

Corporate Governance 2010

Corporate governance is the manner in which an enterprise is managed and controlled. VP Bank strives to conduct exemplary corporate governance in a manner that clearly defines and appropriately allocates the roles, competencies and areas of responsibility of the company's leadership and supervisory bodies. That applies in particular to the operative management as well as to the Board of Directors and its committees. It is also the objective of good corporate governance to avoid conflicts of interest between the individual stakeholder groups. That requires a high degree of transparency, because even the best internal structures cannot foster trust unless they are communicated to the outside world. It is VP Bank Group's desire to offer its stakeholders insight into its decision-making and control processes.

This report describes the basic principles underlying the corporate governance of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, as required by the revised Directive on Information Relating to Corporate Governance (DCG) of SIX Swiss Exchange dated March 29, 2006, as well as the relevant laws of Liechtenstein.

In Switzerland, new provisions of the Code of Obligations (CO) entered into force on January 1, 2007 (Art. 663bbis CO). Under those provisions, disclosures must be made of the compensation paid by the company to members of the Board of Directors and senior management, as well as the financial interests those persons hold in the company.

Accordingly, the Admission Board of SIX Swiss Exchange adapted the DCG and abrogated Points 5.3 through 5.9 of the Directive dated April 17, 2002.

As a Liechtenstein corporation, VP Bank is not subject to the Swiss Code of Obligations.

The regulations of SIX Swiss Exchange provide that companies whose shares are listed on the Exchange but not in their own home country must apply the provisions of Art. 663b^{bis} CO correspondingly. The relevant details are shown in Section 5.2 on page 61 as well as in the notes to the annual financial statements (see pages 166 f.).

Unless otherwise indicated, the disclosures herein are valid as at December 31, 2010.

1. Group structure and shareholder base

1.1 Group structure

1.1.1 Description of the Group's operating structure

Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (hereinafter referred to as VP Bank), is a joint-stock company constituted in accordance with Liechtenstein law. It is the parent company of VP Bank Group. The organization chart on page 11 shows the Group's operating structure and reflects the organization by segment of VP Bank Group.

The subsidiary companies and material shareholdings included in the scope of consolidation are listed in the Financial Report (see page 137), together with their name, registered office, share capital and percentage of share capital held. Members of the Head Office's senior management, i.e. Group Executive Management (GEM)¹, are represented on the boards of directors of the consolidated companies. As a general rule, either the CEO or another member of the GEM acts as Board Chairman of the subsidiary company.

¹ Senior management of the parent company is referred to as Group Executive Management (GEM). It performs the function of managing the parent company as well as the Group as a whole. In this section, we normally use the term "GEM".

1.1.2 Listed companies included in the scope of consolidation

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

	ISIN	Security number	Year-end closing price in CHF	Market value in CHF million
Registered shares (unlisted)	LI0010737596	1.073.759	10.50	63
Bearer shares (listed)	LI0010737216	1.073.721	114.80	610 ¹
Total (market capitalization of the bearer shares plus market value of the registered shares)				673

¹ Market capitalization of the listed bearer shares as at January 31, 2010

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

1.2 Significant shareholders

As at December 31, 2010, the following shareholders declared that they own more than 10 percent of the share capital of VP Bank or exercise more than 3 percent of the voting rights.

2. Capital structure

2.1 Capital

The share capital of VP Bank amounts to CHF 59,147,637 and is divided into 6,004,167 fully paid-up registered shares with a par value of CHF 1.00 each, as well as 5,314,347 bearer shares with a par value of CHF 10 each (see Financial Report, page 129).

	Number	Balance as at December 31, 2010 Share capital in CHF
Registered shares	6,004,167	6,004,167
Bearer shares	5,314,347	53,143,470
Total	11,318,514	59,147,637

2.2 Authorized and conditional capital

VP Bank has neither authorized nor conditional capital pending.

Shareholders	Registered shares	Bearer shares	Voting rights	Voting rights as % of total	Ownership of total share capital in %
Stiftung Fürstlicher Kommerzienrat					
Guido Feger, Vaduz	4,452,447	1,026,406	5,478,853	48.4%	24.9%
U.M.M. Hilti-Stiftung, Schaan	658,370	534,858	1,193,228	10.5%	10.2%

During the period under review, no further disclosure reports were received within the context of Art. 25 of the Liechtenstein Law Governing the Disclosure of Information Relating to Issuers of Securities or, as it were, Art. 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading. There exist no binding shareholder agreements.

