sheet total)	0.5%	0.2%

5. Financial risks

Whilst complying with the relevant legal and regulatory provisions, the monitoring and daily management of financial risks is based upon internal bank target measures and limits relating to volumes and sensitivities. Scenario analyses and stress tests demonstrate in addition the effect of events which were not or not sufficiently taken into consideration within the scope of ordinary risk evaluation.

The unit Group Treasury 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 Control 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 of the last 260 trading days are read in order to measure all positions subject to market risk. The projected loss is valid for a holding period of 30 days and will not be exceeded with a probability of 99 per cent. In order 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 2015 amounted to CHF 58.5 million (31 December 2014: CHF 22.3 million). This equates to an increase of 36.2 million per cent which derives primarily from interest-rate and foreign-currency risk. The increase is based, on the one hand, on an increase of the interest-rate and foreign-currency positions as of the end of 2015 and on the other hand, on a higher level of price fluctuations within the observation period which is used for the computation of the value-at-risk. Equity price risk and commodity risk remained approximately constant year on year.

The following table shows the value-at-risk (value at end of the month) 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 the month)

in CHF million	Total	Interest-rate risk	Equity price and commodity risk	Currency risk
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
2014				
Year-end	22.3	9.7	6.1	6.5
Average	25.2	11.8	5.4	8.0
Highest value	32.1	16.2	6.1	10.4
Lowest value	20.4	9.1	4.7	5.8

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 points increase

in CHF 1,000	within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
as of 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		1,980
Total	**2,680**	**287**	**6,835**	**–42,204**	**–24,897**	**–57,299**
as of 31.12.2014						
CHF	716	838	2,580	–18,517	–16,629	–31,012
EUR	828	–825	–629	–6,746	585	–6,787
USD	731	–723	600	–2,031	836	–587
Other currencies	92	–171	337	1,045		1,303
Total	**2,367**	**–881**	**2,888**	**–26,249**	**–15,208**	**–37,083**

In the following table are set out the effects of a negative movement in the principal currencies on consolidated net income and shareholders' equity. Responsible for the underlying fluctuation of the Swiss franc against the euro and the US dollar is the implicit volatility as of 31 December 2015 and 31 December 2014, respectively.

Movements in significant foreign currencies

Exchange rate	Variance in %	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
2015			
EUR	–8	–2,897	–
USD	–10	–7,665	–8,595
2014			
EUR	–4	–1,335	–2
USD	–10	–5,422	–7,966

The impact of a possible downturn in equity markets of 10, 20 and 30 per cent, respectively, on consolidated net income 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
2015		
–10%	–6,891	–1,446
–20%	–13,782	–2,891
–30%	–20,673	–4,337
2014		
–10%	–6,396	–1,568
–20%	–12,792	–3,135
–30%	–19,187	–4,703

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 and liability management, mostly interest-rate swaps measured at fair value are deployed to hedge this risk. Since 2015, 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) is 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 is adjusted and the gains/losses taken to income.

Because the unsettled fixed-interest positions are transformed into variable interest-rate positions through the conclusion of payer swaps, a close economic relationship exists between the underlying and hedging transactions in relation to the hedged risk. Therefore, the hedging relationship between the designated amount of the underlying transactions and the designated amount of the hedging instruments (hedge ratio) is set on a one-to-one basis. A hedging relationship is efficient and 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.

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. Also the lack of availability of assets eligible for repo operations at the Swiss National Bank (SNB) could represent a liquidity risk.

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. The minimum reserve requirements of the SNB remaining in force in 2015 and the provisions of the Liechtenstein Banking Act on short-term liquidity were observed at all times during the course of 2015.

As part of the introduction of the Basel III rules in Liechtenstein, the Liquidity Coverage Ratio (LCR) is computed and reported to the Financial Market Authority (FMA). Since the end of 2015, a lower limit of 60 per cent for the LCR has been applied on a European level, which will gradually be raised to 100 per cent by 2019. At the end of 2015, VP Bank presents a comfortable liquidity situation with a value for the LCR of 98 per cent.

The guidelines regarding the Net Stable Funding Ratio (NSFR) are not yet available as of the end of 2015.

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 2015 and 2014 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
as of 31.12.2015							
Due to banks	100,156						100,156
Due to customers in the form of savings and deposits		757,294					757,294
Other liabilities – due to customers	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**
as of 31.12.2014							
Due to banks	256,853		47,205				304,058
Due to customers in the form of savings and deposits		859,101					859,101
Other liabilities – due to customers	7,401,785	481,402	556,492	146,936	1,329		8,587,944
Derivative financial instruments	45,917						45,917
Securitised liabilities			14,366	44,590	330,938	19,010	408,904
Total	**7,704,555**	**1,340,503**	**618,063**	**191,526**	**332,267**	**19,010**	**10,205,924**

VP Bank can rapidly procure liquidity on a secured basis in case of need over 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 2015, total credit exposures amounted to CHF 9.1 billion (31 December 2014: CHF 9.0 billion). The following table shows the composition thereof by on- and off-balance sheet positions.

Credit exposures

	31.12.2015	31.12.2014
On-balance-sheet assets		
Receivables arising from money-market paper	14,652	22,026
Due from banks	2,060,270	3,282,226
Due from customers	5,006,508	4,263,446
Public-law enterprises	501	497
Trading portfolios		
Derivative financial instruments	36,883	56,126
Financial instruments designated at fair value	316,421	291,607
Financial instruments measured at amortised cost	1,665,607	1,074,109
Total	**9,100,841**	**8,990,037**
Off-balance-sheet transactions		
Contingent liabilities	60,521	78,203
Irrevocable facilities granted	47,922	32,985
Total	**108,443**	**111,188**

Credit exposures by counterparty

in CHF 1,000	Central governments and central banks	Banks and securities dealers	Other institutions	Corporates	Private customers and small enterprises	Other positions	Total
On-balance-sheet assets as of 31.12.2015							
Receivables arising from money-market paper	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**
On-balance-sheet assets as of 31.12.2014							
Receivables arising from money-market paper	22,026						22,026
Due from banks		3,282,069	157				3,282,226
Due from customers			3,910	1,679,027	2,580,425	85	4,263,446
Public-law enterprises			497				497
Trading portfolios							0
Derivative financial instruments	3,693	15,291	7,448	27,688	2,006		56,126
Financial instruments at fair value	20,590	175,231	43,088	52,667		31	291,607
Financial instruments measured at amortised cost	308,008	326,482	194,622	242,130		2,867	1,074,109
Total	**354,317**	**3,799,073**	**249,722**	**2,001,512**	**2,582,430**	**2,983**	**8,990,037**
Off-balance-sheet transactions as of 31.12.2014							
Contingent liabilities	4,123	16,464	5,436	35,205	16,584	391	78,203
Irrevocable facilities granted	0	7,500	1,872	0	22,089	1,524	32,985
Total	**4,123**	**23,964**	**7,308**	**35,205**	**38,673**	**1,915**	**111,188**

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 31.12.2015			
Receivables arising from money-market paper		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**

Credit exposures by collateral (continued)

in CHF 1,000	Secured by recognised financial collateral	Not secured by recognised financial collateral	Total
On-balance-sheet assets as of 31.12.2014			
Receivables arising from money-market paper		22,026	22,026
Due from banks		3,282,226	3,282,226
Due from customers	3,710,538	552,908	4,263,446
Public-law enterprises		497	497
Trading portfolios			0
Derivative financial instruments	31,971	24,155	56,126
Financial instruments at fair value		291,607	291,607
Financial instruments measured at amortised cost		1,074,109	1,074,109
Total	**3,742,509**	**5,247,528**	**8,990,038**
Off-balance-sheet transactions as of 31.12.2014			
Contingent liabilities	43,461	34,742	78,203
Irrevocable facilities granted	2,647	30,338	32,985
Total	**46,108**	**65,080**	**111,188**

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	Not-value-adjusted positions				Value-adjusted positions	Total
	Investment grade (AAA to BBB–)	Safe (BB+ to BB–)	Unsafe (B+ to C)	Without external rating		
On-balance-sheet assets as of 31.12.2015						
Receivables arising from money-market paper	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**
On-balance-sheet assets as of 31.12.2014						
Receivables arising from money-market paper	22,026					22,026
Due from banks	3,217,306			67,912	–2,992	3,282,226
Due from customers				4,307,592	–44,146	4,263,446
Public-law enterprises				497		497
Trading portfolios						0
Derivative financial instruments	47,568			8,558		56,126
Financial instruments at fair value	290,276			1,331		291,607
Financial instruments measured at amortised cost	1,028,995			45,114		1,074,109
Total	**4,606,171**	**0**	**0**	**4,431,004**	**–47,138**	**8,990,037**
Off-balance-sheet transactions as of 31.12.2014						
Contingent liabilities				78,203		78,203
Irrevocable facilities granted				32,985		32,985
Total	**0**	**0**	**0**	**111,188**	**0**	**111,188**

Credit exposures by risk-weighting classes [1]

in CHF 1,000	0%	20%	35%	50%	75%	100%	150%	Total
On-balance-sheet assets as of 31.12.2015								
Receivables arising from money-market paper	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	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	1,821	211	73	1,568	62,593	0	108,443
On-balance-sheet assets as of 31.12.2014								
Receivables arising from money-market paper	22,026							22,026
Due from banks		2,411,212		638,341		232,673		3,282,226
Due from customers	611,493	71,954	1,761,943	251,038	82,717	1,472,441	12,358	4,263,943
Derivative financial instruments	28,505	17,013		3,104		7,504		56,126
Financial instruments	370,295	633,528		281,093		80,800		1,365,716
Other assets	4,088	7,743	157	4,711		40,040		56,739
Total	**1,036,407**	**3,141,450**	**1,762,100**	**1,178,286**	**82,717**	**1,833,458**	**12,358**	**9,046,776**
Off-balance-sheet transactions as of 31.12.2014								
Contingent liabilities	49,823	15,192		2,142		11,039	7	78,203
Irrevocable facilities granted	1,382	1,872	521	7,585		21,625		32,985
Total	**51,205**	**17,064**	**521**	**9,727**	**0**	**32,664**	**7**	**111,188**

[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 31.12.2015							
Receivables arising from money-market paper					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

Credit exposures by country of domicile (continued)

in CHF 1,000	Liechtenstein and Switzerland	Europe	North America	South America	Asia	Other	Total
On-balance-sheet assets as of 31.12.2014							
Receivables arising from money-market paper					22,026		22,026
Due from banks	1,399,720	1,718,427	44,290	237	86,872	32,679	3,282,226
Due from customers	3,213,008	553,304	40,913	56,992	82,568	316,662	4,263,446
Public-law enterprises						497	497
Trading portfolios							0
Derivative financial instruments	38,714	12,673	198	823	324	3,395	56,126
Financial instruments at fair value		219,744	42,682	2,994	5,999	20,189	291,607
Financial instruments measured at amortised cost	49,319	730,413	214,294	14,505	21,376	44,201	1,074,109
Total	**4,700,761**	**3,234,562**	**342,376**	**75,550**	**219,165**	**417,623**	**8,990,037**
Off-balance-sheet transactions as of 31.12.2014							
Contingent liabilities	25,912	33,705	3,369	3,303	1,805	10,109	78,203
Irrevocable facilities granted	14,431		17			18,537	32,985
Total	**40,343**	**33,705**	**3,386**	**3,303**	**1,805**	**28,646**	**111,188**

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 in the private client business with CHF 3.4 billion of mortgage credits (31 December 2014: CHF 2.9 billion). From a regional perspective, VP Bank conducts the lion's share of this business in the Principality of Liechtenstein and in 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 16 per cent of total credit exposures (31 December 2014: 19 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 customer 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 that 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, customer 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 in accordance with 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 and 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 could be reduced with the introduction of the business with reverse repo transactions.

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 31.12.2015	Provider of collateral as of 31.12.2014
Collateralised debt obligations	12	30
Total	**12**	**30**

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
as of 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**
as of 31.12.2014			
Liechtenstein and Switzerland	58,576	11,975	12,581
Europe	1,520	287	1,397
North America	20	3	16
South America	107	45	107
Asia			
Other	9,576	39	8,690
Total	**69,798**	**12,348**	**22,794**

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, 2015 reporting period	19,663				19,663
Total, 2014 reporting period	12,348				**12,348**

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) Limited.

Country exposures according to rating

in %	31.12.2015	31.12.2014
AAA	93.0	93.5
AA	3.7	4.3
A	1.0	0.4
BBB to B	0.7	0.2
CCC to C	0.1	0.0
Not rated	1.5	1.6
Total	**100.0**	**100.0**

As regards the country risks 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 31.12.2015	Total 31.12.2014
Greece				
Ireland[1]	2,018		2,018	
Italy				
Portugal				
Spain				
Total	**2,018**	**0**	**2,018**	**0**

[1] As of 31.12.2015, the holdings of debenture include one debenture maturing in April 2016 which is 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 limit 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 assessment of whether the key controls have ongoing 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 Control.

Within the scope of its powers of authority, the central unit Group Risk Control makes available on a Group-wide basis the instruments for a systematic management of operational risks and ensures their ongoing 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 cooperation 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 and the database of incidents was expanded to include specific valuation allowances and provisions raised in addition to losses incurred impacting income. 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 the status of 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 norm 22301:2012. The basis thereof is the BCM strategy, which is successively implemented by Group Executive Management and reviewed on an ongoing 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 annual planning and budgeting process.

Segment reporting

The organisational structure of VP Bank Group remains unchanged for 2015. VP Bank Group consists of the three organisational units "Chief Executive Officer", "Client Business" and "Chief Financial Officer & Banking Services".

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

Centrum Bank, which was merged with VP Bank in 2015, is included in the segment reporting for 2015. The non-recurring positive effect of the "bargain purchase" (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. The client assets transferred as well the client-related revenues arising from this integration are reported in the business segment "Client Business Liechtenstein". The amortisation of the capitalised value of client assets acquired are also allocated to this business segment. The employment contracts of the employees of Centrum Bank, Vaduz, were transferred to VP Bank and integrated into the existing structure of VP Bank Group. Based upon this allocation, related ongoing regular costs were charged to the respective business unit ("Client Business Liechtenstein" or "Corporate Center"). The prior-year comparative figures exclude Centrum Bank.

Geographic segment reporting

in CHF 1,000	Liechtenstein and Switzerland	Rest of Europe	Other countries	Total Group
2015				
Total net operating income	261,819	29,418	15,317	306,554
Assets (in CHF million)	11,109	898	354	12,361
2014				
Total net operating income	173,184	36,990	12,483	222,657
Assets (in CHF million)	9,478	1,495	231	11,205

Segment reporting follows the principle of branch accounting.

