

Annual Report 2018

// À la carte //

**CERTIFIED TRUE COPY FROM THE ORIGINAL
VP BANK, HONG KONG REPRESENTATIVE OFFICE**

[Signature]
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DATE: *April 28, 2019*



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Shareholder information

VP Bank Group at a glance

- Founded in 1956
- Third-largest bank in Liechtenstein
- About 930 employees
- Listed on SIX Swiss Exchange
- "A" rating from Standard & Poor's
- Six locations worldwide in key financial centres (Vaduz, Zurich, Luxembourg, Singapore, Hong Kong, Tortola/BVI)
- Focus on asset management for intermediaries and private individuals
- International fund competency centre

Medium-term goals for the end of 2020

- Assets under management of CHF 50 billion
- Group net income of CHF 80 million
- Cost/income ratio below 70%

Agenda 2019

Media and analysts conference	5 March 2019
Annual general meeting of shareholders	26 April 2019
Dividend payment	3 May 2019
Semi-annual results	20 August 2019

Master Data

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

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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// À la carte //

We reveal the best recipes from VP Bank's international cuisine: "À la carte" is the design theme of our 2018 annual report.

We focus on six VP Bank Group sites, their strengths and particularities. We offer our clients a global network along with regional know-how for customised and needs-based solutions - essentially "à la carte".

VP Bank's personal advisory is like a customised menu selection from leading restaurateurs. Just as the regions where VP Bank is present are diverse, so, too, are the cooks. Yet they all have much in common: precise working methods, a passion for the product, perfect processes and successful creations. Thus we constantly surprise our clients again and again while creating unique experiences.

