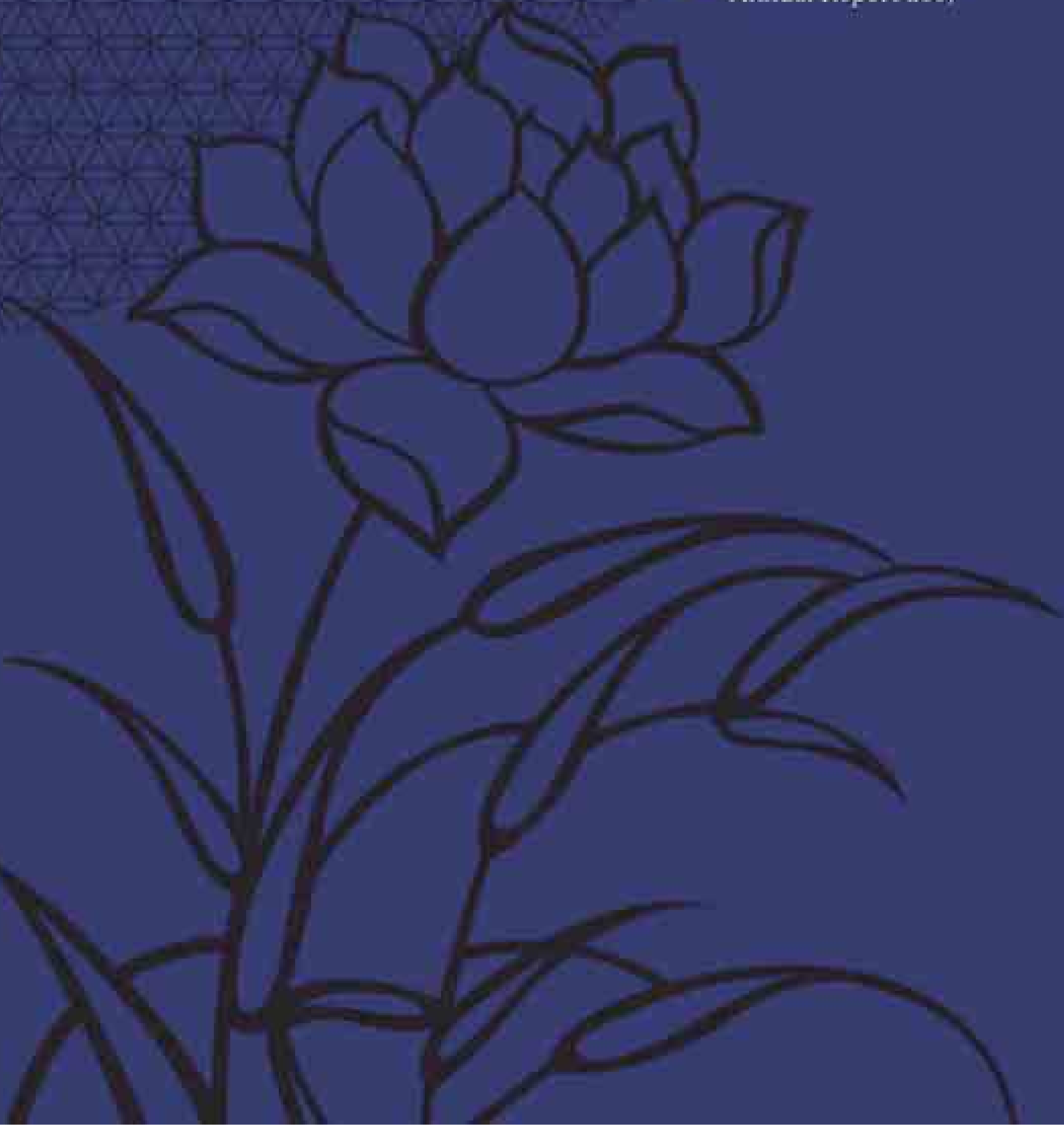
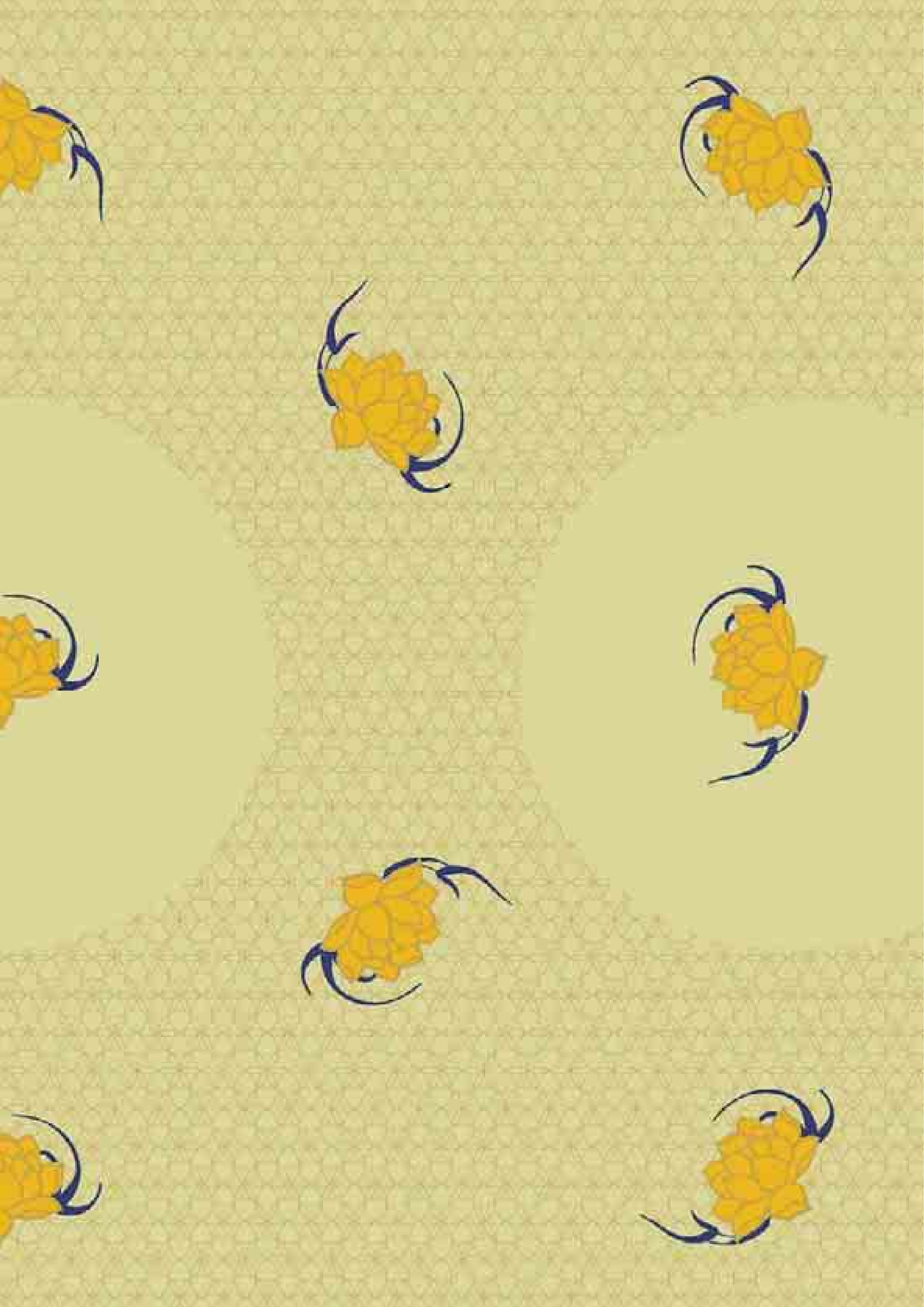
VPBANK

Annual Report 2007





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The English version of the VP Bank annual report was translated from the original German version which shall be binding in case of disparities.

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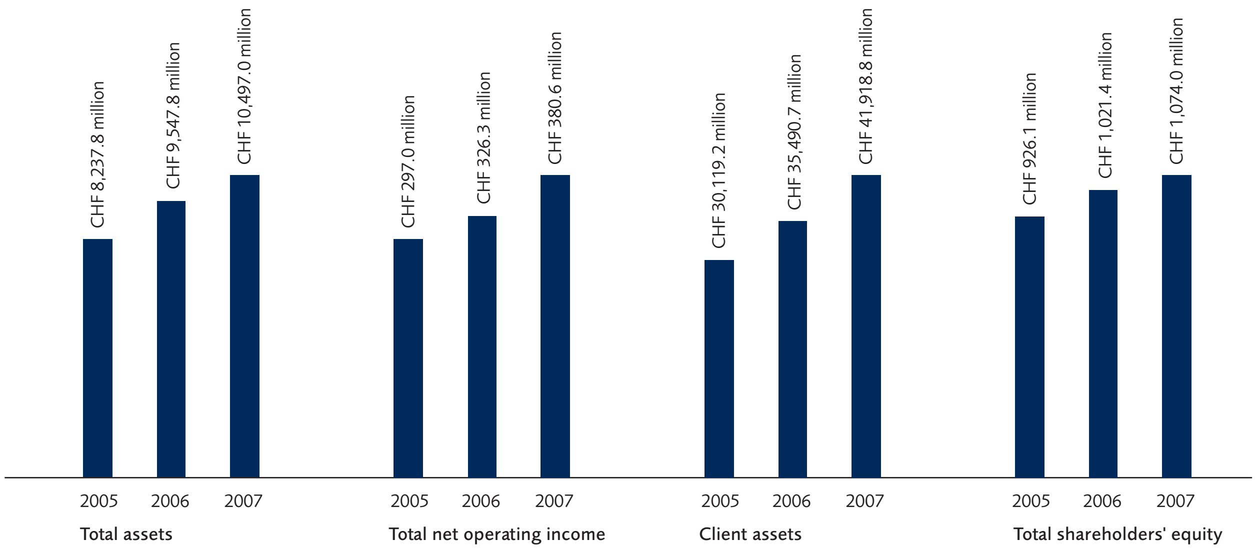
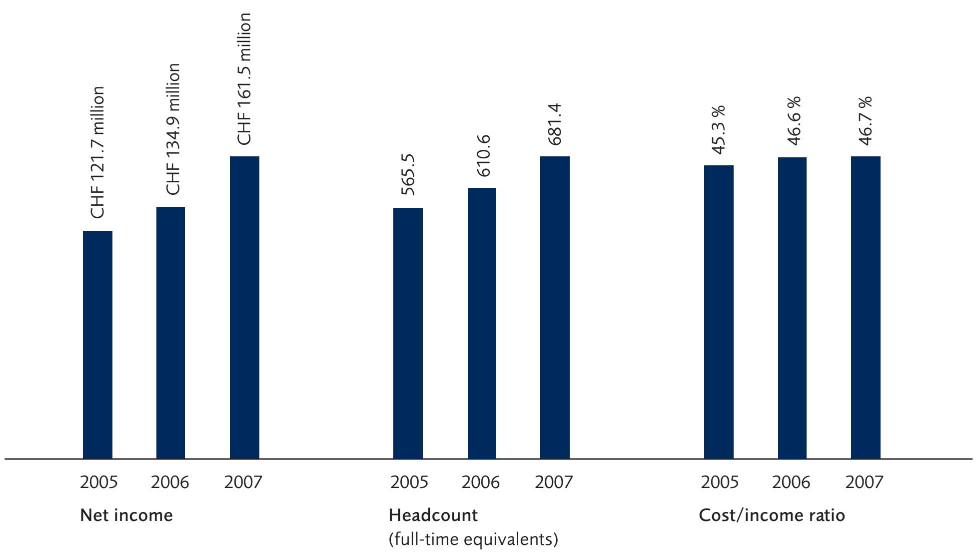
1 Financial Year 2007

Key figures of the VP Bank Group





Key figures of VP Bank Group

	2007	2006	Variance in %
Key balance sheet data in CHF million[1]			
Total assets	**10,497.0**	9,547.8	9.9
Due from banks	**6,069.4**	5,138.4	18.1
Due from customers	**3,014.5**	2,923.9	3,1
Due to customers	**8,561.4**	7,874.7	8.7
Total shareholders' equity	**1,074.0**	1,021.4	5.2
Shareholder's equity attributable to shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz	**1,057.0**	1,005.3	5.1
Equity ratio (in %)	**10.1**	10.5	–4.4
Tier 1 ratio (in %)	**16.0**	15.5	3.2
Key income statement data in CHF million			
Total net operating income	**380.6**	326.3	16.6
Income from interest-differential business	**142.0**	129.7	9.4
Income from commission business and services	**175.2**	155.4	12.7
Income from trading activities	**25.1**	21.4	17.4
Operating expenses	**177.8**	152.0	17.0
Net income	**161.5**	134.9	19.7
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz	**157.8**	132.1	19.5
Client assets in CHF million[2]	**41,918.8**	35,490.7	18.1
On-balance-sheet customer deposits (excl. custody assets)	**9,117.3**	8,134.5	12.1
Fiduciary deposits	**3,578.2**	2,443.5	46.4
Fiduciary transactions	**25,540.4**	24,195.1	5.6
Custody assets	**3,682.9**	717.6	413.2
Net new money	**3,026.0**	2,948.9	2.6
Key operating indicators			
Ratio of foreign assets (in %)	**61.7**	56.9	8.4
Return on equity (in %)[3]	**15.8**	14.2	11.1
Cost/income ratio (in %)[4]	**46.7**	46.6	0.3
Headcount (expressed as full-time equivalents, excl. trainees)[5]	**681.4**	610.6	11.6
Total operating income, net per employee in 1,000 CHF	**558.5**	534.4	4.5
Total operating expense per employee in 1,000 CHF	**261.0**	249.0	4.8
Net income per employee in 1,000 CHF	**231.6**	216.3	7.1
Key indicators related to shares of VP Bank in CHF[1, 6]			
Net income per bearer share	**26.68**	22.33	19.5
Net income per registered share	**2.67**	2.23	19.5
Dividend per bearer share	**11.00**[7]	10.00	10.0
Dividend per registered share	**1.10**[7]	1.00	10.0
Dividend yield (in %)	**3.9**	3.1	27.6
Pay-out ratio (in %)	**41.2**	44.8	–7.9
Total shareholders' return on bearer shares (in %)	**–10.7**	51.7	–120.7
Shareholders' equity per bearer share	**178.71**	169.96	5.1
Shareholders' equity per registered share	**17.87**	17.00	5.1
Quoted price per bearer share	**280.25**	325.00	–13.8
Quoted price per registered share	**26.00**	31.00	–16.1
Highest quoted price per bearer share	**337.00**	338.25	–0.4
Lowest quoted price per bearer share	**265.00**	217.40	21.9
Capitalization (in CHF million)[8]	**1,658**	1,922	–13.8
Price-earnings ratio per bearer share	**10.50**	14.56	–27.8
Price-earnings ratio per registered share	**9.75**	13.88	–29.8
Rating Standard & Poor's	A/Stable/A-1	A/Stable/A-1	

[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 Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz.
[2] Details in the notes to the consolidated income statement and consolidated balance sheet.
[3] Net profit/average shareholders' equity less dividend.
[4] Total operating expense excl. depreciation and amortization, valuation allowances, provisions and losses/total net operating income.
[5] In accordance with legal requirements, trainees are to be included in headcount statistics as 50 percent of equivalent full-time employees.
[6] On the basis of the shares in circulation as of the balance sheet date (5,914,764).
[7] Subject to approval by the Annual General Meeting.
[8] Including registered shares.

Hans Brunhart
Chairman of the Board of Directors

Dear Shareholders,
Ladies and Gentlemen

The VP Bank Group can look back on an outstanding 2007 financial year. Consolidated net income (including minority interests) rose by 19.7 percent to CHF 161.5 million (2006: CHF 134.9 million). Contributing to these gratifying results was a 9.4 percent revenue gain in the interest differential business to CHF 142 million, a 12.7 percent increase to CHF 175.2 million in income from the commission business and services, as well as income from trading activities which rose by 17.4 percent to CHF 25.1 million. This growth was broadly based and attributable to all business fields.
Operating expenses were contained within the budgeted limits and recorded a 17 percent increase to CHF 177.8 million. Reflected in that amount are expenditures for more extensive market cultivation and the related establishment of new geographical locations, as well as the hiring of additional personnel at the parent company and Group subsidiaries. Also of significance in this regard were the outlays incurred in connection with the VP Bank Group's new banking software package.
Despite those increased expenses, the cost/income ratio remained at a low 46.7 percent (2006: 46.6 percent). This key figure, too, underscores the solid condition of the VP Bank Group.
Total assets increased by 9.9 percent to CHF 10.5 billion, while shareholders' equity rose yet again in 2007 by 5.2 percent to reach CHF 1.074 billion (2006: CHF 1.021 billion).
The favorable trend in client assets under management witnessed in the previous year has continued. The total increased by 18.1 percent to CHF 41.9 billion (2006: CHF 35.5 billion). The net inflow of new money amounted to CHF 3.0 billion (+2.6 percent).
In 2007, the VP Bank Group boosted its operative performance and, despite sizeable investments in banking software and a resolute expansion into new markets, achieved its key-figures goals across the board: the cost/income ratio once again came in below 50%, the return on equity ratio of 15.8 percent exceeded the 12 to 15 percent target range, and the tier 1 ratio reached the targeted 16 percent level.

Dividend proposal

The parent bank in Vaduz recorded an annual net profit of CHF 125.6 million (2006: CHF 115.3 million). The Board of Directors will propose at the April 25, 2008 annual general meeting that the dividend be increased to CHF 11.00 per bearer share and CHF 1.10 per registered share (previous year: CHF 10.00 per bearer share and CHF 1.00 per registered share).
Based on the financial results of the VP Bank Group, the payout ratio will amount to 41.2 percent and the dividend yield 3.9 percent. The Board's proposal reflects the long-term dividend policy as defined in the past, as well as the gratifying development of the VP Bank Group during the past year.

General circumstances

Until the fourth quarter of 2007, which was negatively influenced by the subprime crisis in America, the past year was characterized by reasonably favorable conditions in the global financial markets. The high degree of market volatility accrued to the benefit of the income generated by the commissions business and services, and the buoyant economic situation throughout the world lent support to an increase in client assets under management.

As the year drew to a close, the critical developments associated with the subprime crisis not only put an end to the supportive trend, but also changed the perspectives for the current year. Increasingly, the financial crisis is having an impact on economic developments in all regions of the world, but especially in the USA.

Although the VP Bank Group has in no way been directly affected by these negative happenings, the weakness in the financial markets does have an influence on the Bank's general circumstances. Apart from the unfavorable effect those developments are having on the global economy, it is mainly the loss of confidence in the banking system that is leading to serious problems and uncertainties.

In mid-February 2008, German authorities voiced demands aimed at curtailing banking secrecy in Liechtenstein and other countries that recognize the right to safeguard personal data. For years now, the VP Bank Group has diversified its business activities broadly on a geographical scale as well as in terms of client segments and financial products. Regardless of regulatory developments, the Bank will continue to attach the greatest priority to protecting the privacy of clients to the fullest extent possible.

Proven principles

Under the given circumstances, risk management at banks is being put to the test – not only in terms of systems that have already been implemented, but also with regard to risk consciousness, discipline in the acquisition and development of other companies, as well as the specific business model.

With its corporate principles, which center on the best interests of clients, VP Bank is not only focused on growth, but equally as much on responsibility. This leads to a prudent implementation of the chosen business approach, to the purposeful assumption of risk, to a strict system of limits and controls, but above all to the fact that the VP Bank Group remains true to its core competencies. A comprehensive understanding of the given subject matter is and remains a central prerequisite in the risk management efforts and thus the banking business of VP Bank.

VP Bank has no propriotary trading. Therefore there is no pressure to accept heightened risks in order to bolster the Bank's bottom line and, as a result, internal conflicts of interest are avoided right from the outset. That, too, accrues to the best interests of VP Bank's clients. Particular attention is paid to the functional line of demarcation between business execution and Group-wide controlling.

These fundamental principles also apply to the compensation model for management, which as of 2008 will also be based on a longer-term, value-oriented set of measurements for determination of the variable portion.

Unaltered market strategy

The afore mentioned events and their displeasing consequences do not change the long-term strategic objectives of the VP Bank Group; rather, they validate them. In 2007, further key milestones were reached in the strategic development of the Bank both in terms of market cultivation and in the modernization of its technological infrastructure. Middle and Far Eastern market presence was strengthened as planned through the opening of the asset management company VP Wealth Management (Middle East) Limited in Dubai. An asset management company was also established in Hong Kong to supplement the existing representative office there and, in preparation for the grant of a banking license in Singapore, a subsidiary company was founded in that city-state. The design chosen for this Annual Report is intended to reflect the "Asian dimension" of the

Adolf E. Real
Chief Executive Officer

VP Bank Group's activities. Consistent with this expansion, the VP Bank Group also expanded its personnel resources and competencies within the existing Group companies, particularly at the parent bank, in an effort to exploit business opportunities in an optimal manner. The basis for successful activities in these new markets is formed by a solid position in VP Bank's current core markets, which we will continue to expand in a targeted fashion.

New banking software application

The VP Bank Group expects that the new Avaloq banking application will contribute significantly to the realization of synergies and the enhancement of the Bank's efficiency. The new system will be introduced on January 1, 2009, at all business locations of the VP Bank Group except for Luxembourg, where introduction will take place a year later. The product that has been chosen offers an impressive combination of scalability, efficiency and hence the ability to support the achievement of the Bank's strategic objectives.
The 2007 financial results also reveal that the daunting financial challenges involved in the Bank's market expansion and new banking application have not compromised our cost discipline. The large outlays that already became evident in 2007 must be viewed against the significant quality and efficiency gains as well as the heightened clout of the entire VP Bank Group in the years to come.

VP Bank bond issue

For the first time in its history, VP Bank placed via underwriter UBS a bond issue in the amount of CHF 250 million. The bonds have a coupon of 2.875 percent and will mature in 2012. They are rated "A" by Standard & Poor's and were very well received in the marketplace.

Outlook

Last year's financial results, the growth in client assets under management, the hiring of numerous excellently qualified employees, the continual improvement in service quality, as well as our firm foothold in various markets and client segments, represent key cornerstones for the further strong development of the VP Bank Group.

Therefore, we are maintaining our long-term targets: i.e. a cost/income ratio of 50 percent, a return on equity of 12 to 15 percent, a tier 1 ratio of at least 16 percent. We increased our objective for client assets under management, which now stands at CHF 44 billion by 2010.

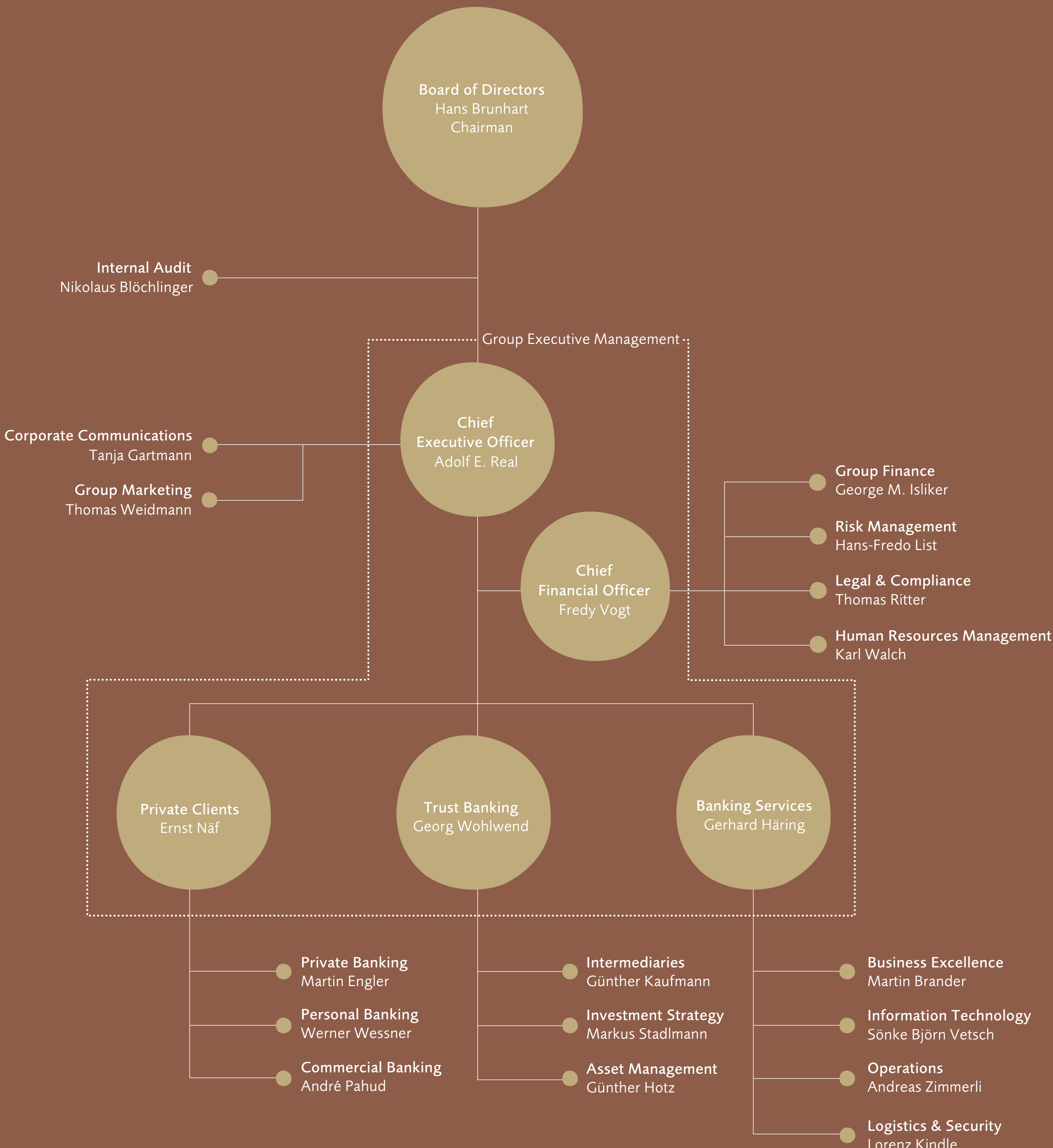
Given supportive conditions, these goals are achievable if the unfavorable financial market impact of the subprime crisis eases during the course of the year.

A word of gratitude

Through the tremendous commitment of all its employees in 2007, VP Bank Group made advances that accrue to the benefit of our clients. The Bank worked successfully on ensuring the continuation of its sustainable and profitable growth. We sincerely thank all of our employees throughout the Group for their outstanding dedication and strong identification with the company's goals.

In particular, we thank all of our clients for their loyalty, trust and cooperation. And a special thanks goes to you, our valued shareholders, for your abiding support and trust in our work. That, combined with the trust of our clients and the commitment of our employees, forms the decisive foundation for the continuing prosperity of the VP Bank Group.

Hans Brunhart	**Adolf E. Real**
Chairman of the Board of Directors	Chief Executive Officer



Organizational structure as per December 31, 2007

Structure of the VP Bank Group

Second management level parent bank

Organizational unit	Area	Head
Board of Directors	Internal Audit	Nikolaus Blöchlinger
Chief Executive Officer	Corporate Communications Group Marketing Corporate Development (since January 1, 2008)	Tanja Gartmann Thomas Weidmann Martin Matt
Corporate Center	Group Finance Risk Management Legal Services (since January 1, 2008) Group Compliance (since January 1, 2008) Human Resources Management	George M. Isliker Dr Hans-Fredo List Thomas Ritter Max Widmer Dr Karl Walch
Private Clients	Private Banking Personal Banking Commercial Banking	Martin Engler Werner Wessner André Pahud
Trust Banking	Intermediaries Investment Strategy Asset Management	Günther Kaufmann Markus Stadlmann Günther Hotz
Banking Services	Business Excellence Information Technology Operations Logistics & Security	Martin Brander Sönke Björn Vetsch Andreas Zimmerli Lorenz Kindle

Subsidiaries with bank status

Company	Country	City	Head
Verwaltungs- und Privat-Bank Aktiengesellschaft	Liechtenstein	Vaduz	Adolf E. Real, Fredy Vogt, Georg Wohlwend, Ernst Näf, Gerhard Häring
VP Bank (Schweiz) AG	Switzerland	Zurich	Patrick Wild, Jürg Moll, Daniel Hug
VP Bank (Luxembourg) S.A.	Luxembourg	Luxembourg	Yves de Vos, Paul Harr
VP Bank (BVI) Limited	British Virgin Islands	Tortola	Dr Peter Reichenstein

Asset management companies

Company	Country	City	Head
VP Vermögensverwaltung GmbH	Germany	Munich	Willi Heigl, Christian Netzer
VP Wealth Management (Middle East) Ltd.	United Arab Emirates	Dubai	Guido Lenherr
VP Wealth Management (Hong Kong) Ltd.	China	Hong Kong	Clare Lam
VP Wealth Management (Singapore) Ltd.*	Singapore	Singapore	Reto Isenring

Fund management companies

Company	Country	City	Head
IFOS Internationale Fonds Service Aktiengesellschaft	Liechtenstein	Vaduz	Alexander Boss
VPB Finance S.A.	Luxembourg	Luxembourg	Romain Moebus

Trust companies

Company	Country	City	Head
IGT Intergestions Trust reg.	Liechtenstein	Vaduz	Viktor Büchel
ATU General Trust (BVI) Limited	British Virgin Islands	Tortola	Dr Peter Reichenstein

Representative offices

Company	Country	City	Head
VP Bank (Switzerland) Limited Moscow Representative Office	Russia	Moscow	Walter Moretti
Verwaltungs- und Privat-Bank Aktiengesellschaft Hong Kong Representative Office	China	Hong Kong	Winston Yuen

* Operating as a company exempted from holding a capital markets services license to carry on business in fund management under the Securities and Futures Act (Cap. 289) of Singapore pursuant to Regulations 5(1)(d) and 5(7) of the Securities and Futures (Licensing and Conduct of Business) Regulations and from holding a financial advisers license under the Financial Advisers Act (Cap. 19) of Singapore pursuant to Regulations 27(1)(d) and 37(2) of the Financial Advisers Regulations.

2 Strategy Report

Strategy Report

As is the case throughout the banking industry, VP Bank operates in a dynamic and highly competitive environment. In order to achieve the performance goals in a globalized and increasingly regulated market, VP Bank has opted for a growth strategy that involves its entry into new markets and expansion of existing ones. Especially in times of internationalization, a focused strategy, clearly defined business fields and an unmistakable brand are called for. Based on its vision, mission and values, VP Bank has formulated its long-term goals and determined its strategy for the years 2008 through 2010. The background thinking behind the development of that strategy was always centered on strengthening the productive capacity and competitive position of VP Bank. It lays out the goals in concrete terms as well as the manner in which they can be achieved. And it maps out the route VP Bank will be taking in its efforts to realize its vision of being viewed as one of the best private banks in Switzerland and Liechtenstein.
This vision, the ambition of ranking among the best, represents the point of departure for each of the Bank's entrepreneurial actions; it is reflected in the mission that aims to generate added value for all stakeholders (see Stakeholder Report, page 28 ff); and it shapes the values that in turn foster the mindset: "We act with entrepreneurial spirit" – "We foster collaboration" – "We thrill to the thought of new horizons". All solutions that VP Bank devises for and together with its clients must be filtered through these values. And ultimately they must do justice to the Bank's objective of being "unusual" and "elegant". They should afford clients added value, something that is surprising but at the same time is realized immediately. VP Bank's brand is also something that should be experienced as unusual and elegant.

Goals of VP Bank through 2010
- Client assets under management totaling CHF 44 billion – ten percent more than originally provided for in the 2005 plan.
- A gross operating margin of 100 basis points.
- A cost/income ratio of not more than 50 percent.
- The performance of at least 50 percent of the investment products beats the respective benchmark on a three-year comparison basis.
- The quality of all activities is at a sustainably high level; this will be evidenced by successfully running for the Swiss Quality Award for Business Excellence ESPRIX.
- VP Bank is positioned among the best Swiss and Liechtenstein private banks.

Strategy for 2008 through 2010

The afore mentioned strategic orientation, which was defined in the years between 2003 and 2006, represents what can be considered the apex of the pyramid, the framework for formulating the Bank's strategy and annual planning. These goals and the related strategy are determined every three years and adapted annually in a rolling process. In 2007, the Group Executive Management and Board of Directors drew up and approved the VP Bank Group strategy for 2008 through 2010.
By 2010, VP Bank wants to achieve six financial and qualitative goals; they focus on client assets under management, gross operating margin, the cost/income ratio, the performance of investment products, as well as quality and positioning (see text box on page 19).
These goals have been set at ambitious levels. For example, it will take enormous effort to increase client assets under management while simultaneously earning a high gross operating margin. Another challenge will be to keep the cost/income ratio below 50 percent despite a higher level of investment.
Goals and strategies must always be viewed against the backdrop of VP Bank's business model, which is oriented toward two segments: direct clients and intermediary clients. In terms of direct clients, it is mainly a proven level of quality in the advisory and customer-care process that is called for; in the intermediaries business, a high degree of flexibility and

competence must be demonstrated in the way transactions are handled. VP Bank offers clients not just its own products and solutions, but also those of third-party providers. This principle of "open architecture" makes it possible to offer clients the best possible solutions and thereby ensure the credibility of the Bank's advice.

Strategic themes

To realize its long-term goals, VP Bank focuses on three strategic themes:

- Growth: Ensuring sustainable growth in all markets in which VP Bank is active.
- Core competencies: Reinforcing the Bank's core competencies in client relationship management, client advice, the investment process and the selection of third-party products.
- Efficiency: Strengthening the Bank's own processing competence.

The principle of open architecture enables VP Bank to offer clients the best possible solutions.

The model of the European Foundation for Quality Management (EFQM), which forms the base of VP Bank's Business Excellence program, is ideally suited for the integration and holistic execution of all individual initiatives. The model differentiates between five Enabler and four Results criteria. The Enabler criteria lay the foundation for achieving excellent results: in management, policy & strategy, employees, partnerships & resources, as well as processes. The success of the company is reflected in its fulfillment of the Results criteria, which differentiate between customer-related, employee-related and company-related results and key performance results, i.e. those that impact the company directly. With a matrixed approach, VP Bank assigns all of its initiatives to one of the three themes of growth, core competencies and growth, as well as to five Enabler criteria.

The strategic theme of growth

In its core markets of Liechtenstein, Switzerland and Germany, VP Bank aims also in the future to grow at least as rapidly as the overall market, while making targeted investments in new markets. These expansion markets should develop into profitable pillars of VP Bank and over the longer term become core markets of their own. VP Bank has set clearly defined priorities for its market expansion (see graph on page 21).

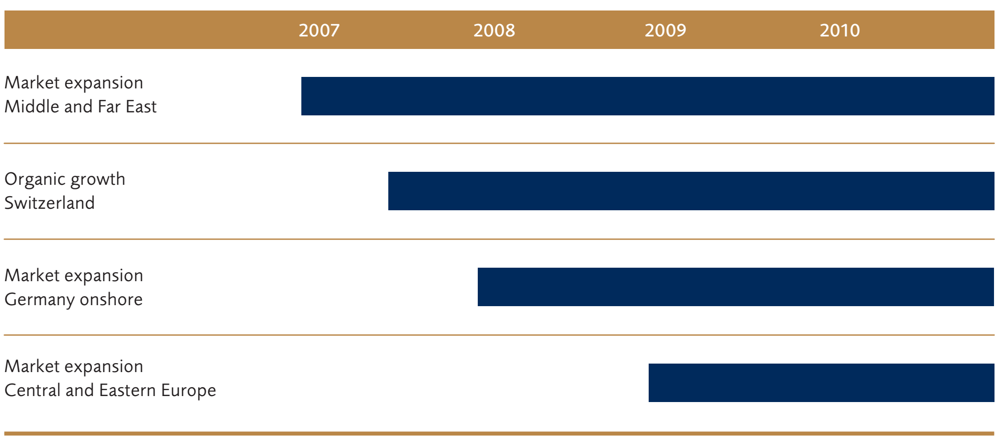
The markets in the Far and Middle East have currently been assigned the highest priority. VP Bank's entry into the Asian market was accomplished as far back as in late 2006 with the opening of a representative office in Hong Kong. As the 2007 financial year drew to a close, that location was supplemented by an asset management company. VP Bank has also opened an asset management company in Dubai, and it has come decisive steps closer to receiving a banking license in Singapore (see Private Clients section on page 55).

The important Swiss market, which contributes approximately one-quarter of client assets under management (see Clients section on page 31), is something that VP Bank wishes to expand in a targeted manner by focusing on onshore private banking. Its marketing activities will be intensified and the product range supplemented. In Switzerland, VP Bank desires to gain the profile of being an advisory bank that provides excellent and comprehensive services. Also in Germany, VP Bank intends to grow during the new financial year in the onshore private banking area and by expanding its market presence. In parallel, VP Bank will draw up a business plan in 2008 for the Central and Eastern European markets. Also in these markets, where VP Bank has already established a presence by means of a representative office in Moscow, the Bank will broaden its exposure. The goal is to establish VP Bank as a private bank in Central and Eastern Europe and thereby participate in the growth of this dynamic region.

The strategic theme of core competencies
Within the framework of the core competencies theme, VP Bank includes all of its activities that support both client relationship management and advice and, on the other, the investment process as well as the analysis and evaluation of third-party providers. The following initiatives are aimed at strengthening those core competencies even further:

- In nurturing client relationships, the quality of advice is the decisive factor. For that reason, VP Bank focuses on continually improving the quality of the advice it offers clients, and it will intensify their bond with the Bank by taking a holistic approach in providing that advice (see Clients section on page 31).
- One of VP Bank's core competencies is the manner in which it crafts the investment process; its expertise in this regard is to be heightened further (see Trust Banking section on page 60).
- In collaboration with the University of St. Gallen, VP Bank has developed the "VP Bank Academy" educational program for executives. The goal is to arrive at and communicate an "unité de doctrine" with regard to all management methods applied at VP Bank. Within the framework of the VP Bank Academy, the corner stones of the future strategy are set; the results will flow into the VP Bank Strategy 2018.
- The structure of the product portfolio is based on client needs and the performance of the given product. VP Bank systematically administers its product portfolio in terms of completeness and needs orientation. This function will be developed further and standardized on a Group-wide scale.

Growth



- Innovations in products, services and processes are key to the long-term success of the company. Concepts and innovations from various sources are channeled by means of systematic innovation management, an activity that will become integrated into VP Bank's overall process model.

The strategic theme of efficiency

The theme of efficiency centers on strengthening the Bank's competence in handling administrative matters. As important as it is to heighten the efficiency and effectiveness of day-to-day business activities, the decisive factor is the mindset that underlies the achievement of this particular goal: anchoring a culture of continual improvement.
It is this consideration that forms the base of the program for attaining Business Excellence, which VP Bank launched in 2004. The Bank has tailored the EFQM management model to accommodate its specific circumstances. In its efforts to achieve Business Excellence. VP Bank...

- has already achieved a comprehensive understanding of management and is directing the focus of its corporate policy toward the key success factors;
- is integrating the processes and results to a greater extent in the leadership process;
- is assigning the highest priority to continuing education as well as innovations and improvements; and
- is including all of its stakeholders in the decision-making processes.

By fully implementing the Business Excellence program, it is VP Bank's goal to participate successfully in the competition for the 2010 Swiss Quality Award for Business Excellence ESPRIX, an effort that has been laid out in the Roadmap 2010 (see graph on page 24). In December 2007 – half a year earlier than originally planned – VP Bank already achieved an important milestone: the level of "Recognized for Excellence", with a score of four out of the five possible points (see text box).
As important as it is to reach the various levels of "Excellence", the decisive factor remains one of fos-

"Recognized for Excellence"

The EFQM recognition program (Levels of Excellence) is an underpinning for every company that desires to be among the best. At the "Recognized for Excellence" level, external assessors evaluate those companies on the basis of the EFQM model. Excellent companies stand out for the following characteristics: planned procedures and systematic implementation, regular evaluation and verification of the progress that has been made (measurement), as well as the ability to learn from the findings of those measurements.
The result that comes from achieving the level "Recognized for Excellence" takes the form of a feedback report that highlights the given company's strengths and potential areas for improvement. The following classifications can be achieved: 3 stars (300 to 399 points), 4 stars (400 to 499), 5 stars (500 to 599). Based on this feedback report, the company can build on its strengths, address areas that are in need of improvement, and ultimately draw a comparison with its peers.
In October 2007, VP Bank submitted the appropriate application, and the related feedback report was received in December 2007. The external assessor team ranked VP Bank in the 4-star category and attested to the following strengths:

- a vertically congruent activity pyramid with normative orientation levels, the values of which are laid out in concrete terms in the form of division-specific principles of conduct that are demonstrated by all employees;
- a solid understanding of the company's own market position, developments in that market, the activities of competitors, as well as a firm grasp of the value drivers in the industry;
- strategy-consistent personnel planning and development;
- needs-oriented, highly prioritized training and continuing education of management personnel and employees;
- solid, value-oriented financial planning;
- a growth-consistent IT strategy aligned with the overall business plan;
- a systematic approach to developing and managing processes and the conduct of projects;
- coherent company-related performance indicators.

The assessors identified areas of potential improvement primarily in:

- development of instruments for anonymous verification of adherence to the values in management and for an independent diagnosis of those values;
- increased use of metrics in order to spur process management systematically and consistently;
- better use of internal performance indicators of non-financial and non-risk-related aspects;
- avoidance of conflicting goals when setting priorities for daily business activities and the implementation of projects (e.g. training and continuing education; the introduction of new systems);
- systematic exploitation of employees' potential for improvement;
- increased exchange of "best practices" among the organizational units;
- resolute use of client-related performance indicators as an early warning system for addressing customer satisfaction and loyalty;
- fine-tuning the employee-related performance indicators in dependency on the strategic challenges.

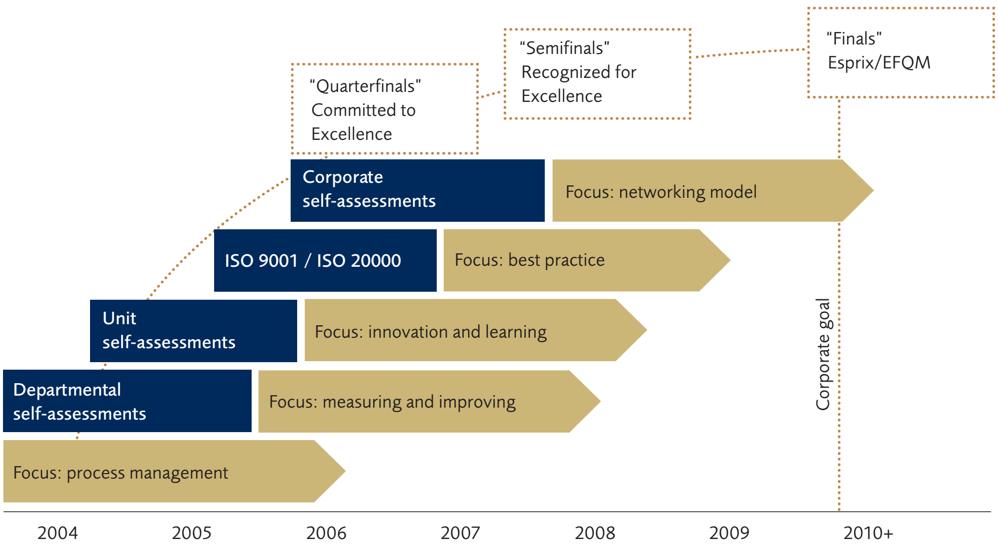
tering throughout the entire organization a process-oriented manner of thought, the will to change and the preparedness to learn even more. This obligation will not change following the full implementation of the program by 2010; rather, Business Excellence is a philosophy that will consistently shape the way the company and its people think and act.

In addition to Business Excellence, VP Bank is also pursuing an initiative related to the strategic topic of efficiency at the management level: value-oriented leadership. The goal in this regard is to achieve a further transition from the current earnings-oriented management of the entire Bank to one that is value-oriented and based on risk/return relationships. The priorities in this transitional phase address the following aspects:

- the risk-adjusted management of revenue flows in all business segments by means of key performance indicators;
- the complete identification and management of risks taking account of the Bank's ability to assume risk and the amount of risk coverage, with the aid of key risk indicators;
- the generation of a reasonable return on the capital that has been made available.

At the center of this effort is the consideration that the added value a company generates for its shareholders has less to do with meeting the company's own goals than with bearing up against the latest comparison with its industry peers and the market as a whole.

Roadmap 2010



Personnel strategy

Employees are directly affected by the increased competence in handling administrative matters: the ongoing development of human capital is a strategic task that is part of the overall strategy. VP Bank bundles all of its training and continuing education activities together in the "VP Bank Forum" (see Employees section on page 36). By systematically fostering employees and applying modern working-hours models, VP Bank desires to heighten its attractiveness as an employer and score points in today's "war for talent".

Human Resources Management (HRM) has oriented its own strategy toward the VP Bank Group's three strategic themes – growth, core competencies and efficiency:

- By applying a wider range of human resources concepts, HRM is supporting the Group's internationalization efforts. Those concepts are aimed at positioning VP Bank as an attractive employer in all relevant markets and ensuring that its employees identify with the Bank and have outstanding opportunities for career development.
- The competencies in investment advice, marketing and management will be expanded further and anchored firmly through professional training seminars that accompany the individuals' operating activities.
- The programs for the personal and professional development of employees are focused on strengthening the competence in administrative matters and hence achieving gains in efficiency.

