VP BANK

Annual Report

2010

Shareholder information

Tuesday, March 15, 2011
Media and analyst conference, 2010 financial results

Friday, April 29, 2011
48th Annual General Meeting of shareholders

Friday, May 6, 2011
Dividend payment

Tuesday, August 30, 2010
Roundtable, 2011 semi-annual results

Core data on shares

Bearer shares listed on SIX Swiss Exchange

Symbol SIX	VPB
Bloomberg ticker	VPB SW
Reuters ticker	VPB.S
Security number	1073721
ISIN	LI0010737216
SEDOL number	5968006 CH

Statement

Dear Shareholders,
Ladies and Gentlemen

VP Bank Group recorded a consolidated net income of CHF 17.2 million for the 2010 financial year. This result was achieved under challenging circumstances and is a reflection of the persistently low level of interest rates and the uncertainties relating to the offshore business at various locations. Also playing a significant role were the volatilities in the foreign currency markets as well as anxiety about the longer-term economic and financial market developments.
The interest-differential business contributed CHF 78.9 million (–34.8 percent) to VP Bank Group's operating results. Here, the aforementioned historically low interest rates gained expression. Despite what continues to be a difficult market environment, the commission and services business managed to achieve a 1.5 percent gain in revenues to CHF 125.4 million. Gratifyingly, the proportion of revenues attributable to the asset management and investment business rose significantly, while the transaction-dependent brokerage commission income was lower than in the previous year. Although the income from trading activities increased to CHF 45.8 million (+160.6 percent), the Group's own financial investments clearly underperformed the previous year (2010: CHF –5.4 million; 2009: CHF 36.5 million).
Total net operating income decreased by 18.2 percent versus the previous year to a total of CHF 256.8 million.
These income figures compare with total operating expenses of CHF 179.5 million (–3 percent). Thus through systematic cost management and a clearly structured organization, personnel as well as general and administrative expenses have now been sustainably reduced for the second consecutive year. The cost/income ratio amounted to 69.9 percent, which represents a significant increase over the previous year (2009: 59.0 percent). Shareholders' equity remained stable at a high level of roughly CHF 900 million, while total assets declined to CHF 10.6 billion (–8.9 percent).
On a positive note, it should be mentioned that the flow of net new money increased in the second half of 2010, thereby more than compensating for the outflow witnessed in the first six months of the year (2010: CHF 0.1 billion net new money inflow). This represents not only a trend reversal versus the first half of 2010, but also in comparison to 2009, when VP Bank Group experienced a net outflow of client funds in excess of CHF 1 billion. Owing to a CHF 1.4 billion performance-related decline in value, client assets under management at VP Bank Group amounted to CHF 28.2 billion at the end of 2010. Assets held in custody rose to CHF 12.6 billion (previous year: 12.3 billion), thus total client assets ended the year at CHF 40.8 billion.

Dividend proposal

At the annual general meeting on April 29, 2011, the Board of Directors will propose a dividend of CHF 3.50 per bearer share and CHF 0.35 per registered share. This payout ratio, which lies above the long-term average, is intended to express the stable equity base and promising chances for the future growth of VP Bank Group. The payment of continual dividends that offer a steady return also corresponds to the fundamental objectives of our dividend policy.

General business environment

In the past years, the prefaces to our annual reports had repeatedly referred to tremendous changes and challenging business conditions. The prevailing trend of particular significance to the cross-border asset management business is one in which domestic law is becoming progressively layered over with international standards, and that in turn neutralizes the location-specific advantages of a given country. This applies in particular to the issues surrounding the exchange of information in tax matters.
In 2010, this trend persisted, and the concrete elements have become clearer. In the Liechtenstein Declaration of March 12, 2009, the Principality announced its intention to conclude an array of tax information exchange agreements – and has made considerable headway in this regard. With this clear positioning, uncertainties have been reduced, and the market circumstances for the financial institutions have improved again. Apart from service quality, legal certainty is one of the keystones of client trust and hence the banking business as a whole.

Outlook

The strategy of VP Bank Group introduced some years ago was aimed at expanding onshore banking activities at selected locations and further developing the offshore banking business in reflection of the new circumstances; and that strategy has proven its worth. We have seen that these efforts are progressively bearing fruit: presence in different markets enables VP Bank to offer our clients the adequate banking services. Against this backdrop, the Board of Directors had, already in 2009, passed far-reaching resolutions concerning the business model and organization.

2010 was shaped by the intensive implementation of those resolutions as they apply to the corporate bodies of the Bank. Since last April, Roger H. Hartmann, in his capacity as CEO, has clearly set and emphasized guidelines, especially with regard to client orientation and the growth of the Bank. As of September 1, 2010, the Group Executive Management team was reduced to three members. These measures were accompanied by a further streamlining of the organization at other management levels. On the basis of a thorough analysis, VP Bank redefined its medium-term goals in November 2010: we are striving to achieve an average annual growth rate in net new money of 5 percent, a cost/income ratio of 65 percent and a tier 1 ratio of 16 percent.

With the exception of our tier 1 ratio, which remains twice as high as the legally prescribed minimum and would also easily meet the requirements under Basel III, the other two medium-term goals were not achieved during the year under review. VP Bank is very much aware that the transformation currently underway, which is oriented toward the new realities in the marketplace and the general circumstances per se, cannot be realized in a short period of time and will require further investments aimed at strengthening our market position.

Our successful business activities in Liechtenstein and the regional market give VP Bank a solid base. In the Asia-Pacific growth regions as well as in Central and Eastern Europe, VP Bank is in the process of expanding its market presence by increasing the number of client advisors. The Bank's position in existing and new markets will be reinforced systematically by offering client-oriented solutions that are suited to the specific market conditions.

The new circumstances are also being reflected in VP Bank's cooperative venture with Liechtensteinische Landesbank, which was successfully initiated last year in selected areas, and promises further potential.

Ever since its founding, VP Bank has not only looked out for its own interests, but has also been actively involved in promoting the development of its own surroundings. Our partnership in the Liechtenstein Bankers' Association and collaboration with the University of Liechtenstein, which the VP Bank Foundation also staunchly supports, are an important part of our self-understanding.

Like the entire private banking industry, VP Bank Group is in a challenging phase of upheaval. In the competitive arena, it will be of decisive importance that the Bank can make its profile and signature clearly visible. This personal element of the banking business is something we would like to express with the handwritten elements that mark the design of this Annual Report. Even in times of change, history and heritage form a good basis for creativity and new goals. The cover alludes to that by including an extract from the history of VP Bank.

A word of gratitude

At the end of September 2010, former Group Executive Management members Ernst Näf and Gerhard Häring stepped down from their posts at VP Bank. The Board of Directors would like to take this opportunity to thank Ernst Näf and Gerhard Häring for the important contribution to VP Bank Group's development they made within the scope of their activities over the past years.

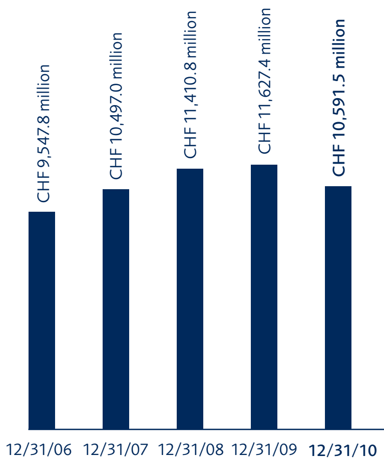
Times of change, like those we are experiencing at present, also pose tremendous challenges for the employees of VP Bank Group. The confidence we have in our ability to rise to the challenges of the future rests to a great degree on the quality and commitment of the employees throughout our Group. We thank them sincerely for embracing the goals of VP Bank and rendering our services with the quality to which we lay claim.

But above all, we thank our clients for their loyalty, trust and partnership – the very personal dimensions we feel every day. Special thanks also go to you, our valued shareholders, for the confidence you have in our work. We will continue to do our utmost to ensure the financial well-being of our clients and, hence, your well-being as shareholders.

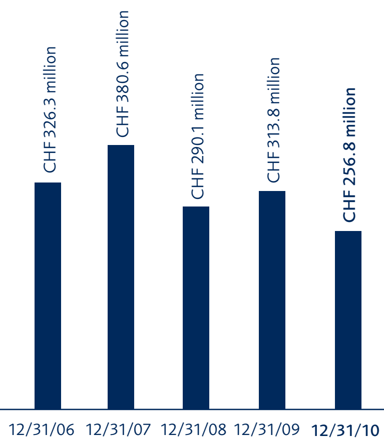
Hans Brunhart
Chairman of the Board of Directors

Roger H. Hartmann
Chief Executive Officer

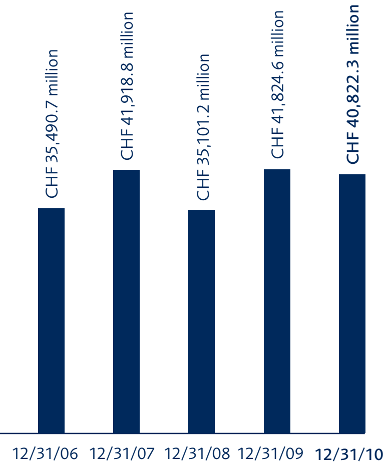
Key Figures of VP Bank Group



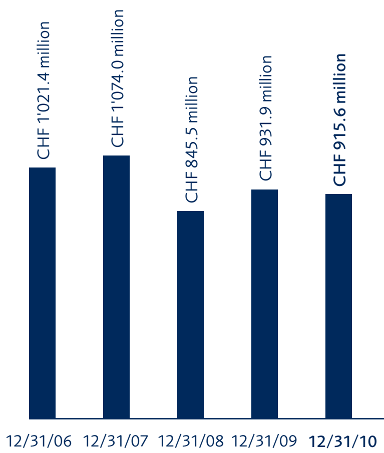
Total assets



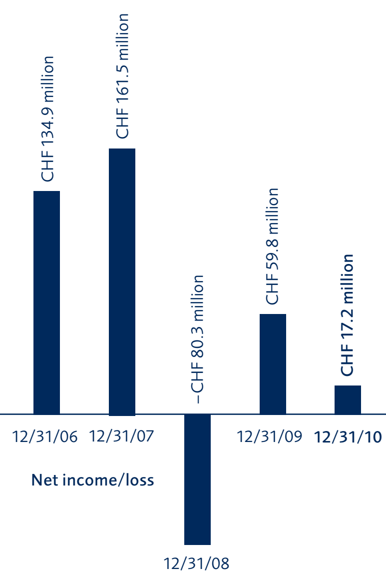
Total net operating income



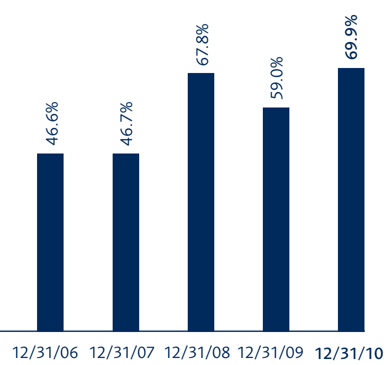
Client assets



Total shareholders' equity



Net income/loss



Cost/income ratio

Key Figures of VP Bank Group

	2010	2009	Variance in %
Key balance sheet data in CHF million[1]			
Total assets	10,591.5	11,627.4	–8.9
Due from banks	5,622.8	6,319.8	–11.0
Due from customers	3,266.9	3,026.6	7.9
Due to customers	8,707.2	9,993.7	–12.9
Total shareholders' equity	915.6	931.9	–1.7
Shareholders' equity, attributable to shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	897.8	913.4	–1.7
Equity ratio (in %)	8.5	7.9	7.9
Tier 1 ratio (in %)[2]	19.0	17.1	10.7
Key income statement data in CHF million			
Total net operating income	256.8	313.8	–18.2
Income from interest-differential business	78.9	121.0	–34.8
Income from commission business and services	125.4	123.5	1.5
Income from trading activities	45.8	17.6	160.6
Operating expenses	179.5	185.1	–3.0
Net income	17.2	59.8	–71.2
Net income attributable to shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	15.1	57.4	–73.7
Client assets in CHF million[2]	**40,822.3**	**41,824.6**	**–2.4**
On-balance-sheet customer deposits (excluding custody assets)	9,288.1	10,370.8	–10.4
Fiduciary deposits (excluding custody assets)	580.3	856.6	–32.3
Client securities accounts	18,357.7	18,317.1	0.2
Custody assets	12,596.2	12,280.1	2.6
Net new money	75.9	–1,125.6	n.a.
Key operating indicators			
Ratio of foreign assets (in %)	49.6	57.8	–14.3
Return on equity (in %)[1, 3]	1.7	6.6	–74.6
Cost/income ratio (in %)[4]	69.9	59.0	18.5
Headcount (expressed as full-time equivalents, excluding trainees)[5]	727.2	720.2	1.0
Total net operating income per employee in CHF 1,000	353.1	435.8	–19.0
Total operating expenses per employee in CHF 1,000	246.9	257.0	–3.9
Net income per employee in CHF 1,000	20.7	79.7	–74.0
Key indicators related to shares of VP Bank in CHF[1]			
Net income per bearer share[6]	2.62	9.97	–73.7
Net income per registered share[6]	0.26	1.00	–73.7
Dividend per bearer share	3.50[7]	3.50	0.0
Dividend per registered share	0.35[7]	0.35	0.0
Dividend yield (in %)	3.0	3.5	–12.3
Pay-out ratio (in %)	133.7	35.1	n.a.
Total shareholders' return on bearer shares (in %)	17.5	–26.3	n.a.
Shareholders' equity per bearer share	156.21	158.93	–1.7
Shareholders' equity per registered share	15.25	15.48	–1.5
Quoted price per bearer share	114.80	100.70	14.0
Quoted price per registered share	10.50	9.50	10.5
Highest quoted price per bearer share	142.50	151.00	–5.6
Lowest quoted price per bearer share	98.00	46.55	110.5
Market capitalization (in CHF million)[8]	673	592	–13.7
Price-earnings ratio per bearer share	43.85	10.10	n.a.
Price-earnings ratio per registered share	40.11	9.53	n.a.
Rating Standard & Poor's	A–/Stable/A–2	A–/Stable/A–2	

1 The reported key data and operating indicators are computed and reported on the basis of the share of the net profit and shareholders' equity attributable to shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz.
2 Details in the notes to the consolidated income statement and consolidated balance sheet.
3 Net income / average shareholders' equity less dividend.
4 Total operating expenses / 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 Based on the weighted average number of shares (bearer) (note 10).
7 Subject to approval by the Annual General Meeting.
8 Including registered shares.

The Organizational Structure of VP Bank Group

Changes in the organizational structure

VP Bank has responded to the far-reaching changes in the marketplace by introducing a new management structure (see organizational chart on page 11). As of September 1, 2010, the two previous business units Private Banking Clients and Intermediaries were transferred to a leaner management structure. Since then, VP Bank Group has been divided into four segments: Banking Liechtenstein & Regional Markets, Private Banking International, Wealth Management Solutions & Services, as well as CFO & Corporate Center.

The Banking Liechtenstein & Regional Markets business segment encompasses the universal banking business in the Bank's home market and Switzerland, as well as the international private banking, intermediaries and fund businesses in Liechtenstein.

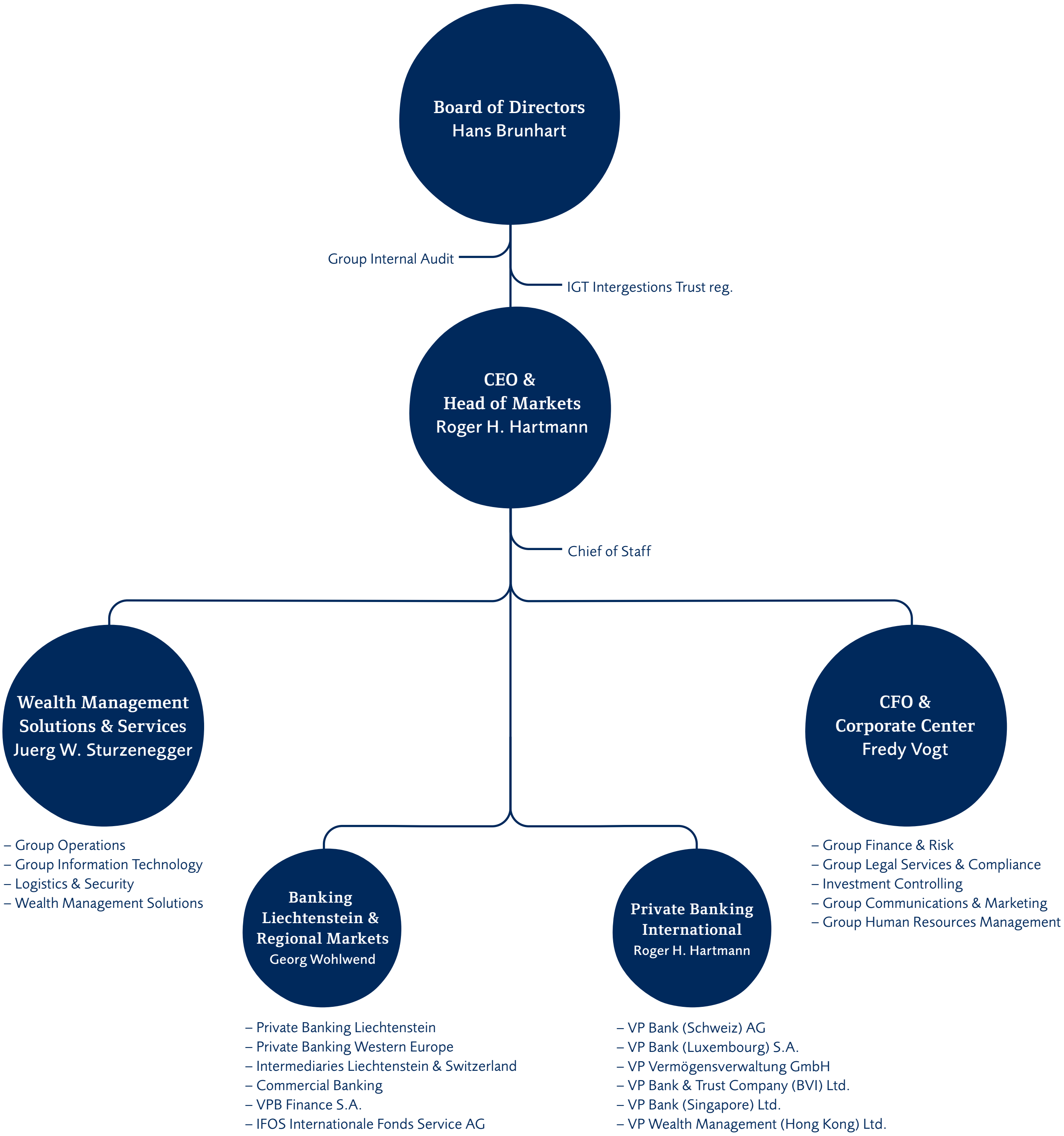
The Private Banking International business segment addresses the private banking business at the international locations of VP Bank Group.

The Wealth Management Solutions & Services business segment comprises the Wealth Management Solutions, Information Technology, Operations as well as Logistics & Security units of the entire VP Bank Group.

Included in the Corporate Center are the Group Finance & Risk, Group Legal Services & Compliance, Investment Controlling, Group Human Resources Management and Group Communications & Marketing units.

With the structural adaptation, the number of members of Group Executive Management was reduced to three: Chief Executive Officer Roger H. Hartmann is Chairman of Group Executive Management and, as Head of Markets, is responsible for client advisory segments Banking Liechtenstein & Regional Markets and Private Banking International.

Chief Financial Officer Fredy Vogt is in charge of the Corporate Center of VP Bank Group. The service units are combined in Wealth Management Solutions & Services, headed by Juerg W. Sturzenegger.


Board of Directors
Hans Brunhart
Group Internal Audit
IGT Intergestions Trust reg.
CEO &
Head of Markets
Roger H. Hartmann
Chief of Staff
Wealth Management
Solutions & Services
Juerg W. Sturzenegger
– Group Operations
– Group Information Technology
– Logistics & Security
– Wealth Management Solutions
CFO &
Corporate Center
Fredy Vogt
– Group Finance & Risk
– Group Legal Services & Compliance
– Investment Controlling
– Group Communications & Marketing
– Group Human Resources Management
Banking
Liechtenstein &
Regional Markets
Georg Wohlwend
– Private Banking Liechtenstein
– Private Banking Western Europe
– Intermediaries Liechtenstein & Switzerland
– Commercial Banking
– VPB Finance S.A.
– IFOS Internationale Fonds Service AG
Private Banking
International
Roger H. Hartmann
– VP Bank (Schweiz) AG
– VP Bank (Luxembourg) S.A.
– VP Vermögensverwaltung GmbH
– VP Bank & Trust Company (BVI) Ltd.
– VP Bank (Singapore) Ltd.
– VP Wealth Management (Hong Kong) Ltd.