1.3 Cross-shareholdings

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

2.3 Changes in capital

The share capital of VP Bank has not changed during the past three years. Total shareholders' equity of VP Bank for the past three financial years (as at the given balance sheet date) has developed as follows:

in CHF 1,000	12/31/2010	12/31/2009	12/31/2008
Share capital	59,148	59,148	59,148
Legal reserves	239,800	239,800	239,800
andere Reserve	357,097	316,588	316,189
Provisions for general banking risks	63,150	71,400	63,150
Retained earnings	25,162	61,387	15,057
Total	744,357	748,323	693,344

2.4 Shares and participation certificates

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

VP Bank has issued no participation certificates.

2.5 Profit-sharing certificates

VP Bank has issued no profit-sharing certificates.

3. Board of Directors

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

Liechtenstein law provides for a clear separation of duties between the uppermost management, the supervision and control exercised by the Board of Directors, as well as the operative management. Accordingly, the Board of Directors of VP Bank consists exclusively of nonexecutive members (i.e. members not actively involved in management).

3.1 Members of the Board of Directors

The Board of Directors of VP Bank consists of seven members, none of whom has belonged to the GEM of VP Bank or any Group company during the past three financial years.

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

2.6 Limitations on transferability and nominee registrations

The recording and transfer of registered shares is regulated in detail in Art. 7 of the Articles of Incorporation². The registered shares are entered into the share register with a precise description of the owner according to name, citizenship and address. Only those registered shareholders are allowed to exert membership rights vis-à-vis the company. The Board of Directors may refuse entry into the share register for compelling reasons.

2.7 Convertible bonds and warrants/options

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

The following table provides information as to the name, age, functions, joining date and remaining term of office of the Board members:

Name	Year of birth	Function	Joined Board of Directors in	Elected until AGM in
Hans Brunhart	1945	Chairman ^{1,4}	1994	2012
Dr. iur. Guido Meier	1948	Vice Chairman ²	1989	2013
Lic. oec. Markus Thomas Hilti	1951	Board member ²	1992	2013
Roland Feger	1956	Board member ⁴	2001	2013
Walo Frischknecht	1946	Board member ³	2002	2011
Prof. Dr. Beat Bernet	1954	Board member	2002	2011
Dr. iur. Daniel H. Sigg	1956	Board member	2008	2011

¹ Chairman of the Committee of the Board of Directors

² Member of the Committee of the Board of Directors

³ Chairman of the Audit & Risk Management Committee

⁴ Member of the Audit & Risk Management Committee

² The Articles of Incorporation can be accessed via the Internet at: www.vpbank.com (homepage of VP Bank Group → Investors → Publications).

Hans Brunhart (born March 28, 1945; citizen of Liechtenstein) has been the Chairman of the Board of Directors since April 1996, as well as Chairman of the Committee of the Board of Directors and member of the Audit & Risk Management Committee of VP Bank.

Further (board) mandates: SFS Holding AG, Heerbrugg.

Educational background: studied German philology at the universities of Freiburg (CH) and Basel.

Professional background: since 1972, Head of the Liechtenstein National Library and State Archives.

On March 27, 1974, he was appointed by His Serene Highness Prince Franz Josef II von und zu Liechtenstein to the post of Deputy Head of the Government and on April 26, 1978, to the post of Head of the Government of the Principality of Liechtenstein. Hans Brunhart exercised the function of Head of Government during four terms of office until 1993.

Other activities and vested interests: Hans Brunhart is the owner of ECAG Euroconsult AG, Schaan, established in 1993.

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

Educational background: studied law at the University of Basel; graduated with a doctorate degree in 1977; admission to the bar in 1979.

Professional background: Allgemeines Treuunternehmen (ATU), Vaduz (Chairman of the Council of Trustees); law office of Meier & Kieber Attorneys-at-Law, Vaduz.

Other activities and vested interests: 1985 through 1993, part-time judge at the Liechtenstein Constitutional Court; 1993 through 1997, Member of Parliament.

Guido Meier is Chairman of the Liechtenstein Institute, president of the Board of Trustees of the Stiftung Fürstlicher Kommerzienrat Guido Feger, Vaduz (see Point 1.2), as well as Chairman of the Council of Trustees of Allgemeines Treuunternehmen (ATU).

Lic. oec. Markus Thomas Hilti (born January 3, 1951; citizen of Liechtenstein) is a member of the Committee of the Board of Directors of VP Bank.

Educational background: studied business administration, majoring in finance and accounting, at the University of St. Gallen; graduated as lic. oec. HSG.