HRM has consolidated all of these initiatives and allocated them to three categories: personnel marketing, personnel and management development, as well as internationalization and Group-wide orientation.

In implementing these measures, HRM works closely with Marketing – for example to ensure that the corporate values are firmly anchored – and with experts from Business Excellence. As a result, the strategic goals of HRM (see Employees section on page 36) are underpinned by measurable readings. A controlling effort on the one hand ensures the ongoing monitoring of goal achievement and, on the other, serves to highlight deviations from the predefined project objectives and set in motion any necessary corrective measures.

IT strategy

At present, the most important strategic initiative at VP Bank is the replacement of the overall banking IT system, also referred to as the banking package. Given its business model and policy of open architecture, the Bank wishes to introduce a centralized IT system for handling its banking transactions. This infrastructure project is tangential to and supports all three strategic themes. This, the largest overall project in the history of VP Bank to date, has a tremendous influence at the strategic and operational level. The Bank's expansion into new markets requires a globally compatible banking system. Upon realization of the "mirava" project, i.e. the transition to the Avaloq system, all of the Bank's locations around the world will have a uniform solution in this regard. This decentralized standard solution will afford the same systems and processes at all locations and can also be applied at additional sites in the case of even further growth (see Banking Services section on page 63).

Brand strategy

An integral part of the overall strategy of the VP Bank Group is its brand strategy. The brand symbolizes the company, because a company or product is perceived by menas of the brand. The overall strategy and brand strategy must always go hand-in-hand and be determined with forward-looking thought. It is by no means a coincidence that VP Bank in 2003 addressed its vision and re-branding at the same time: Ranking among the best – that is also a claim that places demands on the brand.

The brand is a means for realizing the strategy and at the same time it is a value driver itself: it can be a decisive supporting element in customer relationship management, and it shapes the way the company is perceived as an employer. As an image-maker, the brand embodies all of the characteristics that differentiate a company.

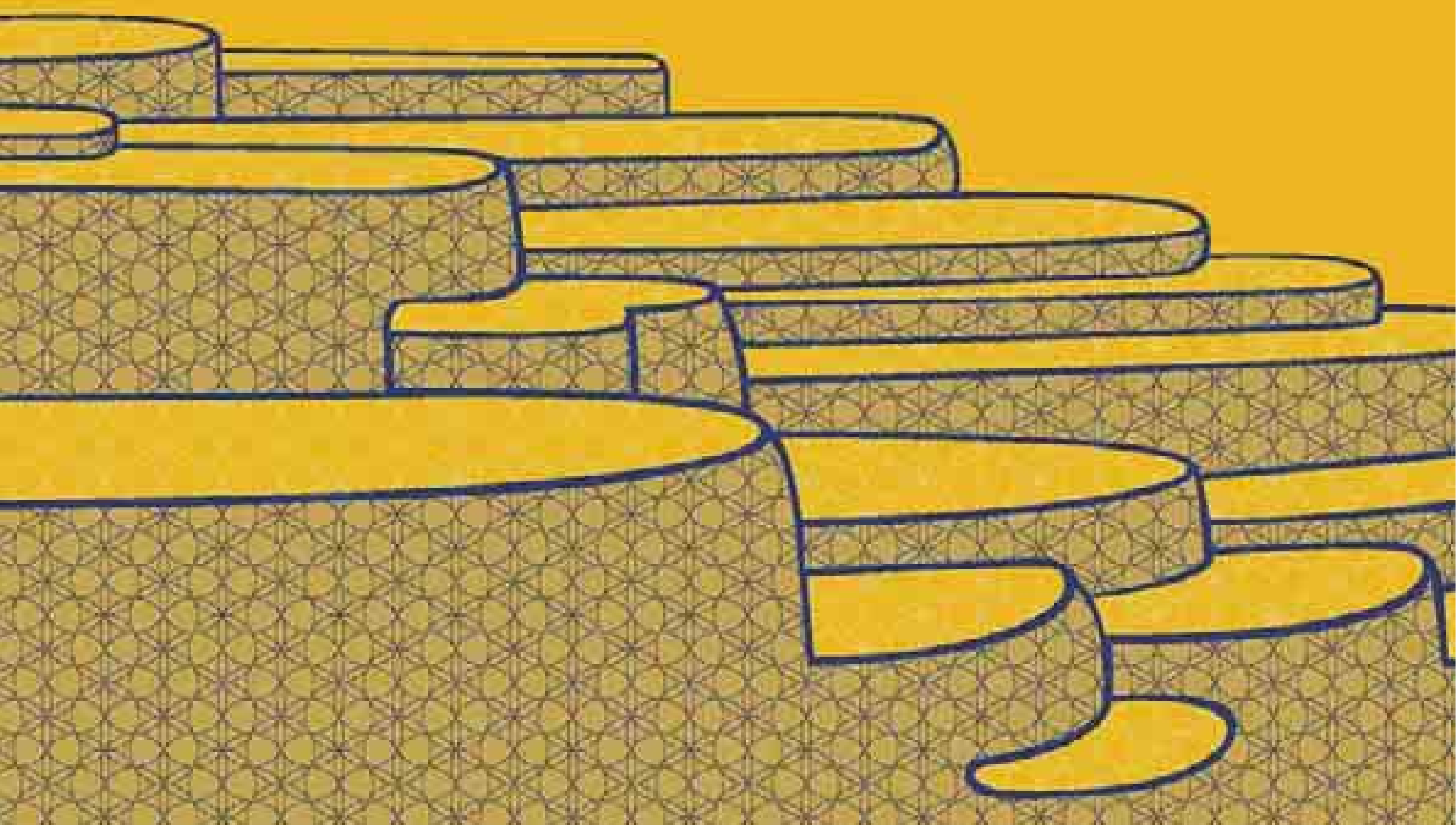
Quality as it is pursued continually at VP Bank internally by means of the Business Excellence program can only be brought to life via the brand. The ambition to present VP Bank as unusual und elegant must be palpable in every dimension. Only then will the VP Bank brand be unmistakable. It should communicate freshness and inspiration; it should radiate exclusivity. And it should reflect VP Bank's efforts always to offer something special and to surpass expectations.

VP Bank pursues a strict approach to brand management: quality and flexibility, dynamism and creativity are the characteristics that VP Bank desires to communicate. All of the Bank's marketing activities center on these core messages. Decisive in this regard is the coherency, distinctiveness and consistency of the image, because those are the prerequisites for constancy of the brand experience: whenever and by whatever means clients have contact with VP Bank, the brand must evoke the same associations and emotions in them. The brand acts as a pole star for clients and lays the foundation for their identification with the company.

The brand positions a company in the marketplace and differentiates it from the competition. By 2010, VP Bank wants to be positioned as one of the best private banks and stand out in comparison with other top-notch institutions in the industry. The image study conducted in 2006 demonstrates that VP Bank has caught up with its peer group – a number of renowned Swiss and Liechtenstein private banks. In 2009, the next positioning study will reveal at further progress has been achieved.

Wherever VP Bank is present, it wants to have a globally uniform appearance, arouse the same – positive – associations, and trigger the brand-recognition experience. The focus of the marketing activities is on the Liechtenstein and Swiss markets. Here, VP Bank desires to achieve a noticeable increase in its level of recognition.

3 Stakeholders' Report



Clients: quality in advice and service

Customer satisfaction is more than just a strategic goal: it is the very essence of a company's purpose. For each services company, the satisfaction of its customers represents the basis of its own survival. The central value-adding process at VP Bank is manifested in the form of consulting and client care. If VP Bank desires to position itself among the best private banks, professional and competent advice as well as long-term, loyal client relationships must always be its greatest aspiration. Moreover, it is VP Bank's ambition to enthuse its clients, to offer them a unique experience on every occasion, as well as to ensure security, professionalism and reliability at all times. This ambition substantiates the Bank's mission statement – to generate added value for all of its stakeholders, in this instance in the client-specific dimension. But it is also conveyed in the brand promise to afford unusual and elegant solutions.

Client satisfaction survey 2007

In order to gauge its performance in terms of client relationship management, VP Bank conducts a biennial client satisfaction survey. These opinion polls are an expression of the Business Excellence program, the architecture of which consists of measuring, enabling and changing. In the past financial year, VP Bank conducted its latest survey of satisfaction and was able to evaluate the responses of more than 800 clients. The findings reveal improvements – some of which are significant in nature – compared to the results of 2005, and thereby confirm the effectiveness of the initiatives that VP Bank has undertaken to optimize its client relationship management efforts. The key findings on the most important aspects are as follows.

It is VP Bank's ambition to enthuse its clients, to offer them a unique experience on every occasion.

Overall impression and overall satisfaction:

- Clients rated as good or very good those attributes on which VP Bank places particularly great value – client-focused, dialogue-oriented, innovative and enthusing. On a scale from one to five (one being the best score), the assessments ranged from 1.8 to 2.3 points (see graph on page 32). These readings in part lie far above the mean, but it is VP Bank's intention to score even better going forward.
- Overall, clients expressed great satisfaction with VP Bank: on a scale of one to one hundred, the latest score of 86.1 points is significantly better than in the previous survey.

Client advice:

- The respondents awarded more than 83 points for all criteria relating to client advice. Clear improvements were observed in the aspects of reliability (92.9 vs. 91.1 points) and availability (89.1 vs. 87.6 points).
- The questions with regard to the frequency of contact reveal that 87 percent of the clients consider the frequency to be just right.
- 71 percent of the respondents perceive their client advisor as being both a confidant and a professional specialist. The more a client views their advisor as a confidant, the more they feel in good hands with VP Bank. Overall, the personal sense of wellbeing in their relationship with VP Bank stood at 86.3 points, slightly higher than the 2005 reading (85.7 points).

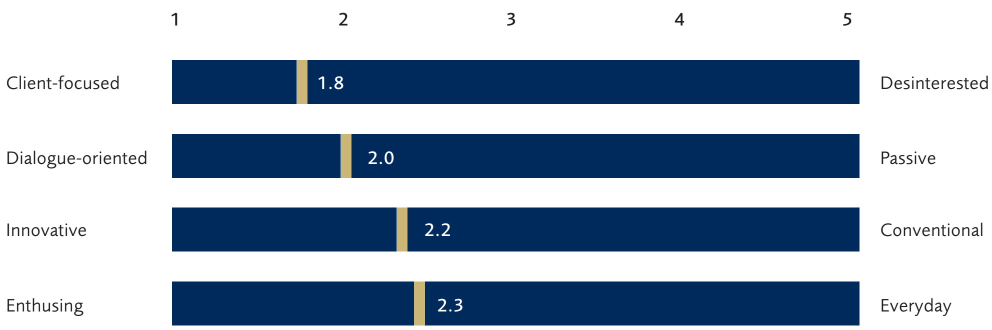
Affinity:

- The willingness to recommend the company to other people is considered to be one of the most important criteria for assessing client loyalty. 91 percent of clients would recommend VP Bank to others; 13 percent have already done so.
- 45 percent of clients wish to broaden their collaboration with VP Bank. Herein lies great potential for gaining a larger "share of wallet".
- Four percent of clients are considering a change of banks, while 88 percent intend to remain loyal to VP Bank. The scores for client affinity were at the same level as in 2005.

Reception of clients:

- For the first time, VP Bank included in the survey questions on the way clients are received at the Welcome Desk. The questions pertain to friendliness, appearance and general services provided upon arrival at VP Bank. The findings are especially gratifying because they confirm the brand strategy: the mean approval rating stood at 95 percent.
- Through the use of targeted questions, VP Bank also wanted to find out about clients' priorities. Roughly half of the respondents named friendliness and discretion as their most important concerns.

Client affinity



Complaint management:

- In the past year, five percent of the clients have lodged at least one complaint with VP Bank. Compared to the previous survey in 2005, that reading improved by three percentage points, but in the view of VP Bank it is still too high.
- The complaints received mainly pertained to the handling of instructions (34 percent of all complaints), conditions (17 percent) and performance (11 percent).

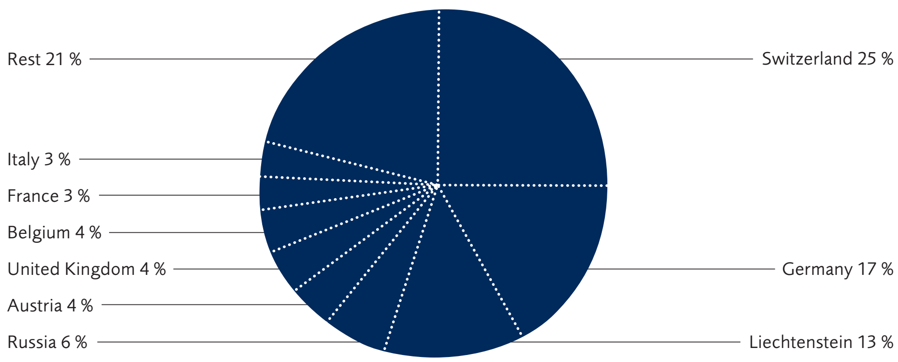
As to this latter point, complaint management, VP Bank sees the greatest need for action: the goal is to reduce the number of complaints in the direction of zero and to shorten the time it takes to address those complaints. In this connection, however, it must be stressed that the systematic approach to client feedback management that VP Bank introduced in response to the 2005 survey has shown noticeable results. Clients appreciate the relationship management and quality of service; they are enthused with the new client reception hall in Vaduz and have consistently responded favorably to VP Bank's client events.

Client feedback management

Client feedback management is anything other than a compulsory exercise. In this regard, VP Bank's view was confirmed in a global study conducted by PricewaterhouseCoopers [1], according to which dissatisfaction with customer advice is the key reason for clients to leave their bank. The same survey reveals that banks and asset managers have yet to recognize how important it is to measure client satisfaction on a systematic basis, and that they have difficulty defining a client-bonding process.
Client feedback management is a part of the "Top for Clients" initiative, into which VP Bank has consolidated all measures that are directly related to the core competence of client service. Also a result of this holistic approach to providing advice is the "Asset Allocation Modeler", which graphically displays to clients individualized scenarios of the way their assets will potentially develop.
VP Bank's business model stands out for its open architecture; in other words, Asset Management offers its clients carefully selected products of third-party providers, and suggests its own products and

[1] Unprecedented opportunities, plan your approach. Global Private Banking/Wealth Management Survey 2007.

The origin of assets under management 2007



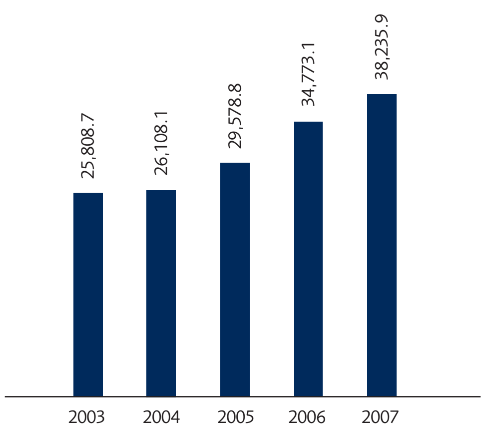
services only if their potential return is higher and the client benefit is at least as high as that to be had from third-party offerings. An additional strength is represented by VP Bank's professional investment process. It differs from the norm due to the fact that the strategic asset allocation is optimized annually on the basis of a long-term assessment of the capital markets, and also stands out for its investment universe of 14 asset classes and the resulting possibilities for risk diversification (see Trust Banking section on page 60).

Large inflow of new money

During the past financial year, assets under management rose by 10 percent to CHF 38.2 billion, of which CHF 3.0 billion was attributable to the inflow of new money. Viewed over a five-year time span, the total of client assets under management has increased by 48 percent. This demonstration of trust encourages VP Bank in its strategy and has led to an upside revision of the target amount: by the end of 2009, the goal is to have CHF 44 billion in assets under management. To achieve that, it will be necessary to build up the business relationships with existing clients, as well as to gain new clients within the framework of the Bank's growth strategy.

Customer care at VP Bank was again lauded in the 2007 Elite Report. For the second time in succession, VP Bank received the highest accolade of "summa cum laude". As a result, it ranks among the twelve best asset managers in the German-speaking region. The commendation applies to the parent bank in Vaduz, VP Bank (Switzerland) Ltd., and the asset management company in Munich. Each year, the Elite Report evaluates approximately 270 banks and asset management specialists from Germany, Switzerland, Austria, Luxembourg and the Principality of Liechtenstein.

Client assets under management 2003 to 2007
(in CHF million)



Employees: accomplishing the unusual … together

The quality of advice and client service depends on employees' capabilities and willingness to perform. They are the people who shape the client relationships and personify VP Bank's brand promise in the outside world. VP Bank must be and wants to be an attractive employer. Competition in the financial services labor market is very intense; a battle to attract the best talent prevails at present. In order to be in a position to offer clients the quality they desire in terms of advice and products, VP Bank must attract and be able to retain talented and qualified personnel.

The mission statement that aims to generate added value for all stakeholders means the following when it comes to relationships with employees: VP Bank has great expectations in terms of the professional and interpersonal skills of its employees, but also with regard to their creativity. For that reason, the Bank pursues targeted programs for personal advancement, such as part-time work models for college students, special career-start programs for graduates, and special promotional programs for trainees who have completed their apprenticeship. VP Bank fosters open, trust-based and personal dialogue; it desires to lend support to outstanding team-based accomplishments in order to create the unusual … together.

A corporate structure based on shared fundamental values is of increasing importance to VP Bank, not least of all due to the Bank's expansion of its position in the Middle and Far Eastern markets. VP Bank has defined these fundamental values and couched them in a Code of Conduct (www.vpbank.com) that is valid for all employees. This publicly accessible Code of Conduct represents the basis for employees' conduct vis-à-vis clients and shareholders as well as the way they deal with society and the environment as a whole. Bank-internal rules lay down in concrete terms the values and principles of behavior included in the Code of Conduct.

Strategic goals

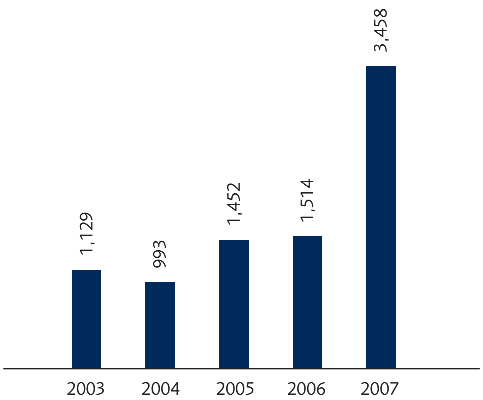
Our employees are a decisive factor in the implementation of the VP Bank Group's overall strategy, from which the Human Resource Management (HRM) has derived its own strategic objectives:

- enhancing the reputation of VP Bank as an attractive employer;
- identifying and bonding with key individuals;
- filling key positions with people from within the company;
- adapting and harmonizing on a Group-wide basis the processes, systems and instruments of HRM;
- fostering a culture of performance with value-oriented management;
- introducing an "unité de doctrine" for management methods.

In an effort to achieve these objectives, HRM works closely with all management members, Marketing as well as the Business Excellence and Corporate Development teams of experts.

Start of the training offensive
In order to meet its high quality demands as well as to equip its employees for the internationalization that lies ahead, VP Bank in 2007 launched a training offensive that extends from the development of professional skills to the refinement of the linguistic skills necessary for international activities. Within the scope of this project, 40 employees have started a recognized course of studies; 210 individuals are currently enrolled in English courses of various proficiency levels.
VP Bank's investments in training and continuing education have nearly doubled over the past two years. In the past financial year alone, more than CHF 3.5 million went toward the training and continuing education of employees and managers (see graph); calculated on the basis of the parent bank, that represents ca. CHF 4,700 per employee. These funds were mainly earmarked for the financing of the following projects:
Professional education: The educational content of the Internet-based "Blended Learning" tool was revamped. With the newly structured study modules, employees can now complete the various tests by means of an online exam. "Blended Learning" was introduced in 2005 and is tailored to the areas of private banking, personal banking and commercial banking.
English initiative: A command of the English language is indispensable in the Bank's current phase of internationalization. Over the medium term, a large percentage of the employees should have an intermediate-level grasp of the language. Implementation of this initiative started last March and by fall the number of in-house courses amounted to 10, each with a varying degree of required proficiency.
Sales training: The training of client advisors is practice-oriented, covers a wide array of aspects relating to customer care and service, and is accompanied by a regular feedback process. The sales training is primarily aimed at enhancing interpersonal skills.
Anchoring of values: Because the employees personify the VP Bank brand, anchoring VP Bank's values throughout the organization is a shared task of Marketing and Human Resources. For two years now, both business units have been jointly conducting value workshops in an effort to point up to all employees how solutions can be arrived at on the basis of VP Bank's values.
Management development: In the 2007 financial year, leadership principles represented the focal point of management and team development. The related workshops have been conceived not just for senior management, but also for second- and, since 2007, for third-level cadre members. An important dimension in this regard is the transfer of know-how between the various management levels.
The VP Bank Academy also must be viewed within the context of management development. This learning platform, which VP Bank has been building up in conjunction with the University of St. Gallen since February 2007, is intended to constitute an "unité de doctrine" for management methods.

Investments in training and continuing education
(in CHF 1,000)



Improved employment conditions

From its comprehensive training and continuing education concept, VP Bank also hopes to achieve a higher degree of commitment on the part of its employees. Although the 2006 employee survey attested to a high level of satisfaction, it also revealed certain areas where there is a potential for improvement, such as the involvement of employees and contact with Group Executive Management. Above all the management development program is designed to exploit this potential. Moreover, VP Bank has improved its employment conditions, namely in the area of social security. The 2008 employee survey will reveal how these measures have affected employee satisfaction and commitment.

In the 2007 financial year, the employee turnover rate rose versus the previous year from 7.6 percent to 9.3 percent (see graph page 39).

Employee-related statistics

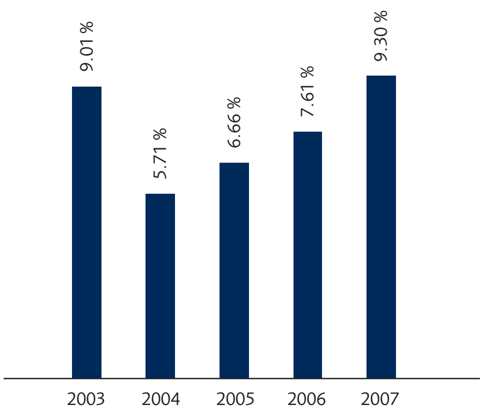
In the past year, the headcount at VP Bank once again increased markedly: at the end of 2007, the Group employed 731 individuals, 526 of whom were located at the parent bank in Vaduz (including 24 trainees). That represents a total increase of 76 people, 47 in Vaduz alone. Expressed in full-time equivalents, the number of jobs Group-wide rose by 11.6 percent to 681.4; at the parent bank, there was a 9.5 percent increase to 483.5.

The average years of service per employee at the parent bank stood at 8.4 (previous year: 8.7). Roughly one-third of the employees at the parent bank have been working for more than ten years with VP Bank, and approximately 20 percent for more than 16 years. The average age of the workforce (38) was a good two years higher than in the previous year. Compared to 2000, neither the average years of service nor the average age has changed to any significant degree.

Headcount per company

	As of 31.12.2007	Variance against prior year
Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz	526	+47
thereof: Representative office Hong Kong	8	
VP Bank (Luxembourg) S.A., Luxemburg	57	–9
VP Bank (Switzerland) Ltd., Zurich	59	+9
thereof: Representative office Moscow	2	–1
VP Bank and Trust Company (BVI) Ltd., Tortola	29	+4
VP Vermögensverwaltung GmbH, Munich	8	+2
VP Wealth Management (Singapore) Ltd., Singapore	7	+7
VP Wealth Management (Middle East) Ltd., Dubai	5	+5
IFOS Internationale Fonds Service Aktiengesellschaft, Vaduz	20	+4
VPB Finance S.A., Luxembourg	13	+6
IGT Intergestions Trust reg., Vaduz	7	+1
Total VP Bank Group	**731**	**+76**

Employee turnover rate



The ratio of male to female employees still remains at 60:40. Women are predominant among the part-time employees: only 10 of 82 part-time jobs at the parent bank (30 to 90 percent rates of employment) are occupied by men. VP Bank employs people from 32 different nations. Despite this internationality, the Bank remains firmly anchored in Liechtenstein: 46 percent of the employees of the parent bank are Liechtenstein citizens, and 54 percent reside in the Principality.
In the 2007 financial year, total salaries at the parent bank amounted to CHF 68.4 million; as a result, labor costs over the past five years have increased by 52 percent. The total headcount rose by 23 percent during the same time frame.

Corporate cititzenship: commitment to the base constituency

As an employer, VP Bank has a high degree of commitment to each of the locations in which it is present. Within the framework of the Bank's internationalization, this corporate responsibility will apply unconditionally to the new organizational units. Traditionally, however, VP Bank has developed a very special commitment to fostering public affairs, culture, education and sports in Liechtenstein. The comportment of VP Bank and its employees vis-à-vis the public is laid down explicitly in an internal Code of Conduct, which is binding for all employees as of 2008 (see Employees section on page 36).

Responsibility as an employer

Globally, the VP Bank Group created in the 2007 financial year a total of 70.8 new jobs, of which 41.9 in the parent bank alone (figures expressed in full-time equivalents). It has improved employment conditions, especially in terms of social security, and offers attractive part-time job models with a rate of employment between 30 and 90 percent. In 2007, around 16 percent of the workforce, mainly women, took advantage of that opportunity and roughly one-fifth of those individuals have been granted signatory power. Ever since its founding, VP Bank has been strongly committed to the training of young aspiring banking professionals. In the 2007 financial year, 24 individuals completed an apprenticeship with VP Bank, 21 of whom are residents of Liechtenstein. The personal development programs at VP Bank address various educational paths – apprenticeships, lateral entrants, parallel continuing education, formal studies – and they all serve to achieve the goal of attracting qualified professionals to VP Bank. Those who have completed their apprenticeship are offered staged traineeships at various foreign locations of VP Bank; college graduates have the opportunity to gain experience in everyday banking activities for 12 to 18 months. Within the framework of its learning workshop, VP Bank conducts discovery days in an effort to assist students from the region in selecting their future career paths and to enthuse them for the private banking industry.

VP Bank builds on its Liechtenstein tradition and is characterized by its collaborative and fair interaction with all stakeholder groups.

Commitment to society, culture and education

VP Bank Foundation

On March 6, 2007, the VP Bank Foundation was entered into to the Liechtenstein public register. Shareholders at the annual general meetings of 2006 and 2007 approved a total contribution of CHF 10 million to the foundation, which was established to mark the 50th anniversary of VP Bank.

The primary objective of the foundation is to promote projects, institutions and individuals that are distinguished for their accomplishments in the areas of the environment, art, education, science and culture. Also sponsored are those projects, institutions and individuals that foster the public good through community service. In addition, that support should be in connection with or closely related to the Principality of Liechtenstein and the corporate values of VP Bank. Moreover, donations can be made for social purposes or for other types of charitable activities.

The board of trustees, which comprises Hans Brunhart, Chairman of the Board, and Adolf E. Real, Chief Executive Officer, of the VP Bank Group, adopted during the course of the year all statutory resolutions that enable a goal-oriented

approach in the foundation's activities: the involvements of the Bank and the foundation were analyzed, the interaction between the two was regulated, and the investment policy for the foundation's assets was determined. Defining the actual policy of the foundation is planned for 2008.

In the year under review, the foundation paid out contributions of approximately CHF 200,000. An amount of CHF 50,000 went to the "pro natura – pro ski" Foundation, which VP Bank initiated 10 years ago and since then has provided significant support for. The pro natura – pro ski Foundation has gained a notable international reputation for its efforts to achieve a balance between the various interests involved in winter sports, and as of 2008 it will continue its activities in collaboration with a specialized school of Vienna's University of Natural Resources and Applied Life Sciences.

Also to be viewed within the context of the VP Bank Foundation's international commitment is the EUR 20,000 support it provides to small-scale projects for the sustainable development of the mountain regions of the Caucasus. These projects are being realized under the auspices of the Alpine Convention – also with the support of the Government of the Principality of Liechtenstein. In addition, support was given for a management course in southeastern Europe (EUR 10,000) at the Institute for the Danube Region and Central Europe, which is headed by Dr. Erhard Busek.

Of regional significance is the Werdenberger Namenbuch research project, which has been supported from Liechtenstein for years. The Foundation has resolved to contribute CHF 20,000 for the furtherance of this project. Apart from the afore mentioned donations, the foundation has also made various smaller contributions, among other things for the furtherance of young artists as well as projects in connection with the advancement of biodiversity and animal welfare. The first year of existence of the VP Bank Foundation has shown that great potential exists for the activities of the Foundation. That potential will be progressively tapped in the years to come.

VP Bank Art Foundation

The cultural engagement of VP Bank is evidenced by the VP Bank Art Foundation, which was established in 1996. Its mission is to collect works of contemporary art and thereby foster an understanding of art as a whole. The works can be viewed in the rooms of the Bank as well as at exhibitions.

Personal commitment

VP Bank's bond with its homeland is also demonstrated by the personal commitment of the members of the Board of Directors and Group Executive Management. They are active in business-sector organizations such as the Liechtenstein Bankers Association and the Liechtenstein Chamber of Industry and Commerce. Moreover, they are heavily involved in the educational realm, be it as a member of the advisory board of the Liechtenstein University of Applied Sciences or the International Students' Committee, a joined initiative of the University of St. Gallen and Harvard University. Exploiting the opportunities for proactive codetermination, communicating in a frank and open manner, orienting one's own values toward ethics and moral values – in its interaction VP Bank conveys these basic principles in its mission statement with the public.

Environment and sustainability: acting with a sense of responsibility

VP Bank is committed to the principle of sustainability, which embraces the economic, ecological and societal dimensions of doing business. The term "sustainability" can also be paraphrased to mean the responsible treatment of all stakeholders. VP Bank views the principle of sustainable improvement as being a process of continual change, one in which many small steps ultimately lead to the goal. The sustainability of profits and risk management can be seen in the Financial Report (see page 95 ff); the Bank's responsibility vis-à-vis clients, employees as well as society and the broad public is the theme of this Stakeholder Report. The current section focuses on the significant aspects of ecological sustainability.

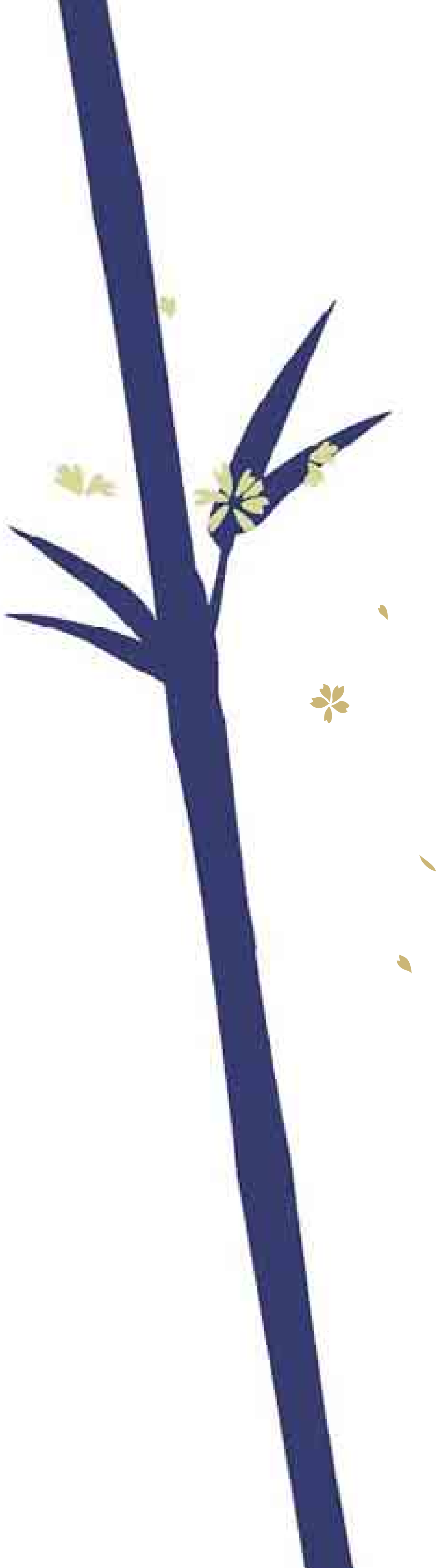
As a financial services provider, VP Bank perceives the objectives of ecological sustainability as primarily involving a reduction in the use of natural resources, above all energy and paper.

In the past year, VP Bank has taken great pains to lower its energy use through constructional and organizational measures. Both in the construction of the administration facility in Triesen and during the renovation of the main office building in Vaduz, ecological criteria were taken into account right from the start. Examples of this are the use of geothermal power for heating and cooling, movement-controlled lighting, and the systematic equipping of offices with flat panel displays and high-efficiency light bulbs.

However, two factors have a negative impact on VP Bank's "ecological balance sheet". For one, the introduction of the new banking system means that, during the switchover phase, the old as well as the new system are running in parallel, hence the dual computing capacity is necessary. And on the other hand, intensified travel goes hand in hand with the internationalization strategy: especially destinations in Asia are only reachable by air.

Mobility program

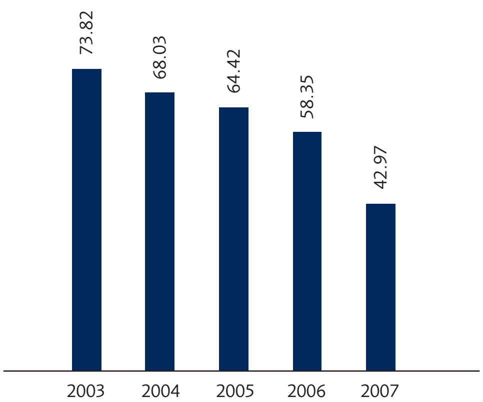
That type of long-distance travel is unavoidable during the build-up phase of the Bank's locations in the Middle and Far East. However, the ecological balance sheet in terms of regional transportation can be improved. VP Bank has therefore devised a mobility concept that will be implemented in 2008. The heart of the concept is a graduated fee system for the employee parking spaces. This way, and with financial incentives such as a mobility bonus and the reimbursement of monthly public transportation tickets, the employees will be motivated to use public transportation or put together carpools.



Use of paper

In the past financial year, VP Bank managed to reduce its use of paper by a full 30 percent. This decline was mainly attributable to the Bank's policy of generally providing hard-copy account statements only on an annual basis, as well as printing and mailing daily or quarterly statements only at the request of the client. As a result, a significantly lower amount of copying paper (–23 percent), envelopes (–62 percent) and standardized vouchers (–54 percent) was used. On the other hand, the number of forms employed as a result of increased communication with clients and the distribution of the forms to the subsidiaries has doubled. All printed matter at VP Bank – including this annual report – are printed on FSC-certified paper.

Paper consumption (in tonnes)



Energy

Power consumption at VP Bank for 2007 stood at a total of 4.46 million kilowatt-hours (kWh), slightly below the prior-year level (–3.6 percent). A breakdown of the individual components of that total results in a differentiated picture: electric power consumption actually increased in 2007 by 6.2 percent to 4.2 million kWh. At the same time, however, the Bank's own photovoltaic power generation increased from 3,392 to 5,060 kWh. Both of these phenomena are mainly attributable to the significantly higher headcount at VP Bank. On the other hand, there was a marked reduction in energy used for heating purposes: heating oil consumption declined by almost 50 percent, and gas consumption by all of two-thirds. This was mainly due to the mild temperatures during the winter months, but there were other factors involved: heating oil is used only at the main office in Vaduz, however in the previous year extensive renovation work was conducted, which in turn increased the amount of heating oil consumed in 2006. On the other hand, heating and cooling at the administration facility in Triesen is accomplished primarily by means of geothermal power. Natural gas is only consumed for additional heating when the geothermal solution is insufficient to get the job done, which in 2007 was necessary only to a negligible extent.

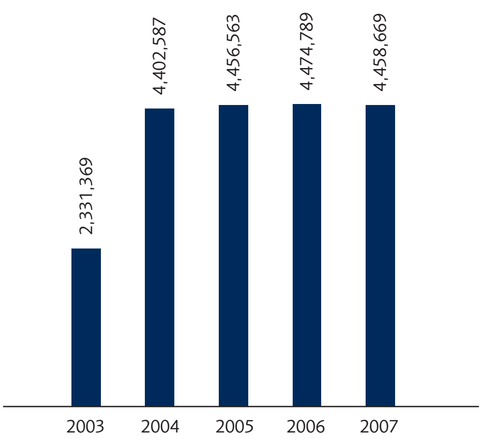
Avoidance of waste

The growth of the Bank and in particular the size of its staff resulted in an increased amount of waste being produced in 2007. Construction waste generated by the renovation work played a major role in that regard. In total, the volume of hard waste rose from 191 to 228 tonnes.
In effort to heighten awareness with regard to both the avoidance and separation of waste matter, VP Bank held an informational event in 2007 for all department heads and sensitized all of the teams to this particular issue.

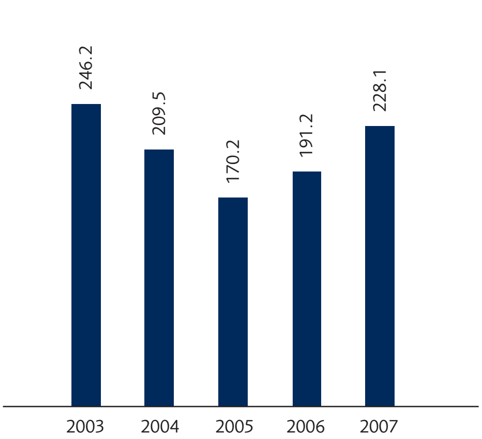
Environmental management

The Logistics & Security business unit bears responsibility for the ecological sustainability of VP Bank (see Banking Services section on page 63). The head of the unit represents VP Bank in Switzerland's Network for Sustainability and Management (www.oebu.ch). In the spring of 2008, Logistics & Security will begin preparatory work for certification under ISO 14001, the internationally recognized standard for environmental management. This certification also requires the systematic compilation of key figures relating to environmental issues.

Power consumption (in kilowatt-hours)



Waste statistics (total tonnes)



Legislation and supervisory authorities in Liechtenstein: compliance with the rules

Verwaltungs- und Privat-Bank Aktiengesellschaft (VP Bank), Vaduz, is constituted as a joint-stock company under Liechtenstein law. It is the parent company of the VP Bank Group. The responsible supervisory body in its country of domicile is therefore Liechtenstein's Financial Market Authority (FMA). Because the shares of the parent company are listed on the SWX Swiss Exchange, VP Bank is also subject to the rules laid down by SWX on the basis of the Swiss Federal Act on Stock Exchanges and Securities Trading of 1995 (SESTA) and the related implementing ordinances. For the 2007 financial year, of particular importance to VP Bank is Point 5.2 of the SWX Directive on Information Relating to Corporate Governance, which prescribes: "Issuers whose registered office as per ref. no. 3 is not situated in Switzerland and whose equity securities are listed on SWX but not on an exchange in their country of origin must apply Art. $663b^{bis}$ CO analogously" (see Corporate Governance section on page 68). The business activities of the VP Bank Group are supervised by the competent authorities of each country in which the Bank has subsidiary companies or representative offices.

General

The activities of VP Bank are subject in Liechtenstein to the Law on Banks and Finance Companies (Banking Act, BankA) of October 21, 1992, as well as the Ordinance on Banks and Finance Companies (Banking Ordinance, BankO) of February 22, 1994. As a result of the implementation of the EU Markets in Financial Instruments Directive (MiFID) in 2007, the Banking Act and Banking Ordinance have undergone an extensive partial revision. As of January 1, 2008, the Bank will also be subject to the Ordinance on Equity and Risk Diversification for Banks and Finance Companies (Equity Ordinance) of December 5, 2006. The Banking Act lays down among other things the general conditions for the supervisory duties of the FMA, which has been active since January 1, 2005. It – together with the statutory auditors, who must possess a license from the FMA and are also under its supervision – constitutes the main pillar of the Liechtenstein system of supervision. The Law on Professional Duties of Due Diligence (Due Diligence Act) of November 26, 2004, and its related ordinance (Due Diligence Ordinance) of January 11, 2005 – in conjunction with the money-laundering article of the Liechtenstein Penal Code – establish the standards for due diligence that must be observed by the entire financial services sector in Liechtenstein. Those standards correspond to international requirements.

Within the scope of its business activities, i.e. the rendering of financial services, VP Bank must among other things observe the following laws and the associated ordinances:

- Securities Prospectus Act
- Takeover Act
- Persons and Companies Act
- Law Governing Supplemental Supervision of Companies of a Financial Conglomerate (Financial Conglomerate Act)
- Investment Undertakings Act
- Law on the Disclosure of Major Holdings in Listed Companies (Disclosure Act)
- Law on the Execution of Transfers
- Law of November 24, 2006, against Market Abuse in the Trading of Financial Instruments (Market Abuse Act)

The following discusses only those laws or directives that were revised or entered into force during the past financial year:

Securities Prospectus Act

The EC Directive "on the prospectus to be published when securities are offered to the public or admitted to trading" (Prospectus Directive) is part of the EEA treaty. To implement the provisions of the Prospectus Directive, the Liechtenstein legislature supplemented the Investment Undertakings Act and subjected the Prospectus Act of October 23, 1997, to a total revision. As a result, significant changes were made to the content of the Prospectus Act. The new regulations improve the quality of the information that issuers must make available to investors, and they have led to a harmonization in terms of the preparation and content of a prospectus as well as the information and disclosure obligations of issuers. Because the implementation of the Prospectus Directive has led to more stringent regulation of the securities markets within the EEA, the revised Act, which entered into force on September 1, 2007 was given the materially more specific name "Securities Prospectus Act". The harmonization in conjunction with the Prospectus Directive makes it easier for VP Bank in the future to offer its own securities in the EEA.

Takeover Act

Also incorporated into Liechtenstein law were the provisions of the EC Takeover Bids Directive 2004/25/EC. As a result, a legal framework now exists for the crossborder acquisition of exchange-listed companies. The Takeover Act is applicable to all procedures relating to takeover bids for the purpose of acquiring equity securities that have been issued by the target company and are admitted to trading in a regulated market in one or more EEA member states or on exchanges in third-party states. The Takeover Act establishes important principles that must be compulsorily observed in the takeover process, for example the precept of equal treatment of all holders of equity securities, as well as the avoidance of market distortions.
Because Liechtenstein does not have its own stock exchange, the Liechtenstein Takeover Act in relation to the EEA member states applies only to the company law aspects. For example, the Liechtenstein Financial Markets Authority (FMA) is responsible for addressing issues that concern company law and the notification of the target company's employees. Decisive in terms of the legal takeover aspects is the law applied by the competent supervisory authorities in the given EEA member state. Vis-à-vis third-party states, in particular Switzerland, the Directive provides for no corresponding regulation. In this regard, the principle of referring to the law of the given state was chosen when it comes to matters concerning takeovers. If on the other hand company law issues are being addressed, the Liechtenstein Takeover Act is applicable.

Financial Conglomerate Act

With the Law Governing Supplemental Supervision of Companies of a Financial Conglomerate, additional supervisory rules relating to financial conglomerates were adopted within the framework of the EEA. They are intended as a means of closing loopholes in the industry-related legal provisions and covering further risks that are of relevance to supervision. As a result, for financial groups with industry-overarching financial activities, an additional level of supervision – apart from the given industry-specific

supervision – has been put in place. The conglomerates supervision applies to banks, security firms, asset management companies, management companies of investment firms, as well as insurance companies. This mainly pertains to the supervision of reasonable capital reserves. Furthermore, risk concentrations within conglomerates are to be avoided and group-internal transactions are to be supervised. At present, there are no Liechtenstein financial conglomerates within the context of this law. However, a number of insurance companies and banks are owned by a foreign financial conglomerate. The implementation of conglomerate supervision should have no major impact on Liechtenstein financial intermediaries.
Further laws are tangential to the business activities of the VP Bank Group:

Penal Code and Legal Assistance Act

The second EU Money Laundering Directive was already incorporated into the EEA treaty in August of 2003. For Liechtenstein, it entered into force on June 1, 2004. The provisions of the Directive largely corresponded at the time to existing Liechtenstein law or had been implemented already in the total revision of the Due Diligence Act (in force since February 1, 2005). However, several provisions of the Directive required an adaptation of the Penal Code and the Legal Assistance Act.
In June of 2003, the Financial Action Task Force (FATF) on Combating Money Laundering and the Financing of Terrorism published the revised version of its 40 recommendations. The first recommendation refers to the UN Convention Against Transnational Organized Crime (Palermo Agreement) and its supplemental protocols, which Liechtenstein signed on December 12, 2000, and March 14, 2001.
To prepare for the ratification of these international accords, another series of changes to the Penal Code became necessary.
The coherent implementation of these obligations under international law strengthens the reputation of the Liechtenstein financial center.

EU tax on savings income

The agreement with the EU on taxation of interest and dividend income has been in effect since July 1, 2005. Liechtenstein – as well as Switzerland, Andorra, Monaco and San Marino – now levy this tax at the payment agent level for individuals who reside in the EU. Banking secrecy remains fully intact as a result of this solution. Until June 30, 2008, the withholding tax rate will remain at 15 percent; as of July 1, 2008, it will be increased to 20 percent.

LIFT – Liechtenstein Investment Fund Think Tank

The Liechtenstein Investment Fund Think Tank (LIFT) is an instrument for collaboration between the Liechtenstein authorities and the various financial services federations. At regular meetings, this body discusses all relevant developments in the industry and works up proposals for solutions. LIFT has no decision-making authority of its own, but it assists the member federations and authorities in arriving at their decisions. The think tank analyzes domestic as well as international developments at the political and economic level and submits proposed solutions.

