

VP Bank Ltd

Sustainability

at VP Bank





Dear Reader

« Conducting business
with foresight and acting with responsibility
have always been the foundation
of VP Bank Group's success. »

VP Bank Group avows itself to the principle of sustainable business practices. It wishes to secure the foundation of its sustained economic success. Relations with employees should be marked by respect and responsibility. Through measures aimed at the conservation of resources, VP Bank attempts to uphold its responsibility vis-à-vis the environment. Moreover, owing to its business activities, VP Bank is involved in lively interaction with society and in so doing contributes to the further development and solidity of Liechtenstein as a centre of commerce and industry.

This document provides an overview of our sustainability activities and describes how we are addressing our social, economic and environmental challenges. We would like to thank all employees and business partners, who through their efforts are helping us to achieve our sustainability ideas and goals as a bank credibly and comprehensively in the years ahead.

Sustainably
your VP Bank

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 Fund Solutions, the fund competence centre, gives easy access to top-notch fund solutions.

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

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

VP Bank's workforce of more than 930 employees administer clients assets totalling almost CHF 48.5 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 innovation for more than 60 years

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

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

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 our 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 asset management, investment advisory and wealth planning for a sophisticated 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.

With more than 930 employees, VP Bank Group is the right size to offer top-notch solutions with a personal touch. Clients enjoy the individualised advice of a private bank and, thanks to the global presence of VP Bank, gain access to a worldwide network of specialists.

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

VP Bank's sustainability management

VP Bank's commitment

VP Bank's role in society is guided by its sense of environmental, economic and social responsibility toward its stakeholders. For VP Bank, a management approach that embraces sustainable corporate leadership plays an essential role in its successful entrepreneurial activity.

VP Bank Group is committed to the principle of sustainability. It firmly believes that responsible actions and economic success go hand in hand. A bank's business model is based on the trust of its clients. VP Bank's activities in the area of sustainability foster and reinforce that trust. Therefore, responsible business practices are a key element of VP Bank's corporate culture, internal work processes and operating business. VP Bank also maintains high corporate governance standards.

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

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

VP Bank strives to be environmentally responsible by implementing targeted measures for the sustainable use of resources. Moreover, through its ordinary business activities VP Bank has considerable interaction with society and thereby contributes to the further development and preservation of Liechtenstein as an economic and business centre.

With its sustainability policy, VP Bank strives for precise minimum standards for its products and services. This policy applies to the acceptance of client deposits, lending and the investment business. VP Bank therefore makes every effort to keep its banking operations carbon neutral.

Organisational roots

A Corporate Social Responsibility (CSR) Board, which is chaired by the Chief Investment Officer in his capacity as a member of VP Bank Group Executive Management, oversees the practical implementation of sustainability issues. Managing these issues is a cross-functional task that requires input from multiple VP Bank Group departments. The CSR Board therefore interacts with many other depart-

ments and supports them by conducting pertinent surveys. These other departments include Human Resources, Product Management, Technical Support, Facility Management & Services, Investment Management, Corporate Communications, e-banking and General Counsel & Chief Risk Officer.

The units of the "General Counsel & Chief Risk Officer" function support all VP Bank employees on matters involving compliance with statutory and regulatory provisions. Group Compliance, Group Tax and Group Risk identify risks and suggest various solutions that comply with these provisions so that risks can be minimised and systematically monitored. Internal rules are also established to ensure compliance with all provisions, and controls are implemented.

In the risk management area, VP Bank pursues long-term goals and adopts a conscientious approach.

A comprehensive description of risk management is presented in the section "Risk Management of VP Bank Group" in the Annual Report 2018 on pages 118 ff.

Promoting good conduct

VP Bank promotes customer proximity and trust through voluntary commitments to ethical principles in its business practices and creates a solid foundation for operating principles.

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

The Code of Conduct, which is well established at VP Bank, as well as the Bank's values and management principles underpin VP Bank's binding commitment to ethically correct management and serve as a guide for good conduct.

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

Violations of the Code of Conduct or against VP Bank rules are penalised through uncompromising disciplinary measures and consequences as authorised by labour law.

Conflicts of interest and anti-corruption measures

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

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

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

Tax compliance

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

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

CSR reporting

CSR vision of VP Bank

VP Bank uses its role as an internationally operating private bank to ensure that its actions have a positive impact on society and the environment and make a positive contribution to the long-term development of the financial sector.

VP Bank's goal is to further develop and improve its work in the sustainability policy area. Group Executive Management promotes VP Bank's heightened commitment to sustainability and corporate social responsibility (CSR). The related measures include more active networking with the corresponding stakeholders, VP Bank's membership in the UN Global Compact (see below), awareness-raising initiatives within the Bank, integrating sustainability criteria more closely in the investment process and advisory discussions and a wide-ranging societal commitment. The CSR vision defines VP Bank's goals.

