Principles of accounting and valuation, disclosures on risk management

Principles of accounting and valuation

Basis

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 transactions are recorded under off-balance-sheet transactions as of their settlement or value date.

Corporate earnings and expenditure in foreign currencies are translated into Swiss francs at their respective daily rates; assets and liabilities are translated at the rates prevailing at year-end. Capital gains and losses resulting from revaluation are recorded on the income statement.

Financial statements of foreign branches expressed in a foreign currency are translated at the exchange rate prevailing on the balance sheet date (balance sheet items) or at an annual average exchange rate (income statement items). The foreign currency translation differences are recorded on the income statement.

Cash and cash equivalents, 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 less any applicable unearned discount in the case of money market papers. Valuation adjustments are established to cover identifiable risks while taking the principle of prudence into account. Individual and lump-sum valuation adjustments are deducted directly from the related balance sheet items.

Interest overdue for more than 90 days is provided for and recorded on the income statement as and when received.

Amounts due from clients

Amounts due from clients are recorded on the balance sheet at their nominal values less any applicable valuation adjustments. An amount due is considered to be value-impaired when there is a probability that the total contractually owed amount is no longer recoverable.

A valuation adjustment is recorded on the balance sheet as a downgrade of the carrying value of the amount due to its probable realisable value. In contrast, provisions for credit risks are created for off-balance sheet items. In addition to individual valuation adjustments, VP Bank Ltd creates lump-sum individual valuation adjustments as well as lump-sum valuation adjustments to cover latent credit risks.

A review of collectability is undertaken at least once a year for all doubtful receivables.

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.

The majority of fixed-interest securities held as current assets are valued according to the accrual method, in s ome cases also according to the lower of cost or market principle. In accordance with the accrual method, the agio or disagio on acquisition is deferred and accreted or amortised, respectively, over the term of the security until maturity. The interest portion of realised gains or losses from premature disposal or redemptions is deferred and released to income over the residual term (i.e. until the original maturity). The remaining securities and precious metals held as current assets are valued according to the lower of cost or market principle. Interest income arising on fixed-interest securities is reflected in the item "Interest income" and dividend income in the item "Current income from securities". Price gains are reported under the item "Income 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 investments. Investments are valued at acquisition value less economically required valuation adjustments.

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 value less economically required valuation adjustments.

These affiliated companies are fully consolidated for the purposes of the published consolidated financial statements.

Intangible assets

Development costs for software are capitalised if they meet certain criteria regarding identifiability, if it is probable that future corporate earnings will flow to the enterprise and if the costs can be measured reliably. Internally developed software that meets these criteria, as well as purchased software and its installation costs, are capitalised and amortised over 3 to 7 years. Minor purchases are charged directly to general and administrative expenses.

Property, plant and equipment

Property, plant 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, plant and equipment are capitalised and valued at acquisition cost. Minor purchases are charged directly to general and administrative expenses.

In subsequent valuations, property, plant and equipment is recorded at acquisition value, less accumulated depreciation and amortisation. Depreciation and amortisation are charged on a systematic basis over the estimated useful life (bank buildings and other real estate: 25 years; fixtures: 10 to 15 years; furniture and equipment: 8 years; IT installations: 3 years; software: 3 to 7 years). The property, plant and equipment is reviewed annually for impairment in value.

Other assets, other liabilities

Other assets and other liabilities include the positive and negative replacement values of all financial derivative instruments open on the balance sheet date arising from nostro transactions as well as over-the-counter (OTC) contracts arising from transactions on behalf of clients. In addition, these items include balances of various settlement and clearing accounts.

Valuation adjustments and provisions

Valuation adjustments and provisions are established to reflect identifiable risks, as dictated by the principle of prudence. Individual and lump-sum valuation adjustments for receivables from banks and clients as well as on mortgage receivables are deducted directly from the corresponding asset item. Provisions can be raised for receivables subject to a country risk as dictated by the principle of prudence.

Provisions for general banking risks

Provisions for general banking risks are prudently established reserves to cover latent risks arising from the normal course of business of the bank. As required by the prescriptions governing financial statement reporting, they are shown as a separate item on the balance sheet. Changes thereto are disclosed separately on 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 on 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 BankO). The consolidated statement of cash flow of VP Bank Group is a part of the consolidated financial statements.

Post-balance-sheet-date events

There were no significant events after the balance sheet date for the 2023 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. “Appropriate” is understood to mean that VP Bank Ltd, as a value-oriented enterprise, although it takes on financial, operational and business risks in a deliberate 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 (→ page 138 et seq.).