Parent Bank

Segment	Area	Head
Board of Directors	Group Internal Audit	Nikolaus Blöchlinger
Chief Executive Officer & Head of Markets	Chief of Staff	Armin Lauer
Chief Financial Officer	Group Finance & Risk Group Legal Services & Compliance Investment Controlling Group Communications & Marketing Group Human Resources Management	Siegbert Näscher Thomas Ritter Willi Wüthrich Tanja Muster-Gartmann Dr. Karl Walch
Banking Liechtenstein & Regional Markets	Private Banking Clients Liechtenstein Private Banking Clients Western Europe Commercial Banking Clients Intermediaries Liechtenstein & Switzerland	Werner Wessner Martin Engler Rolf Jermann Günther Kaufmann
Wealth Management Solutions & Services	Group Information Technology Group Operations Logistics & Security Wealth Management Solutions	Dr. Andreas Benz Andreas Zimmerli Lorenz Kindle Tobias Kaeser

Subsidiaries with bank status

Company	Country	City	Head
Verwaltungs- und Privat-Bank Aktiengesellschaft	Liechtenstein	Vaduz	Roger H. Hartmann, Fredy Vogt, Juerg W. Sturzenegger
VP Bank (Schweiz) AG	Switzerland	Zurich	Katharina Vogt-Schädler, Jürg Moll, Marc Wallach, Tobias Kaeser
VP Bank (Luxembourg) S.A.	Luxembourg	Luxembourg	Yves de Vos, Paul Harr, Marco Predetti
VP Bank (BVI) Limited	British Virgin Islands	Tortola	Dr. Peter Reichenstein
VP Bank (Singapore) Ltd.	Singapore	Singapore	Reto Isenring

Asset management companies

Company	Country	City	Head
VP Vermögensverwaltung GmbH	Germany	Munich	Willi Heigl
VP Wealth Management (Hong Kong) Ltd.	China	Hong Kong	Clare Lam

Fund management companies

Company	Country	City	Head
IFOS Internationale Fonds Service Aktiengesellschaft	Liechtenstein	Vaduz	Alexander Boss, Natalie Flatz
VPB Finance S.A.	Luxembourg	Luxembourg	Romain Moebus, Rolf Diderrich, Jos Wautraets
ATU Fund Administrators (BVI) Limited	British Virign Islands	Tortola	Dr. Peter Reichenstein

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
ATU General Trust (Anguilla) Inc.	Anguilla	The Valley	Dr. Peter Reichenstein

Representative office

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	Clare Lam

Segment Reporting

2010

in CHF 1,000	Banking Liechtenstein & Regional Markets	Private Banking International	Wealth Management Solutions & Services	CFO & Corporate Center	Total Group
Total income from interest-differential business	35,817	18,088	500	24,522	78,927
Total income from commission business and services	89,019	35,499	438	469	125,425
Income from trading activities	11,949	6,123	6,274	21,423	45,769
Other income	2,173	5,606	0	–1,114	6,665
Total net operating income	**138,958**	**65,316**	**7,212**	**45,300**	**256,786**
Personnel expenses	24,083	33,480	38,244	25,990	121,797
General and administrative expenses	2,871	14,505	19,036	21,316	57,728
Services to/from other segments	30,302	896	–31,261	63	0
Operating expenses	**57,256**	**48,881**	**26,019**	**47,369**	**179,525**
Gross income	**81,702**	**16,435**	**–18,807**	**–2,069**	**77,261**
Depreciation and amortization	279	3,599	27,944	6,908	38,730
Valuation allowances, provisions and losses	11,929	5,627	1,823	0	19,379
Income/loss before income tax	**69,494**	**7,209**	**–48,574**	**–8,977**	**19,152**
Taxes on income					1,940
Net income					**17,212**
Share of net income attributable to minority interests					2,128
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz					**15,084**
Client assets under management (in CHF billion)	18.8	7.7	1.3	0.4	28.2
Net new money (in CHF billion)	–1.0	0.9	0.0	0.2	0.1
Headcount (number of employees)	171	210	267	133	781
Headcount (expressed as full-time equivalents)	164.0	201.9	248.7	112.6	727.2

2009

in CHF 1,000	Banking Liechtenstein & Regional Markets	Private Banking International	Wealth Management Solutions & Services	CFO & Corporate Center	Total Group
Total income from interest-differential business	51,136	29,500	703	39,677	121,016
Total income from commission business and services	90,966	31,038	1,040	477	123,521
Income from trading activities	12,014	5,657	6,204	–6,310	17,565
Other income	2,126	5,234	0	44,386	51,746
Total net operating income	**156,242**	**71,429**	**7,947**	**78,230**	**313,848**
Personnel expenses	24,943	35,299	40,906	22,919	124,067
General and administrative expenses	3,317	16,634	13,922	27,156	61,029
Services to/from other segments	30,410	1,202	–29,586	–2,026	0
Operating expenses	**58,670**	**53,135**	**25,242**	**48,049**	**185,096**
Gross income	**97,572**	**18,294**	**–17,295**	**30,181**	**128,752**
Depreciation and amortization	302	4,247	29,199	6,745	40,493
Valuation allowances, provisions and losses	10,300	1,040	0	4,529	15,869
Income/loss before income tax	**86,970**	**13,007**	**–46,494**	**18,907**	**72,390**
Taxes on income					12,563
Net income					**59,827**
Share of net income attributable to minority interests					2,416
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz					**57,411**
Client assets under management (in CHF billion)	20.7	7.3	1.3	0.3	29.5
Net new money (in CHF billion)	–1.6	0.8	–0.3	0.0	–1.1
Headcount (number of employees)	164	196	273	136	769
Headcount (expressed as full-time equivalents)	158.6	190.9	254.6	116.1	720.2

Banking Liechtenstein & Regional Markets

in CHF 1,000	2010	2009	Absolute variance	Variance in %
Total income from interest-differential business	35,817	51,136	–15,319	–30.0
Total income from commission business and services	89,019	90,966	–1,947	–2.1
Income from trading activities	11,949	12,014	–65	–0.5
Other income	2,173	2,126	47	2.2
Total net operating income	**138,958**	**156,242**	**–17,284**	**–11.1**
Personnel expenses	24,083	24,943	–860	–3.4
General and administrative expenses	2,871	3,317	–446	–13.4
Services to/from other segments	30,302	30,410	–108	–0.4
Operating expenses	**57,256**	**58,670**	**–1,414**	**–2.4**
Gross income	**81,702**	**97,572**	**–15,870**	**–16.3**
Depreciation and amortization	279	302	–23	–7.6
Valuation allowances, provisions and losses	11,929	10,300	1,629	–15.8
Divisonal earnings before income tax	**69,494**	**86,970**	**–17,476**	**–20.1**
Additional information				
Operating expenses excluding depreciation and amortization / total operating income (in %)	41.2	37.6		
Operating expenses including depreciation and amortization / total operating income (in %)	41.4	37.7		
Client assets under management (in CHF billion)	18.8	20.7		
Change in client assets under management compared to 12/31/09 (in %)	–9.0	–0.4		
Net new money (in CHF billion)	–1.0	–1.6		
Gross income / average client assets under management (bp)[1]	70.4	75.4		
Divisional result / average client assets under management (bp)[1]	35.2	42.0		
Cost/income ratio operating income (in %)[2]	41.9	38.1		10.0
Headcount (number of employees)	171	164	7.0	4.3
Headcount (expressed as full-time equivalents)	164.0	158.6	5.4	3.4

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

Private Banking International

in CHF 1,000	2010	2009	Absolute variance	Variance in %
Total income from interest-differential business	18,088	29,500	–11,412	–38.7
Total income from commission business and services	35,499	31,038	4,461	14.4
Income from trading activities	6,123	5,657	466	8.2
Other income	5,606	5,234	372	7.1
Total net operating income	**65,316**	**71,429**	**–6,113**	**–8.6**
Personnel expenses	33,480	35,299	–1,819	–5.2
General and administrative expenses	14,505	16,634	–2,129	–12.8
Services to/from other segments	896	1,202	–306	–25.5
Operating expenses	**48,881**	**53,135**	**–4,254**	**–8.0**
Gross income	**16,435**	**18,294**	**–1,859**	**–10.2**
Depreciation and amortization	3,599	4,247	–648	–15.3
Valuation allowances, provisions and losses	5,627	1,040	4,587	n. a.
Divisonal earnings before income tax	**7,209**	**13,007**	**–5,798**	**–44.6**
Additional information				
Operating expenses excluding depreciation and amortization / total operating income (in %)	74.8	74.4		
Operating expenses including depreciation and amortization / total operating income (in %)	80.3	80.3		
Client assets under management (in CHF billion)	7.7	7.3		
Change in client assets under management compared to 12/31/09 (in %)	5.2	27.4		
Net new money (in CHF billion)	0.9	0.8		
Gross income / average client assets under management (bp)[1]	87.0	109.3		
Divisional result / average client assets under management (bp)[1]	9.6	19.9		
Cost/income ratio operating income (in %)[2]	81.9	80.3		2.0
Headcount (number of employees)	210	196	14.0	7.1
Headcount (expressed as full-time equivalents)	201.9	190.9	11.0	5.8

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

Wealth Management Solutions & Services

in CHF 1,000	2010	2009	Absolute variance	Variance in %
Total income from interest-differential business	500	703	–203	–28.9
Total income from commission business and services	438	1,040	–602	–57.9
Income from trading activities	6,274	6,204	70	1.1
Other income	0	0	0	n. a.
Total net operating income	**7,212**	**7,947**	**–735**	**–9.2**
Personnel expenses	38,244	40,906	–2,662	–6.5
General and administrative expenses	19,036	13,922	5,114	36.7
Services to/from other segments	–31,261	–29,586	–1,675	5.7
Operating expenses	**26,019**	**25,242**	**777**	**3.1**
Gross income	**–18,807**	**–17,295**	**–1,512**	**–8.7**
Depreciation and amortization	27,944	29,199	–1,255	–4.3
Valuation allowances, provisions and losses	1,823	0	1,823	n.a.
Divisonal earnings before income tax	**–48,574**	**–46,494**	**–2,080**	**–4.5**

Additional information				
Client assets under management (in CHF billion)	1.3	1.3		
Headcount (number of employees)	267	273	–6.0	–2.2
Headcount (expressed as full-time equivalents)	248.7	254.6	–5.9	–2.3

Corporate Center

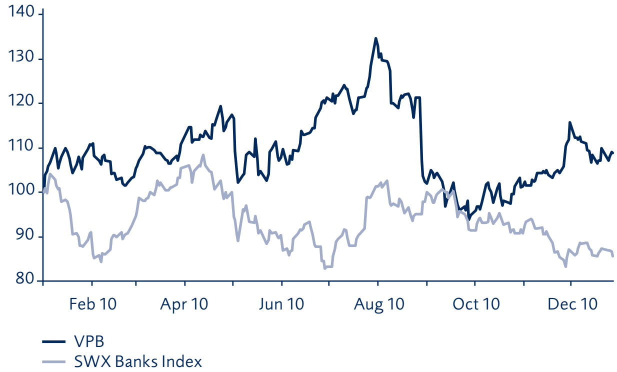
in CHF 1,000	2010	2009	Absolute variance	Variance in %
Total income from interest-differential business	24,522	39,677	–15,155	–38.2
Total income from commission business and services	469	477	–8	–1.7
Income from trading activities	21,423	–6,310	27,733	n.a.
Other income	–1,114	44,386	–45,500	102.5
Total net operating income	**45,300**	**78,230**	**–32,930**	**–42.1**
Personnel expenses	25,990	22,919	3,071	13.4
General and administrative expenses	21,316	27,156	–5,840	–21.5
Services to/from other segments	63	–2,026	2,089	–103.1
Operating expenses	**47,369**	**48,049**	**–680**	**–1.4**
Gross income	**–2,069**	**30,181**	**–32,250**	**106.9**
Depreciation and amortization	6,908	6,745	163	2.4
Valuation allowances, provisions and losses	0	4,529	–4,529	–100.0
Divisonal earnings before income tax	**–8,977**	**18,907**	**–27,884**	**147.5**
Additional information				
Client assets under management (in CHF billion)	0.4	0.3		
Headcount (number of employees)	133	136	–3.0	–2.2
Headcount (expressed as full-time equivalents)	112.6	116.1	–3.5	–3.0

VP Bank shares

Background Story
Trends in Private Banking
read

Economic environment

All of the world's major economies recorded growth in 2010 and consumer prices remained stable. Nonetheless, the markets felt a number of aftershocks last year from the global economic crisis of 2008/2009. This goes to show: trust in the economic and financial system is returning only gradually.
The shock waves crested a total of three times during the past twelve months: Greece represented the first stress test for the financial markets. After months of political maneuvering among the euro zone states, the bond markets in early 2010 finally denied Athens any further access to new capital. Within the space of several weeks, the euro paid the price for that dilemma. Despite the successful austerity programs introduced by the beleaguered member states, as well as commitments on the part of the EU and IMF to provide financial aid, the debt crisis has yet to be overcome. Regardless of the surprisingly rapid pace of commercial activity in Germany, GDP growth in the euro zone as a whole will continue to suffer for quite some time. The second shock of the year came from the USA, where in the summer months fears arose that the economic recovery would come to an abrupt end. Today, the numbers show that America in fact did not have to suffer through a second (double dip) recession. However, unemployment is still at a high level despite the otherwise buoyant economy, and the residential real estate market will likely require various government aid programs yet again this year.
And lastly, interventions on the part of the Swiss National Bank and the Bank of Japan, as well as the change of course at the Federal Reserve in the fall of 2010, led to commotion in the foreign exchange markets. China's willingness to soften, albeit cautiously, its managed currency policy helped to balance the scales somewhat; after all, the yuan is the actual bone of contention in many respects.
The equity and commodity markets closed out 2010 at levels higher than those anticipated by VP Bank – and surprisingly, the bond markets did so as well. The dollar was unable to hold its own against all major currencies.
As was the case in 2009, Asia again represented the growth engine for the global economy, followed by the emerging nations in Latin America (especially Brazil) and also sporadically in Eastern Europe (e.g. Turkey and Poland).



VP Bank bearer shares versus the SWX Banks Index in 2010 (indexed)

Equity markets

2010 was a turbulent year for stocks, but one that ended quite pleasingly in most of the world's equity markets. Especially the shares of companies in the emerging nations managed to record significant year-on-year gains.
Similarly favorable, yet at a more leisurely pace, were the share price developments in most of the industrialized nations. The benchmark global equity index gained 10.2 percent for the year, but the performance of the various regional indices differed widely: while Germany's DAX stock market barometer rose by more than 16 percent, the indices for many European peripheral states closed out 2010 at levels that in part were significantly below their prior-year reading. The Swiss stock market was an underperformer: the broadly based Swiss Performance Index (SPI) added a mere 2.9 percent for the year. On balance, North American share prices at the end of 2010 were roughly 17 percent lower than where they stood prior to the financial crisis, while European stocks remained almost 30 percent beneath their previous highs.
Corporate profits also remained below their historical high-water marks. In North America, analysts are reckoning that full-year earnings grew at a 14 percent pace and more than 15 percent in Europe. If one believes the analysts, American companies' profits for this year should return to their pre-crisis levels, while those of European enterprises will only do so as of 2012.

The shares of VP Bank

With its 5,314,347 bearer shares, VP Bank has been listed on Switzerland's stock exchange (SIX Swiss Exchange) since 1983. As at December 31, 2010, those shares represented a total market capitalization of CHF 673 million.

Following the recovery witnessed in 2009, the past year was a difficult one for bank shares. Although the banks managed to report higher profits, their stock prices were impacted by the European debt crisis and new regulatory provisions. The global banking share index recorded a decline of more than 2 percent for the year, whereby Swiss banks were particularly poor performers. The SWX Banks Index compiled by SIX Swiss Exchange lost close to 14 percent of its value in 2010. The shares of VP Bank were clearly able to defy that trend. Their average price stood at CHF 115, with a year's high of CHF 142 and a low reached in late September of CHF 98.

Investor relations

The goal of VP Bank's investor relations efforts is to foster an open, ongoing dialogue with shareholders and other capital market participants by providing them with a true and fair view of VP Bank Group while also informing the interested public in a timely manner about the latest developments at the company. The tasks involved in this investor relations work include conducting discussions with analysts and investors, disclosing ad hoc information regarding business issues of relevance under securities law, producing the company's annual and semiannual reports and publishing the related financial results, as well as organizing the annual general meeting of shareholders. Again in 2010, roadshows as well as analyst and media conferences were key venues for intensifying our communication with investors and financial intermediaries.

In Switzerland's largest assessment of corporate annual reports, VP Bank's online presentation of its 2009 annual report ranked seventh best and thereby gained a place among the Top Ten for the first time ever.

Regular presentations addressing the financial outlook and corporate developments at VP Bank serve to broaden our dialogue with institutional and private investors. An additional means of communication is our www.vpbank.com website, where all of the latest information on VP Bank can be accessed.

Research coverage of VP Bank is provided by analysts at Credit Suisse, Crédit Agricole Cheuvreux Switzerland, Neue Zürcher Bank, UBS, Vontobel and Zurich Cantonal Bank.

As one of the few officially rated private banks in Liechtenstein and Switzerland, VP Bank Group carries an «A–» rating from Standard & Poor's.

Agenda for 2011	
Media and analyst conference on 2010 financial results	Tuesday, March 15, 2011
48th ordinary General Meeting	Friday, April 29, 2011
Dividend payment date	Friday, May 6, 2011
Roundtable on semi-annual results 2011	Tuesday, August 30, 2011

VP Bank share details	
Bearer shares, listed on SIX Swiss Exchange	
Amount listing	5,314,347
Free Float	61.9%
Symbol on SIX	VPB
Bloomberg ticker	VPB SW
Reuters ticker	VPB.S
Security number	1073721
ISIN	LI0010737216
Sedol number	5968006 CH

Share-related statistics 2010	
High (08/02/2010)	142.50
Low (09/30/2010)	98.00
Year-end close (final settlement value, 12/30/2010)	114.80
Average price	115.39
Market capitalization in CHF million	673
Consolidated net profit/loss per bearer share	2.62
Price/earnings ratio (PE)	43.85
Dividend per bearer share (proposed)	3.50
Net dividend yield in %	3.00
Standard & Poor's rating	A– (A–/Stable/A–2)

More information on VP Bank's shares, capital structure and shareholder base can be found in the «Corporate Governance» chapter on pages 53 through 54.

Investor & Media Relations

Contact: Tanja Muster-Gartmann
Head of Group Communications & Marketing
E-mail: investor.relations@vpbank.com
Telephone: +423 235 66 55
Fax: +423 235 65 00
Internet: www.vpbank.com → Investors

Strategy Report

Background Story
Corporate Values / Corporate Culture
read

VP Bank has not altered its strategic precepts. However, the Bank has put into motion many initiatives aimed at implementing that strategy in a better way: it has defined new medium-term goals, focused the management structure and – by logical extension – the process of market cultivation more sharply on the needs of clients, launched growth campaigns and developed a transformation plan.

Strategic precepts

VP Bank orients its activities toward four strategic precepts:

- Market cultivation: VP Bank is expanding its business and, in doing so, concentrates on the markets in which it is already operating successfully or where it recognizes growth potential. Apart from Liechtenstein and Switzerland, those markets include Germany, Central and Eastern Europe, as well as the Asia-Pacific region.
- Private banking: VP Bank has established itself as a successful, independent, high-quality private banking institution and wants to strengthen that position.
- Intermediaries: Ever since its founding, VP Bank has been a tried-and-true partner for external asset managers and fiduciaries. It has adapted its business with financial intermediaries in a professional and quality-insistent manner to the new circumstances in the Liechtenstein financial center. Moreover, VP Bank is adhering even more resolutely to its success model of catering to the needs of intermediary clients and is now broadening it to embrace other European and Asian countries.
- Regional business: VP Bank nurtures the market in Liechtenstein and the eastern Switzerland region for commercial and retail clients as well as the lending business. It wants to exploit the potential of this traditional business to an even greater extent.

Medium-term goals

In November 2010, VP Bank formulated and communicated new medium-term targets for key performance indicators.

- Net new money growth – based on client assets under management – should amount on average to 5 percent per year.
- The cost/income ratio should not exceed 65 percent for any extended amount of time.
- The proportion of core capital, expressed as tier 1 ratio, should be 16 percent.

The goals take into account the new regulatory circumstances and the persistently tenuous situation in the international financial markets. For two reasons, VP Bank considers it necessary to raise its cost/income ratio target to 65 percent: firstly, the margins in the private banking business are narrowing across the board; and secondly, the primary goal of increasing the flow of net new money requires sizeable investments. Those factors can cause the targeted cost/income ratio to be exceeded for a brief period of time. However, through efficiency gains and resolute cost-consciousness, VP Bank will keep a tight rein on its operating expenses.

Lean management structures

Effective as of September 1, 2010, VP Bank introduced a new structure to its corporate management matrix. The topmost management level, Group Executive Management, now comprises three members: the CEO, CFO and head of the new Wealth Management Solutions & Services business segments. The latter includes all units involved in investment management and operational support, as well as the Information Technology, Logistics and Security units. In this troika, the CEO acts as Head of Markets and is therefore directly responsible for the market cultivation and client advisory segments. The CFO heads the Corporate Center of VP Bank Group (see organizational chart on page 11). This new management structure underscores the weight VP Bank places on market development. While previously the business units were oriented toward the private banking clients and intermediaries segments, management today is focusing squarely on the markets.