A CSR Board chaired by the Chief Investment Officer was set up in 2015 to implement this strategy. Among the concrete measures taken in 2018 were the continued support of the drinking water project "Drink & Donate", the advancement of sustainability in the investment process, the expansion of sustainability mandates at VP Bank as well as internal measures relating to the topics of "Volunteering Day", saving electricity and reducing paper consumption. VP Bank's intranet provides employees with an overview of its activities.

In May 2018, VP Bank supported the Green Summit at the University of Liechtenstein. The aim is to promote the transition to sustainability. In this context, the Institute of Finance of the University of Liechtenstein organised a workshop on the topic of sustainable finance, in which academics from various universities presented their research results in the field of sustainable investing. The best work received the VP Bank Best Paper Award.

Further reports on these measures are presented in the following sections. The current target attainment figures are largely based on data from Liechtenstein. VP Bank plans to introduce Group-wide environmental reporting in the coming years.

CSR-reporting requirement

Transparency is essential for doing business and assuming corporate responsibility in a sustainable way. This means disclosing information that is important to the key interest groups/stakeholders. As a socially responsible company, VP Bank also wants to set an example through its reporting to stakeholders. The brochure "Sustainability at VP Bank" provides an overview of the measures taken.

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



UN Global Compact

VP Bank uses the 10 principles of the United Nations Global Compact as the guiding principle of its sustainability policy.

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, in excess of 13,500 signatories in nearly 160 countries, including more than 9,900 companies.

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

The signatory companies must publish an annual report on compliance with these 10 principles. VP Bank's 2018 UN Global Compact Communication on Progress (COP) report is available on the website of the UN Global Compact as well as that of VP Bank under "About us - Responsibility - Sustainability."



www.vpbank.com/communication_on_progress



www.unglobalcompact.org

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

VP Bank's stakeholders

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

VP Bank's stakeholders include all organisations and persons interact with the company on financial, legal, operational and technical matters. VP Bank's main stakeholder groups are classified into six groups:



Each stakeholder group has different demands; it is therefore even more important to learn and understand their motivations. To that end, VP Bank strives to maintain an on-going dialogue and integrate the lessons learned and experiences in its activities. Through these exchanges, we can recognise trends at an early stage while furthering our corporate social responsibility initiatives.

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

Regulatory authorities

- Trade organisation work and participation in interest groups

Clients

- Client discussions and feedback management

Board of Directors, Group Executive Management and employees

- Employee discussions
- In-house events
- In-house magazine and "VP Bank Journeys"

Shareholders, investors and analysts

- Investor meetings, road shows and investor's day
- Sector-specific information sharing

Media and the general public

- Press conferences
- Thematic conferences
- Trade shows
- PR work on investment, market and company subjects

Suppliers and partners

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

Dialogue with rating agencies

VP Bank maintains regular contacts with rating agency analysts and informs them continuously as regards business developments in order to ensure the most accurate assessment possible.

The relative share of investors taking sustainability issues into account in investment decisions is growing steadily. The successful placement of financial products also depends on the extent to which the demands of sustainable investors are met. In recent years, therefore, the dialogue with sustainability ratings agencies has intensified. This dialogue covers the sustainability analyses for investment solutions, in particular the line of umbrella funds offered by VP Fund Solutions, which was included in a sustainability ranking in 2016.

Memberships

As a member of numerous federations and associations, VP Bank fosters a dialogue with business and society. The type of collaboration is tailored to suit the particular needs and objectives.

The dialogue with clients, media and investors is carried out on either a scheduled or as-needed basis. The relevant departments and teams, for example Legal & Compliance, Corporate Communications, Investor Relations, Human Resources Management, Investment Solutions and IT, are responsible for maintaining this interaction.

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

Other memberships, such as those in the International 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 practices in the area of sustainability.

Responsibility as an employer

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

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

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

With the move to new offices at our Zurich and Luxembourg sites and the renovation of our head office building at the corporate headquarters in Vaduz, we have created an up-to-date work environment with attractive office space for our employees in 2018. The entire workplace is equipped with first-rate infrastructure and satisfies the latest technological requirements.

More information is available in the Annual Report 2018 in the section "Employees of VP Bank" on page 43.

Sustainable business activity

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

8 November 2018 was National Future Day in Switzerland and Liechtenstein. On this day many companies opened their doors to schoolchildren in grades 5 to 7 to give them an opportunity to discover the working world up close and in person. The National Future Day thus helps young boys and girls to broaden their horizons as regards professional choices and prospects and to chart their own futures.

In 2018, VP Bank's Vaduz site participated in National Future Day for the sixth time, while VP Bank (Switzerland) Ltd also participated for the second time. Some 36 youths between the ages of 10 and 13 had the opportunity to spend a day learning about the working world with a chap-erone. They were given a lot of information about VP Bank,

learned the processes in the respective departments and were very interested to learn about the different types of jobs in a bank. The high point was the visit to the vault and the trading room, the dismantling and rebuilding of a PC and a video conference between the Vaduz, Triesen and Zurich offices.