Professional background: Coopers & Lybrand, White Plains N.Y. (auditor); Hilti Western Hemisphere, Tulsa (USA) (finance, product management and sales);

until 1989, member of senior management at Hilti Western Hemisphere (responsible for product management, purchasing, development, quality assurance as well as head of the company's factory in Tulsa).

Other activities and vested interests: from 1990 through 2009, Markus Thomas Hilti was Administrative Fiduciary and, since 2009, Protector of the Martin Hilti Familientreuhänderschaft, Schaan, as well as a trustee of U.M.M. Stiftung, Schaan (see Point 1.2).

Roland Feger (born December 26, 1956; citizen of Liechtenstein) is a member of the Audit & Risk Management Committee of VP Bank.

Educational background: Swiss Federal Examination in Accounting; diploma as Swiss Certified Fiduciary Expert.

Professional background: activities in the field of finance and accounting at various companies in Switzerland and Liechtenstein; management functions within Allgemeines Treuunternehmen (ATU), Vaduz; since 2000, Chairman of the Directorate of Allgemeines Treuunternehmen (ATU), Vaduz.

Other activities and vested interests: member of the Board of Trustees of Stiftung Fürstlicher Kommerzienrat Guido Feger (see Point 1.2), as well as Chairman of the Directorate of Allgemeines Treuunternehmen (ATU).

Walo Frischknecht (born October 7, 1946; Swiss citizen) is Chairman of the Audit & Risk Management Committee of VP Bank.

Further (board) mandates: Clientis AG, Bern (Vice Chairman and Head of the Audit Committee); Carpen AG, Zurich (Chairman of the Board of Directors); Fundus Treuhand AG, Zurich (Chairman of the Board of Directors); Allhost Holding, Lachen/SZ; Treuhand-Personalstiftung, Vaduz; Stiftung für Kinder- und Jugendpsychiatrie, Schwyz.

Educational background: diploma in business administration KSZ; Swiss Certified Public Accountant; Swiss Certified Expert in Accounting and Controlling; Controller's Diploma of the Controller-Akademie, Gauting, Germany.

Professional background: Price Waterhouse, Zurich; Revision AG, Zurich; Bank Leu AG, Zurich (auditor and Head of Accounting and Controlling), Leu Holding AG, Zug; BZ Trust AG, Wilen (Group Controller); BZ Bank, Wilen (Chairman of General Management); since 2003, independent management consultant (Walo Frischknecht & Partner GmbH, Lachen).

Other activities and vested interests: None.

Prof. Dr. Beat Bernet (born December 7, 1954; Swiss citizen)

Further (board) mandates: RUF Services AG, Schlieren (Chairman of the Board of Directors); Bernet & Partner AG, Zug (Chairman of the Board of Directors).

Educational background: studied economics majoring in business administration, banking and accounting at the University of Zurich; graduated as Dr. oec. publ. in 1981; post-doctoral thesis at the University of St. Gallen (HSG) in 1995.

Professional background: 1996 appointed full professor for business management with emphasis on banking at the University of St. Gallen; director at the Swiss Institute for Banking and Finance of the University of St. Gallen.

Other activities and vested interests: development of an international consulting organization for banks and financial service companies (servicing more than 120 banks in ten countries); management of international large-scale projects in the areas of banking strategy and banking technology.

Dr. iur. Daniel H. Sigg (born September 22, 1956; Swiss citizen, resident of New York)

Further (board) mandates: Bellevue Group AG, Zurich; Auerbach Grayson & Co., New York; various investment funds.

Educational background: studied law at the University of Zurich; Dr. iur. degree in 1984.

Professional background: BEA Associates / Credit Suisse Asset Management (Member of Senior Management and CFO); UBS (Global Head of Institutional Asset Management); Times Square Capital Management Inc. (President); DHS International Advisors LLC (consultant in the field of financial services).

Other activities and vested interests: board member and treasurer of the Swiss Institute, New York; board member and member of the finance committee of Resurrection Episcopal Day School.

3.2 Other activities and vested interests

The other activities of the Board members and any relevant vested interests can be found in the biographies shown in Point 3.1.

3.3 Cross-involvement

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

3.4 Election and term of office

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

From among its members, the Board of Directors elects the Chairman and Vice Chairman for a term of three years (reelection is permitted).