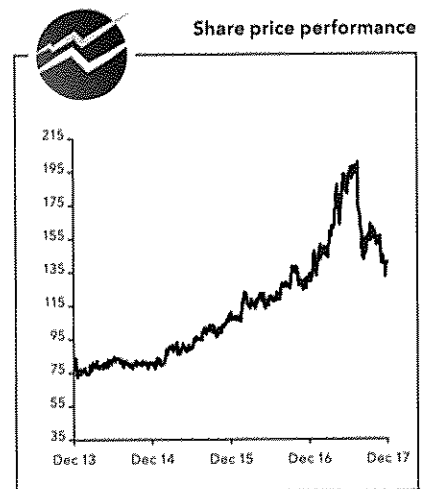
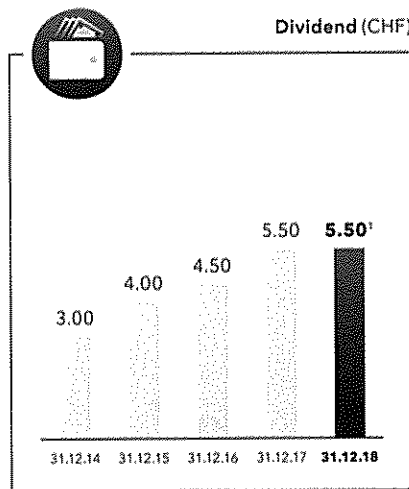
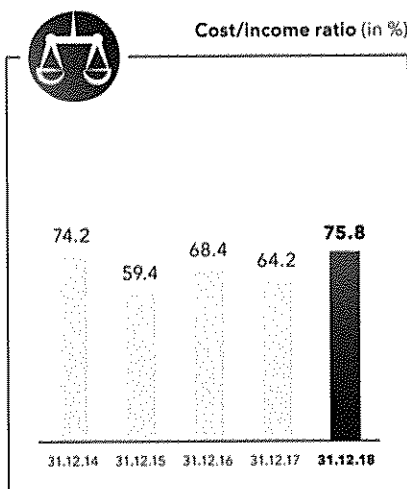
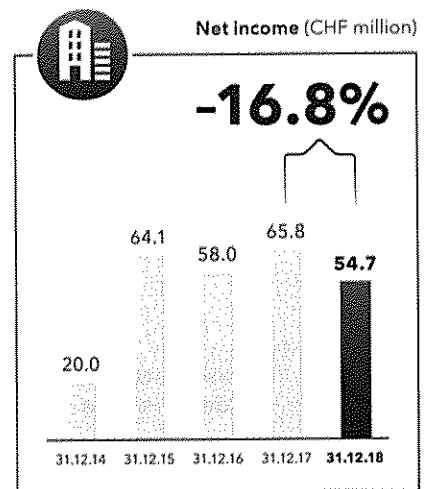
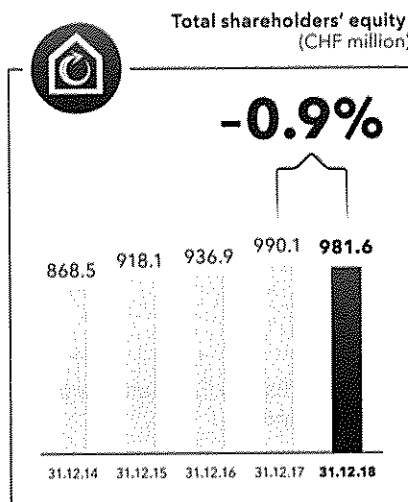
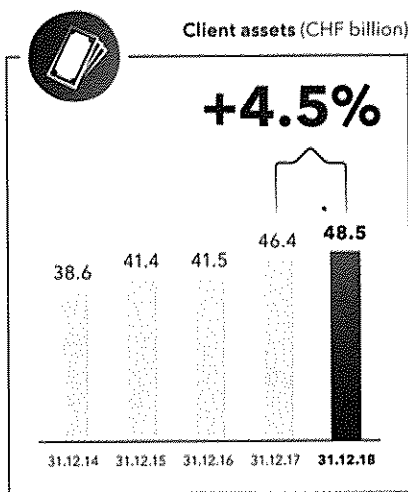
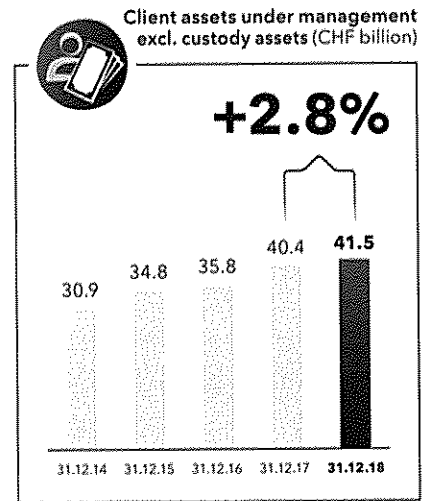
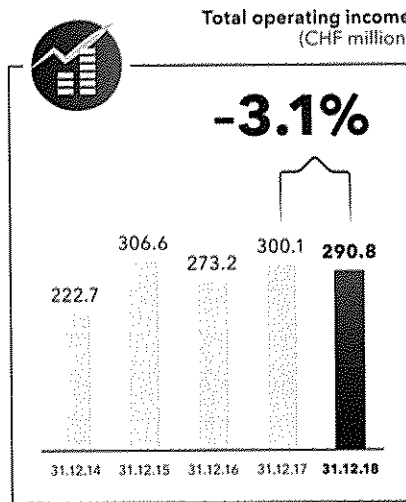
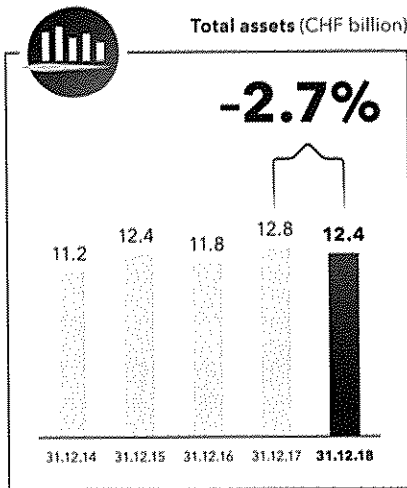
We are proud to present to you more than 60 years of "à la carte" advisory recipes for success. Come with us on this culinary trip through the world of VP Bank.