Business segment reporting 2015

in CHF 1,000	Client Business Liechtenstein	Client Business International	Corporate Center	Total Group
Total interest income[1]	53,849	22,119	8,519	84,487
Total income from commission business and services	91,847	38,853	–4,330	126,370
Income from trading activities	21,383	8,343	16,336	46,062
Income from financial investments	16	–897	139	–742
Other income[2]	0	983	49,394	50,377
Total net operating income	**167,095**	**69,401**	**70,058**	**306,554**
Personnel expenses	33,570	36,752	51,558	121,880
General and administrative expenses	3,027	19,071	38,137	60,235
Services to/from other segments	46,675	0	–46,675	0
Operating expenses	**83,272**	**55,823**	**43,020**	**182,115**
Gross income[3]	**83,823**	**13,578**	**27,038**	**124,439**
Depreciation and amortisation	3,672	4,455	30,126	38,253
Valuation allowances, provisions and losses	2,917	11,761	11,350	26,028
Income/loss before income tax	**77,234**	**–2,638**	**–14,438**	**60,158**
Taxes on income				–3,898
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)[4,5]	24.3	10.5	0.0	34.8
Net new money inflow (in CHF billion)[5]	5.8	0.2	0.0	6.0
Headcount (employees)	178	245	375	798
Headcount (full-time equivalents)	168.5	233.4	332.5	734.4

Business segment reporting 2014

Total interest income	35,897	20,510	9,144	65,551
Total income from commission business and services	73,477	49,593	–4,652	118,418
Income from trading activities	14,290	6,649	4,424	25,363
Income from financial investments	17	1,839	10,637	12,493
Other income	11	1,165	–344	832
Total net operating income	**123,692**	**79,756**	**19,209**	**222,657**
Personnel expenses	26,822	40,252	51,425	118,499
General and administrative expenses	2,276	20,645	23,851	46,772
Services to/from other segments	37,110	0	–37,110	0
Operating expenses	**66,208**	**60,897**	**38,166**	**165,271**
Gross income	**57,484**	**18,859**	**–18,957**	**57,386**
Depreciation and amortisation	266	4,529	24,553	29,348
Valuation allowances, provisions and losses	9,017	–106	–1,495	7,416
Income/loss before income tax	**48,201**	**14,436**	**–42,015**	**20,622**
Taxes on income				597
Net income				**20,025**
Segment assets (in CHF million)	3,448	3,243	4,514	11,205
Segment liabilities (in CHF million)	6,656	2,951	729	10,336
Client assets under management (in CHF billion)[4]	19.5	11.4	0.0	30.9
Net new money inflow (in CHF billion)	–0.2	–0.6	0.0	–0.8
Headcount (employees)	157	259	339	755
Headcount (full-time equivalents)	146.8	246.8	301.3	694.9

1 Net interest income in Client Business Liechtenstein benefited from the reallocation of interest income from Corporate Center (CHF 10 million).
2 The non-recurring positive effect of the "bargain purchase" (badwill arising on acquisition) is disclosed in the Corporate Center.
3 Centralisation of the investment management operations of VP Bank (Switzerland) Ltd in Liechtenstein as of 01.07.2015 (net CHF 4.5 million).
4 Calculation in accordance with Table P of the Guidelines to the Liechtenstein Banking Ordinance issued by the Government of Liechtenstein (FL-BankO).
5 Included in this position are acquired client relationships (note 45) of CHF 6.7 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	2015	2014	Variance absolute	Variance in %
Total interest income	53,849	35,897	17,952	50.0
Total income from commission business and services	91,847	73,477	18,370	25.0
Income from trading activities	21,383	14,290	7,093	49.6
Income from financial investments	16	17	–1	–5.9
Other income	0	11	–11	–100.0
Total net operating income	**167,095**	**123,692**	**43,403**	**35.1**
Personnel expenses	33,570	26,822	6,748	25.2
General and administrative expenses	3,027	2,276	751	33.0
Services to/from other segments	46,675	37,110	9,565	25.8
Operating expenses	**83,272**	**66,208**	**17,064**	**25.8**
Gross income	**83,823**	**57,484**	**26,339**	**45.8**
Depreciation and amortisation	3,672	266	3,406	n.a.
Valuation allowances, provisions and losses	2,917	9,017	–6,100	–67.6
Segment results before income taxes	**77,234**	**48,201**	**29,033**	**60.2**
Additional information				
Operating expenses excl. depreciation and amortisation / total operating income (in %)	49.8	53.5		
Operating expenses incl. depreciation and amortisation / total operating income (in %)	52.0	53.7		
Client assets under management (in CHF billion)	24.3	19.5		
Change in client assets under management compared to previous year (in %)	24.4	3.3		
Net new money inflow (in CHF billion)	5.8	–0.2		
Gross income / average client assets under management (Bp) [1]	76.3	64.4		
Segment result / average client assets under management (Bp) [1]	35.3	25.1		
Cost/income ratio operating income (in %) [2]	49.8	53.5	–3.7	–6.9
Headcount (employees)	178	157	21	13.4
Headcount (full-time equivalents)	168.5	146.8	21.7	14.8

[1] Annualised, average values.
[2] Operating expenses / gross income minus other income and income from financial investments.

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. From 2015 onwards, this segment includes the employees transferred and customer business of the above-mentioned units from the integration of Centrum Bank.

Segment results

The 2015 segment results before income taxes increased year-on-year by CHF 29.0 million (60.2 per cent), resulting primarily from the integration of Centrum Bank. In 2015, total operating income could be increased year-on-year by CHF 43.4 million (35.1 per cent). This growth is attributable, inter alia, to the higher business volume resulting from the transfer of client assets in connection with the merger with Centrum Bank which positively impacted client-related interest income (+50.0 per cent), income from commission business and services (+25.0 per cent) and income from trading activities (+49.6 per cent). The existing client base in the business segment "Client Business Liechtenstein" also contributed to this positive result. In addition, the business segment "Client Business Liechtenstein" benefited from reallocations of interest revenues from the Corporate Center as well as the centralisation of the investment management operations in Liechtenstein.

Operating expenses grew by CHF 17.1 million (25.8 per cent) to CHF 83.3 million (prior year: CHF 66.2 million). This increase in operating expenses results from the merger with Centrum Bank and the related transfer of employees. 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 segments". The higher level of recharges from other segments results from the merger with Centrum Bank. The increase in depreciation and amortisation results from scheduled amortisation of intangible assets related to the client assets transferred during the merger.

During 2015, the charges for valuation allowances, provisions and losses, year-on-year, fell by CHF 6.1 million to CHF 2.9 million (prior year: CHF 9.0 million). The gross margin could be improved to 76.3 basis points (prior year: 64.4 basis points) principally as a result of the client assets transferred in connection with the merger. The cost/income ratio was 49.8 per cent and was thus lower than the prior-year's comparative value of 53.5 per cent.

The segment reported a net inflow of new client assets totalling CHF 5.8 billion. Of this amount, CHF 6.3 billion (net) relates to the merger with Centrum Bank (CHF 6.7 billion upon acquisition less CHF 0.4 billion of outflows anticipated in the wake of the merger). The outflows in the operating business must be viewed principally against the backdrop of the regulatory environment and tax-related issues. Client assets under management at 31 December 2015 totalled CHF 24.3 billion (31 December 2014: CHF 19.5 billion). The employee headcount increased from 147 positions (31 December 2014) to 169 positions primarily within the framework of the merger with Centrum Bank.

Client Business International

Segment results

in CHF 1,000	2015	2014	Variance absolute	Variance in %
Total interest income	22,119	20,510	1,609	7.8
Total income from commission business and services	38,853	49,593	–10,740	–21.7
Income from trading activities	8,343	6,649	1,694	25.5
Income from financial investments	–897	1,839	–2,736	–148.8
Other income	983	1,165	–182	–15.6
Total net operating income	**69,401**	**79,756**	**–10,355**	**–13.0**
Personnel expenses	36,752	40,252	–3,500	–8.7
General and administrative expenses	19,071	20,645	–1,574	–7.6
Services to/from other segments	0	0	0	0.0
Operating expenses	**55,823**	**60,897**	**–5,074**	**–8.3**
Gross income	**13,578**	**18,859**	**–5,281**	**–28.0**
Depreciation and amortisation	4,455	4,529	–74	–1.6
Valuation allowances, provisions and losses	11,761	–106	11,867	n.a.
Segment results before income taxes	**–2,638**	**14,436**	**–17,074**	**–118.3**
Additional information				
Operating expenses excl. depreciation and amortisation / total operating income (in %)	80.4	76.4		
Operating expenses incl. depreciation and amortisation / total operating income (in %)	86.9	82.0		
Client assets under management (in CHF billion)	10.5	11.4		
Change in client assets under management compared to previous year (in %)	–8.2	–0.6		
Net new money inflow (in CHF billion)	0.2	–0.6		
Gross income / average client assets under management (Bp) [1]	63.4	69.6		
Segment result / average client assets under management (Bp) [1]	–2.4	12.6		
Cost/income ratio operating income (in %) [2]	80.5	79.3	1.2	1.5
Headcount (employees)	245	259	–14	–5.4
Headcount (full-time equivalents)	233.4	246.8	–13.4	–5.4

[1] Annualised, average values.
[2] Operating expenses / gross income minus other income and income from financial investments.

Differences in elevation

Ups and downs characterise
a challenging path.

VP Bank between 2001 and 2008

2001

Financial centre

The Due Diligence Act and a new withholding tax system for US securities come into effect.

Liechtenstein is removed from the FATF's blacklist in the middle of the year and the Financial Intelligence Unit (FIU) is established to investigate money laundering, organised crime and terrorist financing.

2002

Financial centre

Final transition to the euro – banknotes and coins are accepted as legal currency on 1 January.

Liechtenstein concludes a legal assistance agreement with the USA.

2003

VP Bank

The BZ group, which fell into difficulties in 2002, sells its share in VP Bank, which equates to 32.9 per cent of the capital and 15.2 per cent of the votes. VP Bank assumes the block of shares itself, destroys the majority of the securities and reduces the share capital from CHF 85.5 million to CHF 59.1 million.

2004

VP Bank

After a construction period of 3 years, VP Bank starts operations at the new service centre in Triesen, Liechtenstein, with 230 employees.

2005

VP Bank

Standard & Poor's gives VP Bank an "A" rating. It is thus one of the few officially rated private banks in the Swiss franc region.

VP Bank opens a Representative Office in Moscow.

Financial centre

The Financial Market Authority (FMA) Liechtenstein is established.

The EU reaches an agreement with Switzerland and Liechtenstein on the taxation of interest. Withholding tax is charged on interest payments to persons in the EU.

2006

VP Bank

The reception hall at the client centre in Vaduz is refurbished and transformed into a feel-good oasis.

Financial centre

The EU approves the Markets in Financial Instruments Directive (MiFID) aimed at harmonising the European financial market. The Asset Management Act comes into force in Liechtenstein and capital tax on fund assets is abolished.

2007

VP Bank

VP Bank opens an asset management company in Hong Kong.

The VP Bank Foundation is established to mark the Bank's 50th anniversary in 2006.

Financial centre

The Liechtenstein government launches the Futuro project aimed at securing the country's future as a financial centre.

2008

VP Bank

With the foundation of its banking subsidiary in Singapore, VP Bank Group is now represented in 7 locations.

VP Bank has to report a negative Group result for the first time in its history.

2001–2008

Structure

The business segment "Client Business International" encompasses the private-banking business 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 results

The segment results before income taxes in 2015 fell by CHF 17.1 million year-on-year. This decline is attributable to the effects of the strong Swiss franc and market uncertainties as well as a higher level of valuation allowances. Particularly as a result of the downward trend in the income from commission business and services as well as income from financial investments, total net operating income dropped by 13.0 per cent from CHF 79.8 million to CHF 69.4 million. This is a result, inter alia, of the centralisation of investment management activities of VP Bank (Switzerland) Ltd in Liechtenstein (net effect on gross income CHF 4.5 million). Interest and trading income developed positively and year-on-year grew by CHF 1.6 million and CHF 1.7 million, respectively.

Operating expenses could be reduced by CHF 5.1 million, or 8.3 per cent, to CHF 55.8 million. This decline occurred in the area of personnel expenses which fell by CHF 3.5 million to CHF 36.8 million as a result of organisational streamlining in the business segment "Client Business International". General and administrative costs could by lowered by CHF 1.6 million to CHF 19.1 million. In the business segment "Client Business International", the recharging of services is based on actual invoices and recorded under general and administrative expenses. During 2015, the charges for valuation allowances, provisions and losses amounted to CHF 11.8 million (prior year: CHF –0.1 million). This increase was caused by a higher level of valuation allowances for credit risks as well as restructuring provisions in connection with the operational integration of activities conducted in Luxembourg. The gross margin declined to 63.4 basis points (prior year: 69.6 basis points). The cost/income ratio rose marginally from 79.3 per cent to 80.5 per cent.

The segment reported a net inflow of new client assets during the year of CHF 0.2 billion. The welcome net inflow of new client assets in Asian markets exceeded net asset outflows in other locations, triggered by the regulatory environment and tax-related issues. Client assets under management at 31 December 2015 amounted to CHF 10.5 billion (31 December 2014: CHF 11.4 billion). The employee headcount could be reduced from 247 (31 December 2014) to 233 positions.

Corporate Center

Segment results

in CHF 1,000	2015	2014	Variance absolute	Variance in %
Total interest income	8,519	9,144	–625	–6.8
Total income from commission business and services	–4,330	–4,652	322	6.9
Income from trading activities	16,336	4,424	11,912	269.3
Income from financial investments	139	10,637	–10,498	–98.7
Other income	49,394	–344	49,738	n.a.
Total net operating income	**70,058**	**19,209**	**50,849**	**264.7**
Personnel expenses	51,558	51,425	133	0.3
General and administrative expenses	38,137	23,851	14,286	59.9
Services to/from other segments	–46,675	–37,110	–9,565	–25.8
Operating expenses	**43,020**	**38,166**	**4,854**	**12.7**
Gross income	**27,038**	**–18,957**	**45,995**	**242.6**
Depreciation and amortisation	30,126	24,553	5,573	22.7
Valuation allowances, provisions and losses	11,350	–1,495	12,845	n.a.
Segment results before income taxes	**–14,438**	**–42,015**	**27,577**	**65.6**
Additional information				
Client assets under management (in CHF billion)	0.0	0.0		
Headcount (employees)	375	339	36	10.6
Headcount (full-time equivalents)	332.5	301.3	31.2	10.4

Structure

The business segment "Corporate Center" is responsible for banking operations and the processing of business transactions. It encompasses the areas Group Operations, Group Information Technology, Group Finance & Risk, Group Treasury & Execution, 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 the 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 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. From 2015 onwards, this segment includes the employees transferred from the above-mentioned units from the integration of Centrum Bank. The effect arising on the reduction of the rate on conversion (IAS 19) also flowed into this segment.

Segment results

In 2015, segment results before income taxes were minus CHF 14.4 million as against minus CHF 42.0 million in the prior year. Total net operating income in 2015 increased by CHF 50.8 million, mainly because of other income, which itself increased by CHF 49.7 million to CHF 49.4 million, primarily because of the "bargain purchase" arising on the merger with Centrum Bank. Total interest income fell by CHF 0.6 million to CHF 8.5 million. Total income from commission business and services reflects a drop in income. It encompassed third-party bank commissions which were invoiced to front business units by the service units through internal recharging. Income from trading activities includes the revenues of Group Treasury & Execution, inter alia. This relates to income generated from the execution of client trades. This caption also includes the results of derivatives employed to minimise risks as well as gains/losses from asset and liability management activities. The decision by the Swiss National Bank on 15 January 2015 to discontinue the minimum exchange-rate support policy against the euro impacted financial instruments. Income from financial investments in 2015 amounted to CHF 0.1 million (prior year: CHF 10.6 million). Interest and dividend income could be increased as a result of higher investment volumes. These additional revenues were not able to compensate for revaluation losses as a result of changes in exchange rates and price reductions.

Operating expenses grew during the reporting period by CHF 4.9 million from CHF 38.2 million to CHF 43.0 million, as a result of charges for the integration of Centrum Bank, on the one hand, and the transfer of employees from the merger, on the other. As a result of the pension-fund-related change in the rate of conversion (IAS 19), personnel expense was discharged with an amount of CHF 8.5 million. Also, internal recharges of CHF 46.7 million increased over in the prior year (CHF 37.1 million) in line with the growth in business volumes.

Depreciation and amortisation increased by CHF 5.6 million to CHF 30.1 million as a result of the merger. The charges for valuation allowances, provisions and losses showed an increase during the reporting period of CHF 12.8 million to reach CHF 11.4 million. Included therein are restructuring costs in connection with the merger with Centrum Bank. Employee headcount grew from 301 (31 December 2014) to 333 positions mostly as a result of the merger.