3.5 Internal organization

The internal organization and work methods of the Board of Directors are set out in the Articles of Incorporation (Arts. 17 through 19) and in the Organization and Business Rules (OBR Sections 2 through 4).³

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

3.5.1 Allocation of tasks within the Board of Directors

The Chairman, or in his absence the Vice Chairman, conducts on behalf of the Board of Directors the direct supervision and control of the GEM. In order to be able to fulfill its duties in an optimal manner, the Board of Directors is supported by two committees: the Committee of the Board of Directors (Nomination & Compensation Committee) and the Audit & Risk Management Committee.

3.5.2 Members list, tasks and area of responsibility for each committee of the Board of Directors

The tasks, competencies, rights and obligations of the Committee of the Board of Directors and the Audit & Risk Management Committee are laid down in Section 3 of the Organization and Business Rules (OBR). In addition, the function of the Audit & Risk Management Committee is regulated in detail in a specific set of rules. Minutes are kept on the matters addressed by both committees at their respective

³ Articles of Incorporation and OBR (available in German only) www.vpbank.com (homepage of VP Bank Group → Investors → Publications).

meetings and are forwarded to the attention of the Board of Directors, GEM, the statutory auditors and the Internal Audit department⁴.

Within the framework of a standard agenda item addressed at the following Board meeting, the chairmen of both committees inform the Board of Directors and GEM about all important matters.

Committee of the Board of Directors (Nomination & Compensation Committee)

The Committee of the Board of Directors currently comprises three members: Hans Brunhart (Chairman), Dr. Guido Meier and Markus Thomas Hilti. The Committee of the Board of Directors also functions as the Nomination & Compensation Committee.

Pursuant to Section 3.2 OBR, the Committee of the Board of Directors is primarily responsible for the following:

- assisting the Chairman in the fulfillment of his management and coordination tasks as well as the entire Board of Directors in issues concerning corporate governance, organization and the monitoring of business developments;
- preparing key strategic matters for the attention of the Board of Directors (new business areas, acquisitions, cooperative ventures, etc.);
- reviewing the strategy implementation (strategy controlling) for the attention of the Board of Directors.

In its capacity as Nomination & Compensation Committee, the Committee of the Board of Directors also attends to the following tasks

- defining the criteria for the election of Board members; performing the evaluation and submission of proposals to the Board of Directors;
- submitting proposals to the Board of Directors concerning the composition of the Committee of the Board of Directors and Audit & Risk Management Committee;
- preparing and submitting proposals for the post of CEO and, in collaboration with the CEO, the composition of the GEM, including conditions of employment and compensation;
- dealing with fundamental issues concerning human resources policy (e.g. salary and bonus systems, management development, successor planning, staff welfare benefits, etc.) for the attention of the Board of Directors;
- submitting proposals to the Board with regard to the compensation paid to the Chairman and the other Board members.

⁴ "Internal Audit" is a general term – at the Head Office and VP Bank Group level, it is referred to as "Group Internal Audit"; at the subsidiaries, "Internal Audit".

Audit & Risk Management Committee

The Audit & Risk Management Committee currently comprises Walo Frischknecht (Chairman), Hans Brunhart and Roland Feger.

The Audit & Risk Management Committee assists the Board of Directors in fulfilling the tasks assigned to it under the Banking Act with regard to the overall management, supervision and control of the Head Office and of VP Bank Group.

Pursuant to Section 3.3 OBR, the Audit & Risk Management Committee is responsible in particular for the following tasks:

- critically assessing financial reporting (individual company and consolidated financial statements, statement of cash flows, interim financial statements, etc.) as well as discussing the related matters with the CFO, the Head of Group Internal Audit and representatives of the company's statutory auditing firm;
- deciding whether the individual-company and consolidated financial statements can be recommended to the Board of Directors for submission to the annual general meeting of shareholders;
- assessing the functional capability of the internal control system, including risk and cash management;
- evaluating the measures taken to ensure compliance with and the enforcement of legal and internal regulations;
- judging the quality of the internal and external auditors, as well as the collaboration between the two, in particular through examination of the reports from Group Internal Audit and the statutory auditors;
- defining the audit plan of Group Internal Audit, as well as taking note of the audit planning of the statutory auditors;
- assessing the performance, compensation and independence of the external auditors, especially in terms of the compatibility of their auditing activities with any consulting mandates they may have;
- submitting proposals to the Board of Directors for the appointment of the Head of Group.