Discover succulent video footage and unusual recipes in the online annual report at report.vpbank.com



www.vpbank.com/en/alacarte

Key figures of VP Bank Group



¹Proposal to the annual general meeting

— VP Bank registered shares A (in CHF)

Key figures of VP Bank Group

	2018	2017	Variance in %
Key income statement data in CHF million^{1,2}			
Total net interest income	111.0	104.4	6.3
Total net income from commission business and services	124.3	123.9	0.3
Income from trading activities	55.0	50.2	9.4
Income from financial instruments	-1.6	19.2	-108.6
Total operating income	290.8	300.1	-3.1
Operating expenses	232.3	229.8	1.1
Group net income	54.7	65.8	-16.8
Key balance-sheet data in CHF million^{1,2}			
Total assets	12,428.2	12,778.1	-2.7
Due from banks	771.1	892.6	-13.6
Due from customers	6,196.3	5,647.6	9.7
Due to customers	10,334.9	10,559.4	-2.1
Total shareholders' equity	981.6	990.1	-0.9
Equity ratio (in %)	7.9	7.7	1.9
Tier 1 ratio (in %)	20.9	25.7	-18.7
Leverage ratio in accordance with Basel III (in %)	7.3	7.5	-2.7
Total client assets under management in CHF million			
On-balance-sheet customer deposits (excluding custody assets)	10,231.3	10,177.0	0.5
Fiduciary deposits (excluding custody assets)	798.0	700.8	13.9
Client securities accounts	30,496.6	29,508.6	3.3
Custody assets in CHF million	6,990.8	6,062.0	15.3
Total client assets in CHF million	48,516.7	46,448.3	4.5
Business volumes¹⁶			
Net new money	3,196.9	1,894.3	68.8
Key operating indicators²			
Return on equity (in %) ^{1,3}	5.6	6.9	
Cost/income ratio (in %) ⁴	75.8	64.2	
Total operating expenses / total net operating income (in %)	79.9	76.6	
Headcount (expressed as full-time equivalents, excluding student apprentices) ⁵			
Total operating income per employee (in CHF 1,000)	334.9	375.4	
Total operating expenses per employee (in CHF 1,000) ⁴	254.0	240.9	
Group net income per employee (in CHF 1,000)	63.0	82.3	
Key indicators related to shares of VP Bank in CHF¹			
Group net income per registered share A ⁷	9.04	10.89	
Group net income per registered share B ⁷	0.90	1.09	
Dividend per registered share A ⁸	5.50	5.50	
Dividend per registered share B ⁸	0.55	0.55	
Dividend yield (in %)	3.9	4.1	
Payout ratio (in %)	60.8	50.5	
Total shareholders' return on registered shares A (in %)	10.45	27.31	
Shareholders' equity per registered share A on the balance-sheet date	164.80	164.65	
Shareholders' equity per registered share B on the balance-sheet date	15.69	15.30	
Quoted price per registered share A	141.40	133.00	
Quoted price per registered share B	14.20	13.30	
Highest quoted price per registered share A	202.00	141.90	
Lowest quoted price per registered share A	130.80	105.00	
Market capitalisation (in CHF million) ⁹	936	880	
Price/earnings ratio per registered share A	15.64	12.21	
Price/earnings ratio per registered share B	15.71	12.21	
Rating Standard & Poor's	A/Stable/A-1	A-/Positive/A-2	

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

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

³ Net income / average shareholders' equity less dividend.

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

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

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

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

⁸ Subject to approval by the annual general meeting.

⁹ Including registered shares B.

¹⁶ Assets under management and due from customers.



Fredy Vogt
Chairman of the
Board of Directors

Statement by the Chairman of the Board

Dear shareholders,
Ladies and gentlemen

2018 was a very eventful year. Economic growth was initially solid, but concerns over rising US interest rates, trade wars, Brexit discussions and problems surrounding the Italian budget deficit all weighed on financial markets.

In this demanding economic and political environment, VP Bank was able to record solid results in 2018. The continued gains in net new money exceeded expectations and again confirm the relevance of our growth strategy.

Solid annual results

VP Bank Group recorded consolidated net income of CHF 54.7 million in 2018, compared with CHF 65.8 million the previous year. The 16.8 per cent decline was due to the persistent low interest rate environment along with fixed income and equity market trends.

Operating income contracted by 3.1 per cent from CHF 300.1 million in 2017 to CHF 290.8 million last year.