Effective market cultivation

In the private client business, VP Bank perceives the greatest growth potential in the Asia-Pacific region as well as in Central and Eastern Europe. Private banking has changed dramatically in recent years: clients are more demanding and well informed than in years gone by. They seek products and services that are tailored to their individual circumstances in life, and they expect their investments to be in harmony with the norms of the given jurisdictions. This increases the requirements in terms of client care. The advisors must approach the clients proactively and accompany them with understanding and specific know-how, for example in transnational investment strategies and tax matters. Demanded today is a comprehensive approach to advice. Going forward, the advisors at VP Bank will draw increasingly on the skills of specialists from the individual units of the Bank.

The quality of advice is a pivotal factor in client satisfaction and loyalty. VP Bank will therefore make targeted investments into the acquisition and training of advisors and advisory teams. For example, in the summer of 2011, a high-profile private banking specialist will take over responsibility for the Private Banking Asia/Pacific business unit. His primary task will be to attract qualitatively outstanding client advisors for the Bank's offices in Singapore and Hong Kong, to fortify cultivation of the Asian markets and to achieve the Bank's growth goals in the Far East.

Another milestone in the Bank's market cultivation efforts lies in the coordinated manner in which that process is handled. The new management structure is already set up in such a way that the markets in which VP Bank is active can be approached in a well-orchestrated manner. In late November 2010, Group Executive Management also decided to appoint a coordinator for each market. As of the 2011 financial year, there will be a specific coordinator for each of the following regions: Liechtenstein, Switzerland, Germany and Austria, other countries in Western Europe, Eastern Europe, Near and Middle East, Asia-Pacific and the Americas. Central elements of this coordination concept are the institutionalization of a platform for exchanging best practices, as well as the focus on a structured approach to cultivating the respective markets, which is aligned across all of the Bank's locations. Above all, in terms of the Eastern European market, VP Bank hopes that this coordinated course of action will result in a spurt of growth. That market will be addressed by the Zurich branch, not least of all due to the close connections many Russian citizens maintain with Switzerland. Targeted investments will also be made in the Bank's Munich and Zurich affiliates. In future, the Zurich location will be placing greater emphasis on clients who are domiciled in Switzerland.

Growth initiatives

The private clients business remains the commercial area that offers the largest growth potential. The growth initiatives of VP Bank are therefore aimed primarily at attracting new money and, in turn, broadening the base of client assets under management. Apart from its new approach to market cultivation, VP Bank has launched further initiatives in an effort to meet clients' changing needs to an even greater extent: it will augment its competence in international tax law and wealth structuring, as well as expand its fund business. With Fund Solutions, VP Bank has at its disposal a Group-wide competence center that will place increased emphasis on coordinating fund-establishment services throughout the Bank and offering investment fund structures that meet the specific needs of clients.

With additional growth initiatives, VP Bank intends to reinforce its intermediaries and regional business areas.

Transformation

In the fall of 2010, VP Bank entered into a three-year transformation phase. Four tasks represent the heart of this process:

- incorporating the market-oriented management structure throughout the Group
- implementing the growth initiatives and strengthening the distribution structure
- heightening efficiency
- acquiring client advisors and advisory teams in a targeted manner

This transformation process starts by introducing leaner management structures and enhancing the efficiency of processes. At the end of the 2013 financial year, VP Bank will stand on a broader and more profitable business foundation.

Brand strategy

The VP Bank brand will gain strength as a part of the transformation. The related structural and strategic measures are aimed at translating the Bank's vision into reality as quickly as possible. Going forward, VP Bank will focus even more sharply on the eight Cs: clients, costs, compliance, competence, creativity, cooperation, culture and communication. By following these eight principles, VP Bank will reinforce its corporate culture and enhance the quality of its stakeholder relations.

The brand lends VP Bank a consistent appearance in the regional and international marketplace. It is a hallmark that evokes recognition, regardless of the region or business area in which VP Bank is active. The brand and the inherent values it expresses represent the link between the Bank's local retail and affluent business, its commercial business and its international private banking business.

Our employees will increasingly be in the public eye as representatives of the VP Bank brand, especially at the locations where the brand is little known. As a relatively small institution by international comparison, VP Bank cannot and does not desire to invest large amounts in costly image campaigns. Thus the role of each individual is all the more important: through their competence and comportment, managers and client advisors also become ambassadors of the brand in the Asian and Eastern European growth markets.

In its home market of Liechtenstein and the surrounding region, VP Bank enjoys a high degree of recognition and an excellent reputation. Targeted communication and marketing activities underscore the Bank's fellowship with local clients.

Value-oriented management

Management at VP Bank is oriented toward key performance indicators. The paramount yardstick for value-oriented management is "economic profit" – invested shareholders' equity, multiplied by the difference between the total return on shareholders' equity and the total cost of shareholders' equity – at the enterprise level. On a monthly basis, Group Executive

Management tracks the quantitative development of the Bank's medium-term targets. In order to measure operating earnings more precisely, the set of key performance indicators will be revamped in the coming two years. The main focus in this regard will be on the relationship of recurring revenues to total revenues as well as on the return on assets of the individual client segments. The stock ownership plan for first- and second-level managers is based on the economic profit of the company.

The long-term incentive plan (LTI) centers on the measurement of strategy realization over a five-year period and is aimed at sustainably increasing the Bank's enterprise value (see Corporate Governance, page 60, and Financial Report, page 143). For the 2011 financial year, one key figure has the highest priority: net new money. It is the indicator of the growth that VP Bank strives to achieve.

Clients

Background Story
Post-Financial-Crisis Client Advice
read

How can one be successful given today's environment in the financial services industry? Over the past two years, the circumstances in the financial markets have changed radically. The expectations of clients are also different than in the past: the market for financial services has shifted from being a sellers' to what today is a buyers' market.
The transformation process VP Bank is going through at present should pave the way for success: essentially, it centers on anchoring client-oriented management structures throughout VP Bank. In terms of client service, the ability to sit down and simply listen is the key factor. Advisors who listen carefully and put themselves in the client's position are better able to understand the needs of the client and can then jointly formulate the most suitable solutions.

Client relationship management

As is the same for the entire services sector, the banking business stands or falls on one crucial element: the relationship with the client. It is all about finding solutions for clients and interacting with clients. That of course is no new revelation, but the altered circumstances in a number of financial centers have brought back a heightened awareness of that element. The key to success lies in client relationship management.
Retaining clients and gaining new ones has become more difficult for Liechtenstein financial institutions in the past two years. However, the Liechtenstein financial center continues to afford numerous advantages: it is modern, liberal and progressive, and it fulfills international requirements pertaining to compliance. At the same time, Liechtenstein strictly safeguards clients' private financial sphere. The Principality has concluded with numerous other countries agreements that provide for an exchange of information solely upon specific request, and has categorically rejected any automatic exchange of information (see Legislation and Supervisory Authorities in Liechtenstein, page 39).
However, the fact remains: Liechtenstein as a financial center has ceded a certain measure of its sovereignty, and an array of clients have opted to repatriate their assets or transfer them to other parts of the world. These clients place great value on the tax conformity of transnational financial services. The financial center and its institutions must respond to those client needs by offering competence, excellent service and innovative products.
At the same time, another trend is evolving – one that has been shaped not least of all by the new media: clients today are well informed about investing and the financial markets. They articulate their wishes and expect their bank to provide a team of advisors who are skilled in financial and tax matters, listen attentively and find solutions for the client's unique situation in life.
Going forward, VP Bank will be focusing its strategy and structures more intently on these client needs. The concept of "market coordinators", the individualized advanced training of its client advisors coupled with performance-based remuneration, as well as the hiring of additional advisors, will markedly enhance the quality of client service (see Strategy Report, page 24, and Employees chapter, page 32).

Client segments and clientele structure

VP Bank distinguishes between four client segments:

- Private Clients: Wealthy individuals and families wish to receive individualized, high-quality advice on investment matters. Most of the time, this centers on structuring their wealth optimally and addressing tax issues; in many cases, though, it also extends to succession planning and inheritance questions. Private clients want to implement an investment strategy that corresponds to their risk/reward profile and circumstances in life while striving for the best possible performance.
- Intermediary Clients: External asset managers, fiduciaries and attorneys expect their banking partner to execute transactions rapidly and without errors. Highly modern, bank-internal infrastructure is a prerequisite for accomplishing that. VP Bank utilizes banking software that is indeed state of the art and represents one of the key factors that make VP Bank one of the preferred partners for financial intermediaries. These clients have access to the entire palette of the Bank's services and receive advice on matters relating to asset structuring and all banking-specific topics. VP Bank harmonizes its services on a Group-wide scale and has service desks in Vaduz, Zurich, Luxembourg, Singapore and the British Virgin Islands.

- Commercial Clients: VP Bank focuses its commercial business on clients located in Liechtenstein or eastern Switzerland. These clients seek traditional banking services such as corporate finance, mortgages, import-export finance, bank guarantees and surety credits. For more than 50 years, VP Bank has been firmly anchored in the regional economy and nurtures close contacts with local companies.
- Retail and Affluent Clients: These clients desire to conduct their everyday banking business with VP Bank and receive competent advice on retirement planning and cash investments. This client segment at VP Bank is also confined to individuals in Liechtenstein and the neighboring region.

Without a doubt, the greatest growth potential lies in the private clients business, especially in the emerging nations of Asia and Eastern Europe. However, the true character of VP Bank comes from the diversity of its clientele. Historically, VP Bank is deeply rooted in the intermediaries business and its long-standing relationships with regional corporate and retail clients. As a Liechtenstein financial institution, VP Bank cherishes the closeness it has with clients from the Principality itself as well as from the surrounding area.

VP Bank stands ready to serve all of its clients with competence and know-how. It offers them:

- a clearly structured investment process: a key element of successful asset management;
- a Group-wide competence center for investment products;
- a resolute approach of "open architecture" that embraces the analysis and evaluation of third-party products;
- a comprehensive, uniform advisory approach; and
- consistently applied management methods throughout the entire Group.

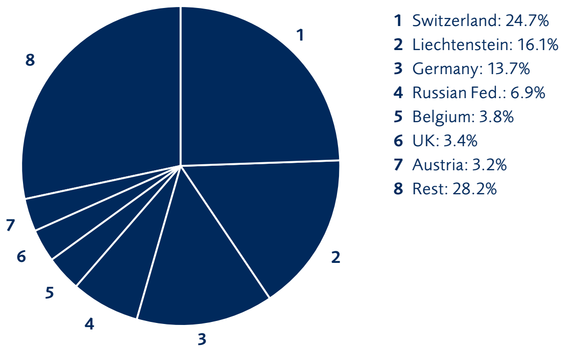
Client assets

As at December 31, 2010, VP Bank held client assets under management totaling CHF 28.2 billion (CHF 29.5 billion in the previous year). In addition, CHF 12.6 billion were in the form of deposit investments held in custody. Total client assets amounted to CHF 40.8 billion.

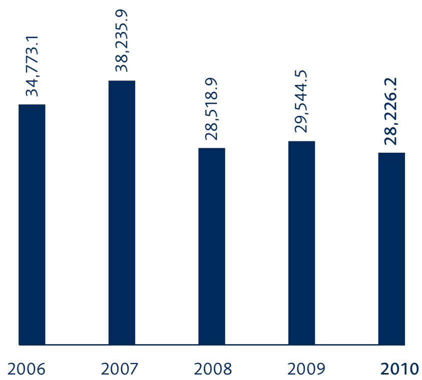
Quality assurance

Client feedback management is an integral part of client relationship management. Apart from a technological tool for that purpose, the approach involves measures for guiding the comportment of employees and enhancing the relevant processes. On one hand, feedback from our clients is an important stimulus for innovation and improvement at our company and, on the other, affords us as their partner the opportunity to service them in an even more targeted manner.

The Elite Report, which each year evaluates banks and asset management specialists in Germany, Austria, Luxembourg, Switzerland and Liechtenstein, once again conferred its highest rating, "summa cum laude", on VP Bank. Thus for the fourth consecutive year, VP Bank in Vaduz, VP Bank (Schweiz) AG and the Bank's asset management company in Munich received this commendation and, for the first time, VP Bank (Luxembourg) S.A. also held this honor. That makes VP Bank one of the few institutions to rank among the best asset managers in a total of four countries.



The origin of assets under management in 2010



Client assets under management in 2010
(in CHF million)

Employees

Employees are the most important value driver of a service-based company. Only through the skills and motivation of its employees can VP Bank differentiate itself from competitors in the marketplace. Our employees shape the client relationships and hence the Bank's success. A corporate strategy has to be embraced and sustained by the workforce – and even more so in times of change. VP Bank is currently in the midst of a transformation process with the aim of cultivating its markets even more effectively (see Strategy Report, page 24). This process also changes the requirements that are placed on our employees.

Requirement profiles

Banking clients today are informed and discriminating; they have lofty expectations of their investment advisor. Thus for many of our employees, their requirements profile will change in the coming months. They must critically question the way they interact with each and every client and adapt their comportment to the new market environment. It no longer suffices to be merely a professionally competent account executive or portfolio administrator; required instead are advisors who develop the initiative to approach clients on their own and seek out new clients. These are challenging demands, but for the advisor they simultaneously afford greater freedom to act and a higher degree of self-determination. With this transformation, VP Bank is also pursuing the goal of enabling its employees to experience emotional successes in their work and their encounters with clients.

To be successful, one must be willing to adapt – both in terms of personal behavior and the pursuit of training. Within the framework of seven Development Centers, VP Bank has performed a target/actual comparison of the requirement profiles for all advisors who are involved directly in the Bank's Liechtenstein and Swiss client business. This status assessment focused on the following criteria: education and experience, interpersonal skills and comportment, as well as performance. The findings were documented in individual assessment reports and subsequently discussed in feedback meetings. On this basis, the Human Resources department has supported line supervisors in coming up with individualized personal development plans and educational measures.

Investments in training

Regular coaching and acquisition/sales training sessions are to become core elements of VP Bank's training program for client advisors. This reflects the conclusions drawn from the results of the Development Centers' status assessment. The program will also focus on other key areas, such as broadening the advisors' industry-specific knowledge and providing them with a deeper understanding of international tax law. In Luxembourg, for example, the VP Bank client advisors are studying to become Certified International Private Wealth Managers, a course in which tax legislation represents 35 percent of the curriculum.

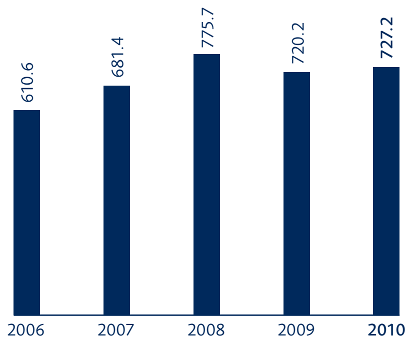
In addition, VP Bank is continuing to realize its educational concepts for developing the professional competency and interpersonal skills of its employees. The English language initiative met with great interest again in 2010: 61 employees at the Bank's headquarters and 20 from VP Bank (Schweiz) AG attended the in-house courses VP Bank offers at differing proficiency levels. Given the internationalization of the Group, this important fostering of English fluency will be pursued further in 2011.

VP Bank is making even greater efforts to train and develop up-and-coming talent. For example, in August 2010 it increased the number of apprenticeships in the commercial field from six to eight persons per year. In the 2010 financial year, VP Bank Group invested CHF 0.7 million (previous year: CHF 1.1 million) in the training of its employees. That amounts to a per-employee sum of CHF 1,000 (previous year: CHF 1,400).

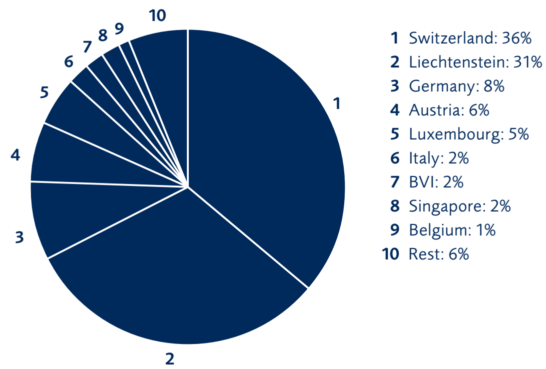
Personnel strategy

The Group-wide human resources strategy of VP Bank has been conceived for the years 2008 through 2013. Acknowledging the goal achievement over the past three years, Group Executive Management has confirmed the priorities for the years 2011 through 2013. The human resources strategy is a significant component of VP Bank's overall corporate strategy because the success of a service-based company depends greatly on the competencies and commitment of its employees. The human resources strategy is still oriented toward three fundamental principles, whereby slightly different aspects are emphasized within the individual business areas.

- Personnel and management development: Here, the goal is to anchor a culture of performance throughout VP Bank. In past years, the primary focus was on fostering results-oriented management; a first milestone was set in 2008 with the introduction of a long-term incentive system and the related value-based stock ownership plan for managers. An important step in the direction of a performance culture will be taken during the current financial year: additional business units with direct client contact will be remunerated to a greater degree on the basis of performance. The new Short-Term Incentive Plan (STI) involves the concrete measurement of performance, adheres to a "bonus bank" model, and is geared toward sustained added value. Since the middle of last year, VP Bank has concentrated on structuring the organization in such a way that it can best satisfy the requirements of the market and the desires of clients. The STI gives advisors additional incentive to get actively involved in the client relationship.
- Internationalization and corporate culture: The international structures of VP Bank foster a new understanding of what corporate culture is all about. One of the permanent tasks of the Human Resources Management unit is to accommodate international requirements in the relevant processes, encourage intercultural exchange within the Group, and broaden the range of opportunities for temporary deployment to the various Group locations.
- Personnel marketing: VP Bank plans to make sizeable investments in acquiring new advisors and advisory teams. In an effort to attract highly qualified and suitable client advisors, VP Bank is underscoring its allure as an employer. The Bank offers its employees a comprehensive array of training opportunities, the possibility to work at various branches of VP Bank, performance-dependent compensation models, flexible working hours, and excellent employment conditions with a high level of social security. Within the framework of individual assessments, the experiences gained from the Development Centers also flow into the hiring



Headcount 2006 through 2010 (full-time equivalents)



Nationality of VP Bank Group's employees

Headcount per company

	2010		2009		Variance against prior year	
	Employees	full time equivalent	Employees	full time equivalent	Employees	full time equivalent
VP Bank (Vaduz) AG	504	461.8	515	473.1	–11	–11.3
VP Bank (Schweiz) AG	87	81.5	82	78.2	5	3.3
VP Bank (Luxembourg) S.A.	72	69.2	64	61.7	8	7.5
VP Bank Finance S.A.	20	19.3	18	17.5	2	1.8
VP Vermögensverwaltung GmbH	5	4.5	6	6	–1	–1.5
VP Bank and Trust Company (BVI) Ltd.	32	32	29	29	3	3
VP Wealth Management (Middle East) Ltd.	0	0	4	4	–4	–4
VP Wealth Management (Hong Kong) Ltd.	7	7	7	7	0	0
VP Bank (Singapore) Ltd.	27	27	19	19	8	8
Moscow Representative Office	2	2	3	3	–1	–1
IGT Intergestions Trust reg.	7	5.5	5	4.9	2	0.6
IFOS Internationale Fonds Service AG	18	17.4	17	16.8	1	0.6
Total	**781**	**727.2**	**769**	**720.2**	**12**	**7**

process. VP Bank's human resources strategy supports the transformation process and likewise will be fully implemented by 2013.

Human Capital Management

To pursue its business strategy, VP Bank must have at its disposal a sufficient number of employees with the right qualifications at the right time. The policy will be supported by the SAP Human Capital Management (HCM) platform, that will be expanded in a number of steps through 2014. In 2010, the head office in Liechtenstein and VP Bank (Schweiz) AG introduced the related personnel administration software, which supports operational activities such as the handling of employee hirings and departures as well as the recording of hours worked. Since June 2010, VP Bank has also used the SAP platform for salary accounting and generating data for internal and external reporting. The next steps are on schedule for 2011: the Bank's locations outside of Liechtenstein and Switzerland will then also have their employee data available in SAP HCM. The HR unit will work together with the location heads to devise and implement the data administration processes and associated data structures.

Employee satisfaction

According to the original rotation, the survey of employee satisfaction and commitment should have been conducted in the 2010 financial year. However, due to the changes in Group Executive Management and the new leadership structure, VP Bank decided to postpone the survey until 2011. For that reason, no current statistics are available on employee satisfaction at present. Within the organization, the open and forthright management style of the new Group Executive Management has met with a very favorable response. Most of the employees are signaling that they embrace change.

Human resource processes

The maintenance audit of the processes in the human resource area was conducted in December 2010. Within the scope of this audit, VP Bank in Vaduz was unconditionally recertified under ISO.