3.5.3 Work methods of the Board of Directors and its committees

At the invitation of the Chairman, the Board of Directors normally meets eight to ten times per year for meetings as well as for one executive retreat. Generally, the meetings consist of two parts: the first is devoted to consultative discussions for which members of the GEM are in attendance to present their proposals and exchange information, and a second decision-making part during which the Board

of Directors arrives at its resolutions. In order for the Board to be informed on a firsthand basis, the CEO is also in attendance at the second part. If necessary for the Board of Directors and its committees to address specific topics, further individuals can be called upon (managers of VP Bank Group, representatives of the statutory auditors, as well as internal or external specialists and consultants). During the 2010 financial year, the Board of Directors held six full-day and two half-day ordinary meetings as well as one extraordinary half-day meeting. In addition, the Board and GEM jointly conducted a half-day strategy workshop. With the exception of two meetings, each with one absence, the Board meetings were held with a full complement of members.

As a general rule, the Committee of the Board of Directors (Nomination & Compensation Committee, NCC) holds six to ten meetings per year. The CEO normally takes part in these NCC meetings in an advisory capacity.

In 2010, the NCC held eight meetings. A separate meeting was held for the purpose of exchanging information with GEM members as well as arriving at agreements on their individual goals, performance assessment and the determination of compensation. For the evaluation and appointment of a new CEO, various discussions were conducted with candidates.

The Audit & Risk Management Committee usually holds five to eight meetings per year, with the meeting dates being set to accommodate the needs arising from specific tasks (closing of accounts, financial reporting, Auditors' Reports, etc.). The CFO and Head of Group Internal Audit each take part in these meetings. At these meetings, there is an exchange of information with the GEM regarding the quality of internal control systems and other matters. For the purpose of addressing audit-specific topics, representatives of the external auditing firm (as a general rule, the Auditor in Charge) are invited to attend. In 2010, the Audit & Risk Management Committee met for six ordinary half-day meetings.

Chairman Emeritus

Fürstlicher Kommerzienrat Dr. Heinz Batliner, Vaduz, has been Chairman Emeritus of VP Bank since 1996. The Board of Directors bestowed him this honorary title for his outstanding services on behalf of VP Bank. From 1961 to 1984, Dr. Heinz Batliner was General Manager and Head of the Management Board, and from 1990 through 1996 Chairman of the Board of Directors.

⁵ Exception: IGT Intergestions Trust reg., Vaduz, which reports directly to the BoD.

International Advisory Board

With the International Advisory Board, VP Bank had at its side, for more than 25 years, a body that performed consultative and representational functions on behalf of the Bank. The International Advisory Board was dissolved at the end of 2010. In future, its tasks will be performed by suitable bodies in the individual market regions.

3.6 Definition of areas of responsibility

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

The powers and duties of the Board of Directors are laid down in detail in Art. 17 of the Articles of Incorporation as well as in Section 2 OBR. The tasks and competencies of the two Board committees are described in Section 3 OBR.

The Board of Directors has delegated responsibility for the operational management of VP Bank, Vaduz, as well as for the overall management, supervision and control of the subsidiary companies of VP Bank Group⁵ to the GEM of the Head Office. The tasks and competencies of the GEM are described in the Articles of Incorporation (Art. 21) and OBR. The function of senior management of the Head Office is regulated in detail in Section 5 OBR, and that of extended Group-level management in Section 6 OBR.

The separation of functions between the Board of Directors and the GEM can also be seen in the graphic of the internal organization (see Structure of VP Bank Group, page 11).

3.7 Information and control instruments vis-à-vis management

The Board of Directors and its committees have at their disposal various information and control instruments for managing and supervising the activities of the GEM. Among those instruments are the strategy process, medium-term planning, the budgeting process and internal reporting, in particular the reports generated by the Management Information System (MIS).

The members of the Board of Directors regularly receive (i.e. at least on a monthly basis) the relevant reports, most importantly the monthly management reports, controlling and risk-controlling reports, as well as periodic reports on the quarterly, semiannual and annual financial statements (consolidated and individual company

accounts). They also include quantitative and qualitative information, as well as budget variances, benchmark comparisons, period-specific and multiyear comparisons, key performance indicators for management, and risk analyses, all of which cover the Head Office, the subsidiaries and the Group in general. These reports enable the Board of Directors at all times to gain a picture of significant developments and the risk situation at VP Bank. The reports that lie within the scope of tasks of the Audit & Risk Management Committee are addressed by that body, and corresponding proposals are forwarded to the Board of Directors for approval. The latest reports undergo a comprehensive review at each Board meeting. Verifying and controlling the implementation of the company's strategy is a task of the Committee of the Board of Directors.