MiFID

Liechtenstein has incorporated the Markets in Financial Instruments Directive (MiFID) into national law. Mainly the Banking Act and Banking Ordinance were amended and entered into force in revised form on November 1, 2007.
In addition to strengthening investor protection, these new provisions are intended to increase transparency and competition among financial service providers and the financial markets as a whole. This harmonization of the legal framework enables VP Bank to offer its securities-related services throughout the European Economic Area.

Basel II

With Directive 2006/48/EC (relating to the taking up and pursuit of the business of credit institutions) and Directive 2006/49/EC (on the capital adequacy of investment firms and credit institutions), the European Parliament in June 2006 adopted the new capital adequacy requirements. As a member of the EEA, Liechtenstein incorporated the new provisions into national law by means of the Ordinance on Capital Adequacy and Risk Diversification of Banks and Finance Companies (Capital Adequacy Ordinance). VP Bank is addressing the topic of Basel II within the framework of a project. The new procedures will be implemented during the course of the 2008 financial year.

Real Estate Transactions Act

The Real Estate Transactions Act regulates the acquisition of real property in Liechtenstein. To date, the Act has exempted from the obligation to obtain consent any acquisition of real property that has been accomplished by means of a compulsory auction if the highest bidder is an individual of legal age who resides in Liechtenstein or a legal entity that is domiciled in the Principality. The EFTA Surveillance Authority (ESA) criticized this requirement of domestic domicile. The corresponding provisions have been amended and entered into force on January 31, 2008. With this abrogation of the domestic domicile requirement, the circle of bidders has broadened to include citizens of EEA member states and legal entities that are domiciled in the EEA.

Group Compliance

Given the Bank's internationalization efforts, the topic of Group compliance is becoming increasingly significant at VP Bank. Therefore, it has defined Group-wide, binding compliance standards and codified these in a compliance manual. The standards create uniform conditions for ensuring the Bank's business activities are impeccable. Organizationally, VP Bank has taken into account the tremendous significance of Group compliance as of January 1, 2008: the current Legal & Compliance unit will be split into two separate units – Legal Services and Group Compliance. As a result, VP Bank will shorten the distance between the Head of Group Compliance and the Chief Financial Officer or Group Executive Management.

4 Segments

Segment Reporting per Business Unit

2007 in 1,000 CHF	Private Clients	Trust Banking	Banking Services	Corporate Center	Total Group
Total income from interest-differential business	56,672	52,689	0	32,604	141,965
Total income from commission business and services	97,562	81,119	–3,834	317	175,164
Income from trading activities	5,271	19,803	0	–5	25,069
Other income	2,856	5,834	674	29,026	38,390
Total net operating income	**162,361**	**159,445**	**–3,160**	**61,942**	**380,588**
Personnel expenses	32,799	27,095	32,452	30,584	122,930
General and administrative expenses	12,842	9,579	9,446	23,041	54,908
Services to/from other business units	27,362	8,906	–24,938	–11,330	0
Operating expenses	**73,003**	**45,580**	**16,960**	**42,295**	**177,838**
Gross income	**89,358**	**113,865**	**–20,120**	**19,647**	**202,750**
Depreciation and amortization	1,979	678	11,079	7,798	21,534
Valuation allowances, provisions and losses	4,069	1,688	4	159	5,920
Income before income tax	**83,310**	**111,499**	**–31,203**	**11,690**	**175,296**
Taxes on income					13,796
Consolidated net income					**161,500**
Consolidated net income attributable to minority interests					3,702
Consolidated net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz					**157,798**
Client assets under management (in CHF billion)[1]	15.4	22.7	0.0	0.2	38.2
Net inflow of new client assets (in CHF billion)	0.4	2.3	0.0	0.3	3.0
Headcount (employees)	175	161	262	133	731
Headcount (expressed as full-time equivalents)	170.0	157.5	239.5	114.4	681.4

[1] Computation in accordance with Table P of the Guidelines to the Liechtenstein Banking Ordinance issued by the Government of Liechtenstein (FL-BankO)

2006 in 1,000 CHF	Private Clients	Trust Banking	Banking Services	Corporate Center	Total Group
Total income from interest-differential business	52,301	46,231	33	31,183	129,748
Total income from commission business and services	77,848	79,928	–2,998	609	155,387
Income from trading activities	4,914	16,444	4	–7	21,355
Other income	4,556	5,235	318	9,685	19,794
Total net operating income	**139,619**	**147,838**	**–2,643**	**41,470**	**326,284**
Personnel expenses	24,475	23,187	28,747	25,186	101,595
General and administrative expenses	9,919	10,505	7,209	22,791	50,424
Services to/from other business units	19,288	10,104	–19,404	–9,988	0
Operating expenses	**53,682**	**43,796**	**16,552**	**37,989**	**152,019**
Gross income	**85,937**	**104,042**	**–19,195**	**3,481**	**174,265**
Depreciation and amortization	982	688	7,697	7,330	16,697
Valuation allowances, provisions and losses	5,475	3,754	1,441	507	11,177
Income before income tax	**79,480**	**99,600**	**–28,333**	**–4,356**	**146,391**
Taxes on income					11,521
Consolidated net income					**134,870**
Consolidated net income attributable to minority interests					2,805
Consolidated net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz					**132,065**
Client assets under management (in CHF billion)[1]	13.8	20.9	0.0	0.1	34.8
Net inflow of new client assets (in CHF billion)	1.4	1.5	0.0	0.0	2.9
Headcount (employees)	153	148	248	106	655
Headcount (expressed as full-time equivalents)	148.6	143.0	228.9	90.1	610.6

[1] Computation in accordance with Table P of the Guidelines to the Liechtenstein Banking Ordinance issued by the Government of Liechtenstein (FL-BankO)

Private Clients

Results

in 1,000 CHF	2007	2006	Variance in %
Total income from interest-differential business	56,672	52,301	8.4
Total income from commission business and services	97,562	77,848	25.3
Income from trading activities	5,271	4,914	7.3
Other income	2,856	4,556	–37.3
Total operating income	**162,361**	**139,619**	**16.3**
Personnel expenses	32,799	24,475	34.0
General and administrative expenses	12,842	9,919	29.5
Services to/from other business units	27,362	19,288	41.9
Operating expenses	**73,003**	**53,682**	**36.0**
Gross income	**89,358**	**85,937**	**4.0**
Depreciation and amortization	1,979	982	101.5
Valuation allowances, provisions and losses	4,069	5,475	–25.7
Divisional earnings before income tax	**83,310**	**79,480**	**4.8**
Additional information			
Operating expenses excl. depreciation & amortization/total operating income (in %)	45.0	38.4	
Operating expenses incl. depreciation & amortization/total operating income (in %)	46.2	39.2	
Client assets under management (in CHF billion)	15.4	13.8	
Change in assets under management compared to 31.12. prior year (in %)	11.6	12.6	
Inflow of new client assets (in CHF billion)	0.4	1.4	
Gross income/average client assets under management (bp)[1]	111.5	107.5	
Divisional result/average client assets under management (bp)[1]	57.2	61.2	
Cost/income ratio operating income (in %)[2]	45.8	39.7	15.2
Headcount (employees)	175	153	14.4
Headcount (expressed as full-time equivalents)	170.0	148.6	14.4

[1] Annualized, average values
[2] Operating expenses/gross income less other income

Structure

Consolidated within the Private Clients business unit are all activities of the VP Bank Group that focus on relationships with direct clients: Private Banking, Personal Banking and Commercial Banking, as well as the Group subsidiary companies VP Vermögensverwaltung GmbH, Munich, VP Wealth Management (Middle East) Ltd., Dubai, and VP Wealth Management (Hong Kong) Ltd., Hong Kong.
Each of the three organizational units – Private Banking, Personal Banking and Commercial Banking – addresses a distinct client segment: Private Banking offers financial services to wealthy individuals on a global basis; Personal Banking focuses on retail clients in Liechtenstein, Switzerland and Germany; and Commercial Banking attends to the needs of corporate clients, mainly small and medium-sized companies in Liechtenstein and Eastern Switzerland.
The income and expenses of the Group companies VP Bank (Switzerland) AG and VP Bank (Luxembourg) S.A. are apportioned to the Private Clients, Trust Banking and Banking Services business units. In this way, the revenues and expenses attributable to relationships with direct clients can be allocated directly to the Private Clients business unit.

Total operating income

The total operating income of the Private Clients business unit rose by 16 percent to CHF 162.4 million. This growth is primarily to be ascribed to the markedly higher income from the commission business and services (+25 percent), which stems primarily from revenues from the business with investment funds, brokerage fees and structured products). The result is also in part caused by an adjustment to the rates used for the internal recharging of services related to investment funds. Transaction-related revenues increased by 18 percent and asset-related revenues by 26 percent.
Also, interest income from the business with clients contributed to this good result with an increase of 8 percent; this primarily as a result of growth of on-balance sheet client deposits of the Private Clients business unit. The other income (non-operating revenues such as other income and the release of valuation allowances and provisions) declined over the comparative prior-year period by 37 percent to CHF 2.9 million. Gratifying is the marked increase of the operating gross margin from 107.5 to 111.5 basis points.

Operating expenses

In line with plan, operating expenses rose by 36 percent over the prior year to CHF 73.0 million. A marked increase of 34 percent was experienced in the caption personnel expenses. The reasons for this trend are to be found in the increase in personnel numbers of 21.4 employees, expressed in terms of full-time equivalents, as well as the delayed impact of costs resulting from the staff hiring program in the prior year (phase 1 of the expansion projects). The main portion of the expansion in 2006 (+12.1 employees, expressed in terms of full-time equivalents) occurred as at the end of the third quarter of 2006; thus the personnel costs of the hiring program of the prior year are reflected only to the extent of one quarter. General and administrative costs also rose strongly by 30 percent (increase in costs resulting from expansion projects). In 2007, personnel expenses and general and administrative expenses aggregated CHF 32.8 million and CHF 12.8 million, respectively. The increase in employee numbers in the Private Clients business unit during the reporting period occurred almost exclusively as a result of the expansion projects in Hong Kong, Dubai, Singapore and Switzerland.

Services from other segments

In comparison to the prior year, the operating expenses of the Private Clients business unit were charged with CHF 8.0 million more costs as a result of internal recharges between the segments and in 2007 aggregated CHF 27.4 million. These expenses increased as a result of business volumes (recharging of internal services for investment funds and securities lending but also caused by an adjustment to rates for the internal recharging of services related to investment funds) as well as IT services. The recharging of costs and revenues between the business units is made on the basis of agreements as would be the case between unrelated third parties ("at arm's length"). The transfer prices within the segments are reviewed annually and an adjustment to transfer prices is made on the basis of excessive or insufficient recharges of the service centers.
At the gross profit level, the internal recharges have a neutral effect insofar as this level is regarded as sufficiently meaningful for assessing the business segment in terms of its profit-earning capacity. The total operating income increased by 4 percent to CHF 89.4 million (prior year: CHF 85.9 million).

Earnings before income tax

The caption valuation allowances, provisions and losses aggregated CHF 4.1 million and thus declined by CHF 1.4 million or 25.7 percent less than in the prior. The Private Clients business unit grew its pre-tax segment income by 5 percent to CHF 83.3 million and contributed 48 percent of the Group results.

Client assets under management

Client assets under management in the Private Clients business unit rose in 2007 by some 12 percent to CHF 15.4 billion (prior year: CHF 13.8 billion), of which CHF 1.2 billion was the result of market changes and CHF 0.4 billion as a result of the net inflow of new clients assets under management.

Activity report

In 2007, the activities of Private Banking were shaped by the development of new markets in the Middle and Far East: on April 11, 2007, VP Bank's asset management company VP Wealth Management (Middle East) Ltd. commenced operations in the Dubai International Financial Centre (DIFC). Out of Dubai, VP Bank will acquire and cater to the needs of wealthy clients and family offices in the Arabian region.

In August, VP Bank opened the asset management company VP Wealth Management (Hong Kong) Ltd. as a supplement to the Bank's existing representative office in Hong Kong. This presence in Asia's most important investment fund center and the third-largest financial center in the world enables client acquisition efforts to focus increasingly on the Eastern Asia markets of China, Hong Kong, Taiwan, South Korea and the Philippines.

The market expansion in the Middle and Far East also involves the founding of a bank in Singapore. Accordingly, a licensing process was initiated in 2007 with the banking supervisory authority in Singapore, i.e. the Monetary Authority of Singapore (MAS). In this connection, VP Wealth Management (Singapore) Ltd. was founded in the second half of 2007. This company has the status of "license-exempt" and serves as a preparatory entity in anticipation of sought for banking license. Upon the grant of that expected license in the first half of 2008, VP Wealth Management (Singapore) Ltd. will mutate into VP Bank (Singapore) Ltd.

In the third quarter of 2007, Private Banking and the advisory team responsible for investment recommendations launched a "Maxi Down and In Reverse Convertible" in collaboration with a renowned investment bank. For the first time ever, Liechtenstein's Financial Market Authority (FMA) gave its approval for the public distribution of a structured product of this kind. Within the scope of the client relationship program Top for Clients, all competencies in the area of financial planning were consolidated in a newly formed organizational unit.

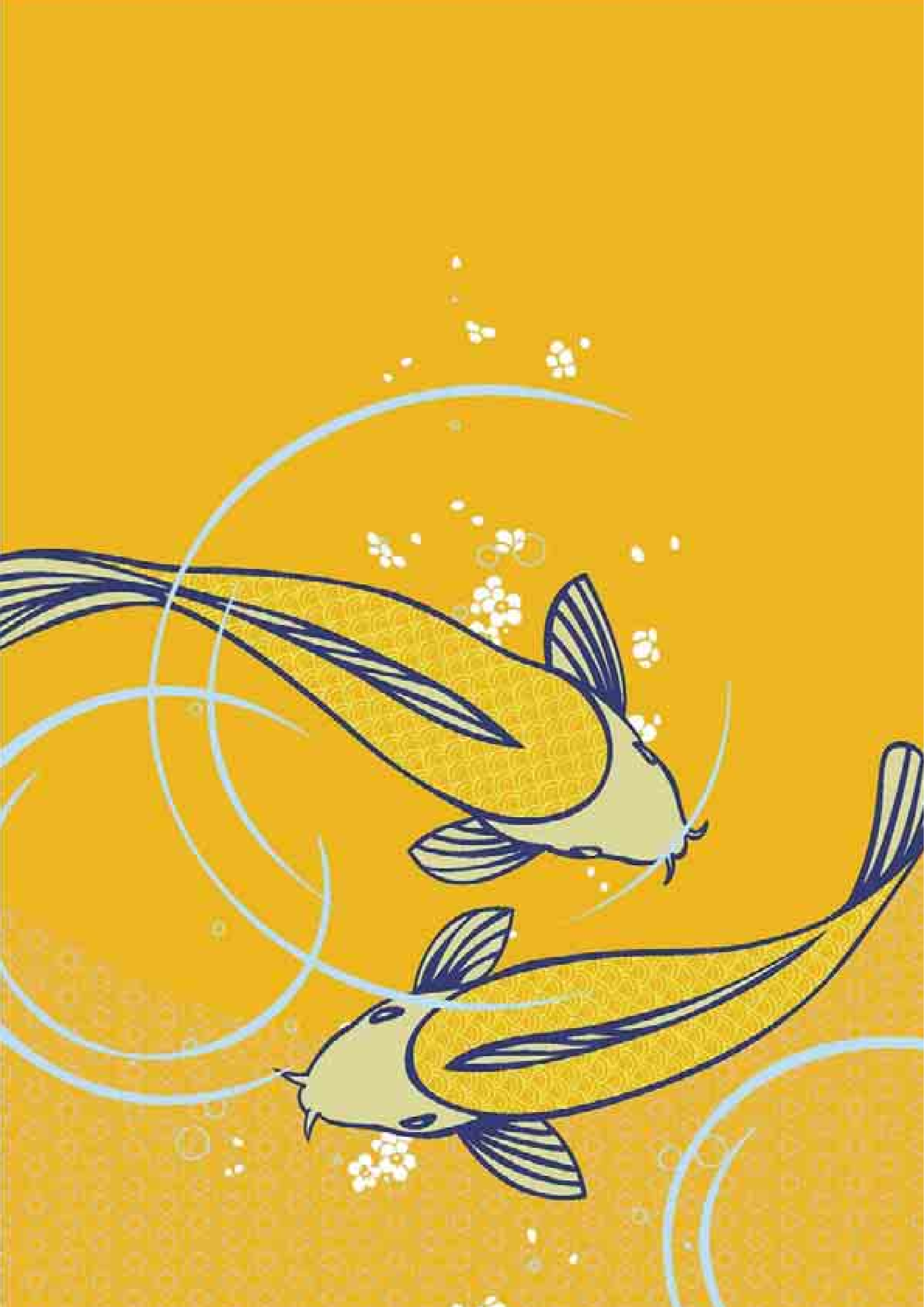
Personal Banking was able to expand its retail and affluent client business, thereby following through on its successful prior-year activities. Commercial Banking, which services corporate clients as well as small- and medium sized companies, perceives itself as a competence center for financings. In 2007, Commercial Banking introduced an automated mortgage-lending process for all real estate financings. As a result, client needs can be addressed even more effectively and efficiently.

Both the Personal Banking and Commercial Banking organizational units received ISO 9001 certification during 2007 within the framework of the Business Excellence program.

Outlook

Following the 2007 entry into new markets in the Middle and Far East, activities in 2008 will center on cultivating these markets. In addition, the Private Clients business unit will continue to press ahead with initiatives such as Top for Clients and an array of others.

In addition to those initiatives and the conduct of its day-to-day business activities, the introduction of the new Avaloq banking package represents the third key area for Private Clients in 2008.



Trust Banking

Results

in 1,000 CHF	2007	2006	Variance in %
Total income from interest-differential business	52,689	46,231	14.0
Total income from commission business and services	81,119	79,928	1.5
Income from trading activities	19,803	16,444	20.4
Other income	5,834	5,235	11.4
Total operating income	**159,445**	**147,838**	**7.9**
Personnel expenses	27,095	23,187	16.9
General and administrative expenses	9,579	10,505	–8.8
Services to/from other business units	8,906	10,104	–11.9
Operating expenses	**45,580**	**43,796**	**4.1**
Gross income	**113,865**	**104,042**	**9.4**
Depreciation and amortization	678	688	–1.5
Valuation allowances, provisions and losses	1,688	3,754	–55.0
Divisional earnings before income tax	**111,499**	**99,600**	**11.9**

Additional information			
Operating expenses excl. depreciation & amortization/total operating income (in %)	28.6	29.6	
Operating expenses incl. depreciation & amortization/total operating income (in %)	29.0	30.1	
Client assets under management (in CHF billion)	22.7	20.9	
Change in assets under management compared to 31.12. prior year (in %)	8.6	20.5	
Inflow of new client assets (in CHF billion)	2.3	1.5	
Gross income/average client assets under management (bp)[1]	73.1	77.2	
Divisional result/average client assets under management (bp)[1]	51.1	52.0	
Cost/income ratio operating income (in %)[2]	29.7	30.7	–3.4
Headcount (employees)	161	148	8.8
Headcount (expressed as full-time equivalents)	157.5	143.0	10.1

[1] Annualized, average values
[2] Operating expenses/gross income less other income

Structure

The Trust Banking business unit comprises the Intermediaries, Asset Management and Investment Strategy organizational units, as well as the Group subsidiary companies IFOS Internationale Fonds Service Aktiengesellschaft, Vaduz, and VP Bank and Trust Company (BVI) Ltd., British Virgin Islands. Trust Banking conducts all Group-wide activities that VP Bank renders on behalf of intermediary clients, who are mainly fiduciaries, attorneys and asset managers. The Investment Strategy business unit determines the strategic and tactical asset allocation, while the implementation of those strategies through use of specific investment products is the task of Asset Management. Trust Banking is responsible for all activities of the VP Bank Group that pertain to investment funds and fund structures. The income and expenses of the Group companies VP Bank (Switzerland) AG and VP Bank (Luxembourg) S.A. are apportioned to the Private Clients, Trust Banking and Banking Services business units. In this way, the revenues and expenses attributable to relationships with intermediaries or to the funds business can be allocated directly to the Trust Banking business unit.

Total operating income

The total operating income of the Trust Banking business unit grew by 8 percent to CHF 159.4 million. This growth is principally to be ascribed to markedly higher income from the interest-differential business (+14 percent). As a result of noticeably higher money- and capital-market interest rates, Asset Management was able to increase interest revenues from its business with banks. Also, the income from trading activities (foreign currencies) with an increase of 20% contributed positively to the total results of the business unit.
Income from the commission business and services, on the other hand, grew only to an insignificant degree by CHF 1.2 million or 1.5 percent because of a large rise in commission expense. The most important expense driver was an increase in market development measures in the businesses with intermediaries and investment funds. This led to extremely welcome increases in volumes, which at the same time also made the operating gross margin decline from 77.2 basis points in 2006 to 73.1 basis points. Income from the commission business and services was also effected by the adjustment to rates for the internal recharging of costs and revenues in the area of investment funds. Transaction-related revenues increased by 17 percent and asset-related revenues by 5 percent.
Other income (non-operating revenues such as the gains/losses from financial investments, other income and the release of valuation allowances and provisions) increased by 11 percent to CHF 5.8 million over the comparable prior-year period.

Operating expenses

Operating expenses rose by 4 percent to CHF 45.6 million. Personnel expenses grew by 17 percent to CHF 27.1 million (headcount 2007: +14.5 employees, expressed in terms of full-time equivalents); also this business unit experienced the delayed impact of costs from the staff hiring program of the prior year; the main bulk of the increase in 2006 (+16 employees, expressed in terms of full-time equivalents) occurred at the end of the third quarter, as a result of which the personnel costs relating to the staff hiring program of the prior year – partially in the then new organizational unit Investment Strategy, but also in Asset Management – are only reflected to the extent of one quarter’s charge. General and administrative expenses declined slightly by CHF 0.9 million to CHF 9.6 million.

Services from / to other business units

The recharging of costs and revenues between the business units is made on the basis of agreements as would be the case between unrelated third parties ("at arm's length"). The transfer prices within the business units are reviewed annually and an adjustment to transfer prices is made on the basis of excessive or insufficient recharges of the service centers. As a part of the service centers providing services to other segments is embedded within Trust Banking, operating expenses of the Trust Banking business unit were this year only charged with CHF 8.9 million as a result of adjustments to transfer prices. This corresponds to CHF 1.2 million less costs than in the prior year (recharging of internal services for investment funds and securities lending; the afore mentioned adjustment to rates used for recharging costs and revenues relating to investment funds also being reflected here).
At the gross profit level, the internal recharges have a neutral effect insofar as this level is regarded as sufficiently meaningful for assessing the business segment in terms of its profit-earning capacity.
The total operating income increased by 9 percent to CHF 113.9 million (prior year: CHF 104.0 million).

Earnings before income tax

In comparison to the prior year, the required level of valuation allowances, provisions and losses declined by CHF 2.1 million to CHF 1.7 million. There thus resulted for the Trust Banking business unit a 12 percent higher pre-tax segment income of CHF 111.5 million (prior year: CHF 99.6 million).

Client assets under management

Client assets under management rose 9 percent to CHF 22.7 billion (prior year: CHF 20.9 billion). Extremely welcome are the net inflows of new client assets under management in 2007 of CHF 2.3 billion.

Report on activities

Over the past year, the Trust Banking business unit has done its utmost to adapt its range of products, services and advisory activities to meet the demanding needs of its internal and external customers. In the process, particular emphasis was placed on the financial consulting competence of each individual in the VP Bank Group.

The reach of the Trust Banking business unit extends throughout all of its areas of focus: intermediaries, investment strategy, asset management and funds.

In the 2007 financial year, this business unit became the VP Bank Group's competence center for investment funds. As a result of this consolidation of the relevant competencies, a sizeable number of new investment funds were founded. In conceiving the structure of a fund, customers and their specific needs for individualized solutions, as well as the listing of the fund at the appropriate location within the VP Bank Group, are the center of focus. With subsidiaries in Liechtenstein, Luxembourg and the British Virgin Islands, the Group covers three key locations that come into question for the global investment fund solutions afforded by VP Bank.

The Investment Strategy unit professionalized its processes further, with the investment universe now comprising 14 asset classes. Investment management at VP Bank Group differs from the approach taken by other private banks in that the strategic asset allocation is broadly diversified and optimized annually based on a long-term assessment of the capital markets (holding-period principle). When implementing the investment strategy, the best products from the investment universe are selected in keeping with the open architecture philosophy.

In 2007, the sales volume of structured products increased yet again. The advisory team, which is responsible for creating investment solutions and recommendations, achieved successes with the structured products that offer a large risk buffer.

VP Bank has gained renowned competence in the area of publicly distributed structured products.

Last year, the fund management companies of VP Bank Group recorded another gratifying increase in the number of funds that were newly established, above all private label funds. A clear trend has evolved in the founding of new funds: apart from normal investment funds, funds with complex structures are progressively becoming a traditional instrument in asset management. In addition, more and more funds are being used as an instrument for securitizing just about any form of investment. The "Fund for qualified investors" (a Liechtenstein niche product) as well as the SIF funds (a special Luxembourg solution) and the funds with offshore structures (from the BVIs) are highly popular when it comes to the founding of new funds.

Outlook

The VP Bank Group's internationalization strategy opens a new circle of potential clients for the intermediaries business and fund management companies. The uniform public appearance of all fund management companies within the VP Bank Group is a step toward addressing this expanded base of clients. These opportunities are also opening up for the intermediaries business, which in 2008 will be taking an international approach as well. The Trust Banking business unit will be centering its activities increasingly on promising international markets, especially in the Far and Middle East as well as in Eastern Europe.

Asset Management is planning to improve the products and portfolios even more in 2008, in view of the Bank's internationalization. Moreover, its declared goal is to increase the total number of asset management mandates.

In order to continually broaden its high degree of investment competence, the business unit will again be conducting intensive in-house seminars on the investment process and various asset classes in 2008.

Banking Services

Results

in 1,000 CHF	2007	2006	Variance in %
Total income from interest-differential business	0	33	–100.0
Total income from commission business and services	–3,834	–2,998	–27.9
Income from trading activities	0	4	–100.0
Other income	674	318	111.9
Total operating income	**–3,160**	**–2,643**	**–19.6**
Personnel expenses	32,452	28,747	12.9
General and administrative expenses	9,446	7,209	31.0
Services to/from other business units	–24,938	–19,404	28.5
Operating expenses	**16,960**	**16,552**	**2.5**
Gross income	**–20,120**	**–19,195**	**–4.8**
Depreciation and amortization	11,079	7,697	43.9
Valuation allowances, provisions and losses	4	1,441	–99.7
Divisional earnings before income tax	**–31,203**	**–28,333**	**–10.1**

Additional information			
Headcount (employees)	262	248	5.6
Headcount (expressed as full-time equivalents)	239.5	228.9	4.6

Structure

The Banking Services business unit consists of the Business Excellence, Information Technology, Logistics & Security and Operations organizational units. It acts as an internal service center for the entire VP Bank Group. On one hand, it performs backoffice tasks and provides support for the Bank's technology and infrastructure and, on the other provides solutions that address the continual change underway at the VP Bank Group (this within the framework of the Business Excellence unit). It is also responsible for security at the Bank. The various organizational units of Banking Services resolutely orient their internal organization in a manner that supports the internationalization strategy of VP Bank.

Total operating income

The result from the commission business and services of Banking Services shows a reduction in income. This decline is attributable to third-party bank commissions which are reinvoiced to other segments by the Operations organizational unit through internal recharges.

Operating expenses

Personnel expenses increased by 13 percent (headcount 2007: +10.6 employees, expressed in terms of full-time equivalents, replacement of the banking application software) and general and administrative expenses by 31 percent (increase in central IT costs, thus not rechargeable to other business segments).

Services to other segments

As a result of the increased level of services provided by Banking Services (organizational unit Operations) recharged to other segments and of the related recharges, operating expenses of Banking Services were credited to a greater degree than in previous years (increase in credits of CHF 5.5 million). The settlement costs from the Operations organizational unit (processing of payments, securities' processing, master data maintenance and card services) and the IT costs of the organizational unit Information Technology capable of being allocated directly to other business units, are recharged to the Private Clients and Trust Banking business units as well as to the Corporate Center. These internal recharges are credited to the Banking Services business unit as a reduction of operating expenses.

Earnings before income tax

The increase in operating expenses is to be explained by the centralization of various banking services from the VP Bank Group within Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (parent company). The negative pre-tax contribution of Banking Services increased by 10 percent from CHF 28.3 million to CHF 31.2 million.

Activity report

Business Excellence

Business Excellence supports VP Bank in its efforts to align project, process and quality management with the requirements of the VP Bank Group as a whole. Serving as a point of reference is the European Foundation for Quality Management (EFQM) model. In December 2007 – a half-year earlier than originally planned – VP Bank reached, with four of the five possible points, the level of "Recognized for Excellence" (see Strategy Report on page 23). Numerous projects relating to process and quality management as well as the project environment contributed to the achievement of this partial goal on the "Roadmap 2010":

- At the end of 2007, 76 percent of VP Bank's operational areas in the parent company were certified under ISO 9001, two of which under the Swiss quality norm SQS 9004. The IT organizational unit received ISO 20000 certification. VP Bank is the first bank in Europe to have earned this certification.
- The "Project Excellence" methodology initiated in the 2006 financial year has been fully implemented. It ensures a structured and uniform approach to starting up and conducting projects.

Information Technology

In 2007, the Information Technology organizational unit completed all preparations for the replacement of VP Bank's current banking system. VP Bank has decided to introduce at all of its locations the uniform Avaloq banking software package. The related project has been put on track by 150 in-house and external coworkers. In the process, 183 systems were evaluated, 80 of which to be replaced due to the standardization afforded by Avaloq.

The new VP Bank locations place heavy demands on the information technology system. In Singapore, the core banking system has been established; the technological elements have also been put in place at the representative offices in Hong Kong and Dubai.

In addition, the organizational unit created the technological conditions necessary for the implementation of new regulatory requirements, especially in terms of the Markets in Financial Instruments Directive (MiFID) and the capital adequacy rules associated with Basel II.

Logistics & Security

The Logistics & Security organizational unit during the past year worked up security and access concepts for the new locations in Hong Kong, Singapore and Dubai, as well as clarified the insurance-related aspects of VP Bank's internationalization. It also supported VP Bank (Switzerland) Ltd. in the subsidiary's impending move to Zurich's Bahnhofstrasse.

Logistics & Security also bears responsibility for business continuity management at VP Bank, i.e. the unit must plan, test and monitor all necessary measures for ensuring the Bank's ability to continue its operating activities. In the 2007 financial year, devising a concept for response in the event of a pandemic took center stage. Based on a risk analysis, various scenarios were conceived; for each scenario, the concept indicates the measures that would have to be taken in order to safeguard the banking process even in critical situations.

As a part of the changeover to the Avaloq banking software system, Logistics & Security has adapted the infrastructure to accommodate the increased capacity requirements of the data processing center. In addition, the unit worked up a mobility concept for the Vaduz and Triesen locations in Liechtenstein that is aimed at encouraging employees' use of public transportation.

Operations

The Operations organizational unit was also heavily involved in the preparations for the replacement of VP Bank's overall banking software package. The implementation of regulatory requirements was also a high priority, given the November 1, 2007, entry into force of MiFID and the Single Euro Payments Area (SEPA), which was introduced in January of 2008.

The Operations unit managed to handle without problem what in certain instances were record trading volumes in 2007, while also winning once again the Euro STP Excellence Award of Deutsche Bank and, in USD clearing, the Elite Quality Recognition Award of JP Morgan Chase for payment transactions.

Outlook

During the course of the 2008 financial year, the IT architecture for the coming three years will be put in place and will be imbedded seamlessly in the overall strategy of VP Bank. The installation of a central IT system for processing all banking transactions has been accorded the highest priority. The operative introduction of the Avaloq system commenced at the outset of the new financial year. During the changeover phase, the old and the new banking system will run in parallel.

In terms of Business Excellence, VP Bank in 2008 will strive to have the entire Bank certified under ISO 9001. The goal is to be in a position to measure all business processes via the "Process Cockpit" as of midyear. As of 2008, all process measurements, steering and optimization are being verified by means of process audits.

Corporate Center

Results

in 1,000 CHF	2007	2006	Variance in %
Total income from interest-differential business	32,604	31,183	4.6
Total income from commission business and services	317	609	–47.9
Income from trading activities	–5	–7	28.6
Other income	29,026	9,685	199.7
Total operating income	**61,942**	**41,470**	**49.4**
Personnel expenses	30,584	25,186	21.4
General and administrative expenses	23,041	22,791	1.1
Services to/from other business units	–11,330	–9,988	–13.4
Operating expenses	**42,295**	**37,989**	**11.3**
Gross income	**19,647**	**3,481**	**n. a.**
Depreciation and amortization	7,798	7,330	6.4
Valuation allowances, provisions and losses	159	507	–68.6
Divisional earnings before income tax	**11,690**	**–4,356**	**n. a.**
Additional information			
Client assets under management (in CHF billion)	0.2	0	
Headcount (employees)	133	106	25.5
Headcount (expressed as full-time equivalents)	114.4	90.1	27.0

Structure

The central staff functions of the VP Bank Group are consolidated within the Corporate Center. Two of these units – Corporate Communications and Group Marketing – report directly to the CEO. The CFO is responsible for the other units: Group Finance, Risk Management, Legal & Compliance and Human Resources Management. On January 1, 2008, two other units were added: Corporate Development and Group Compliance. Corporate Development reports directly to the CEO and Group Compliance to the CFO.

In the Corporate Center business unit, all income and expenses are booked that have no direct connection with VP Bank's operating business units but instead are related to the activities of the Bank as a whole. For example, those activities involve the management of financial investments and funds that are available for bonus plans and employee stock ownership schemes. In addition, all consolidated items are allocated to the Corporate Center.

Earnings before income tax

The historically negative pre-tax contribution of the Corporate Centers changed to a positive contribution. It improved by CHF 16.0 million and in 2007 amounted to CHF 11.7 million. Personnel expenses in the Corporate Center also increased by substantial 21 percent, general and administrative expenses were stabilized (+1 percent). However, profits on sale of financial investments within the risk management as well as the lower recharges for services from other business segments impacted results favorably. This led to a positive pre-tax segment income.

Personnel expenses

Personnel expenses increased in part as a result of the increase of employee numbers by 24.3, expressed in terms of full-time equivalents (+27 percent). With the rapid Group expansion, the Corporate Center must focus on and adapt its services to the new and more international structures of the Group. This refocusing affects primarily the central service providers Human Resources Management, Compliance and Legal.

Furthermore, personnel expenses rose as a result of the change in the variable employee compensation model. Those revenues and expenses are recorded in the Corporate Center business unit which have no direct relationship to the operating business units but arise in connection with the activities of the Bank as a whole. Included therein are the funds which are available for all profit-sharing schemes of the Group.

Financial investments

The financial investments aggregating CHF 1.0 billion which are conservatively managed by the central staff function Risk Management (Corporate Center) as at the end of 2007 were invested, to the extent of 78 percent, in interest-bearing and structured investments (2006: 76 percent); the ratio of equities amongst the Group's own financial investments at the end of 2007 thus amounted to 22 percent (2006: 24 percent).

5 Corporate Governance

Corporate Governance 2007

Corporate governance is the manner in which an enterprise is managed and controlled. It defines the roles, competencies and areas of responsibility of the governing bodies. 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 general 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'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 the SWX Swiss Exchange (SWX) of 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. 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." Because these disclosure obligations are now couched in law (Art. 663b^{bis} CO), the Admission Board of SWX adapted 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 SWX provide that companies whose shares are listed on the SWX Swiss Exchange but not in their own home country must apply the provisions of Art. 663b^{bis} CO analogously. The corresponding details are shown in Section 5.2 as well as in the notes to the annual financial statements of the parent company (cf. page 184).
Unless otherwise indicated, the disclosures herein are valid as at December 31, 2007.

1. Group structure and shareholder base

1.1 Group structure

1.1.1 Description of the Group 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 the VP Bank Group.
The organization chart on pages 14 and 15 shows the Group operating structure and reflects the parent company organization of the VP Bank Group.
The subsidiary companies and material shareholdings included in the scope of consolidation are listed in the annual financial statements, together with their name, registered office, share capital and percentage of share capital held (cf. page 155). Members of the parent company's executive management, hereinafter referred to as "Group Executive Management" (GEM)[1], are represented on the boards of directors of the consolidated companies. As a general rule, either the CEO or a another member of the GEM acts as Board Chairman of the subsidiary company.

[1] Senior management of the parent company is now 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 the SWX Swiss Exchange; the registered shares of the company are not listed.

	Symbol	ISIN	Security-number	Year-end closing prize CHF	Market value CHF
Bearer shares (listet)	VPB	LI0010737216	1.073.721	280.25	1'489 million[1]
Registered shares (unlisted)	VPBN	LI0010737596	1.073.759	28.05	168 million
Total (market capitalization of the bearer shares plus market value of the registered shares)					**1'657 million**

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

1.2 Significant shareholders

As at December 31, 2007, the following shareholders declared that they own more than 10 percent of the share capital[2] of VP Bank or exercise more that 5 percent of the voting rights.[3]

Shareholders	Registered shares	Bearer shares	Voting rights as % of total	Voting rights as %	% ownership of total share capital
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	514,558	1,172,928	10.4	9.8

In the year under review, no disclosure reports within the context of Art. 20 SESTA and Art. 3a lit. h BankA were submitted. U.M.M. Hilti-Stiftung, Schaan, slight increased its percentage of voting rights (+0.3%) and percentage of share capital (+0.4%).
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. 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 (cf. annual financial statements page 146).

	Balance as at December 31, 2007 Number	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**

1 Market capitalization of the listed bearer shares as at 31.12.2007.
2 Liechtenstein Act Concerning Banks and Finance Companies (BankA) Art. 3a lit. h .
3 Swiss Federal Act on Stock Exchanges and Securities Trading (SESTA) Art. 20.

2.2 Authorized and conditional capital
VP Bank has neither authorized nor conditional capital.

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 years has developed as follows:

in 1,000 CHF	31.12.2005	31.12.2006	31.12.2007
Share capital	59,148	59,148	59,148
Legal reserves	239,800	239,800	239,800
Other reserves	151,189	201,189	256,189
Provisions for general banking risks	237,150	237,150	237,150
Retained earnings	109,155	119,223	125,625
Total	**796,442**	**856,510**	**917,912**

2.4 Shares and participation certificates
The bearer shares of VP Bank are freely tradable on the SWX Swiss Exchange. The registered shares are not listed, but are widely held among the regional populace. Both share categories carry the membership rights provided for in the Liechtenstein 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.

2.6 Limitations on transferability and nominee registrations
The recording and transfer of registered shares is regulated in detail in Art. 7 of the Articles of Incorporation [1]. The registered shares are entered into the share register with a precise description of the owner's name, citizenship and address. Only those registered shareholders are legitimized to exercise the membership rights of the company. The Board of Directors may refuse entry into the share register for important reasons.

2.7 Convertible bonds and warrants/options
VP Bank has issued neither convertible bonds nor warrants/options on its shares.

[1] The Articles of Incorporation can be accessed via the Internet at: www.vpbank.com/en/statuten_e.pdf (VP Bank homepage: VP Bank Group; Investor & Media Relations; Publications)

Chairman emeritus: Heinz Batliner
Board of directors (from the left): Walo Frischknecht, Markus T. Hilti, Beat Bernet, Hans Brunhart, Guido Meier, Roland Feger, Matthias Donhauser

3. Board of Directors

The Board of Directors (BoD) is responsible for the medium- to long-term strategic direction of the 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 operational management. Accordingly, the Board of Directors of VP Bank consists exclusively of non-executive members (i.e. members not actively involved in management).

3.1 Members of the Board of Directors

The Board of Directors of VP Bank consists of 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 bank, VP Bank maintains business relationships with numerous domestic and foreign companies. This applies also to the members of the Board of Directors as well as to individuals or legal entities that are closely related to the Board members.
The following table provides information as to the name, age, functions, entry date and remaining term of office of the Board members:

Name	Year of birth	Functions	Joined Board of Directors in	Elected until AGM in
Hans Brunhart	1945	Chairman[1, 4]	1994	2009
Dr. Guido Meier	1948	Vice Chairman[2]	1989	2010
lic.oec. Markus Thomas Hilti	1951	Board member[2]	1992	2010
Dr. Matthias Donhauser	1958	Board member	1996	2008
Roland Feger	1956	Board member[4]	2001	2010
Walo Frischknecht	1946	Board member[3]	2002	2008
Prof. Dr. Beat Bernet	1954	Board member	2002	2008

Hans Brunhart (born March 28, 1945, citizen of Liechtenstein) has been the Chairman of the Board of Directors since April 1996, as well as the 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.
Education: 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 Government Head 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.

[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

Dr. 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.
Education: Studied law at the University of Basel; graduated with a doctorate degree in 1977; bar examination in 1979.
Professional background: Allgemeines Treuunternehmen (ATU), Vaduz (Chairman of the Council of Trustees); law office of Meier Attorneys-at-Law, Vaduz (partner).
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; member of the Board of Trustees of the Stiftung Fürstlicher Kommerzienrat Guido Feger, Vaduz (cf. Point 1.2), as well as Chairman of the Council of Trustees of Allgemeines Treuunternehmen (ATU).

Markus Thomas Hilti (born January 3, 1951, citizen of Liechtenstein) is a member of the Committee of the Board of Directors of VP Bank.
Education: 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: Since 1990, Markus Thomas Hilti has been administrative fiduciary of the Martin Hilti Familientreuhänderschaft, Schaan (cf. Point 1.2)

Dr. Matthias Donhauser (born June 20, 1958, citizen of Liechtenstein)
Further (board) mandates: Ivoclar Vivadent AG, Schaan (Vice Chairman); Neutrik AG, Schaan.
Education: Studied at the legal faculty of Vienna University; graduated in 1983 with doctor iuris utruisque degree; studied at the London School of Economics and graduated with a Master of Laws degree in 1987.
Professional background: Legal experience gained at the Liechtenstein Court of Justice and through various internships; Ivoclar Vivadent AG, Schaan (legal counsel and Head of the Legal Department); since 1989 self-employed lawyer in Vaduz.
Other activities and vested interests: None.

Roland Feger (born December 26, 1956, citizen of Liechtenstein) is a member of the Audit & Risk Management Committee of VP Bank.
Education: Swiss Federal Examination in Accounting; diploma as Swiss federally certified fiduciary expert.
Professional background: Activity in the field of finance and accounting at various companies in Switzerland and Liechtenstein; management functions within Allgemeines Treuunternehmen (ATU), Vaduz, (accounting, administration and organization); 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 (cf. 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, 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.

Education: 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 Datensysteme AG, Schlieren (Chairman of the Board of Directors); Bernet & Partner AG, Zug (Chairman of the Board of Directors); Zuger Kantonalbank, Zug (Chairman of the Bank Council).
Education: Studied economics with a focus on 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 as full professor for business management with emphasis on banking at the University of St. Gallen (HSG); 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.

3.2 Other activities and vested interests
The other activities of the Board members and any relevant vested interests of Board members can be inferred from the biographies set out under 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 Elections and terms of office
Details concerning the election and terms of office of the current members of the Board of Directors are to be inferred from the analysis set out in Point 3.1. Pursuant to Art. 16 of the Articles of Incorporation, the Board of Directors shall comprise at least five members, who are elected for a term of three years. The members of the Board of Directors are elected individually (re-election is permitted). From among its members, the Board of Directors elects the Chairman and Vice Chairman for a term of three years (re-election is permitted).

3.5 Internal organizational structure

The internal organization and work procedures 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 Arts. 6 through 15)[1].
In collaboration with the GEM, the Board of Directors verifies annually the company's strategy for compliance with the Articles of Incorporation and OBR, and establishes the medium- and long-term objectives as well as the management guidelines of the VP Bank Group. At the proposal of the GEM, the Board of Directors decides on the annual budget (parent company 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, exercises on behalf of the Board of Directors 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 and the Audit & Risk Management Committee.

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

The tasks, responsibilities, rights and obligations of the Committee of the Board of Directors (Nomination & Compensation Committee) and the Audit & Risk Management Committee are laid down in Arts. 12–14 OBR[1].
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 meetings and are forwarded to the attention of the Board of Directors, GEM, the statutory auditors and the Internal Audit department.
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 as to all important matters.