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

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

The Volunteering Day introduced in late 2015 continues to generate considerable interest. Since it was introduced, more than 100 employees have performed charitable work in the social, educational or ecological/environmental fields. The Bank gives each employee one day per year to participate in the charitable work. The feedback from both the participating employees as well as the institutions on the receiving end of this volunteer work has been overwhelmingly positive.

VP Bank supports the "Villa Wirbelwind" ("Whirlwind") project in Liechtenstein, a children's day care centre jointly operated by Liechtenstein banks. The Whirlwind nursery provides high-quality, professional childcare, thereby creating optimal conditions for reconciling family and work life.



www.vpbank.com/sustainability

At Villa Whirlwind, children between the ages of four months and the start of kindergarten whose parents are employees of member banks and the Liechtenstein Banking Association may attend the daycare centre, regardless of their hometown.

Diversity at VP Bank

Diversity and equal opportunity create a solid foundation for the development of closer relations between VP Bank and its employees and its external stakeholders. VP Bank affirms diversity at every employee and management level. Such diversity at the company ensures that the decision-makers are put in a position where they engage in constructive questioning and are more open to innovative ideas. The Board of Directors has focused on this issue and prepared a skills analysis for future challenges. With two female Board members from the Legal/Compliance and HR/Business Development areas, these skills were expanded in optimal fashion in 2017.

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

VP Bank Group's employee base also includes individuals with physical and/or mental disabilities. Whenever possible, employees with long-term illnesses are reintegrated into the work flow with professional support.

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

	Total number of women	Number of women in %	Total number of men	Number of men in %
as of 31.12.2018				
Board of Directors	2	20	8	80
Management level 1	1	16.66	5	83.33
Management level 2	2	11.11	16	88.88
Total employees	387	41.48	546	58.52
as of 31.12.2017				
Board of Directors	2	22.2	7	77.8
Management level 1	1	25.0	3	75.0
Management level 2	3	16.7	15	83.3
Total employees	365	42.4	496	57.6

At 31.12.2018, VP Bank had 41.48 per cent female employees (2017: 42.4 per cent). As from January 2017, a woman is also part of Group Executive Management.

VP Bank's suppliers

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

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

Procurement

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

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

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

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

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

Choosing suppliers

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

In terms of printing services, VP Bank works primarily with partner companies that print in a climate-neutral way. In the procurement of shareholder gifts, sustainable suppliers from the surrounding region are worked with - for example, the Health Education Center of the Principality of Liechtenstein (HPZ). VP Bank also uses this institution for packaging purposes. On the occasion of the 2018 Saint Nicholas Day, baked goods were purchased from "Soroptimist International", an organisation dedicated to improving human rights and promoting cooperation.

Supplier relations

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

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

Approval and procurement process at VP Bank



Sustainability in the investment process

Sustainable investment solutions and concepts are increasingly popular. The idea behind them is to take sustainability criteria into account when selecting financial investments with an environmental or social orientation.

Greater transparency of information enables investors to consider non-financial factors when analysing investments and thereby make investment decisions in accordance with ethical and moral values.

Clearly defined responsibilities

At VP Bank, the CSR (Corporate Social Responsibility) Board is responsible for sustainability issues. These issues include such topics as the operating environment, social responsibility and investment solutions. The CSR Board is chaired by the Chief Investment Officer as a member of Group Executive Management.

The orientation of VP Bank Group in terms of sustainable investments and products is managed as follows within the CSR Board:

- Definition of the sustainability philosophy in the investment process
- Selection and retention of external partners
- Certification of the offer or investment process
- Quality assurance

Sustainable selection process

A holistic sustainability approach also entails the responsible management of the funds to be invested. In that regard, a diverse range of investment approaches and strategies exist that may be applied to varying degrees.

For the implementation of its sustainable investment strategy, VP Bank applies screening criteria (ethical and standards-based) as well as a best-in-class or best-in-

sector selection process for investments that factors in environmental, social and governance (ESG) criteria. In this manner, the Bank analyses the risk exposure of companies in a sector and how they address those risks.

For its sustainability analyses, VP Bank relies on the know-how of an established sustainability specialist. This specialist covers vast segments of the asset management investment universe and, using professional research, supports VP Bank as it implements sustainability criteria in the investment process.

Offer of sustainable investment solutions

Since April 2017, VP Bank offers a flexible sustainable investment solution that can be tailored to the client's needs. The investment selection process is carried out along the lines of the ESG approach, with environmental, social and governance factors.

Impact of the expanded criteria

In addition to fulfilling one's own ethical and moral convictions, the application of sustainability criteria to investment decisions has other positive effects on the portfolio:

- Avoidance of tail risk events through the identification and exclusion of companies with the corresponding risks
- Positive influence on the company development as regards environmental, social and governance aspects
- Identification and use of investment opportunities through the expansion of analytical criteria

The offer of sustainable investment solutions will be further expanded in the years ahead.