Notes to the consolidated financial statement

1 Interest income

in CHF 1,000	2015	2014	Variance absolute	Variance in %
Interest and discount income	174	71	103	145.1
Interest income from banks	5,549	12,316	–6,767	–54.9
Interest income from customers	75,443	68,529	6,914	10.1
Interest income from financial instruments measured at amortised cost	17,780	15,245	2,535	16.6
Interest-rate instruments	–4,159	–15,968	11,809	–74.0
Hedge accounting	–106	0	–106	n.a.
Loan commissions with the character of interest	849	737	112	15.2
Total interest income	**95,530**	**80,930**	**14,600**	**18.0**
Interest expenses on liabilities due to banks	–48	124	–172	–138.7
Interest expenses on liabilities due to customers	3,308	7,343	–4,035	–55.0
Interest expenses on medium-term bonds	1,902	2,458	–556	–22.6
Interest expenses on debenture bonds	5,881	5,454	427	7.8
Total interest expense	**11,043**	**15,379**	**–4,336**	**–28.2**
Total interest income	**84,487**	**65,551**	**18,936**	**28.9**
Fair-value hedges[1]				
Movements arising from hedges	–2,840	0	–2,840	n.a.
• Micro fair-value hedges	–2,840	0	–2,840	n.a.
• Portfolio fair-value hedges	0	0	0	n.a.
Movements in underlying transactions	2,734	0	2,734	n.a.
• Micro fair-value hedges	2,734	0	2,734	n.a.
• Portfolio fair-value hedges	0	0	0	n.a.
Cash-flow hedges[1]				
Result of effectively hedged cash-flow hedges (only ineffective portion)	0	0	0	n.a.
Total hedge accounting[2]	**–106**	**0**	**–106**	**n.a.**

[1] Cash-flow hedge accounting as well as portfolio fair-value hedges were employed in neither the current nor the prior-year period.
[2] Hedge ineffectiveness, disclosed in the income statement; further details in note 38.

2 Income from commission business and services

in CHF 1,000	2015	2014	Variance absolute	Variance in %
Commission income from credit business	1,059	815	244	29.9
Asset management and investment business[1]	46,885	37,800	9,085	24.0
Brokerage fees	36,809	39,419	–2,610	–6.6
Securities account fees	17,979	14,993	2,986	19.9
Fund management fees	58,496	62,808	–4,312	–6.9
Fiduciary commissions	796	560	236	42.1
Miscellaneous commission and service income	18,257	17,670	587	3.3
Total income from commission business and services	**180,281**	**174,065**	**6,216**	**3.6**
Brokerage expenses	5,172	5,986	–814	–13.6
Other commission and services-related expenses	48,739	49,661	–922	–1.9
Total expenses from commission business and services	**53,911**	**55,647**	**–1,736**	**–3.1**
Total income from commission business and services	**126,370**	**118,418**	**7,952**	**6.7**

[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	2015	2014	Variance absolute	Variance in %
Securities trading[1]	–4,945	–4,240	–705	n.a.
Interest income from trading portfolios	8	9	–1	–11.1
Foreign currency	51,060	28,012	23,048	82.3
Banknotes, precious metals and other	–61	1,582	–1,643	–103.9
Total income from trading activities	**46,062**	**25,363**	**20,699**	**81.6**

[1] The results from derivatives for the purposes of risk minimisation (other than interest-rate derivatives) are included in this item.

4 Income from financial investments

in CHF 1,000	2015	2014	Variance absolute	Variance in %
Income from financial instruments at fair value	4,230	15,995	–11,765	–73.6
Income from financial instruments at amortised cost	–4,972	–3,502	–1,470	n.a.
Total income from financial investments	**–742**	**12,493**	**–13,235**	**–105.9**
Income from financial instruments at fair value				
Results from FVTPL assets	–5,445	9,261	–14,706	–158.8
Interest income from FVTPL financial instruments	5,682	4,315	1,367	31.7
Dividend income from FVTPL financial instruments	1,197	952	245	25.7
Dividend income from FVTOCI financial instruments	2,796	1,467	1,329	90.6
thereof from FVTOCI financial instruments sold	0	0	0	n.a.
Total	**4,230**	**15,995**	**–11,765**	**–73.6**
Income from financial instruments at amortised cost				
Revaluation gains/losses on financial instruments at amortised cost	–3,257	–3,495	238	n.a.
Realised gains/losses on financial instruments at amortised cost	–1,715	–7	–1,708	n.a.
Total	**–4,972**	**–3,502**	**–1,470**	**n.a.**

5 Other income

in CHF 1,000	Note	2015	2014	Variance absolute	Variance in %
Income from real estate[1]		–1,791	194	–1,985	n.a.
Income from associated companies		–9	24	–33	–137.5
Bargain purchase arising upon acquisition	45	49,982	0	49,982	n.a.
Miscellaneous other income		2,195	614	1,581	257.5
Total other income		**50,377**	**832**	**49,545**	**n.a.**

[1] Includes a result of CHF –1.7 million from the planned sale of real estate (note 24).

6 Personnel expenses

in CHF 1,000	2015	2014	Variance absolute	Variance in %
Salaries and wages	106,107	94,859	11,248	11.9
Social contributions required by law	8,807	8,206	601	7.3
Contributions to pension plans / defined-benefit plans[1]	2,019	10,185	–8,166	–80.2
Contributions to pension plans / defined-contribution plans	1,208	1,223	–15	–1.2
Other personnel expenses	3,739	4,026	–287	–7.1
Total personnel expenses	**121,880**	**118,499**	**3,381**	**2.9**

[1] Includes profit of CHF 8.5 million net from the conversion rate reduction and the integration of Centrum Bank (notes 41 and 45).

7 General and administrative expenses

in CHF 1,000	2015	2014	Variance absolute	Variance in %
Occupancy expenses	8,097	7,860	237	3.0
Insurance	912	858	54	6.3
Professional fees	12,653	9,138	3,515	38.5
Financial information procurement	6,453	5,287	1,166	22.1
Telecommunication and postage	1,229	1,045	184	17.6
IT systems	20,961	13,195	7,766	58.9
Marketing and public relations	4,020	3,391	629	18.5
Capital taxes	154	105	49	46.7
Other general and administrative expenses	5,756	5,893	–137	–2.3
Total general and administrative expenses	**60,235**	**46,772**	**13,463**	**28.8**

8 Depreciation and amortisation

in CHF 1,000	Note	2015	2014	Variance absolute	Variance in %
Depreciation and amortisation of property and equipment	22	11,678	10,787	891	8.3
Amortisation of intangible assets	23	26,575	18,561	8,014	43.2
Total depreciation and amortisation		**38,253**	**29,348**	**8,905**	**30.3**

9 Valuation allowances, provisions and losses

in CHF 1,000	Note	2015	2014	Variance absolute	Variance in %
Credit risks [1]	16	23,221	12,069	11,152	92.4
Legal and litigation risks		1,084	742	342	46.1
Other [2]		14,612	2,666	11,946	448.1
Release of valuation allowances and provisions no longer required		–12,889	–8,061	–4,828	59.9
Total valuation allowances, provisions and losses		**26,028**	**7,416**	**18,612**	**251.0**

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 (note 29).

10a Taxes on income

in CHF 1,000	2015	2014
Domestic		
Current taxes	1,592	1,057
Deferred taxes	–3,113	–886
Foreign		
Current taxes	–363	1,601
Deferred taxes	–2,014	–1,175
Total current taxes	**1,229**	**2,658**
Total deferred taxes	**–5,127**	**–2,061**
Total taxes on income	**–3,898**	**597**

Actual payments for domestic and foreign taxes made by the Group in 2015 totalled CHF 1.4 million (2014: CHF 0.7 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:

	2015	2014
Liechtenstein	12.5%	12.5%
Switzerland	25.0%	20.0%
Luxembourg	18.2%	18.2%
British Virgin Islands	0.0%	0.0%
Singapore	10.0%	10.0%
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	2015	2014
Income before income tax			
Domestic		61,376	14,482
Foreign		–1,218	6,140
Taxes on income using an assumed average charge		**9,024**	**3,093**
Reasons for increased/decreased taxable income			
Difference between actual and assumed tax rates		–1,896	–436
Lower tax charges as a result of changes in laws or taxation agreements		–4,835	–1,663
Deferred taxes on capitalised client assets	45	–4,256	0
Use of tax loss carry-forwards		–1,935	–397
Total income tax		**–3,898**	**597**

10b Deferred tax assets and liabilities

in CHF 1,000	Note	2015	2014
Deferred tax assets			
Real estate and property and equipment		4,678	4,140
Tax loss carry-forwards[1]		5,179	0
Defined-benefit pension plans		10,082	8,577
Securities		3,939	3,519
Other		0	0
Total deferred tax assets		**23,878**	**16,236**
Deferred tax liabilities			
Real estate and property and equipment		5,284	3,541
Financial instruments		2,439	2,452
Financial instruments directly offset within shareholders' equity		384	219
Valuation allowances for credit risks		1,053	717
Other provisions		4,993	1,826
Total deferred tax liabilities		**14,153**	**8,755**
Deferred tax assets			
Balance at the beginning of the financial year		16,236	11,319
Offset within shareholders' equity		1,462	3,869
Tax loss carry-forwards[1]		0	0
Charged to income statement		1,001	1,445
Changes in scope of consolidation	45	5,179	0
Released to income statement		0	–397
Total deferred tax assets		**23,878**	**16,236**

in CHF 1,000	Note	2015	2014
Deferred tax liabilities			
Balance at the beginning of the financial year		8,755	9,901
Reclassifications		–4,092	–133
Charged to income statement		3,421	837
Changes in scope of consolidation	45	9,360	0
Released to income statement		–1,943	–1,850
Effects of changes in deferred tax rates		–1,348	0
Total deferred tax liabilities		**14,153**	**8,755**

[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	287
Within 2 to 4 years	589	426
After 4 years	318	481
Total	**907**	**1,195**

10c Tax assets and liabilities

in CHF 1,000	Note	31.12.2015	31.12.2014
Tax assets			
Amounts receivable arising on current taxes on income		1,760	569
Deferred tax assets	10b	23,878	16,236
Total tax assets		**25,638**	**16,805**
Tax liabilities			
Liabilities arising on current taxes on income		2,641	2,467
Deferred tax liabilities	10b	14,153	8,755
Total tax liabilities		**16,794**	**11,222**

11 Earnings per share

	2015	2014
Consolidated earnings per share of VP Bank Ltd, Vaduz		
Net income (in CHF 1,000) [1]	64,056	20,025
Weighted average of bearer shares	5,706,486	5,208,774
Weighted average of registered shares	5,924,810	5,985,689
Total weighted average number of bearer shares	6,298,967	5,807,343
Undiluted consolidated earnings per bearer share	10.17	3.45
Undiluted consolidated earnings per registered share	1.02	0.34
Fully diluted consolidated earnings per share of VP Bank Ltd, Vaduz		
Net income (in CHF 1,000) [1]	64,056	20,025
Adjusted consolidated net income (in CHF 1,000)	64,056	20,025
Number of shares used to compute the fully diluted consolidated net income	6,298,967	5,807,343
Fully diluted consolidated earnings per bearer share	10.17	3.45
Fully diluted consolidated earnings per registered share	1.02	0.34

[1] On the basis of Group profits attributable to the shareholders of VP Bank Ltd, Vaduz.

12 Dividend

	2015	2014
Approved and paid dividend of VP Bank Ltd, Vaduz		
Dividend (in CHF 1,000) for the financial year 2014 (2013)	19,846	20,702
Dividend per bearer share	3.00	3.50
Dividend per registered share	0.30	0.35
Payout ratio (in %)	n.a.	53.2
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 2015	26,462	
Dividend per bearer share	4.00	
Dividend per registered share	0.40	
Payout ratio (in %)	39.3	

13 Cash and cash equivalents

in CHF 1,000	31.12.2015	31.12.2014
Cash on hand	13,815	18,092
At-sight balances with national and central banks	2,941,712	1,908,876
Total cash and cash equivalents	**2,955,527**	**1,926,968**

14 Receivables arising from money-market paper

in CHF 1,000	31.12.2015	31.12.2014
Money-market paper (qualifying for refinancing purposes)	14,652	22,027
Other money-market paper	0	0
Total receivables arising from money-market paper	**14,652**	**22,027**

15 Due from banks and customers

in CHF 1,000	Note	31.12.2015	31.12.2014
By type of exposure			
Due from banks – at-sight balances		445,662	665,472
Due from banks – term balances		1,616,355	2,619,747
Valuation allowances for credit risks	16	–1,747	–2,993
Due from banks		**2,060,270**	**3,282,226**
Mortgage receivables		3,355,131	2,942,709
Other receivables		1,712,760	1,365,380
Valuation allowances for credit risks	16	–60,882	–44,146
Due from customers		**5,007,009**	**4,263,943**
Total due from banks and customers		**7,067,279**	**7,546,169**
Due from customers by type of collateral			
Mortgage collateral		3,352,140	2,888,462
Other collateral		1,490,306	1,188,889
Without collateral		225,445	230,738
Subtotal		**5,067,891**	**4,308,089**
Valuation allowances for credit risks		–60,882	–44,146
Total due from customers		**5,007,009**	**4,263,943**

16 Valuation allowances for credit risks

in CHF 1,000	Note	2015	2014
Balance at the beginning of the financial year		47,139	44,663
Amounts written off on loans / utilisation in accordance with purpose		–603	–5,042
Creation of valuation allowances and provisions for credit risks	9	23,045	11,856
Release of valuation allowances and provisions for credit risks		–11,906	–4,551
Changes in scope of consolidation		4,778	0
Foreign-currency translation differences and other adjustments	9	176	213
Balance at the end of the financial year		**62,629**	**47,139**
As valuation adjustment for due from banks		1,747	2,993
As valuation adjustment for due from customers		60,882	44,146
Total valuation allowances for credit risks		**62,629**	**47,139**

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**

[1] Other receivables primarily comprise lombard loans, debit balances on accounts and unsecured loans.

in CHF 1,000	Banks	Mortgage receivables	Other receivables	Total 2014
By type of exposure				
Balance at the beginning of the financial year	3,008	15,011	26,644	44,663
Amounts written off on loans / utilisation in accordance with purpose	0	–4,574	–468	–5,042
Creation of valuation allowances and provisions for credit risks	1,228	7,377	3,251	11,856
Release of valuation allowances and provisions for credit risks	–1,244	–1,835	–1,472	–4,551
Foreign-currency translation differences and other adjustments	1	189	23	213
Balance at the end of the financial year	**2,993**	**16,168**	**27,978**	**47,139**
of which				
Individual valuation allowances	0	10,500	12,294	22,794
Lump-sum valuation allowances	2,993	5,668	15,684	24,345
Total	**2,993**	**16,168**	**27,978**	**47,139**

in CHF 1,000	Individual 2015	Lump-sum 2015	Individual 2014	Lump-sum 2014
By type of valuation allowance				
Balance at the beginning of the financial year	22,794	24,345	22,497	22,166
Amounts written off on loans / utilisation in accordance with purpose	–603	0	–5,042	0
Creation of valuation allowances and provisions for credit risks	20,858	2,187	8,317	3,539
Release of valuation allowances and provisions for credit risks	–6,303	–5,603	–3,125	–1,426
Changes in scope of consolidation	1,333	3,445	0	0
Foreign-currency translation differences and other adjustments	159	17	147	66
Balance at the end of the financial year	**38,238**	**24,391**	**22,794**	**24,345**

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	2015	2014
Value-impaired loans[1]	76,784	69,798
Amount of valuation allowances for credit losses from non-performing loans	38,238	22,794
Net amounts due	38,546	**47,004**
Estimated realisable value of value-impaired loans	38,546	**47,004**
Average amount of value-impaired loans	73,291	**56,028**
Recoveries from loans already written off (other income)	200	11

[1] Interest receivable on non-performing loans in 2015 was CHF 1.125 million (2014: CHF 0.553 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	2015	2014
Non-performing loans	19,663	12,348
Amount of valuation allowances for credit losses from non-performing loans	12,630	2,354
Net amounts due	7,033	**9,994**
Average amount of non-performing loans	16,006	**16,925**
Valuation allowances on non-performing loans at the beginning of the financial year	2,354	9,378
Net decrease/increase	10,288	–2,080
Amounts written off and disposals / utilisation in conformity with purpose	–12	–4,944
Valuation allowances on non-performing loans at the end of the financial year	**12,630**	**2,354**

in CHF 1,000	31.12.2015	31.12.2014
According to type of exposure		
Banks	**0**	**0**
Mortgage receivables	7,601	11,938
Other receivables	12,062	410
Customers	**19,663**	**12,348**
Total non-performing loans	**19,663**	**12,348**
According to region (domicile of debtor)		
Liechtenstein and Switzerland	8,828	11,906
Rest of Europe	10,707	342
North and South America	0	10
Other countries	128	90
Total non-performing loans	**19,663**	**12,348**

17 Trading portfolios

in CHF 1,000	31.12.2015	31.12.2014
Debt securities valued at fair value		
Other public-law institutions	0	0
Exchange-listed	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	154	189
Total trading portfolios	**154**	**189**

18 Derivative financial instruments

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**

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.