4. Senior management

Senior management is responsible for the operational management of the Head Office as well as VP Bank Group as a whole and is therefore referred to as the Group Executive Management (GEM). Its tasks and competencies are set out in OBR as well as in the job descriptions of the individual GEM members. The Chief Executive Officer (CEO) bears responsibility for overall management and Group-wide coordination. GEM members gather once a week for a half-day meeting. In addition, further meetings and seminars are held to address strategy and corporate development as well as annual planning, budgeting and other topics of current importance.

4.1 Members of senior management

As at December 31, 2010, the Group Executive Management team (GEM) consisted of the following individuals:

Name	Year of birth	Function	Joined VP Bank	GEM member since
Roger H. Hartmann	1957	Chief Executive Officer (CEO)	2010	2010
Fredy Vogt	1958	Chief Financial Officer (CFO)	1987	1996
Juerg W. Sturzenegger	1961	Head of Wealth Management Solution & Services	2008	2010

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

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

Effective as of September 1, 2010, the management structure at Group level was changed and reduced to three members. As a part of this reorganization, the former head of the Intermediaries business unit, Georg Wohlwend, took over as head of the Banking Liechtenstein & Regional Market segment. Former GEM members Ernst Näf and Gerhard Häring left VP Bank Group.

Roger H. Hartmann (born July 16, 1957; citizen of Switzerland and Luxembourg) has held the post of Chief Executive Officer (CEO) and Head of Markets at VP Bank and VP Bank Group since April 1, 2010. In this function, he bears responsibility for the client advisory segments Banking Liechtenstein & Regional Markets and Private Banking International (see Segment reporting, page 15 f.).

Educational background: Roger H. Hartmann earned a degree in economics from the HEC in Lausanne and completed the Advanced Management Program of the Wharton School at the University of Pennsylvania (USA).

Professional background: Swiss Bank Corporation, Lausanne; UBS, Singapore (Head of Wealth Management); UBS, Luxembourg (CEO); Ernst & Young, Luxembourg (Partner).

Other activities and vested interests: Roger H. Hartmann is a guest professor at the Luxembourg School of Finance (LSF) in the Faculty for Law, Economics and Finance

of the University of Luxembourg, guest professor at the Europe Institute of the University of Basel, as well as a regular lecturer at private banking conferences throughout the world, at times in the name of the Luxembourg Bankers' Association (ABBL, ATTF) and the European Banking Federation (EBF).

Fredy Vogt (born September 11, 1958; citizen of Liechtenstein) has been a member of the GEM of VP Bank, Vaduz, since 1996. He is Chief Financial Officer (CFO) of VP Bank and VP Bank Group, Deputy CEO and Head of Corporate Center. Until March 31, 2010, he held the position of CEO on an ad interim basis. As CFO and Head of Corporate Center, he is in charge of the central staff functions Group Finance & Risk, Group Legal Services & Compliance, Investment Controlling, Corporate Communications & Marketing as well as Group Human Resources Management (see Segment reporting, page 18).

Educational background: Fredy Vogt is a Swiss Certified Expert in Accounting and Controlling as well as a Swiss Certified Public Accountant.

Professional background: Liechtensteinische Landesbank, Vaduz; Areva AG, Vaduz (trust auditor); joined VP Bank in 1987 (Deputy Head of Internal Audit; Head of Controlling as of 1990); since 1996, GEM member (among others responsible for finance, corporate clients and intermediaries, trading, real estate and security); CFO since 2003. Other activities and vested interests: Fredy Vogt is Chairman of the Board of Trustees of the Treuhand-Personalstiftung, Vaduz (pension fund).

Juerg W. Sturzenegger (born June 6, 1961; citizen of Switzerland) has been a member of the GEM of VP Bank, Vaduz, since September 1, 2010. As Head of Wealth Management Solutions & Services, he is responsible for all units of Investment Management and Sales Support, Information Technology, as well as Logistics & Security (see Segment reporting, page 17).

Educational background: Juerg W. Sturzenegger earned a degree in economics from the University of Zurich and completed the Stanford Executive Program at the Stanford Graduate School of Business in the USA.

Professional background: Bank Leu AG (Credit Suisse Group), Zurich; Bank Julius Bär & Co. AG, Zurich; VP Bank (Schweiz) AG, Zurich, Head of Executive Management and Head of Wealth Management Solutions.

Other activities and vested interests: member of the board of directors of shaPE Capital AG, Freienbach.