VP Bank's social engagement

Charitable donations and sponsorships

As an international bank group with regional roots, we recognise our social and environmental responsibility in the places we do business, mainly Liechtenstein but also selectively in other regions where we are represented. Since 2014 VP Bank has focused its charitable donations on recreational sporting associations and cultural institutions serving the general public. VP Bank Group employees who actively participate in a charitable institution also receive a supporting contribution. Numerous initiatives and projects have benefited from this commitment over many years.

Since 2012, VP Bank has also had a charitable giving agreement with the Swiss Climate Foundation. As a partner of this foundation, VP Bank provides financial support for the energy efficiency and climate protection projects of small and medium-sized companies in Switzerland and Liechtenstein. Under this arrangement, VP Bank provides financing based on the net rebate of the CO₂-incentive tax on fossil fuels.

Since 2017, VP Bank has actively focused on sports and cultural sponsorships with a long-term focus.

In golf, we sponsor the "VP Bank Ladies Open", the only ladies pro golf tournament in the German-speaking part of Switzerland. In classical music, VP Bank is a Presenting Partner of the "VP Bank Classic Festival" in Switzerland, whose purpose is to provide an international springboard for young classical artists to develop their musical talent.

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 foundation's Board of Trustees. The other board members are Fredy Vogt, Chairman of the Board of VP Bank Group, and Dr Uwe Wieczorek, curator of the Hilti Art Foundation. Annett Höland was appointed curator of the Foundation in 2019.

In 2018, a total of six acquisitions were made as part of the long-term collection policy, thus complementing the collection and consolidating its focus on "painting".

At the new VP Bank office in Zurich, a concept for exhibiting works from all collection periods was developed and implemented.

The VP Bank Art Foundation receives an annual financial contribution from VP Bank.

VP Bank Foundation

VP Bank Foundation was initiated in 2006 and established in 2007 to mark the 50th anniversary of VP Bank. The Foundation supports projects, individuals and institutions that have made outsized contributions on behalf of the environment, art, education, science or culture. Charitable activities on behalf of the general public are also supported. This patronage is intended to be connected with Liechtenstein and consistent with VP Bank's corporate values. Donations can also be made for welfare and social purposes. VP Bank Foundation has earned a well-regarded position among Liechtenstein foundations and helped to shape the philanthropic sector.

The Board of Trustees comprises Hans Brunhart and Fredy Vogt. During the year under review, VP Bank Foundation distributed around CHF 250,000 to worthy causes.

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

In the cultural sphere, the foundation supports not just larger institutions but also diverse projects in the areas of music, theatre and dance.

In the environmental area, the Foundation supported the "Stiftung pro natura - pro ski" foundation initiated by VP Bank as part of a long-term commitment toward environmentally responsible development in alpine areas, the "Waterfootprint Liechtenstein" initiative of the Drink and Donate association and a climate protection project of the myclimate foundation.

In connection with the "Lichtblick" campaign, VP Bank Foundation made grants totalling around CHF 70,000 to some 30 social institutions in Liechtenstein in 2018.

The foundation's effectiveness can be improved by focusing more closely on sustainability criteria when investing the foundation's resources. Both the foundation's contributions and its investments have an impact consistent with the foundation's Articles of Association. The Board of Trustees therefore invests the assets in keeping with a sustainable administrative mandate.

Last year, a portion of the Foundation's resources was again invested in the EMF Microfinance Fund AGmV as well as in VP Bank "Balanced (CHF) Strategy Fund class C" units. Via returns from the latter exposure, the relief organisation "SolidarMed" again received earmarked financial aid in 2018.

VP Bank Foundation is a member of the Liechtenstein Association of Non-profit Foundations (Vereinigung liechtensteinischer gemeinnütziger Stiftungen e.V. - VLGS) and the "SwissFoundations" association. The Foundation's Board of Trustees actively participates in the management and development of the Liechtenstein association and makes use of valuable sharing of experiences in both associations.

VP Bank's business ecology

Business ecology data are currently compiled only for the Liechtenstein site, which represents approximately 65 per cent of all employees. In 2018, values were recorded for our locations in Zurich, Luxembourg and Singapore for the first time. Comparative figures will also be available here from 2020.

Paper and water consumption

As a general rule, VP Bank sends out client asset statements only once a year; daily and quarterly statements are printed and mailed only at the express request of the client. In recent years, this practice has led to a considerable reduction in the use of paper for forms and vouchers. For example, the number of printed forms declined steadily from 655,000 in 2005 to 323,500 in 2018. The number of envelopes used was reduced from von 1.5 million in 2004 to 638,226 last year.

Paper consumption decreased from 68.03 tonnes in 2004 to 36.78 tonnes in 2018, including a 5.67 tonne reduction just in the past year. Electronic banking has contributed greatly to this long-term trend, thanks to its e-post functionality, which is growing in popularity even as paper use declines. Paper consumption per employee was 0.06 tonnes in 2018, the lowest amount since 2004 (0.15 tonnes).