31.12.2014 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments			
Forward contracts			
Swaps		31,433	377,847
Futures			74,239
Options (OTC)			
Options (exchange-traded)			
Total interest rate instruments 31.12.2014	**0**	**31,433**	**452,086**
Foreign currencies			
Forward contracts	3,266	3,240	303,188
Combined interest rate/currency swaps	51,653	9,497	2,845,589
Futures			
Options (OTC)	842	842	99,005
Options (exchange-traded)			
Total foreign currencies 31.12.2014	**55,761**	**13,579**	**3,247,782**
Equity securities/indices			
Forward contracts			
Futures			10,910
Options (OTC)			
Options (exchange-traded)		509	17,095
Total equity securities/indices 31.12.2014	**0**	**509**	**28,005**

31.12.2014 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Precious metals			
Forward contracts		31	1,131
Futures			
Options (OTC)	365	365	29,233
Options (exchange-traded)			
Total precious metals 31.12.2014	**365**	**396**	**30,364**
Total derivative financial instruments 31.12.2014	**56,126**	**45,917**	**3,758,237**

19 Financial instruments at fair value

in CHF 1,000	31.12.2015	31.12.2014
Debt instruments		
Public-law institutions in Liechtenstein and Switzerland	0	0
Public-law institutions outside Liechtenstein and Switzerland	42,651	37,951
Exchange-listed	272,408	231,753
Non-exchange-listed	0	21,904
Total	**315,059**	**291,608**
Equity shares / investment fund units		
Exchange-listed	32,398	39,694
Non-exchange-listed	46,962	39,843
Total	**79,360**	**79,537**
Structured products		
Exchange-listed	0	0
Non-exchange-listed [1]	2,458	96
Total	**2,458**	**96**
Total financial instruments at fair value	**396,877**	**371,241**

[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	31.12.2015	31.12.2014
Debt instruments		
Public-law institutions in Liechtenstein and Switzerland	4,000	4,000
Public-law institutions outside Liechtenstein and Switzerland	789,643	393,922
Exchange-listed	819,660	632,214
Non-exchange-listed	52,304	43,973
Total	**1,665,607**	**1,074,109**
Total financial instruments at amortised cost	**1,665,607**	**1,074,109**

21 Associated companies

in CHF 1,000	31.12.2015	31.12.2014
Balance at the beginning of the financial year	65	41
Additions	–9	24
Value impairments	0	0
Balance as of balance-sheet date	**56**	**65**

Details of material companies reflected in the consolidation using the equity method

Name	Registered office	Activity	Share capital	% of capital held 31.12.2015	% of capital held 31.12.2014
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 2015
Acquisition cost					
Balance on 01.01.	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.	**202,340**	**5,160**	**20,309**	**33,285**	**261,094**
Accumulated depreciation and amortisation					
Balance on 01.01.	–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.	**–118,749**	**–4,661**	**–19,328**	**–28,745**	**–171,483**
Net book values on 31.12.	**83,591**	**499**	**981**	**4,540**	**89,611**

in CHF 1,000	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total 2014
Acquisition cost					
Balance on 01.01.	198,815	22,038	20,533	28,542	269,928
Additions	2,201	94	181	3,586	6,062
Disposals/derecognitions [1]	–257		–591	–12,690	–13,538
Changes in scope of consolidation					0
Foreign-currency translation	92	44	61	131	328
Balance on 31.12.	**200,851**	**22,176**	**20,184**	**19,569**	**262,780**
Accumulated depreciation and amortisation					
Balance on 01.01.	–107,077	–4,873	–17,518	–23,281	–152,749
Depreciation and amortisation	–5,900	–264	–1,229	–3,394	–10,787
Valuation allowances					0
Disposals/derecognitions [1]	257		591	12,690	13,538
Changes in scope of consolidation					0
Foreign-currency translation		–34	–40	–91	–165
Balance on 31.12.	**–112,720**	**–5,171**	**–18,196**	**–14,076**	**–150,163**
Net book values on 31.12.	**88,131**	**17,005**	**1,988**	**5,493**	**112,617**

[1] Includes the derecognitions of completely depreciated and amortised assets.

Additional information regarding property and equipment

in CHF 1,000	2015	2014
Fire insurance value of real estate	182,202	182,703
Fire insurance value of other property and equipment	38,537	38,637
Fair value of other real estate	499	17,005

There is no property and equipment arising from financing leasing contracts.

23 Goodwill and other intangible assets

in CHF 1,000	Software	Other intangible assets capitalised	Goodwill	Total 2015
Acquisition cost				
Balance on 01.01.	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.	**157,997**	**44,123**	**46,112**	**248,232**
Accumulated amortisation				
Balance on 01.01.	–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.	**–147,362**	**–7,600**	**–35,302**	**–190,264**
Net book values on 31.12.	**10,635**	**36,523**	**10,810**	**57,968**

in CHF 1,000	Software	Other intangible assets capitalised	Goodwill	Total 2014
Acquisition cost				
Balance on 01.01.	144,067	10,037	46,112	200,216
Additions	3,635	41		3,676
Disposals/derecognitions	–6,000			–6,000
Changes in scope of consolidation				0
Foreign-currency translation	403			403
Balance on 31.12.	**142,105**	**10,078**	**46,112**	**198,295**
Accumulated amortisation				
Balance on 01.01.	–111,526	–167	–35,302	–146,995
Depreciation and amortisation	–16,548	–2,013		–18,561
Valuation allowances				0
Disposals/derecognitions	6,000			6,000
Changes in scope of consolidation				0
Foreign-currency translation	–332			–332
Balance on 31.12.	**–122,406**	**–2,180**	**–35,302**	**–159,888**
Net book values on 31.12.	**19,699**	**7,898**	**10,810**	**38,407**

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 is purchasing real estate from VP Bank in the municipality of Vaduz. At the balance sheet date all the formalities have not yet been completed and therefore the property is disclosed as an asset held for sale. The sale is expected to be completed at the start of 2016.

in CHF 1,000	31.12.2015	31.12.2014
Real estate held for sale	15,000	0
Total assets held for sale	**15,000**	**0**

25 Other assets

in CHF 1,000	31.12.2015	31.12.2014
Value-added taxes and other tax receivables	1,648	2,550
Miscellaneous other assets [1]	9,435	12,787
Total other assets	**11,083**	**15,337**

[1] Compensation accounts, settlement accounts and miscellaneous other assets.

26 Medium-term notes

in CHF 1,000 Maturity	Interest rate 0–0.9999%	Interest rate 1–1.9999%	Interest rate 2–2.9999%	Interest rate 3–3.9999%	Total
2016	13,177	59,389	0		72,566
2017	56,612	21,154	87		77,853
2018	20,553	7,699	425		28,677
2019	2,207	10,436	53		12,696
2020	76	17,738	114		17,928
2021	0	3,157	146		3,303
2022	75	531	244		850
2023	0	686	0		686
2024	100	346	0		446
2025	137	289	54		480
Total 31.12.2015	**92,938**	**121,425**	**1,123**	**0**	**215,486**
Total 31.12.2014	87,850	89,825	13,768	1,866	193,309

The average interest rate as of 31 December 2015 was 1.25 per cent (prior year: 1.32 per cent).

27 Debentures, VP Bank Ltd, Vaduz

Year of issue	ISIN	Interest rate in %	Currency	Maturity	in CHF 1,000 Nominal amount	Total 31.12.2015	Total 31.12.2014
2010	CH0112734469	2.500	CHF	27.05.2016	151,000[1]	149,119	199,370
2015	CH0262888933	0.500	CHF	07.04.2021	100,000	100,365	0
2015	CH0262888941	0.875	CHF	07.10.2024	100,000	100,477	0
Total					**351,000**	**349,961**	**199,370**

[1] In 2015, VP Bank Ltd redeemed, on the free market, debentures of a nominal value of CHF 49 million in compliance with the debentures' terms of issue. The debentures so redeemed were cancelled.

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 (2.73 per cent debenture 2016; 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	31.12.2015	31.12.2014
Value-added taxes and other tax receivables	8,463	10,585
Accrued retirement pension contributions	74,993	64,344
Miscellaneous other liabilities [1]	33,389	29,248
Total other liabilities	**116,845**	**104,177**

[1] Compensation accounts, settlement accounts and miscellaneous other liabilities.

29 Provisions

in CHF 1,000	Default risks	Legal and litigation risks	Other provisions	Restructuring provisions	Total 2015	Total 2014
Carrying value at the beginning of the financial year	168	6,123	2,839	0	9,130	9,958
Utilisation in accordance with purpose		–48	–744	–9,163	–9,955	–486
New provisions charged to income statement	136	1,084	491	15,299	17,010	3,190
Provisions releases to income statement	–38	–1,023	–95	–865	–2,021	–3,563
Foreign-currency translation differences and other adjustments		157	67	5	229	31
Carrying value at the end of the financial year	**266**	**6,293**	**2,558**	**5,276**	**14,393**	**9,130**

Maturity of provisions		
• within one year	14,393	9,130
• over one year	0	0

30 Share capital

	31.12.2015		31.12.2014	
	No. of shares	Nominal CHF	No. of shares	Nominal CHF
Registered shares of CHF 1.00 nominal value	6,004,167	6,004,167	6,004,167	6,004,167
Bearer shares of CHF 10.00 nominal value	6,015,000	60,150,000	5,314,347	53,143,470
Total share capital		**66,154,167**		**59,147,637**

All shares are fully paid up.

The shareholders of VP Bank present at the extraordinary general meeting of VP Bank held on Friday, 10 April 2015, approved all motions submitted by the Board of Directors. On the occasion of the takeover of Centrum Bank by VP Bank, it was agreed that Marxer Stiftung für Bank- und Unternehmenswerte, as the previous sole shareholder of Centrum Bank, will participate in the capital of VP Bank to the extent of the countervalue of the sales price (note 45). As neither the corresponding number of shares was freely available on the market nor were there sufficient bearer shares in the Bank's own shareholdings, the Board of Directors resolved to undertake a corresponding capital increase excluding the right of subscription thereto of the existing shareholders. The extraordinary general meeting approved an increase in share capital of CHF 7,006,530.00 as well as the issuance of 700,653 bearer shares of a par value of CHF 10.00 with entitlement to a dividend as from the date of issuance. Following the capital increase as part of the merger, there resulted a new balance of 6,015,000 bearer shares, and the total share capital of the Bank now amounts to CHF 66,154,167.00. The new shares were listed in the International Reporting Standard of SIX Swiss Exchange on 30 September 2015.

31 Treasury shares

	31.12.2015		31.12.2014	
	No. of shares	in CHF 1,000	No. of shares	in CHF 1,000
Registered shares at the beginning of the financial year	209	2	30,659	377
Purchases	125,713	1,055	10,050	76
Sales	–10	–1	–40,500	–451
Balance of registered shares as of balance-sheet date [1]	**125,912**	**1,056**	**209**	**2**
Bearer shares at the beginning of the financial year	111,634	21,015	107,795	25,526
Purchases	602,060	50,039	88,043	7,710
Sales	–118,920	–21,611	–84,204	–12,221
Balance of bearer shares as of balance-sheet date [1]	**594,774**	**49,443**	**111,634**	**21,015**

[1] VP Bank AG 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	31.12.2015 Market value	31.12.2015 Actual liability	31.12.2014 Market value	31.12.2014 Actual liability
Securities	627,112	0	487,588	0
Money-market paper	0	0	0	0
Other	0	0	0	0
Total pledged assets	**627,112**	**0**	**487,588**	**0**

The assets are pledged to limits for the repo business with national and central banks, for stock exchange deposits and to secure the business activities of overseas organisations pursuant to local legal provisions. Pledged or assigned assets within the framework of securities lending transactions or of repurchase and reverse repurchase transactions are not reflected in the above analysis. They are shown in the table "Securities lending and repurchase and reverse repurchase transactions with securities" (note 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	31.12.2015	31.12.2014
Remaining duration of up to 1 year	5,587	6,389
Remaining duration of 1 to 5 years	12,448	17,164
Remaining duration of over 5 years	9,805	4,800
Total minimum commitments under operating leases	**27,840**	**28,353**

As of 31 December 2015, general and administrative expenses include CHF 5.979 million of operating lease costs (prior year: CHF 6.691 million).

34 Litigation

Within the normal course of business, VP Bank Group is involved in various legal proceedings. It raises provisions for ongoing and threatened litigation whenever, in the opinion of management, payments or losses by Group companies are probable and their amount can be estimated. If no outflow of resources is probable or the amount of the liabilities cannot be reliably estimated, a contingent liability is to be disclosed. 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 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 2015
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	3,063,746	4,877,608	2,736,720	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	**3,894,747**	**4,963,554**	**2,736,720**	**766,395**	**12,361,416**

in CHF 1,000	CHF	USD	EUR	Other	Total 2014
Assets					
Cash and cash equivalents	1,899,701	444	26,205	618	1,926,968
Receivables arising from money-market paper				22,027	22,027
Due from banks	484,771	1,079,947	1,249,876	467,632	3,282,226
Due from customers	3,100,030	482,686	581,295	99,932	4,263,943
Trading portfolios				189	189
Derivative financial instruments	54,970	1,156			56,126
Financial instruments at fair value	209,500	82,261	77,797	1,683	371,241
Financial instruments at amortised cost	291,893	335,641	446,575		1,074,109
Associated companies	65				65
Property and equipment	111,207	1,375		35	112,617
Intangible assets	37,863	544			38,407
Tax receivables	14		555		569
Deferred tax assets	16,236				16,236
Accrued receivables and prepaid expenses	13,662	4,153	6,060	722	24,597
Other assets	10,148	136	4,359	694	15,337
Total assets 31.12.2014	**6,230,060**	**1,988,343**	**2,392,722**	**593,532**	**11,204,657**

in CHF 1,000	CHF	USD	EUR	Other	Total 2014
Liabilities and shareholders' equity					
Due to banks	168,450	11,163	120,432	4,009	304,054
Due to customers – savings and deposits	858,695		406		859,101
Due to customers – other liabilities	2,239,807	2,885,766	2,184,046	1,277,307	8,586,926
Derivative financial instruments	39,308	3,971	2,638		45,917
Medium-term notes	169,384	4,398	19,527		193,309
Debenture issues	199,370				199,370
Tax liabilities	2,287		180		2,467
Deferred tax liabilities	8,755				8,755
Accrued liabilities and deferred items	19,519	639	2,348	488	22,994
Other liabilities	86,079	4,905	9,649	3,544	104,177
Provisions	8,832	298			9,130
Total liabilities	3,800,486	2,911,140	2,339,226	1,285,348	10,336,200
Total shareholders' equity	788,018	79,658	53	728	868,457
Total liabilities and shareholders' equity 31.12.2014	**4,588,504**	**2,990,798**	**2,339,279**	**1,286,076**	**11,204,657**

36 Maturity structure of assets and liabilities

in CHF 1,000	At sight	Callable	Due within 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 receivables and prepaid expenses	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

Stamina

The path of faith grows ever narrower.

VP Bank between 2009 and 2012

2009

VP Bank

The Board of Directors confirms the Bank's basic strategic focus. Its core competencies include the intermediaries business as well as international private banking. In Liechtenstein and the Eastern Switzerland region, the Bank also wants to be the preferred partner among business, credit and retail clients.

In mid-2009, CEO Adolf E. Real leaves VP Bank after over 26 years with the company.

Financial centre

Liechtenstein agrees to meet the OECD standard regarding the exchange of tax information and signs a total of 13 international agreements as early as 2009.

Liechtenstein is now officially no longer a tax haven; the OECD removes Liechtenstein from its grey list.

2010

Financial centre

The government presents a savings package worth CHF 160 million.

2011

VP Bank

VP Bank is preparing for the challenges of the future. Luxembourg is the final bank subsidiary to begin working with the new Avaloq banking software. This will make it easier and more efficient to provide products and services for VP Bank Group, as well as to accommodate the individual requirements of each client.

Financial centre

The Swiss National Bank defines a minimum exchange rate against the euro.