[1] The Organization and Business Rules (OBR) can be accessed via the internet at: www.vpbank.com/en/organisations_geschaeftsreglement_e.pdf (VP Bank homepage: VP Bank Group; Investor & Media Relations; Publications)

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 Art. 13 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 matters of corporate governance, organization and the monitoring of business developments
- Preparation of key strategic issues 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 personnel policy (salary and bonus systems, management development, successor planning, personnel benefits, etc.) for the attention of the Board of Directors
- Submitting proposals concerning the compensation of the Chairman and members of the Board of Directors
- Conducting the annual target-setting and performance-achievement processes with members of the GEM, as well as determining their compensation on the basis of the compensation system adopted by the Board of Directors

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 parent company and of the VP Bank Group.
Pursuant to Art. 14 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 Internal Audit and a representative of the company's statutory audit
- 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 systems, including risk and cash management
- Assessing the measures taken to ensure compliance with legal and internal regulations
- Assessing the quality and effectiveness of the internal and external audits, as well as the collaboration between the two auditing bodies
- Dealing with reports from the Internal Audit department and statutory auditors
- Defining the audit plan of the Internal Audit department, as well as taking note of the audit planning of the statutory auditors (controlling with its own decision-making competence)
- Assessing the performance, compensation and independence of the external auditors (in particular 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 of Head of Internal Audit

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 half-day meetings as well as for one full-day executive retreat. Generally, the meetings consist of two parts: the first is devoted to advisory discussions for which members of the GEM are in attendance to present their proposals and exchange information; the Board of Directors arrives at its decisions during the second part, with the CEO also in attendance to provide any direct information necessary.
During the 2007 financial year, the Board of Directors held nine half-day meetings as well as one full-day strategy workshop together with the GEM. With the exception of one illness-related absence from the meeting on 24.05.2007, the Board meetings were held with a full complement of members. When the need arises, additional individuals are called upon to participate in discussions of specific topics at meetings of the Board of Directors and committees (senior management members of the VP Bank Group, members of the statutory auditors, as well as internal and external specialists and advisors).
As a general rule, the Committee of the Board of Directors (Nomination & Compensation Committee, NCC) holds six to ten half-day meetings per year. The CEO normally takes part in these NCC meetings in an advisory capacity. In 2007, the NCC held six half-day meetings, one of which devoted to an annual discussion with members of the GEM on agreements on individual goals, performance assessments and the determination of compensation.
The Audit & Risk Management Committee usually holds six to ten half-day 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 Internal Audit each take part in these meetings. For the purpose of addressing audit-specific topics, a representative of the external audit (as a general rule, the auditor in charge) are invited to attend. In 2007, the Audit & Risk Management Committee met for six half-day sessions.

Chairman Emeritus

Fürstlicher Kommerzienrat Dr. Heinz Batliner, Vaduz, has been Chairman Emeritus of VP Bank since 1996. The Board of Directors honored him for his outstanding achievements in the development 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.

International Advisory Board

The International Advisory Board of VP Bank is a body that performs a consulting and representational function. Once a year, the International Advisory Board gathers at a meeting that centers on a future-oriented topic of relevance to the Bank.

Members of the International Advisory Board
Hans Brunhart, Chairman, Princely Counsel, Chairman of the Board of Directors of VP Bank, Balzers (LI)
David Beattie, Former Ambassador of the United Kingdom to Switzerland and Liechtenstein, London (GB)
Franz A. Blankart, Prof. Dr., State Secretary (rtd), Pampigny (CH)
Alain Hirsch, Prof., Honorary Professor of Law at the University of Geneva; Schellenberg Wittmer, Attorneys-at-Law, Geneva (CH)
Max E. Katz, Chief Financial Officer and member of the Executive Board of Kuoni Reisen Holding AG, Rüschlikon (CH)
Matthias Kleinert, Southern Africa Initiative of German Business – SAFRI Head of Chairman's Office, Besigheim (D)
Michael Kohn, Dr.h.c.sc.techn., Chairman Emeritus of the Arbeitskreis Kapital und Wirtschaft (akw), Zurich (CH)
Daniel Cardon de Lichtbuer, Chairman Emeritus of Banque Bruxelles Lambert (BBL), Overijse (B)
H.S.H. Prinz Nikolaus von und zu Liechtenstein, Ambassador of the Principality of Liechtenstein, Kraainem (B)
Hubert A. Pandza, Financial and management consultant; former Business Group Director for Russia and Central Asia, European Bank for Reconstruction and Development, London, and CEO of Deutsche Bank Moscow, Frankfurt (D)
Adolf E. Real, Chief Executive Officer of the VP Bank Group, Vaduz (LI)
Daniel N. Regolatti, Former CFO of the Nestlé Group, Bottmingen (CH)
Heinrich Treichl, Dr., Former General Director and Chairman of the Board of Management Creditanstalt-Bankverein, Vienna (A)
Tjerk E. Westerterp, Drs., Former President of the European Options Exchange, Ulvenhout (NL)

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 the VP Bank Group. The authorities and obligations of the Board of Directors are laid down in detail in Art. 17 of the Articles of Incorporation as well as in Art. 6 et seq. OBR. The tasks and authorities of both Board committees are described in Point 3.5.2 herein.

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[1] of the VP Bank Group to the GEM of the parent company. The tasks and competencies of the GEM are described in the Articles of Incorporation (Art. 21) and the OBR. The function of senior management of the parent bank is regulated in detail in Art. 17 OBR, and that of Group-level management in Art. 27 et seq. OBR.

The separation of functions between the Board of Directors and the GEM can also be seen in the graphic presentation of the internal organization (cf. Annual Report page 14 f).

3.7 Information and control instruments vis-à-vis senior management

The Board of Directors and its committees have at their disposal various information and control instruments for supervising the activities of the GEM. Among those instruments are the strategy process, medium-term planning, the budgeting process and internal reporting, in particular that 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 multi-year comparisons, key figures for management, and risk analyses, all of which cover the parent company, 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.

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 of Internal Auditing (SSIA) 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 system, 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 regular basis (weekly) as well as with the other GEM members.

4. Senior management

Senior management is responsible for the operational management of the parent bank as well as the VP Bank Group as a whole and is therefore referred to as the Group Executive Management (GEM). Its authorities and tasks are set out in the 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 meet once a week in half-day sessions. In addition, further meetings and seminars are held to address strategy and company-internal development as well as annual planning, budgeting, etc.

[1] Exception: IGT Intergestions Trust reg., Vaduz, which reports to the Board of Directors.

4.1 Members of senior management

As at December 31, 2007, the Group Executive Management (GEM) comprised the following individuals:

Name	Year of birth	Functions	Joined Board of Directors in	GEM member since
Adolf E. Real	1954	Chief Executive Officer (CEO)	1983	1989
Fredy Vogt	1958	Head of Corporate Center and Chief Financial Officer (CFO)	1987	1996
Georg Wohlwend	1963	Head of Trust Banking business unit	1994	1998
Ernst Näf	1958	Head of Private Clients business unit	2003	2003
Gerhard Häring	1962	Head of Banking Services business unit	2000	2005

Adolf E. Real (born July 31, 1954, citizen of Liechtenstein) has been a member of the GEM since January 1, 1989 and Head of the Group Executive Committee of the VP Bank Group as CEO since May 1, 1998. He is Chairman of the Board of the subsidiary companies and bears responsibility for the Corporate Communications and Group Marketing central staff functions (cf. Segment Reporting on page 66).
Education: Studied agronomy at the Swiss Federal Institute of Technology, Zurich (Dipl. Ing. ETH); business management studies (banking) at the University of St. Gallen; Master of Business Administration (MBA) from the University of San Diego/USA; graduate of the Advanced Management Program at Harvard Business School, Boston/USA.
Professional background: Joined VP Bank in 1983; developed the Marketing and Organization departments; assistant to the General Manager; as of 1989, member of the GEM (responsible for the Production and IT as well as Internal Organization departments); CEO since 1998.
Other activities and vested interests: Adolf E. Real is Vice President of the Liechtenstein Bankers' Association.

Fredy Vogt (born September 11, 1958, citizen of Liechtenstein) has been a member of the GEM of VP Bank since 1996. He is the Chief Financial Officer (CFO) of VP Bank and of the Group (VP Bank Group), as well as Deputy CEO and Head of the Corporate Center. He is also responsible for the Group Finance, Risk Management, Human Resources Management and Law and Compliance central staff offices (cf. Segment Reporting on page 66).
Education: Fredy Vogt is a Swiss Federally 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 (responsible for finance, corporate clients and intermediaries, trading, real estate and security); CFO since 2003.
Other activities and vested interests: Fredy Vogt acts as Chairman of the Supervisory Board of the Liechtenstein AHV-IV-FAK foundations. In addition, he is Chairman of the Board of Trustees of the Treuhand-Personalstiftung, Vaduz (pension fund).

Group Executive Management (from the left):
Fredy Vogt, Gerhard Häring, Adolf E. Real,
Ernst Näf, Georg Wohlwend

Georg Wohlwend (born May 26, 1963, citizen of Liechtenstein) has been a member of the GEM of VP Bank, Vaduz, since 1998. He is the Head of the Trust Banking business unit of VP Bank (cf. Segment Reporting page 60) and is Chairman of the Board of IFOS Internationale Fonds Service Aktiengesellschaft, Vaduz.
Education: Studied information management (lic. oec.) at the University of Zurich; post-graduate studies at the Swiss Banking School; continuing education program of the Martin Hilti Foundation in Tulsa/USA.
Professional background: Department of Informatics at the University of Zurich (collaboration in the implementation of a prototyping tool); joined VP Bank in 1994 (Internal Organization department); 1996, Head of Internal Organization; as of 1998, GEM member (Production and Information Technology units); since 2003 Head of the Trust Banking business unit.
Other activities and vested interests: Georg Wohlwend is a member of the Council of the Liechtenstein University of Applied Sciences.

Ernst Näf (born August 3, 1958, Swiss citizen) has been a member of the GEM of VP Bank since 2003 as well as Head of the Private Clients business unit (cf. Segment Reporting page on page 55).
Education: Swiss Certified Banking Specialist; graduate of the Swiss Banking School; graduate of the Senior Executive Development Program of Columbia University, New York City/USA.
Professional background: Various positions and management functions at Swiss Bank Corporation (in Switzerland and abroad) and (after the merger of UBS/SBC) at UBS AG, Zurich; as of 1998 at UBS AG, Zurich, as Managing Director of the Private Banking Germany business unit; joined VP Bank in 2003 as Head of the Private Clients business unit.

Gerhard Häring (born November 9, 1962, Swiss citizen) has been a member of the GEM of VP Bank, Vaduz, since July 1, 2005. He is Head of the Banking Services business unit (cf. Segment Reporting on page 63).
Education: Information management specialist (KV Basel and SBC Basel); Advanced Executive Program of the Swiss Banking School.
Professional background: Swiss Bank Corporation, Basel (development of options, foreign exchange and liquidity projects); Swiss Volksbank, Bern (mandate to develop database and analysis concepts); Swiss Volksbank, Zurich (consulting mandate); BNP, Basel (Head of IT development); UBS, Luxembourg (consulting mandate); Bank für Handel und Effekten, Zurich (Head of IT and organization units); MMI Unternehmensberatungs AG, Zurich (member of senior management); Syseca (Switzerland) AG, Zurich (general manager); joined VP Bank in 2000 as Head of the Information Technology department; since July 1, 2005, Head of the Banking Services business unit.

4.2 Other activities and vested interests
The other activities of the GEM members and any relevant vested interests can be inferred from the biographies set out under Point 4.1.

4.3 Management contracts
VP Bank has no management contracts with third parties that involve the transfer of management functions.

5. Compensation, shareholdings and loans
5.1 Content and method of determining the compensation and the share-ownership programs
Members of the Board of Directors receive compensation for the duties and responsibilities conferred on them by virtue of law and 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 Commit-

tee. 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 their function in its committees (Nomination & Compensation Committee or Audit & Risk Management Committee) or in other corporate bodies (e.g. the pension fund, etc.). Three-quarters of this compensation is made 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.

Members of the GEM of VP Bank are compensated on the basis of a multi-level remuneration system: a base salary that, depending on the function and job requirements, represents 65 to 75 percent of total compensation; and a variable bonus portion that, depending on the annual financial results of the VP Bank Group as well as personal achievements, can represent a further 25 to 35 percent of the total.

The base salary is determined annually by the Nomination & Compensation Committee. It is based on the requirements and responsibilities of the given function and takes into account conditions in the general labor market.

The variable bonus portion is based partly on the actual Group financial results for the year and partly on the individual's performance, which is measured on the basis of the targets established in the previous year and the level of achievement of those targets at year's end. The targets are differently weighted depending on the given business segment, i.e. profit and growth goals, successful project realization, efficiency enhancement, implementation of reorganization measures, etc.

The Nomination & Compensation Committee conducts the performance assessment. The targeted performance is discussed and ultimately determined in negotiations between the Nomination & Compensation Committee and the GEM or the given GEM member.

The bonus is paid half in freely disposable VP Bank bearer shares and half in cash.

In addition to the base salary are contributions to cadre member insurance policies and the pension fund, which are paid by VP Bank.

At VP Bank, there are no stock ownership or options programs or any agreements on severance compensation for members of the Board of Directors and GEM.

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

As an SWX-listed issuer domiciled abroad, VP Bank discloses information on compensations, shareholdings and loans within the context of Section 5.2 of the Commentary on the Corporate Governance Directive dated September 20, 2007, i.e. analogously to Art. 663b^{bis} of the Swiss Code of Obligations. The details in this regard can be found in the Financial Report, individual company accounts of VP Bank in the table Remuneration paid to members of governing bodies (cf. page 184).

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 share. Each shareholder can either be present 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 para. 2) as well as to the provisions concerning the restriction on the registration of registered shares (Articles of Incorporation, Art. 7 par. 2) require the consent of at least two-thirds of all shares issued by VP Bank.

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). The Articles of Incorporation can be accessed at the website www.vpbank.com > VP Bank Group > Investor & Media Relations > Publications, or downloaded in a printable version via www.vpbank.com/en/statuten_e.pdf.

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 Inscriptions into the share register / invitation to Annual General Meeting
Registered shares are entered into the share register with the name, citizenship and address of the owner. Only registered shareholders are legitimized for the exercise of membership rights of 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 response 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, the Swiss financial press and on the website www.vpbank.com.

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 regarding the duty to make an offer nor 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 PGR [1]) and since 1994 as Group auditors of the VP Bank Group. In addition, Ernst & Young AG executes the mandate as statutory auditors within the context of the Liechtenstein Banking Act (BankL Art. 37 et seq.).
The auditor in charge has been responsible for the VP Bank mandate since 2007 (Annual General Meeting of April 27, 2007) and the lead auditor has been involved in this mandate since 2002.

8.2 Auditing fees

During the 2007 financial year, Ernst & Young AG charged the VP Bank Group fees in the amount of CHF 1,675,000 (prior year: CHF 1,622,000) for services rendered in connection with the audits of the annual financial statements of VP Bank and the Group subsidiaries (with the execption of Proventus Trust AG), as well as the audit of the consolidated financial statements of the VP Bank Group.

8.3 Additional fees

Ernst & Young AG also rendered further auditing-related services to VP Bank in the amount of TCHF 574 (previous year: TCHF 475). The services invoiced include support and audits relating:

- Regulatory clarifications in connection with the establishment of the Asian companies
- Clarifications in connection with the implementation of MiFID
- Comfort letter for the placement of a bond issue
- Conduct of training seminars: IFRS and QI
- Tax-related clarifications in Luxembourg

Checks were also carried out to ensure compliance with Liechtenstein law on due diligence and the Swiss Anti-Money Laundering Ordinance.

8.4 Informational instruments pertaining to the external audit

The Audit & Risk Management Committee reviews the multi-year audit planning as well as the planned

[1] Persons and Companies Act of the Principality of Liechtenstein.

annual auditing activities and discusses these with the lead auditor of the external auditing firm and the Head of Internal Audit. The Audit & Risk Management Committee places particular emphasis on a risk-oriented approach in the planning and conduct of the audit, as well as on a reasonable degree of coordination between the external auditors and the Internal Audit unit.

All reports by the auditors are promptly reviewed at meetings of the Audit & Risk Management Committee, with the account manager or lead auditor of the external auditors in attendance. In 2007, the external auditors (account manager or lead auditor) were present at all meetings of the Audit & Risk Management Committee to address the audit-related items on the agenda. In addition, the account manager was in attendance at a Board of Directors meeting to present and discuss the audit report prescribed under the Banking Act.

The Audit & Risk Management Committee examines annually the services and costs, as well as the independence, of the external auditors and Group auditors. It generates annual industry comparisons on the basis of published information, evaluates alternatives, and then submits a proposal to the Board of Directors regarding which external auditors and Group auditors should be proposed to the Annual General Meeting for election.

9. Information policy

All publications of VP Bank required by the 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 the 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 the SWX Swiss Exchange, VP Bank is also subject in particular to the obligation to publicize immediately any price-sensitive events or occurrences (ad-hoc publicity obligation).

Agenda

Annual General Meeting: April 25, 2008
Semiannual report 2007: August 28, 2008
Investors and other interested parties can find additional information on the Bank, as well as the Articles of Incorporation, OBR, Code of Conduct, etc. on the website www.vpbank.com > VP Bank Goup > Investor & Media Relations > Publications.

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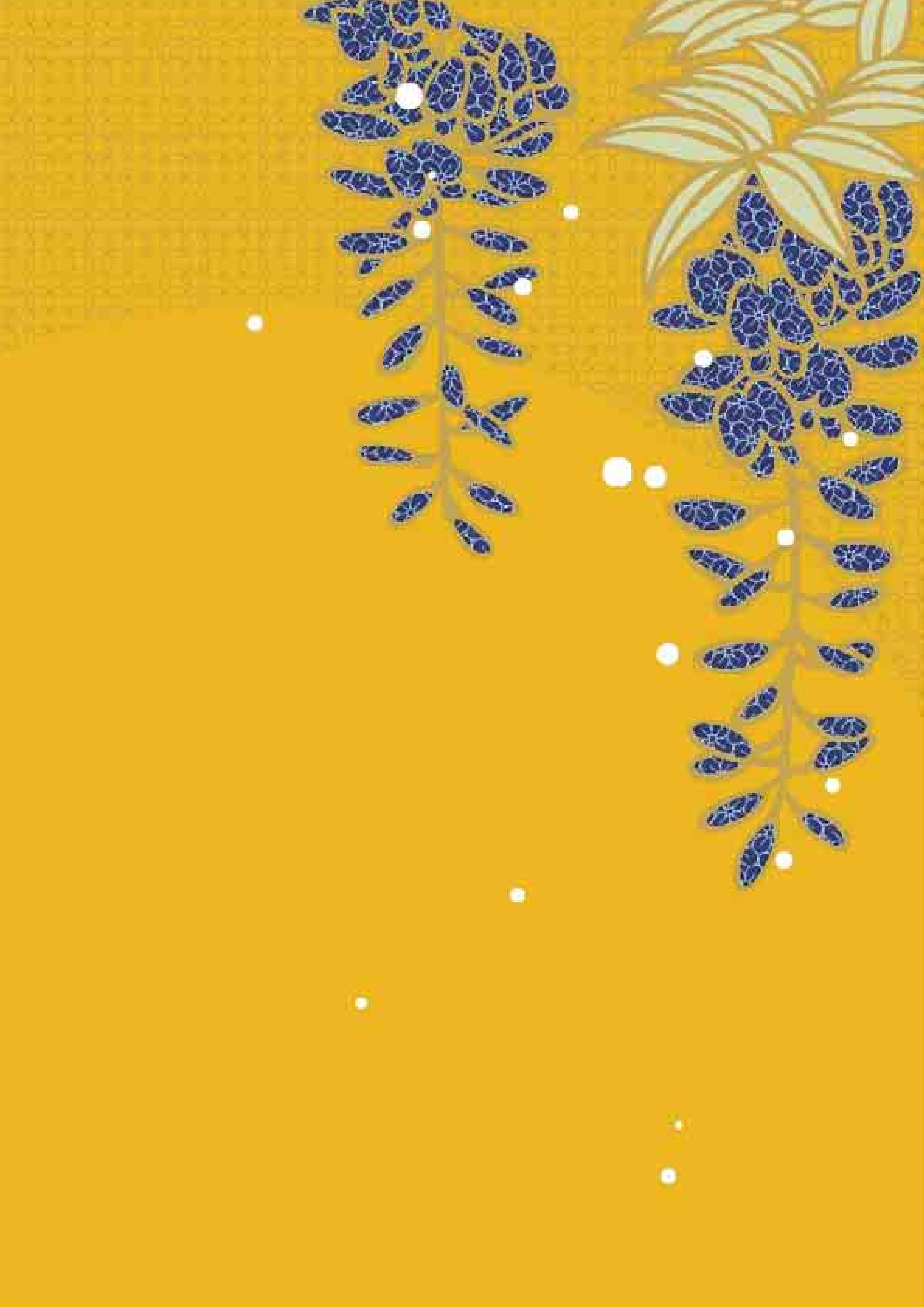
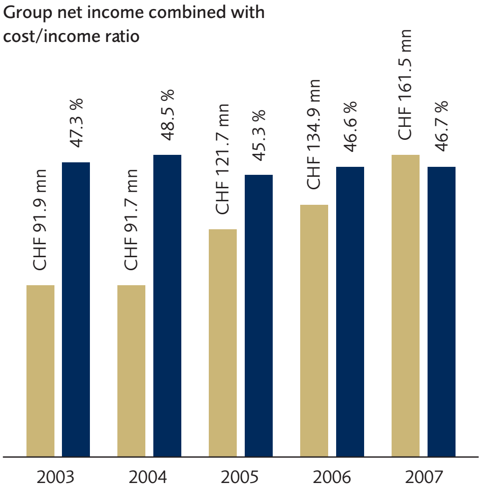


Contents

Annual Report of VP Bank Group

Group net income of over CHF 160 million, net new client assets under management of CHF 3 billion, again an increase in dividend, pay-out-ratio at 41.2 percent, increase in operating earnings of over 10 percent, cost/income ratio stably at 46.7 percent in spite of expansion program.
The consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) of VP Bank Group for 2007 disclose Group net income, including the share attributable to minority interests, of CHF 161.5 million.
In comparison with the results of the prior year 2006 of CHF 134.9 million, this equates to an increase of 20 percent.
This jump in earnings is based on marked growth in the business with clients, on the one hand, and on very volatile financial markets on the other, which positively impacted transaction-related as well as asset-related revenues in conjunction with a higher level of client assets under management. Thus, operating earnings improved by more than 10 percent (income from interest-differential business by 9 percent, income from commission business and services by 13 percent, trading income by 17 percent). In addition, strongly advancing financial markets in the first six months of 2007 enabled the Group to take profits amongst its own financial investments.
Net new money in client assets under management in VP Bank Group in 2007 aggregated CHF 3.0 billion. Operating expenses grew in accordance to plan by 17 percent over the prior year to reach CHF 177.8 million, primarily in personnel expenses. Despite this, the cost/income ratio was maintained at a stable level compared to the prior year (46.6 percent) and as at the end of 2007 amounted to 46.7 percent.

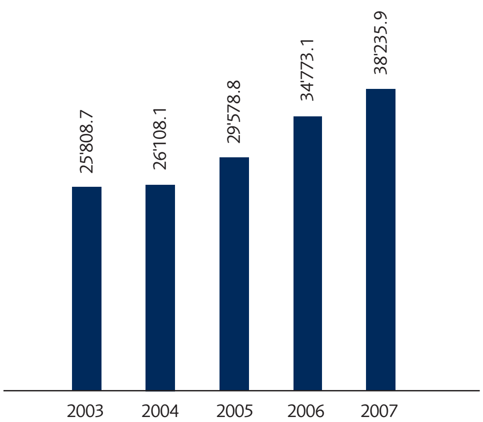
Group net income combined with cost/income ratio



Within the framework of a long-term dividend policy, the Board of Directors will propose to the Annual General Meeting of Shareholders to be held on April 25, 2008 an increase in dividend to CHF 11.00 per bearer share and CHF 1.10 per registered share (prior year: CHF 10.00 per bearer share and CHF 1.00 per registered share).

VP Bank Group clearly on target course for 2010
In spite of the more difficult conditions of an expansion program covering several years, VP Bank Group continues to view, as target figures, a cost/income ratio at 50 percent, a return on equity of 12 to 15 percent and a tier 1 ratio, defined as core capital stated as a percentage of risk-weighted assets, of over 16 percent as well as an increase of client assets under management to CHF 44 billion by the end of 2009 (excluding acquisitions) with an operating gross margin of 100 basis points (bp).
The VP Bank Group ended the 2007 financial year with a cost/income ratio of 46.7 percent (December 31, 2006: 46.6 percent) and a tier 1 ratio (after appropriation of earnings) of 16.0 percent (December 31, 2006: 15.5 percent); at the end of 2007, client assets under management aggregated CHF 38.2 billion (December 31, 2006: CHF 34.8 billion) with an operating gross margin of 93.8 bp (2006: 95.3 bp).

Client assets under management (in CHF million)



Business developments
The expansion of markets in the Middle and Far East has meanwhile been launched. A part of this expansion, and thus reflected for the first time in the consolidation, is the asset-management company VP Wealth Management (Middle East) Ltd., which opened for business at the beginning of April 2007. At this location, VP Bank provides services to high-net-worth private individuals primarily from the Ara-

bic world; the official opening celebrations in Dubai took place on February 7, 2008. In the second half of 2007, VP Wealth Management (Singapore) Ltd. was added to the ranks. This company has a "license-exempt" status and serves as the vessel for preparing the ground for obtaining a banking license in Singapore (first half of 2008). At year end and in line with plan, VP Wealth Management (Hong Kong) Ltd. was established as a further extension of the Hong Kong representative office of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz and this year was included in the consolidation for the first time.
As a result of the increase in prime lending rates by the Swiss National Bank and the situation on money and capital markets, VP Bank adjusted interest rates charged on accounts and savings accounts (+1/8 to 1/4 percent) as well as for variable mortgages (+1/4 percent).
On June 4, 2007, Verwaltungs- und Privat-Bank Aktiengesellschaft placed a debenture issue through UBS in an amount of CHF 250 million with a coupon rate of 2.875 percent and maturing in 2012. This issue was given an A rating by Standard & Poor's.

Business segments – in course of establishment and expansion

The Private Clients and Trust Banking business units generated a pre-tax income of CHF 194.8 million (2006: CHF 179.1 million); Banking Services and the staff functions integrated in the Corporate Center are service or cost centers, with the exception of the staff function Risk Management which is embedded within the Corporate Center and responsible for the active management of risks.

Private Clients

The Private Clients business unit, with the organizational units Private Banking, Personal Banking and Commercial Banking, was able to grow its pre-tax segment income by 5 percent to CHF 83.3 million and contributed 48 percent to the Group results. In comparison to the prior year, total operating income of the Private Clients business unit increased by 16 percent to CHF 162.4 million and operating expenses grew by 36 percent to CHF 73.0 million in line with plan.
Personnel expense experienced a marked increase of 34 percent (headcount 2007: +22 employees as well as the delayed impact of costs resulting from the hiring of personnel in the prior year (phase I of the expansion projects); the major portion of the 2006 hiring program took place at the end of the third quarter, and the personnel costs resulting from the increase in headcount of the prior period are only considered to the extent of one quarter) and general and administrative expenses of 30 percent (cost increases resulting from expansion projects) and aggregate CHF 32.8 million and CHF 12.8 million, respectively.
As a result of recharges within the business units, operating expenses of the Private Clients business unit suffered increased costs of CHF 8.0 million over those of the prior year, and now stand at CHF 27.4 million (increase in transaction volumes and IT services). The recharging of costs and revenues between the business units is made on the basis of agreements as would be the case between unrelated third parties ("at arm's length"). The transfer prices within the segments are reviewed annually and renegotiated to reflect current economic conditions. In comparison to the prior year, the level of required valuation adjustments, provisions and losses declined by CHF 1.4 million to CHF 4.1 million, thus relieving the results of the Private Clients business unit accordingly.

Trust Banking

Trust Banking, with its organizational units Intermediaries, Asset Management and Investment Fund Administration, also improved its 2006 results by 12 percent; the pre-tax segment income amounts to CHF 111.5 million. Total net operating income of the Trust Banking business unit grew by 8 percent to CHF 159.4 million, operating expenses growing by 4 percent to CHF 45.6 million. Personnel expenses increased by 17 percent to CHF 27.1 million (headcount 2007: +13 employees; this segment also experienced a delayed impact of costs arising from the increase in the employee hiring program in the prior year, establishment of the Investment Strategy unit and development of Investment Management), whereas general and administrative expenses declined marginally by CHF 0.9 million to CHF 9.6 million; through inter-divisional recharges, the operating expenses of the Trust Banking business unit were charged for services from other business units aggregating CHF 8.9 million, representing a charge of CHF 1.2 million less than that of the prior year. In addition, the level of required valuation adjustments, provisions and losses declined by CHF 2.1 million over the prior year to CHF 1.7 million.

Banking Services

The negative pre-tax contribution of Banking Services increased by CHF 28.3 million to CHF 31.2 million. Personnel and general and administrative expenses increased by 13 percent (headcount in 2007: +14 employees, replacement of the banking software application), and 31 percent (central IT costs), respectively but also the operating expenses of Banking Services were credited by a greater amount compared to prior years (CHF 5.5 million) as a result of the increase in services by Banking Services recharged to other segments. As a result, the negative contribution at the level of gross income of Banking Services increased only by 5 percent.

Corporate Center

The negative pre-tax contribution of the previous year of the Corporate Center changed in 2007 to a positive contribution: it improved by CHF 16.0 million and now amounts to CHF 11.7 million. Although personnel expenses increased in the Corporate Center by 21 percent, general and administrative expenses were stabilized (+1 percent), but the sale of financial investments as part of active risk management and the lower level of recharges for services from other business units led to a positive pre-tax segment income.

Personnel expenses grew as a result of the increased numbers of employees up 24.3, expressed in terms of full-time equivalents (+27 percent). With the rapid Group expansion, the Corporate Center must adjust accordingly and adapt its services to the new and more international Group. This affects primarily central service providers such as Human Resources Management, Group Compliance and Legal Services. Furthermore, personnel expenses increased also as a result of the change in the variable compensation model for employees. Those items of income and expense for which there exists no direct connection to the operating business units or which stand in direct relationship to overall banking activities are recorded in the Corporate Center. The same applies to the resources which are available for all bonus plans and employee profit-participation schemes of the Group.

The financial investments aggregating CHF 1.0 billion which are managed conservatively by the central staff function Risk Management as of the end of 2007 were invested, to the extent of 78 percent, in interest-bearing and structured instruments (2006: 77 percent); the ratio of equity investments amongst the Group's own financial investments at the end of 2007 thus amounted to 22 percent (2006: 23 percent).

The Group's subsidiaries, excluding the parent company in Vaduz, contributed CHF 21.4 million to the Group's pre-tax net income, (2006: CHF 20.8 million). This low share of the Group's pre-tax income (12 percent) reflects the start-up phases of the new subsidiaries. Based on the break-even scenarios of the respective business cases, this income share of the subsidiaries will increase noticeably in the coming five years.

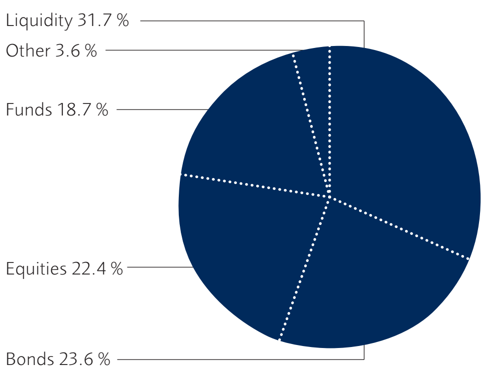
Client assets under management – fine achievements in gaining new client assets

In 2007, client assets under management rose by 10 percent from CHF 34.8 billion to CHF 38.2 billion. As regards to net new money in client assets under management, both parts of the year were distinguished by the achievements of Trust Banking in gaining new clients. In aggregate, the VP Bank Group succeeded in attracting new assets under management on a net basis of CHF 3.0 billion. There was an inflow of assets aggregating CHF 0.5 billion from market value-related activities, though the second half of 2007 negatively impacted the client assets under management; the net inflow of new client assets in the second half of 2007 was not able to completely offset this negative effect resulting from market value-related changes (second half of 2007: SPI –8.5 percent, S&P500 –2.4 percent, STOXX –5.0 percent).

The increase of 10 percent over the end of 2006 is thus divided into market-related increases of 1 percent and net inflows of new client assets of 9 percent. Custody assets increased by CHF 0.7 billion to CHF 3.7 billion as a result of the improved range of services offered.

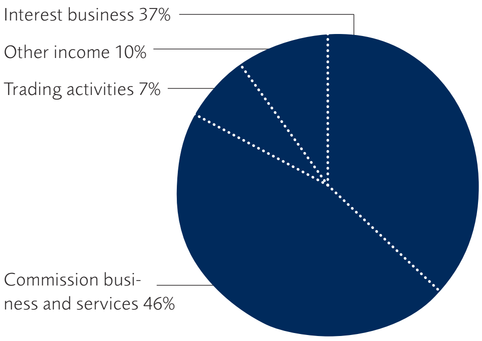
In comparison to the end of 2006, the asset classes in client portfolios experienced insignificant changes.

Asset classes



As of December 31, 2007, the currency mix also remained stable (CHF 27 percent, EUR 40 percent, USD 25 percent, Others 8 percent).

Composition of income



Income statement

Total operating income increased over the comparable period of 2006 by 17 percent to CHF 380.6 million. With a share of 46 percent, income from commission business and services again constituted the most significant component of total operating income (2006: 48 percent), followed by income from the interest-differential business with 37 percent (2006: 40 percent). Income from trading activities was unchanged at 7 percent and other ordinary income at 10 percent (2006: 6 percent). These increases show also that VP Bank remained largely unaffected by the subprime crisis.

Money market

Interest – 3 months	Dec. 07	Δ Prior year
Swiss-franc LIBOR	2.76%	+65 bp.
Euribor	4.68%	+96 bp.
Dollar LIBOR	4.70%	–66 bp.
Yen LIBOR	0.90%	+33 bp.

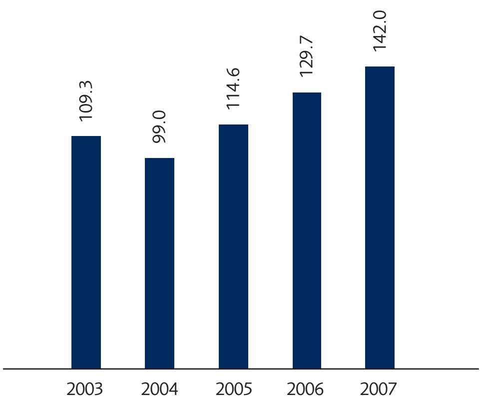
Capital market

Benchmark bonds – 10 years	Dec. 07	Δ Prior year
Switzerland	2.97%	+51 bp.
Germany	4.33%	+38 bp.
USA	4.03%	–68 bp.
Japan	1.50%	–18 bp.

Income from interest-differential business

In 2007, income from the interest-differential business in the VP Bank Group rose by CHF 12.2 million or 9.4 percent. Since December 31, 2006, on-balance-sheet customer deposits on a Group-wide basis and expressed at constant foreign-currency rates rose by CHF 1.0 billion, including the CHF 250 million resulting from the issuance of the VP Bank debenture loan which led to an increase in interest income of CHF 15.8 million. This positive effect was partially offset, however, by the negative impact of decreased spreads (CHF –2 million) as well as lower foreign-currency rates (CHF –2.4 million) – primarily for the USD and GBP.

Income from interest-differential business (in CHF million)



Decreased spreads: interest rates were more quickly adjusted in respect of liabilities than for assets. Whilst on the liabilities side, rates for savings deposits (+0.25 percent) and current accounts at sight (+0.125 percent) were raised in July 2007, those for existing variable mortgages were increased only in October 2007 by a similar amount (0.25 percent).
In addition, savings deposits and balances on current accounts, in terms of volume, are in aggregate greater than the variable mortgages. Furthermore, the issuance of the debenture loan in June 2007 of CHF 250 million weighed on the margin. During the second half of 2007, income from the interest-differential business thus turned out to be markedly lower, amongst other things, than in the first half of the year (CHF –5.1 million). However, in the fourth quarter, the Bank was able to profit from better money-market rates in interbank business (as a result of increased credit spreads of those banks which were particularly shaken by the subprime crisis) and thereby again increase the spreads.
Since 2006, foreign-exchange rates for the major currencies have changed as follows:

Forex rates	31.12.2006	31.12.2007	Δ in %
EUR	1.608000	1.660000	3.2 %
USD	1.221000	1.129000	–7.5 %
GBP	2.396000	2.257000	–5.8 %
JPY	0.010270	0.010010	–2.5 %

Group-wide, the effect of changes in foreign-exchange rates on interest income was CHF –2.4 million. The positive effect of the strengthening in the euro of CHF +1.2 million was more than offset by the negative impact of lower foreign-exchange rates in the other currencies amounting to CHF –3.6 million, primarily USD and GBP.
Interest and dividend income from financial investments increased on a Group-wide basis by CHF 1.5 million as a result of a higher average ratio of equities held (28 percent) during the period relevant for dividends in the first quarter of 2007 in comparison to the same period in 2006 (25 percent) and thanks to the good earnings situation of the companies held in the investments. The positive effect from the interest income on financial investments was more or less equal to the offsetting effect from foreign-exchange rates on debt securities in financial investments.

Income from commission business and services

Income from commission business and services rose by 13 percent to reach CHF 175.2 million (2006: CHF 155.4 million). The growth in customer assets under management in the first half of 2007 as well as the high volatility on equity and other markets were reflected in a noticeable increase in asset-related commissions over the comparable prior-year period. These commissions made up some 63 percent of income the revenues from commission business and services and recorded increases of over 15 percent. Brokerage fees grew by CHF 10.4 million to CHF 63.7 million (+20 percent), though the second half year was noticeably weaker in terms of contribution to earnings. Investment-fund management in 2007 contributed CHF 73.7 million to total operating income (with a gratifying +17 percent over the comparable prior-year period) with the income from VP Bank funds and third-party funds.
In 2007, expenses relating to the commission business and services increased by CHF 16.5 million or 34 percent whilst the related gross income rose by 18 percent. The expense driver in this respect is primarily the increase of fees paid for market development actions.

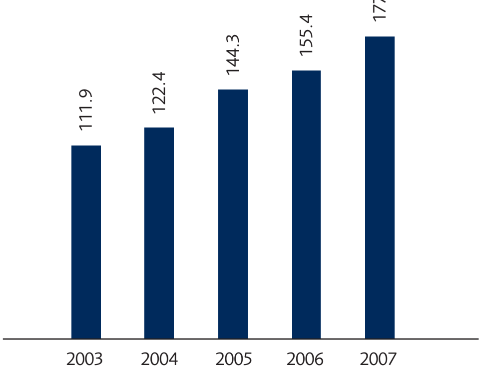
Income from trading activities

Trading activities developed in an equally gratifying manner and amounted to CHF 25.1 million in 2007 (+17 percent over 2006). This rise is to be ascribed principally to client activities in the area of foreign currencies, caused by the high volatilities on foreign-exchange market and correlates with the afore mentioned brokerage fee revenues; on average, the euro strengthened by 3.2 percent vis-à-vis the Swiss franc, but the US dollar conversely lost ground against the Swiss franc by 7.5 percent on average.

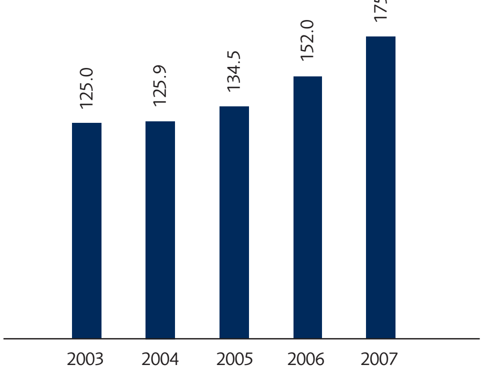
Operating income

Operating income rose by 11.7 percent and the average value of client assets under management grew by 13.5 percent. The operating gross margin thus declined by 1.4 bp. to 93.7 bp. In 2006, VP Bank achieved an equivalent gross margin of 95.3 bp.
The slight decline of the operating gross margin is explained by the afore mentioned market development actions and the temporary placement of new client assets not yet invested according to their respective client investment profile mainly during the second half of 2007. Other income and expense increased by CHF 18.6 million over the prior year to CHF 38.4 million (2006: CHF 19.8 million), first and foremost through the realized gains from the disposal of the Group's own financial investments.

Income from commission business and services (in CHF million)



Operating expenses (in CHF million)



The major part of this increase relates to the sale of the shares in CapitalLeben Versicherung AG.

Costs – clearly under control

As expected, operating expenses grew in comparison with the prior year by 17 percent to CHF 177.8 million. The cost/income ratio was nevertheless held stable at 46.7 percent (2006: 46.6 percent).

Personnel expenses

The increase by 70.8 to 681.4 employees (expressed in terms of full-time equivalents, thereof +35.9 for front-office units, Private Clients +21.4 or 14.4 percent, Trust Banking +15.0 or 10 percent) and higher accruals for bonus payments (new employee compensation model) led to a 21 percent (CHF 122.9 million) increase in personnel expenses over the prior year. Included in these expenses are also personnel training expenses, which increased by CHF 1.0 million over those of the prior year; this included training courses relating to the updating of the Avaloq banking software, the launch of the VP Bank Academy (cf. Employees chapter – page 36) and finally the English-Language Offensive in the VP Bank Group.
Projects targeting growth and the replacement of the banking software will lead in 2008 to a further growth in staff by 73 planned positions in the VP Bank Group. Since on average half of the increase in headcount in 2006, 2007 and the one planned in 2008 relates to front-office units, in the medium term, there should be a sustained increase in the profitability of the VP Bank Group.

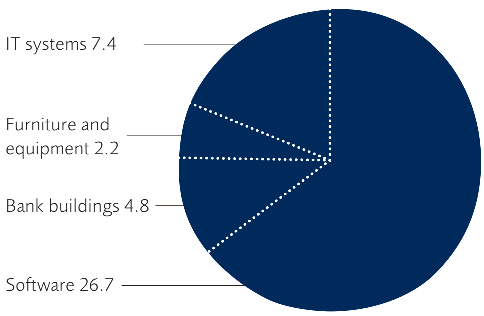
General and administrative expenses

General and administrative expenses amounted to CHF 54.9 million and were at a level which was 9 percent higher than that of the prior year. The expenditures concerned mainly Information Technology (IT); these increased by 34 percent as a result of non-capitalizable evaluation costs (new banking software package) and bridging solutions. Since the set-up work to support the market expansion initiatives in the Middle and Far East enabled the operational launch only in the second half of 2007, the other cost blocks no longer remain stable, contrary to the half-yearly results. Increases in costs for information procurement (+4 percent), professional fees (+13 percent) and other general and administrative expenses (+24 percent) are mostly to be explained by these market expansion initiatives and in aggregate amount to CHF 3.1 million.
The decline in expenses for marketing and public relations is explained by a lack of expenses compared to the prior year; these expenses were incurred in the prior year for the anniversary activities of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (50 years) and VP Bank and Trust Company (BVI) Ltd. (10 years).

Investments in property and equipment

Investments in 2007 amounted to CHF 41.1 million (December 31, 2006: CHF 32.2 million). Investment activities in 2007 gave rise to additions of CHF 4.8 million to the bank buildings investment category. This amount primarily encompasses investments made for the renovation of the head-office client reception lobby in Vaduz.

Investments (in CHF million)



Replacement of banking application software

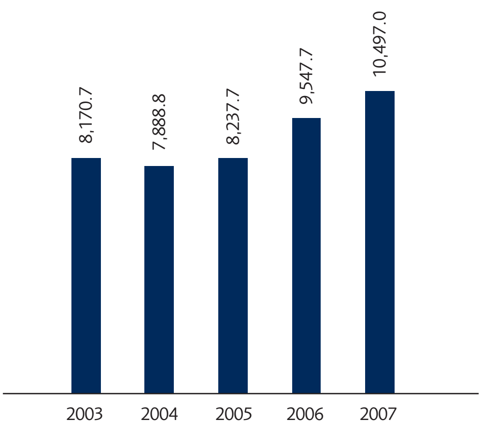
The category of software investment, with investments of CHF 26.7 million, consists of regulatory changes (Basel II) and process- and organization-related changes, primarily from the replacement of the banking application software Penta by Avaloq. In 2006 on the occasion of the annual review of the IT strategy, the VP Bank Group had decided to initiate an evaluation process for new banking software. Growth strategy and quality awareness within VP Bank Group were at the center of considerations. The evaluation process was completed as of January 2007 and with the subsequent decision of the Board of Directors in favor of Avaloq, the implementation project was commenced in March 2007. Critical in this evaluation process were future sustainability, competitiveness and efficiency of the banking software. This replacement resulted in a substantial increase in the investment requirements of the VP Bank Group for 2007–2009. The IT systems investment category increased noticeably in 2007 as a result of this implementation project, totalling CHF 7.4 million.

Depreciation and amortization
Depreciation and amortization increased in accordance with plan by CHF 4.8 million or 29 percent (initial depreciation and amortization on investments for the client reception lobby in Vaduz as well as for IT infrastructure, server environment and for software, in this case particularly for the new subsidiary companies).

Valuation allowances, provisions and losses
The allocation to valuation allowances, provisions and losses amounted to CHF 5.9 million, which is CHF 5.3 million or 47 percent less than that of the prior year; this is primarily due to the non-recurrence of losses and differences that have a negative impact on income.

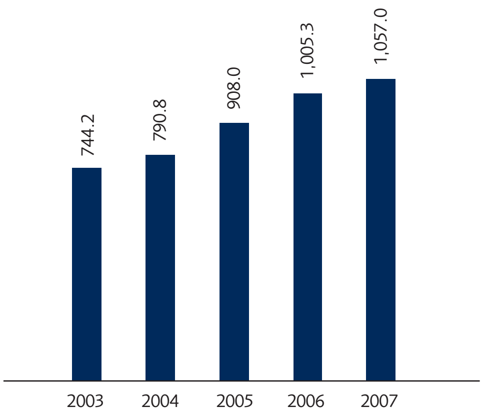
Total assets in excess of CHF 10 billion
In 2007, total assets grew by CHF 1.0 billion to CHF 10.5 billion (+10 percent over December 31, 2006). The increase is based essentially upon the growth in amounts due from banks (CHF +931 million to CHF 6.1 billion). On the other hand, other liabilities to clients rose by CHF 883 million to CHF 8.0 billion, in part due to the holding of liquidity by clients, and this year, to the issuance of debenture bonds in an amount of CHF 250 million.