Operating expense rose by 1.1 per cent to CHF 232.3 million.

Client assets under management increased by 2.8 per cent from CHF 40.4 billion to CHF 41.5 billion. In 2018, VP Bank Group recorded net new money inflows of CHF 3,197 million, the highest organic increase in client assets in more than 10 years. We achieved this very satisfactory increase last year through intensive market development efforts, inflows from existing clients and the recruitment of new client advisors.

At 31 December 2018, the Tier 1 Ratio was 20.9 per cent (compared with 25.7 per cent one year earlier). The cost/income ratio was 75.8 per cent, compared with 64.2 per cent.

As we implement our strategic goals, we invested heavily in growth in 2018. These long-term investments come at the expense of profitability in the near term. VP Bank nevertheless demonstrated that organic growth can be achieved even in challenging market environments.

Proposed dividend

The Board of Directors proposes to the Annual General Meeting of 26 April 2019 to leave the dividend unchanged at CHF 5.50 per registered share A and CHF 0.55 per registered share B. The earnings basis shapes the dividend policy defined by the Board of Directors. VP Bank strives to maintain a constant dividend approach, with a goal of paying out 40 per cent to 60 per cent of consolidated net income to shareholders. The proposed dividend is based on consolidated net income of CHF 54.7 million.

Strategic orientation and positioning

VP Bank's business model is based on the two strategic pillars of the intermediaries business and private banking. We position ourselves as a trusted partner for a sophisticated private client base and we are a well-established partner for financial intermediaries. In addition, we offer an international fund competency centre. VP Bank's primary strategic goal is to achieve profitable and qualitative growth in the identified target markets and thereby secure its independence.

In 2015 the board of Directors and Group Executive Management developed the "Strategy 2020" plan. This strategy encompasses the key long-term priorities of growth, focus and culture. It combines a growth strategy, efficiency enhancements and the continued development of our sales and performance culture.

As part of "Strategy 2020" we defined the following medium-term goals:

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

At end-2018, assets under management totalled CHF 41.5 billion, up from CHF 40.4 billion one year earlier. Net income for 2018 was CHF 54.7 million, compared with CHF 65.8 million the previous year. At 31 December 2018 the cost/income ratio was 75.8 per cent (2017: 64.2 per cent).

Achieving our goals will be a challenge for VP Bank in the light of the still demanding market environment. Our performance as regards client assets under management as well as our strong equity position nevertheless show that we are still on the right track.

VP Bank shares

2018 was a positive year for VP Bank's shareholders. Including the dividend of CHF 5.50 per share, VP Bank's shares delivered a nearly 10 per cent return in 2018, thereby significantly outperforming the shares of most other Swiss banks. Share price volatility was relatively high, particularly in the summer months. In 2018, the shares traded at an average price of CHF 161.91 and closed the year at CHF 141.40. More details on our share performance can be found in the section "VP Bank in capital markets".

On 27 April 2018, the Annual General Meeting authorised the payment of an increased dividend of CHF 5.50 per registered share A and CHF 0.55 per registered share B. The dividend payment date was 4 May 2018.

Under the authorisation granted by the Annual General Meeting of 24 April 2015, VP Bank decided to increase the number of treasury shares through another share buy-back of up to 10 per cent of the share capital. We are thus carry-

ing on the successful programmes from the years 2015 and 2016. The repurchased registered shares are to be used for acquisitions or treasury management purposes.

As from 31 December 2018, VP Bank AG directly and indirectly holds 599,442 registered treasury shares A and 324,929 registered treasury shares B (9.55 per cent of the share capital and 7.70 per cent of the voting rights). Since no shares were cancelled, share capital and voting rights ratios remain unchanged.

Significant events at our sites

2018 was a major anniversary year for VP Bank Group. In the Grand Duchy of Luxembourg, we celebrated 30 years of doing business through VP Bank (Luxembourg) SA and 20 years for the fund competency centre VP Fund Solutions (Luxembourg) SA. VP Bank has also been represented by a subsidiary in Zurich since 1988, and our Singapore site celebrated its 10-year anniversary.

As mentioned already in our 2018 interim report, we marked these anniversaries through local events and other activities for employees, clients and the media.