2012

VP Bank

The Chairman of the Board of Directors and Princely Counsel Hans Brunhart hands over his position to Fredy Vogt, who has performed various management functions at VP Bank since 1987. Hans Brunhart served on the VP Bank Board of Directors for 18 years, including 16 years as Chairman.

2009–2012

in CHF 1,000	At sight	Callable	Due within 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	1,926,968					1,926,968
Receivables arising from money-market paper			22,027			22,027
Due from banks	665,472		2,605,358	10,990	406	3,282,226
Due from customers	15,465	445,821	2,037,056	1,362,593	403,008	4,263,943
Trading portfolios	189					189
Derivative financial instruments	56,126					56,126
Financial instruments at fair value	328,847		11,374	7,108	23,912	371,241
Financial instruments at amortised cost	59,499		164,945	767,631	82,034	1,074,109
Associated companies	65					65
Property and equipment[1]					112,617	112,617
Intangible assets					38,407	38,407
Tax receivables	569					569
Deferred tax assets				16,236		16,236
Accrued receivables and prepaid expenses	22,928		1,464	169	36	24,597
Other assets	15,098	239				15,337
Total assets 31.12.2014	**3,091,226**	**446,060**	**4,842,224**	**2,164,727**	**660,420**	**11,204,657**
Liabilities and shareholders' equity						
Due to banks	256,853		47,201			304,054
Due to customers – savings and deposits		859,101				859,101
Due to customers – other liabilities	7,401,785	481,402	702,433	1,306		8,586,926
Derivative financial instruments	45,917					45,917
Medium-term notes			52,922	121,723	18,664	193,309
Debenture issues				199,370		199,370
Tax liabilities	2,467					2,467
Deferred tax liabilities	4,213			4,542		8,755
Accrued liabilities and deferred items	22,689		305			22,994
Other liabilities	104,177					104,177
Provisions	9,130					9,130
Total liabilities 31.12.2014	**7,847,231**	**1,340,503**	**802,861**	**326,941**	**18,664**	**10,336,200**

[1] Without maturity

37 Classification of assets by country or groups of countries

	31.12.2015 in CHF 1,000	31.12.2015 Proportion in %	31.12.2014 in CHF 1,000	31.12.2014 Proportion in %
Liechtenstein and Switzerland	8,013,460	64.9	6,942,922	62.0
Rest of Europe	2,363,810	19.1	3,134,204	28.0
North America	754,957	6.1	313,456	2.7
Other countries	1,229,189	9.9	814,075	7.3
Total assets	**12,361,416**	**100.0**	**11,204,657**	**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 31.12.2015	Fair value 31.12.2015	Variance	Carrying value 31.12.2014	Fair value 31.12.2014	Variance
Assets						
Cash and cash equivalents	2,956	2,956	0	1,927	1,927	0
Receivables arising from money-market paper	15	15	0	22	22	0
Due from banks	2,060	2,061	1	3,282	3,283	1
Due from customers	5,007	5,167	160	4,264	4,390	126
Trading portfolios	0	0	0	0	0	0
Derivative financial instruments	37	37	0	56	56	0
Financial instruments at fair value	397	397	0	371	371	0
of which designated on initial recognition	0	0	0	0	0	0
of which mandatory under IFRS 9	383	383	0	355	355	0
of which recognised in other comprehensive income with no effect on net income	14	14	0	16	16	0
Financial instruments at amortised cost	1,666	1,679	13	1,074	1,099	25
Subtotal			**174**			**152**
Liabilities						
Due to banks	100	100	0	304	304	0
Due to customers	10,546	10,541	5	9,446	9,436	10
Derivative financial instruments	53	53	0	46	46	0
Medium-term notes	215	220	–5	193	198	–5
Debentures issued	350	351	–1	199	207	–8
Subtotal			**–1**			**–3**
Total variance			**173**			**149**

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	118,496	0	12,826	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	121,148	0	2,655	0	Due from customers
of which closed hedging relationships (client receivables)	2,025	0	79	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
Assets 31.12.2015				
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 31.12.2015				
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

In the financial year 2015, positions with a fair value of CHF 4.5 million (2014: CHF 0.0 million) were reclassified from Level 1 (quoted market prices) to Level 2 (valuation methods based on market data), CHF 0.0 million (2014: CHF 4.3 million) from Level 2 to Level 3 (valuation methods, based on realistic market-data-related assumptions) as well as CHF 4.3 million from Level 3 to Level 2 (2014: CHF 0.0 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).

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
Assets 31.12.2014				
Cash and cash equivalents		1,927		1,927
Receivables arising from money-market paper	22			22
Due from banks		3,283		3,283
Due from customers		4,390		4,390
Trading portfolios				0
Derivative financial instruments		56		56
Financial instruments at fair value	309	57	5	371
Financial instruments at amortised cost	1,099			1,099
Liabilities 31.12.2014				
Due to banks		304		304
Due to customers		9,436		9,436
Derivative financial instruments		46		46
Medium-term notes		198		198
Debentures issued	207			207

Level 3 financial instruments in CHF million	**2015**	**2014**
Balance sheet		
Holdings at the beginning of the year	4.5	4.1
Investments	0.0	0.0
Disposals	0.0	0.0
Issues	0.0	0.0
Redemptions	0.0	–2.8
Losses recognised in the income statement	1.5	0.0
Losses recognised as other comprehensive income	–0.5	–1.5
Gains recognised in the income statement	3.2	0.0
Gains recognised as other comprehensive income	0.0	0.5
Reclassification to Level 3	0.0	4.3
Reclassification from Level 3	–4.3	0.0
Translation differences	0.0	0.0
Total book value at balance-sheet date	**4.4**	**4.5**
Income on holdings at balance-sheet date		
Unrealised losses recognised in the income statement	1.5	0.0
Unrealised losses recognised as other comprehensive income	–0.5	–1.5
Unrealised gains recognised in the income statement	3.2	0.0
Unrealised gains recognised as other comprehensive income	0.0	0.5

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 2015 or 31 December 2014.

Sensitivity of fair values of Level 3 financial instruments:

Changes in the net asset values of investment funds lead to corresponding changes in the fair values of these financial instruments. A realistic change in the basic assumptions or estimated values has no material impact on the statement of income, other comprehensive income or the equity of VP Bank Group's shareholders.

Netting agreements

In order to reduce the credit risks in connection with financial derivatives, repurchase and reverse repurchase as well as securities-lending and -borrowing transactions, VP Bank Group enters into global offset agreements or similar arrangements (netting agreements) with its counterparties. These include ISDA Master Netting Agreements, Global Master Securities Lending Agreements and Global Master Repo Agreements. Using netting agreements, VP Bank Group can protect itself against losses arising from possible insolvency proceedings or other circumstances in which the counterparty is unable to meet its obligations. In such cases, netting agreements foresee the immediate offset and/or settlement of all financial instruments falling under the related agreement. A right of offset, in principle, exists only whenever a default in payment or other circumstances occur which are not expected in the ordinary course of business. Financial instruments falling under a netting agreement do not meet the set-off requirements for balance-sheet purposes, which is why the related financial instruments are not netted in the balance sheet.

Netting agreements

31.12.2015	**Balance-sheet netting**			**Netting potential**		
in CHF 1,000	**Amount prior to balance-sheet netting**	**Balance-sheet netting**	**Carrying value**	**Financial liabilities**	**Collateral received**	**Assets after taking account of netting potential**
Financial assets						
Reverse repurchase transactions	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
	Amount prior to balance-sheet netting	**Balance-sheet netting**	**Carrying value**	**Financial assets**	**Collateral provided**	**Liabilities after taking account of netting potential**
Financial liabilities						
Repurchase transactions			0			0
Negative replacement values	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**

31.12.2014 in CHF 1,000	Balance-sheet netting Amount prior to balance-sheet netting	 Balance-sheet netting	 Carrying value	Netting potential Financial liabilities	 Collateral received	 Assets after taking account of netting potential
Financial assets						
Reverse repurchase transactions			0			0
Positive replacement values	56,126		56,126	17,732		38,394
Collateral deposited for transactions with derivatives	54,184		54,184	16,627		37,557
Total assets	**110,310**	**0**	**110,310**	**34,359**	**0**	**75,951**
	Amount prior to balance-sheet netting	**Balance-sheet netting**	**Carrying value**	**Financial assets**	**Collateral provided**	**Liabilities after taking account of netting potential**
Financial liabilities						
Repurchase transactions			0			0
Negative replacement values	45,917		45,917	34,359	6,373	5,185
Collateral received from transactions with derivatives	325		325			325
Total liabilities	**46,242**	**0**	**46,242**	**34,359**	**6,373**	**5,510**

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	Munich	EUR	500,000	100%
VP Bank (Singapore) Ltd	Singapore	SGD	74,000,000	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	The acquisition of Centrum Bank AG, Vaduz, (note 45) was completed on 7 January 2015 and it was integrated into VP Bank from this date onwards.			
Shareholdings accounted for the first time in accordance with the equity method	none			
Name changes during the financial year	IFOS Internationale Fonds Service Aktiengesellschaft, Vaduz to VP Fund Solutions (Liechtenstein) AG VPB Finance S.A., Luxembourg to VP Fund Solutions (Luxembourg) SA			

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	2015	2014
Remuneration of the members of the Board of Directors		
Remuneration due in the short term [1,2]	1,097	1,001
Post-employment benefits		
Other long-term remuneration due		
Remuneration due upon termination of contract of employment		
Share-based payment [1,2,3]	320	306

in CHF 1,000	2015	2014
Remuneration of the members of Group Management		
Remuneration due in the short term[2]	2,556	2,615
Post-employment benefits		
Other long-term remuneration due		
Remuneration due upon termination of contract of employment		
Share-based payments[2,4]	1,133	1,561

[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 bearer shares 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 2015 was CHF 0.906 million (previous year: CHF 0.481 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 2015, held 87,604 bearer shares and 139,750 registered shares of VP Bank Ltd, Vaduz (previous year: 99,781 bearer shares and 179,600 registered shares).

Loans to related companies and individuals (as of balance-sheet dates):

in CHF 1,000	2015	2014
Mortgages and loans at the beginning of the financial year	8,950	9,170
Additions	145	3,820
Repayments	–715	–4,040
Mortgages and loans at the end of the financial year	**8,380**	**8,950**

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.

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 2015 amounted to CHF 1.208 million (prior year: CHF 1.223 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 2015 by independent actuaries using the Projected Unit Credit Method. The fair value of plan assets as of 31 December 2015 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:

	31.12.2015	31.12.2014
Discount rate	0.90%	1.15%
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	1950	1949
• men	21.49	21.29
• women	23.96	23.76
Year of birth	1970	1969
• men	23.24	23.09
• women	25.67	25.52

The amounts recognised in the income statement may be summarised as follows:

Pension costs

in CHF 1,000	2015	2014
Pension expense recognised in income statement		
Service cost		
• current service cost	12,791	9,338
• past service cost	–11,776	–70
• plan settlements	0	0
Net interest expense	722	661
Administrative costs	282	256
Total pension cost expense of the period	**2,019**	**10,185**
Revaluation components recognised in comprehensive income		
Actuarial gains/losses		
Result of changes to demographic assumptions	0	0
Result of changes to economic assumptions	10,371	36,059
Experience adjustments	–6,586	1,238
Return on plan assets (excluding amounts in net interest expense)	8,626	–7,240
Total expense recognised in comprehensive income	**12,411**	**30,057**
Total pension cost	**14,430**	**40,242**

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	2015	2014
Present value of defined-benefit obligations at beginning of financial year	283,922	234,141
Current service cost	12,791	9,338
Employee contributions	5,488	4,994
Interest expense on present value of pension obligations	3,606	5,539
Actuarial gains/losses	3,785	37,297
Past service cost	–11,776	–70
Plan settlements	38,353	0
Pension payments financed by plan assets	–18,091	–7,317
Balance at end of financial year	**318,078**	**283,922**

Movement in plan assets

in CHF 1,000	2015	2014
Plan assets at beginning of financial year	219,578	199,097
Employee contributions	5,488	4,994
Employer contributions	9,049	10,942
Interest income on plan assets	2,884	4,878
Return on plan assets (excluding amounts under interest income)	–8,626	7,240
Transfers of assets through plan settlements	33,085	0
Pension payments financed by plan assets	–18,091	–7,317
Administrative costs	–282	–256
Balance at end of financial year	**243,085**	**219,578**

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	31.12.2015	31.12.2014
Present value of pension obligations financed through a fund	318,078	283,922
Market value of plan assets	–243,085	–219,578
Under- / excess of funding	**74,993**	**64,344**
Present value of pension obligations not financed through a fund	0	0
Unrecognised assets	0	0
Recognised pension obligations	**74,993**	**64,344**

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	31.12.2015	31.12.2014
Equity shares	50,511	20,676
thereof quoted market prices (Level 1)	48,026	18,007
Bonds	106,316	108,544
thereof quoted market prices (Level 1)	101,383	101,326
Alternative financial investments	13,853	6,229
thereof quoted market prices (Level 1)	4,512	857
Real estate	11,837	8,917
thereof quoted market prices (Level 1)	0	0
Qualifying insurance paper	41,502	45,487
Cash equivalents	22,932	29,725
Other financial investments	–3,866	0
Total	**243,085**	**219,578**
thereof quoted market prices (Level 1)	153,921	120,190

The pension plans hold shares in VP Bank Ltd, Vaduz, with a market value totalling CHF 1.2 million (previous year: CHF 1.3 million). In 2015, the return on plan assets was CHF 5.742 million (previous year: CHF 12.118 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	31.12.2015	31.12.2014
Current actively insured employees	241,047	215,458
Pensioners	77,031	68,464
Total	**318,078**	**283,922**

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	31.12.2015		31.12.2014	
Variance	0.25%	–0.25%	0.25%	–0.25%
Discount rate	–12,418	13,206	–11,154	11,861
Interest on pension capital accounts	2,645	–2,677	2,559	–2,569
Development of salaries	1,088	–1,101	1,053	–1,063

42 Significant foreign exchange rates

The following exchange rates were used for the most important currencies:

	Year-end rates		Annual average rates	
	31.12.2015	31.12.2014	2015	2014
USD/CHF	1.0010	0.9937	0.96329	0.91493
EUR/CHF	1.0874	1.2024	1.06830	1.21464
SGD/CHF	0.7056	0.7499	0.70026	0.72218
HKD/CHF	0.1292	0.1281	0.12425	0.11798
GBP/CHF	1.4754	1.5493	1.47225	1.50678

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 2015, 12,085 shares were issued at a preferential price (2014: 11,872 shares). Share issue expenses in 2015 were CHF 0.5 million (2014: 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 "Corporate governance and compensation report" section of the annual report under point 5.1.2.

Management equity-sharing plan (LTI)

Number	2015	2014	Variance in %
Balance of entitlements at the beginning of the year	72,698	78,328	–7.2
New entitlements	36,102	40,896	–11.7
Changes in entitlements as a result of allocation	–46,176	–29,427	56.9
Changes in entitlements as a result of expiry	–14,386	–5,314	170.7
Changes in entitlements as a result of changes in factors	14,360	–11,785	–221.8
Balance of calculated entitlements at the end of the year	62,598	72,698	–13.9

in CHF 1,000	2015	2014	Variance in %
Personnel expense recorded over vesting period for allocated management sharing plan	3,921	3,120	25.7
Fair value of management sharing plan at date of allocation	3,727	3,173	17.5
Personnel expense for management sharing plan (LTI) expense for reporting period	2,590	2,085	24.2
Accrual for management sharing plan (LTI) in equity at the end of the year	4,610	5,941	–22.4

45 Acquisitions

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 customers	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 from banks and customers	–1,790,650
Deferred tax liabilities	–9,360
Provisions	–185
All other liabilities	–37,650
Total debt capital	**–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	31.12.2015	31.12.2014
Contingent liabilities		
Credit guarantees and similar	34,761	41,768
Performance guarantees and similar	25,760	36,435
Irrevocable commitments	0	0
Other contingent liabilities	0	0
Total contingent liabilities	**60,521**	**78,203**
Credit risks		
Irrevocable facilities granted	47,922	32,985
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	**47,922**	**32,985**
Fiduciary transactions		
Fiduciary deposits [1]	648,924	698,323
Fiduciary loans	0	4,992
Other fiduciary financial transactions	10,874	0
Total fiduciary transactions	**659,798**	**703,315**

[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		Maturing within			
	At sight	1 year	1 to 5 years	Over 5 years	Total
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
31.12.2014					
Contingent liabilities	25,703	24,885	16,906	10,709	78,203
Credit risks	2,672	27,037	1,480	1,796	32,985

Securities lending and repurchase and reverse repurchase transactions

in CHF 1,000	31.12.2015	31.12.2014
Accounts receivable arising from cash deposits in connection with securities borrowing and reverse repurchase transactions	210,262	0
Accounts payable arising from cash deposits in connection with securities borrowing and reverse repurchase transactions	0	0
Securities lent out within the scope of securities lending or delivered as collateral within the scope of securities borrowing activities, as well as securities in own portfolio transferred within the framework of repurchase transactions	399,728	362,431
of which securities where the unlimited right to sell on or pledge has been granted	333,459	299,546
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	643,207	354,749
of which securities which have been resold or repledged	66,269	57,988

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.