Total assets (in CHF million)



Shareholders' equity of over CHF 1 billion
Shareholders' equity rose slightly by CHF 52.7 million to CHF 1.1 billion. The capital and reserves attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz at year end amounted to CHF 1,057 million (December 31, 2006: CHF 1,005 million). The return on equity was 15.8 percent (December 31, 2006: 14.2 percent). The equity ratio, defined as the equity as a percentage of total assets, reached 10.1 percent (December 31, 2006: 10.5 percent). The tier 1 ratio, defined as core capital as a percentage of the risk-weighted assets, at December 31, 2007 was 16.0 percent (December 31, 2005: 15.5 percent). The VP Bank Group thus continues to rely on an extremely robust equity basis, founded on a balanced risk and financial profile.

Shareholders' equity (in CHF million)



Treasury shares
In accordance with IFRS, the bearer and registered shares of VP Bank held by VP Bank in its own securities' portfolio are to be deducted from shareholders' equity. As of the balance-sheet date, Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz or its subsidiaries held an aggregate of 40,009 bearer shares and 8,970 registered shares (prior year: 6,100 bearer shares and 13,680 registered shares). This equals a proportion of share capital of approx. 0.7 percent (prior year: 0.1 percent). Reference is made to note 29 (p. 147) as to the holdings of treasury shares and changes therein.

Development of risk – moderate risk with a clear income potential
The risks of VP Bank are actively controlled, with the establishment of an optimal relationship between risks and income being at the heart of management decisions. The central measurement indicator for market risks is the historical value-at-risk. The value-at-risk indicates the possible loss which will not be exceeded for a holding period of one month with a statistical probability of 99 percent. The overall market VaR of the VP Bank Group on December 31, 2007 amounted to CHF 36.6 million (December 31, 2006: CHF 30.0 million). The reason for this increase is on the one hand the higher correlations of the

risk factors and, on the other, the higher market volatilities since August 2007. In 2007, the highest recorded VaR was CHF 37.6 million (August), the lowest was CHF 28.2 million. In the prior years, the extreme values of VaR were CHF 30.0 million and CHF 27.2 million, respectively.

Financial investments

The proportion of equity shares amongst the financial investments held for the purpose of the management of the Bank's own equity resources decreased in comparison to year end 2006 from 23 to 22 percent. The equity price risk was offset by a marked decline in interest-rate risk as well as a moderate decline in currency risk. Responsible for the noticeable lower interest-rate risk in an environment characterized by rising interest rates was, inter alia, the effect of the debenture loan issued on June 4, 2007, as the positive maturity transformation reduced as a result of the 5-year interest lock-up. In aggregate, the investments under active management amounted to CHF 0.988 billion, whereof 78 percent was invested in interest-bearing securities.

Consolidated Income Statement

in CHF 1,000	Note	2007	2006	Variance in %
Interest income		**392,546**	297,002	32.2
Interest expense		**250,581**	167,254	49.8
Total income from interest-differential business	1	**141,965**	**129,748**	**9.4**
Commission income		**239,953**	203,613	17.8
Commission expense		**64,789**	48,226	34.3
Total income from commission business and services	2	**175,164**	**155,387**	**12.7**
Income from trading activities	3	**25,069**	21,355	17.4
Other income	4	**38,390**	19,794	93.9
Total net operating income		**380,588**	**326,284**	**16.6**
Personnel expenses	5	**122,930**	101,595	21.0
General and administrative expenses	6	**54,908**	50,424	8.9
Operating expenses		**177,838**	**152,019**	**17.0**
Gross income		**202,750**	**174,265**	**16.3**
Depreciation and amortization	7	**21,534**	16,697	29.0
Valuation allowances, provisions and losses	8	**5,920**	11,177	–47.0
Income before income tax		**175,296**	**146,391**	**19.7**
Taxes on income	9a	**13,796**	11,521	19.7
Net income		**161,500**	**134,870**	**19.7**
Net income attributable to minority interests		**3,702**	2,805	32.0
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz		**157,798**	**132,065**	**19.5**

Consolidated earnings per share of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz

	2007	2006
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (in CHF 1,000)	157,798	132,065
Weighted average number of bearer shares	5,293,956	5,301,829
Weighted average number of registered shares	5,993,793	5,995,659
Total weighted average number of shares (bearer)	5,893,336	5,901,395
Net income per bearer share	26.78	22.38
Net income per registered share	2.68	2.24

Fully-diluted consolidated earnings per share of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz

	2007	2006
Adjusted net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (in CHF 1,000)	157,798	132,065
Number of shares used to compute the fully-diluted consolidated income	5,893,336	5,901,395
Fully-diluted consolidated earnings per bearer share	26.78	22.38
Fully-diluted consolidated earnings per registered share	2.68	2.24

As per the balance-sheet date, there were no financial or equity instruments which could result in a dilution of earnings per bearer or registered share.

Consolidated Balance Sheet

Assets

in CHF 1,000	Note	31.12.2007	31.12.2006	Variance in %
Cash and cash equivalents	12	113,552	99,331	14.3
Receivables arising from money-market paper	13	487	120	305.8
Due from banks	14	6,069,437	5,138,424	18.1
Due from customers	14	3,014,504	2,923,891	3.1
Trading portfolios	16	60	368	–83.7
Derivative financial instruments	17	27,785	17,391	59.8
Financial instruments designated at fair value	18	286,839	308,311	–7.0
Financial instruments available for sale	19	700,573	804,136	–12.9
Property and equipment	20	153,323	174,201	–12.0
Goodwill and other intangible assets	21	44,174	26,526	66.5
Taxes receivable	9c	533	513	3.9
Deferred tax assets	9b	2,632	2,292	14.8
Accrued receivables and prepaid expenses		43,238	35,583	21.5
Other assets	22	39,830	16,686	138.7
Total assets		10,496,967	9,547,773	9.9

Liabilities and shareholders' equity

in CHF 1,000	Note	31.12.2007	31.12.2006	Variance in %
Due to banks		90,474	257,422	–64.9
Due to customers – savings and deposits		609,553	805,469	–24.3
Due to customers – other liabilities		7,951,811	7,069,270	12.5
Derivative financial instruments	17	28,641	18,704	53.1
Medium-term notes	23	360,572	261,760	37.7
Debenture issue	24	247,319	0	n. a.
Tax liabilities	9c	16,764	16,026	4.6
Deferred tax liabilities	9b	17,953	19,390	–7.4
Accrued liabilities and deferred items		62,145	41,427	50.0
Other liabilities	25	36,619	36,353	0.7
Provisions	26	1,099	587	87.2
Total liabilities		9,422,950	8,526,408	10.5
Share capital	28	59,148	59,148	0.0
Less: treasury shares	29	–11,925	–2,301	–418.3
Capital reserves		–9,954	–9,205	–8.1
Income reserves		1,013,440	919,790	10.2
IAS 39 reserves		13,102	42,369	–69.1
Foreign-currency translation differences		–6,813	–4,541	–50.0
Shareholders' equity attributable to shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz		1,056,998	1,005,260	5.1
Minority interests	27	17,019	16,105	5.7
Total shareholders' equity		1,074,017	1,021,365	5.2
Total liabilities and shareholders' equity		10,496,967	9,547,773	9.9

Consolidated Changes in Shareholders' Equity

in CHF 1,000	Share capital	Treasury shares	Capital reserves	Income reserves	Reserves financial instruments IAS 39	Foreign exchange translation differences	Equity of shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	Minority interests	Total shareholders' equity
Total shareholders' equity 1.1.2006	59,148	–5,276	–10,845	843,000	24,656	–2,646	908,037	18,029	926,066
Unrealized gains and losses on available-for-sale financial instruments									
• gains/losses transferred to income statement					–8,650		–8,650		–8,650
• change in unrealized gains and losses (net of tax)					26,363		26,363		26,363
Foreign-currency translation differences						–1,895	–1,895	–1,352	–3,247
Consolidated net income				132,065			132,065	2,805	134,870
Total reported result 31.12.2006				132,065	17,713	–1,895	147,883	1,453	149,336
Dividend 2005				–55,275			–55,275	–3,377	–58,652
Change in treasury shares		2,975	1,640				4,615		4,615
Total shareholders' equity 31.12.2006	59,148	–2,301	–9,205	919,790	42,369	–4,541	1,005,260	16,105	1,021,365
Total shareholders' equity 1.1.2007	59,148	–2,301	–9,205	919,790	42,369	–4,541	1,005,260	16,105	1,021,365
Unrealized gains and losses on available-for-sale financial instruments									
• gains/losses transferred to income statement					–21,000		–21,000		–21,000
• change in unrealized gains and losses (net-of-tax)					–8,267		–8,267		–8,267
Foreign-currency translation differences						–2,272	–2,272	–1,336	–3,608
Consolidated net income				157,798			157,798	3,702	161,500
Total reported result 31.12.2007				157,798	–29,267	–2,272	126,259	2,366	128,625
Dividend 2006				–64,148			–64,148	–1,452	–65,600
Change in treasury shares		–9,624	–749				–10,373		–10,373
Total shareholders' equity 31.12.2007	59,148	–11,925	–9,954	1,013,440	13,102	–6,813	1,056,998	17,019	1,074,017

Consolidated Statement of Cash Flows

in CHF 1,000	2007	2006
Cash flow from operating activities		
Group net income	157,798	132,065
Share of minority interests in Group net income	3,702	2,805
Depreciation and amortization	21,534	17,077
Write-off for value impairment on financial investments available for sale	176	380
Reduction in retirement pension provisions	–1,480	–411
Release of provisions	–4,599	–8,196
Unrealized gains and losses on trading portfolios	–3	–9
Unrealized gains and losses on financial investments designated at fair value	5,410	4,126
Unrealized gains and losses on financial investments available for sale	–2,533	–3,101
Deferred income taxes	767	308
Tax on income paid, interest received less interest paid and dividends received	–126,468	–114,882
Sub-total	**54,304**	**30,162**

Changes in assets and liabilities in connection with operating business activities, after adjustment for non-cash-related transactions:

Due from/to banks, net	–1,125,996	–613,679
Trading portfolios, incl. replacement values, net	–26	–8,315
Interest received from interest-differential business	348,924	265,298
Interest received from trading portfolio interests	14	0
Dividends received from trading portfolio interests	22	40
Interest received on financial investments designated at fair value	13,096	13,586
Dividends received on financial investments designated at fair value	46	11
Interest received on financial investments available for sale	15,509	14,991
Dividends received on financial investments available for sale	3,002	1,552
Due from/to customers	622,376	849,087
Foreign-exchange impact on intra-group payments	–14,654	–11,667
Accrued receivables, prepaid expenses and other assets	–9,390	–10,932
Accrued liabilities and other liabilities	21,120	16,793
Interest paid in connection with interest-differential business	–243,533	–171,019
Taxes on income paid	–10,612	–9,577
Net cash flow from operating activities	**–325,798**	**366,331**

Consolidated Statement of Cash Flows (continued)

in CHF 1,000	2007	2006
Cash flow from investing activities		
Net decrease in financial investments designated at fair value	19,659	47,441
Net decrease in financial investments available for sale	85,210	–164,257
Acquisition of property and equipment and intangible assets	–39,828	–33,973
Disposal of property and equipment and intangible assets	2	1,100
Acquisition of subsidiary companies[1]	–420	–1,209
Net cash flow from investing activities	64,623	**–150,898**
Cash flow from financing activities		
Net increase / decrease in treasury shares	–10,373	4,615
Dividends paid	–64,148	–55,275
Issuance / redemption of medium-term notes	98,812	102,578
Issuance of debenture	247,000	0
Dividend payments to minority shareholders	–1,452	–3,377
Net cash flow from financing activities	269,839	**48,541**
Impact of foreign-currency translation (incl. minority interests)	–6,739	–4,104
Net increase in cash and cash equivalents	1,925	**259,870**
Cash and cash equivalents at the beginning of the financial year	1,267,885	1,008,015
Cash and cash equivalents at the end of the financial year	1,269,810	1,267,885
Net increase in cash and cash equivalents	1,925	**259,870**
Cash and cash equivalents are represented by:		
Cash	113,552	99,331
Receivables arising from money-market paper	487	120
Due from banks – sight balances	1,155,771	1,168,434
Total cash and cash equivalents	1,269,810	**1,267,885**

Sight balances due from banks bear interest at daily rates or are invested in interest-bearing short-term money-market deposits of between one day and three months, depending upon the liquidity needs of VP Bank Group. Interest rates are based upon equivalent market rates. The fair value of cash and cash equivalents amounts to CHF 1,269,810,000 (2006: CHF 1,267,885,000).

[1] Significant non-cash investing and financing transactions relating to the acquisition of subsidiary companies are to be found in the chapter "Company acquisitions" (page 160 ff).

Consolidated Off-Balance-Sheet Transactions

in CHF 1,000	31.12.2007	31.12.2006
Contingent liabilities		
Credit guarantees and similar	10,118	10,012
Performance guarantees and similar	103,102	100,122
Irrevocable commitments	486	410
Other contingent liabilities	0	533
Total contingent liabilities	**113,706**	**111,077**
Credit risks		
Irrevocable facilities granted	43,550	41,728
Capital subscription and margin obligations	0	0
Commitment credits	0	0
• Liabilities arising from deferred payment obligations	0	0
• Acceptances	0	0
• Other commitment credits	0	0
Commitments arising from artificial repo transactions	0	0
Total credit risks	**43,550**	**41,728**
Fiduciary transactions		
Fiduciary deposits [1]	3,578,991	2,443,460
Fiduciary loans	10,559	11,023
Other fiduciary financial transactions	0	0
Total fiduciary transactions	**3,589,550**	**2,454,483**

[1] Placements with banks which Group companies made with non-consolidated Group companies in their own name

Maturity structure in CHF 1,000	at sight	maturing within 1 year	1 to 5 years	over 5 years	Total
31.12.2007					
Contingent liabilities	37,343	58,278	14,415	3,670	113,706
Credit risks	0	42,850	700	0	43,550
31.12.2006					
Contingent liabilities	36,455	46,769	27,189	664	111,077
Credit risks	18,170	22,858	700	0	41,728

Securities lending and repurchase and reverse-repurchase transactions with securities

in CHF 1,000	31.12.2007	31.12.2006
Receivables arising from cash deposits in connection with securities borrowing and reverse-repurchase transactions	0	0
Obligations arising from cash deposits in connection with securities lending and repurchase transactions	0	0
Securities lent out within the scope of securities lending or delivered as collateral within the scope of securities borrowing activities, as well as securities in own portfolio transferred within the framework of repurchase transactions	1,713,160	1,266,606
thereof securities where the unlimited right to sell on or pledge has been granted	1,160,845	855,096
Securities received as collateral within the scope of securities lending or borrowed within the scope of securities borrowing activities, as well as received under reverse repurchase transactions, where the unlimited right to resell or repledge has been granted.	2,151,351	1,466,275
thereof securities which have been resold or repledged	993,843	700,261

These transactions were conducted on conditions which are customary for securities lending and borrowing activities as well as trades for which the Bank acts as intermediary.

Principles Underlying Financial-Statement Reporting

1. Fundamental principles underlying financial-statement reporting

Verwaltungs- und Privat-Bank Aktiengesellschaft, which has its registered office in Vaduz, was established in 1956 and is one of the three largest banks in Liechtenstein. Today, it possesses subsidiaries in Zurich, Luxembourg, Munich, the British Virgin Islands, Singapore, Hong Kong and Dubai as well as representative offices in Moscow and Hong Kong. As of December 31, 2007, the VP Bank Group employed 681.4 persons, expressed as full-time equivalents (previous year: 610.6).
Asset management and portfolio advisory services for private and institutional investors, as well as the credit business, constitute its core activities.
Values disclosed in the financial statements are expressed in thousands of Swiss francs. The 2007 financial statements were drawn up in accordance with International Financial Reporting Standards (IFRS). IFRS contains guidelines which require assumptions and estimates to be made in drawing up the consolidated financial statements of VP Bank. The most important fundamental principles underlying financial-statement reporting are described in this section in order to show how their application impacts the reported results and informational disclosures.

Post-balance-sheet date events

No events occurred which could have an impact on the balance sheet or income statement for the financial year 2007.
The Board of Directors reviewed and approved the consolidated financial statements in its meeting of February 22, 2008. These consolidated financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on April 25, 2008.

2. Changes to the principles of financial-statement reporting and comparability

New and revised International Financial Reporting Standards

Since January 1, 2007, the following new or revised standards and interpretations have taken effect:
IAS 1 – Disclosure requirements regarding shareholders' equity
IFRS 7 – Financial Instruments: Disclosures
IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions[1]
With the exception of IFRS 7, the amendments to financial-statement reporting policies had no material impact of the annual financial statements.

International Financial Reporting Standards to be adopted in 2008 or subsequently

Numerous new standards, revisions and interpretations of existing standards have been published, the application of which is binding for business years commencing on January 1, 2008 or later. The new provisions are currently being analyzed. These changes in all probability will have no material impact on the consolidated financial statements of the Group.

IAS 1 – Disclosure requirements regarding shareholders' equity

In contrast to previous disclosure requirements, the amendments to IAS 1 passed in August 2005 for the first time require information from all companies concerning capital. This disclosure serves to complement the information currently set out in the analysis of shareholders' equity. Essentially, disclosures as to the objectives, methods and processes underscoring the management of share capital are required. These disclosures are to be applied for the first time for reporting periods beginning on or subsequent to January 1, 2009.

IFRS 2 – Share-based payment: Vesting Conditions and Cancellations

The revised Standard concerns the definition of the conditions for share-based payments, the vesting period and other exercise conditions. In addition, the Standard was supplemented by explicit guidelines concerning the cancellation of share-based payments. The Standard is to be applied for reporting years beginning on or after January 1, 2009.

IFRS 3 – Business Combinations; and IAS 27 – Consolidated and Separate Financial Statements
The revised Standard increases the relevance, reliability and comparability of the disclosed Group information concerning business combinations and their effects. Amended also was the information to be disclosed by the parent company. The most important amendments concern the application of fair values, the change in control as a material event; greater focus on what was transferred to the seller rather than what was delivered for the acquisition. The Standard is to be applied for reporting years beginning on or after January 1, 2009.

IFRS 8 – Operating Segments
IFRS 8 was published within the framework of the joint convergence project of IASB and FASB. This new standard replaces IAS 14 – Segment Reporting and pursues a "management approach" for segment reporting as is required by SFAS 131 – Disclosures about Segments of an Enterprise and Related Information. Reporting is made on the basis of information which is used by Management internally for performance evaluation of the operating segments and the allocation of resources to these segments. This information can deviate from the information disclosed in the balance sheet and income statement and companies must provide commentaries and reconciliations for all differences. IFRS 8 – Operating Segments takes effect for the first time in respect of reporting years beginning on or after January 1, 2009.

IFRIC 12 – Service Concession Arrangements
IFRIC 12 deals with the accounting for contractual agreements which are entered into by enterprises which provide public services. The interpretation stipulates that the licensee shall not capitalize the infrastructure amongst his property, plant and equipment but shall recognize a financial asset and/or an intangible asset. A financial asset is to be recognized to the extent that the licensee owns a contractual right to receive cash or is in possession of a guarantee from the licensor. An intangible asset is to be recognized to the extent that an enterprise has the right to charge the public for the use of the asset. IFRIC 12 – Service Concession Arrangements shall apply for the first time for reporting years which begin on or subsequent to January 1, 2008.

IFRIC 14 – The Limit on a Defined-Benefit Asset
IFRIC 14 – The Limit on a Defined-Benefit Asset gives general guidelines as to determining the upper limit of the surplus of a pension fund which can be treated as an asset in accordance with IAS 19. This new interpretation also discusses how legal or contractual minimum financing provisions can impact assets or liabilities of a defined-benefit plan. IFRIC 14 is applicable for the first time for reporting years beginning on or after January 1, 2008.

3. Scope of consolidation

Fully consolidated companies
The consolidated financial statements encompass the financial statements of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, as well as those of its subsidiary companies which are all presented as a single economic unit. Subsidiary companies which are directly or indirectly controlled by the VP Bank Group are consolidated. Subsidiary companies which have been acquired are consolidated as of the date on which control is transferred and deconsolidated as of the date control ends.

Changes in scope of consolidation
The companies which were established in 2007, VP Wealth Management (Singapore) Ltd., Singapore, VP Wealth Management (Middle East) Ltd., Dubai and VP Wealth Management (Hong Kong) Ltd., Hong Kong, were included this year for the first time in the consolidation. Eureka Investments S.A., Luxembourg was excluded from the consolidation.

Method of capital consolidation
Capital consolidation is undertaken in accordance with the Anglo-Saxon purchase method, whereby the shareholders' equity of the consolidated company is set off against the carrying value of the shareholding in the parent company's books of account as of the date of acquisition or the date of establishment.
Subsequent to initial consolidation, changes arising from business activities which are reflected in the current results of the accounting period in the consolidated financial statements are allocated to income reserves. The effects of intra-group transactions are eliminated in preparing the consolidated annual financial statements.
The share of minority interests in shareholders' equity and in the consolidated results are shown separately in the consolidated balance sheet and income statement.

Shareholdings in associated companies
Shareholdings of between 20 and 50 percent in companies on which VP Bank Group can exercise a material influence are recorded using the equity method.

4. Assumptions and uncertainties in estimations

IFRS contains guidelines which require certain assumptions and estimates to be made by the VP Bank Group in drawing up the consolidated financial statements. The assumptions are continually reviewed and are based upon historical experience and other factors, including anticipated developments arising from probable future events. Actual future occurrences can differ from these estimates.

Non-performing loans:
A review of collectibility is undertaken at least once a year for all loans of doubtful collectibility. Should changes have occurred as to the amount and timing of anticipated future payment flows in comparison to previous estimates, the valuation adjustment for credit risks is adjusted accordingly. The amount of the value impairment is measured essentially by reference to the difference between the carrying value and the probable amount which will be collected, after taking into account the proceeds of realization from the sale of any collateral. A change in the net present value of the estimated future monetary flows of +/– 5 percent increases or decreases, respectively, the amount of the valuation adjustment by CHF 2 million.

Valuation adjustment on available-for-sale financial investments:
Available-for-sale financial investments are classified as being value-impaired whenever objective indications exist that the decline in market prices has assumed such a scale that the recovery of the acquisition value cannot reasonably be expected within a foreseeable time frame. The realizable value is determined for unlisted equity securities through the use of traders' quotes and external pricing models based on observed market data. Valuations arrived at in this manner can be amended by Management based on its own judgment. The realizable value of listed financial investments is arrived at taking market prices into consideration. VP Bank Group uses the following factors in this connection:

- The capital loss is substantial, i.e. larger than 30 percent of acquisition costs
- The substantial capital loss has existed for more than 6 months

In addition, objective indications of an impairment in value include significant changes with negative consequences which occur in the technological, market-related, economic or legal environment. If all reductions in values of available-for-sale financial instruments were classified as being value-impaired, the VP Bank Group would have to record an additional loss of CHF 15.6 million for 2007 (2006: CHF 9.0 million), which in turn would mean a transfer from the reserves for financial instruments for the purposes of IAS 39 from shareholders' equity to the income statement.

5. General principles

Trade date vs. settlement date
The trade-date method of recording purchases or sales of financial assets and liabilities is applied. This means that transactions are recorded in the balance sheet as of the date when the trade is entered into and not on the date when trade is subsequently settled.

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

Foreign-currency translation
Functional currency and reporting currency:
The consolidated financial statements are expressed in Swiss francs, which is both the currency of the Group as well as the reporting currency.
The foreign-exchange translation into the functional currency is undertaken at the rate of exchange prevailing as of the date of the transaction. Translation differences arising from such transactions and gains and losses arising from translation at balance-sheet date rates for monetary financial assets and financial liabilities in foreign currencies are taken to the income statement.
Unrealized foreign-currency translation differences on non-monetary financial assets are part of the movement in fair value. For non-monetary financial assets at fair value, foreign-currency translation differences are taken to the income statement. In the case of financial assets which are classified as being available for sale, the unrealized foreign-exchange differences are recorded under shareholders' equity until realized.

Group companies:
All balance-sheet captions (excluding shareholders' equity) are translated into the Group reporting currency at the rate of exchange prevailing as of the balance-sheet date. The individual captions of the income statement are translated at average rates of the period. Foreign-currency translation differences arising from the translation of financial statements expressed in foreign currencies are set off against shareholders' equity (income reserves) without impacting operating results.
Foreign-currency translation differences arising in connection with net investments in foreign companies are reflected under shareholders' equity. Upon disposal, such foreign-currency translation differences are recorded in the income statement as a part of the gain or loss on disposal.

Goodwill and fair value adjustments from acquisitions of foreign companies are treated as receivables and payables of these foreign companies and are translated at closing rates prevailing on the balance-sheet date.

Domestic vs. foreign

The term domestic also includes Switzerland.

Segments

VP Bank Group is sub-divided into three business units – Private Clients, Trust Banking and Banking Services – as well as into the Corporate Center. This structure forms the basis for the primary segment reporting.
Direct revenues and expenses are allocated to the business units. Charges between the business units and geographic segments are recorded at such market prices as would be charged to external clients for similar services. Revenues and costs of extra-divisional services which cannot be directly allocated to the business units are recorded in the Corporate Center. Furthermore, entries relating to the consolidation are recorded in the Corporate Center. Geographic segment reporting is undertaken in accordance with the principles of branch accounting and reflects the segments Liechtenstein and Switzerland, Rest of Europe and Other Countries.

Cash and cash equivalents

Cash and cash equivalents encompass the captions cash on hand, receivables arising from money-market paper and sight balances with banks.

6. Financial instruments

General

VP Bank Group sub-divides financial instruments, to which traditional financial assets and liabilities as well as equity capital instruments also belong, as follows:

- Financial instruments to be recorded over the income statement ("fair value through profit or loss") – trading portfolios and financial instruments designated at fair value.
- available-for-sale financial assets – available-for-sale financial investments
- held-to-maturity financial instruments
- loans granted which neither represent loans held for trading nor loans and receivables originated by the enterprise.

The allocation of financial instruments is made as at the date of the initial recording according to the criteria of IAS 39.

Trading portfolios

Trading portfolios comprise shares, debentures, precious metals and structured products. Financial assets held for trading purposes are valued at fair value. Short positions in securities are disclosed as liabilities arising from trading portfolios. Realized and unrealized gains and losses are recorded in income from trading activities after deduction of related transaction costs. Interest and dividends from trading activities are recorded under income arising from the interest-differential business. Fair values are based on market prices if an active market exists. Should no active market exist, the fair value is determined by reference to traders' quotes or external pricing models.

Financial instruments designated at fair value

As a result of management and performance measurement in accordance with the internal risk-management and investment strategy, the VP Bank Group applies the fair value option as available under IAS 39 for securities in the trading book as well as the financial instruments "designated at fair value". Financial instruments at fair value are valued at fair values for balance-sheet reporting purposes. Unrealized and realized gains and losses are taken to the income statement and recorded under other income. Fair values are based on quoted market prices if an active market exists. Should no active market exist, the fair value is determined by reference to traders' quotes or external pricing models. By their nature, valuations are dependent on the underlying assumptions made. Interest and dividend income is recorded in income from the interest-differential business. Interest is accrued over the period to which it relates.

Financial instruments available for sale
Available-for-sale financial assets are instruments which, in the opinion of Management, can be sold as a reaction to or because of an anticipated liquidity need or as a result of expected changes in interest rates, exchange rates or equity share prices. They encompass money-market and other debt papers, as well as equity securities, and are recorded in the balance sheet at fair value. The fair value is based upon quoted market prices if an active market exists. Should no active market exist, the fair value is determined on the basis of traders' quotes or external pricing models based exclusively on observed market data. Unrealized and realized gains or losses arising from available-for-sale financial instruments are recorded under shareholders' equity, after deduction of related income taxes, until such time as the financial investments are sold, are the object of debt-enforcement proceedings, or are otherwise disposed of or classified as being value-impaired. Should an available-for-sale investment be disposed of, the accumulated gains or losses recorded previously under shareholders' equity are recorded in the income statement of the reporting period under other income. The gain or loss from disposal is determined using the average cost method. Interest and dividend income is recorded under income from the interest-differential business. Interest is accrued over the period to which it relates.
As soon as an available-for-sale financial investment is classified as being value-impaired, the accumulated unrealized loss previously recorded under shareholders' equity is recorded in the income statement of the reporting period under other income. As regards non-listed equity securities, their realizable value is determined according to dealers' prices and external pricing models which are based on observed market data. Valuations arrived at in this manner can be amended by Management based on its own judgement. The realizable value of listed financial investments is determined by reference to the market price. They are classified as being value-impaired when objective indications exist that the decline in market price has assumed such a scale that the recovery of the acquisition value cannot reasonably be expected within a foreseeable time frame.

Held-to-maturity investments
The VP Bank Group does not employ this category.

Loans granted
At the time of their initial recording, loans are valued at their effective cost which equates to fair value at the time the loans are granted. Subsequent valuations are made at amortized cost, with the effective interest yield method being applied.

Value-impaired loans:
Value-impaired loans are amounts outstanding from clients and banks where it is improbable that the debtor can meet its obligations. The reasons for an impairment in value are of a nature which is specific to the counterparty or country. Interest on value-impaired loans is recorded throughout the period during which the interest accrues. A valuation allowance for credit risks is recorded as a reduction in the carrying value of a receivable in the balance sheet. The amount of the reduction in value is measured essentially by reference to the difference between the carrying value and the amount which will probably be recovered after taking into account the realizable proceeds from the disposal of any applicable collateral. For off-balance-sheet positions, on the other hand, such as a fixed facility granted, a provision for credit risks is recorded under provisions. Global valuation allowances exist to cover latent, not yet identified credit risks on a portfolio basis. A collectibility test is performed at least once a year for all non-performing receivables. Should changes have occurred as to the amount and timing of anticipated future flows in comparison to previous estimates, the valuation allowance for credit risks is adjusted and recorded in the income statement under valuation allowances for credit risks or release of no longer required valuation allowances and provisions.

Non-performing loans:
Non-performing loans are generally a component part of value-impaired loans. A loan is classified as being non-performing as soon as the contractually agreed capital and/or interest payments are outstanding for 90 days or more.

Derivative financial instruments
Derivative financial instruments are valued at their fair value and disclosed in the balance sheet. The fair value is determined on the basis of stock-exchange quotations or option pricing models. Realized and unrealized gains and losses are taken to income.

Hedging transactions (hedge accounting)
The VP Bank Group does not employ hedge accounting.

Debt securities issued
Medium-term notes are recorded at their issuance price and valued subsequently at their original historical cost value.
At the time of their initial recording, debentures are recorded at their fair value, augmented by transaction costs. The fair value equates to the consideration received. Subsequently, they are valued at amortized cost for balance-sheet reporting purposes. In this connection, the effective interest method is employed in order to amortize the difference between the issuance price and redemption amount over the duration of the debt instrument.

Treasury shares
Shares of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz held by the VP Bank Group are disclosed as treasury shares under shareholders' equity and deducted at acquisition cost. The difference between sales proceeds of treasury shares and the related acquisition cost is shown under capital reserves.

Repurchase and reverse-repurchase transactions
Repurchase and reverse-repurchase transactions serve to refinance or finance, respectively, or to acquire securities of a certain class. These are recorded as an

advance against collateral in the form of securities or as a cash deposit with collateral in the form of own securities.

Securities lending and borrowing transactions

Financial instruments which are lent out or borrowed and valued at fair value and in respect of which the VP Bank Group appears as principal are recorded in the balance sheet under amounts due to/from customers and banks.
Securities lending and borrowing transactions in which the VP Bank Group appears as agent are recorded under off-balance-sheet items.
Fees received or paid are recorded under commission income.

7. Other principles

Provisions

Provisions are only recorded in the balance sheet if the VP Bank Group has a liability to a third party which is to be attributed to an occurrence in the past, the outflow of resources with economic benefit to fulfill this liability is probable, and if this liability can be reliably estimated.

Valuation allowances for long-term assets (impairment)

The value of property and equipment and other assets (including goodwill and other intangible assets) is reviewed at least once a year, as well as whenever it appears that the carrying value is over-valued as a result of occurrences or changed circumstances. If the carrying value exceeds the realizable value, an extraordinary write-down is made.

Property and equipment

Property and equipment comprises bank premises, other real estate, furniture and equipment, as well as IT systems. Property and equipment is valued at acquisition cost less operationally necessary depreciation and amortization.
Property and equipment is capitalized insofar as the acquisition or construction cost can be determined and it carries a future economic benefit.
The bank's premises are real estate which is held and used by the VP Bank Group to render services or for administrative purposes, while other real estate serves to generate rental income and/or achieve capital gains. Whenever a property serves partially as own premises for the bank and partially as other real estate, the criterion as to whether both portions can be sold individually shall apply in determining to which classification it belongs. If a partial sale is possible, each part shall be recorded accordingly. Should each part be incapable of being sold individually, the entire property shall be classified as the bank's premises, unless the portion used as bank premises is insignificant.
Depreciation and amortization is charged on a straight-line basis over the estimated useful lives:
Real estate: 25 years
Land: not depreciated
Furniture and equipment: 5 to 8 years
IT systems: 3 to 5 years

The depreciation and amortization methods and useful lives are subject to review at each year end.
Minor purchases are charged directly to general and administrative expenses.
Maintenance and renovation expenses are generally recorded under general and administrative expenses. If the expense is substantial and results in a significant increase in value, the amounts are capitalized. These are depreciated or amortized over their useful lives. Gains on disposal of property and equipment are disclosed as other income. Losses on sale lead to additional depreciation and amortization on property and equipment.

Leasing

Operating leasing expenditures (rights and duties arising from ownership relating to the object of the leasing contract remain with the lessor) are charged to the caption general and administrative expenses.
At present, there are no receivables or payables in connection with financing leases.

Goodwill

In the case of a take-over, should the acquisition costs be greater than the net assets acquired and valued in accordance with uniform group guidelines (including identifiable and capitalizable intangible assets), the remaining amount constitutes the acquired goodwill. Goodwill is capitalized and subject to an annual review for any required valuation allowances. The recording of goodwill is made in the original currency and is translated at the balance-sheet date at rates prevailing at year end.

Intangible assets

Purchased software is capitalized and amortized over three to five years. Minor purchases are charged directly to general and administrative expenses.
Internally generated intangible assets such as software are capitalized insofar as the pre-requisites for capitalization set forth in IAS 38 are met, i.e. it is probable that the Group will derive a future economic benefit from the asset and the costs of the asset can be both identified and measured in a reliable manner.
The capitalized values are amortized on a straight-line basis over their useful lives. The period of amortization is three to five years as a rule.
Intangible assets with undefined estimated useful lives are subject to an annual review for any required valuation allowances.
At present, the VP Bank Group has not recorded any intangible assets with unlimited useful lives. Other intangible assets include separately identifiable intangible assets arising from acquisitions, as well as certain purchased client-related assets and

the like, and are amortized on a straight-line basis over an estimated useful life of five to ten years. Other intangible assets are recorded in the balance sheet at purchase cost at the time of acquisition. At each balance-sheet date, or whenever there are reasons to believe so, a review is made as to whether there are indications of a possible impairment in value or of a change in the estimated useful life. Should such indications exist, it is ascertained whether the carrying value is completely recoverable. Should the carrying value exceed the realizable value, a write-off is made.

Taxes and deferred taxes

Current income taxes are computed on the basis of the applicable laws on taxation in the individual countries and are booked as expenses in the accounting period in which the related profits are recorded. They are shown as tax liabilities in the balance sheet.
The taxation effects of timing differences between the values attributed to the assets and liabilities as reported in the consolidated balance sheet and their values reported for tax reporting purposes are recorded as deferred tax assets or deferred tax liabilities. Deferred tax assets arising from timing differences or from the utilization of tax loss carryforwards are only recognized when it is probable that sufficient taxable profits are available, against which these timing differences or tax loss carryforwards can be off set.
Deferred tax assets and tax liabilities are computed using the rates of taxation which are expected to apply in the accounting period in which these tax assets will be realized or tax liabilities will be settled. Tax assets and tax liabilities are only offset against each other if they relate to the same taxable person, concern the same taxing jurisdiction and an enforceable right of offset exists.
Deferred taxes are credited or charged to shareholders' equity if the tax relates to captions which are directly credited or debited to shareholders' equity in the same or another period.

Retirement pension plans

The VP Bank Group maintains in Liechtenstein and abroad a number of retirement pension plans for employees, amongst which there are both defined-benefit and defined-contribution plans.
In the case of defined-benefit plans, the period costs are determined on the basis of opinions of external experts. For defined-benefit plans with segregated assets, the surplus or deficit of the net present value of the claims in comparison to the assets which are computed using market prices are disclosed in the balance sheet as liabilities or assets, after taking into account unrecorded actuarial gains and losses and claims still to be made (projected unit credit method).
The VP Bank Group records a portion of actuarially-computed gains and losses respectively as income and expense, should the balance of accumulated unrecorded gains and losses at the end of the prior accounting period exceed the prescribed threshold values.

Employee stock-ownership plans

The stock-ownership plan enables employees to subscribe annually to a defined number of bearer shares of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz at a preferential price, subject to a 4-year restriction period on selling. Upon expiration of the sales restriction period, or at the time of resignation from the VP Bank Group, the related shares become freely available.
As the employees thus ultimately have the possibility of taking up the shares at any time and in full, the expense arising from the employee stock-ownership plans is recorded in full at the time of their respective attribution. The number of bearer shares which can be subscribed to depends upon the years of service, rank and management level.
The subscription price is set annually by the Board of Directors and depends on the average market value of the bearer shares on the Swiss stock exchange. The shares issued in this manner derive either from the portfolio of the VP Bank Group or are acquired for this purchase over the stock exchange. The resulting expense is charged directly to personnel costs.

Earnings per share

The undiluted earnings per share are arrived at by dividing the net profit or loss of the reporting period attributable to the shareholders by the weighted average number of shares outstanding in this period (less treasury shares).
The diluted earnings per share are computed using the same method, however, the parameters are adapted in order to reflect the potential dilution which would result from the transformation or exercise of options, warrants, convertible bonds or other contracts involving the shares.

8. Equity management

The focus of value-oriented risk management is on the attainment of a durable return on the capital invested and one which, from the shareholders' perspective, is commensurate with the risks involved. To reach this goal, VP Bank stands for a rigorous dovetailing of profitability and risk within the scope of the management of its own equity resources; it consciously abandons the goal of gaining short-term interest advantages at the expense of the security of capital. VP Bank avoids extreme risks which can jeopardize the ability to bear risk and in this respect the health and existence of the Group and manages all risks within the annual risk budget laid down by the Board of Directors.
Thanks to our strong capitalization, we can invest in the expansion of our business and the equity base can cover all business inherent risks.
In managing our equity resources, we measure both the equity required (minimum amount of equity to cover our risks in accordance with the requirements of applicable supervisory law) as well as our available eligible equity (our equity is computed in accordance with the criteria of the supervisory authorities) and project their future development. Equity resources which we do not need for our growth or our business activities are returned through dividend payments according to our long-term policy. Thus, through active management, we are in a position to maintain the robust capitalization as well as the credit rating and continue to create sustainable value for the shareholders.

Capital-adequacy requirements

The shareholders' equity required by us pursuant to banking legislation is measured according to our risk-weighted assets – the on- and off-balance-sheet and market-risk positions which are computed and risk-weighted in accordance with the criteria of our relevant supervisory authority, the Financial Market Authority (FMA) Liechtenstein. Counterparty risks are computed depending on the type of the instrument (and if applicable, the collateral) and risk-weighted according to the type of counterparty. Positions exposed to market risk are determined as a rule on the basis of a value-at-risk model. Further details on these computations are set out in note 35 to the consolidated financial statements.
Our required shareholders' equity results principally from on-balance-sheet assets. Off-balance-sheet positions constitute 1 percent and market-risk positions 8 percent of the total risk-weighted assets and consequently of the total capital-adequacy requirements.
The equity available to cover these risks – the eligible equity – consists of two elements: the core capital (tier 1), which primarily corresponds to shareholders' equity with certain adjustments required by supervisory law, and the supplementary capital (tier 2). The core capital must, at a minimum, amount to 4 percent and the total equity resources (core capital and supplementary capital), at a minimum, to 8 percent of the risk-weighted assets.
Our published risk-weighted assets and equity indicators are determined in accordance with the Guidelines of the FMA Liechtenstein. The computation of required equity of the VP Bank Group deviates in certain points from the computation pursuant to the Basle Capital Accord (BIS Guidelines). The most important differences are as follows:

- Contrary to the BIS, which applies a maximum risk-weighting of 100 percent, the FMA uses risk-weightings exceeding 100 percent for certain assets (e.g. real estate, property and equipment, intangible assets and participations not allocated to the trading book).
- Contrary to the BIS Guidelines which provide for a risk-weighting of 20 percent for loans to OECD banks, the FMA requires a weighting of 25 percent to 75 percent (depending on duration).

As a consequence of the differences in supervisory-law provisions, the risk-weighted assets of the VP Bank Group are higher and capital ratios (total and core capital) lower if the computation is made in accordance with the provisions of the FMA instead of the BIS Guidelines. The total and core capital of the VP Bank Group at all times exceed markedly the minimum requirements of the BIS and the FMA.

Shareholders' equity indicators

As of December 31, 2007, the risk-weighted assets amounted to 5.8 billion francs, compared to 5.6 billion francs in the prior year. The increase of 3.8 percent is to be ascribed to the increase in amounts due from banks. As of December 31, 2007, the FMA core capital aggregated 935 million francs, compared to 872 million francs in the prior year. Therein is reflected a higher operating profit in 2007. As a result of the growth in core capital, the total capital ratio increased by 0.5 percentage points, from 15.5 percent as at December 31, 2006 to 16 percent as of December 31, 2007.

Introduction of the new Basel Capital Accord "Basel II"

We anticipate that the introduction of the new Basel Capital Accord "Basel II" on January 1, 2008 will have a marginally negative impact on our core-capital ratio.

Commentary regarding Risk Management within the VP Bank Group

Principles underlying risk management within VP Bank

The sub-prime crisis has shown how critical value-oriented risk management is for the durable success and long-term survival of a bank and what significance particularly the control and monitoring of liquidity risks bears in this connection. For unlike in normal market conditions, liquidity risks and operational risks become a much greater focus of attention in crisis situations. Should extreme financial risks be under-estimated, this can lead rapidly to difficulties for the bank and in the final count, threaten its very existence.

The focus of value-oriented risk management is on the attainment of a durable return on the capital invested and one which, from the shareholders' perspective, is commensurate with the risks involved. To reach this goal, VP Bank stands for a rigorous dovetailing of profitability and risk within the scope of the management of its own equity resources; it consciously abandons the goal of gaining short-term interest advantages at the expense of the security of capital. VP Bank avoids extreme risks which can jeopardize the ability to bear risk and in this respect the health and existence of the Group and manages all risks within the annual risk budget laid down by the Board of Directors.

The risk management of VP Bank comprises the active management (control) and monitoring of risks. Both tasks are the responsibility of differing organizational units, and the requirement for a strict functional and organizational segregation of risk control and risk monitoring is taken into account.

To ensure the risk tolerance of the VP Bank Group, the highest boards of management determine the risk coverage measure available for unexpected losses and allocate it to each group company – within the framework of a system of internal limits – and for each individual category of risk. Each individual line of business of the parent bank and the subsidiaries implements the risk strategy set for it in terms of responsibility for achieving results and commits to risk positions in a controlled manner within the scope of the risk strategy set.

The risk policy constitutes the binding framework for risk management within the VP Bank Group. In addition to setting out the principles relating to risk policies, it describes primarily organizational structures and processes, clear rules as to responsibilities and powers of authority, methods and measures for risk management as well as independent control functions.

Organization and powers of authority within the Risk Management process

The **responsibility for risk** belongs to the Board of Directors. It is its duty to ensure that a system of internal control (ICS) is established and maintained. The ICS forms the absolute prerequisite for effective and efficient risk management. In particular, the Board of Directors is responsible for the approval of the risk policy and the overall risk budget, for monitoring the implementation of the risk policy and the development of the risk situation of VP Bank Group. In assuming its duties, the Board of Directors is assisted by its subcommitee, the Audit & Risk Management Committee.

Group Executive Management is responsible for the implementation of the strategies and business policies set by the Board of Directors. One of its central tasks is the control of risk and income, the management of business and reputational risks as well as the approval of limits for each subsidiary company and respective risk categories.

The adaptation of the risk policy to local circumstances and regulatory matters specific to the financial market of operations as well as ensuring compliance therewith is incumbent on the **Boards of Directors of the subsidiary companies.**

Risk Controlling is responsible for the measurement and controling of financial risks as well as the periodic and ad-hoc reporting on all risks. In addition, Risk Controlling must compute and propose the overall risk budget and risk sub-limits.