4.2 Other activities and vested interests

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

4.3 Management contracts

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

5. Compensation, shareholdings and loans

5.1 Content and method of determining the compensation and the share ownership programs

In its function as the Nomination & Compensation Committee (see Point 3.5.2, page 56), the Committee of the Board of Directors, which comprises only independent members of the Board of Directors, proposes to the Board the principles and rules for the compensation of the Board members and GEM, as well as the remuneration paid to members of both of those corporate bodies. The Board of Directors approves the aforementioned principles and rules and determines the amount of total compensation payable to Board and GEM members.

5.1.1 Board of Directors

Members of the Board of Directors receive compensation for the duties and responsibilities conferred on them by law and pursuant to Art. 20 of the Articles of Incorporation. This is determined annually by the Board of Directors at the proposal of the Committee of the Board of Directors in its capacity as Compensation Committee. It is distributed to the members of the Board of Directors on a graduated basis according to their function in the Board of Directors and its committees or in other corporate bodies (e.g. the pension fund). Three-quarters of this compensation is paid in cash, and one-quarter in the form of freely disposable VP Bank

bearer shares, the number of which is determined by the current market price at the time of grant.

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

5.1.2 Senior management (Group Executive Management)

A long-term, value-oriented compensation model applies to the GEM and second-level management members of VP Bank. Under this model, the compensation paid to members of senior management consists of the following:

1. A fixed base salary that is contractually agreed between the Committee of the Board of Directors (in its function as Nomination & Compensation Committee) and the members of Group Executive Management. In addition to the base salary, VP Bank pays proportionate contributions to management insurance and the pension fund.
2. A variable performance-based component (short-term incentive, STI), which is dependent on the annual value creation of VP Bank Group. The allocation is based on qualitative individual criteria and Group financial goals. The latter carry an approximate two-thirds weighting. The STI is paid out annually in cash.
3. A variable long-term management share ownership scheme (long-term incentive, LTI) with grants in the form of VP Bank bearer shares. The fundamental principles of the scheme focus on added value (economic profit) as well as the long-term commitment of management to receiving a variable compensation component in the form of VP Bank shares. The number of shares granted upon termination of the three-year plan is directly dependent on the trend in economic profit of VP Bank Group, which takes into account capital as well as risk costs. The goals are determined on the basis of an unbiased, outside view. The

point of departure in this regard is the targeted return on market value. Thus depending on the financial developments, more or fewer shares will be granted, with the related factor ranging from a minimum of 0.5 to a maximum of 2.0. The monetary value of the compensation paid in the form of shares at the end of the plan is also dependent on the current market price of VP Bank bearer shares. The bearer shares required to cover the LTI stock ownership plan will come either from the treasury holdings of VP Bank Group or by means of open-market purchases.

Each year, the Board of Directors sets the annual LTI planning parameters for the following three years as well as the amount of the STI. In the program for 2010 through 2012, the fulfillment of annual and three-year targets will result in a goal-achievement bonus (LTI and STI) of between 60 and 85 percent of the fixed base salary. The variable performance-based amount actually paid to GEM members in 2010 was less than 10 percent of their total compensation.

At VP Bank, there are no agreements on severance compensation for acting members of Group Executive Management. An external advisor who has no other mandates from VP Bank Group was commissioned to structure the compensation model.

5.2 Transparency of compensation, shareholdings and loans pertaining to issuers domiciled abroad

As a SIX-listed issuer domiciled abroad, VP Bank discloses information on compensation, shareholdings and loans within the context of Section 5.2 of the Commentary on the Corporate Governance Directive dated September 20, 2007, i.e. analog to Art. 663b^{bis} of the Swiss Code of Obligations. The details in this regard can be found in the Financial Report and individual company accounts of Verwaltungs- und Privat-Bank AG, Vaduz (see page 166 f.).

6. Shareholders' participation rights

6.1 Voting rights and representation restrictions

Each registered share and bearer share grants the holder the right to one vote at the annual general meeting of VP Bank, irrespective of the par value of such shares.

Each shareholder may either attend in person or be represented by another shareholder by means of a written proxy. There are no voting rights restrictions or statutory group clauses.

6.2 Statutory quorums

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

6.3 Convocation of the annual general meeting of shareholders

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

6.4 Agenda

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

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

Registered shares are entered into the share register with the name, citizenship and address of the owner. Only registered shareholders are entitled to exercise membership rights vis-à-vis the company. The deadline for registration and entitlement to participate (as per the Articles of Incorporation, Art. 11 par. 1) is 21 days prior to the date of the annual general meeting.