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

The number of printed copies of the Bank's annual and semi-annual reports has declined by more than 78 per cent over the past ten years thanks to the introduction of order cards and references to digital documents. The print runs for these publications fell from 7,000 in 2007 to just 1,500 in 2017.

For the Vaduz and Zurich locations, the number of e-mailed digital documents has steadily increased: from approximately 130,250 in 2007 to more than 1,204,603 in 2013, then 2,060,375 in 2016 and finally 2,116,247 last year. As to the number of e-post transmissions, the 25 per cent increase recorded in 2014 was followed by further rises of 11 per cent in 2015, 23.4 per cent in 2016, 2.7 per cent in 2017 and 9.3 per cent in 2018. Since 2010, all VP Bank Group communications include the tagline "Please consider the environment before printing this e-mail".

Water consumption trended steadily lower from 2008 through 2014, although in recent years it rose again slightly due to the increased number of employees. Water consumption per employee decreased continuously from

15.3 m³ in 2009 to 9.6 m³ in 2015 before posting a modest increase in the ensuing years. The slight increase in per-employee consumption in 2017 and 2018 (10.0 m³) was due to above-average hot weather in the summer months of June through August as well as the installation of water coolers as part of the participation in the "Drink & Donate" programme (see "Responsibility as an Employer", p. 10).

Energy

VP Bank Group has introduced numerous initiatives to promote responsible energy use. They include the environmentally friendly renovation of the Bank's headquarters in Vaduz and construction of the new service centre in Triesen, the use of geothermal energy for heating and cooling and the implementation of motion-activated lighting. In 2016, renovation work began on the more than 20-year-old ventilation system in the Giessen building, which was replaced by an energy-efficient installation with heat recovery in 2017.

At the Liechtenstein facilities, most of the lighting is regulated by a control system with motion detectors. This technology reduces power consumption by anywhere from 20 per cent to 40 per cent compared to manually activated lighting. When replacing or procuring lighting fixtures, preference is given to high-efficiency LED technology. In 2014, LED bulbs were purchased instead of the once-customary fluorescent tubes, and the old ceiling light fixtures are being gradually replaced. In 2017, the company also began to replace floor lamps with LED lamps. The energy savings afforded by LED lighting over traditional lighting sources amounts to roughly 75 per cent.

Total energy consumption per employee at the Bank's Liechtenstein facilities has fallen from 9,755 kWh in 2010 to 5,928 kWh currently. Power consumption at the head office had been declining from 2008 to 2017 thanks to efficiency-enhancing measures and increased in 2018 only slightly by 6,800 kWh. The replacement of the central heating system and renovation of the building's ventilation system also contributed to the reduced energy use. Modern ventilation systems recover and reuse waste heat from the offices and working areas.

For the past 24 years, a photovoltaic solar power generator has been in operation on the roof of the building in Vaduz. It supplies environmentally friendly energy that is fed into VP Bank's power grid (2017: 3,731 kWh, 2018: 20,181 kWh). Thanks to upgrades of the control system for this installation, solar power generation increased continually from 2009 to 2011. However, over the past five years it has declined mainly due to defective modules. In 2017 the solar installation at the Giessen building was renovated and expanded, which increased its performance by 133 per cent compared to the old installation. In 2018, the new plant increased its output by 541 per cent. The installation of a further system on the roof of the main building is

planned for 2019 and a new system on the roof of the administration building in Triesen is planned for 2020. The self-generated solar power contribution will thereby increase steadily.

Since January 2017, the power supplied to VP Bank by Liechtenstein utilities has come exclusively from hydro and solar power sources. The related "LiStrom Natur" energy product consists entirely of renewable Liechtenstein energy, of which 85 per cent is generated through hydro and 15 per cent through solar power sources.

Overall concept

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

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

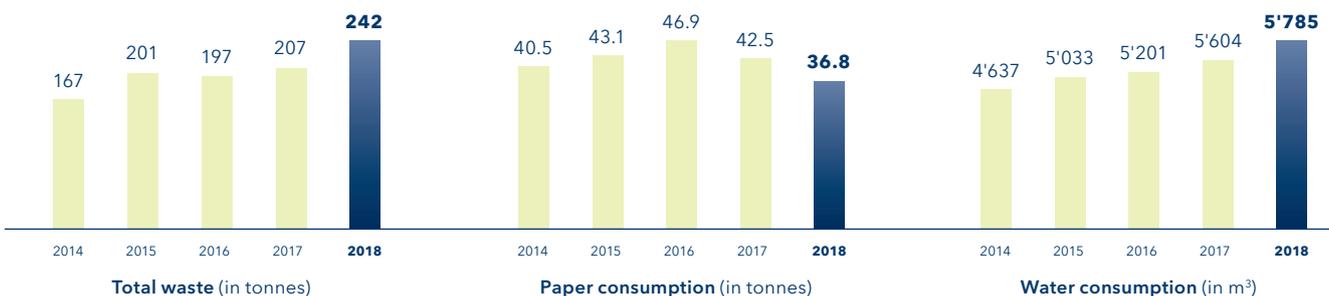
With the implementation of this system, the lion's share of the overall concept has been realised. The next step is to plan for the use of groundwater in Vaduz. Through this initiative, existing groundwater can be used for cooling in summer and heating in winter. Discussions with the environmental protection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

A separate, more detailed energy report for the Liechtenstein facilities is produced each year and can be accessed on the VP Bank website under "About us / Sustainability".