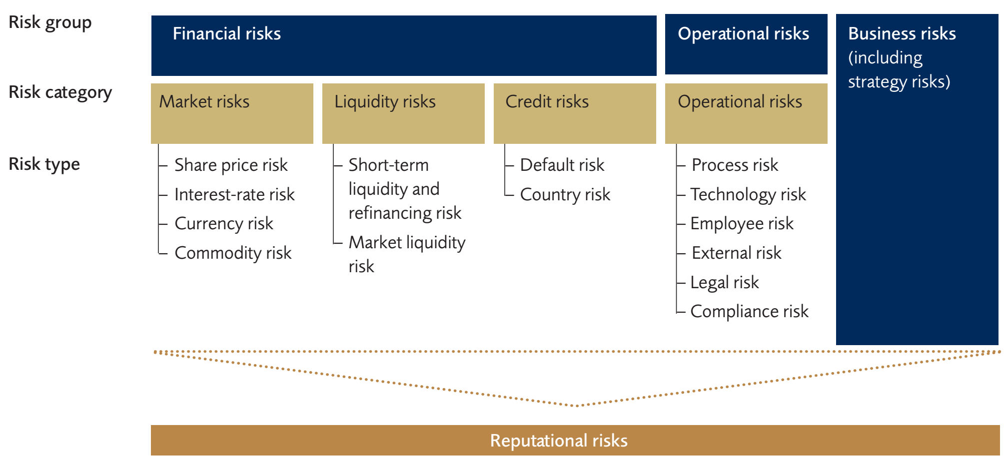
Risk Management is responsible for asset & liability management, credit and liquidity management, the management of limits for banks and brokers as well as for derivatives controlling.

The **risk management process** of VP Bank comprises four process phases: risk identification, risk evaluation, control of risk and risk monitoring. The responsibilities and powers of authority within this process as well as the methods and controls employed are set out in detailed rules for each individual phase and each risk category.
Knowledge of the risks inherent in the business activities undertaken constitutes the basis for an effective risk management. The identification of risks is essential above all at the time of granting loans, the introduction of new financial instruments, the review of new strategic directions or the conduct of unusual individual transactions.
Within the scope of risk evaluation, we differentiate between risk measurement and risk evaluation. In this respect, it is also important to evaluate non-quantifiable risks. Quantifiable risks are measured with the help of the following three variables: anticipated loss, non-anticipated loss and stress tests.

- The anticipated loss measures the risk of the individual credit portfolio and estimates the loss inherent in each respective portfolio which can be expected on average.
- The non-anticipated loss measures the anticipated deviation of the actual loss from the expected loss assuming a certain probability. VP Bank, for this purpose, employs the Value-at-Risk concept (VaR), which currently is employed exclusively to compute market risks. The VaR model of VP Bank is based upon the method of historical simulation: to compute all market-risk positions, the historical changes to market data of the last 260 trading days are used. In the process, a holding period of 30 days is assumed.
- Stress losses are triggered by extreme movements in markets and are measured with the aid of stress tests during which extreme fluctuations of interest rates and prices are simulated.

The goal of risk control is the optimization of the relationship between income and risk within the scope of a defined risk tolerance. Risk control is effected within the limits set down by law and using a system of internal limits which revolve around volumes, key figures pertaining to sensitivity and size of loss. The control over qualitative risks is ensured using key controls on the basis of stringently defined business processes.

Risk Categories



Risk control is accompanied by risk monitoring which is functionally and organizationally separate and which includes the review of the risks and reporting. The extent to which the overall bank limit is utilized as well as compliance with sub-limits is reviewed. Risk Controlling reports immediately all excesses to the Board of Directors and Group Executive Management. Reporting ensures that all relevant information of the risk/return situation of VP Bank is shown in a reliable and timely manner.

Risk categories in detail

The risks to which VP Bank is exposed during the conduct of its business operations are allocated to the three risk groups: financial risks, operational risks and business risks (including strategy risks). Financial risks are further divided into market risks, liquidity risks and credit risks.
Each individual type of risk must be identified, appropriately controlled and monitored. Otherwise, not only can significant financial losses arise, but damage to reputation may be incurred which may be accompanied by a loss of customers and employees, a decline in the value of the bank's shares or even attract severe restrictions on business activities imposed by the financial-market supervisory authorities. VP Bank thus does not consider reputational risk to be a distinct risk category, but as a danger which results from the occurrence of individual types of risk or a combination thereof. The management of reputational risks is incumbent on Group Executive Management.

Market risks

Market risk comprises the risk of a negative change in value of the overall bank's portfolio as a result of unexpected changes in market prices (interest rates, currencies, share prices and credit spreads) or price-influencing parameters such as volatility. Market risks are incurred with positions in debt securities, equity paper (the majority of which are exchange-listed), foreign currencies, derivatives within the scope of asset & liability management, precious metals and precious-metal options as well as in the inter-bank business and business for customers.
For evaluating and controlling market risks, VP Bank has recourse to a comprehensive set of methods and indicators. The central measurement indicator which is applied in the case of all market risks is the historical Value-at-Risk.
The aggregate market VaR of the VP Bank Group as at December 31, 2007 amounted to CHF 36.6 million (December 31, 2006: CHF 30.0 million). The reason for this increase was, on the one hand, the higher correlations of risk factors as well as the higher market volatilities since August 2007. In 2007, the highest recorded VaR amounted to CHF 37.6 million (month of August) and the lowest was CHF 28.2 million (month of June). Last year, the extreme VaR values were CHF 30.0 million and CHF 27.2 million, respectively. The following table shows the Value-at-Risk (on a monthly basis) analyzed by risk category as well as the market VaR computed over all risk categories. In this respect, it is noticeable that the VaR for the total market is smaller than the sum of the VaR values per type of risk. This is to be ascribed to negative correlations between the market parameters and is designated as the correlation or diversification effect.

Value-at-Risk in CHF million	Aggregate	Correlation effect	Interest-rate risk	Equity price & commodity risk	Currency risk
Year end	36.6	–4.7	4.1	22.1	15.1
Average	33.0	–7.6	3.5	23.1	14.0
Highest value	37.6	n.a.	6.3	25.2	15.1
Lowest value	28.2	n.a.	1.9	21.7	13.4

The market risk analysis is supplemented by stress tests. These tests enable the impact of extreme market fluctuations of the risk factors on interest income and on the present value of shareholders' equity to be estimated. In the area of interest and currency risks, the measurement of market risks using VaR is supplemented by various risk-sensitivity indicators. Thus, the key-rate duration profile shows the impact of a positive shift of one percent (+100 basis points) along the entire interest-rate curve on the market value of the assets and liabilities of the VP Bank Group in the currency concerned. The following table shows the results of such a scenario as of December 31, 2007, broken down by time periods and currencies, as well as comparative figures for the previous year. Negative values under this scenario indicate an asset surplus, and positive values a liability surplus, in the time period concerned.

in CHF 1,000 per 100 basis points increase	within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
CHF	34	–434	–2,358	–413	–10,534	–13,705
EUR	–186	–863	137	1,770	–6,045	–5,187
USD	–554	–620	99	2,944	–57	1,812
Other currencies	–101	–98	101	1,621	0	1,523
Total as of 31.12.2007	–807	–2,015	–2,021	5,922	–16,636	–15,557
CHF	54	–446	–2,142	–4,366	–13,427	–20,327
EUR	–229	–357	330	1,811	–4,015	–2,460
USD	–308	–574	44	1,525	–727	–40
Other currencies	–36	–68	–3	1,212	0	1,105
Total as of 31.12.2006	–519	–1,445	–1,771	182	–18,169	–21,722

Market risks are controlled within the scope of asset & liability management (ALM) and the management of the Bank's own investments. The central staff function Risk Management is responsible on a strategic level for ALM and the management of the Bank's own investments and the Asset Management organizational unit is responsible on an operational level. The units are organizationally and functionally separate from each other: Risk Management reports to the Chief Financial Officer (CFO), Asset Management to the head of Trust Banking.

The Risk Management staff function develops recommendations as to action to be taken for the control of market risks, for instance for a risk/return benchmark (in accordance with risk-adjusted return requirements) or for various investment guidelines such as strategic asset allocation. These recommendations are tabled at the monthly risk control committee and approved by the CFO. The risk control committee coordinates and monitors the activities of the organizational units involved in the risk management process (Risk Controlling, Investment Strategy, Asset Management and Risk Management). On an operational level, the investment decisions of the risk control committee are implemented on a timely basis.

The monitoring of the limits set by type of market risk is incumbent on Group Executive Management. In this respect, it is supported by Risk Controlling which compares the current risk exposures to the related limits. Risk Controlling reports all excesses over the limits to the specialized functions involved, as well as to the member of Group Executive Management that is responsible and to the CFO. The latter shall decide on the further course of action.

Liquidity risks

Liquidity risk is the danger that current and future payment obligations cannot be met on the due date or to the full extent. In order to meet its payment obligations, VP Bank would be obligated to continually refinance itself on the market (short-term liquidity and refinancing risk) or to liquidate financial investments on the market at a discount (market liquidity risk).

The management of liquidity risks ensures that VP Bank always possesses adequate liquidity in order to meet its payment obligations on the due date and to the full extent. Furthermore, it ensures that the liquidity norms imposed under supervisory law are complied with and that the liquidity costs for the short-term procurement of finance and the maintenance of a liquidity reserve are minimized.

Responsible within the scope of strategic risk control is Risk Management, whereas Treasury (integrated into the Asset Management business unit) is responsible for operational control. Liquidity risks are evaluated through the computation of short-term liquidity, the minimum reserve requirements as well as asset and liability risk concentrations.

The instruments to ensure daily liquidity are determined by Treasury. Amongst these are the closest possible matching of client deposits in terms of maturities on the domestic and foreign money markets, the holding of cash reserves, the conclusion of currency swaps and repurchase and reverse repurchase transactions as well as the taking up of money on the inter-bank market.

The monitoring of liquidity risks is incumbent on the central staff function Group Finance. In addition to the observance of the legal liquidity norms, the legal prescriptions on asset and liability risk concentrations as well as the internal regulations on liquidity control are the object of risk monitoring.

An important indicator for the purposes of liquidity monitoring is the relationship between liquid assets and short-term liabilities. Included in liquid assets are balances due from banks, bonds and other assets maturing within one month, as well as liquid assets and bonds of foreign states. Short-term liabilities reflect all savings and deposit accounts, sight liabilities as well as deposits from banks and customers maturing during the following month.

The following table shows the relationship between liquid assets and short-term liabilities for 2006 and 2007 as per year end, as well as the average, highest and lowest values.

	2007	2006
31.12.	58%	57%
Average during year	57%	56%
Highest value	62%	58%
Lowest value	52%	54%

As per 31.12.2007 and 31.12.2006 the following cash flows are shown on the liabilities side of the balance sheet (non-discounted capital and interest payments):

in CHF 1,000 as per 31.12.2007	At sight	Cancellable	Maturing within 3 months	Maturing after 3 months to 12 months	Maturing after 12 months to 5 years	Maturing after 5 years	Total
Due to banks	47,545	0	10,416	35,032	0	0	92,993
Due to clients in form of savings & deposits	0	609,553	0	0	0	0	609,553
Other liabilities to clients	2,068,849	3,274,733	2,472,972	153,102	2,067	0	7,971,722
Derivative financial instruments	28,641	0	0	0	0	0	28,641
Securitized liabilities	0	0	35,323	119,205	501,838	5,370	661,737
Total as per 31.12.2007	2,145,035	3,884,286	2,518,711	307,339	503,905	5,370	9,364,646

in CHF 1,000 as per 31.12.2006	At sight	Cancellable	Maturing within 3 months	Maturing after 3 months to 12 months	Maturing after 12 months to 5 years	Maturing after 5 years	Total
Due to banks	34,668	696	202,557	20,525	520	0	258,966
Due to clients in form of savings & deposits	0	805,469	0	0	0	0	805,469
Other liabilities to clients	1,739,857	2,750,569	2,464,131	124,444	4,381	0	7,083,382
Derivative financial instruments	18,704	0	0	0	0	0	18,704
Securitized liabilities	0	0	11,794	37,502	219,019	5,517	273,832
Total as per 31.12.2006	1,793,229	3,556,734	2,678,482	182,471	223,920	5,517	8,440,353

Credit risks

Credit risk is the danger that losses will be incurred as a result of non-fulfillment of the contractual obligations of a counterparty (default risk). Concentrations of credit risks arise primarily whenever customers are active in similar industry segments or are resident in the same region.

Default risks may accrue to the bank from all transactions for which payment obligations of third parties in favor of the bank can arise: from the credit and money-market business, the management of own investments in securities, trading activities as well as from securities lending.

Credit risks are evaluated both at the level of the individual exposure as well at a portfolio level through the attribution of a rating. The rating serves as an indicator for the probability of default. For banks VP Bank uses the rating system of the Cantonal Bank of Zurich and for non-banks, an internal rating system is used. Country risk is also evaluated with the aid of the rating system of the Cantonal Bank of Zurich (ZKB rating).

At a portfolio level, risk management aims at avoiding existence-jeopardizing risk concentrations as well as maximizing income within the credit-risk limits. This includes analyses by rating and classes of size, economic segments and the quality of credit collateral. Furthermore, the anticipated and non-anticipated credit loss is computed.

With the active management of customer loans, VP Bank seeks to achieve a diversified credit portfolio with an optimal relationship between risk and income. At December 31, 2007, the aggregate credit exposures amounted to CHF 9.8 billion (December 31, 2006: CHF 8.9 billion). The following table illustrates the composition of credit exposures by on- and off-balance-sheet positions.

in CHF 1,000	31.12.2007	31.12.2006
Receivables from money-market paper	487	120
Due to banks	6,069,437	5,138,424
Due to clients	3,014,504	2,923,891
Trading portfolios	60	368
Derivative financial instruments	27,785	17,391
Debt securities (FVTPL, Note 18)	36,955	51,387
Financial investments (debt securities)	488,293	556,174
Contingent liabilities	113,706	111,077
Total credit risk	9,751,227	8,798,832

In the case of amounts due from banks, public-law corporations as well as of interest-bearing securities amongst its own investments, the valuation is based on external ratings. Both of the two following tables show the individual on- and off-balance-sheet positions by rating classes as of 31.12.2007 and 31.12.2006.

in CHF 1,000	Very safe (AAA to BBB)	Normally safe (BB+ to B-)	Unsafe (B- to C)	Without external rating	Value-adjusted positions 31.12.2007
Receivables from money-market paper	-	-	-	487	-
Due from banks	6,041,014	-	-	32,094	3,671
Due from corporate clients	-	-	-	1,227,035	12,057
Due from private clients	-	-	-	1,723,633	15,107
Public-law corporations	75,000	-	-	16,000	-
Trading portfolios	-	-	-	60	-
Derivative financial instruments	11,998	-	-	15,787	-
FVTPL (interest-bearing securities)	36,665	-	-	290	-
Financial investments (interest-bearing securities)	476,444	-	-	11,849	-
Total 31.12.2007	6,641,121	-	-	3,027,235	30,835

in CHF 1,000	Very safe (AAA to BBB)	Normally safe (BB+ to B-)	Unsafe (B- to C)	Without external rating	Value-adjusted positions 31.12.2006
Receivables from money-market paper	-	-	-	120	-
Due to banks	4,990,541	-	-	150,887	3,004
Due to clients	-	-	-	2,845,833	32,942
Public-law corporations	75,000	-	-	36,000	-
Trading portfolios	-	-	-	368	-
Derivative financial instruments	12,059	-	-	5,332	-
FVTPL (interest-bearing securities)	47,832	-	-	3,555	-
Financial investments (interest-bearing securities)	542,772	-	-	13,402	-
Total 31.12.2006	5,668,204	-	-	3,055,497	35,946

The ten largest individual exposures to banks amount to an aggregate of CHF 2.4 billion (December 31, 2006: CHF 2.1 billion). These relate exclusively to institutions with a high credit capacity (ZKB minimum rating A) and a registered office in an OECD country.
The principal focus in the traditional credit business with clients is constituted by mortgage loans with CHF 1.9 billion (2005: CHF 1.8 billion). Viewed from a regional perspective, VP Bank conducts the largest part of this business in the Principality of Liechtenstein and the eastern part of Switzerland. The ten largest single exposures to clients encompass 14 percent of total client loans or 4 percent of total assets (December 31, 2006: 16 percent of total client loans or 5 percent of total assets).

Country risk

Country risk is a further expression of credit risk and describes the danger that cross-frontier payments cannot be made as a result of transfer difficulties relating to sovereign measures taken by a foreign state.
The control of country risks is effected using country-specific volume limits for foreign exposures. These are receivables from counterparties with domicile outside Liechtenstein or Switzerland. The positions which are taken into account encompass all on- and off-balance-sheet receivables. The ascertainment of country risk is effected using the principle of risk domicile; in this respect, in the case of secured exposures, in principle the country in which the collateral is located is considered.
VP Bank employs a rating concept with seven categories for categorizing and estimating the risks of individual countries. These categories range from A (smallest possible risk, excellent financial security) to G (high risk, often insolvent or only just solvent).

As of December 31, 2007, 97 percent of all receivables could be allocated to the rating classes A and B (December 31, 2006: 96.7 percent) and 3.0 percent to the rating class C (December 31, 2006: 3.3 percent). VP Bank has no receivables rated D, i.e. "without rating".

Operational risks

Operational risks represent the danger of incurring losses which arise as a result of the inappropriateness or failure of internal procedures, people or systems or as a result of external events. Included therein are process, technology and employee risks, external risks as well as risks resulting from violations against compliance.
During the 2007 financial year, VP Bank developed and introduced a systematic and uniform process to identify, evaluate, control and monitor operational risks. The basis thereof is constituted by a standard software solution which was configured and parametricized by the end of 2007.
The software supports the methodical implementation of individual process steps. The methodology encompasses the conduct of risk assessments, tracking of measures taken, the establishment of a loss data base, the development of early-warning indicators and their integration into the system of internal control as well as the quantification of operational risks insofar as the required data quality and quantity is assured. In 2007, the first risk assessments took place during which business processes were investigated for relevant risk information such as potential reasons for loss or potential for loss.
All large-scale projects of VP Bank were conducted in a uniform manner in accordance with the PEX method (project excellence): clearly defined procedures apply for each project employee as a result of which the sources and frequency of errors are avoided or reduced. In order to ensure an independent project risk control, VP Bank has appointed an independent project risk controller and segregated the financial project controlling from the project management.

Business risks

VP Bank classifies as business risks those risks which are currently regarded by the Group Executive Management and Board of Directors as being highly charged. Regarded as high are risks that could jeopardize on an on-going basis the attainment of the long-term corporate goals on the basis of the currently prevailing external and internal risk factors. The assessment of business risks is subject to continual review and they maintain their validity only so long as the management bodies undertake a further revalidation and prioritization thereof.
VP Bank thus does not view business risks as an autonomous risk category. The top business risks identified by the Board of Directors and Group Executive Management are reflected in the two risk groups: financial and operational risks.
Business risks also include strategy risks. These result from strategic decisions which were taken using estimates of future developments and therefore taken under conditions of uncertainty. Such risks jeopardize the attainment of long-term corporate objectives. They arise, for example, when a company is inadequately oriented towards the development of the business environment, whenever unrealistic goals are set, whenever the strategy is poorly implemented or when the implementation is inadequately controlled.
VP Bank reviews the fundamental risk scenarios in a three-year cycle; the validation and prioritization of business risks is undertaken annually by the Audit & Risk Management Committee as well as Group Executive Management. Probabilities of occurrence are given to each risk scenario and evaluated according to their impact on corporate goals. The effectiveness of existing measures to avoid risks and the effectiveness of the controls implemented are reviewed regularly.
The top risk scenarios are controlled at the level of their underlying risk drivers: each risk driver underlying a scenario is influenced by target figures and suitable parameters for action. The Audit & Risk Management Committee and Group Executive Management determine who shall assume responsibility for the management of risk drivers within the scope of projects.

Segment Reporting by Business Units

Segment reporting includes the three business units Private Clients, Trust Banking and Banking Services, as well as the Corporate Center.
Indirect costs for internal services rendered between the units are basically accounted for by the provider of the services as expense and by the recipient as a reduction of expenses following the originator principle.

Private Clients

The Private Clients business unit encompasses the private-banking business of the VP Bank Group and is divided into the units Private Banking, Personal Banking and Commercial Banking. It offers to international clients comprehensive advice and services which are tailored to all types of assets. VP Vermögensverwaltung GmbH, Munich, VP Wealth Management (Singapore) Ltd, Singapore, VP Wealth Management (Middle East) Ltd., Dubai and VP Wealth Management (Hong Kong) Ltd., Hong Kong all belong to the Private Clients business unit.

Trust Banking

The Trust Banking business unit consists of the units Intermediaries, Investment Strategy and Asset Management, whose activities extend across the whole banking group. It offers customized services for trustees, attorneys and external asset managers. The subsidiary companies IFOS Internationale Fonds Service AG, Vaduz and VP Bank and Trust Company (BVI) Limited, Tortola also report to the Trust Banking business unit.

Banking Services

The Banking Services business unit comprises the units Business Excellence, Information Technology, Operations and Logistics & Security for the entire group.

Corporate Center

Under Corporate Center are reported those items of income and expenditure which have no direct relationship to the operating business units, as well as central management and consolidation items. The management of equity resources by the central staff function Risk Management and the gains/losses from asset and liability management are allocated to the Corporate Center. Also integated into the results of the Corporate Center are those of the subsidiaries FIB Finanz- und Beteiligungs-AG, Vaduz, Proventus Treuhand und Verwaltung AG, Vaduz and IGT Intergestions Trust reg., Vaduz.

2007 in CHF 1,000	Private Clients	Trust Banking	Banking Services	Corporate Center	Total Group
Total income from interest-differential business	56,672	52,689	0	32,604	141,965
Total income from commission business and services	97,562	81,119	–3,834	317	175,164
Income from trading activities	5,271	19,803	0	–5	25,069
Other income	2,856	5,834	674	29,026	38,390
Total net operating income	**162,361**	**159,445**	**–3,160**	**61,942**	**380,588**
Personnel expenses	32,799	27,095	32,452	30,584	122,930
General and administrative expenses	12,842	9,579	9,446	23,041	54,908
Services to/from other business units	27,362	8,906	–24,938	–11,330	0
Operating expenses	**73,003**	**45,580**	**16,960**	**42,295**	**177,838**
Gross income	**89,358**	**113,865**	**–20,120**	**19,647**	**202,750**
Depreciation and amortization	1,979	678	11,079	7,798	21,534
Valuation allowances, provisions and losses	4,069	1,688	4	159	5,920
Income before income tax	**83,310**	**111,499**	**–31,203**	**11,690**	**175,296**
Taxes on income					13,796
Net income					**161,500**
Share of net income attributable to minority interests					3,702
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz					**157,798**
Divisional assets (in CHF million)	2,265	7,306	94	829	10,494
Divisional liabilities (in CHF million)	3,805	5,732	9	–158	9,388
Investments in property and equipment	1,841	656	32,645	5,986	41,128
Depreciation and amortization	1,979	678	11,079	7,798	21,534
Creation of valuation allowances for credit risks	3,367	815	0	0	4,182
Release of valuation allowances for credit risks	2,065	323	0	0	2,388
Headcount (full-time equivalents)	170.0	157.5	239.5	114.4	681.4

The recharging of costs and revenues between the business units is made on the basis of agreements as would be the case between unrelated third parties ("at arm's length"). The transfer prices within the segments are reviewed annually and renegotiated to reflect current economic conditions.

2006 in CHF 1,000	Private Clients	Trust Banking	Banking Services	Corporate Center	Total Group
Total income from interest-differential business	52,301	46,231	33	31,183	129,748
Total income from commission business and services	77,848	79,928	–2,998	609	155,387
Income from trading activities	4,914	16,444	4	–7	21,355
Other income	4,556	5,235	318	9,685	19,794
Total net operating income	**139,619**	**147,838**	**–2,643**	**41,470**	**326,284**
Personnel expenses	24,475	23,187	28,747	25,186	101,595
General and administrative expenses	9,919	10,505	7,209	22,791	50,424
Services to/from other business units	19,288	10,104	–19,404	–9,988	0
Operating expenses	**53,682**	**43,796**	**16,552**	**37,989**	**152,019**
Gross income	**85,937**	**104,042**	**–19,195**	**3,481**	**174,265**
Depreciation and amortization	982	688	7,697	7,330	16,697
Valuation allowances, provisions and losses	5,475	3,754	1,441	507	11,177
Income before income tax	**79,480**	**99,600**	**–28,333**	**–4,356**	**146,391**
Taxes on income					11,521
Net income					**134,870**
Share of net income attributable to minority interests					2,805
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz					**132,065**
Divisional assets (in CHF million)	2,221	6,368	91	865	9,545
Divisional liabilities (in CHF million)	3,382	5,519	14	–423	8,491
Investments in property and equipment	3,303	349	13,176	17,145	33,973
Depreciation and amortization	982	688	7,697	7,330	16,697
Creation of valuation allowances for credit risks	5,483	746	0	0	6,229
Release of valuation allowances for credit risks	3,287	299	86	0	3,672
Headcount (full-time equivalents)	148.6	143.0	228.9	90.1	610.6

The recharging of costs and revenues between the business units is made on the basis of agreements as would be the case between unrelated third parties ("at arm's length"). The transfer prices within the segments are reviewed annually and renegotiated to reflect current economic conditions.

Geographic Segment Reporting

2007 in CHF 1,000	Liechtenstein and Switzerland	Rest of Europe	Other countries	Total Group
Total net operating income	325,347	39,588	15,653	380,588
Assets (in CHF million)	8,097	1,902	495	10,494
Investments in property and equipment	38,593	927	1,608	41,128

2006 in CHF 1,000	Liechtenstein and Switzerland	Rest of Europe	Other countries	Total Group
Total net operating income	283,881	28,963	13,440	326,284
Assets (in CHF million)	7,146	1,836	563	9,545
Investments in property and equipment	30,477	3,317	179	33,973

Reporting follows the principle of branch accounting.

Notes to Consolidated Income Statement and Consolidated Balance Sheet

1 Income from interest-differential business

in CHF 1,000	2007	2006	Variance in %
Interest and discount income[1]	355,872	261,104	36.3
Interest income on available-for-sale financial investments	15,509	14,991	3.5
Dividend income on available-for-sale financial investments	3,002	1,552	93.4
Subtotal	374,383	277,647	34.8
Interest income from trading portfolios and interest-rate derivatives	4,999	5,718	–12.6
Interest income from financial investments designated at fair value	13,096	13,586	–3.6
Dividend income from trading portfolios	22	40	–45.0
Dividend income from financial investments designated at fair value	46	11	318.2
Total interest income	**392,546**	**297,002**	**32.2**
Interest expense on liabilities	239,331	163,426	46.4
Interest expense on medium-term notes	6,818	3,828	78.1
Interest expense on debenture issue	4,432	0	n. a.
Total interest expense	**250,581**	**167,254**	**49.8**
Total income from interest-differential business	**141,965**	**129,748**	**9.4**

[1] The interest income from value-impaired loans (note 15) in 2007 aggregated CHF 0.398 million (2006: CHF 0.447 million)

2 Income from commission business and services

in CHF 1,000	2007	2006	Variance in %
Commission income from credit business	917	781	17.4
Asset management and investment business[1]	51,555	42,725	20.7
Brokerage fees	63,701	53,321	19.5
Securities account fees	28,850	26,121	10.4
Fund management fees	73,667	63,011	16.9
Fiduciary commissions	8,210	5,762	42.5
Commission income from other services	13,053	11,892	9.8
Total income from commission business and services	**239,953**	**203,613**	**17.8**
Brokerage expense	10,736	9,464	13.4
Other commission and services-related expense	54,053	38,762	39.4
Total expense from commission business and services	**64,789**	**48,226**	**34.3**
Total income from commission business and services	**175,164**	**155,387**	**12.7**

[1] Corporate actions, asset management commissions, investment advisory services, all-in fees, securities lending, retrocessions

3 Income from trading activities

in CHF 1,000	2007	2006	Variance in %
Securities trading	–1,383	211	n. a.
Foreign currency	24,959	19,496	28.0
Bank notes, precious metals and other	1,493	1,648	–9.4
Total income from trading activities	**25,069**	**21,355**	**17.4**

The result arising from trading derivatives, options etc. is included in the position securities trading.

4 Other income

in CHF 1,000	2007	2006	Variance in %
Income from financial instruments designated at fair value	–1,812	–6,179	70.7
Income from available-for-sale financial instruments	30,588	14,183	115.7
Income from real estate	103	126	–18.3
Release of valuation allowances and provisions no longer required	2,030	3,582	–43.3
Miscellaneous other income	8,126	8,394	–3.2
Miscellaneous other losses	–645	–312	106.7
Total other income	**38,390**	**19,794**	**93.9**

Income from financial instruments designated at fair value			
Income from assets designated at fair value	–1,812	–6,179	70.7
Income from liabilities designated at fair value	0	0	0
Total[1]	**–1,812**	**–6,179**	**70.7**

[1] Included in this amount are gains and losses from purchases and sales and changes in market values of financial instruments designated at fair value.

Income from available-for-sale financial instruments			
Debt instruments	914	3,884	–76.5
Equity instruments/investment-fund units	29,674	10,299	188.1
Total income from available-for-sale financial instruments[1]	**30,588**	**14,183**	**115.7**

[1] Included in this amount are amounts transferred from shareholders' equity to the income statement in respect of available-for-sale financial instruments.

5 Personnel expenses

in CHF 1,000	2007	2006	Variance in %
Salaries and wages	97,748	80,211	21.9
Social contributions required by law	7,939	7,041	12.8
Contributions to pension plans/defined-benefit plans	5,367	5,165	3.9
Contributions to pension plans/defined-contribution plans	920	804	14.4
Other personnel expenses	10,956	8,374	30.8
Total personnel expenses[1]	**122,930**	**101,595**	**21.0**

[1] In conformity with IAS 38, a portion of self-produced software is capitalized. Personnel expenses are reduced by the amount so capitalized.

6 General and administrative expense

in CHF 1,000	2007	2006	Variance in %
Occupancy expense	5,926	5,417	9.4
Insurance	1,119	1,228	–8.9
Professional fees	6,732	5,936	13.4
Financial information procurement	6,318	6,085	3.8
Telecommunication and postage	1,988	1,681	18.3
IT systems	9,720	7,252	34.0
Marketing and public relations	10,431	12,410	–15.9
Taxes on capital	1,920	1,756	9.3
Other general and administrative expense	10,754	8,659	24.2
Total general and administrative expense	**54,908**	**50,424**	**8.9**

7 Depreciation and amortization

in CHF 1,000	2007	2006	Variance in %
Depreciation and amortization of property and equipment (note 20)	12,522	10,935	14.5
Amortization of intangible assets (note 21)	9,012	5,762	56.4
Total depreciation and amortization	**21,534**	**16,697**	**29.0**

8 Valuation allowances, provisions and losses

in CHF 1,000	2007	2006	Variance in %
Credit risks	4,182	6,229	–32.9
Legal and litigation risks	0	0	n. a.
Valuation allowances on available-for-sale financial investments	176	380	–53.7
Other	1,562	4,568	–65.8
Total valuation allowances, provisions and losses	**5,920**	**11,177**	**–47.0**

9a Taxes on income

in CHF 1,000	2007	2006
Domestic		
Current taxes	10,617	9,570
Deferred taxes	614	145
Foreign		
Current taxes	2,412	1,643
Deferred taxes	153	163
Total current taxes	13,029	11,213
Total deferred taxes	767	308
Total taxes on income	**13,796**	**11,521**

Actual payments for domestic and foreign taxes made by the Group in 2007 aggregated CHF 10.612 million (2006: CHF 9.577 million).

Proof – taxes on income

All anticipated liabilities arising in connection with taxes on income earned during the reporting period are reflected in the financial statements. They are computed in accordance with the laws governing taxation in the respective countries. Deferred tax liabilities arising from differences between the values in the financial statements drawn up for legal and/or tax purposes and those in the consolidation are computed using the following tax rates:

	2007	2006
Liechtenstein	8%	8%
Switzerland	20%	20%
Luxembourg	30%	30%
British Virgin Islands	0%	0%

Pre-tax results, as well as differences between the tax charge in the income statement and the tax charge arrived at on the basis of a standard assumed average rate of 10 percent, may be analyzed as follows:

in CHF 1,000	2007	2006
Pre-tax results		
Domestic	152,722	130,374
Foreign	22,574	16,017
Taxes on income using an assumed average charge	17,530	14,639
Reasons for increased/decreased taxable income: Difference between actual and assumed tax rates	–3,733	–1,507
Change in deferred tax assets and liabilities	767	308
Utilization of tax loss carryforwards	0	0
Lower taxation charge and relief resulting from taxation agreement of VP Bank in Luxembourg	–768	–1,919
Total income taxes	13,796	11,521

The rate of taxes on income in Liechtenstein can increase by 1 percent up to a maximum of 5 percent if the dividend distribution constitutes more than 8 percent and 24 percent, respectively, of taxable capital.

9b Deferred taxes

in CHF 1,000	2007	2006
Deferred tax assets		
Real estate and property and equipment	2,632	2,292
Total deferred tax assets	2,632	2,292
Deferred tax liabilities		
Real estate and property and equipment	788	312
Financial instruments	1,766	1,279
Financial instruments directly offset within shareholders' equity	1,140	3,684
Valuation allowances for credit risks	1,187	999
Other provisions	12,342	12,204
Other	730	912
Total deferred tax liabilities	17,953	19,390
Deferred tax assets		
Balance at beginning of financial year	2,292	1,991
Charged to income statement	341	299
Released to income statement	–1	0
Impact of deferred tax rate changes	0	2
Total deferred tax assets	2,632	2,292
Deferred tax liabilities		
Balance at beginning of financial year	19,390	16,329
Reclassifications	–2,544	2,452
Charged to income statement	1,563	1,030
Released to income statement	–467	–438
Impact of deferred tax rate changes	11	17
Total deferred tax liabilities	17,953	19,390

Deferred taxes arise because of timing differences between the IFRS financial statements and the statutory accounts as a result of differing valuation policies.

Loss carryforwards not reflected in the balance sheet expire as follows:		
Within 1 year	0	0
1 – 4 years	4,424	4,222
After 4 years	430	422
Total	**4,854**	**4,644**

No loss carryforwards could be utilized during the current financial year.

9c Tax assets and liabilities

in CHF 1,000	31.12.2007	31.12.2006
Tax assets		
Amounts receivable arising on current taxes on income	533	513
Deferred tax assets (note 9b)	2,632	2,292
Total tax assets	**3,165**	**2,805**
Tax liabilities		
Liabilities arising on current taxes on income	16,764	16,026
Deferred tax liabilities (note 9b)	17,953	19,390
Total tax liabilities	**34,717**	**35,416**

10 Earnings per share

	2007	2006
Consolidated earnings per share of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz		
Net income (in CHF 1,000)	157,798	132,065
Weighted average bearer shares	5,293,956	5,301,829
Weighted average registered shares	5,993,793	5,995,659
Total weighted average number of shares (bearer)	5,893,336	5,901,395
Consolidated earnings per bearer share	26.78	22.38
Consolidated earnings per registered share	2.68	2.24
Fully-diluted consolidated earnings per share of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz		
Net income (in CHF 1,000)	157,798	132,065
Adjusted consolidated net income (in CHF 1,000)	157,798	132,065
Number of shares used to compute the fully-diluted consolidated net income	5,893,336	5,901,395
Fully-diluted consolidated earnings per bearer share	26.78	22.38
Fully-diluted consolidated earnings per registered share	2.68	2.24

11 Dividend

	2007	2006
Approved and paid dividend of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz		
Dividend (in CHF 1,000) for the financial years 2006 (2005)	59,148	50,275
Dividend per bearer share	10.00	8.50
Dividend per registered share	1.00	0.85
Pay-out ratio (in %)	44.8	42.1

Proposed dividend to be approved by the Annual General Meeting of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (not reflected as liability as per December 31)

Dividend (in CHF 1,000)	65,062	59,148
Dividend per bearer share	11.00	10.00
Dividend per registe red share	1.10	1.00
Pay-out ratio (in %)	41.2	44.8

12 Cash and cash equivalents

in CHF 1,000	31.12.2007	31.12.2006
Cash on hand	**18,666**	14,766
Sight balances on postal checking accounts	**4,575**	6,222
Sight balances with National and Central Banks	**90,311**	78,343
Total cash and cash equivalents	**113,552**	**99,331**

13 Receivables arising from money-market paper

in CHF 1,000	31.12.2007	31.12.2006
Money-market paper (non interest-bearing and qualifying for refinancing purposes)	**0**	0
Other money-market paper	**487**	120
Total receivables arising from money-market paper	**487**	**120**

14 Due from banks and customers

According to type of exposure in CHF 1,000	31.12.2007	31.12.2006
Due from banks – sight balances	**1,155,771**	1,168,434
Due from banks – term balances	**4,917,337**	3,972,994
Valuation allowances for credit risks (note 15)	**–3,671**	–3,004
Due from banks	**6,069,437**	**5,138,424**
Mortgage receivables	**1,824,044**	1,724,153
Other receivables	**1,217,624**	1,232,680
Valuation allowances for credit risks (note 15)	**–27,164**	–32,942
Due from customers	**3,014,504**	**2,923,891**
Total due from banks and customers	**9,083,941**	**8,062,315**

Due from customers analyzed by type of collateral in CHF 1,000	31.12.2007	31.12.2006
Mortgage collateral	**1,876,755**	1,763,683
Other collateral	**850,128**	818,581
Without collateral	**314,785**	374,569
Subtotal	**3,041,668**	**2,956,833**
Valuation allowances for credit risks	**–27,164**	–32,942
Total due from customers	**3,014,504**	**2,923,891**

Based upon the general right of pledge and offset stipulated in the General Terms of Business of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, any available balances of credit customers are considered as collateral for related credit exposures.

15 Valuation allowances for credit risks

in CHF 1,000	2007	2006
Balance at beginning of financial year	35,946	39,816
Amounts written off on loans / utilization in accordance with purpose	–6,859	–6,386
New charges for valuation allowances and provisions for credit risks	4,182	6,229
Release of valuation allowances and provisions for credit risks	–2,388	–3,672
Foreign-currency translation differences and other adjustments	–46	–41
Balance at end of financial year	**30,835**	**35,946**

As valuation adjustment for due from banks	3,671	3,004
As valuation adjustment for due from customers	27,164	32,942
Total valuation allowances for credit risks	**30,835**	**35,946**

Analyzed by type of exposure in CHF 1,000	Banks	Mortgage receivables	Other receivables	Total 2007
Balance at beginning of financial year	3,004	5,975	26,967	35,946
Amounts written off on loans / utilization in accordance with purpose	0	–23	–6,836	–6,859
Creation of valuation allowances and provisions for credit risks	728	3,173	281	4,182
Release of valuation allowances and provisions for credit risks	–46	–822	–1,520	–2,388
Foreign-currency translation differences and other adjustments	–15	0	–31	–46
Balance at end of financial year	**3,671**	**8,303**	**18,861**	**30,835**
thereof				
Individual valuation allowances	446	5,983	4,185	10,614
Lump-sum valuation allowances	3,225	2,320	14,676	20,221
Total	**3,671**	**8,303**	**18,861**	**30,835**

Other receivables comprise primarily lombard credits, debit balances on accounts and unsecured credits.

Analyzed by type of exposure in CHF 1,000	Banks	Mortgage receivables	Other receivables	Total 2006
Balance at beginning of financial year	3,156	5,805	30,855	39,816
Amounts written off on loans / utilization in accordance with purpose	0	–1,561	–4,825	–6,386
Creation of valuation allowances and provisions for credit risks	0	2,583	3,646	6,229
Release of valuation allowances and provisions for credit risks	–313	–841	–2,518	–3,672
Foreign-currency translation differences and other adjustments	161	–11	–191	–41
Balance at end of financial year	**3,004**	**5,975**	**26,967**	**35,946**
thereof				
Individual valuation allowances	446	3,784	11,597	15,827
Lump-sum valuation allowances	2,558	2,191	15,370	20,119
Total	**3,004**	**5,975**	**26,967**	**35,946**

Analyzed by type of valuation allowances in CHF 1,000	31.12.2007 Individual	31.12.2007 Lump-sum	31.12.2006 Individual	31.12.2006 Lump-sum
Balance at beginning of financial year	15,827	20,119	19,801	20,015
Amounts written off on loans / utilization in accordance with purpose	–6,698	–161	–6,386	0
Creation of valuation allowances and provisions for credit risks	3,346	836	5,403	826
Release of valuation allowances and provisions for credit risks	–1,862	–526	–2,992	–680
Foreign-currency translation differences and other adjustments	1	–47	1	–42
Balance at end of financial year	**10,614**	**20,221**	**15,827**	**20,119**

Individual valuation allowances relate to credits which are not covered by the liquidation proceeds of collateral or unsecured credits.

Value-impaired loans

Value-impaired loans are amounts outstanding from clients and banks where it is improbable that the debtor can meet its obligations.

in CHF 1,000	2007	2006
Value-impaired loans[1]	30,440	34,547
Amount of valuation allowances for credit losses from non-performing loans / individual valuation allowances	10,614	15,827
Net amounts due	19,826	18,720
Estimated realizable value of value-impaired loans	19,826	18,720
Average amount of value-impaired loans	32,494	40,321

[1] Interest receivable on non-performing loans in 2007 aggregated CHF 0.398 million (2006: CHF 0.447 million).

Recoveries from loans already written off (other income)	4	304

Non-performing loans

Non-performing loans are generally component parts of value-impaired loans. A loan is classified as non-performing as soon as the capital repayments and/or interest payments stipulated by contract are outstanding for 90 days or more.

in CHF 1,000	2007	2006
Non-performing loans	17,981	20,211
Amount of valuation allowances for credit losses from non-performing loans/individual valuation allowances	6,535	10,371
Net amounts due	11,446	9,840
Average amount of non-performing loans	19,096	28,435
Valuation allowances on non-performing loans at beginning of financial year	10,371	16,050
Net reduction / increase	2,715	300
Amounts written off and disposals / utilization in conformity with purpose	–6,551	–5,979
Valuation allowances on non-performing loans at end of financial year	6,535	10,371

According to type of exposure in CHF 1,000	31.12.2007	31.12.2006
Banks	**545**	**545**
Mortgage receivables	14,519	10,146
Other receivables	2,917	9,520
Customers	**17,436**	**19,666**
Total non-income-producing loans	**17,981**	**20,211**

According to regions (domicile of debtor) in CHF 1,000	31.12.2007	31.12.2006
Liechtenstein and Switzerland	17,885	20,154
Rest of Europe	96	35
North and South America	0	0
Other countries	0	22
Total non-income-producing loans	**17,981**	**20,211**

16 Trading portfolios

in CHF 1,000	31.12.2007	31.12.2006
Debt securities valued at fair value		
• Swiss Confederation und public-law corporations in Liechtenstein and Switzerland	0	0
• other public-law institutions	0	0
• exchange-listed	0	0
• non-exchange listed	0	0
• own medium-term bonds	0	0
Total	**0**	**0**
Equity instruments / investment-fund units valued at fair value		
• exchange-listed	0	335
• non-exchange listed	0	0
Total	**0**	**335**
Other	**60**	**33**
Total trading portfolios	**60**	**368**

17 Derivative financial instruments

31.12.2007 in CHF 1,000	Positive replacement values	Negative replace-ment values	Contract volumes
Interest-rate instruments			
Forward contracts			
Swaps	3,999	4,389	166,837
Futures			
Options (OTC)			
Options (exchange-traded)			
Total interest-rate instruments 31.12.2007	**3,999**	**4,389**	**166,837**
Foreign currencies			
Forward contracts	17,676	18,142	2,102,251
Combined interest-rate / currency swaps			
Futures			
Options (OTC)	120	120	68,637
Options (exchange-traded)			
Total foreign currencies 31.12.2007	**17,796**	**18,262**	**2,170,888**
Equity securities / indices			
Forward contracts			
Futures			
Options (OTC)			
Options (exchange traded)			
Total equity securities / indices 31.12.2007	**0**	**0**	**0**
Precious metals			
Forward contracts			
Futures			
Options (OTC)	5,990	5,990	80,604
Options (exchange-traded)			
Total precious metals 31.12.2007	**5,990**	**5,990**	**80,604**
Total derivative financial instruments 31.12.2007	**27,785**	**28,641**	**2,418,329**

31.12.2006 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments			
Forward contracts			
Swaps	724	2,458	145,566
Futures			
Options (OTC)			
Options (exchange-traded)			
Total interest-rate instruments 31.12.2006	**724**	**2,458**	**145,566**
Foreign currencies			
Forward contracts	11,759	11,338	1,899,036
Combined interest-rate / currency swaps			
Futures			
Options (OTC)	4,164	4,164	91,645
Options (exchange-traded)			
Total foreign currencies 31.12.2006	**15,923**	**15,502**	**1,990,681**
Equity securities / indices			
Forward contracts			
Futures			
Optionen (OTC)			
Options (exchange-traded)			
Total equity securities / indices 31.12.2006	**0**	**0**	**0**
Precious metals			
Forward contracts			
Futures			
Options (OTC)	744	744	23,592
Options (exchange-traded)			
Total precious metals 31.12.2006	**744**	**744**	**23,592**
Total derivative financial instruments 31.12.2006	**17,391**	**18,704**	**2,159,839**

18 Financial instruments designated at fair value

in CHF 1,000	31.12.2007	31.12.2006
Debt securities valued at fair value		
• Swiss Confederation und public-law corporations in Liechtenstein and Switzerland	0	0
• other public-law institutions	3,141	3,115
• exchange-listed	31,858	46,155
• non-exchange listed	1,956	2,117
Total	36,955	51,387
Equity securities / investment-fund units valued at fair value		
• exchange-listed	2,937	1,597
• non-exchange listed	4,246	5,105
Total	7,183	6,702
Structured products valued at fair value		
• exchange-listed	4,685	22,715
• non-exchange listed[1]	238,016	227,507
Total	242,701	250,222
Total financial instruments designated at fair value	286,839	308,311

[1] principally structured credit notes (credit-linked notes and asset swaps)

19 Financial instruments available for sale

in CHF 1,000	31.12.2007	31.12.2006
Debt securities valued at fair value		
• Swiss Confederation und public-law corporations in Liechtenstein and Switzerland	0	0
• other public-law institutions	63,241	47,222
• exchange-listed	199,975	198,072
• non-exchange listed	225,077	310,880
Total	488,293	556,174
Equity securities / investment-fund units valued at fair value		
• exchange-listed	95,253	87,160
• non-exchange listed	117,027	160,802
Total	212,280	247,962
Total financial instruments – available for sale	700,573	804,136

The fair value of non-exchange listed financial instruments is determined exclusively on the basis of traders' quotations or external pricing models based upon prices and rates of a supervised market. Management is convinced that the prices arrived at by these techniques constitute the most appropriate value for the balance sheet as of the date of the transactions, as well as for the related revaluation entries in the income statement. The fair value of derivative financial instruments without market value is arrived at by recognized valuation models. These models take account of the relevant parameters such as contract specifications, the market price of the underlying security, the yield curve and volatility.