Registered shareholders who have been entered into the share register by that deadline, as well as bearer shareholders whose shares are held in the custody of VP Bank, receive an invitation to the annual general meeting as well as the related agenda, sent to the address known to VP Bank at the time of dispatch. Upon returning their reply card, shareholders receive an entry pass together with the relevant voting material. The invitation to the annual general meeting is also published in Liechtenstein newspapers and the Swiss financial press.

7. Changes of control and defense measures

The provisions of the Stock Exchange Act concerning public takeover offers apply only to companies whose registered office is in Switzerland. Accordingly, the Articles

of Incorporation of VP Bank contain no clauses governing the duty to make an offer or changes in control.

8. Auditors

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

Ernst & Young AG, Bern, have acted as auditors of Verwaltungs- und Privat-Bank Aktiengesellschaft since 1956 (in accordance with PGR⁶) and since 1994 as Group auditors of VP Bank Group. In addition, Ernst & Young AG execute the mandate as statutory auditors within the context of the Liechtenstein Banking Act (BankA Art. 37 ff.). The Auditor in Charge⁷, Stefan Fuchs, has been responsible for the VP Bank mandate since 2007 (annual general meeting of April 27, 2007).

8.2 Auditing fees

During the 2010 financial year, Ernst & Young AG charged VP Bank Group fees in the amount of CHF 1.90 million (prior year: CHF 1.92 million) for services rendered in connection with the legally prescribed audits of the annual financial statements of VP Bank and the Group subsidiaries (with the exception of Proventus Trust AG), as well as the audit of the consolidated financial statements of VP Bank Group.

⁶ Liechtenstein Law on Persons and Companies (PGR).

⁷ VP Bank deems the "lead auditor" under the DCG to be the Auditor in Charge.

8.3 Additional fees

Ernst & Young AG also rendered auditing-related services to VP Bank in the amount of CHF 165,000 (previous year: CHF 195,000). The services invoiced include support and audits in the following areas:

- audit work in connection with the drawing up of IFRS-consistent annual reports for the BVI subsidiary companies;
- tax advice;
- services in connection with various supervisory issues.

8.4 Informational instruments pertaining to the external audit

The Audit & Risk Management Committee reviews the multiyear audit planning as well as the planned annual auditing activities and, in a specific agenda item, discusses these issues with the Auditor in Charge from the external auditing firm and the Head of Group Internal Audit. The Audit & Risk Management Committee attaches particularly great value to a risk-oriented approach in the planning and conduct of the audit, as well as a reasonable coordination of the auditing activities of the external auditors and the Internal Audit unit.

All reports by the external auditors are reviewed at meetings of the Audit & Risk Management Committee. In 2010, the external auditors were present at all meetings of the Audit & Risk Management Committee in which external audit-related items were on the agenda. In addition, the Auditor in Charge was in attendance at a Board of Directors meeting to present and discuss the Auditors' Report prescribed under the Banking Act.

Each year, the Audit & Risk Management Committee examines and evaluates the effectiveness and independence of the external auditors. In doing so, it relies on documents generated by the external auditors, such as the Auditors' Report prescribed under the Banking Act, management letters, as well as verbal and written statements of position on individual aspects and technical questions in connection with accounting and the audit. In addition, an annual systematic assessment is made on the basis of checklists and fee comparisons within the auditing industry. With this information in hand, a proposal is submitted to the Board of Directors for the attention of the annual general meeting with regard to the election of the external auditors and Group auditors.

9. Information policy

All publications of VP Bank required by law are made in a legally binding manner in the official Liechtenstein publication media (Articles of Incorporation, Art. 25 Point 1). VP Bank informs shareholders and capital-market participants in an open, comprehensive and timely manner. Its information policy is based on the principle of equal treatment of all capital market participants.

VP Bank informs shareholders and capital market participants by means of detailed annual and semiannual reports, which are prepared for VP Bank Group in accordance with International Financial Reporting Standards (IFRS), as well as via media releases concerning the latest changes and developments at VP Bank. As a company listed on SIX Swiss Exchange, VP Bank is also subject in particular to the obligation to immediately publicize any price-sensitive facts (ad hoc publicity obligation).

Agenda

Annual general meeting: April 29, 2011

Semiannual Report 2011: August 30, 2011

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

Contact

Verwaltungs- und Privat-Bank Aktiengesellschaft

Tanja Muster-Gartmann - Head of Corporate Communications & Marketing

Aeulestrasse 6 - LI-9490 Vaduz - Tel +423 235 66 55 - Fax +423 235 65 00

vpbank.group@vpbank.com - www.vpbank.com