Employee statistics of VP Bank Group

	Men	Women	Total
Number of employees	472	309	781
Quota in percent	60	40	
Average age	40	38	39
Average years of service	8.3	5.2	8.1

Sustainability

Background Story
Sustainability in the Financial World
read

Today, the principle of sustainability is an integral element of responsible corporate management. VP Bank's three-pillar model, which was developed in the '90s, addresses the economic, ecological and social dimensions of sustainability. Sustainable business activity takes into account the claims of all stakeholders. Solid profits, as well as responsibility vis-à-vis the environment and employees, enhance a company's reputation and ultimately flow into its share price.
Only economically successful companies are in a position to offer secure jobs and generate attractive dividends for their shareholders. A reasonable level of profitability is the basis on which a company can commit itself to society effectively and over the long run.
VP Bank Group avows itself to the principle of sustainable business practices. It wishes to secure the foundation of its sustained economic success. Relations with employees should be marked by respect and responsibility. Through measures aimed at the conservation of resources, VP Bank attempts to uphold its responsibility vis-à-vis the environment.
Moreover, owing to its business activities, VP Bank is involved in lively interaction with society and in so doing contributes to the further development and solidity of Liechtenstein as a center of commerce and industry.
Conducting business with foresight and acting with responsibility have always been the foundation of VP Bank Group's success. By documenting these activities, the Group provides its shareholders with insight into the various dimensions of its corporate citizenship. The publication "Sustainability at VP Bank"[1] has been available since 2010.

Mobility management

In early 2008, a mobility concept was introduced at the parent company in Vaduz. It features financial incentives for using public transportation as well as a graduated fee structure for employee parking spaces. The concept is self-financing: rental proceeds from the parking spaces are used for bonus payments to employees who waive the use of cars and parking spaces. This concept also motivates employees to form carpools. In addition, VP Bank offers the cost-free use of "Mobility Cars", an arrangement that has met with an enthusiastic response: measured on the basis of kilometers driven, the use of Mobility Cars has increased by roughly 45 percent between 2008 and 2010. Over the same time frame, the total number of kilometers driven for business purposes in employees' own vehicles has declined by 47 percent.
The bottom line after the third year is impressive: all goals have been achieved – a reduction of automobile traffic, the fostering of environmental consciousness, the promotion of public transportation, and an elimination of the shortage of parking spaces.

Paper and water consumption

As a general rule, VP Bank sends out client asset statements only once a year; daily and quarterly statements are printed and sent only at the express request of the client. This has led in recent years to a considerable reduction in the use of paper for forms and vouchers. For example, the number of printed forms has declined steadily from 655,000 in 2005 to 293,900 in 2010, as has the number of envelopes from 1,300,000 to 874,250 over the same time frame. Per-employee paper consumption has also dropped during the past five years from 0.15 to 0.08 tons.
Due to the introduction of Avaloq banking software in 2008, paper consumption for that year increased briefly, but the return to normal operations in 2009 led to an immediate decrease and it now stands at 42.6 tons, the lowest reading since 2004.
VP Bank prints its publications – including this Annual Report – on environmentally certified paper. FSC (Forest Stewardship Council) certification guarantees that the paper originates from wood harvested in exemplary, environmentally friendly forestry operations. Since 2010, payment order forms are also printed on FSC-certified paper.
Thanks to the introduction of order cards and referral to documents in electronic form, the number of printed copies of the Bank's annual and semiannual reports has halved over the past three years. Since 2010, the electronic communications of VP Bank Group include the footnote "Please consider the environment before printing this e-mail".
As the result of a targeted campaign encouraging the use of e-mail at the Bank's Vaduz and Zurich locations, the number of

[1] www.vpbank.com → About Us → Policy & Strategy → Sustainability.

electronically transmitted documents has skyrocketed: in 2007, approximately 130,250 documents were sent as attachment to e-mails; in 2010, that number already exceeded 532,700.
Water consumption versus the previous year also declined markedly and now lies below all readings recorded since 2005: per-employee water consumption has dropped from 16.3 m^3 in 2005 to 14.0 m^3 in 2010.

Energy

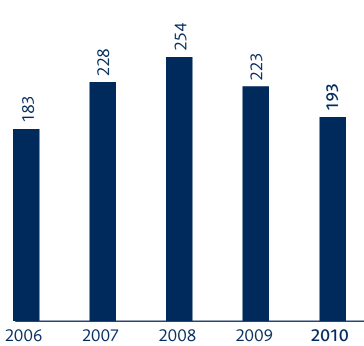
Through numerous initiatives, VP Bank Group is keying on the prudent consumption of energy. Those measures extend from the ecologically friendly manner in which the renovation of the Bank's headquarters in Vaduz and construction of the new service center in Triesen were accomplished, to the use of geothermal energy for heating and cooling, right through to the use of motion-activated lighting in the Bank's facilities.
Power consumption at VP Bank continues to decline thanks to efficiency-enhancement measures. For more than 15 years now, a photovoltaic power generator has been in operation on the roof of the Bank's headquarters in Vaduz. It supplies environmentally friendly energy that is fed into the Bank's power grid. Owing to a rejuvenation of the control system for this installation, power generation from photovoltaics increased by more than 50% versus the previous year to a total of 5,787 kilowatt hours.
Because of the unusually cold winter months of 2010, heating oil and gas consumption increased for the year, but overall energy consumption (including electricity) actually recorded a slight decline.
The differing types of buildings at VP Bank call for an overall concept that brings all of its Liechtenstein facilities up to the same level in terms of power technology. The goal of this concept is to harmonize all of the existing installations, optimize the distribution of power and efficiently exploit any ambient heat loss. To that end, energy flow meters were installed in 2009 in order to record and optimize the flows of energy from heating and cooling. The evaluation is adjusted to take seasonal fluctuations into account. The results flow into the measures for fine-tuning the Bank's overall energy supply. Also, the new energy supply project foresees the use of cutting-edge technologies that enable warming on the basis of heat recovery. Plans are for the concept to be implemented over the next several years.

Waste avoidance

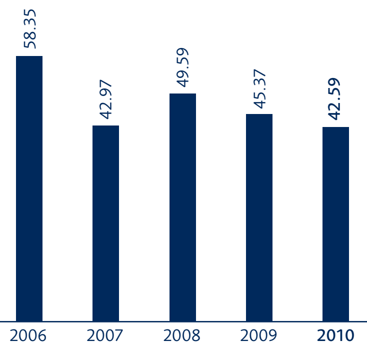
Ever since 2004, waste separation has been the order of the day at VP Bank: paper, glass, cardboard, styrofoam, PET bottles and greenery clippings each have their own receptacles. The total amount of waste generated in 2010 stood at 193 tons, roughly 30 tons less than in the previous year and the lowest reading in the past four years. Also, the per-employee amount of waste declined significantly in 2010 to stand at 0.38 tons versus the prior-year total of 0.43 tons.

Environmental management

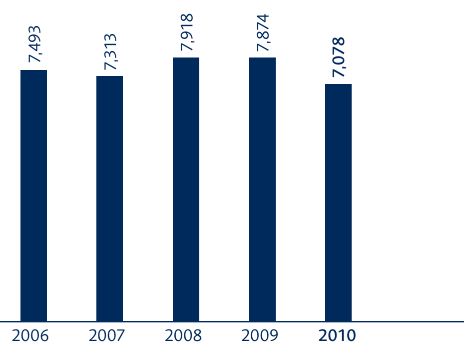
Responsibility for the Bank's ecological sustainability is borne by the Logistics & Security unit. The head of the unit represents VP Bank in the Swiss Network for Sustainability and Management.
VP Bank is also involved in the municipality of Vaduz's operational mobility management, where it contributes to a professional exchange of experiences gained in the area of mobility management.
The Mobility Management project group of the Liechtenstein Chamber of Commerce and Industry is another body in which VP Bank actively participates.
VP Bank is also a member of "öbu", the Swiss network for ecologically conscious corporate management.
VP Bank has been participating in the Carbon Disclosure Project (CDP) since 2008. CDP is an international non-profit organization that has the goal of creating more transparency with regard to climate-damaging greenhouse gas emissions. On behalf of investors, CDP Switzerland gathers data and information on CO_2 emissions, climate risks as well as the reduction goals and strategies of the largest exchange-listed Swiss companies. The findings are published in an annual report.
The confirmation this past December of VP Bank's certification under ISO 14001:2004 (Environmental Management), which was received already in 2009, underscores the viability of VP Bank's environmental and sustainability policy. In this connection, the areas of "Business Ecology" and "Social Responsibility" were integrated into the existing Quality Management



Total waste (in tons)



Paper consumption (in tons)



Water consumption (in m^3)

system. This recertification encourages VP Bank in its efforts to reduce the consumption of natural resources, seek alternative solutions and deal with its employees in keeping with the principles of sustainability.

Responsibility as an employer

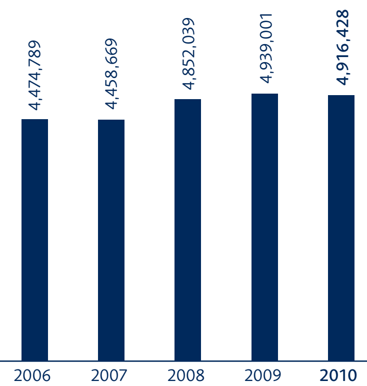
VP Bank evidences its responsibility as an employer by fostering modern and attractive work conditions. Motivation and good health have just as much influence as the actual physical office environment does on the performance of each individual; and that in turn influences the success of the entire company.
VP Bank Group offers its employees a wide range of opportunities for training and continuing education, and also nurtures the compatibility of their business and family life. Special emphasis is placed on training young people in order to simplify their entry into the business world and give them a sense of what the future can hold. The private commitment of employees to public offices, schools of higher education, work groups and professional organizations is expressly encouraged by VP Bank.
In Liechtenstein, the VP Bank Sports Club organizes numerous activities that are either cost-free or available at sharply reduced prices. On the VP Bank intranet, a wide array of information is available on the topics of "Fitness at the workplace" and "Healthy eating". In addition, VP Bank makes available at its facilities in Vaduz the "well.system", which enables the management of one's personal health-related behavior.

Social and cultural commitment

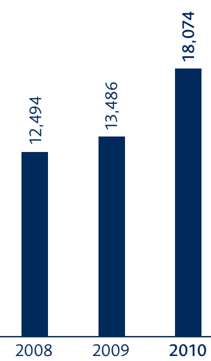
VP Bank has a long tradition of financially supporting and sponsoring numerous charitable organizations, initiatives and projects in the areas of social services, disaster relief, health, education, culture, nature conservation and ecology. The VP Bank Art Foundation was established in 1996 for the purpose of collecting works by international as well as regional artists. Its aim is to foster an understanding of art both within and outside the Bank. The acquired works can be viewed in the offices of the Bank as well as at art exhibitions.

Annual report of the VP Bank Foundation

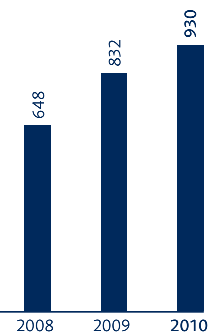
The VP Bank Foundation, which was established in 2006 on the occasion of the 50th anniversary of VP Bank, supports in keeping with its statutes a wide range of projects, institutions and individuals who have stood out for their accomplishments in the areas of ecology, art, education, sciences or culture. Grants are also made for activities that serve the public good. In addition, this support should in some way be connected with or closely related to both the Principality of Liechtenstein and the corporate values of VP Bank. Moreover, donations can also be made for welfare and social purposes.
The Foundation's board of trustees in 2010 consisted of Hans Brunhart and Fredy Vogt. During the year under review, the board held four meetings and the Foundation distributed grants amounting to approximately CHF 400,000.
Support of Chair of Company, Foundation and Trust Law at the Private University in the Principality of Liechtenstein is a prime example of the Foundation's patronage. By providing annual grants of CHF 100,000 over a three-year period, the Foundation, in collaboration with the Liechtenstein government, is providing financial as well as ideational backing for this professorship.
In so doing, it is not only fostering the scientific assessment of legal issues that are of tremendous significance to the positioning of Liechtenstein as a financial center, but also contributing to a proactive regional economic policy.
Other cornerstones for the political and economic development of the Principality are being laid by Liechtenstein University's research project "The specific structure of Liechtenstein as a microeconomy". The VP Bank Foundation, together with other sponsors, is supporting this project as well with annual grants of CHF 25,000 over three years.
The "pro natura – pro ski" foundation initiated by VP Bank eleven years ago received funding in 2010 totaling CHF 70,000. With that, the VP Bank Foundation, in collaboration with the University of Natural Resources and Life Sciences in Vienna, is making an enduring contribution toward the development of winter sport resorts that take into account the interests of all parties concerned.



Power consumption (in kWh)



Mobility cars (in km)



Mobility cars (number of journeys)

These two central commitments of the VP Bank Foundation related to its primary focal points of ecology, education and science, areas in which the Foundation is engaged in ongoing, multi-year projects.
That also applies to the sponsorship of other undertakings in the educational area such as the "Lindauer Nobelpreisträgertreffen" foundation, which was supported with CHF 50,000. In this connection, the renowned journal "Nature" published a lengthy report of the activities and projects of the VP Bank Foundation.
In conjunction with the annual "Lichtblick" campaign, more than 40 social institutions in Liechtenstein received grants totaling CHF 100,000 from the Foundation.
On the occasion of a national donation day conducted by the Liechtenstein Red Cross, the VP Bank Foundation participated by contributing CHF 25,000 toward aid to the earthquake victims in Haiti.
Additional grants centered on educational institutions, regional cultural projects and the furtherance of artists.
In the past year, a portion of the Foundation's capital was invested in the EMF Microfinance Fund AGmvK as well as in VP Bank Balanced (CHF) Strategy Fund class C units. Both funds have performed well and the positions are being maintained. Via the latter commitment, the relief organization SolidarMed received financial aid.
This past year, the board of trustees also supported efforts to network Liechtenstein-based charitable foundations even further on an international scale. At the same time, the Foundation was also committed to intensifying the exchange of experiences between Liechtenstein-based charitable foundations as well as the reinforced representation of their interests. In both areas, notable progress and successes were achieved: Swiss Foundations, an internationally respected association of Swiss charitable foundations, amended its statutes to also enable membership for Liechtenstein charitable foundations. The VP Bank Foundation will join this organization in 2011. In December of 2010, the Association of Liechtenstein Charitable Foundations was established with the goal of promoting the reputation and position of these local non-profit organizations. The chairman of VP Bank Foundation's board of trustees was elected to become the first chairman of this new foundation, in which the VP Bank Foundation is a charter member.

Legislation and Supervisory Authorities in Liechtenstein

Background Story
Private Label Funds
read

Verwaltungs- und Privat-Bank Aktiengesellschaft (VP Bank), Vaduz, is constituted as a joint-stock company under Liechtenstein law. It is the parent company of VP Bank Group. The responsible supervisory body in its country of domicile is therefore the Financial Market Authority Liechtenstein (FMA). Because the bearer shares of the parent company are listed on SIX Swiss Exchange, VP Bank is also subject to the rules laid down by SIX on the basis of the Swiss Federal Act on Stock Exchanges and Securities Trading of 1995 and the related implementing ordinances. The business activities of VP Bank Group are supervised by the competent authorities of each country in which the Group has subsidiary companies or representative offices.

General

In Liechtenstein the activities of VP Bank are subject primarily to the Act concerning 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. Since the beginning of 2008, the Bank has also been subject to the Ordinance on Capital Adequacy and Risk Diversification for Banks and Finance Companies (Capital Adequacy Ordinance) of December 5, 2006. The Banking Act also lays down the general conditions for the supervisory duties of the FMA. The latter – 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.
Under the Banking Act, banks and securities firms in Liechtenstein can offer a broad array of financial services. The Law on Professional Duties in Financial Transactions (Due Diligence Act, DDA) of December 11, 2008, and its related ordinance (Due Diligence Ordinance, DDO) of February 17, 2009 – in conjunction with the money-laundering article of the Liechtenstein Penal Code – constitute the legal foundation for due diligence that must be observed by each liable individual in Liechtenstein's financial services sector. The DDO corresponds to international requirements and was last revised in early 2009 to reflect the implementation of the EC Directive of October 26, 2005, on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (3rd Money-laundering Directive), the EC Directive of August 1, 2006 (Politically Exposed Persons, PEP Directive) as well as the recommendations of the International Monetary Fund.
Within the scope of its business activities, i.e. the provision of financial services, VP Bank must, among other things, observe the following additional laws and related ordinances:

- Payment Services Directive
- Investment Undertakings Act (IUA)
- Law Governing Supplemental Supervision of Companies of a Financial Conglomerate (Financial Conglomerate Act)
- Law Governing the Disclosure of Information Relating to Issuers of Securities (Disclosure Act)
- Securities Prospectus Act
- Law against Market Abuse in the Trading of Financial Instruments (Market Abuse Act)
- Law Governing Takeover Offers (Takeover Act)
- Persons and Companies Act (PGR)

The following discusses only legislation that was revised or entered into force during the past financial year.

Supplementation of the catalogue of predicate offenses for money laundering

The catalogue of predicate offenses for money laundering laid down in §165 of the Penal Code was supplemented to include the offenses of environmental pollution and market manipulation. With that, Liechtenstein is resolutely continuing on the path it started out on ten years ago with the intent of adapting the Principality's laws to accommodate international standards. In an upcoming revision, market manipulation, which today is still deemed to be a misdemeanor punishable by fines, will become classified as a criminal offense.

Amendment of the Persons and Companies Act (PGR): exercise of shareholders' rights

The revised provisions of the PGR relate to the exercise of shareholders' rights at companies listed on a securities exchange of an EEA member state. Companies such as VP Bank, whose bearer shares are listed in Switzerland, can voluntarily adopt these provisions in their Articles of Incorporation (for example, the appointment of a shareholders' representative, deadlines for convoking the annual general meeting of shareholders, the possibility to participate electronically in the annual general meeting).

Amendment of the Disclosure Act: accommodation of the Transparency Directive

The disclosure obligations of shareholders have been adapted to match the level prescribed by the Transparency Directive (2004/109/EG). Going forward, shareholders must only disclose information on significant shareholdings they have in companies domiciled in Liechtenstein.

Criminal liability of legal persons

The criminal liability of legal persons is viewed today as a key element in a properly functioning battle against abuse. The provision is applicable to legal entities that are entered in the Public Register, as well as to foundations and associations. They can be convicted if persons who act on the behalf of the legal person willfully or negligently commit an offense within the scope of their associated activities – be it an attempted or consummated offense.

Amendment of the Financial Market Authority Act (FMA Act): administrative assistance

By having amended the administrative assistance provisions of the Financial Market Authority Act, Liechtenstein – under preservation of client protections – fulfills the standards that have been established by IOSCO (International Organization of Securities Commissions) and CESR (Committee of European Securities Regulators; in future, ESMA: European Securities and Markets Authority). The key elements in this regard are the temporal postponement of affected clients' rights of appeal (subsequent right of appeal) as well as the examination by an independent judicial body of the specific request for administrative assistance. These changes enable the FMA to gain member status in IOSCO and observer status at CESR/ESMA.

Amendment of the Law on International Mutual Legal Assistance in Criminal Matters: participation of foreign investigators

In the 2009 revision of the Law on International Mutual Legal Assistance in Criminal Matters, the competence for approving the participation of foreign investigative officers was transferred to the Justice Department. The Supreme Court ruled that the lack of a concerned party's right to a legal hearing is unconstitutional, so now the District Court – apart from the Justice Department, which conducts the political examination – can pronounce a separate decision on the admission of foreign authorities.

Amendment of the FMA Act and the DDA: costs of supervision

In a number of decisions, the Supreme Court ruled as unconstitutional the legal foundation for the fee assessment relating to FMA investigations. Particularly reproved was the fact that the costs are not predictable for the subjected persons or would affect them even without guilt. In contested cases, the state will now bear the associated costs.

Amendment of the Finality Act and Property Act

Upon implementation of these EEA provisions, the certainty with regard to the finality of payment and transfer orders, netting and collateral agreements was heightened for the participants in those systems. The responsibility of the system operator was settled. Also, the use of credit claims as collateral was simplified in that the related notification and registration obligations were eliminated or prohibited throughout Europe. The law now expressly provides that the credit customers of banks can waive their right to offset claims and for protection under banking secrecy.

Amendment of the Payment Services Directive: cross-border electronic payments

There will no longer be any differentiation made between electronic transfers and other electronic payment processes. Rather, the term "cross-border electronic payments" will simply be used. Among those transactions are payments that have been triggered by a payer or payee and for which the payment service providers of the payer and payee are situated in different EEA member states or Switzerland.

Law on the Business of Electronic Money Institutions (e-Money Act)

With Directive 2009/110/EC, e-money institutions as well as e-money services were reregulated throughout Europe. The goal is to establish a level playing field for all payment service providers. Those providers are subject to the Payment Services Directive; the technical rules are laid out in the new e-Money Ordinance (EGV).

New tax law in Liechtenstein

On September 23, 2010, Liechtenstein's parliament – the Landtag – voted in favor of the government's proposal for a comprehensive tax reform. The revised law entered into force on January 1, 2011. The new tax system eases the burden on natural and legal persons, is simple and transparent, and fosters the attractiveness of Liechtenstein as a place to live and work. It fulfills the requirement to have internationally compatible legislation that is consistent with European law. A brief overview of the most significant regulations:

- Taxation of natural persons: Natural persons who are taxable in Liechtenstein will continue to be subject to wealth and income tax, however the taxable amount will now be determined by an all-inclusive rate based on total assets. That rate will be reestablished by the Landtag each year; for 2011, it amounts to 4 percent. As a result of this calculation, the previous capital gains tax will be simultaneously eliminated. The newly introduced seven-level tax scale replaces the relatively complex progressive tax surplus. Single-parent and wedded-couple deductions have been replaced by higher deductibles and tax-exempt amounts.