Client assets

in CHF million	2015	2014	Variance absolute	Variance in %
Analysis of client assets under management				
Assets in self-administered investment funds	5,905.1	5,506.2	398.9	7.2
Assets in discretionary asset-management accounts	3,365.4	2,984.8	380.5	12.7
Other client assets under management[1]	25,498.2	22,448.1	3,050.1	13.6
Total client assets under management (including amounts counted twice)	**34,768.7**	**30,939.1**	**3,829.6**	**12.4**
of which: amounts counted twice	1,797.3	1,750.1	47.3	2.7
Custody assets	**8,193.3[1]**	**7,614.5**	**578.8**	**7.6**
Total client assets				
Total client assets under management (including amounts counted twice)	34,768.7	30,939.1	3,829.6	12.4
Custody assets	8,193.3	7,614.5	578.8	7.6
Total client assets	**42,962.0**	**38,553.6**	**4,408.4**	**11.4**
Net new money	**6,045.5[2]**	**–850.2**	**6,895.7**	**n.a.**

[1] This position includes the acquired client assets (note 45) of CHF 0.4 billion.
[2] This position includes the acquired client assets (note 45) of CHF 6.7 billion.

Classification of client assets under management

in %	31.12.2015	31.12.2014
Analysis by asset class		
Liquidity	30	32
Bonds	20	20
Equities	20	20
Investment funds	27	25
Other	3	3
Total	**100**	**100**
Analysis by currency		
CHF	26	26
EUR	30	34
USD	31	27
Other	13	13
Total	**100**	**100**

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-BankV) 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.

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.

Report of the statutory auditor on the consolidated financial statements

To the General Meeting of VP Bank Ltd, Vaduz

As Group auditor, we have audited the consolidated financial statements (income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes; pages 92–160) and the consolidated annual report (pages 89–91) of VP Bank Ltd for the year ended 31 December 2015.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the law as well as the consolidated annual report. This responsibility includes designing, implementing and maintaining an internal control system-relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements and its accordance with the consolidated annual report based on our audit. We conducted our audit in accordance with Liechtenstein law, the auditing standards promulgated by the Liechtenstein profession and International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements and consolidated annual report are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Liechtenstein law. Furthermore, the consolidated annual report corresponds to the consolidated financial statements.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Bruno Patusi	**Moreno Halter**
Swiss Certified Accountant	Certified Accountant
(Auditor in charge)	

Berne, 26 February 2016

Financial report 2015 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 594,774 bearer shares as well as 125,912 registered shares (prior year: 111,634 bearer shares and 209 registered shares). This equates to a capital share of approximately 9.2 per cent (prior year: 1.9 per cent). In addition, reference is made to the notes to the relevant annual financial statements regarding the number of and changes in treasury shares in the parent company.

In keeping with the spirit of the Group's long-term dividend policy, the Board of Directors will propose a dividend of CHF 4.00 per bearer share and CHF 0.40 per registered share (prior year: CHF 3.00 per bearer share and CHF 0.30 per registered share) at the annual general meeting of shareholders to be held on 29 April 2016.

Balance sheet

Assets

in CHF 1,000 Art. 24b FL-BankV	31.12.2015	31.12.2014	Variance absolute	Variance in %
Cash balances	2,839,016	1,813,109	1,025,907	56.6
Due from banks	1,806,548	2,332,518	–525,970	–22.5
• maturing daily	423,302	571,574	–148,272	–25.9
• other receivables	1,383,246	1,760,944	–377,698	–21.4
Due from customers	4,222,969	3,491,624	731,345	20.9
of which mortgage receivables	3,106,736	2,711,638	395,098	14.6
Debentures and other interest-bearing securities	1,780,371	1,268,652	511,719	40.3
• money-market papers	0	0	0	0.0
• debt securities	1,780,371	1,268,652	511,719	40.3
• from public-sector issuers	676,381	411,516	264,865	64.4
• from other issuers	1,103,990	857,136	246,854	28.8
Equity shares and other non-interest-bearing securities	72,030	69,140	2,890	4.2
Participations	35	25	10	40.0
Shares in affiliated companies	119,190	120,150	–960	–0.8
Intangible assets	6,980	9,766	–2,786	–28.5
Property and equipment	85,689	106,996	–21,307	–19.9
Treasury shares	49,804	9,491	40,313	424.8
Other assets	76,705	78,301	–1,596	–2.0
Accrued receivables and prepaid expenses	23,729	15,857	7,872	49.6
Total assets	**11,083,066**	**9,315,629**	**1,767,437**	**19.0**

Total liabilities and shareholders' equity

in CHF 1,000 Art. 24b FL-BankV	31.12.2015	31.12.2014	Variance absolute	Variance in %
Due to banks	1,493,790	1,269,600	224,190	17.7
• maturing daily	1,097,723	1,040,785	56,938	5.5
• with agreed duration or term of notice	396,067	228,815	167,252	73.1
Due to customers	8,064,298	6,791,927	1,272,371	18.7
• savings deposits	754,557	855,535	–100,978	–11.8
• other liabilities	7,309,741	5,936,392	1,373,349	23.1
• maturing daily	7,098,362	5,610,503	1,487,859	26.5
• with agreed duration or term of notice	211,379	325,889	–114,510	–35.1
Securitised liabilities	570,986	395,309	175,677	44.4
• issued debentures	570,986	395,309	175,677	44.4
of which medium-term notes	219,986	195,309	24,677	12.6
Other liabilities	70,540	67,722	2,818	4.2
Accrued liabilities and deferred items	20,406	13,476	6,930	51.4
Provisions	24,892	15,094	9,798	64.9
• tax provisions	4,983	700	4,283	n.a.
• other provisions	19,909	14,394	5,515	38.3
Provisions for general banking risks	63,150	63,150	0	0.0
Subscribed capital	66,154	59,148	7,006	11.8
Capital reserves	47,239	0	47,239	n.a.
Income reserves	584,281	584,246	35	0.0
• legal reserves	239,800	239,800	0	0.0
• reserve for treasury shares and stock	49,804	9,491	40,313	424.8
• other reserves	294,677	334,955	–40,278	–12.0
Retained earnings brought forward	36,112	35,191	921	2.6
Net income for the year	41,218	20,766	20,452	98.5
Total liabilities and shareholders' equity	**11,083,066**	**9,315,629**	**1,767,437**	**19.0**

Off-balance-sheet items

in CHF 1,000 Art. 24b FL-BankV	31.12.2015	31.12.2014	Variance absolute	Variance in %
Contingent liabilities	**42,655**	**52,850**	**–10,195**	**–19.3**
Credit risks	**21,136**	**26,819**	**–5,683**	**–21.2**
• irrevocable facilities granted	21,136	26,819	–5,683	–21.2
Derivative financial instruments				
• positive replacement values	33,067	48,845	–15,778	–32.3
• negative replacement values	50,285	43,979	6,306	14.3
• contract volumes	4,828,503	3,107,700	1,720,803	55.4
Fiduciary transactions	**443,725**	**402,031**	**41,694**	**10.4**

Income statement

in CHF 1,000 Art. 24c FL-BankV	2015	2014	Variance absolute	Variance in %
Interest income	75,132	78,031	–2,899	–3.7
of which from interest-bearing securities	20,768	19,575	1,193	6.1
of which from trading transactions	–336	0	–336	n.a.
Interest expenses	9,389	13,759	–4,370	–31.8
Income from interest-differential business	65,743	64,272	1,471	2.3
Current income from securities	7,938	3,732	4,206	112.7
• shares and other non-interest-bearing securities	3,984	2,420	1,564	64.6
of which from trading transactions	0	0	0	0.0
• participations	0	0	0	0.0
• shares in affiliated companies	3,954	1,312	2,642	201.5
Income from commission business and services	86,106	74,968	11,138	14.9
• commission income from credit business	694	508	186	36.5
• commission income from securities and investing business	71,788	61,811	9,977	16.1
• commission income from other services	13,624	12,649	975	7.7
Commission expenses	13,485	11,734	1,751	14.9
Income from commission business and services	72,621	63,234	9,387	14.8
Income from financial transactions	27,349	18,810	8,539	45.4
of which from trading transactions	34,441	18,787	15,654	83.3
Other ordinary income	20,397	3,102	17,295	n.a.
• income from real estate	372	335	37	11.1
• other ordinary income	20,025	2,767	17,258	n.a.
Total net operating income	**194,048**	**153,150**	**40,898**	**26.7**
Operating expenses	117,801	101,743	16,058	15.8
• personnel expenses	79,935	74,482	5,453	7.3
• general and administrative expenses	37,866	27,261	10,605	38.9
Gross profit	**76,247**	**51,407**	**24,840**	**48.3**
Depreciation and amortisation of intangible assets and property and equipment	18,946	21,401	–2,455	–11.5
Other ordinary expenses	2,125	424	1,701	401.5
Valuation allowances on receivables and increases in provisions for contingent liabilities and credit risks	22,523	11,905	10,618	89.2
Income from release of valuation allowances on receivables and from the release of provisions for contingent liabilities and credit risks	9,458	3,595	5,863	163.1
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	**42,111**	**21,272**	**20,839**	**98.0**
Extraordinary income	1	0	1	n.a.
Extraordinary expenses	0	1	–1	–100.0
Taxes on income	885	485	400	82.3
Other taxes if not included in above items	9	20	–11	–56.9
Net income for the year	**41,218**	**20,766**	**20,452**	**98.5**

Appropriation of income

in CHF 1,000 Art. 24c FL-BankV	2015	2014	Variance absolute	Variance in %
Net income for the year	41,218	20,766	20,452	98.5
Retained earnings brought forward	36,112	35,191	921	2.6
Retained earnings	77,329	55,958	21,371	38.2
Appropriation of income				
Appropriation to other reserves	0	0	0	0.0
Distribution on the basis of company capital	26,462	19,846	6,616	33.3
Release from other reserves	0	0	0	0.0
Retained earnings to be carried forward	**50,868**	**36,112**	**14,756**	**40.9**

Information regarding business activities and number of employees

Art. 24e Par. 1 Point 1 FL-BankV

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 2015, 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 2015 VP Bank Ltd had 473.0 individuals under its employment (previous year: 424.9).

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-BankV

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 addition 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 are raised for receivables subject to a country risk as dictated by the principle of prudence.

Provisions for general banking risks

Provisions for general banking risks are prudently established reserves to cover latent risks arising from the normal course of business of the Bank. As required by the prescriptions governing financial statement reporting, they are shown as a separate item in the balance sheet. Changes thereto are disclosed separately in the income statement.

Contingent liabilities, irrevocable facilities granted, capital subscription and margin obligations

Amounts disclosed as off-balance-sheet items are stated at nominal values. Lump-sum provisions exist in the balance sheet for latent default risks.

Statement of cash flow

VP Bank Ltd is exempted from drawing up a statement of cash flow as a result of the obligation to prepare consolidated financial statements (Art. 24l FL-BankV). 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 2015 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 108 ff.

Notes regarding balance sheet and income statement

Analysis of collateral

in CHF 1,000 Art. 24e Par. 1 Point 3.1 FL-BankV	Mortgage collateral	Other collateral	Without collateral	Total
Loans				
Due from clients (excluding mortgage loans)	15,869	862,296	238,068	1,116,233
Mortgage loans secured by	3,073,485	18,102	15,149	3,106,736
• residential property	2,046,296	0	0	2,046,296
• office and business premises	136,636	0	0	136,636
• commercial and industrial property	824,783	0	0	824,783
• other	65,770	18,102	15,149	99,021
Total loans, 31.12.2015	3,089,354	880,398	253,217	4,222,969
Total loans, 31.12.2014	2,643,403	508,230	339,991	3,491,624
Off-balance-sheet items				
Contingent liabilities	475	33,018	9,162	42,655
Irrevocable facilities granted	4,706	4,210	12,220	21,136
Total off-balance-sheet items, 31.12.2015	5,181	37,228	21,382	63,791
Total off-balance-sheet items, 31.12.2014	3,617	45,265	30,787	79,669

Value-impaired loans

in CHF 1,000	Gross amount owed	Estimated liquidation proceeds from collateral	Net amount owed	Individual value adjustments
Total value-impaired loans, 31.12.2015	69,613	37,420	32,193	32,193
Total value-impaired loans, 31.12.2014	66,172	45,899	20,273	20,273

Portfolios of securities and precious metals

in CHF 1,000	Carrying value		Acquisition cost		Market value	
Art. 24e Par. 1 Point 3.2 FL-BankV	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Trading portfolios of securities and precious metals						
Debt securities	1,742	0	1,747	0	1,742	0
Listed on a stock exchange (traded on a recognised market)	1,742	0	1,747	0	1,742	0
of which own bonds and medium-term notes	1,742	0	1,747	0	1,742	0
Equity shares	13	3,626	13	3,562	13	3,626
of which equity shares in the treasury	13	3,626	13	3,562	13	3,626
Precious metals	155	188	156	186	155	188
Total	1,910	**3,814**	1,916	**3,748**	1,910	**3,814**
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)	33,067	48,845			33,067	48,845
Negative replacement values of derivative financial instruments in trading portfolios (other liabilities)	23,382	12,547			23,382	12,547
Total	56,449	**61,392**			56,449	**61,392**
Portfolios of securities and precious metals in current assets (excluding trading portfolios)						
Debt securities	1,778,629	1,268,652	1,769,569	1,257,640	1,806,375	1,303,086
Equity shares	121,820	75,005	151,522	116,774	130,250	87,939
of which equity shares in the treasury	49,791	5,865	50,486	17,455	49,791	5,865
Precious metals	0	0	0	0	0	0
Total	1,900,449	**1,343,657**	1,921,091	**1,374,414**	1,936,625	**1,391,025**
of which repo-eligible securities	770,741	865,217	796,314	871,675	789,211	892,361
of which exchange-listed securities	1,760,693	1,256,260	1,755,733	1,260,322	1,789,744	1,295,991

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-BankV	Number 2015	 2014	Carrying value 2015	 2014
Bearer shares				
Balance at the beginning of the year	69,000	97,000	5,865	9,458
Purchase	599,192		49,810	
Disposals	–73,418	–28,000	–5,855	–2,587
Valuation allowances			–1,048	–1,006
Appreciation				
Balance at the end of the year	594,774	**69,000**	48,771	**5,865**
Registered shares				
Balance at the beginning of the year	0	0	0	0
Purchase	124,280		1,043	
Disposals				
Valuation allowances			–24	
Appreciation				
Balance at the end of the year	124,280	**0**	1,019	**0**

Participations and shares in affiliated companies

in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankV	Carrying value 31.12.2015	Carrying value 31.12.2014
Participations		
without quoted market value	35	25
Total participations	35	**25**
Shares in affiliated companies		
without quoted market value [1]	119,190	120,150
Total shares in affiliated companies	119,190	**120,150**

[1] In 2015, 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-BankV	31.12.2015 Currency	 Corporate capital	 Percentage ownership	31.12.2014 Currency	 Corporate capital	 Percentage ownership
Participations						
Data Info Services AG, Vaduz (procurement, trade and exchange of goods and services)	CHF	50	50%	CHF	50	50%
Shares in affiliated companies						
VP Fund Solutions (Liechtenstein) AG (fund management company)	CHF	1,000	100%	CHF	1,000	100%
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 (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	74,000	100%	SGD	67,000	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 113.8 million including subordinated loans (previous year: CHF 114.8 million).