Waste reduction and paper consumption

Since 2004, waste separation has been the order of the day at VP Bank in keeping with its waste disposal concept. Newspapers and magazines are collected and recycled separately from the other types of paper. Glass, cardboard, polystyrene, PET bottles and green waste each have their own receptacles. In 2014, a 167 tonnes total waste volume generated reached its lowest level since 2004, but has since increased slightly as from 2015 due to the larger number of employees and showed 242 tonnes in 2018. The renovation of the building in Vaduz in 2018 played a major role in this development, which on the one hand led to a one-off increase in the amount of hazardous waste (plus 13 tonnes) and on the other almost doubled the amount of paper waste due to archive clearance.

Unnecessary printing is one of the largest sources of paper waste. A majority of documents are prepared in digital form but still printed, as in the past.





Through measures such as digital invoicing, employee self-service for holiday planning and online boardrooms, VP Bank has already introduced key initiatives to reduce paper consumption. Currently, the volume of printouts per employee at VP Bank’s Liechtenstein office is around 9,800 per year, which corresponds to 20 reams (500 sheets) of paper.

VP Bank’s goal was to reduce paper consumption by 10 per cent over the course of 2018. The “think before you print” sticker was placed on printers at the Liechtenstein facility at the start of the year and was intended to encourage employees to consume less paper. We have achieved this goal: While a total of 5,968,689 sheets were printed in 2017, the consumption figure in 2018 was 10.79 per cent lower at 5,324,750 sheets.

VP Bank’s discarded waste paper is shredded in an in-house recycling unit and compressed into briquettes. With this process, roughly 36 tonnes of paper briquettes

were produced at the Liechtenstein location in 2018. They were collected by a local recycler and put to new uses.

Printing solutions

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

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

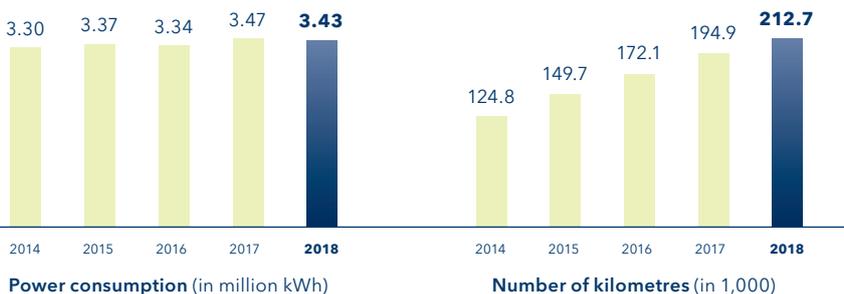
By using these modern multifunction devices, we can reduce the existing 180 devices by half. The replacement will start in spring 2019.

Environmental management

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

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

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



Mobility management

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

This concept motivates employees to form carpools. VP Bank also offers the free use of Mobility Cars, an arrangement that has met with an enthusiastic response. The total number of kilometres driven for business purposes with the Mobility Cars was 15,742 in 2018, slightly less than the 18,216 km travelled in 2017. The use of a videoconferencing system has helped to reduce employees' business travel to the VP Bank's international locations. In addition, every employee has the ability to organise in-house discussions with other employees using online meeting tools so that the contents of documents can be viewed and modified simultaneously on multiple screens.

Employees using public transport are also offered a free pass for bus and railway transport within Liechtenstein. The revenues from the Bank's mobility management are amongst others used for the reimbursement of the pass. In 2018, 123 employees took advantage of this offer.

The Mobility concept is a success. It has achieved its goals of reduced automobile use, greater environmental awareness and support for public transportation. This concept has set an example for the region, and in 2011 was awarded the "Zurich Climate Prize", which honours measures to improve energy efficiency and reduce CO₂ emissions.

In 2015, VP Bank acquired an all-electric passenger vehicle. It is available for regional trips between Zurich and Vaduz

as well as for accompanying clients. Since 2015, this vehicle has logged an annual average of between 8,000 and 10,300 kilometres. Starting in 2019, charging stations for electric cars of clients and employees of VP Bank in Liechtenstein are planned.