- Elimination of inheritance and gift taxes: With this tax reform, multiple taxation of the same tax substrate will be abrogated. Generally, the income earned over an entire lifetime is to be taxed only once, thus natural persons will no longer be faced with inheritance or gift taxes.
- Taxation of Liechtenstein companies: The new tax law offers companies better opportunities to restructure and adapt to global competition. With the newly introduced flat rate of 12.5 percent, all companies will be taxed equally in the future. The minimum corporate income tax amounts to CHF 1,200. The ordinary income tax on companies with no commercial activities is limited to this minimum amount. The law also includes provisions on group taxation.
- Elimination of coupon and capital taxes: For legal persons, the coupon tax and capital tax are no longer payable. In the first two years after the effective date of the new tax law, the possibility will exist to flatten old reserves at a reduced rate of 2 percent.
- Taxation of private wealth structures: The tax law provides that wealthy private persons may retain legal persons to administer a portion of their assets in an independent private wealth structure (PWS). A prerequisite is that the PWS is involved solely in managing the assets and performs no other commercial activities. The EFTA supervisory authority (ESA) has deemed the provisions of the new Liechtenstein tax law governing private wealth structures to be EEA-consistent and therefore confirmed at the European level.
- Philanthropy: As under the previous law, legal persons are exempted from tax if they engage exclusively in charitable pursuits. Now the same interpretation of the term charitable will apply in civil and tax law, which ensures a more simplified process.

The "Liechtenstein Declaration" and international tax treaties

With its declaration of March 12, 2009, the government of the Principality of Liechtenstein set a milestone in international cooperative work. In it, Liechtenstein commits to "implement the OECD global standards for transparency and the exchange of information in tax-related matters, as well as participate more intensely in international efforts to combat non-compliance with foreign tax law". The government declared its intention to conclude as soon as possible an array of bilateral agreements in this regard. At the same time, it emphasized that privacy and banking client secrecy must be safeguarded. With this declaration and the resulting policy, Liechtenstein wishes to uphold the interests of clients of the financial center as well as the justifiable claims of its contractual partners.
In 2009 alone, Liechtenstein concluded eleven tax information exchange agreements (TIEAs) and two double taxation agreements (DTAs) – one with Luxembourg and the other with San Marino. In December 2008, Liechtenstein had already signed a TIEA with the USA. Thus with the Liechtenstein Declaration and the concluded bilateral agreements, Liechtenstein was put on the OECD's "white list".

Already in December 2009, the government drew up draft legislation in order to establish, at the national level, the legal foundation for the implementation of international administrative assistance. Following expiration of the consultation period, the Landtag on March 30, 2010, approved a draft law on the conduct of international administrative assistance in tax matters. The Tax Administrative Assistance Act entered into force on September 1, 2010. It creates a uniform legal foundation for the inter-state administrative assistance procedure within the framework of the TIEAs and DTAs. Two agreements are excepted in this regard: upon entry into force of the Law on Administrative Assistance in Tax Matters with the United States of America (Tax Administrative Assistance Act-USA, TAAA-USA) on January 1, 2010, the TIEA with the USA acquired its own legal foundation; the TIEA with the United Kingdom was supplemented by a Memorandum of Understanding (MoU) that requires its own implementation. The Law on Administrative Assistance in Tax Matters with the United Kingdom of Great Britain and Northern Ireland (Tax Administrative Assistance Act-UK; TAAA-UK) took effect on September 1, 2010.
The agreements between Liechtenstein and the United Kingdom concerning the bilateral exchange of information in tax matters involve a peculiarity: concurrent with the TIEA, the governments of both countries on August 11, 2009, signed a Memorandum of Understanding and the First Joint Declaration. In the MoU, both sides agree in principle on the following: Liechtenstein will conduct a five-year tax administrative assistance and compliance program (Taxpayer Assistance and Compliance Program, TACP). The United Kingdom will also introduce a five-year disclosure program for persons who wish to settle their tax matters in the United Kingdom, the Liechtenstein Disclosure Facility (LDF). The First Joint Declaration goes into various specific points of the MoU, for example the further procedure, as well as the protection of Liechtenstein financial intermediaries who comply with the MoU.
The LDF provides for special conditions if clients of the Liechtenstein financial center who are liable to taxation in the United Kingdom make a self-declaration by March 15, 2015. These conditions include a shortening of the time frame for the assessment of tax claims from 20 to 10 years, a uniform average tax rate of 40 percent, and a reduced fine of 10 percent. The LDF arrangement is applicable to all natural and legal persons who are liable to taxation in the United Kingdom and have capital and asset investments in Liechtenstein. It applies not only to existing clients, but also to new clients who at the time of the disclosure have a business relationship ("meaningful relationship") with a Liechtenstein financial intermediary.
The United Kingdom introduced the LDF in 2010. Liechtenstein's Landtag created the legal framework for the TACP on June 30, 2010; the related legislation entered into force on September 1, 2010. In the fall of 2010, both countries signed a Second Joint Declaration that further clarifies individual points agreed to in the MoU. In particular, they concern:

- Relevant property for the purpose of the LDF: Point 5 of the Second Joint Declaration specifies that an asset or participation in an asset always relates to relevant property. However, the term "relevant property" is not quantified. Point 5 also states: "The parties expect that any new relevant property (in Liechtenstein) established specifically to facilitate participation in the LDF will be meaningful and of sufficient value and permanence to reflect the spirit of the MoU."
- Liechtenstein legal entities: The "Guidance on characterization, recognition and treatment of Liechtenstein legal entities and fiduciary relationships" provided in Appendix A increases the certainty with regard to the treatment under UK tax law. The guidance is based on the legal provisions of both countries as at January 1, 2010. In order to account for future changes in law, both parties can reexamine and revise this guidance.
- Tax retention procedure: The TACP requires that Liechtenstein financial intermediaries cease their services if the client cannot provide proof of his/her tax conformity. In addition, the MoU provides for a review procedure. Appendix B stipulates that a retention procedure will apply if the relevant service has not ceased.

In the Second Joint Declaration, Liechtenstein and United Kingdom have once again declared their intention to successfully conclude negotiations on a double taxation agreement. During the course of 2010, Liechtenstein concluded double taxation agreements with Hong Kong and Uruguay. The DTA with Luxembourg has been in force since December 17, 2010. Also signed on December 17, 2010, were seven TIEAs with Nordic countries: Liechtenstein now also maintains – conditioned on the approval of the Landtag – OECD-consistent agreements on the exchange of information in tax matters with Denmark, Sweden, Finland, Norway, Iceland, Greenland and the Faeroe Islands. The agreement strategy of Liechtenstein's government centers on the realization of its commitment to the OECD standard on the exchange of tax information as well as the establishment of a network of DTAs. Primarily, DTAs should be concluded.

Outlook

In 2011, Liechtenstein will conduct a total revision of the Investment Undertakings Act (IUA). In the international arena, signs of new regulations are on the horizon: the Financial Action Task Force (FATF) wishes to expand the catalogue of predicate offenses for money laundering to include several tax-related offenses, and the USA's Foreign Account Tax Compliance Act (FATCA) will serve the strict implementation of US tax law with regard to assets held abroad. FATCA will only enter into force in 2013, but exhaustive clarifications will be necessary in advance.

IUA revision / creation of a new AIFM law

Due to its EEA membership, Liechtenstein is obligated to adopt into national law the new EU directives in the investment fund area (UCITS IV Directive and AIFM Directive). UCITS IV has the aim of further strengthening cross-border traffic in services and heightening investor protection through the introduction of a "Key Investor Document". Under UCITS IV, it will be possible in the future for, say, a Liechtenstein-domiciled management company to set up and administer a fund under Luxembourg law. This represents the resolute issuance of an "EU passport" for management companies that, under UCITS III, was useable only to a very limited extent. Further regulations governing master-feeder constructs and cross-border mergers should counteract the inefficiencies and hence the relatively high cost burden on smaller funds. In the implementation of UCITS IV, Liechtenstein will take advantage of the available leeway and use the agreement as the grounds for creating a possible legal form for investment funds.

By implementing the AIFM Directive, Liechtenstein is venturing into uncharted waters. To date, all funds that were not "UCITS funds" were subject to domestic rules and could be regulated independently. The AIFM Directive on the regulation of alternative investment fund managers was adopted by the European Parliament on November 11, 2010, following heated controversies; European Council approval is still pending. With this directive, the EU wants to take into account the latest developments and current circumstances in the financial markets. It establishes a legal and supervisory framework for managers of alternative investment funds (AIFs) that are not subject to the UCITS Directive. In return, those AIFs will also enjoy the EU passport; in other words, by simple notification, they will be distributable throughout the EEA. The Directive should be integrated into national law by 2013, but many fundamental questions remain that cannot be conclusively answered without knowing the Level 2 provisions (implementing ordinances attendant to the AIFM Directive). Liechtenstein intends to adopt the AIFM Directive even before the official deadline, and to that purpose will enact a law that is separate from IUA.

Tax violations as predicate offense for money laundering

The FATF has announced that, during the course of 2011, it will issue directives under which tax violations are deemed to be a predicate offense for money laundering. It is not yet precisely clear when and in which form tax violations will be included in the predicate offense catalogue. Such a step would mean that, were grounds for suspicion to arise, banks, insurance companies and other financial intermediaries would have to inform the national money-laundering notification office – in the case of Liechtenstein, the Financial Intelligence Unit (SFIU) staff office. In certain cases, the latter would then be obliged to pass that information on to foreign notification offices. In Liechtenstein, the government as well as the FMA, Bankers' Association and SFIU are closely following these developments and will investigate whether and in which form these directives require a need for action on the part of the financial center. Liechtenstein has an outstanding track record in the battle against money laundering and, in international comparison, has an exemplary and well-functioning system for combatting abuse.

US tax legislation: Foreign Account Tax Compliance Act (FATCA)

The new FATCA rules go considerably beyond those of the Qualified Intermediary (QI) provision, which is and continues to be valid: the circle of foreign financial institutions (FFIs) that should become subject to FATCA encompasses roughly 200,000 firms throughout the world. By way of comparison: at present, approximately 6,000 banks have QI status. Not only banks, but also brokers, investment companies, fund constructs and insurance companies will be classified as FFIs. Each and every FFI now has to conclude a new agreement with the US tax authority (Internal Revenue Service, IRS). The FFI will be obligated to document its own clients even more precisely than before – at least in terms of a potential relationship to the USA; that applies above all to the ultimate beneficial owners of assets. The FFI must ensure that all US taxpayers are recognized, recorded and disclosed to the IRS in an extensive, annual reporting process. This requires a written declaration of consent (waiver) on the part of US clients. If US clients fail to provide the FFI with a waiver before January 1, 2013, at the latest, the FFI will be forced to terminate the business relationship.

If an FFI does not wish to conclude an agreement with the IRS, US-relevant payments will be automatically charged a penalty tax of 30 percent of the amount involved – mainly affected in this regard are interest payments, dividends and sale proceeds. In addition, an uncooperative FFI runs the risk of being elbowed into the role of an outsider.

FATCA forces all potentially threatened FFIs to critically assess their strategy relating to the US markets in order to establish the necessary conditions prior to the enactment of FATCA.

Important links to legislation and the Liechtenstein financial center

Financial Market Authority Liechtenstein	www.fma-li.li
Body of Liechtenstein law (German version only)	www.gesetze.li
Portal of the Principality of Liechtenstein	www.liechtenstein.li
Financial services	www.liechtenstein.li/eliechtenstein_main_sites/portal_fuerstentum_liechtenstein/fl-wuf-wirtschaft_finanzen/fl-wuf-finanzdienstleistungen.htm
Developments regarding international tax agreements	www.liechtenstein.li/eliechtenstein_main_sites/portal_fuerstentum_liechtenstein/fl-med-infos-medien/fl-med-steuerabkommen.htm
Government of the Principality of Liechtenstein	www.regierung.li
Liechtenstein Bankers' Association	www.bankenverband.li
Liechtenstein Investment Fund Association	www.lafv.li
Liechtenstein Association of Professional Trustees	www.thv.li
Liechtenstein Chamber of Commerce and Industry	www.lihk.li
Liechtenstein Economics Chamber (German version only)	www.wirtschaftskammer.li
Liechtenstein Insurance Association (German version only)	www.versicherungsverband.li
Association of Independent Asset Managers in Liechtenstein	www.vuvl.li

Corporate Governance 2010

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

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

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

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

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

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

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

1. Group structure and shareholder base

1.1 Group structure

1.1.1 Description of the Group's operating structure

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

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

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

1.1.2 Listed companies included in the scope of consolidation

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

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

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

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

1.2 Significant shareholders

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

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

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

1.3 Cross-shareholdings

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

2. Capital structure

2.1 Capital

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

		Balance as at December 31, 2010
	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**

2.2 Authorized and conditional capital

VP Bank has neither authorized nor conditional capital pending.

2.3 Changes in capital

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

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

2.4 Shares and participation certificates

The bearer shares of VP Bank are freely tradable on SIX Swiss Exchange. The registered shares are not listed, but are widely held among the regional populace. Both share categories bestow the membership rights provided for in the Liechtenstein Law on Persons and Companies Act (PGR) and the company's Articles of Incorporation. Each registered share (par value of CHF 1.00) and each bearer share (par value of CHF 10.00) grants the holder the right to one vote at the annual general meeting of VP Bank, irrespective of the par value of the share.
VP Bank has issued no participation certificates.

2.5 Profit-sharing certificates

VP Bank has issued no profit-sharing certificates.

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[2]. The registered shares are entered into the share register with a precise description of the owner according to name, citizenship and address. Only those registered shareholders are allowed to exert membership rights vis-à-vis the company. The Board of Directors may refuse entry into the share register for compelling reasons.

2.7 Convertible bonds and warrants/options

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

3. Board of Directors

The Board of Directors (BoD) bears responsibility for determining the medium- to long-term strategic orientation of VP Bank Group. It is responsible for the overall management, supervision and control of the company.
Liechtenstein law provides for a clear separation of duties between the uppermost management, the supervision and control exercised by the Board of Directors, as well as the operative management. Accordingly, the Board of Directors of VP Bank consists exclusively of nonexecutive members (i.e. members not actively involved in management).

3.1 Members of the Board of Directors

The Board of Directors of VP Bank consists of seven members, none of whom has belonged to the GEM of VP Bank or any Group company during the past three financial years.
As a financial institution, VP Bank maintains business relationships with numerous domestic and foreign companies. This also applies to the members of the Board of Directors as well as to individuals or legal entities that are closely related to the Board members.

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

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

1 Chairman of the Committee of the Board of Directors
2 Member of the Committee of the Board of Directors
3 Chairman of the Audit & Risk Management Committee
4 Member of the Audit & Risk Management Committee

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

Hans Brunhart (born March 28, 1945; citizen of Liechtenstein) has been the Chairman of the Board of Directors since April 1996, as well as Chairman of the Committee of the Board of Directors and member of the Audit & Risk Management Committee of VP Bank.
Further (board) mandates: SFS Holding AG, Heerbrugg.
Educational background: studied German philology at the universities of Freiburg (CH) and Basel.
Professional background: since 1972, Head of the Liechtenstein National Library and State Archives.
On March 27, 1974, he was appointed by His Serene Highness Prince Franz Josef II von und zu Liechtenstein to the post of Deputy Head of the Government and on April 26, 1978, to the post of Head of the Government of the Principality of Liechtenstein. Hans Brunhart exercised the function of Head of Government during four terms of office until 1993.
Other activities and vested interests: Hans Brunhart is the owner of ECAG Euroconsult AG, Schaan, established in 1993.

Dr. iur. Guido Meier (born January 8, 1948; citizen of Liechtenstein) is Vice Chairman of the Board of Directors and a member of the Committee of the Board of Directors of VP Bank.
Educational background: studied law at the University of Basel; graduated with a doctorate degree in 1977; admission to the bar in 1979.
Professional background: Allgemeines Treuunternehmen (ATU), Vaduz (Chairman of the Council of Trustees); law office of Meier & Kieber Attorneys-at-Law, Vaduz.
Other activities and vested interests: 1985 through 1993, part-time judge at the Liechtenstein Constitutional Court; 1993 through 1997, Member of Parliament. Guido Meier is Chairman of the Liechtenstein Institute, president of the Board of Trustees of the Stiftung Fürstlicher Kommerzienrat Guido Feger, Vaduz (see Point 1.2), as well as Chairman of the Council of Trustees of Allgemeines Treuunternehmen (ATU).

Lic. oec. Markus Thomas Hilti (born January 3, 1951; citizen of Liechtenstein) is a member of the Committee of the Board of Directors of VP Bank.
Educational background: studied business administration, majoring in finance and accounting, at the University of St. Gallen; graduated as lic. oec. HSG.
Professional background: Coopers & Lybrand, White Plains N.Y. (auditor); Hilti Western Hemisphere, Tulsa (USA) (finance, product management and sales); until 1989, member of senior management at Hilti Western Hemisphere (responsible for product management, purchasing, development, quality assurance as well as head of the company's factory in Tulsa).
Other activities and vested interests: from 1990 through 2009, Markus Thomas Hilti was Administrative Fiduciary and, since 2009, Protector of the Martin Hilti Familientreuhänderschaft, Schaan, as well as a trustee of U.M.M. Stiftung, Schaan (see Point 1.2).

Roland Feger (born December 26, 1956; citizen of Liechtenstein) is a member of the Audit & Risk Management Committee of VP Bank.
Educational background: Swiss Federal Examination in Accounting; diploma as Swiss Certified Fiduciary Expert.
Professional background: activities in the field of finance and accounting at various companies in Switzerland and Liechtenstein; management functions within Allgemeines Treuunternehmen (ATU), Vaduz; since 2000, Chairman of the Directorate of Allgemeines Treuunternehmen (ATU), Vaduz.
Other activities and vested interests: member of the Board of Trustees of Stiftung Fürstlicher Kommerzienrat Guido Feger (see Point 1.2), as well as Chairman of the Directorate of Allgemeines Treuunternehmen (ATU).

Walo Frischknecht (born October 7, 1946; Swiss citizen) is Chairman of the Audit & Risk Management Committee of VP Bank.
Further (board) mandates: Clientis AG, Bern (Vice Chairman and Head of the Audit Committee); Carpen AG, Zurich (Chairman of the Board of Directors); Fundus Treuhand AG, Zurich (Chairman of the Board of Directors); Allhost Holding, Lachen/SZ; Treuhand-Personalstiftung, Vaduz; Stiftung für Kinder- und Jugendpsychiatrie, Schwyz.
Educational background: diploma in business administration KSZ; Swiss Certified Public Accountant; Swiss Certified Expert in Accounting and Controlling; Controller's Diploma of the Controller-Akademie, Gauting, Germany.
Professional background: Price Waterhouse, Zurich; Revision AG, Zurich; Bank Leu AG, Zurich (auditor and Head of Accounting and Controlling), Leu Holding AG, Zug; BZ Trust AG, Wilen (Group Controller); BZ Bank, Wilen (Chairman of General Management); since 2003, independent management consultant (Walo Frischknecht & Partner GmbH, Lachen).
Other activities and vested interests: None.

Prof. Dr. Beat Bernet (born December 7, 1954; Swiss citizen)
Further (board) mandates: RUF Services AG, Schlieren (Chairman of the Board of Directors); Bernet & Partner AG, Zug (Chairman of the Board of Directors).
Educational background: studied economics majoring in business administration, banking and accounting at the University of Zurich; graduated as Dr. oec. publ. in 1981; post-doctoral thesis at the University of St. Gallen (HSG) in 1995.
Professional background: 1996 appointed full professor for business management with emphasis on banking at the University of St. Gallen; director at the Swiss Institute for Banking and Finance of the University of St. Gallen.
Other activities and vested interests: development of an international consulting organization for banks and financial service companies (servicing more than 120 banks in ten countries); management of international large-scale projects in the areas of banking strategy and banking technology.

Dr. iur. Daniel H. Sigg (born September 22, 1956; Swiss citizen, resident of New York)
Further (board) mandates: Bellevue Group AG, Zurich; Auerbach Grayson & Co., New York; various investment funds.
Educational background: studied law at the University of Zurich; Dr. iur. degree in 1984.
Professional background: BEA Associates / Credit Suisse Asset Management (Member of Senior Management and CFO); UBS (Global Head of Institutional Asset Management); Times Square Capital Management Inc. (President); DHS International Advisors LLC (consultant in the field of financial services).
Other activities and vested interests: board member and treasurer of the Swiss Institute, New York; board member and member of the finance committee of Resurrection Episcopal Day School.

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

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

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

3.5 Internal organization
The internal organization and work methods of the Board of Directors are set out in the Articles of Incorporation (Arts. 17 through 19) and in the Organization and Business Rules (OBR Sections 2 through 4).[3]
In collaboration with the GEM, the Board of Directors annually verifies the company's strategy in keeping with the provisions of the Articles of Incorporation and OBR, and establishes the medium- and long-term objectives as well as the management guidelines of VP Bank Group. At the proposal of the GEM, the Board of Directors decides on the annual budget (Head Office and at Group level), on strategically important projects, individual company and consolidated financial statements, as well as on important personnel-related issues.