Overview of investments

in CHF 1,000 Art. 24e Par. 1 Point 3.4 FL-BankV	Acquisition cost	Cumulative depreciation to date	Carrying value 31.12.2014	Financial year 2015 Investments	Divestments	Depr. and amortisation	Depr. and amort. on disposal	Carrying value 31.12.2015
Total participations (minority participations)	153	–128	25	10				35
Total shares in affiliated companies	171,386	–51,236	120,150	5,040	–6,000			119,190
Total intangible assets (excluding goodwill)	126,429	–116,663	9,766	7,478	–1,907	–10,264	1,907	6,980
Real estate								
• bank premises	199,950	–113,195	86,755	1,438		–5,909		82,284
• other real estate	17,214	–714	16,500		–17,214		714	0
Other property and equipment	28,350	–24,609	3,741	2,437	–293	–2,773	293	3,405
Total property and equipment	245,514	–138,518	106,996	3,875	–17,507	–8,682	1,007	85,689
Fire-insurance values of real estate			172,440					172,880
Fire-insurance values of other property and equipment			27,500					27,700

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	31.12.2015	31.12.2014
Total minimum commitments arising from operating leases	8,855	**9,077**

Operating expenses as of 31 December 2015 include CHF 1.969 million arising from operating leases (previous year: CHF 2.677 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-BankV	31.12.2015	31.12.2014
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	499,287	470,432
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	210,262	0
Amounts payable arising from cash deposits in connection with securities lending and repurchase transactions	0	0
Securities owned by the Bank lent out within the scope of securities lending or delivered as collateral within the scope of securities borrowing or transferred within the scope of repurchase transactions	399,728	362,431
of which securities for which an unconditional right has been granted to sell on or repledge	333,459	299,546
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	643,207	354,749
of which securities repledged or sold on	66,269	57,988

Liabilities to own retirement pension plans

in CHF 1,000 Art. 24e Par. 1 Point 3.7 FL-BankV	31.12.2015	31.12.2014
Due to customers	27,255	38,292
Securitised liabilities	150	1,510
Other liabilities	383	3,533
Total liabilities to own retirement pension plans	27,788	**43,335**

Outstanding debenture issues

in CHF 1,000 Art. 24e Par. 1 Point 3.8 FL-BankV	Interest rate in %	Year of issue	Maturity	Nominal amount 31.12.2015	Nominal amount 31.12.2014
VP Bank debenture issue	0.875	2015	07.10.2024	100,000	
VP Bank debenture issue	0.500	2015	07.04.2021	100,000	
VP Bank debenture issue	2.500	2010	27.05.2016	151,000	200,000

Valuation allowances / provisions for general banking risks

in CHF 1,000 Art. 24e Par. 1 Point 3.9 FL-BankV	Balance on 01.01.2015	Utilisation in accordance with purpose	Repostings	Recoveries, overdue interest, forex diff.	Releases to income statement	Provisions released to income statement	Balance on 31.12.2015
Valuation allowances for default risks							
• individual valuation allowances	20,273	589	1,337	386	16,706	5,919	32,194
• individual valuation allowances made on lump-sum basis							
• lump-sum valuation allowances	19,474				2,301	1,485	20,290
• individual valuation allowances made on lump-sum basis for country risks	3,250				2,500		5,750
Provisions for contingent liabilities and credit risks	404				138	267	275
Provisions for other business risks							
Provisions for taxes and deferred taxes	700	759	4,135		907		4,983
Other provisions	10,740	11,955	13,340	2	3,544	1,787	13,884
Total valuation allowances and provisions	**54,841**	**13,303**	**18,812**	**388**	**26,096**	**9,458**	**77,376**
minus: valuation allowances	39,747						52,484
Total provisions as per balance sheet	**15,094**						**24,892**
Provisions for general banking risks	**63,150**						**63,150**

Company capital

in CHF 1,000 Art. 24e Par. 1 Point 3.10 FL-BankV	31.12.2015 Total par value	Number	Capital entitled to dividends	31.12.2014 Total par value	Number	Capital entitled to dividends
Bearer shares	60,150	6,015,000	60,150	53,144	5,314,347	53,144
Registered shares	6,004	6,004,167	6,004	6,004	6,004,167	6,004
Total company capital	**66,154**	**12,019,167**	**66,154**	**59,148**	**11,318,514**	**59,148**

Significant shareholders and groups of shareholders with interlinking voting rights

in CHF 1,000 Art. 24e Par. 1 Point 3.10.1 FL-BankV	31.12.2015 Par value	Share in % of par value	Share of voting rights in %	31.12.2014 Par value	Share in % of par value	Share of voting rights in %
With voting rights						
Stiftung Fürstl. Kommerzienrat Guido Feger, Vaduz	15,194	23.0	46.6	14,717	24.9	48.4
U.M.M. Hilti-Stiftung, Schaan	6,122	9.3	10.0	6,065	10.3	10.6
Marxer Stiftung für Bank- und Unternehmenswerte, Vaduz	7,560	11.4	6.3	0	0.0	0.0
Ethenea Independent Investors S.A., Luxembourg	6,445	9.7	5.4	8,554	14.5	7.6

Statement of changes in shareholders' equity

in CHF 1,000 Art. 24e Par. 1 Point 3.11 FL-BankV	2015
Shareholders' equity at the beginning of the financial year	
Subscribed and paid-up capital	59,148
Legal reserves	239,800
Reserve for treasury shares	9,491
Other reserves	334,955
Provisions for general banking risks	63,150
Retained earnings	55,957
Total shareholders' equity at the beginning of the financial year	**762,501**

in CHF 1,000 Art. 24e Par. 1 Point 3.11 FL-BankV	2015
Capital increase/reduction (–)	7,007
Agio	48,604
Other appropriations / releases from reserves (–)	–1,330
Dividends and other distributions from net income of the previous year [1]	–19,846
Net income/loss for the financial year	41,218
Total shareholders' equity at the end of the financial year	838,154
of which	
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

[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-BankV	Sight	Callable	Due within 3 months	Due after 3 to 12 months	Due after 12 months to 5 years	Due after 5 years	Without maturity	Total
Assets								
Cash balances	2,839,016							2,839,016
Due from banks	423,302	94	1,104,320	274,403	4,004	425		1,806,548
Due from customers	7,823	371,301	1,632,596	363,295	1,388,343	459,611		4,222,969
of which mortgage receivables	981	102,831	992,996	234,978	1,315,569	459,381		3,106,736
Trading portfolios of securities and precious metals	1,910							1,910
Portfolios of securities and precious metals in current assets (excluding trading portfolios)	1,900,450							1,900,450
Other assets	229,363		526				82,284	312,173
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**
Total assets, 31.12.2014	3,961,163	214,565	2,102,537	1,313,174	1,242,284	378,651	103,255	9,315,629
Liabilities and provisions								
Due to banks	1,097,722	108,191	269,262	13,615	5,000			1,493,790
Due to customers	6,818,551	1,034,942	54,994	53,714	102,097			8,064,298
• savings deposits		754,557						754,557
• other liabilities	6,818,551	280,385	54,994	53,714	102,097			7,309,741
Securitised liabilities			8,804	214,762	141,655	205,765		570,986
• issued debentures			8,804	214,762	141,655	205,765		570,986
of which medium-term notes			8,804	63,762	141,655	5,765		219,986
Provisions (excluding provisions for general banking risks)	24,892							24,892
Other liabilities	90,346		600					90,946
Total liabilities, 31.12.2015	**8,031,511**	**1,143,133**	**333,660**	**282,091**	**248,752**	**205,765**		**10,244,912**
Total liabilities, 31.12.2014	6,454,709	1,297,617	279,547	177,662	324,929	18,664		8,553,128

Debentures and other interest-bearing securities which mature in the following financial year	265,884
Issued debentures which mature in the following financial year	223,566

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-BankV	31.12.2015	31.12.2014
Receivables from and payables to participations, affiliated companies and qualifying participants		
Receivables from participations	0	0
Payables to participations	220	487
Receivables from affiliated companies	293,628	196,181
Payables to affiliated companies	1,415,508	1,033,224
Receivables from qualifying participants	247	0
Payables to qualifying participants	57,281	23,170
Loans to governing bodies		
Members of the Executive Board and parties related thereto [1]	1,235	1,435
Members of the Board of Directors and parties related thereto [1,2]	7,145	4,180

[1] Individuals and legal persons who are closely associated with the member of the governing body in either a personal, economic, legal or practical sense.
[2] 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 2015 totalled CHF 0.906 million (prior year: CHF 0.481 million).

Remuneration paid to members of governing bodies

in CHF 1,000 Art. 663b[bis] Swiss Code of Obligations	Remuneration [1,2,3] Fixed		Thereof in bearer shares (market value)		Pension fund, senior employee insurance		Total remuneration	
	2015	2014	2015	2014	2015	2014	2015	2014
Board of Directors								
Fredy Vogt, Chairman [A,D,F]	560	560	140	140	85	85	645	645
Dr Guido Meier, Vice Chairman [B]	115	115	29	29			115	115
Prof. Dr Teodoro D. Cocca, BoD [B]	105	105	26	26			105	105
Walo Frischknecht, BoD [G]		68 [4]		17			0	68
Dr Beat Graf, BoD [H]	105 [4]	56	21	14			105	56
Markus Thomas Hilti, BoD [B]	105	105	26	26			105	105
Dr Florian Marxer, BoD [I]	53		13				53	0
Michael Riesen, BoD [C,F,H]	169	94	34	23			169	94
Dr Daniel H. Sigg, BoD [D,E]	118	120	30	30			118	120
Total Board of Directors	1,330	**1,222**	319	**306**	85	**85**	1,415	**1,307**

[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] Member of the Board of Directors up to 25 April 2014
[H] Member of the Board of Directors as from 25 April 2014
[I] Member of the Board of Directors as from 24 April 2015

[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] Includingwithholding tax contributions taken over by VP Bank.
[3] Including remuneration as representative of the Board of Directors in the pension fund.

Foresight

Every new milestone offers a broadened view and new horizons.

VP Bank between 2013 and 2016

2013

VP Bank

VP Bank takes over the private banking activities of HSBC Trinkaus & Burkhardt (International) SA as well as the private banking related fund business of HSBC Trinkaus Investment Managers SA, Luxembourg.

Financial centre

In a declaration, the government commits to further international tax cooperation and active participation regarding the development and application of the international standard on the exchange of information.

2014

VP Bank

The annual general meeting approves the proposal to change the name from "Verwaltungs- und Privat-Bank Aktiengesellschaft", which had been the name used until this time, to "VP Bank AG". This clear and succinct name will be more easily understood and match the brand name "VP Bank".

Financial centre

The Liechtenstein banks revise the existing tax compliance guideline and introduce additional due diligence requirements.

Banking secrecy for American taxpayers is abolished in May 2014 with the signature of the FATCA agreement with the US.

2015

VP Bank

VP Bank merges with Centrum Bank, at the time the fourth-largest financial institution in Liechtenstein. The Marxer Foundation for Bank and Company Values, which until 7 January 2015 was the sole shareholder of Centrum Bank, acquires a stake in the Bank as an anchor shareholder with a value equivalent to the CHF 60 million purchase price for Centrum Bank.

With the drafting of Strategy 2020 in mid-2015, the Board of Directors of VP Bank adapts its three medium-term goals. By 2020, client assets under management, which stood at CHF 34.8 billion at the end of 2015, are expected to increase to CHF 50 billion, while Group net income is projected to increase to CHF 80 million and the cost/income ratio to reach under 70 per cent.

The two public fixed-price offers for the repurchase of own bearer shares and registered shares are successful. Following completion of the second share repurchase, VP Bank now holds 601,500 own bearer shares and 125,912 own registered shares. It therefore owns over 9.28 per cent of the share capital, with voting rights totalling 6.05 per cent. The repurchased shares will be used for future acquisitions or for treasury management purposes.

Financial centre

In the process of implementing the automatic exchange of information, Liechtenstein, along with other OECD countries, is one of the group of early adopters that are already complying with this new standard from 2016.

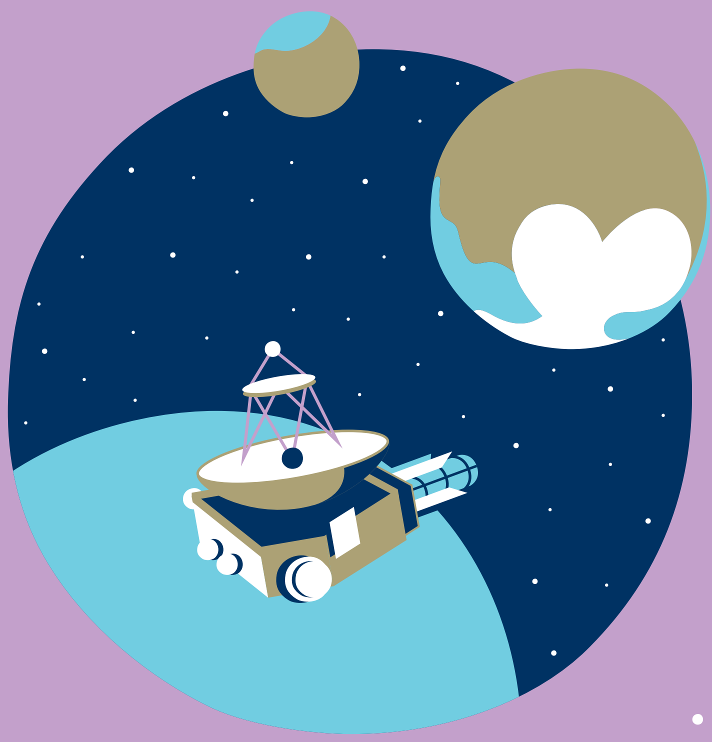
2015 saw significant movement in the markets, brought on by a number of far-reaching decisions on the part of the central banks, such as the European Central Bank's (ECB) bond purchase programme, or the lifting of the minimum euro exchange rate by the Swiss National Bank (SNB).

2016

VP Bank

On 6 April 2016, VP Bank will celebrate its 60th anniversary.

2013–2016



Remuneration paid to members of governing bodies (continued)

in CHF 1,000 Art. 663b[bis] Swiss Code of Obligations	Fixed basic salary[2]		Short-Term Incentive (STI)		Remuneration[1] Performance Share Plan (PSP)		Restricted Share Plan (RSP)		Pension fund, senior employee insurance		Total remuneration	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Executive Management	1,840	1,830	378	475	755	1,078	378	483	338	310	3,690	4,176
Highest remuneration												
Alfred W. Moeckli	700	700	175	150	350	450	175	202	138	118	1,538	1,620

[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 83 ff.), both the fixed basic salary and the cash compensation (STI), and the entitlement to performance and restricted shares are disclosed. The number of bearer shares (entitlement from the performance share plan) as well as the related monetary benefit are fixed definitively only at the end of the respective planning period (or at the time of transferring the bearer shares). As part of the 2015–2017 plan, Group Executive Management received 9,479 performance units (prior year: 12,181) from the PSP and 4,740 restricted units (prior year: 5,457) 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 2015 financial year, 8,409 performance shares (prior year: 1,092) with a market value of CHF 678,606.30 on the date of allocation (prior year: CHF 100,955.40) were transferred from the Management Plan 2012–2014 and the RSP 2014–2017.

	Shareholdings in VP Bank Number of shares (including related parties, excluding qualifying participants)				Loans and credits		Related parties[1]			
	Registered shares		Bearer shares				Loans and credits		Remuneration for services provided	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Board of Directors										
Fredy Vogt			19,384	17,675	775	630				
Dr Guido Meier	39,750[2]	79,600[2]	22,554[2]	48,688[2]	3,100	3,450	3,270	2,835		400
Prof. Dr Teodoro D. Cocca			1,414	1,093					57	5
Walo Frischknecht[A]			n.a.	n.a.						46
Dr Beat Graf[B]			443[2]	183[2]					500	
Markus Thomas Hilti			5,700[2]	5,379[2]						
Dr Florian Marxer[C]			163						345	
Michael Riesen[B]			715	303						15
Dr Daniel H. Sigg			4,230	3,868		100			4	15
Total Board of Directors	**39,750**	**79,600**	**54,603**	**77,189**	**3,875**	**4,180**	**3,270**	**2,835**	**906**	**481**
Executive Management										
Alfred W. Moeckli, CEO			9,011	6,250						
Siegbert Näscher, CFO			8,402	1,342	800	1,000				
Christoph Mauchle			10,588	10,000	435	435				
Total Executive Management	**none**	**none**	**28,001**	**17,592**	**1,235**	**1,435**	**none**	**none**	**none**	**none**

[A] Member of the Board of Directors up to 25 April 2014
[B] Member of the Board of Directors as from 25 April 2014
[C] Member of the Board of Directors as from 24 April 2015

[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).