20 Property and equipment

2007 in CHF 1,000	Bank buildings	Other real estate	Furniture and equipment	IT systems	2007 Total
Acquisition cost					
Balance on 01.01.	217,448	20,521	12,848	14,297	265,114
Additions	4,839	9	2,253	7,371	14,472
Disposals/derecognitions[1]			–225	–379	–604
Foreign-currency translation	11		–14	–36	–39
Other movements	–29,648[2]				–29,648
Balance on 31.12.	**192,650**	**20,530**	**14,862**	**21,253**	**249,295**
Accumulated depreciation and amortization					
Balance on 01.01.	–69,593	–2,893	–8,449	–9,978	–90,913
Systematic depreciation and amortization	–7,853	–368	–1,340	–2,961	–12,522
Valuation allowances					0
Disposals/derecognitions[1]			225	378	603
Foreign-currency translation	–4		16	40	52
Other movements	6,808[2]				6,808
Balance on 31.12.	**–70,642**	**–3,261**	**–9,548**	**–12,521**	**–95,972**
Net book values on 31.12.	**122,008**	**17,269**	**5,314**	**8,732**	**153,323**

1 includes the derecognitions of completely depreciated and amortized assets
2 IFRS 5: As a result of the move of VP Bank (Schweiz) AG, Zurich, to new rented premises, the previously used property was put up for sale (note 22). It was sold at the beginning of January 2008.

2006 in CHF 1,000	Bank buildings	Other real estate	Furniture and equipment	IT systems	2006 Total
Acquisition cost					
Balance on 01.01.	201,577	21,615	11,406	13,050	247,648
Additions	15,859	6	1,451	3,051	20,367
Disposals/derecognitions[1]		–1,100	–12	–1,774	–2,886
Other movements			10		10
Foreign-currency translation	12		–7	–30	–25
Balance on 31.12.	**217,448**	**20,521**	**12,848**	**14,297**	**265,114**
Kumulierte Abschreibungen					
Balance on 01.01.	–62,115	–2,526	–7,344	–9,814	–81,799
Systematic depreciation and amortization	–7,476	–367	–1,127	–1,965	–10,935
Valuation allowances					0
Disposals/derecognitions[1]			12	1,774	1,786
Foreign-currency translation	–2		10	27	35
Balance on 31.12.	**–69,593**	**–2,893**	**–8,449**	**–9,978**	**–90,913**
Net book values on 31.12.	**147,855**	**17,628**	**4,399**	**4,319**	**174,201**

1 includes the derecognitions of completely depreciated and amortized assets

Additional information regarding property and equipment	2007	2006
Fire insurance value of real estate	171,932	162,823
Fire insurance value of other property and equipment	36,911	33,896
Fair value of other real estate	17,269	17,628

There is no property and equipment arising from financing leasing contracts.

21 Goodwill and other intangible assets

2007 in CHF 1,000	Software[1]	Other intangible assets capitalized	Goodwill	2007 Total
Acquisition cost				
Balance on 01.01.	36,201	3,041	46,112	85,354
Additions	26,656			26,656
Disposals/derecognitions	–643			–643
Balance on 31.12.	**62,214**	**3,041**	**46,112**	**111,367**
Accumulated amortization				
Balance on 01.01.	–23,526	0	–35,302	–58,828
Systematic amortization	–8,155	–608		–8,763
Valuation allowances	–249			–249
Disposals/derecognitions	643			643
Foreign-currency translation	4			4
Balance on 31.12.	**–31,283**	**–608**	**–35,302**	**–67,193**
Net book values on 31.12.	**30,931**	**2,433**	**10,810**	**44,174**

[1] In conformity with IAS 38, a portion of self-created software is capitalized. The amount which can be capitalized is reduced from personnel expense accordingly.

There are no other capitalized intangible assets in the balance sheet of the VP Bank Group with an unlimited estimated useful life.

2006 in CHF 1,000	Software	Other intangible assets capitalized	Goodwill	2006 Total
Acquisition cost				
Balance on 01.01.	26,594	0	46,112	72,706
Additions	10,565	3,041		13,606
Disposals/derecognitions	–958			–958
Balance on 31.12.	**36,201**	**3,041**	**46,112**	**85,354**
Accumulated amortization				
Balance on 01.01.	–18,723	0	–35,302	–54,025
Systematic amortization	–5,762			–5,762
Disposals/derecognitions	959			959
Balance on 31.12.	**–23,526**	**0**	**–35,302**	**–58,828**
Net book values on 31.12.	**12,675**	**3,041**	**10,810**	**26,526**

There are no other capitalized intangible assets in the balance sheet of the VP Bank Group with an unlimited estimated useful life.

Review of impairment in value of goodwill

The existing goodwill of CHF 10.810 million arises from the acquisition of VP Bank Luxembourg in 2001 and is allocated to the two cash-generating units Private Clients and Trust Banking in amounts of CHF 7.2 million and CHF 3.6 million, respectively. Since January 1, 2005, this goodwill amount has no longer been subject to amortization, but rather to an annual impairment test.

For the purposes of the impairment test carried out in 2007, the realizable amount was based upon the fair value, less selling costs. The level of the implicit premium for client assets was computed on the basis of stock-exchange quotes for enterprises which focus on the business of asset management, as well as acquisition prices paid on the occasion of corporate mergers and used to determine the recoverable amount. The recoverable amount exceeded the book value to such an extent that a decline in the value of the goodwill could be viewed as improbable. For this reason, a supplementary computation of the recoverable value based upon the value in use was dispensed with.

Other intangible assets

Customer relationships are capitalized under other intangible assets. The estimated aggregated amortization of other intangible assets is:

in CHF 1,000	
2008	608
2009	608
2010	608
2011	609
Total	**2,433**

22 Other assets

in CHF 1,000	31.12.2007	31.12.2006
Value-added taxes and other tax receivables	1,150	2,395
Prepaid retirement pension contributions	1,090	200
Real estate intended for sale[1]	22,840	0
Miscellaneous other assets	14,750	14,091
Total other assets	**39,830**	**16,686**

[1] IFRS 5: As a result of the move by VP Bank (Schweiz) AG, Zurich to new rented premises, the previously used property was put up for sale. It was sold at the beginning of January 2008.

23 Medium-term notes

in CHF 1,000 Maturity	Interest rate 0–0.9999 %	Interest rate 1–1.9999 %	Interest rate 2–2.9999 %	Interest rate 3–3.9999 %	Interest rate 4–4.9999 %	Interest rate 5–5.9999 %	Total
2008		66,561	68,943	3,744	210		139,458
2009		25,108	127,503	21,368			173,979
2010		7,369	13,283	4,178	1,477		26,307
2011		1,891	10,498	749			13,138
2012		102	2,039	424			2,565
2013		35	1,993				2,028
2014		292	1,722	102			2,116
2015			575				575
longer			406				406
Total 31.12.2007	**0**	**101,358**	**226,962**	**30,565**	**1,687**	**0**	**360,572**
Total 31.12.2006	966	139,086	109,997	6,424	5,287	0	261,760

The average interest rate as per December 31, 2007 amounted to 2.19 percent (December 31, 2006: 1.86 percent).

24 Debentures

in CHF 1,000					31.12.2007	31.12.2006
Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz						
Year of issuance	Interest rate in %	Currency	Maturity	Nominal amount	Total	Total
2007	2.875	CHF	04.06.2012	250,000	247,319	0

On June 4, 2007, Verwaltungs- und Privat-Bank Aktiengesellschaft issued debentures in the amount of CHF 250 million, which are listed on the Swiss stock exchange under the security ID number 3089669.
Upon their initial recording, debt securities issued are recorded at their fair value augmented by transaction costs. The fair value corresponds to the consideration received. Subsequently, the debentures are valued at amortized cost. In doing so, the effective interest method (3.14%) is applied in order to amortize the difference between issuance price and the redemption value over the duration of the debt security.

25 Other liabilities

in CHF 1,000	31.12.2007	31.12.2006
Value-added taxes and other tax receivables	**12,876**	12,593
Accrued retirement pension contributions	**9,885**	10,475
Miscellaneous other liabilities	**13,858**	13,285
Total other liabilities	**36,619**	**36,353**

26 Provisions

in CHF 1,000	Default risks	Legal and litigation risks	Other provisions	31.12.2007 Total	31.12.2006 Total
Carrying value at beginning of financial year	215	372	0	587	4,533
Utilisation in accordance with purpose				0	–3,565
New provisions charged to income statement	32		600	632	84
Provisions releases to income statement		–120		–120	–465
Carrying value at end of financial year	**247**	**252**	**600**	**1,099**	**587**
Maturity of provisions					
• within one year				1,099	587
• over one year				0	0

27 Minority interests

in CHF 1,000	2007	2006
Balance at beginning of financial year	**16,105**	18,029
Reductions and dividend payments	**–1,452**	–3,377
Foreign-currency translation differences	**–1,336**	–1,352
Share of minorities in net income	**3,702**	2,805
Balance at end of financial year	**17,019**	**16,105**

28 Share capital

	31.12.2007		31.12.2006	
	Number of shares	Nominal CHF	Number of shares	Nominal CHF
Registered shares of CHF 1.– nominal value	**6,004,167**	**6,004,167**	6,004,167	6,004,167
Bearer sharers of CHF 10.– nominal value	**5,314,347**	**53,143,470**	5,314,347	53,143,470
Total share capital		**59,147,637**		59,147,637

All shares are fully paid in.

29 Treasury shares

	2007		2006	
	Number	in CHF 1,000	Number	in CHF 1,000
Balance at beginning of financial year				
Registered shares	13,680	352	4,150	77
Bearer shares	6,100	1,949	25,029	5,199
Purchases of registered shares	5,740	172	10,930	305
Sales of registered shares	–10,450	–278	–1,400	–30
Purchases of bearer shares	142,561	43,817	212,663	55,531
Sales of bearer shares	–108,652	–34,087	–231,592	–58,781
Balance at end of financial year				
Registered shares	8,970	246	13,680	352
Bearer shares	40,009	11,679	6,100	1,949

Options on own shares	2007		2006	
	Number	in CHF 1,000	Number	in CHF 1,000
Balance at beginning of financial year				
Call options	0	0	0	0
Put options	0	0	0	0
Purchase of call options	0	0	30,000	623
Sales of call options	0	0	–30,000	–623
Purchase of put options	0	0	0	0
Sales of put options	0	0	0	0
Balance at end of financial year				
Call options	0	0	0	0
Put options	0	0	0	0

30 Assets pledged or assigned to secure own liabilities and assets subject to reservation of title

in CHF 1,000	31.12.2007		31.12.2006	
	Market value	Actual liability	Market value	Actual liability
Securities	134,525	64,522	155,123	69,945
Money-market paper	0	0	0	0
Other	0	0	0	0
Total pledged assets	134,525	64,522	155,123	69,945

The assets are pledged to limits for the repo business with national and central banks, for stock-exchange deposits and to secure the business activities of overseas organizations pursuant to local legal prescriptions. Pledged or assigned assets within the framework of securities lending transactions or of repurchase and reverse repurchase transactions are not reflected in the above analysis. They are shown in the table "Securities lending and repurchase and reverse-repurchase transactions with securities" (page 109).

31 Future commitments under operating leases

At the end of the year, there existed several operating lease contracts for real estate and other property and equipment, which are principally used for the conduct of business activities of the bank. The material leasing contracts contain renewal options as well as escape clauses.

in CHF 1,000	31.12.2007	31.12.2006
Remaining duration of up to 1 year	3,968	1,405
Remaining duration of 1 to 5 years	9,563	2,508
Remaining duration of over 5 years	0	0
Total minimum commitments under operating leases	**13,531**	**3,913**

As of December 31, 2007, general and administrative expenses include CHF 2.280 million of operating leasing costs (December 31, 2006: CHF 1.619 million).

32 Litigation

Within the normal course of business, the VP Bank Group is involved in various legal proceedings. It raises provisions for ongoing and threatened litigation whenever, in the opinion of Management, payments or losses by group companies are probable and their amount can be estimated.
All provisions are recorded in the caption "Other provisions" in the consolidated balance sheet.

33 Balance sheet per currency

in CHF 1,000	CHF	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	69,449	481	43,102	520	113,552
Receivables arising from money-market paper		171	297	19	487
Due from banks	332,140	2,555,782	2,533,875	647,640	6,069,437
Due from customers	2,370,693	295,214	257,026	91,571	3,014,504
Trading portfolios				60	60
Derivative financial instruments	24,556	2,312	333	584	27,785
Financial investments designated at fair value	38,409	116,600	131,786	44	286,839
Financial investments available for sale	374,190	75,392	227,834	23,157	700,573
Property and equipment	151,612	527	498	686	153,323
Intangible assets	44,013	125		36	44,174
Tax receivables			533		533
Deferred tax assets	2,632				2,632
Accrued receivables and prepaid expenses	18,528	11,918	10,771	2,021	43,238
Other assets	35,803	2,068	1,885	74	39,830
Total assets 31.12.2007	**3,462,025**	**3,060,590**	**3,207,940**	**766,412**	**10,496,967**

Liabilities and shareholders' equity					
Due to banks	17,918	16,582	13,987	41,987	90,474
Due to customers – savings and deposits	609,462	3	87	1	609,553
Due to customers – other liabilities	1,474,072	2,907,768	2,933,255	636,716	7,951,811
Derivative financial instruments	24,846	563	1,881	1,351	28,641
Medium-term notes	360,572				360,572
Debenture issues	247,319				247,319
Tax liabilities	10,912		5,852		16,764
Deferred tax liabilities	17,953				17,953
Accrued liabilities and deferred items	50,868	3,518	6,449	1,310	62,145
Other liabilities	29,579	1,789	5,088	163	36,619
Provisions	1,099				1,099
Total liabilities	**2,844,600**	**2,930,223**	**2,966,599**	**681,528**	**9,422,950**
Total shareholders' equity	**1,015,920**	**55,738**	**1,635**	**724**	**1,074,017**
Total liabilities and shareholders' equity 31.12.2007	**3,860,520**	**2,985,961**	**2,968,234**	**682,252**	**10,496,967**

in CHF 1,000	CHF	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	63,445	249	35,303	334	99,331
Receivables arising from money-market paper		40	80		120
Due from banks	130,171	2,617,317	1,873,499	517,437	5,138,424
Due from customers	2,336,747	208,118	292,267	86,759	2,923,891
Trading portfolios	100		235	33	368
Derivative financial instruments	16,286	478	623	4	17,391
Financial investments designated at fair value	48,718	124,743	134,850		308,311
Financial investments available for sale	400,175	102,170	276,523	25,268	804,136
Property and equipment	173,530	201	470		174,201
Intangible assets	26,526				26,526
Tax receivables	450		63		513
Deferred tax assets	2,292				2,292
Accrued receivables and prepaid expenses	16,934	11,624	5,675	1,350	35,583
Other assets	12,037	1,615	2,928	106	16,686
Total assets 31.12.2006	**3,227,411**	**3,066,555**	**2,622,516**	**631,291**	**9,547,773**

Liabilities and shareholders' equity					
Due to banks	183,870	3,402	15,394	54,756	257,422
Due to customers – savings and deposits	805,380	3	86		805,469
Due to customers – other liabilities	1,195,801	2,939,942	2,376,045	557,482	7,069,270
Derivative financial instruments	17,752	773	5	174	18,704
Medium-term notes	261,760				261,760
Debenture issues					0
Tax liabilities	9,327		6,699		16,026
Deferred tax liabilities	19,390				19,390
Accrued liabilities and deferred items	32,317	4,613	3,945	552	41,427
Other liabilities	27,443	1,807	6,509	594	36,353
Provisions	587				587
Total liabilities	**2,553,627**	**2,950,540**	**2,408,683**	**613,558**	**8,526,408**
Total shareholders' equity	**965,098**	**52,897**	**3,370**		**1,021,365**
Total liabilities and shareholders' equity 31.12.2006	**3,518,725**	**3,003,437**	**2,412,053**	**613,558**	**9,547,773**

34 Maturity structure of assets and liabilities

in CHF 1,000	At sight	Callable	1 year	Due within 1 to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	113,552					113,552
Receivables arising from money-market paper	487					487
Due from banks	1,155,771	5,012	4,897,555	10,015	1,084	6,069,437
Due from customers	97,715	1,132,344	1,186,623	540,518	57,304	3,014,504
Trading portfolios	60					60
Derivative financial instruments	27,785					27,785
Financial investments designated at fair value	286,839					286,839
Financial investments available for sale	700,573					700,573
Property and equipment[1]	153,323					153,323
Intangible assets	44,174					44,174
Tax receivables	533					533
Deferred tax assets				2,632		2,632
Accrued receivables and prepaid expenses	43,238					43,238
Other assets	38,677		1,153			39,830
Total assets 31.12.2007	**2,662,727**	**1,137,356**	**6,085,331**	**553,165**	**58,388**	**10,496,967**
Liabilities and shareholders' equity						
Due to banks	47,545		42,929			90,474
Due to customers – savings and deposits		609,553				609,553
Due to customers – other liabilities	2,068,849	3,274,733	2,606,245	1,984		7,951,811
Derivative financial instruments	28,641					28,641
Medium-term notes			139,458	215,989	5,125	360,572
Debenture issues				247,319		247,319
Tax liabilities	16,764					16,764
Deferred tax liabilities				17,953		17,953
Accrued liabilities and deferred items	62,145					62,145
Other liabilities	35,646		973			36,619
Provisions	1,099					1,099
Total liabilities 31.12.2007	**2,260,689**	**3,884,286**	**2,789,605**	**483,245**	**5,125**	**9,422,950**

[1] capitalized

in CHF 1,000	At sight	callable	Due within 1 year	Due within 1 to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	99,331					99,331
Receivables arising from money-market paper	120					120
Due from banks	1,168,434	3,762	3,952,910	12,145	1,173	5,138,424
Due from customers	57,532	606,886	1,398,911	805,549	55,013	2,923,891
Trading portfolios	368					368
Derivative financial instruments	17,391					17,391
Financial investments designated at fair value	308,311					308,311
Financial investments available for sale	804,136					804,136
Property and equipment[1]	174,201					174,201
Intangible assets	26,526					26,526
Tax receivables	513					513
Deferred tax assets				2,292		2,292
Accrued receivables and prepaid expenses	35,583					35,583
Other assets	15,857		829			16,686
Total assets 31.12.2006	**2,708,303**	**610,648**	**5,352,650**	**819,986**	**56,186**	**9,547,773**
Liabilities and shareholders' equity						
Due to banks	34,668	696	221,541	517		257,422
Due to customers – savings and deposits		805,469				805,469
Due to customers – other liabilities	1,739,857	2,750,569	2,574,472	4,372		7,069,270
Derivative financial instruments	18,704					18,704
Medium-term notes			44,437	212,081	5,242	261,760
Debenture issues						0
Tax liabilities	16,026					16,026
Deferred tax liabilities				19,390		19,390
Accrued liabilities and deferred items	41,427					41,427
Other liabilities	35,480		873			36,353
Provisions	587					587
Total liabilities 31.12.2006	**1,886,749**	**3,556,734**	**2,841,323**	**236,360**	**5,242**	**8,526,408**

[1] Capitalized

35 Classification of assets by country or groups of countries

	31.12.2007 in CHF 1,000	31.12.2007 share in %	31.12.2006 in CHF 1,000	31.12.2006 share in %
Liechtenstein and Switzerland	4,021,843	38.3	4,115,187	43.1
Rest of Europe	5,676,191	54.1	4,565,241	47.8
North America	377,033	3.6	443,539	4.7
Other countries	421,900	4.0	423,806	4.4
Total assets	**10,496,967**	**100.0**	**9,547,773**	**100.0**

The classification is made according to the principle of domicile of the counterparties. Diversified collateral existing in the area of lombard loans is not taken into consideration in this respect.

36 Capital adequacy requirements

in CHF 1,000	31.12.2007		31.12.2006	
	Nominal amount	Weighted positions	Nominal amount	Weighted positions
On-balance-sheet assets				
Due from banks	6,069,437	1,653,434	5,138,424	1,388,462
Due from customers	3,014,504	2,136,158	2,923,891	2,085,782
Replacement values	27,785	7,654	17,391	3,942
Property and equipment and intangible assets	197,497	514,667	200,727	490,231
Accrued receivables and prepaid expenses	43,238	43,238	35,583	35,583
Other assets	39,830	20,147	16,686	19,444
Default risk positions	987,412	933,967	1,112,782	1,086,541
Market risks in trading book	433,472	478,085	412,807	454,641
Off-balance-sheet transactions				
Contingent liabilities	113,706	36,650	111,077	43,828
Irrevocable facilities granted	43,550	19,531	41,728	19,022
Forward contracts and options (add-ons)	2,346,862	4,190	2,080,005	4,356
Total risk-weighted positions	**13,317,293**	**5,847,721**	**12,091,101**	**5,631,832**
Tier 1 eligible equity		934,660		872,217
Tier 1 ratio		**16.0%**		**15.5%**

37 Financial instruments

Fair value of financial instruments

The following table shows the fair values of financial instruments based on valuation methods and assumptions set out below. This table is presented because not all financial instruments are disclosed at their fair values in the consolidated financial statements. By fair value is meant the price at which assets could be freely exchanged or liabilities could be fulfilled by parties who are willing to transact amongst themselves and who are knowledgeable and independent of each other. Insofar as an active market exists (e.g. a recognized stock exchange), the VP Bank Group uses the market price as it is the best indicator of the fair value of financial instruments.

in CHF million	Carrying value 31.12.2007	Fair Value 31.12.2007	Variance	Carrying value 31.12.2006	Fair Value 31.12.2006	Variance
Assets						
Cash and cash equivalents	114	114	0	99	99	0
Receivables arising from money-market paper	0	0	0	0	0	0
Due from banks	6,069	6,097	28	5,138	5,169	31
Due from customers	3,015	3,066	51	2,924	2,988	64
Trading portfolios	0	0	0	0	0	0
Derivative financial instruments	28	28	0	17	17	0
Financial instruments designated at fair value	287	287	0	308	308	0
Financial instruments available for sale	701	701	0	804	804	0
Subtotal			**79**			**95**
Liabilities						
Due to banks	90	92	–2	257	260	–3
Due to customers	8,561	8,483	78	7,875	7,797	78
Derivative financial instruments	29	29	0	19	19	0
Medium-term notes	361	362	–1	262	261	1
Debenture issue	247	252	–5	0	0	0
Subtotal			**70**			**76**
Total variance			**149**			**171**

The following valuation methods are used to determine the fair value of on-balance-sheet financial instruments:

Cash and cash equivalents, money-market paper

For the balance-sheet captions cash and cash equivalents and receivables arising from money-market paper which do not have a published market value on a recognized stock exchange or on a representative market, the fair value corresponds to the amount payable at the balance-sheet date.

Due from/to banks and customers, medium-term notes, debenture issue

In determining the fair value of amounts due from/to banks, due from/to customers (including mortgage receivables and due to customers in the form of savings and deposits), as well as medium-term notes and debenture issues with a fixed maturity or a refinancing profile, the net present value method is applied (discounting of monetary flows with swap rates corresponding to the respective term). For products whose interest or payment flows cannot be determined in advance, replicating portfolios are used.

Trading portfolios, trading portfolios which are pledged as collateral, financial instruments at fair value

Fair value corresponds to market value for the majority of these financial instruments. The fair value of non-exchange-listed financial instruments (in particular for structured credit loans) is determined on the basis of traders' prices or external pricing models which are based on observed market data.

Derivative financial instruments

For the majority of the positive and negative replacement values (cf. note 17 to the consolidated financial statements), the carrying value equates to their fair value. The fair value for derivative instruments without market value is determined using uniform models. These valuation models take account of the relevant parameters such as contract specifications, the market price of the underlying security, the yield curve and volatility.

Financial instruments available for sale
Available for sale financial instruments are valued at market value, if available. If no market quotations exist, the fair values are determined on the basis of external pricing models or other recognized valuation methods. The carrying value of these instruments equates to their fair value. Unrealized gains or losses without write-offs for value impairment are dealt with under shareholders' equity until the position is sold, redeemed or otherwise disposed of.

38 Scope of consolidation

Company	Registered office		Share capital outstanding	Group share of equity
Verwaltungs- und Privat-Bank Aktiengesellschaft	Vaduz	CHF	59,147,637	100%
FIB Finanz- und Beteiligungs-AG	Vaduz	CHF	50,000	100%
IGT Intergestions Trust reg.	Vaduz	CHF	100,000	100%
IFOS Internationale Fonds Service AG	Vaduz	CHF	1,000,000	100%
VP Vermögensverwaltung GmbH	Munich	EUR	500,000	100%
VP Wealth Management (Singapore) Ltd.	Singapore	SGD	100,000	100%
VP Wealth Management (Middle East) Ltd.	Dubai	USD	2,000,000	100%
VP Wealth Management (Hong Kong) Ltd.	Hong Kong	HKD	5,000,000	100%
Proventus Treuhand und Verwaltung AG	Vaduz	CHF	250,000	100%
VP Bank (Luxembourg) S.A. which holds the following sub-participations:	Luxembourg	CHF	20,000,000	100%
VPB Finance S.A.	Luxembourg	CHF	5,000,000	100%
VPB Finanz Holding AG which holds the following sub-participation:	Zurich	CHF	20,000,000	100%
VP Bank (Schweiz) AG	Zurich	CHF	20,000,000	100%
VP Bank and Trust Company (BVI) Limited which holds the following sub-participations:	Tortola	USD	11,000,000	60%
VP Bank (BVI) Limited	Tortola	USD	10,000,000	100%
ATU General Trust (BVI) Limited	Tortola	USD	250,000	100%

Shareholdings excluded from the scope of consolidation	Eureka Investments S.A., Luxembourg
Associated companies	none
Companies consolidated for the first time	VP Wealth Management (Singapore) Ltd., Singapore
	VP Wealth Management (Middle East) Ltd., Dubai
	VP Wealth Management (Hong Kong) Ltd., Hong Kong
Shareholdings accounted for the first time in accordance with the equity method	none
Name changes during the financial year	Proventus Trust Aktiengesellschaft to Proventus Treuhand und Verwaltung AG

39 Transactions with related companies and individuals

Considered as related companies and individuals are members of the Board of Directors and Group Executive Management as well as their next of kin and companies which are controlled by these individuals either by virtue of a majority shareholding or as a result of their role as Chairman of the Board and/or Chief Executive Officer in these companies.

in CHF 1,000	2007	2006
Remuneration of the members of the Board of Directors		
Remuneration due in the short term[1, 2]	709	662
Post-employment benefits		
Other long-term remuneration due		
Remuneration due upon termination of contract of employment		
Share-based payment[1, 3]	236	226
Remuneration of the members of Group Executive Management		
Remuneration due in the short term[2]	3,719	3,117
Post-employment benefits		
Other long-term remuneration due		
Remuneration due upon termination of contract of employment		
Share-based payment[3]	723	413

[1] The social-security costs and any applicable value-added taxes on the emoluments paid to Board members are not included. The prior year's comparatives were adjusted accordingly.
[2] Compensation for out-of-pocket expenses is not included.
[3] The shares are not subject to any sales restrictions.

The VP Bank Group also makes payments to related persons within the framework of brokerage services and bought-in advisory services. These are entered into under conditions customarily prevailing in the banking sector. The aggregate amount of such payments and fees in 2007 totaled CHF 0.200 million (2006: CHF 0.301 million).

The Board of Directors and the Group Executive Management as well as parties related thereto (excluding qualifying shareholders) and retirement pension plans as of December 31, 2007, held 69,932 bearer shares and 169,600 registered shares of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (prior year: 67,835 bearer shares and 169,600 registered shares).

Loans to related companies and individuals developed as follows (as of balance-sheet dates):

in CHF 1,000	2007	2006
Mortgages and loans at beginning of financial year	11,120	13,268
Additions	1,208	1,130
Repayments	–1,918	–3,278
Mortgages and loans at the end of financial year	**10,410**	**11,120**

With regard to members of the Board of Directors and the Group Executive Management, basically the same conditions apply as for all other employees. They correspond to customary market conditions excluding a credit margin. Loans to related individuals and companies were granted under normal market conditions.

40 Retirement pension plans

In addition to social insurance schemes regulated by law, the VP Bank Group maintains several retirement pension plans in the Principality of Liechtenstein and abroad.

Retirement pension plans in Liechtenstein and Switzerland

In Liechtenstein, the retirement pension plan assets of the parent company and Liechtenstein-based subsidiary companies are held in a separate and independent pension plan which is segregated from the Group, managed by a board of trustees composed of the representatives of employees and employers. The financing of these benefits is covered by contributions from both employees and employers. In accordance with the provisions of IAS 19, this retirement pension plan is to be classified as a defined-benefit plan, for which an actuarial valuation must be performed by an independent expert. Such a valuation was last undertaken as of December 31, 2006. The contribution of employees was determined as a percentage of the insured annual salary and deducted on a monthly basis. The contribution deducted from the salary covering the full amount of pension benefits (including the risk credits) amounted to 7.5 percent. The contributions of the employer amount to 160 percent of the employee contributions. The formula used for the computation is based upon the contribution years and the latest insured salary. The insured benefits encompass retirement pensions, invalidity benefits, death benefits, survivors' benefits and departure benefits. Under IAS 19, Swiss retirement pension plans are considered as defined-benefit plans because of the interest-rate guarantee and the prescribed conversion rate.

Retirement pension plans abroad

The employees of the subsidiary companies in Luxembourg, Germany and on the British Virgin Islands are insured within collective and grouped pension plans (multi-employer plans). These retirement pension plans are treated as defined-contribution plans. Pension expense for these plans amounted to CHF 0.92 million for the year 2007.

Retirement pension expense

in CHF 1,000	2007	2006
Service expense of the current period	8,956	8,460
Interest expense for pension liabilities	4,765	4,386
Anticipated income from assets[1]	–5,176	–4,779
Employee contributions	–3,243	–3,244
Amortization of actuarial losses not yet recorded	335	72
Impact of upper limit pursuant to IFRS 19.58b	–270	270
Pension expense for defined-benefit retirement pension plans according to actuarial computation	5,367	5,165
Contributions to defined-contribution retirement pension plans	920	804
Total retirement pension expense	6,287	5,969
[1] Actual income on assets	–907	3,774

Defined-benefit retirement pension plans

in CHF 1,000	31.12.2007	31.12.2006
Net assets of retirement pension plans at market values	137,644	128,981
Net present value of anticipated claims	150,468	156,525
Actuarial losses not yet recorded	–4,364	–17,381
Amortization of actuarial losses not yet recorded	335	112
Recorded under other liabilities	9,885	10,475
Capitalized under other assets	1,090	200

Change in consolidated balance sheet

in CHF 1,000	2007	2006
Liabilities at beginning of financial year	10,275	10,886
Pension expense for defined-benefit retirement pension plans according to actuarial computation (above)	5,367	5,165
Amortization of actuarial losses not yet recorded	–112	72
Fund endowments made by employer	–5,645	–5,648
Liabilities at end of financial year	9,885	10,475

Changes in pension plan benefit obligations

in CHF 1,000	2007	2006
Balance at beginning of business year	156,525	143,573
Service cost of the current period	8,956	8,021
Interest expense for pension liabilities	4,765	4,386
Employee contributions	6,094	5,939
Actuarial gains (losses)	–19,371	2,598
Benefits paid out	–6,501	–7,992
Balance at end of business year	**150,468**	**156,525**

Changes in plan assets

in CHF 1,000	2007	2006
Net assets at beginning of business year	128,981	118,606
Anticipated return on plan assets	5,176	4,779
Actuarial gains (losses)	–6,084	–1,004
Employer contributions	6,735	5,848
Employee contributions	9,337	8,744
Benefits paid out	–6,501	–7,992
Net assets at end of business year	**137,644**	**128,981**

The pension plans hold shares of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, with a market value of CHF 4.0 million (2006: CHF 4.7 million). Payments into the plans of CHF 4.3 million (employee share) and CHF 7.9 million (employer share) are expected for 2008.

Principal categories of plan assets

in %	2007	2006
Liquidity	7	13
Equity instruments	24	25
Debt instruments	61	53
Real estate	8	9

Amounts for the current and four preceding reporting periods

in CHF 1,000	2007	2006	2005	2004	2003
Net present value of anticipated benefit obligations	150,468	156,525	143,573	115,772	105,862
Net assets of pension plans	137,644	128,981	118,606	92,605	87,130
Non-recognized actuarial losses	4,029	17,269	14,081	11,981	6,816
Excess/deficit	–8,795	–10,275	–10,886	–11,186	–11,916

Actuarial assumptions

in %	31.12.2007	31.12.2006
Technical interest rate	3.5–3.75	3.0–3.5
Anticipated yield on assets	4.0	4.0
Development of salaries	2.0	2.0
Development of pensions	0.5	0.5
Probability of departure (at age of 20, on a straight-line basis declining to 0% at the age of 50)		
Men	19.5	19.5
Women	25.0	25.0
Probability of retirement (at age of 64)	100.0	100.0

41 Significant foreign exchange rates

The following exchange rates were used for the most important currencies:

	Year-end rates		Annual average rates	
	31.12.2007	31.12.2006	**2007**	2006
USD/CHF	1.1290	1.2210	1.20021	1.25336
EUR/CHF	1.6600	1.6080	1.64242	1.57310
SGD/CHF	0.7805	0.7950	0.79644	0.78837
HKD/CHF	0.1448	0.1565	0.15386	0.16128

42 Employee stock-ownership plan

The stock-ownership plan provides that employees be able to subscribe annually to a defined number of bearer shares of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz at a preferential price, subject to a 4-year restriction on selling. As the employees thus ultimately have the possibility of taking up the shares at any time and in full, the expense arising from the employee participation plans is recorded in full at the time of their respective attribution. The number of bearer shares which can be subscribed depends upon the years of service, rank and management level. The purchase price is determined annually by the Board of Directors as a function of the average market value of the bearer shares on the Swiss Exchange. The shares issued in this manner derive either from shareholdings of the VP Bank Group or must be purchased for this purpose over the Exchange. The expense so incurred is charged directly to personnel costs. During 2007 6,537 shares in aggregate were issued at a preferential price (2006: 7,183). Share issuance expenses in 2007 aggregated approximately CHF 1.7 million (2006: CHF 1.8 million). In connection with the 50th anniversary of VP Bank, all employees received a gift of five bearer shares. The cost of the total 2,799 bearer shares given away in this manner amounted to CHF 0.8 million.There is no profit-sharing plan for the Board of Directors and the Group Executive Management.They receive, however, a part of their remuneration/bonuses in the form of equity shares which are not subject to any restriction on selling (note 40).

Company disposal in 2007

Eureka Investments S.A., Luxembourg

In December 2007, Eureka Investments S.A., Luxembourg was sold by VP Bank (Luxembourg) S.A., Luxembourg.

The following assets and liabilities were disposed of as part of the sale:

in CHF 1,000	Carrying value	Step-up to fair value	Fair value
Due from banks	438		438
Accrued income and prepaid expenses	8		8
Other liabilities	–40		–40
Total	**406**		**406**

Sales price already settled in cash	0
Total sales consideration	**415**

Cash resources in company sold	0
Cash inflow from the transaction	**0**

In 2007, a capital reduction of CHF 0.821 million (EUR 0.495 million) was carried out. The intangibles acquired at the time of the acquisition in 2006 were amortized over the duration (note 21). The currency gain on the transaction aggregated CHF 0.05 million.

Company acquisitions 2006

Eureka Investments S.A., Luxemburg

In December 2006, 100 percent of the share capital of Eureka Investments S.A., Luxembourg was acquired by VP Bank (Luxembourg) S.A., Luxembourg. Since then, Eureka Investments S.A. has been fully consolidated using the purchase method. In December 2006, the company contributed CHF 106,000 to total operating income and CHF 9,000 to the consolidated net income of the VP Bank Group. Had the shares been acquired already on January 1, 2006, the total operating income and the consolidated results of the VP Bank Group would have aggregated CHF 327,558,000 and CHF 132,177,000, respectively.

The following assets and liabilities were acquired and assumed, respectively:

in CHF 1,000	Carrying value	Step-up to fair value	Fair value
Cash on hand	3		3
Amounts due from banks	1,290		1,290
Financial investments, revalued at fair values (taken to income statement)	235		235
Property and equipment	10		10
Other intangible assets	0	3,041	3,041
Accrued receivables	16		16
Tax liabilities	–119	–912	–1,031
Other liabilities	–248		–248
Total	**1,187**	**2,129**	**3,316**

The other intangible assets listed here encompass the existing client relationships of this company in the amount of CHF 155 millions. These capitalized amounts are amortized on a straight-line basis over five years.

Purchase consideration paid in cash	2,502
Purchase consideration to be settled in future in cash	814
Total purchase consideration	**3,316**
Cash at bank and on hand acquired from the investee	1,293
Net outflow of cash as a result of the transaction	**1.209**
Future outflow of cash for the transaction	814

Client assets under management

Analysis of client assets under management in CHF million	2007	2006	Variance in %
Assets in self-administered investment funds	**4,193.2**	3,819.7	9.8
Assets in discretionary asset-management accounts	**3,160.3**	2,918.8	8.3
Other client assets under management	**30,882.3**	28,034.6	10.2
Total client assets under management (incl. amounts counted twice)	**38,235.9**	**34,773.1**	**10.0**
Included therein: amounts counted twice	**3,188.3**	3,040.6	4.9
Net new client assets under management	**3,026.0**	**2,948.9**	**2.6**

Custody assets in CHF million	2007	2006	Variance in %
Custody assets	**3,682.9**	**717.6**	**413.2**

Total client assets under management in CHF million	2007	2006	Variance in %
Total client assets under management (incl. amounts counted twice)	**38,235.9**	34,773.1	10.0
Custody assets	**3,682.9**	717.6	413.2
Total client assets under management	**41,918.8**	**35,490.7**	**18.1**

Classification of client assets under management

Analysis by asset class in percent	2007	2006
Liquidity	32	29
Bonds	24	25
Equities	22	23
Investment funds	19	19
Other	3	4
Total	**100**	**100**

Analysis by currency in percent	2007	2006
CHF	27	30
EUR	40	38
USD	25	24
Other	8	8
Total	**100**	**100**

Calculation method

All client assets which are managed or held for investment purposes for which investment-advisory and asset-management services are provided are considered as client assets under management. Included therein in principle are all amounts owing to clients, fiduciary deposits and all assets in security deposits with a value. The calculation is made on the basis of the provisions of the Liechtenstein Banking Ordinance (Art. 22a FL-BankO) and the internal guidelines of the VP Bank Group.

Assets in self-administered investment funds

This position contains the assets of all investment funds of the VP Bank Group.

Assets in discretionary asset-management accounts

The assets in discretionary asset-management accounts encompass securities, uncertificated securities, precious metals, fiduciary deposits placed with third parties valued at market and client deposits. The data includes both assets deposited with group companies as well as with third parties which are the object of a discretionary asset-management agreement with a group company.

Other client assets under management

Other client assets under management encompass securities, uncertificated securities, precious metals, fiduciary deposits placed with third parties valued at market and client deposits. The data encompasses assets which are the object of an administration or advisory mandate.

Amounts counted twice

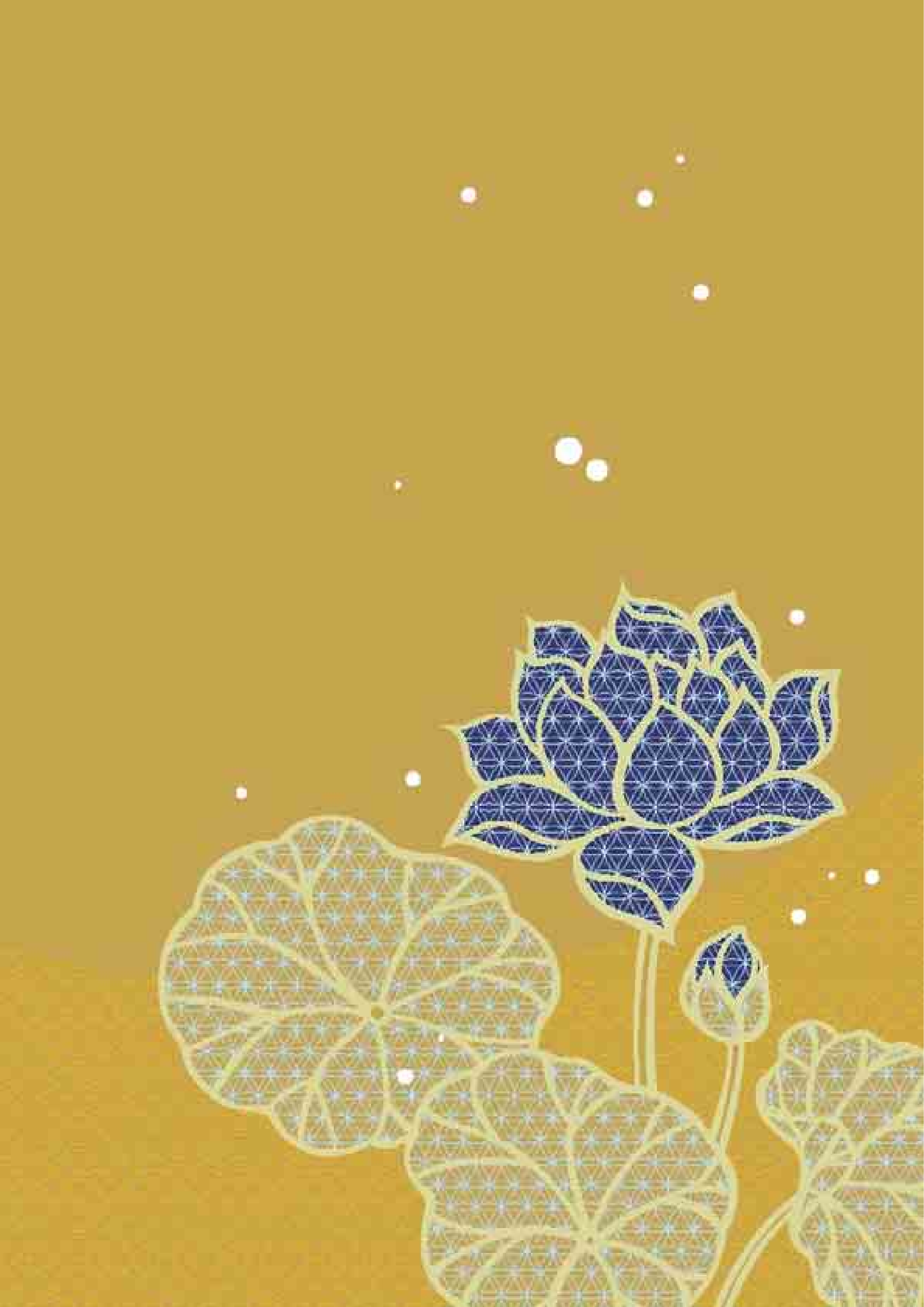
This position encompasses unit shares in self-administered investment funds which are in client portfolios subject to a discretionary asset-management agreement and other security deposits of clients.

Net inflow/outflow of client assets under management

This position comprises the acquisition of new clients, lost clients and inflows or outflows from existing clients. Performance-related changes in assets such as equity-price changes, interest and dividend payments, as well as interest charged to clients, are not considered as inflows and outflows. Acquisition-related changes in assets are also not taken into account.

Custody assets

Assets held exclusively for the purposes of trading and custody for which the involvement of the VP Bank Group is limited to custodian and collection activities.



Report of the Group Auditors

**To the Annual General Meeting of shareholders
of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz**

As auditors of the Group, we have audited the consolidated annual financial statements (balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and notes to the consolidated financial statements – pages 104–161), as well as the consolidated annual report (pages 96–103) of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, for the financial year ended December 31, 2007.

These consolidated financial statements and the consolidated annual report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements, based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Liechtenstein profession, as well as in accordance with International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements and consolidated annual report are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the result of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS), and comply with Liechtenstein law. Furthermore, the consolidated annual report corresponds to the consolidated annual financial statements.

We recommend that the financial statements submitted to you be approved.