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

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

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

meetings and are forwarded to the attention of the Board of Directors, GEM, the statutory auditors and the Internal Audit department[4].
Within the framework of a standard agenda item addressed at the following Board meeting, the chairmen of both committees inform the Board of Directors and GEM about all important matters.

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

The Committee of the Board of Directors currently comprises three members: Hans Brunhart (Chairman), Dr. Guido Meier and Markus Thomas Hilti. The Committee of the Board of Directors also functions as the Nomination & Compensation Committee.
Pursuant to Section 3.2 OBR, the Committee of the Board of Directors is primarily responsible for the following:

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

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

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

Audit & Risk Management Committee

The Audit & Risk Management Committee currently comprises Walo Frischknecht (Chairman), Hans Brunhart and Roland Feger.
The Audit & Risk Management Committee assists the Board of Directors in fulfilling the tasks assigned to it under the Banking Act with regard to the overall management, supervision and control of the Head Office and of VP Bank Group.
Pursuant to Section 3.3 OBR, the Audit & Risk Management Committee is responsible in particular for the following tasks:

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

3.5.3 Work methods of the Board of Directors and its committees

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

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

of Directors arrives at its resolutions. In order for the Board to be informed on a firsthand basis, the CEO is also in attendance at the second part. If necessary for the Board of Directors and its committees to address specific topics, further individuals can be called upon (managers of VP Bank Group, representatives of the statutory auditors, as well as internal or external specialists and consultants).
During the 2010 financial year, the Board of Directors held six full-day and two half-day ordinary meetings as well as one extraordinary half-day meeting. In addition, the Board and GEM jointly conducted a half-day strategy workshop. With the exception of two meetings, each with one absence, the Board meetings were held with a full complement of members.
As a general rule, the Committee of the Board of Directors (Nomination & Compensation Committee, NCC) holds six to ten meetings per year. The CEO normally takes part in these NCC meetings in an advisory capacity.
In 2010, the NCC held eight meetings. A separate meeting was held for the purpose of exchanging information with GEM members as well as arriving at agreements on their individual goals, performance assessment and the determination of compensation. For the evaluation and appointment of a new CEO, various discussions were conducted with candidates.
The Audit & Risk Management Committee usually holds five to eight meetings per year, with the meeting dates being set to accommodate the needs arising from specific tasks (closing of accounts, financial reporting, Auditors' Reports, etc.). The CFO and Head of Group Internal Audit each take part in these meetings. At these meetings, there is an exchange of information with the GEM regarding the quality of internal control systems and other matters. For the purpose of ad-dressing audit-specific topics, representatives of the external auditing firm (as a general rule, the Auditor in Charge) are invited to attend. In 2010, the Audit & Risk Management Committee met for six ordinary half-day meetings.

Chairman Emeritus

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

International Advisory Board

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

3.6 Definition of areas of responsibility

The Board of Directors is the corporate body in charge of overall management, supervision and control of the GEM. It bears ultimate responsibility for the strategic direction of VP Bank Group.
The powers and duties of the Board of Directors are laid down in detail in Art. 17 of the Articles of Incorporation as well as in Section 2 OBR. The tasks and competencies of the two Board committees are described in Section 3 OBR.
The Board of Directors has delegated responsibility for the operational management of VP Bank, Vaduz, as well as for the overall management, supervision and control of the subsidiary companies of VP Bank Group[5] to the GEM of the Head Office. The tasks and competencies of the GEM are described in the Articles of Incorporation (Art. 21) and OBR. The function of senior management of the Head Office is regulated in detail in Section 5 OBR, and that of extended Group-level management in Section 6 OBR.
The separation of functions between the Board of Directors and the GEM can also be seen in the graphic of the internal organization (see Structure of VP Bank Group, page 11).

3.7 Information and control instruments vis-à-vis management

The Board of Directors and its committees have at their disposal various information and control instruments for managing and supervising the activities of the GEM. Among those instruments are the strategy process, medium-term planning, the budgeting process and internal reporting, in particular the reports generated by the Management Information System (MIS).
The members of the Board of Directors regularly receive (i.e. at least on a monthly basis) the relevant reports, most importantly the monthly management reports, controlling and risk-controlling reports, as well as periodic reports on the quarterly, semiannual and annual financial statements (consolidated and individual company

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

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

A further key instrument to assist the Board of Directors in fulfilling its supervisory and control function is the Internal Audit unit, which conducts its activities in compliance with the internationally recognized standards of the Swiss Institute for Internal Auditing (SIIA) and the Institute of Internal Auditors (IIA). The duties and powers of Internal Audit are laid down in a specific set of rules. As an independent body, it examines in particular the internal control systems, management processes and risk management.
In addition, the Chairman of the Board receives all minutes of the GEM meetings. He also exchanges information with the CEO on a weekly basis as well as with the other GEM members.

4. Senior management

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

4.1 Members of senior management

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

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

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

Roger H. Hartmann (born July 16, 1957; citizen of Switzerland and Luxembourg) has held the post of Chief Executive Officer (CEO) and Head of Markets at VP Bank and VP Bank Group since April 1, 2010. In this function, he bears responsibility for the client advisory segments Banking Liechtenstein & Regional Markets and Private Banking International (see Segment reporting, page 15 f.).
Educational background: Roger H. Hartmann earned a degree in economics from the HEC in Lausanne and completed the Advanced Management Program of the Wharton School at the University of Pennsylvania (USA).
Professional background: Swiss Bank Corporation, Lausanne; UBS, Singapore (Head of Wealth Management); UBS, Luxembourg (CEO); Ernst & Young, Luxembourg (Partner).
Other activities and vested interests: Roger H. Hartmann is a guest professor at the Luxembourg School of Finance (LSF) in the Faculty for Law, Economics and Finance

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

Fredy Vogt (born September 11, 1958; citizen of Liechtenstein) has been a member of the GEM of VP Bank, Vaduz, since 1996. He is Chief Financial Officer (CFO) of VP Bank and VP Bank Group, Deputy CEO and Head of Corporate Center. Until March 31, 2010, he held the position of CEO on an ad interim basis. As CFO and Head of Corporate Center, he is in charge of the central staff functions Group Finance & Risk, Group Legal Services & Compliance, Investment Controlling, Corporate Communications & Marketing as well as Group Human Resources Management (see Segment reporting, page 18).
Educational background: Fredy Vogt is a Swiss Certified Expert in Accounting and Controlling as well as a Swiss Certified Public Accountant.
Professional background: Liechtensteinische Landesbank, Vaduz; Areva AG, Vaduz (trust auditor); joined VP Bank in 1987 (Deputy Head of Internal Audit; Head of Controlling as of 1990); since 1996, GEM member (among others responsible for finance, corporate clients and intermediaries, trading, real estate and security); CFO since 2003. Other activities and vested interests: Fredy Vogt is Chairman of the Board of Trustees of the Treuhand-Personalstiftung, Vaduz (pension fund).

Juerg W. Sturzenegger (born June 6, 1961; citizen of Switzerland) has been a member of the GEM of VP Bank, Vaduz, since September 1, 2010. As Head of Wealth Management Solutions & Services, he is responsible for all units of Investment Management and Sales Support, Information Technology, as well as Logistics & Security (see Segment reporting, page 17).
Educational background: Juerg W. Sturzenegger earned a degree in economics from the University of Zurich and completed the Stanford Executive Program at the Stanford Graduate School of Business in the USA.
Professional background: Bank Leu AG (Credit Suisse Group), Zurich; Bank Julius Bär & Co. AG, Zurich; VP Bank (Schweiz) AG, Zurich, Head of Executive Management and Head of Wealth Management Solutions.
Other activities and vested interests: member of the board of directors of shaPE Capital AG, Freienbach.

4.2 Other activities and vested interests

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

4.3 Management contracts

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

5. Compensation, shareholdings and loans

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

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

5.1.1 Board of Directors

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

bearer shares, the number of which is determined by the current market price at the time of grant.
At VP Bank, there are no agreements pertaining to severance compensation for members of the Board of Directors.

5.1.2 Senior management (Group Executive Management)

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

1. A fixed base salary that is contractually agreed between the Committee of the Board of Directors (in its function as Nomination & Compensation Committee) and the members of Group Executive Management. In addition to the base salary, VP Bank pays proportionate contributions to management insurance and the pension fund.
2. A variable performance-based component (short-term incentive, STI), which is dependent on the annual value creation of VP Bank Group. The allocation is based on qualitative individual criteria and Group financial goals. The latter carry an approximate two-thirds weighting. The STI is paid out annually in cash.
3. A variable long-term management share ownership scheme (long-term incentive, LTI) with grants in the form of VP Bank bearer shares. The fundamental principles of the scheme focus on added value (economic profit) as well as the long-term commitment of management to receiving a variable compensation component in the form of VP Bank shares. The number of shares granted upon termination of the three-year plan is directly dependent on the trend in economic profit of VP Bank Group, which takes into account capital as well as risk costs. The goals are determined on the basis of an unbiased, outside view. The point of departure in this regard is the targeted return on market value. Thus depending on the financial developments, more or fewer shares will be granted, with the related factor ranging from a minimum of 0.5 to a maximum of 2.0. The monetary value of the compensation paid in the form of shares at the end of the plan is also dependent on the current market price of VP Bank bearer shares. The bearer shares required to cover the LTI stock ownership plan will come either from the treasury holdings of VP Bank Group or by means of open-market purchases.

Each year, the Board of Directors sets the annual LTI planning parameters for the following three years as well as the amount of the STI. In the program for 2010 through 2012, the fulfillment of annual and three-year targets will result in a goal-achievement bonus (LTI and STI) of between 60 and 85 percent of the fixed base salary. The variable performance-based amount actually paid to GEM members in 2010 was less than 10 percent of their total compensation.
At VP Bank, there are no agreements on severance compensation for acting members of Group Executive Management. An external advisor who has no other mandates from VP Bank Group was commissioned to structure the compensation model.

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

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

6. Shareholders' participation rights

6.1 Voting rights and representation restrictions

Each registered share and bearer share grants the holder the right to one vote at the annual general meeting of VP Bank, irrespective of the par value of such shares. Each shareholder may either attend in person or be represented by another shareholder by means of a written proxy. There are no voting rights restrictions or statutory group clauses.

6.2 Statutory quorums

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

6.3 Convocation of the annual general meeting of shareholders

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

6.4 Agenda

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

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

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

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

7. Changes of control and defense measures

The provisions of the Stock Exchange Act concerning public takeover offers apply only to companies whose registered office is in Switzerland. Accordingly, the Articles of Incorporation of VP Bank contain no clauses governing the duty to make an offer or changes in control.

8. Auditors

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

Ernst & Young AG, Bern, have acted as auditors of Verwaltungs- und Privat-Bank Aktiengesellschaft since 1956 (in accordance with PGR[6]) and since 1994 as Group auditors of VP Bank Group. In addition, Ernst & Young AG execute the mandate as statutory auditors within the context of the Liechtenstein Banking Act (BankA Art. 37 ff.). The Auditor in Charge[7], Stefan Fuchs, has been responsible for the VP Bank mandate since 2007 (annual general meeting of April 27, 2007).

[6] Liechtenstein Law on Persons and Companies (PGR).
[7] VP Bank deems the "lead auditor" under the DCG to be the Auditor in Charge.

8.2 Auditing fees

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

8.3 Additional fees

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

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

8.4 Informational instruments pertaining to the external audit

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

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

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

9. Information policy

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

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

Agenda

Annual general meeting: April 29, 2011
Semiannual Report 2011: August 30, 2011
Investors and other interested parties can find additional information on the Bank, as well as the Articles of Incorporation, OBR, etc., at the website www.vpbank.com.

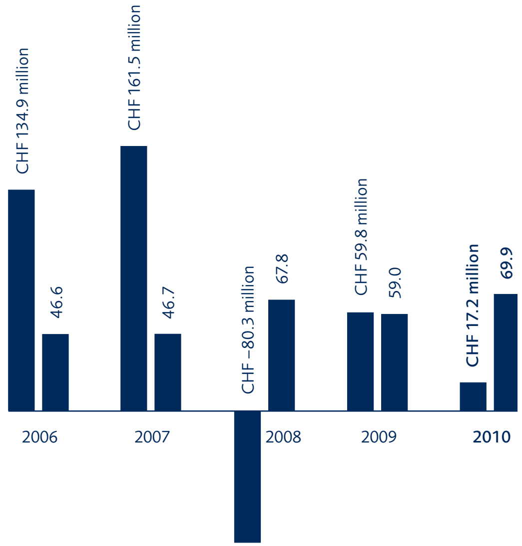
Contact

Verwaltungs- und Privat-Bank Aktiengesellschaft
Tanja Muster-Gartmann - Head of Corporate Communications & Marketing
Aeulestrasse 6 - LI-9490 Vaduz - Tel +423 235 66 55 - Fax +423 235 65 00
vpbank.group@vpbank.com - www.vpbank.com

Consolidated Annual Report of VP Bank Group

Consolidated results

The consolidated financial statements for 2010 of VP Bank Group, prepared in accordance with International Financial Reporting Standards (IFRS), disclose Group net income of CHF 17.2 million. In comparison with the prior year in which the Group generated net income of CHF 59.8 million, this represents a reduction of 71.2 percent. The unstable market environment, the strength of the Swiss franc and the historically low level of interest rates have contributed significantly to the decline in revenues. Despite the implementation of a new organizational structure and the intensification of market-development activities, costs were reduced to a certain degree. Within the spirit of a long-term dividend policy, the Board of Directors will propose to the annual general meeting of shareholders of April 29, 2011, an unchanged dividend of CHF 3.50 and CHF 0.35 for each bearer share and registered share, respectively.



Consolidated net income (in CHF) **combined with cost/income ratio** (in percent)

Medium-term goals

In the medium term, VP Bank Group strives to achieve the following goals:
- net inflow of new client assets of an average of 5 percent per annum
- a cost/income ratio of 65 percent
- a tier 1 capital ratio of 16 percent

During 2010, after two difficult years, VP Bank Group has turned a page in the development of new client assets. Because of intensified market-development activities, the Group experienced a net inflow of CHF 0.4 billion in the second half of 2010. For the whole year, the net inflow of new client assets amounted to CHF 0.1 billion (prior year: outflow of CHF 1.1 billion). During 2010, the cost/income ratio stood at 69.9 percent. The improvement over the prior year's level of 59.0 percent is due to the trend of earnings. The positive development of costs of recent years could be pursued; in 2010, costs declined by a further CHF 5.6 million or 3.0 percent. VP Bank Group is well capitalized with a tier 1 capital ratio of 19.0 percent. The medium-term objective of 16 percent, which is far in excess of the legally prescribed level, was exceeded in 2010. The future regulatory framework, Basel III, will impose stricter capital-adequacy and liquidity requirements on credit institutions. Even after the introduction of Basel III, VP Bank Group, which possesses a robust core capital (tier 1), will continue to have a tier 1 capital ratio that reflects a high measure of stability and security.

Business segments

As of September 1, 2010, a new organizational structure was implemented within VP Bank Group. VP Bank Group is now organized into four business segments: Banking Liechtenstein & Regional Markets, Private Banking International, Wealth Management Solutions & Services, as well as the Corporate Center. Segment reporting was restated retroactively.

Banking Liechtenstein & Regional Markets

The Banking Liechtenstein & Regional Markets business segment encompasses the banking business in Liechtenstein (the home market) and in Switzerland, as well as the international private banking, intermediaries and fund businesses conducted in Liechtenstein. Those entities of Verwaltungs- und Privat-Bank Aktiengesellschaft having direct contact with clients, IFOS Internationale Fonds Service Aktiengesellschaft and VPB Finance S.A. are allocated to this segment.
The low interest-rate level and high competitive pressures negatively impacted revenues. In 2010, operating expenses in this division fell, but this was insufficient to fully offset the decline in income. Total operating income retreated by 11.1 percent to CHF 139.0 million (prior year: CHF 156.2 million). Operating expenses declined by 2.4 percent to CHF 57.3 million (prior year: CHF 58.7 million). Pre-tax results fell year-on-year by 20.1 percent, from CHF 87.0 million to CHF 69.5 million. As in the prior year, the division reported an outflow of net client assets. As of December 31, 2010, this outflow stood at CHF 1.0 billion and thus was less than the comparative prior-year amount of CHF 1.6 billion. Client assets under management amounted to CHF 18.8 billion as of December 31, 2010 (prior year: CHF 20.7 billion). The headcount increased from 158.6 to 164.0 positions.

Private Banking International

The Private Banking International business segment addresses the private banking business at the international locations of VP Bank Group. VP Bank (Schweiz) AG, VP Bank (Luxembourg) S.A., VP Vermögensverwaltung GmbH, VP Bank and Trust Company (BVI) Limited, VP Bank (Singapore) Ltd. and VP Wealth Management (Hong Kong) Ltd. are allocated to this segment.
Market developments and general investor insecurity weighed negatively on the income side. Total operating income fell by 8.6 percent to CHF 65.3 million (prior year: CHF 71.4 million). Operating expenses declined by 8.0 percent to CHF 48.9 million (prior year: CHF 53.1 million). Pre-tax results in 2010 were CHF 7.2 million (prior year: CHF 13.0 million). Net inflows of client assets under management developed very positively: as a result of intensive marketing activities, the division was able to gain new client assets under management primarily in the second half of the year. For the whole of 2010, the net inflow of new client assets aggregated CHF 0.9 billion (prior year: CHF 0.8 billion). As of December 31, 2010, client assets totaled CHF 7.7 billion (prior year: CHF 7.3 billion). The headcount increased from 190.9 to 201.9 positions.

Wealth Management Solutions & Services

The Wealth Management Solutions & Services business segment comprises the Wealth Management Solutions, Information Technology, Operations as well as Logistics & Security units of the entire VP Bank Group.
Total operating income retreated by 9.2 percent to CHF 7.2 million (prior year: CHF 7.9 million). Operating expenses grew by 3.1 percent to CHF 26.0 million (prior year: CHF 25.2 million). Pre-tax results in 2010 were minus CHF 48.6 million, following minus CHF 46.5 million in the prior year. The headcount declined from 254.6 to 248.7 positions.

Corporate Center

Corporate Center encompasses the Group Finance & Risk, Group Legal Services & Compliance, Investment Controlling, Group Human Resources Management and Group Communications & Marketing units. Those revenues and expenses having no direct relationship to the operating divisions, as well as variable salary components and consolidation adjustments, are reported under the Corporate Center.
As a result of the reduction in interest income and in income from securities, total operating income fell by 42.1 percent to CHF 45.3 million (prior year: CHF 78.2 million). Operating expenses declined marginally from CHF 48.0 million to CHF 47.4 million. Pre-tax results amounted to minus CHF 9.0 million in contrast to the prior-year results of CHF 18.9 million. The headcount fell from 116.1 to 112.6 positions.

Client assets under management

As at the end of 2010, client assets under management of VP Bank Group totaled CHF 28.2 billion. Compared to the prior-year total of CHF 29.5 billion, this represents a reduction of 4.5 percent. As a result of increased market development activities, VP Bank Group succeeded, primarily in the second half of 2010, in increasing the net inflow of new client assets under management. In total, VP Bank Group experienced inflows of client assets totaling CHF 0.1 billion (prior year: outflow of CHF 1.1 billion). The performance-related decline in portfolio values amounted to CHF 1.4 billion. In the prior year, the positive developments in the markets produced an increase of CHF 2.1 billion. Custody assets remained constant during 2010, aggregating CHF 12.6 billion at the end of 2010 (prior year: CHF 12.3 billion). Total client assets including custody assets as of December 31, 2010, amounted to CHF 40.8 billion (prior year: CHF 41.8 billion)

Income statement

Total operating income

Year-on-year, total operating income declined by 18.2 percent: from CHF 313.8 million to CHF 256.8 million. Income from the interest-differential business fell by 34.8 percent to CHF 78.9 million as a consequence of the ongoing low level of interest rates. Above all, the continuing decline of market interest rates in 2010 took its toll on revenues. Despite a volatile market environment pervaded by uncertainty, commission and service income improved by 1.5 percent to CHF 125.4 million. The individual components thereof showed the following trends: income from asset management and investment: plus 12.1 percent; brokerage income: minus 8.5 percent; custodian fees: minus 1.7 percent; investment fund management: plus 10.3 percent.

The results of trading developed in a positive manner: trading on behalf of clients increased by 8.3 percent to CHF 24.9 million. Proprietary trading reported gains of CHF 20.9 million (prior year: losses of CHF 5.4 million) as a result of currency hedges. Other income in 2010 fell markedly to CHF 6.7 million. Whereas the Group's own investments had yielded gains of CHF 36.5 million in the prior year, they totaled minus CHF 5.4 million in 2010.