Balance sheet – domestic and foreign

in CHF 1,000 Art. 24e Par. 1 Point 3.14 FL-BankV	31.12.2015 Domestic	 Foreign	31.12.2014 Domestic	 Foreign
Assets				
Cash balances	2,839,016		1,813,109	
Due from banks	1,079,209	727,339	1,222,339	1,110,179
Due from customers	3,540,169	682,800	3,175,199	316,425
of which mortgage receivables	3,039,308	67,428	2,707,515	4,123
Debentures and other interest-bearing securities	37,740	1,742,631		1,268,652
Equity shares and other non-interest-bearing securities	26,602	45,428	38,253	30,887
Participations	35		25	
Shares in affiliated companies	4,600	114,590	10,600	109,550
Intangible assets	6,980		9,766	
Property and equipment	85,689		106,996	
Treasury shares	49,804		9,491	
Other assets	64,959	11,746	69,240	9,061
Accrued receivables and prepaid expenses	12,961	10,768	4,908	10,949
Total assets	7,747,764	3,335,302	**6,459,926**	**2,855,703**
Liabilities and shareholders' equity				
Due to banks	765,563	728,227	917,709	351,891
Due to customers	4,772,366	3,291,932	4,488,795	2,303,132
• savings deposits	619,352	135,205	707,574	147,961
• other liabilities	4,153,014	3,156,727	3,781,221	2,155,171
Securitised liabilities	570,986		395,309	
Other liabilities	60,369	10,171	58,833	8,889
Accrued liabilities and deferred items	20,149	257	13,389	87
Provisions	24,892		15,094	
Provisions for general banking risks	63,150		63,150	
Subscribed capital	66,154		59,148	
Capital reserves	47,239			
Income reserves	584,281		584,246	
• legal reserves	239,800		239,800	
• reserve for treasury shares	49,804		9,491	
• other reserves	294,677		334,955	
Retained earnings brought forward	36,112		35,191	
Net profit for the year	41,218		20,766	
Total liabilities and shareholders' equity	7,052,479	4,030,587	**6,651,630**	**2,663,999**

In accordance with the Banking Ordinance (Art. 24e Par. 1), Switzerland counts as domestic.

Assets in individual countries / groups of countries

in CHF 1,000 Art. 24e Par. 1 Point 3.15 FL-BankV	31.12.2015 Absolute	 Share in %	31.12.2014 Absolute	 Share in %
Assets				
Liechtenstein/Switzerland	7,747,764	69.9	6,459,926	69.3
Europe (excluding Liechtenstein/Switzerland)	1,904,200	17.1	2,159,687	23.2
North America	604,086	5.5	262,269	2.8
Asia	450,546	4.1	183,333	2.0
Caribbean	273,010	2.5	158,373	1.7
Other	103,460	0.9	92,041	1.0
Total assets	11,083,066	100.0	**9,315,629**	**100.0**

Balance sheet by currency

in CHF 1,000 Art. 24e Par. 1 Point 3.16 FL-BankV	CHF	USD	EUR	Other	Total
Assets					
Cash balances	2,832,537	529	5,481	469	2,839,016
Due from banks	95,812	838,423	362,202	510,111	1,806,548
Due from customers	3,350,247	476,574	335,510	60,638	4,222,969
of which mortgage receivables	3,030,094	24,976	45,471	6,195	3,106,736
Debentures and other interest-bearing securities	421,879	786,685	571,807		1,780,371
Equity shares and other non-interest-bearing securities	17,738	20,766	33,526		72,030
Participations	35				35
Shares in affiliated companies	119,190				119,190
Intangible assets	6,980				6,980
Property and equipment	85,689				85,689
Treasury shares	49,804				49,804
Other assets	71,840	2,584	1,692	589	76,705
Accrued receivables and prepaid expenses	14,271	4,629	4,333	496	23,729
Total on-balance-sheet assets	**7,066,022**	**2,130,190**	**1,314,551**	**572,303**	**11,083,066**
Delivery claims arising from foreign-exchange spot, forward and option transactions	201,899	2,108,017	1,598,667	572,080	4,480,663
Total assets, 31.12.2015	**7,267,921**	**4,238,207**	**2,913,218**	**1,144,383**	**15,563,729**
Total assets, 31.12.2014	6,150,563	2,652,018	2,391,910	748,746	11,943,237
Liabilities and shareholders' equity					
Due to banks	204,775	724,465	329,358	235,192	1,493,790
Due to customers	2,829,287	2,823,326	1,924,702	486,983	8,064,298
• savings deposits	754,168		389		754,557
• other liabilities	2,075,119	2,823,326	1,924,313	486,983	7,309,741
Securitised liabilities	546,464	4,280	20,242		570,986
Other liabilities	65,874	2,196	1,712	758	70,540
Accrued liabilities and deferred items	20,262	91	12	41	20,406
Provisions	24,759			133	24,892
Provisions for general banking risks	63,150				63,150
Subscribed capital	66,154				66,154
Capital reserves	47,239				47,239
Income reserves	584,281				584,281
• legal reserves	239,800				239,800
• reserve for treasury shares	49,804				49,804
• other reserves	294,677				294,677
Retained earnings brought forward	36,112				36,112
Net income of the year	41,218				41,218
Total on-balance-sheet liabilities and shareholders' equity	**4,529,575**	**3,554,358**	**2,276,026**	**723,107**	**11,083,066**
Delivery obligations arising from foreign-exchange spot, forward and option transactions	2,720,054	694,477	638,169	418,567	4,471,267
Total liabilities and shareholders' equity, 31.12.2015	**7,249,629**	**4,248,835**	**2,914,195**	**1,141,674**	**15,554,333**
Total liabilities and shareholders' equity, 31.12.2014	6,187,344	2,624,481	2,346,431	748,173	11,906,429
Net position per currency	**18,292**	**–10,628**	**–977**	**2,709**	

Contingent liabilities

in CHF 1,000 Art. 24e Par. 1 Point 4.1 FL-BankV	31.12.2015	31.12.2014	Variance absolute	Variance in %
Contingent liabilities				
Credit guarantees and similar	16,010	26,213	–10,203	–38.9
Performance guarantees and similar	26,645	26,637	8	0.0
Other contingent liabilities	0	0	0	0.0
Total contingent liabilities	**42,655**	**52,850**	**–10,195**	**–19.3**

Unsettled derivative financial instruments

in CHF 1,000 Art. 24e Par. 1 Point 4.3 FL-BankV	Trading instruments Positive replacement values	 Negative replacement values	 Contract volumes	Hedging instruments Positive replacement values	 Negative replacement values	 Contract volumes
Interest-rate instruments						
Swaps					26,903	276,774
Futures						60,245
Options (OTC)						
Foreign exchange / precious metals						
Forward contracts	7,795	10,894	1,086,472			
Combined interest-rate /currency swaps	23,448	10,534	3,184,477			
Options (OTC)	1,824	1,794	209,714			
Equity instruments/indices						
Futures						2,918
Options (exchange-traded)		160	7,903			
Total prior to consideration of netting agreements, 31.12.2015	**33,067**	**23,382**	**4,488,566**	**0**	**26,903**	**339,937**
Total prior to consideration of netting agreements, 31.12.2014	48,845	12,547	2,644,704	0	31,433	462,996

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 150).

Fiduciary transactions

in CHF 1,000 Art. 24e Par. 1 Point 4.4 FL-BankV	31.12.2015	31.12.2014	Variance absolute	Variance in %
Fiduciary transactions				
Fiduciary deposits	432,851	402,031	30,820	7.7
• fiduciary deposits with third-party banks	431,376	396,995	34,381	8.7
• fiduciary deposits with affiliated banks and finance companies	1,475	5,036	–3,561	–70.7
Fiduciary loans	0	0	0	0.0
Other fiduciary transactions of financial nature	10,874	0	10,874	n.a.
Total fiduciary transactions	**443,725**	**402,031**	**41,694**	**10.4**

Information regarding the income statement

in CHF 1,000 Art. 24e Par. 1 Point 5.2 FL-BankV	2015	2014	Variance absolute	Variance in %
Income from trading activities				
Gains from securities	–1,180	–19	–1,161	n.a.
Gains from foreign-exchange derivatives	–4,872	–4,303	–569	13.2
Gains from foreign-exchange transactions	39,895	21,567	18,327	85.0
Gains from trading in banknotes	375	1,284	–909	–70.7
Gains from precious metals	223	258	–35	–13.4
Total income from trading activities	**34,441**	**18,787**	**15,654**	**83.3**

in CHF 1,000 Art. 24e Par. 1 Point 5.3 FL-BankV	2015	2014	Variance absolute	Variance in %
Personnel expenses				
Salaries and wages	65,142	57,408	7,734	13.5
Social security costs and staff retirement pensions and assistance costs	13,097	14,682	–1,585	–10.8
of which for staff retirement pensions	11,688	13,387	–1,699	–12.7
Other personnel expenses	1,696	2,392	–696	–29.1
Total personnel expenses	**79,935**	**74,482**	**5,453**	**7.3**

Salaries of members of the Board of Directors and the Executive Board are disclosed under "Remuneration paid to members of governing bodies" (pages 176 ff.).

in CHF 1,000 Art. 24e Par. 1 Point 5.4 FL-BankV	2015	2014	Variance absolute	Variance in %
General and administrative expenses				
Occupancy expenses	2,839	2,233	606	27.1
Expenses for IT, equipment, furniture, motor vehicles and other installations	14,439	9,112	5,327	58.5
Other business expenses	20,588	15,916	4,672	29.4
Total general and administrative expenses	**37,866**	**27,261**	**10,605**	**38.9**

in % Art. 24e Par. 1 Point 6 FL-BankV	2015	2014	Variance absolute	Variance in %
Return on equity [1]	**0.40**	**0.23**	**0.17**	**73.9**

[1] Net income/average balance sheet total.

in CHF 1,000 Art. 24e Par. 2 Point 6e FL-BankV	2015	2014	Variance absolute	Variance in %
Other ordinary income				
Income from real estate	372	335	37	11.1
Other ordinary income [1]	20,025	2,767	17,258	n.a.
Total other ordinary income	**20,397**	**3,102**	**17,295**	**n.a**

[1] 2015: thereof CHF 3.249 million resulting from service level agreements within the Group, CHF 16.160 million, from merger gains.
2014: thereof CHF 2.380 million resulting from service level agreements within the Group.

Other assets and liabilities

in CHF 1,000 Art. 24e Par. 2 Point 6a+b FL-BankV	31.12.2015	31.12.2014	Variance absolute	Variance in %
Other assets				
Precious metals	155	188	–33	–17.9
Unsettled derivative financial instruments (positive replacement values)	33,067	48,845	–15,778	–32.3
• trading positions	33,067	48,845	–15,778	–32.3
• liquidity positions	0	0	0	0.0
Compensation accounts	26,048	28,150	–2,102	–7.5
Settlement accounts	1,623	316	1,307	414.2
Miscellaneous other assets	15,812	802	15,010	n.a.
Total other assets	**76,705**	**78,301**	**–1,596**	**–2.0**
Other liabilities				
Accounts for disbursement of taxes and fees	5,716	4,467	1,249	27.9
Unsettled derivative financial instruments (negative replacement values)	50,285	43,979	6,306	14.3
• trading positions	23,382	12,547	10,835	86.4
• liquidity positions	26,903	31,432	–4,529	–14.4
Compensation accounts	0	0	0	0.0
Settlement accounts	21,825	18,143	3,682	20.3
Miscellaneous other liabilities	–7,286	1,133	–8,419	n.a.
Total other liabilities	**70,540**	**67,722**	**2,818**	**4.2**

Report of the statutory auditor on the financial statements

To the general meeting of VP Bank Ltd, Vaduz

As statutory auditor, we have audited the accounting records and the financial statements (balance sheet, income statement and notes; pages 164–181) and the annual report (page 163) of VP Bank Ltd for the year ended 31 December 2015.

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.

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 for the year ended 31 December 2015 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.

The annual report corresponds to the annual financial statements.

We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Bruno Patusi	**Moreno Halter**
Swiss Certified Accountant	Certified Accountant
(Auditor in charge)	

Berne, 26 February 2016

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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te Sputnik 1 in the USSR • The Treaty of Rome establishing the European Economic Community (EEC) is signed • The European Atomic Energy Community (Euratom) is established • The
1960 • The European Free Trade Association (EFTA) is established • The contraceptive pill is introduced to the market • The laser beam is invented • • • 1961 • The Berlin Wall is buil
(and closes in 1965) • Marilyn Monroe commits suicide • First James Bond film, Dr. No • The exhibition of Andy Warhol's Campbell's Soup Cans opens • • • 1963 • Murder of John F. K
Spacewalk: a cosmonaut leaves the spaceship for the first time • Recognition of the American Pop Art movement increases through the work of Roy Lichtenstein and Andy Warhol • Bob
into use in the UK town of Enfield • The Six-Day War between Israel and Egypt, Jordan and Syria is a new climax in the Middle East conflict • Bob Dylan releases his first album, Greatest
n the Woodstock music festival • The Pippi Longstocking story is filmed • • • 1970 • The Beatles release Let It Be, going on to break up the same year • Willy Brandt kneels during a visit
ck at the Summer Olympics in Munich • Sales of the VW Beetle reach 5 million, a record for the automotive industry • Watergate scandal under President Richard Nixon • • • 1973 • The
75 • The Vietnam War comes to an end • The global population passes the four-billion mark • The death of General Franco marks the end of Spanish dictatorship, and Juan Carlos become
e film Rocky receives an Oscar • Film premiere of Star Wars with Darth Vader • • • 1978 • The Polish Karol J. Wojtyla is chosen to become Pope John Paul II • The first IVF baby is born in
The first Gulf War begins • The Olympic Winter Games in Moscow are boycotted by 65 nations • The Gotthard Tunnel is opened, which at 17 kilometres is the world's longest road tunnel •
der, which goes on to become his most successful album • • • 1983 • The compact disc (CD) becomes available on the market • The world's first mobile phone is approved in the USA • •
c nuclear disaster occurs in Chernobyl • The first successful laptop is launched by IBM • • • 1987 • The USA imposes a trade embargo on Iran • The Black Monday stock market crash se
nanmen Square in Peking • The first Game Boy becomes a major success • • • 1990 • Mikhail Gorbachev becomes President of the USSR • German reunification • The civil war begins
94 • Nelson Mandela becomes South Africa's first black president, and the new constitution marks the end of apartheid • Michael Schumacher becomes the first Formula One World Ch
• The East Asian economy is devastated by the Asian financial crisis • • • 1998 • The film Titanic receives an Oscar • The Kosovo War begins • The Internet search service Google is est
he turn of the millennium occurs • The highly successful Nokia 3310 is launched • • • 2001 • George W. Bush becomes President of the United States • The 9/11 terrorist attacks take p
ver • • • 2004 • Thailand is hit by a devastating tsunami • The social network Facebook is launched • A further 10 states join the EU (now 25 members) • • • 2005 • Angela Merkel be
omano Prodi • • • 2007 • The first iPhone is a major success • Ban Ki-moon succeeds Kofi Annan as the UN Secretary General • The US subprime crisis begins • • • 2008 • The world
• 2010 • The Arab Spring gets under way • European air traffic is paralysed by the eruption of Icelandic volcano Eyjafjallajökull • An oil spill in the Gulf of Mexico is caused by an explos
st successful Olympian of all time with 22 medals • • • 2013 • A whistle-blowing scandal is triggered by Edward Snowden • Pope Benedict XVI becomes the first pope in history to resign
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