In 2018 as in previous years, many VP Bank employees took part in the "Bike to work" event sponsored by the Liechtenstein Chamber of Commerce and Industry. In September 2018, VP Bank again participated in the European Mobility Week and in doing so supported the "Car-free - Care-free" campaign, which seeks to promote the ease of commuting to work using public transport instead of by car or motorcycle.

Through its "Tailwind" campaign, the Principality of Liechtenstein certifies bicycle-friendly businesses. VP Bank, too, endorses the use of two-wheelers as an integral part of business mobility and has received this certification on numerous occasions. Employees in Liechtenstein often travel between the buildings in the neighbouring towns of Vaduz and Triesen for meetings and training, with bus passes made available to them for this purpose. In the summer of 2016, VP Bank also acquired four electrobikes, which are available to employees at no cost and are widely used.

Ride-sharing is another means by which VP Bank seeks to further reduce automobile travel. The online platform Comovee provides contact information for all registered employees in the vicinity and enables all employees to form carpools. The smart map overview enables users to select potential ride shares on a geographic basis. VP Bank Ltd and other large companies in Liechtenstein use this platform, which thereby offers a broad range of potential ride-sharers. This initiative helps to reduce commuter traffic and parking problems and is good for the environment.



Corporate governance

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

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

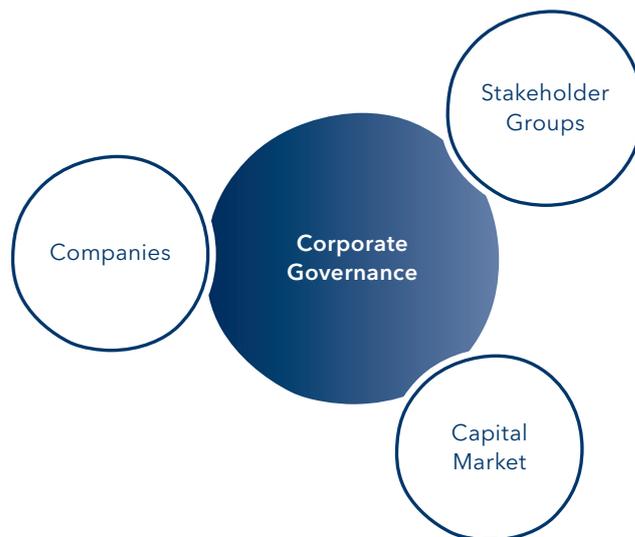
VP Bank Group strives to win the trust of all stakeholder groups. It thus acts with integrity and in a fair and transparent manner at all times and grants its stakeholder groups insight into its decision-making and control processes. For years, it has thus published, of its own accord, information as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

The Corporate Governance report describes the basic principles underlying the corporate management of VP Bank Ltd, Vaduz as required by the revised “Directive on Information Relating to Corporate Governance” (DCG) of the Swiss Stock Exchange, SIX Swiss Exchange dated 20 March 2018 as well as the laws of Liechtenstein.

In Switzerland, the Ordinance against Excessive Compensation in Public Corporations (OAEC) has been in force as from 1 January 2014. It is applicable to Swiss joint-stock companies whose shares are quoted on a stock exchange in Switzerland or abroad, whereby VP Bank is not directly affected. In its Notification no. 2/2014 issued on 1 September 2014 concerning the revision of the “Directive on Information Relating to Corporate Governance” (DCG), the Regulatory Board stipulated that in principle all companies quoted on the SIX Swiss Exchange must disclose the same information concerning corporate governance. Consequently, the DCG contains in part special provisions for issuers which are not subject to the OAEC, but must apply these, in part, by analogy.

Details on the Corporate Governance Report can be found in the Annual Report 2018 of VP Bank on page 63 ff.

Equilibrium achieved through Corporate Governance



Compliance

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

General

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

Under the Banking Act, banks and securities firms in Liechtenstein can offer a comprehensive array of financial services. The Law on Professional Due Diligence to Combat Money Laundering, Organised Crime and Terrorist

Financing (Due Diligence Act, DDA) of 11 December 2008 and its related Ordinance (Due Diligence Ordinance, DDO) of 17 February 2009 - in conjunction with the article on money-laundering contained in Art. 165 of the Liechtenstein Penal Code - constitute the relevant legal basis governing the entire financial services sector in Liechtenstein subject to the due-diligence requirements. These were revised on repeated occasions and comply with international requirements and standards.

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

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

Details on Legislation can be found in the Annual Report 2018 of VP Bank on page 57 ff.

Risk management of VP Bank Group

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

The risk policy 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.

In Liechtenstein, the legal regulatory requirements governing risk management are set out primarily in the Banking Act (BankA) and the Banking Ordinance (BankO). In addition, the Capital Requirements Regulation (CRR) of the European Union was put into effect as of 1 February 2015. Together with the Capital Requirements Directive (CRD), the CRR constitutes the implementation of the currently valid Basel III Capital Accord in the European Union. In Liechtenstein, the CRD was enacted in the Banking Act and related Ordinance. VP Bank was classified by the Financial Market Authority Liechtenstein as a locally system-relevant bank and must possess in aggregate equity amounting to at least 13 per cent of its risk-weighted assets. As with regards to liquidity, since 1 January 2018 the Bank is required to maintain a Liquidity Coverage Ratio (LCR) of at least 100 per cent. Thanks to its solid equity basis, balance-sheet structure and comfortable liquidity position, VP Bank has constantly outperformed the regulatory requirements over the course of 2018.