Money market

Interest – 3 months	12/31/2010	12/31/2009	Δ Prior year
Swiss-franc LIBOR	0.17%	0.25%	–8 BP
Euribor	0.94%	0.66%	+28 BP
Dollar LIBOR	0.30%	0.25%	+5 BP
Yen LIBOR	0.19%	0.28%	–9 BP

Capital market

Benchmark bonds – 10 years	12/31/2010	12/31/2009	Δ Prior year
Switzerland	1.59%	1.92%	–33 BP
Germany	2.89%	3.39%	–50 BP
USA	3.31%	3.84%	–53 BP
Japan	1.12%	1.28%	–16 BP

Forex rates

Exchange rates	12/31/2010	12/31/2009	Δ Prior year
EUR	1.2475	1.4850	–16.0%
USD	0.9400	1.0375	–9.4%
JPY	1.1542	1.1220	2.9%
GBP	1.4489	1.6600	–12.7%

Operating expenses

Operating expenses fell year-on-year by 3.0 percent to CHF 179.5 million. At the end of 2010, VP Bank Group had 727.2 employees, expressed as full-time equivalents, which equates a slight increase in headcount of 1.0 percent.
The average number of employees during 2010 was 721.0 employees (prior year: 756.0 employees). Personnel expense fell by 1.8 percent to CHF 121.8 million. Strict cost management was also reflected in the area of general and administrative expenses: these fell by 5.4 percent to CHF 57.7 million. IT-related costs increased year-on-year by 6.0 percent because of the migration to the new Avaloq banking software. Savings were achieved in professional fees and information procurement costs.

Depreciation and amortization, valuation allowances, provisions and losses

Depreciation and amortization was 4.4 percent less than the prior year's level and stood at CHF 38.7 million. Credit provisions reflecting the difficult economic situation increased. Valuation allowances, provisions and losses aggregated CHF 19.4 million.

Group net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft

After deducting minority interests, a Group net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft of CHF 15.1 million remained (prior year: CHF 57.4 million). Group net income per bearer share fell by CHF 7.35 to CHF 2.62.

Balance sheet

Total assets fell year-on-year by 8.9 percent to CHF 10.6 billion. On the liabilities' side, client deposits declined from CHF 10.0 billion to CHF 8.7 billion. In May 2010, Verwaltungs- und Privat-Bank Aktiengesellschaft issued debentures for a total of CHF 0.2 billion bearing interest at 2.5 percent with a term of six years. This borrowing serves to diversify refinancing. On the assets' side, principally the volume of money market paper and bank deposits declined. In aggregate, these positions fell by 14.6 percent to CHF 6.1 billion. Loans to clients rose by 7.9 percent to CHF 3.3 billion. At the end of 2010, consolidated shareholders' equity aggregated CHF 0.9 billion. The equity attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft also amounted to CHF 0.9 billion. The tier 1 capital ratio as of December 31, 2010, was 19.0 percent (prior year: 17.1 percent).

Consolidated Income Statement

in CHF 1,000	2010	2009	Variance absolute	Variance in %	Note
Interest income	125,566	205,882	–80,316	–39.0	
Interest expenses	46,639	84,866	–38,227	–45.0	
Total income from interest-differential business	**78,927**	**121,016**	**–42,089**	**–34.8**	1
Commission income	169,341	166,144	3,197	1.9	
Commission expenses	43,916	42,623	1,293	3.0	
Total income from commission business and services	**125,425**	**123,521**	**1,904**	**1.5**	2
Income from trading activities	45,769	17,565	28,204	160.6	3
Other income	6,665	51,746	–45,081	–87.1	4
Total net operating income	**256,786**	**313,848**	**–57,062**	**–18.2**	
Personnel expenses	121,797	124,067	–2,270	–1.8	5
General and administrative expenses	57,728	61,029	–3,301	–5.4	6
Operating expenses	**179,525**	**185,096**	**–5,571**	**–3.0**	
Gross income	**77,261**	**128,752**	**–51,491**	**–40.0**	
Depreciation and amortization	38,730	40,493	–1,763	–4.4	7
Valuation allowances, provisions and losses	19,379	15,869	3,510	22.1	8
Income before income tax	**19,152**	**72,390**	**–53,238**	**–73.5**	
Taxes on income	1,940	12,563	–10,623	–84.6	9a
Net income	**17,212**	**59,827**	**–42,615**	**–71.2**	
Net income attributable to minority interests	2,128	2,416	–288	–11.9	
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz	**15,084**	**57,411**	**–42,327**	**–73.7**	
Undiluted consolidated earnings per share of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz					
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft (in CHF 1,000)	15,084	57,411			
Weighted average number of bearer shares	5,163,237	5,158,256			
Weighted average number of registered shares	5,982,787	5,993,021			
Total weighted average number of bearer shares	5,761,516	5,757,559			
Undiluted net income per bearer share	2.62	9.97			
Undiluted net income per registered share	0.26	1.00			

Consolidated Income Statement (continued)

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

Adjusted net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (in CHF 1,000)	15,084	57,411
Number of shares used to compute the fully-diluted consolidated income	5,761,516	5,757,559
Fully-diluted consolidated income per bearer share	2.62	9.97
Fully-diluted consolidated income per registered share	0.26	1.00

Statement of Comprehensive Income

in CHF 1,000	2010	2009	Variance absolute	Variance in %
Consolidated net income	**17,212**	**59,827**	**–42,615**	**–71.2**
Financial instruments available for sale				
• Reclassifying adjustments recorded in Income Statement	–7,020	12,509	–19,529	–156.1
• Net change in unrealized gains	676	30,181	–29,505	–97.8
Total financial instruments available for sale	–6,344	42,690	–49,034	–114.9
Foreign-currency translation differences	–6,586	–775	–5,811	n.a.
Other comprehensive income for the period recognized directly in equity (net-of-tax)	**–12,930**	**41,915**	**–54,845**	**–130.8**
Total comprehensive income for the period (net-of-tax)	**4,282**	**101,742**	**–97,460**	**–95.8**
Attributable to minority shareholders	302	1,893	–1,591	–84.0
Attributable to shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	3,980	99,849	–95,869	–96.0

Consolidated Balance Sheet

Assets

in CHF 1,000	12/31/2010	12/31/2009	Variance absolute	Variance in %	Note
Cash and cash equivalents	130,548	267,666	–137,118	–51.2	12
Receivables arising from money-market paper	439,767	777,654	–337,887	–43.4	13
Due from banks	5,622,808	6,319,844	–697,036	–11.0	14/15
Due from customers	3,266,872	3,026,639	240,233	7.9	14/15
Trading portfolios	4,011	2,105	1,906	90.5	16
Derivative financial instruments	63,322	42,355	20,967	49.5	17
Financial instruments designated at fair value	108,221	156,820	–48,599	–31.0	18
Financial instruments available for sale	685,604	728,945	–43,341	–5.9	19
Associated companies	34	48	–14	–29.2	20
Property and equipment	135,791	146,636	–10,845	–7.4	21
Goodwill and other intangible assets	85,636	103,699	–18,063	–17.4	22
Taxes receivable	392	447	–55	–12.3	9c
Deferred tax assets	6,338	3,448	2,890	83.8	9b
Accrued receivables and prepaid expenses	28,398	31,222	–2,824	–9.0	
Other assets	13,805	19,883	–6,078	–30.6	23
Total assets	**10,591,547**	**11,627,411**	**–1,035,864**	**–8.9**	

Liabilities and shareholders' equity

in CHF 1,000	12/31/2010	12/31/2009	Variance absolute	Variance in %	Note
Due to banks	189,117	71,998	117,119	162.7	
Due to customers – savings and deposits	954,218	969,267	–15,049	–1.6	
Due to customers – other liabilities	7,753,020	9,024,384	–1,271,364	–14.1	
Derivative financial instruments	70,034	44,048	25,986	59.0	17
Medium-term notes	183,334	199,637	–16,303	–8.2	24
Debenture issue	446,798	248,486	198,312	79.8	25
Tax liabilities	5,782	4,687	1,095	23.4	9c
Deferred tax liabilities	8,512	7,830	682	8.7	9b
Accrued liabilities and deferred items	28,834	33,569	–4,735	–14.1	
Other liabilities	33,056	89,784	–56,728	–63.2	26
Provisions	3,214	1,803	1,411	78.3	27
Total liabilities	**9,675,919**	**10,695,493**	**–1,019,574**	**–9.5**	
Share capital	59,148	59,148	0	0.0	29
Less: treasury shares	–38,465	–38,302	–163	–0.4	30
Capital reserves	–5,323	–6,093	770	12.6	
Income reserves	902,648	907,755	–5,107	–0.6	

Consolidated Balance Sheet (continued)

IAS 39 reserves	–5,841	503	–6,344	n.a.	
Foreign-currency translation differences	–14,382	–9,622	–4,760	–49.5	
Shareholders' equity attributable to shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz	**897,785**	**913,389**	**–15,604**	**–1.7**	
Minority interests	17,843	18,529	–686	–3.7	28
Total shareholders' equity	**915,628**	**931,918**	**–16,290**	**–1.7**	
Total liabilities and shareholders' equity	**10,591,547**	**11,627,411**	**–1,035,864**	**–8.9**	

Consolidated Changes in Shareholders' Equity

in CHF 1,000	Share capital	Treasury shares	Capital reserves	Income reserves	Reserves financial instruments IAS 39	Foreign-currency translation differences	Equity of shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	Minority interests	Total shareholders' capital
Total shareholders' equity 01/01/2009	**59,148**	**–38,521**	**–6,045**	**865,131**	**–42,187**	**–9,370**	**828,156**	**17,330**	**845,486**
Unrealized gains and losses on available-for-sale financial instruments									
• gains/losses transferred to income statement					12,509		12,509		12,509
• change in unrealized gains and losses (net of tax)					30,181		30,181		30,181
Foreign-currency translation differences						–252	–252	–523	–775
Consolidated net income				57,411			57,411	2,416	59,827
Total reported result 12/31/2009	**0**	**0**	**0**	**57,411**	**42,690**	**–252**	**99,849**	**1,893**	**101,742**
Dividend 2008				–14,787			–14,787	–694	–15,481
Management equity-participation plan (LTI)			–157				–157		–157
Change in treasury shares		219	109				328		328
Total shareholders' equity 12/31/2009	**59,148**	**–38,302**	**–6,093**	**907,755**	**503**	**–9,622**	**913,389**	**18,529**	**931,918**
Total shareholders' equity 01/01/2010	**59,148**	**–38,302**	**–6,093**	**907,755**	**503**	**–9,622**	**913,389**	**18,529**	**931,918**
Unrealized gains and losses on available-for-sale financial instruments									
• gains/losses transferred to income statement					–7,020		–7,020		–7,020
• change in unrealized gains and losses (net of tax)					676		676		676
Foreign-currency translation differences						–4,760	–4,760	–1,826	–6,586
Consolidated net income				15,084			15,084	2,128	17,212
Total reported result 12/31/2010	**0**	**0**	**0**	**15,084**	**–6,344**	**–4,760**	**3,980**	**302**	**4,282**

Consolidated Changes in Shareholders' Equity (continued)

in CHF 1,000	Share capital	Treasury shares	Capital reserves	Income reserves	Reserves financial instruments IAS 39	Foreign-currency translation differences	Equity of shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	Minority interests	Total shareholders' capital
Dividend 2009				–20,191			–20,191	–988	–21,179
Management equity-participation plan (LTI)			1,264				1,264		1,264
Change in treasury shares		–163	–494				–657		–657
Total shareholders' equity 12/31/2010	**59,148**	**–38,465**	**–5,323**	**902,648**	**–5,841**	**–14,382**	**897,785**	**17,843**	**915,628**

Consolidated Statement of Cash Flow

in CHF 1,000	2010	2009
Cash flow from operating activities		
Group net income	15,084	57,411
Share of minority interests in Group net income	2,128	2,416
Depreciation and amortization	38,730	40,493
Write-off for value impairment on financial instruments available for sale	0	503
Reduction/increase in retirement pension provisions	–139	1,468
Increase/release in provisions	8,477	–58,616
Unrealized gains and losses on trading portfolios	–946	–284
Unrealized gains and losses on financial instruments designated at fair value	–3,738	–6,803
Unrealized gains and losses on financial instruments available for sale	30,375	2,831
Deferred income taxes	–2,245	9,192
Tax on income paid, interest received less interest paid and dividends received	–83,428	–124,346
Subtotal	**4,298**	**–75,735**
Changes in assets and liabilities in connection with operating business activities, after adjustment for non-cash-related transactions:		
Due from/to banks, net	823,337	861,727
Trading portfolios, including replacement values, net	3,796	–3,432
Interest received from interest-differential business	109,592	192,401
Interest received from trading portfolio interests	130	66
Dividends received from trading portfolio interests	6	3
Interest received on financial instruments designated at fair value	1,707	4,592
Dividends received on financial instruments designated at fair value	74	4
Interest received on financial instruments available for sale	14,232	23,292
Dividends received on financial instruments available for sale	2,522	2,044

Consolidated Balance Sheet (continued)

Due from/to customers	–1,532,346	333,485
Foreign-exchange impact on intra-group payments	–12,116	–3,229
Accrued receivables, prepaid expenses and other assets	5,013	–10,987
Accrued liabilities and other liabilities	–61,303	30,136
Interest paid in connection with interest-differential business	–43,795	–96,846
Taxes on income paid	–1,040	–1,210
Net cash flow from operating activities	**–685,893**	**1,256,311**
Cash flow from investment activities		
Net decrease in financial instruments designated at fair value	56,402	60,091
Net decrease/increase in financial instruments available for sale	22,923	–53,222
Acquisition of property and equipment and intangible asset	–11,905	–40,667
Cash flow from financing activities	**67,420**	**–33,798**
Net increase in treasury shares		
Net decrease/increase in treasury shares	–657	328
Dividends paid	–20,192	–14,787
Redemption/issue of medium-term notes	–16,303	–156,599
Issuance of debenture	198,312	0
Dividend payments to minority shareholders	–988	–694
Net cash flow from financing activities	**160,172**	**–171,752**
Impact of foreign-currency translation (including minority interests)	–7,430	–6,122
Net decrease/increase in cash and cash equivalents	**–465,731**	**1,044,639**
Cash and cash equivalents at the beginning of the financial year	2,050,556	1,005,917
Cash and cash equivalents at the end of the financial year	1,584,825	2,050,556
Net decrease/increase in cash and cash equivalents	**–465,731**	**1,044,639**
Cash and cash equivalents are represented by		
Cash	130,548	267,666
Receivables arising from money-market paper	439,767	777,654
Due from banks – at-sight balances	1,014,510	1,005,236
Total cash and cash equivalents	**1,584,825**	**2,050,556**

At-sight balances due from banks bear interest at daily rates or are invested in interest-bearing short-term money-market deposits for 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 1,584.8 million (2009: CHF 2,050.6 million).

Consolidated Off-Balance-Sheet Transactions

in CHF 1,000	12/31/2010	12/31/2009
Contingent liabilities		
Credit guarantees and similar	3,995	3,489
Performance guarantees and similar	94,595	112,368
Irrevocable commitments	0	0
Other contingent liabilities	0	0
Total contingent liabilities	**98,590**	**115,851**
Credit risks		
Irrevocable facilities granted	22,079	17,616
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 repurchase transactions	0	0
Total credit risks	**22,079**	**17,616**
Fiduciary transactions		
Fiduciary deposits[1]	1,937,560	2,616,093
Fiduciary loans	8,787	8,393
Other fiduciary financial transactions	0	0
Total fiduciary transactions	**1,946,347**	**2,624,486**

[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	1 year	1 to 5 years	over 5 years	Total
12/31/2010					
Contingent liabilities	27,965	59,210	8,050	3,365	98,590
Credit risks	5,380	16,699			22,079
12/31/2009					
Contingent liabilities	31,117	68,284	12,677	3,773	115,851
Credit risks	6,963	9,874	779		17,616

Securities lending and repurchase and reverse-repurchase transactions with securities

in CHF 1,000	12/31/2010	12/31/2009
Amounts receivable arising from cash deposits in connection with securities borrowing and reverse-repurchase transactions	0	0
Amounts payable 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	584,955	350,881
• of which securities where the unlimited right to sell on or pledge has been granted	407,843	249,045
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	744,663	494,742
• of which securities which have been resold or repledged	299,422	228,117

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

Principles Underlying Financial Statement Reportingting

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 has subsidiaries in Zurich, Luxembourg, Munich, the British Virgin Islands, Singapore, Hong Kong as well as representative offices in Moscow and Hong Kong. As of December 31, 2010, VP Bank Group employed 727.2 persons, expressed as full-time equivalents (previous year: 720.2).
Asset management and portfolio advisory services for private and institutional investors, as well as the lending, constitute its core activities.
Values disclosed in the financial statements are expressed in thousands of Swiss francs. The 2010 financial statements were drawn up in accordance with International Financial Reporting Standards (IFRS). IFRS contain 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

There where no post balance sheet events that materially affected balance sheet and income statement of 2010.
The Board of Directors reviewed and approved the consolidated financial statements in its meeting of February 24, 2011. These consolidated financial statements will be submitted for approval to the Annual General Meeting of shareholders to be held on of April 29, 2011.

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

New and revised International Financial Reporting Standards

Since January 1, 2010, the following new or revised standards and interpretations have taken effect:

- IFRS 2 – Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2 – Share-based Payment)
- IFRS 3 (revised) and IAS 27 (revised): Business Combinations as well as Consolidated and Separate Financial Statements
- IAS 39 – Eligible Hedged Items (Amendments to IAS 39 – Financial Instruments: Recognition and Measurement)
- Annual Improvement Project (2009 publication)

The adoption of these standards had no material impact on reporting.

International Financial Reporting Standards to be adopted in 2011 or subsequently

Numerous new standards, revisions and interpretations of existing standards have been published, the application of which is binding for financial years commencing on January 1, 2011 or later. The following new or amended IFRS and Interpretations are of importance to the Group based upon the analysis of VP Bank. They are currently being analyzed.

Improvements to IFRS 2010

In May 2010, the IASB published its amendments to existing IFRS within the scope of its Annual Improvement Project. These encompass both changes to various IFRS impacting the recognition, measurement and disclosure of business transactions as well as corrections of a terminological and editorial nature. The majority of the amendments are effective for accounting periods which begin on or after January 1, 2011. Early application is permitted. The implementation of these changes will in all probability have no material impact on the consolidated financial statements.

IAS 24

In November 2009, the IASB published a revised version of IAS 24 "Related Party Disclosures" ("IAS24 R"). IAS 24 R grants a partial exemption from the disclosure requirements for entities which are under the control, joint management or the significant influence of the public sector (so-called "government-related entities"). The definition of related parties was modified in order to specify that the subsidiaries of associated enterprises and the subsidiaries of joint ventures also fall under the definition of related parties. The revised version of IAS 24 rakes effect for accounting periods beginning on or after January 1, 2011. Early application is permitted. The application of these changes will have no material impact on the consolidated financial statements.

IFRS 7

In October 2010, the IASB published the amendments to IFRS 7 "Disclosures – Transfers of Financial Assets". The new rules contain additional disclosure requirements for transfers of financial assets (e.g. securitization), including the possible effect of all risks remaining with the transferor company. In additional informational disclosures are required in the case where a disproportionately large portion of the transfers occurs at the end of the accounting period. The changes take effect for business years beginning on or after July 1, 2011. Early application is allowed. The Group is currently reviewing the possible impact of the implementation of the amended disclosure requirements on the consolidated financial statements.

IFRS 9

In November 2009, the IASB published IFRS 9 "Financial Instruments", which represents a first step of its project to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new provisions for classifying and measuring financial assets falling under the scope of application of IAS 39. In accordance therewith, all financial assets are to be classified on the basis of the company's business model to manage its financial assets as well as of the characteristics of the payment flows of the respective financial asset. A financial asset is measured at amortized cost if the following two criteria are met: (a) the goal of the business model of the company consists of holding the financial asset in order to realize the contractual cash flows; and (b) the contractual conditions of the financial asset lead to cash flows representing exclusively principal repayments and interest payments. A financial asset meeting the criteria for measurement at amortized cost may be measured at fair value in accordance with the fair value option, if mismatches in measurement or recognition are thereby significantly reduced or eliminated. A financial asset which does not meet both of the criteria for measurement at amortized cost is therefore measured at fair value. Furthermore, a separation of embedded derivatives is no longer required under IFRS 9 for financial host contracts. A hybrid contract containing a financial host contract is to be classified in its entirety either at amortized cost or at fair value. In accordance with IFRS 9, a reclassification is binding if the business model of the company changes. Such changes are expected to be rare. In such a case, a reclassification of the financial assets in question is to be made prospectively. There are special rules for contractually linked instruments involving concentrations of credit risks as is frequently the case with tranches of investments in securitizations. In addition to the assessment of the classification criteria of IFRS 9 for the individual financial instrument, a review of the cash flow attributes of the underlying pool of financial instruments is required. In order to be measured at amortized cost, the credit risk of the tranche must be the same or less than the average credit risk of the underlying pool of financial instruments and these financial instruments must fulfill defined criteria. Is a review not practicable, the tranche must be classified at fair value. In accordance with IFRS 9, all equity securities are in principle to be measured at fair value. However, for equity securities not held for trading purposes, there exists the option of not recording unrealized and realized fair-value gains and losses in the income statement but under other comprehensive income. This election is only to be made at the time of initial recognition and may not be revoked. In subsequent periods, fair-value gains and losses are not taken to the income statement, with the exception of dividends from such investments which continue to be recorded in the income statement. IFRS 9 takes effect for accounting periods beginning on or after January 1, 2013. Early application is allowed. IFRS 9 is to be applied retrospectively; however, in case of implementation prior to January 1, 2012, no restatement of the comparative periods is necessary. The Group is currently reviewing the possible impact of the implementation of IFRS 9 on the consolidated financial statements.