Ernst & Young AG

Stefan Fuchs	Patrick Schwaller
Certified Public Accountant	Certified Public Accountant
(Auditor in charge)	

Bern, February 22, 2008

7 Financial Report 2007 Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz

Annual report of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz

The annual report of Verwaltungs- und Privat-Bank Aktiengesellschaft is largely evident from the consolidated annual report of the VP Bank Group.

As of the balance-sheet date, Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz and/or its subsidiaries held in total 40,009 bearer shares as well as 8,970 registered shares (prior year: 6,100 bearer shares and 13,680 registered shares). This equates to a capital share of approx. 0.7 percent (prior year: 0.1 percent). In addition, we refer to the notes of the relevant annual financial statements regarding the number of and changes in treasury shares in the parent company.
The Board of Directors will propose to the Annual General Meeting to be held on April 25, 2008 an increase in the dividend to CHF 11.00 per bearer share and CHF 1.10 per registered share (prior year: CHF 10.00 per bearer share and CHF 1.00 per registered share).

Balance Sheet

Assets

in CHF 1,000 Art. 24b FL-BankO	31.12.2007	31.12.2006	Variance absolute	 in %
Cash balances	71,306	57,699	13,607	23.6
Debt instruments of the public sector and bills of exchange eligible for refinancing at central banks	0	0	0	0
• Debt instruments of the public sector and similar securities	0	0	0	0
Due from banks	4,223,954	3,357,181	866,773	25.8
• maturing daily	662,481	504,819	157,662	31.2
• other receivables	3,561,473	2,852,362	709,111	24.9
Due from customers	2,717,656	2,631,412	86,244	3.3
thereof mortgage receivables	1,735,731	1,653,164	82,567	5.0
Debentures and other interest-bearing securities	724,130	796,918	–72,788	–9.1
• debt securities	724,130	796,918	–72,788	–9.1
• of public-sector issuers	62,701	47,110	15,591	33.1
• of other issuers	661,429	749,808	–88,379	–11.8
Equity shares and other non-interest-bearing securities	180,814	191,125	–10,311	–5.4
Participations	170	3,370	–3,200	–95.0
Shares in related companies	83,469	79,845	3,624	4.5
Intangible assets	22,792	9,539	13,253	138.9
Property and equipment	146,883	146,088	795	0.5
Treasury shares	11,443	2,374	9,069	382.0
Other assets	26,278	18,350	7,928	43.2
Accrued receivables and prepaid expenses	38,372	31,885	6,487	20.3
Total assets	**8,247,267**	**7,325,786**	**921,481**	**12.6**

Total liabilities and shareholders' equity

in CHF 1,000 Art. 24b FL-BankO	31.12.2007	31.12.2006	Variance absolute	 in %
Due to banks	303,286	516,567	–213,281	–41.3
• maturing daily	151,059	105,597	45,462	43.1
• with agreed duration or term of notice	152,227	410,970	–258,743	–63.0
Due to customers	6,305,949	5,606,683	699,266	12.5
• savings deposits	526,453	705,016	–178,563	–25.3
• other liabilities	5,779,496	4,901,667	877,829	17.9
• maturing daily	4,127,031	3,403,562	723,469	21.3
• with agreed duration or term of notice	1,652,465	1,498,105	154,360	10.3
Securitized liabilities	610,822	262,010	348,812	133.1
• issued debentures	610,822	262,010	348,812	133.1
thereof medium-term notes	360,822	262,010	98,812	37.7
Other liabilities and deferred items	39,589	32,519	7,070	21.7
Accrued liabilities and deferred items	45,989	29,605	16,384	55.3
Provisions	23,720	21,892	1,828	8.4
• tax provisions	21,941	20,187	1,754	8.7
• other provisions	1,779	1,705	74	4.3
Provisions for general banking risks	237,150	237,150	0	0
Subscribed capital	59,148	59,148	0	0
Income reserves	495,989	440,989	55,000	12.5
• legal reserves	239,800	239,800	0	0
• reserve for treasury shares and stock	11,443	2,374	9,069	382.0
• other reserves	244,746	198,815	45,931	23.1
Retained earnings brought forward	75	3,880	–3,805	–98.1
Net income for the year	125,550	115,343	10,207	8.8
Total liabilities and shareholders' equity	8,247,267	7,325,786	921,481	12.6

Off-balance-sheet items

in CHF 1,000 Art. 24b FL-BankO	31.12.2007	31.12.2006	Variance absolute	 in %
Contingent liabilities	105,120	103,280	1,840	1.8
Credit risks	35,590	40,202	–4,612	–11.5
• irrevocable facilities granted	35,590	40,202	–4,612	–11.5
Derivative financial instruments				
• positive replacement values	25,131	16,634	8,497	51.1
• negative replacement values	25,281	18,046	7,235	40.1
• contract volumes	1,965,161	2,057,187	–92,026	–4.5
Fiduciary transactions	3,442,499	2,706,422	736,077	27.2

Income Statement

in 1,000 CHF Art. 24c FL-BankV	2007	2006	Variance absolute	 in %
Interest income	277,169	217,210	59,959	27.6
thereof from interest-bearing securities	26,749	27,149	–400	–1.5
thereof from trading transactions	13	0	13	n. a.
Interest expense	171,896	118,175	53,721	45.5
Income from interest-differential business	105,273	99,035	6,238	6.3
Current income from securities	7,759	13,739	–5,980	–43.5
• Shares and other non-interest-bearing securities	3,204	1,699	1,505	88.5
thereof from trading transactions	214	153	61	39.7
• Participations	12	0	12	n. a.
• Shares in related companies	4,543	12,040	–7,497	–62.3
Income from commission business and services	165,480	141,832	23,648	16.7
• Commission income from credit business	595	574	21	3.6
• Commission income from securities and investing business	155,004	131,756	23,248	17.6
• Commission income from other services	9,881	9,502	379	4.0
Commission expense	29,585	21,763	7,822	35.9
Income from commission business and services	135,895	120,069	15,826	13.2
Income from finance transactions	25,648	22,016	3,632	16.5
thereof from trading transactions	16,543	18,745	–2,202	–11.7
Other ordinary income	15,065	2,464	12,601	n. a.
• Income from real estate	232	239	–7	–2.6
• Other ordinary income	14,833	2,225	12,608	n. a.
Total operating income	**289,640**	**257,323**	**32,317**	**12.6**
Operating expenses	126,016	108,925	17,091	15.7
• personnel expenses	88,387	71,755	16,632	23.2
• general and administrative expenses	37,629	37,170	459	1.2
Gross profit	**163,624**	**148,398**	**15,226**	**10.3**

Income statement (continued)

in 1,000 CHF Art. 24c FL-BankV	2007	2006	Variance absolute	 in %
Depreciation and amortization of intangible assets and property and equipment	**23,020**	16,726	6,294	37.6
Other ordinary expenses	**1,621**	4,919	–3,298	–67.0
Valuation allowances on receivables and increases in provisions for contingent liabilities and credit risks	**3,490**	4,894	–1,404	–28.7
Income from release of valuation allowances on receivables and from the release of provisions for contingent liabilities and credit risks	**1,945**	3,654	–1,709	–46.8
Write-offs on participations, shares in related companies and securities dealt with as non-current assets	**0**	0	0	0
Income from normal business operations	**137,438**	**125,513**	**11,925**	**9.5**
Extraordinary income	**0**	0	0	0
Extraordinary expense	**0**	0	0	0
Taxes on income	**10,100**	8,650	1,450	16.8
Other taxes insofar as not included in other captions	**1,788**	1,520	268	17.6
Appropriation to provisions for general banking risks / income from release for provisions for general banking risks	**0**	0	0	0
Net income for the year	**125,550**	**115,343**	**10,207**	**8.8**

Appropriation of income

Net income for the year	**125,550**	115,343	10,207	8.8
Retained earnings brought forward	**75**	3,880	–3,805	–98.1
Retained earnings	**125,625**	119,223	6,402	5.4
Appropriation of retained earnings				
• Appropriation to other reserves	**60,000**	55,000	5,000	9.1
• Distribution on the basis of company capital	**65,062**	59,148	5,914	10.0
• Release from other reserves	**0**	5,000	–5,000	–100.0
Retained earnings to be carried forward	**563**	**75**	**488**	**n. a.**

Information regarding Business Activities and Number of Employees (Art. 24e para. 1 no. 1 FL-BO)

Verwaltungs- und Privat-Bank Aktiengesellschaft, which has its registered office in Vaduz, was established in 1956 and is one of the three largest banks in Liechtenstein. Today, it owns subsidiary companies in Zurich, Luxembourg, Munich, Dubai, Hong Kong, on the British Virgin Islands as well as representative offices in Moscow and Hong Kong. Adjusted to reflect full-time equivalents, VP Bank at year end 2007 had 483.5 individuals under its employment (previous year: 441.6).
VP Bank's core activities consist of asset management and investment advising services for private and institutional investors, as well as lending operations.

Commission business and services

Aside from its general banking operations, VP Bank's commission- and service-related business encompasses asset management for private clients, financial intermediaries and institutional clients, as well as investment advice, safekeeping, account administration and fiduciary services. VP Bank earns a significant portion of its total commission-related revenues from transacting in securities on behalf of clients.

Credit business

The credit business of the Bank is primarily directed to providing financing for home purchases for private clients, as well as asset-management and investment-advisory services for private clients. The Bank grants also commercial credits for commercial clients.

Money market and interbank activities

To the extent that they are not used for the Bank's lending operations, client funds are invested with first-rate banks.

Trading activities

Clients are afforded a full range of execution and settlement services for all customary types of financial transactions.
A significant portion of VP Bank's trading activities is related to foreign exchange dealings on behalf of private clients.
For liquidity-management and investment purposes, VP Bank maintains a portfolio of interest-bearing securities and equities positions.

Principles of Accounting and Valuation, Disclosures on Risk Management (Art. 24e par. 1 point 2 FL-BankO)

Principles of accounting and valuation

General principles

The bookkeeping, accounting and valuation follow the prescriptions of Civil and Company Law, 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 books of account as of their trade date. Forward contracts are recorded under off-balance-sheet transactions until their settlement or value date.
Income and expenditures 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. Foreign-exchange gains and losses resulting from revaluation are recorded in the income statement.

Cash balances, debt securities of the public sector and bills of exchange which are eligible for refinancing with central banks, amounts due from banks, liabilities

Recording is effected at nominal values less any applicable unearned discount in the case of money-market paper. Valuation allowances are established to cover identifiable risks taking into account the principle of prudence. Individual and lump-sum valuation allowances are deducted directly from the related balance-sheet positions.
Interest overdue for more than 90 days is provided for and recorded in the income statement as and when received.

Amounts due from customers

Receivables from clients are recorded in the balance sheet at their nominal values less any applicable valuation adjustments.
A receivable is considered as being value-impaired when there exists the probability that the total contractually owed amount is no longer recoverable.
A valuation allowance is recorded in the balance sheet as a reduction of the carrying value of the receivable to its probable realizable value. On the other hand, provisions for credit risks are established for off-balance-sheet positions. In addition to individual valuation allowances, VP Bank creates individual valuation allowances on a lump-sum basis as well as lump-sum valuation allowances to cover latent credit risks.
A review of collectibility is undertaken at least annually for all non-performing loans.

Debentures and other interest-bearing securities, equity shares and other non-interest-bearing securities

Trading portfolios of securities and precious metals are valued at the quoted market price as of the balance-sheet date.
Portfolios of securities and precious metals classified as current assets are valued at the lower of cost and market. Interest on interest-bearing securities is reflected in the caption interest income, dividend income in the caption current income from securities. Gains and losses from revaluation are disclosed in the caption gains/losses arising from financial transactions.

Participations

Equity shareholdings of companies owned by the Bank representing a minority interest held on a long-term basis are recorded as participations. Participations are valued at acquisition cost less economically required valuation allowances.

Shares in related companies

The existing majority shareholdings of VP Bank are recorded as shares in related companies. Shares in related companies are valued at acquisition cost less economically required valuation allowances.
These related companies are fully consolidated for the purposes of the published consolidated financial statements.

Intangible assets

Value-enhancing expenditures in connection with the acquisition and installation of software are capitalized and amortized over the estimated useful life of three years. Minor purchases are charged directly to general and administrative expenses.

Property and equipment

Property and equipment encompasses buildings used by the Bank, other real estate, furniture and equipment as well as IT installations. Investments in new and existing property and equipment are capitalized and valued at acquisition cost. Minor purchases are charged directly to general and administrative expenses. In subsequent valuations, property and equipment is recorded at acquisition cost, less accumulated depreciation and amortization. Depreciation and amortization is charged on a systematic basis over the estimated useful lives (buildings used by the Bank: 25 years, furniture and equipment: 8 years, IT: 3 years, software: 3 to 5 years). The property and equipment is reviewed annually for impairment in value.

Other assets, other liabilities

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

Valuation allowances and provisions

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

Provisions for general banking risks

Provisions for general banking risks are prudently established reserves to cover latent risks arising from the normal course of business of the Bank. As required by the prescriptions governing financial-statement reporting, they are shown as a separate position in the balance sheet. Changes thereto are disclosed separately in the income statement.

Contingent liabilities, irrevocable facilities granted, capital subscription and margin obligations

Amounts disclosed as off-balance-sheet items are stated at nominal values. Lump-sum provisions exist in the balance sheet for latent default risks.

Statement of cash flows

VP Bank is exempted from drawing up a statement of cash flows as a result of the obligation to prepare consolidated financial statements (Art. 24l FL-BankO). The consolidated statement of cash flows of the VP Bank Group is a part of the consolidated financial statements.

Post-balance-sheet date events

There were no material occurrences having an impact on the balance sheet and income statement to be reported for the 2007 financial year.

Commentaries on Risk Management

An appropriate risk management constitutes the basic pre-requisite for the sustainable development and continuing success of Verwaltungs- und Privat-Bank Aktiengesellschaft. By "appropriate" it is to be understood that VP Bank, as a value-oriented enterprise, although it takes on financial, operational and business risks in a conscious manner, does not hinder growth through innovation and initiatives, but realistically evaluates and realizes profit opportunities.
The principles for identifying, evaluating, controlling and monitoring financial, operational and business risks apply to Verwaltungs- und Privat-Bank Aktiengesellschaft to the same extent as to the subsidiary companies and mirror exactly the risk management and control framework of the VP Bank Group, for which reason reference is made at this point to the commentaries on risk management of the VP Bank Group set out on page 118.

Information regarding the Balance Sheet and Income Statement

Analysis of collateral

in CHF 1,000			Type of collateral		Total
Art. 24e Par. 1 Point 3.1 FL-BankO		Mortgage collateral	Other collateral	Without collateral	
Loans					
Due from clients (excl. mortgage-backed receivables)		45,038	623,428	313,459	981,925
Mortgage loans secured by		1,719,966	922	14,843	1,735,731
• residential property		1,277,758	901	3,918	1,282,577
• office and business premises		273,616		530	274,146
• commercial and industrial property		89,511	20	6,525	96,056
• other		79,081	1	3,870	82,952
Total loans	**31.12.2007**	**1,765,004**	**624,350**	**328,302**	**2,717,656**
Total loans	31.12.2006	1,692,375	563,316	375,721	2,631,412
Off-balance-sheet amounts					
Contingent liabilities		1,068	87,396	16,656	105,120
Irrevocable facilities granted				35,590	35,590
Total off-balance-sheet amounts	**31.12.2007**	**1,068**	**87,396**	**52,246**	**140,710**
Total off-balance-sheet amounts	31.12.2006	1,628	93,141	48,713	143,482

in CHF 1,000		Gross amount owed	Estimated liquidation proceeds from collateral	Net amount owed	Individual value adjustments
Value-impaired loans					
Total value-impaired loans	**31.12.2007**	**30,440**	**19,826**	**10,614**	**10,614**
Total value-impaired loans	31.12.2006	34,525	18,720	15,805	15,805

Based upon the general right of pledge and offset stipulated in the Bank's General Business Conditions, any available balances of borrowers are counted as collateral for the related credit exposures.

Portfolios of securities and precious metals

in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankO	Carrying value 31.12.2007	 31.12.2006	Acquisition cost 31.12.2007	 31.12.2006	Market value 31.12.2007	 31.12.2006
Trading portfolios of securities and precious metals						
Equity shares	11,443	2,374	11,922	2,274	11,443	2,374
thereof equity shares in the treasury	11,443	2,374	11,922	2,274	11,443	2,374
Precious metals	60	33	54	33	60	33
Total	11,503	2,407	11,976	2,307	11,503	2,407
Material receivables and liabilities included in other balance sheet positions which are marked to market value and whose revaluation is recorded in the caption "Gains/losses from trading transactions"						
Positive replacement values of derivative financial instruments in trading portfolios (other assets)	21,132	15,910			21,132	15,910
Negative replacement values of derivative financial instruments in trading portfolios (other liabilities)	20,977	15,622			20,977	15,622
Total	42,109	31,532			42,109	31,532
Portfolios of securities and precious metals in current assets (excl, trading portfolios)						
Debt securities	724,130	796,918	754,228	813,894	731,283	806,453
Equity shares	180,814	191,125	191,625	199,429	212,012	227,406
Precious metals	0	0	0	0	0	0
Total	904,944	988,043	945,853	1,013,323	943,295	1,033,859
thereof securities which are eligible to be pledged at central banks	263,296	160,441	271,643	162,561	264,079	161,093
thereof exchange-listed securities	301,127	308,020	314,290	314,884	318,870	326,637

Analysis of treasury shares

in numbers/in CHF 1,000 Art. 24e Par. 1 Point 3.2 FL-BankO (continued)	Number 2007	 2006	Carrying value 2007	 2006
Disclosures on treasury shares included in current assets (excl. trading portfolios)				
Balance at beginning of year	0	0	0	0
Disposals				
Valuation allowances				
Balance at end of year	0	0	0	0

Participations and shares in related companies

in CHF 1,000 Art. 24e Par. 1 cif. 3.2 FL-BankO (continued)	Carrying value 31.12.2007	 31.12.2006
Participations		
without quoted market value	**170**	3,370
Total participations	**170**	**3,370**
Shares in related companies		
without quoted market value[1]	**83,469**	79,845
Total shares in related companies	**83,469**	**79,845**

[1] Waiver of any possible revaluation pursuant to Art. 1090 PGR under consideration of the discretionary powers applicable in valuing participations

in CHF 1,000 Art. 24e Par. 1 Point. 3.3 FL-BankV	Currency	31.12.2007 Corporate capital	Percentage ownership	Currency	31.12.2006 Corporate capital	Percentage ownership
Participations						
CapitalLeben Versicherung AG, Vaduz (insurance)				CHF	15,000	9.33%
Finarbit AG, Küsnacht (money-market and foreign-exchange broker)	CHF	1,500	8.33%	CHF	1,500	8.33%
Shares in related companies						
FIB Finanz- und Beteiligungs-AG, Vaduz (investment company)	CHF	50	100%	CHF	50	100%
IGT Intergestions Trust reg., Vaduz (trustee company)	CHF	100	100%	CHF	100	100%
IFOS Internationale Fonds Service AG, Vaduz (fund-management company)	CHF	1,000	100%	CHF	1,000	100%
VP Bank and Trust Company (BVI) Limited, Tortola (holding company)	USD	11,000	60%	USD	11,000	60%
VPB Finanz Holding AG, Zurich[1] (holding company)	CHF	20,000	100%	CHF	20,000	100%
VP Bank (Luxembourg) S.A., Luxembourg[2] (bank)	CHF	20,000	100%	CHF	20,000	100%
Proventus Treuhand und Verwaltung AG, Vaduz (trustee company)	CHF	250	100%	CHF	250	100%
VP Vermögensverwaltung GmbH, Munich (asset management company)	EUR	500	100%	EUR	500	100%
VP Wealth Management (Middle East) Ltd., Dubai (asset management company)	USD	2,000	100%			
VP Wealth Management (Hong Kong) Ltd., Hong Kong (portfolio-management company)	HKD	5,000	100%			
VP Wealth Management (Singapore) Ltd., Singapore (asset management company)	SGD	100	100%			

[1] as regards VP Bank (Schweiz) AG, which is a 100 percent subsidiary of VPB Finanz Holding AG, Zurich, there is a subordinate loan in the amount of CHF 6.0 million.
[2] including subordinated loan of CHF 20 million

The carrying value of related banks included under shares in related companies amounts to CHF 56.6 million incl. subordinated loans (prior year: CHF 56.6 million).

Overview of investments

in CHF 1,000 Art. 24e Par. 1 point 3.4 FL-BankO	Acquisition cost	Cumulative deprecia-tion to date	Carrying value 31.12.2006	Invest-ments	Financial year 2007 Divest-ments	Relassifi-cations	Depr. & amorti-zation	Depr. & amort. on disposals	Carrying value 31.12.2007
Total participations (minority participations)	3,498	–128	3,370		–3,200				**170**
Total shares in related companies	112,326	–32,481	79,845	4,624	–1,000				**83,469**
Total intangible assets (excl. goodwill)	33,575	–24,036	9,539	24,752	–408		–11,499	408	**22,792**
Real estate									
• bank premises	187,455	–63,996	123,459	4,839			–6,915		**121,383**
• other real estate	17,214	–714	16,500						**16,500**
Other property and equipment	21,326	–15,197	6,129	7,477			–4,606		**9,000**
Total property and equipment	225,995	–79,907	146,088	12,316			–11,521		**146,883**
Fire-insurance values of real estate			150,290						**159,290**
Fire-insurance values of other property and equipment			26,500						**27,500**

Future commitments under operating leases

At year end there existed various operating lease contracts for real estate and other property and equipment which are principally used for the conduct of business activities of the Bank. The material lease contracts include renewal options as well as escape clauses.

in CHF 1,000 PGR Art. 1.092 Point 3	31.12.2007	31.12.2006
Total minimum commitments arising from operating leases	**1,171**	**1,564**
thereof interest on construction-right contracts	**0**	0

Included in operating expenses as fo December 31, 2007 are CHF 0.405 million arising from operating leases (2006: CHF 0.540 million).

Assets pledged or assigned to secure own or third-party liabilities and assets subject to reservation of title

in CHF 1,000 Art. 24k Par. 1 und Art. 24e Par. 1 Point 3.6 FL-BankO	31.12.2007	31.12.2006
Assets pledged or assigned to secure own or third-party liabilities and assets subject, to reservation of title excl. securities lending/borrowing and repo transactions		
Carrying value of assets pledged or assigned as security	**104,569**	108,931
Effective liabilities	**64,522**	69,945
Securities lending/borrowing and repurchase transactions		
Amounts receivable arising from cash deposits in connection with securities borrowing and reverse-repurchase transactions:		
Amounts payable arising from cash deposits in connection with securities lending und repurchase transactions		
Securities owned by the Bank lent out within the scope of securities lending or delivered as collateral within the scope of securities borrowing or transferred within the scope of repurchase transactions	**1,713,160**	1,266,606
thereof securities for which an unconditional right has been granted to sell on or repledge	**1,160,845**	855,096
Securities received as collateral within the scope of securities lending or borrowed within the scope of securities borrowing or received within the scope of reverse repurchase transactions in the case of which the unconditional right to sell on or repledge was granted	**2,151,351**	1,466,275
thereof securities repledged or sold on	**993,843**	700,261

Liabilities to own retirement pension plans

in CHF 1,000 Art. 24e Par. 1 Point 3.7 FL-BankO	31.12.2007	31.12.2006
Current accounts, monies on call and deposit accounts	7,144	8,982
Medium-term notes	0	0
Debenture bonds	990	0
Total liabilities to own retirement pensions plans	8,134	8,982

Outstanding debenture loan

in CHF 1,000 Art. 24e Par. 1 Point 3.8 FL-BankO	Interest rate in %	Year of issue	Maturity	31.12.2007 Nominal amount	31.12.2006 Nominal amount
VPB debenture issue	2.875	2007	04.06.2012	250,000	0

Valuation allowances/provisions for general banking risks

in CHF 1,000 Art. 24e Par. 1 Point 3.9 FL-BankO	Balance 1.1.2007	Utilization in accordance with purpose	Change in purpose of provision	Recoveries, overdue interest, forex diff.	Charges to income statement	Releases to income statement	Balance 31.12.2007
Valuation allowances for default risks							
• Individual valuation allowances	15,805	6,675		475	2,871	1,862	10,614
• Individual valuation allowances made on lump-sum basis	0						0
• Lump-sum valuation allowances	16,912				545	83	17,374
• Individual valuation allowances made on lump-sum basis for country risks	1,500						1,500
Provisions for contingent liabilities and credit risks	205				74		279
Provisions for other business risks	0						0
Provisions for taxes and deferred taxes	20,187	10,134			11,888		21,941
Other provisions	0						0
Total valuation allowances and provisions	54,609	16,809	0	475	15,378	1,945	51,708
less: valuation allowances	32,717						27,988
Total provisions as per balance sheet	21,892						23,720
Provisions for general banking risks	237,150						237,150

Company capital

in CHF 1,000 Art. 24e Par. 1 Point 3.10 FL-BankO	31.12.2007 Total par value	Number	Capital entitled to dividend	31.12.2006 Total par value	Number	Capital entitled to dividend
Bearer shares	53,143	5,314,347	53,143	53,143	5,314,347	53,143
Registered shares	6,005	6,004,167	6,005	6,005	6,004,167	6,005
Total company capital	59,148	11,318,514	59,148	59,148	11,318,514	59,148

Significant stakeholders and groups of stakeholders with interlinking voting rights

in CHF 1,000 Art. 24e Par. 1 POint 3.10.1 FL-BankO	31.12.2007 Par value	Share in % of par value	Share of voting rights in %	31.12.2006 Par value	Share in % of par value	Share of voting rights in %
with voting rights						
Stiftung Fürstlicher Kommerzienrat Guido Feger, Vaduz	14,717	24.9	48.4	14,717	24.9	48.4
U.M.M. Hilti-Stiftung, Schaan	5,804	9.8	10.4	5,550	9.4	10.1

Statement of changes in shareholders' equity

in CHF 1,000 Art. 24e Par. 1 Point 3.11 FL-BankO	
Shareholders' equity at beginning of financial year	
Subscribed and paid-up capital	59,148
Legal reserves	239,800
Reserve for treasury shares	2,374
Other reserves	198,815
Provisions for general banking risks	237,150
Retained earnings	119,223
Total shareholders' equity at beginning of financial year	**856,510**
Capital increase/capital reduction (–)	0
Other appropriations/releases from reserves (–)	0
Dividends and other distributions from net income of the prior year	–64,148
Net income of the financial year	125,550
Total shareholders' equity at end of financial year (before profit distribution)	**917,912**
thereof: Subscribed and paid-up capital	59,148
Legal reserves	239,800
Reserve for treasury shares	11,443
Other reserves	244,746
Provisions for general banking risks	237,150
Retained earnings	125,625

Maturity structure of assets as well as liabilities and provisions

in CHF 1,000 Art. 24e Par. 1 Point 3.12 FL-BankO		Sight	Callable	Due within 3 months	Due after 3 months to 12 months	Due after 12 months to 5 years	Due after 5 years	Without maturity	Total
Assets									
Cash balances		71,306							71,306
Debt instruments of the public sector and bills of exchange eligible for refinancing at central banks									0
Due from banks		662,481		3,477,516	71,798	11,075	1,084		4,223,954
Due from customers		58,181	1,103,003	449,144	604,487	477,565	25,276		2,717,656
thereof mortgage receivables		11,259	867,137	105,056	249,813	477,190	25,276		1,735,731
Trading portfolios of securities and precious metals		11,503							11,503
Portfolios of securities and precious metals in current assets (excl. trading portfolios)		904,944							904,944
Other assets		179,636		385				137,883	317,904
Total assets	**31.12.2007**	**1,888,051**	**1,103,003**	**3,927,045**	**676,285**	**488,640**	**26,360**	**137,883**	**8,247,267**
Total assets	31.12.2006	1,733,269	593,550	3,296,221	747,837	784,675	30,275	139,959	7,325,786
Liabilities and provisions									
Due to banks		151,059		126,972	25,255				303,286
Due to customers		1,366,197	3,370,386	1,469,196	98,186	1,984			6,305,949
• savings deposits			526,453						526,453
• other liabilities		1,366,197	2,843,933	1,469,196	98,186	1,984			5,779,496
Securitized liabilities				33,030	106,428	466,239	5,125		610,822
• issued debentures				33,030	106,428	466,239	5,125		610,822
thereof medium-term notes				33,030	106,428	216,239	5,125		360,822
Provisions (excl. provisions for general banking risks)		23,720							23,720
Other liabilities and deferred items		84,678		900					85,578
Total liabilities	**31.12.2007**	**1,625,654**	**3,370,386**	**1,630,098**	**229,869**	**468,223**	**5,125**		**7,329,355**
Total liabilities	31.12.2006	1,420,920	2,977,266	1,721,583	130,141	214,124	5,242		6,469,276

Debentures and other interest-bearing securities which mature in the following financial year	48,427
Issued debentures which mature in the following financial year	139,458

Receivables and payables to participations, related companies and qualifying participants, as well as loans to governing bodies and material transactions with related persons

in CHF 1,000 Art. 24e Par. 1 Point 3.13 FL-BankO	31.12.2007	31.12.2006
Receivables and payables from participations, related companies and qualifying participants		
Receivables from participations	0	76
Payables to participations	0	17,103
Receivables from related companies	120,552	142,693
Payables to related companies	232,795	289,300
Receivables from qualifying participants	0	0
Payables to qualifying participants	36,267	34,509
Credits to governing bodies		
Members of Executive Board and parties related thereto	4,484	4,262
Members of the Board of Directors and parties related thereto[1]	926	6,858

[1] excl. receivables from related qualifying participants

The VP Bank Group also makes payments to related persons within the framework of brokerage services and bought-in advisory services. These are entered into under conditions customarily prevailing in the banking sector. The aggregate amount of such payments and fees in 2007 totaled CHF 0.2 million (2006: CHF 0.3 million).

Remuneration paid to members of governing bodies

in CHF 1,000 Art. 663b[bis] Code of Obligations (Switzerland)		Remuneration[1, 2] Fixed	Variable	Thereof in bearer shares (market value)	Pension fund senior employee insurance	Total remuneration
Board of Directors						
Hans Brunhart	Chairman[A, D]	450		113		450
Dr. Guido Meier	Vice-Chairman[B]	105		26		105
Markus Thomas Hilti	BoD[B]	75		19		75
Dr. Matthias Donhauser	BoD	70		17		70
Roland Feger	BoD[D]	80		20		80
Walo Frischknecht	BoD[C]	100		25		100
Prof. Dr. Beat Bernet	BoD	65		16		65
Total BoD		**945**		**236**	**none**	**945**
International Council[4]	**13 individuals**	**130**				**130**
Executive Management	**5 individuals**	**2,749**	**1,413**	**723**	**280**	**4,442**
Highest remuneration:						
Adolf E. Real	CEO	650	328	168	66	1,044

		Shareholdings in VP Bank Number of shares (incl. related parties[6] excl. qualifying participants) Registered	Bearer	Loans and credits	Related parties[6] Loans and credits[5]	Remuneration for services provided
Board of Directors						
Hans Brunhart		4,000	2,395	500		
Dr. Guido Meier		23,250[3]	20,536[3]			
Markus Thomas Hilti			3,623[3]			
Dr. Matthias Donhauser		2,000	676			
Roland Feger		40,350[3]	29,450[3]	426		200
Walo Frischknecht			298			
Prof. Dr. Beat Bernet			142			
Total BoD		**69,600**	**57,120**	**926**	**none**	**218**
International Council[4]		**none**	**45**	**none**	**none**	**none**
Executive Management		**none**	**7,812**	**4,484**	**none**	**none**
Adolf E. Real	CEO		1,746	697		
Fredy Vogt	CFO		3,169			
Georg Wohlwend	Head of Trust Banking		1,609			
Ernst Näf	Head of Private Clients		1,163			
Gerhard Häring	Head of Banking Services		125			

A Chairman of the Committee of the Board of Directors.
B Member of the Committee of the Board of Directors.
C Chairman of the Audit & Risk Management Committee.
D Member of the Audit & Risk Management Committee.
1 Social-security costs and any applicable value-added taxes on the emoluments paid to the Board members are borne by VP Bank.
2 Compensation for out-of-pocket outlays is not included in these amounts.
3 Excluding the number of shares of the significant shareholders (qualifying participants).
4 Corresponds to the lump-sum compensation for expenses paid to the external members of the International Council and Honorary Chairman.
5 As of the balance-sheet date, there were no loans or credits to related parties which were not granted at market conditions.
6 Individual or legal entities which are economically, legally or de facto closely related to a member of one of governing bodies.

Domestic and foreign and liabilities

in CHF 1,000 Art. 24e Par. 1 Point 3.14 FL-BankO	31.12.2007 Domestic	31.12.2007 Foreign	31.12.2006 Domestic	31.12.2006 Foreign
Assets				
Cash balances	71,306		57,699	
Debt instruments of the public sector and bills of exchange eligible for refinancing at central banks				
Due from banks	1,017,913	3,206,041	855,707	2,501,474
Due from customers	2,498,778	218,878	2,469,483	161,929
thereof mortgage receivables	1,735,534	197	1,652,961	203
Debentures and other interest-bearing securities	17,457	706,673	3,981	792,937
Equity shares and other non-interest-bearing securities	89,066	91,748	113,453	77,672
Participations	170		3,370	
Shares in related companies	11,014	72,455	12,014	67,831
Intangible assets	22,792		9,539	
Property and equipment	146,883		146,088	
Treasury shares	11,443		2,374	
Other assets	20,187	6,091	16,809	1,541
Accrued receivables and prepaid expenses	38,372		31,885	
Total assets	**3,945,381**	**4,301,886**	**3,722,402**	**3,603,384**
Liabilities and shareholders' equity				
Due to banks	106,266	197,020	218,553	298,014
Due to customers	3,716,946	2,589,003	3,390,338	2,216,345
• savings deposits	425,686	100,767	571,153	133,863
• other liabilities	3,291,260	2,488,236	2,819,185	2,082,482
Securitized liabilities	610,822		262,010	
Other liabilities and deferred items	29,955	9,634	28,638	3,881
Accrued liabilities and deferred items	45,989		29,605	
Provisions	23,720		21,892	
Provisions for general banking risks	237,150		237,150	
Subscribed capital	59,148		59,148	
Income reserves	495,989		440,989	
• Legal reserves	239,800		239,800	
• Reserve for treasury shares	11,443		2,374	
• Other reserves	244,746		198,815	
Retained earnings brought forward	75		3,880	
Net profit for the year	125,550		115,343	
Total liabilities and shareholders' equity	**5,451,610**	**2,795,657**	**4,807,546**	**2,518,240**

In accordance with the Banking Ordinance (Art. 24e Par. 1), Switzerland counts as domestic.

Assets in individual countries / groups of countries

in CHF 1,000 Art. 24e Par. 1 Point 3.15 FL-BankO	31.12.2007 absolute	 share in %	31.12.2006 absolute	 share in %
Assets				
Liechtenstein/ Switzerland	3,945,381	47.8	3,722,402	50.8
Europe (excl. Liechtenstein/Switzerland)	3,839,959	46.6	3,137,440	42.8
North America	144,599	1.8	181,604	2.5
Caribbean	243,001	2.9	223,416	3.1
Asia	32,881	0.4	23,229	0.3
Others	41,446	0.5	37,695	0.5
Total assets	**8,247,267**	**100.0**	**7,325,786**	**100.0**

Balance sheet by currency

in CHF 1,000 Art. 24e Par. 1 Point 3.16 FL-BankO		CHF	USD	EUR	Others	Total
Assets						
Cash balances		65,148	236	5,717	205	71,306
Debt instruments of the public sector and bills of exchange eligible for refinancing at central banks						0
Due from banks		194,246	1,585,958	1,944,024	499,726	4,223,954
Due from customers		2,356,437	148,893	141,187	71,139	2,717,656
thereof mortgage receivables		1,734,656	285	790		1,735,731
Debentures and other interest-bearing securities		328,099	121,358	261,294	13,379	724,130
Equity shares and other non-interest-bearing securities		56,777	73,416	44,114	6,507	180,814
Participations		170				170
Shares in related companies		83,469				83,469
Intangible assets		22,792				22,792
Property and equipment		146,883				146,883
Treasury shares		11,443				11,443
Other assets		26,044		174	60	26,278
Accrued receivables and prepaid expenses		24,260	6,284	6,766	1,062	38,372
Total on-balance-sheet assets		**3,315,768**	**1,936,145**	**2,403,276**	**592,078**	**8,247,267**
Delivery claims arising from foreign-exchange spot, forward and option transactions		357,093	708,635	510,784	89,582	1,666,094
Total assets	**31.12.2007**	**3,672,861**	**2,644,780**	**2,914,060**	**681,660**	**9,913,361**
Total assets	31.12.2006	3,450,382	2,573,290	2,562,061	599,018	9,184,751

Balance sheet by currency (continued)

in CHF 1,000 Art. 24e Par. 1 Point 3.16 FL-BankO	CHF	USD	EUR	Others	Total
Liabilities and shareholders' equity					
Due to banks	60,155	92,350	66,635	84,146	303,286
Due to customers	1,920,145	1,764,218	2,121,344	500,242	6,305,949
• savings deposits	526,362	3	87	1	526,453
• other liabilities	1,393,783	1,764,215	2,121,257	500,241	5,779,496
Securitized liabilities	610,822				610,822
Other liabilities	36,793	364	2,288	144	39,589
Accrued liabilities and deferred items	41,982	1,215	2,336	456	45,989
Provisions	23,720				23,720
Provisions for general banking risks	237,150				237,150
Subscribed capital	59,148				59,148
Income reserves	495,989				495,989
• legal reserves	239,800				239,800
• reserve for treasury shares	11,443				11,443
• other reserves	244,746				244,746
Retained earnings brought forward	75				75
Net income of the year	125,550				125,550
Total on-balance-sheet liabilities and shareholders' equity	**3,611,529**	**1,858,147**	**2,192,603**	**584,988**	**8,247,267**
Delivery obligations arising from foreign-exchange spot, forward and option transactions	357,009	708,600	510,755	89,573	1,665,937
Total liabilities and shareholders' equity 31.12.2007	**3,968,538**	**2,566,747**	**2,703,358**	**674,561**	**9,913,204**
Total liabilities and shareholders' equity 31.12.2006	3,723,823	2,491,665	2,383,814	585,160	9,184,462
Net position per currency	**–295,677**	**78,033**	**210,702**	**7,099**	**157**

Contingent liabilities

in CHF 1,000 Art. 24e Par. 1 Point 4.1 FL-BankO	31.12.2007	31.12.2006	Variance absolute	Variance in %
Contingent liabilities				
Credit guarantees and similar	**6,116**	6,388	–272	–4.3
Performance guarantees and similar	**99,004**	96,892	2,112	2.2
Total contingent liabilities	**105,120**	**103,280**	**1,840**	**1.8**

Unsettled derivative financial instruments

in CHF 1,000 Art. 24e Par. 1 Point 4.3 FL-BankO		Trading instruments Positive replacement values	 Negative replacement values	 Contract volumes	Hedging instruments Positive replacement values	 Negative replacement values	 Contract volumes
Interest-rate instruments							
Swaps					3,999	4,304	161,832
Foreign exchange/precious metals							
Forward contracts		15,022	14,867	1,654,089			
Options (OTC)		6,110	6,110	149,240			
Equity instruments/indices							
Forward contracts							
Options (OTC)							
Total prior to consideration of netting agreements	**31.12.2007**	**21,132**	**20,977**	**1,803,329**	**3,999**	**4,304**	**161,832**
	31.12.2006	15,910	15,622	1,916,756	724	2,424	140,431

VP Bank has no netting agreements.

Fiduciary transactions

in CHF 1,000 Art. 24e Par. 1 point 4.4 FL-BankO	31.12.2007	31.12.2006	Variance absolute	 in %
Fiduciary transactions				
Fiduciary deposits	**3,438,286**	2,702,087	736,199	27.2
• Fiduciary deposits with third-party banks	**3,233,335**	2,388,898	844,437	35.3
• Fiduciary deposits with related banks and finance companies	**204,951**	313,189	–108,238	–34.6
Fiduciary loans	**4,213**	4,335	–122	–2.8
Other fiduciary transactions of financial nature	**0**	0	0	0.0
Total fiduciary transactions	**3,442,499**	**2,706,422**	**736,077**	**27.2**

Information regarding the income statement

in CHF 1,000 Art. 24e Par. 1 Point 5.2 FL-BankO	2007	2006	Variance absolute	 in %
Income from trading activities				
Gains (losses) from securities	**–1,545**	1,319	–2,864	–217.1
Gains (losses) from foreign-exchange derivatives	**–222**	0	–222	n. a.
Gains (losses) from foreign-exchange transactions	**17,059**	15,952	1,107	6.9
Gains (losses) from trading in bank notes	**935**	1,088	–153	–14.1
Gains (losses) from precious metals	**316**	386	–70	–18.1
Total income from trading activities	**16,543**	**18,745**	**–2,202**	**–11.7**

Information regarding the income statement (continued)

in CHF 1,000 Art. 24e Par. 1 Point 5.3 FL-BankO	2007	2006	Variance absolute	in %
Personnel expense				
Wages and salaries	68,412	55,620	12,792	23.0
Social security costs and staff retirement pensions and assistance costs	11,156	9,625	1,531	15.9
thereof for staff retirement pensions	10,051	8,618	1,433	16.6
Other personnel expense	8,819	6,510	2,309	35.5
Total personnel expense	**88,387**	**71,755**	**16,632**	**23.2**
Emoluments of members of the Board of Directors[1, 2]	945	888	57	6.4
Compensation of members of Group Executive Management[2]	4,442	3,530	912	25.8

1 Social costs and any applicable value-added taxes on the emoluments paid to Board members are not included. The prior year's comparative figues were adjusted accordingly.
2 Compensation for out-of-pocket expenses is not included.

in CHF 1,000 Art. 24e Par. 1 Point 5.4 FL-BankO	2007	2006	Variance absolute	in %
General and administrative expenses				
Occupancy expenses	3,062	3,157	–95	–3.0
Expenses for IT, equipment, furniture, motor vehicles and other installations	7,394	5,761	1,633	28.3
Other business expenses	27,173	28,252	–1,079	–3.8
Total general and administrative expenses	**37,629**	**37,170**	**459**	**1.2**

Other assets and liabilities

in CHF 1,000 Art. 24e Par. 2 Point 6 FL-BankO	31.12.2007	31.12.2006	Variance absolute	in %
Other assets				
Precious metals	**60**	33	27	80.0
Unsettled derivative financial instruments (positive replacement values)	**25,131**	16,634	8,497	51.1
• trading positions	**21,132**	15,910	5,222	32.8
• liquidity positions	**3,999**	724	3,275	452.4
Clearing accounts	**0**	585	–585	–100.0
Settlement accounts	**350**	590	–240	–40.6
Miscellaneous other assets	**737**	508	229	45.1
Total other assets	**26,278**	**18,350**	**7,928**	**43.2**
Other liabilities				
Accounts for disbursement of taxes and fees	**7,471**	6,070	1,401	23.1
Unsettled derivative financial instruments (negative replacement values)	**25,281**	18,046	7,235	40.1
• trading positions	**20,977**	15,622	5,355	34.3
• liquidity positions	**4,304**	2,424	1,880	77.5
Compensation accounts	**120**	0	120	n. a.
Settlement accounts	**5,338**	5,066	272	5.4
Miscellaneous other liabilities	**1,379**	3,337	–1,958	–58.7
Total other liabilities	**39,589**	**32,519**	**7,070**	**21.7**

Analysis of client assets under management

in CHF 1,000 According to Appendix 3, point 88a FL-BankO	31.12.2007	31.12.2006
Type of client assets under management		
Assets in self-administered investment funds	4,193,163	3,819,749
Assets in discretionary asset management accounts	2,384,259	2,307,367
Other client assets under management	24,361,954	22,335,249
Total client assets under management (incl. assets counted twice)	30,939,376	28,462,365
Included therein: assets counted twice	2,928,124	2,987,246
Net new client assets under management	1,999,908	2,185,851

Report of the Auditors

To the Annual General Meeting of shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz

As banking-law auditors, we have audited the consolidated annual financial statements (balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and notes – pages 168–191), as well as the annual report (page 167) of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, for the financial year ended December 31, 2007.

These financial statements and the annual report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements, based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Liechtenstein profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements and annual report are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position, the result of operations and the cash flows in accordance with Liechtenstein law. Furthermore, the accounting records, financial statements and the annual report, as well as the proposed appropriation of available earnings comply with Liechtenstein law and the Company's articles of incorporation.

The annual report corresponds to the annual financial statements.

We recommend that the financial statements submitted to you be approved.

Ernst & Young AG

Stefan Fuchs	Patrick Schwaller
Certified Accountant	Certified Accountant
(Auditor in charge)	

Bern, February 22, 2008

The VP Bank Group

Verwaltungs- und Privat-Bank Aktiengesellschaft is a bank domiciled in Liechtenstein and is subject to the Liechtenstein Financial Market Authority (FMA), Heiligkreuz 8, PO Box 684, LI-9490 Vaduz, www.fma-li.li.

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* Operating as a company exempted from holding a capital markets services licence to carry on business in fund management under the Securities and Futures Act (Cap. 289) of Singapore pursuant to Regulations 5(1)(d) and 5(7) of the Securities and Futures (Licensing and Conduct of Business) Regulations and from holding a financial advisers licence under the Financial Advisers Act (Cap. 19) of Singapore pursuant to Regulations 27(1)(d) and 37(2) of the Financial Advisers Regulations.

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