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

Capital and balance-sheet structure management

The regulatory minimum capital ratio of 13 per cent of risk-weighted assets consists of an 8 per cent minimum as well as additional capital conservation and systemic risk buffers of 2.5 per cent each. Furthermore, Basel III provides for an anti-cyclical capital buffer which, however, was set at 0 per cent for 2018 by the Financial Market Authority Liechtenstein.

VP Bank has observed the equity requirements during 2018 at all times. Thanks to an exceedingly robust tier-1

ratio of 20.9 per cent as at the end of 2018, VP Bank continues to enjoy ample scope for assuming risks associated with its conduct of banking operations. Even after accounting for all risks there remains potential for corporate acquisitions through free equity resources.

The Leverage Ratio (indebtedness ratio) of VP Bank amounted to 7.3 per cent at the end of 2018. Although the Financial Market Authority Liechtenstein has not yet formally established a requirement for a minimum ratio by end of 2018, VP Bank continues to disclose the Leverage Ratio in its disclosure report.

As part of the management of equity resources and the balance-sheet structure, compliance with regulatory requirements and the coverage of its business needs is monitored on an on-going basis. Using an internal process to assess the adequacy of capital resources (Internal Capital Adequacy Assessment Process), possible adverse effects on the equity and liquidity position under stress situations are simulated and analysed.

Liquidity management

Besides observing legal liquidity requirements and provisions, liquidity risks of the interbank business and credit-granting activities are monitored and managed using internal directives and limits. Maintaining sufficient liquidity at all times has utmost priority at VP Bank Group. This is assured with large cash and cash equivalent holdings as well as high-quality liquid assets (HQLA). VP Bank has observed the minimum regulatory liquidity requirements during 2018 at all times.

VP Bank Group's comfortable liquidity position is reflected with a Liquidity Coverage Ratio (LCR) of 143 per cent as at 31 December 2018, and in compliance with the minimum regulatory requirement of 100 per cent.

With ILAAP (Internal Liquidity Adequacy Assessment Process), the Financial Market Authority imposes specific requirements concerning internal strategies and procedures to determine, manage and monitor liquidity risks. In 2018, the ILAAP was surveyed and assessed for the first time by the Financial Market Authority Liechtenstein using a specific questionnaire.

As part of its liquidity management process, VP Bank has established an emergency liquidity plan to ensure that VP Bank holds adequate liquidity in the event of a liquidity crisis. Early warning indicators are regularly reviewed to monitor and identify, on a timely basis, any deterioration in the liquidity situation.

As part of liquidity management, compliance with regulatory requirements and the coverage of business needs is subjected to on-going monitoring. Using stress tests, possible adverse scenarios are simulated and the impact on liquidity in stress situations analysed.

Credit risk

Due to the importance of the client lending business (CHF 6.2 billion as of 31 December 2018 or 50 per cent of total assets), management and monitoring of credit risks plays a central role at VP Bank. Credit risk management in the client lending business is governed - in addition to risk-policy regulations - by a set of rules for granting loans. In 2018, the volume of client loans increased by CHF 0.5 billion to CHF 6.2 billion whereas in the interbank business, the volumes fell by CHF 0.1 billion to CHF 0.8 billion.

Market risk

Given the importance of the interest-margin business, management and monitoring of market risk on the balance sheet takes on particular importance. Here, VP Bank Group is primarily exposed to interest-rate, foreign-currency and equity price risks. While short term interest rates in the US Dollar continued to increase during 2018, the interest rate environment in Switzerland and Europe was characterised by negative interest rates. This presents major challenges

for balance sheet management as it remains difficult to invest client deposits at adequate yields.

Operational risks

VP Bank defines operational risk as potential losses incurred as a consequence of the inappropriateness or failure of internal processes, individuals, systems or as a result of external events. With risk assessments possible risk scenarios are identified, described and assessed. Operational risk is controlled in all organisational units of VP Bank by their respective executive management. Thanks to such uniform implementation, it is possible to provide meaningful reporting of operational risks in VP Bank Group on a quarterly basis to relevant stakeholders (Board of Directors, Group Executive Management and senior executives).

Further risks

In addition to the aforementioned risks, risk management of VP Bank Group covers strategy, business as well as reputational risk. Based on its business model and range of services, these risks are systematically analysed and reassessed on an on-going basis.

Further details on Risk Management can be found in the Annual Report 2018 of VP Bank on page 118 ff as well as in the Risk Report of VP Bank Group.



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