Meanwhile, in 2018 we also made substantial investments in our future. Along with the continued development of the advisory process, we moved to larger new and prestigious office buildings in Zurich and Luxembourg while doubling the amount of office space in Singapore. At our main headquarters building in Liechtenstein, we completed a renovation project that creates a work environment offering the latest technical standards and flexibility.

Our growth objectives in Singapore required changes to the existing organisational structures. As from September 2018, VP Bank in Singapore therefore began operating as a branch instead of a subsidiary. The banking license was also upgraded from a merchant bank to a wholesale bank. The transfer process was completed on 1 September 2018.

In connection with a review of market development efforts in Russia going forward, we decided to close the representative office in Moscow. VP Bank is thereby focusing its activities in the Russian market by consolidating them mainly at its Zurich office as the competency centre for Central and Eastern European markets. The Moscow office was closed for financial and logistical reasons. This decision was based on our Strategy 2020, which revolves around a "Focus" theme aimed at productivity gains and reductions in the complexity and costs of internal processes. Russia nevertheless remains a core target market of VP Bank Group. The Moscow representative office was closed in November 2018.

Other significant events

In late 2016 we launched our "Relationship Manager Hiring" project in order to achieve our growth objectives. In 2018 we hired 24 new client advisors for VP Bank as part of this project - and were rewarded with satisfactory net new money inflows.

In May 2018, the Standard & Poor's rating agency upgraded VP Bank's already strong "A-" rating to "A" with a stable outlook. VP Bank therefore now enjoys an "A/A-1" rating. This outstanding rating and stable outlook were

confirmed on 9 August 2018 and again demonstrate our Group's solid and successful business model.

In May 2018, we launched a new e-banking service with advanced portal technology for our clients. Close attention was paid to creating a user-friendly design and satisfying the strictest security requirements. The launch was supported with extensive communications initiatives and represents a major milestone in the digitalisation of VP Bank Group.

We further expanded our service offerings for clients in autumn 2018 by launching the VP Bank newsroom on our website, which contains publications and news related to VP Bank, and by offering longer trading hours to cover the leading financial markets worldwide.

We are proud of the recognition we received from the Berlin-based Fuchsbriefer publishing firm, which ranked VP Bank "VERY GOOD" for transparency and "GOOD" in the overall assessment category. This distinguished award shows that our advisory teams perform at the highest levels in international comparisons.

In order to advance the growth strategy at the Luxembourg site and further develop the funds business, in October 2018 we successfully penetrated the Scandinavian market. At 1 October 2018, VP Fund Solutions (Luxembourg) SA acquired the management company activities of Carnegie Fund Services S.A., and VP Bank (Luxembourg) SA now acts as the custodian. Also in October 2018, we announced that VP Bank (Luxembourg) SA was acquiring the Luxembourg private banking activities of Catella Bank based in Sweden.

Personnel changes

At the 55th Annual General Meeting, elections were held to renew the terms of office of VP Bank directors. Fredy Vogt and Dr Florian Marxer, whose terms had expired, were reappointed to the Board of Directors for additional three-year terms. At the Board of Directors meeting immediately following the Annual General Meeting, Fredy Vogt was appointed Chairman of the Board.

Dr Thomas R. Meier was appointed to a new three-year term on the Board. He has more than three decades of international experience in the banking industry, with an emphasis on Asia. This appointment strengthens the Board's competencies, ensures long-term succession planning and makes a significant contribution to the successful strategic development of our Asian business.

As part of "Strategy 2020", we adapted the organisational and management structure in 2018 by redefining the tasks within Group Executive Management. Dr Felix Brill assumed the position of Chief Investment Officer as from 1 March 2018 and Dr Urs Monstein became Chief Operating Officer as from 1 May 2018, such that VP Bank's Group Executive Management is now well staffed with six members.

Significant changes were implemented at our international sites. As from 19 March 2018, Dr. Oliver Möhl assumed the position of Chief Operating Officer at VP Bank (Switzerland) Ltd. Claus Jørgensen strengthened the management ranks of VP Bank (Luxembourg) SA when he was named "Head of Client Business" as from 1 October 2018.