IFRS 9 Financial Instruments: Financial Liabilities

IFRS 9 requires gains and losses on financial liabilities designated as at fair value through profit or loss to be split into the amount of change in the fair value that is attributable to changes in the credit risk of the liability, which shall be presented in other comprehensive income, and the remaining amount of change in the fair value of the liability which shall be presented in profit or loss. The new guidance allows the recognition of the full amount of change in the fair value in the profit or loss only if the recognition of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. That determination is made at initial recognition and is not reassessed.

3. Scope of consolidation

Fully consolidated companies

The consolidated financial statements encompass the financial statements of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, Liechtenstein 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 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

VP Wealth Management (Middle East) Ltd., Dubai, was excluded from the scope of consolidation in the spring of 2010.

Method of capital consolidation

Capital consolidation is undertaken in accordance with the 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 carrying value 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. According to the equity method of accounting, the shares of an enterprise upon acquisition are accounted for at acquisition cost. Subsequent to acquisition, the carrying value of the associated company is increased or reduced by the Group's share of the profits or losses and of the non-income-statement-related movements in the shareholders' equity of the associated company. In applying the equity method, the Group ascertains whether it is necessary to record an additional impairment loss for its investments in associated companies. As of each balance-sheet date, the Group ascertains whether objective indications exist that the investment in an associated company may be value-impaired. Should this be the case, the difference between the realizable value of the share in the associated company and its carrying value is recorded as a charge to income.

4. Assumptions and uncertainties in estimates

IFRS contain guidelines which require certain assumptions and estimates to be made by 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 may 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 2.1 million (2009: CHF 2.5 million).

Valuation adjustment on available-for-sale financial instruments: Available-for-sale financial instruments are classified as being value-impaired whenever objective indications exist that the decline in market prices has assumed a certain scale or other indicators suggest a permanent value impairment. For quoted financial instruments, the realizable value is determined by considering the market price. For non-quoted equity securities, the realizable value is determined on the basis of quotations of dealers or external pricing models which are based on observed market data. Furthermore, an objective indication of a loss in value may include significant or prolonged changes with unfavorable consequences occurring in the technological, market-related, economic or legal environment. Valuations undertaken in this manner may be adjusted by management on the basis of its own estimations. Should all declines in value on available-for-sale financial instruments be classified constantly as value-impaired, then VP Bank Group would need to record an additional loss of CHF 21.2 million for the 2010 business year (2009: CHF 19.9 million). This would require a transfer from the IAS 39 financial instruments reserve, part of shareholders' equity, to the statement of income.

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 conversion at balance-sheet date rates for monetary financial assets and financial liabilities in foreign currencies are charged 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 charged to the income statement. In the case of non-monetary 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 items (excluding shareholders' equity) are converted into the Group reporting currency at the rate of exchange prevailing as of the balance-sheet date. The individual items in the income statement are converted at average rates for the period. Foreign-currency translation differences arising from the conversion 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 converted at closing rates prevailing on the balance-sheet date.

Domestic vs. foreign

The term "domestic" also includes Switzerland besides Liechtenstein.

Segments

VP Bank Group is organized into the business segments - Banking Liechtenstein & Regional Markets, Private Banking International, Wealth Management Solutions & Services – as well as the Corporate Center. External segment reporting reflects the organizational structure of VP Bank Group and the internal reporting to the management. It forms the basis used by the Group's decision-makers. 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 items 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 via the income statement ("fair value through profit or loss") – trading portfolios and financial instruments denominated at fair value.
- Available-for-sale financial assets – available-for-sale financial instruments
- Held-to-maturity financial instruments
- Loans granted which are neither held for trading purposes nor represent financial assets available for sale ("loans and receivables")

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 under 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, VP Bank Group applies the fair value option as available under IAS 39 for 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 charged 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 under 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 in response to or in anticipation of a 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 instruments 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. 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 valuation allowances, provisions and losses. 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 instruments 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 a certain scale or other indicators suggest a permanent value impairment.

Held-to-maturity instruments

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, as yet unidentified 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 valuation allowances and provisions that are no longer required.

Overdue loans: A loan is considered to be overdue or non-performing if a material contractually agreed payment remains outstanding for a period of 90 days or more. Such loans are not to be classified as value-impaired if it can be assumed that they are still covered by existing collateral.

Guidelines on collateral limits and valuation: VP Bank Group demands an appropriate margin on the collateralizing of assets. This margin must be set in such a manner that changes in market values, market volatility, debtor credit-worthiness and counterparty risk are appropriately taken into account and as a result, the receivables are backed by adequate collateral at all times.

Categories/types of collateral: VP Bank Group assigns all customary types of loans into the three categories of collateral "marketable", "non-marketable" or "unsecured".
Marketable: mortgage collateral up to a maximum of two-thirds of the official market value / bank appraisal or appraisal of a recognized expert; quoted securities; account monies (current account, deposit account, fiduciary, call money); precious metals; medium-term bonds; repurchase values of life-assurance policies; bank guarantees (from banks with open credit limit).
Non- marketable: Mortgage collateral up to a maximum of 80 percent of the official market value/bank appraisal or appraisal of a recognized expert.
Unsecured: all credits without collateral; sureties; unquoted securities; cession of debtor receivables; purchase-price residual receivables; receivables arising from letters of credit; discount bills. Types of collateral which are not mentioned are deemed to be "unsecured". General management ensures that the monitoring of credits is appropriate to the risks assumed in the credit business. The collectibility of the collateral is subject to regular review. Changes in the credit-worthiness of the borrower is subjected to on-going review.

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 charged to income.

Financial guarantee contracts

After initial recognition, a financial guarantee contract is valued at the higher of the following amounts: the provision that would have to be established if there is a probable outflow of resources, and a reliable estimate of that obligation can be made; or, the amount initially recognized less (when appropriate) the cumulative amortization recognized on the income statement.

Hedge accounting

VP Bank Group does not apply hedge accounting.

Debt securities issued

Medium-term notes are recorded at their issue price and valued subsequently at their original historical cost value. At the time of their initial recording, debentures are recorded at their fair value minus 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 issue price and redemption amount over the duration of the debt instrument.

Treasury shares

Shares in Verwaltungs- und Privat-Bank Aktiengesellschaft held by 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 received and delivered are only recorded in the balance sheet or closed out when the control over the contractual rights (risks and opportunities of ownership) which these securities comprise, are passed on. The fair values of the securities received or delivered are monitored on an on-going basis in order to provide or demand additional collateral in accordance with the contractual agreements.

Securities lending and borrowing transactions

Financial instruments which are lent out or borrowed and valued at fair value and in respect of which 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 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 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 reliably determined and it carries a future economic benefit. The Bank's premises are real estate which is held and used by 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:

Depreciation and amortization	estimated useful lives
Real estate	25 years
Land	not depreciated
Furniture and equipment	5 to 8 years
IT systems	3 to 7 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 general and administrative expenses item. At present, there are no receivables or payables in connection with financing leases.

Goodwill

In the case of a takeover, 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 converted on the balance-sheet date at rates prevailing at year end.

Intangible assets

Purchased software is capitalized and amortized over three to seven 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. Internally produced software meeting these criteria and purchased software are recorded in the balance sheet under software. The capitalized values are amortized on a straight-line basis over their useful lives. The period of amortization is three to seven years. Intangible assets with undefined estimated useful lives are reviewed at least once a year for any required valuation allowances. At present, 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, etc., 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. On each balance-sheet date, or whenever there is reason to do 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 carry-forwards are only recognized when it is probable that sufficient taxable profits are available, against which these timing differences or tax loss carry-forwards can be offset. 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 items which are directly credited or debited to shareholders' equity in the same or another period. The taxation savings expected from the utilization of estimated future realizable loss carry-forwards are capitalized. The probability of realizing expected taxation benefits is taken into account when valuing a capitalized asset for future taxation relief. Taxation assets arising from future taxation relief encompass deferred taxes on timing differences between the carrying values of assets and liabilities in the consolidated balance sheet and those used for taxation purposes as well as estimated future realizable loss carry-forwards. Deferred taxation receivables in one sovereign taxation jurisdiction are offset against deferred taxation liabilities of the same jurisdiction if the enterprise has a right of offset between actual taxation liabilities and tax claims and the taxes are levied by the same taxing authorities; amounts are offset insofar as the maturities correspond.

Retirement pension plans

VP Bank Group maintains a number of retirement pension plans for employees in Liechtenstein/Switzerland and abroad, 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). VP Bank Group records a portion of actuarially-computed gains and losses as income and expenses, 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 in Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, at a preferential price subject to a four-year restriction period on selling. Upon expiration of the sales restriction period, or at the time of resignation from VP Bank Group, the related shares become freely available. As the employees are therefore ultimately able to take 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 allocation. The number of bearer shares which can be subscribed to depends upon the years of service, rank and management level. The purchase price is determined annually in relation to the market value of the bearer shares on the Swiss Exchange (ex-dividend). The shares issued in this manner derive either from the portfolio of VP Bank Group or are acquired for this purpose over the stock exchange. The resulting expense is charged directly to personnel expenses.

Management profit-sharing plan

A long-term and value-oriented compensation model exists for Group Executive Management and second-level executives. In accordance with this model, the compensation of Group Executive Management comprises three components:

1. A fixed base salary component which is contractually agreed between the Nomination & Compensation Committee (a committee of the Board) with each member of Group Executive Management. To be added to the base salary are the contributions made by VP Bank to the executive insurance scheme and pension fund.
2. A variable performance-related portion (Short-Term Incentive STI) depending on the annual value creation of VP Bank Group. It is allocated on the basis of qualitative individual criteria and financial Group targets. The financial Group targets are weighted by some two thirds. The STI is paid annually in cash.
3. A long-term variable management equity-share plan (Long-Term Incentive LTI) settled in the form of bearer shares of VP Bank. The basic principles thereof are the focus on value creation (economic profit) and the long-term commitment of Management to a variable salary component in the form of shares. The number of shares which are vested after a period of three years is directly dependent on the trend of the economic profit of VP Bank Group. This takes account of capital- and risk-related costs. The target setting is done on the basis of an external perspective. The starting point in this connection is the target yield on the market value. Thus, depending on the financial trend, a greater or lesser number of shares are allocated. The factor ranges from a minimum of 0.5 and a maximum of 2.0. The basis for calculating expenses for management stock participation consists of the number of shares, the goal-achievement factor, and the current price of the stock at the time the goals were set. The market value is based on the closing price of the SIX-listed bearer shares as recorded on the date of the grant. The monetary benefit settled in shares at the end of the plan is also dependent on the stock price of the VP Bank bearer shares. The bearer shares required to service the LTI equity-share plan, are either taken from the portfolio of treasury shares of VP Bank Group or are purchased on the Stock Exchange.

As required by the accounting provisions of IFRS 2, LTI is treated as share-based payment transactions settled in the form of equity instruments. The expense related to the LTI is expensed over the vesting period with an offsetting amount in capital reserves. Assumptions are made regarding the rate of forfeiture which is regularly adjusted over the vesting period so that at the end thereof only the expense for the rights actually vested is recorded.

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 to achieve a sustainable return on the capital invested and one which, from the shareholders' perspective, is commensurate with the risks involved. To reach this goal, VP Bank supports 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 the strong capitalization, VP Bank can invest in the expansion of its business, and the equity base can cover all inherent business risks. In managing the equity resources, VP Bank measures both the equity required (minimum amount of equity to cover our risks in accordance with the requirements of applicable supervisory law) as well as the available eligible equity (VP Banks' equity is computed in accordance with the criteria of the supervisory authorities) and project their future development. Equity resources which the Bank does not need for its growth or business activities are returned through dividend payments according to their long-term policy. Thus, through active management, VP Bank is in a position to maintain the robust capitalization as well as the credit rating and continue to create sustainable value for the shareholders.

Capital indicators

The determination of the required capital and tier capital is made on the basis of the IFRS consolidated financial statements, whereby unrealized gains are deducted from core capital. Total capital (core capital and supplementary capital) must amount to a minimum of 8 percent of the risk-weighted assets. As of December 31, 2010, risk-weighted assets were CHF 4.3 billion compared with CHF 4.7 billion in the prior year. Core capital as of December 31, 2010 was CHF 799.4 million compared with CHF 803.3 million in the prior year. The overall equity ratio increased by 1.9 percentage points from 17.1 percent as at December 31, 2009 to 19.0 percent as of December 31, 2010. Both on December 31, 2010 and December 31, 2009, VP Bank Group was adequately capitalized in accordance with the respective guidelines of the FMA (Financial Monetary Authority of Liechtenstein) and the BIS (Bank for International Settlement).

Risk management of VP Bank Group

1. Year 2010: Review and current situation

Again in 2010, the world economy suffered from the financial and credit crisis. This is demonstrated clearly through the state aid programs which have heavily burdened government budgets and have driven up the level of debt. This has exposed the structural imbalances of several countries. Not only the bond markets of the countries in question were shaken by the debt crisis, it also led to a flight into safe currencies which, in turn, provoked exceptionally large fluctuations on currency markets. Again in 2010, central banks had an important role to play. The Swiss National Bank intervened in an attempt to stave off a revaluation of the Swiss franc. The US Federal Reserve Bank and the Bank of England both resorted to quantitative easing measures to be able to further expand the money supply.

In this economic environment characterized by volatile financial markets and a continuing low level of interest rates, VP Bank pursued a prudent risk policy and consistently hedged the balance sheet against rising interest rates and declining foreign exchange rates, in particular against the Euro. Risk exposures in its own financial investments were further reduced in 2010. Thus, at the end of the business year, financial investments totaled CHF 791.1 million; at the end of 2009, they were still at a level of CHF 886.2 million. The regulatory framework Basel III, which is still to be finalized, will bring about far-reaching changes for the banking world. VP Bank is in the process of preparing for the implementation of reverse repo transactions in view of the higher capital-adequacy and liquidity requirements.

2. Principles underlying risk management in VP Bank

Risk management of VP Bank is predicated upon the following principles relating to risk policies:

- Risk tolerance: The supreme governing body of the Bank determines the risk measure needed to cover unexpected losses arising from all relevant types of risk on the basis of the freely available equity resources of the Bank in order to ensure the risk tolerance of VP Bank Group.
- Risk appetite: From the risk coverage measure for unexpected losses, the supreme governing body of the Bank derives a risk budget which is less than the maximum acceptable potential loss which the Bank can sustain. The risk budget reflects the risk appetite of the Bank and is distributed over the individual Group companies in the form of limits for each individual risk category. Under the management of Group Treasury, the Group companies implement the risk strategy within these limits with accountability for results. In the process, extreme risks are avoided which could jeopardize the risk tolerance and thus the very existence of the Group. The risk coverage measure, the risk budget and limits are reviewed regularly and adjusted, where necessary.
- Risks and returns: Strategic and operational decisions are taken on the basis of calculations of risks and returns and in harmony with the interests of the investors. Assuming compliance with laws and the principles underlying business and ethical policies, VP Bank takes on risks consciously so long as it is adequately

rewarded. It avoids transactions with an inadequate relationship of risks to returns.

- Segregation of duties: Risk management of VP Bank Group comprises the active and on-going management of risks as well as the monitoring thereof. Both tasks are undertaken independently of each other thus taking account of the need for a strict functional and organizational segregation of management and control over risks.
- Transparency: The underlying principle of risk monitoring is a comprehensive, objective, timely and transparent disclosure of risks to Group Executive Management and the Board of Directors.

The risk policy constitutes the binding framework for risk management within VP Bank Group. In addition to the principles underlying the risk policy, it contains directives as to organizational structures and processes, clear rules governing responsibilities and powers of authority, methods and actions to be taken for risk management as well as independent control functions.

3. Organization and powers of authority in the risk-management process

The responsibility for risk is borne by the Board of Directors. It is its remit to ensure that an internal control system (ICS), as the basic prerequisite an effective and efficient management of risks, is established and maintained. In particular, the Board of Directors is responsible for approving the risk policy, additional guidelines relating to matters of risk policy and the risk budget for the overall bank, for overseeing the implementation of the risk policy, the effectiveness of the organization supporting the risk-management process and the risk situation of VP Bank Group. In assuming its duties, the Board of Directors is supported by the Audit & Risk Management Committee.

The Group Executive Management is responsible for the implementation of the strategies and business policies laid down by the Board of Directors. Amongst its core tasks are the management of risks and returns, the management of business and reputational risks as well as the approval of limits for the individual group companies and the respective risk categories.

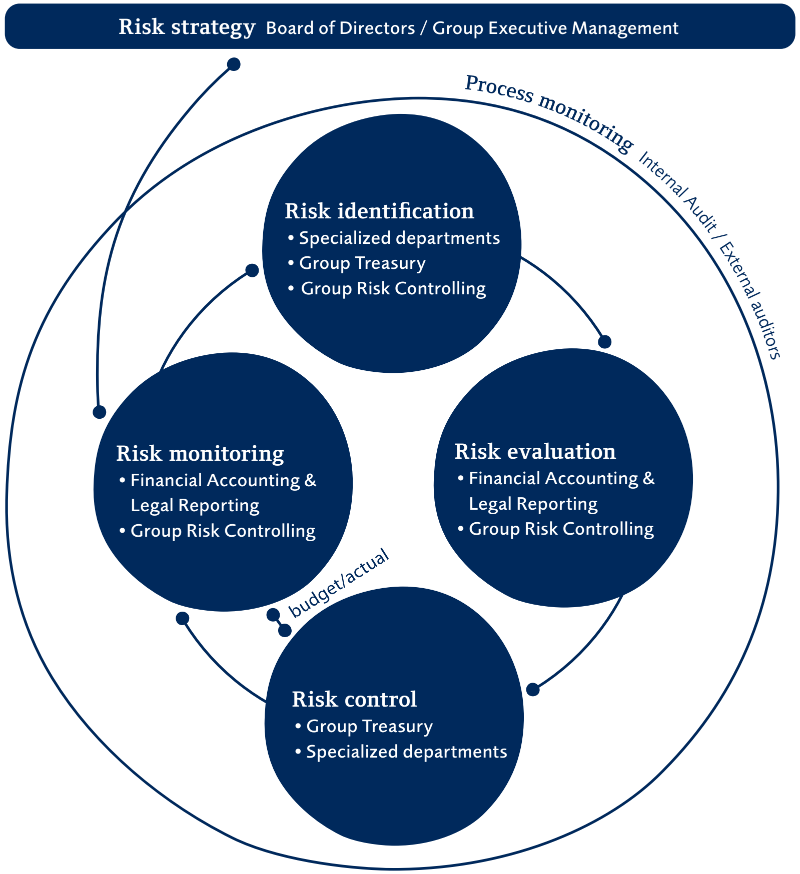
It is incumbent on the Boards of Directors of the Group companies to adapt the risk policy to local circumstances and regulations specific to the respective financial markets as well ensuring compliance therewith.

Group Risk Controlling is responsible for the measurement and control of financial risks at the portfolio level, the monitoring of compliance with the risk-policy guidelines as well as periodic and ad-hoc reporting on all risks to the Board of Directors and Group Executive Management. In addition, Group Risk Controlling computes the overall risk budget and the risk sub-limits and submits them for approval. Group Risk Controlling is a part of the central staff function Group Finance.

The active and on-going management of liquidity, market and credit risks within the framework of the risk tolerance of the Bank as well as compliance with the risk-policy guidelines is the responsibility of Group Treasury. Group Treasury takes responsibility for the gains and losses which were generated in respect of the risks entered into. Furthermore, Group Treasury is responsible for controlling of derivatives.

In the Group Treasury steering committee which meets each monthly or as and when the need arises, decisions are taken on issues relating to the management of liquidity and limits, the management of own investments as well as asset and liability management (ALM).

The risk-management process of VP Bank comprises the four process phases risk identification, risk evaluation, risk management and risk monitoring. The responsibilities and powers of authority within this process as well as the methods employed and measures to be taken are laid down in detail for each individual phase and each risk category.



The knowledge of the risks inherent in the business activity forms the basis for effective risk management. The identification of risk is essential primarily in the granting of credit, the introduction of new financial instruments, the review of new strategic directions or the execution of unusual off-one transactions.

In the area of risk evaluation, a distinction is made between risk measurement and risk assessment. In the process, it is also necessary to estimate non-quantifiable risks. Quantifiable risks are measured with the aid of the three following variables: expected loss, non-expected loss and stress tests.

- The expected loss measures the risk of individual credit portfolios and computes the average expected loss inherent in each transaction.
- The non-expected loss measures the estimated deviation of the actual loss from the expected loss assuming a certain level of probability. For this, VP Bank applies the value-at-risk concept (VaR) which presently is used exclusively for the computation of market risks. The VaR model of VP Bank is based upon the method of historic simulation: the historic changes in market data of the last 260 trading days are used to value all market-risk positions. In doing so, a holding duration of 30 days is assumed.
- Stress losses are triggered by extreme market movements and measured with the aid of stress tests during which extreme fluctuations in interest rates and curves are simulated.

The goal of risk management is the optimization of the relationship between risk and income within the framework of a defined risk appetite. Active management is undertaken within the framework of the legally stipulated limits and using an internal system of limits oriented to volumes, sensitivity indicators and size of losses.
The management of qualitative risks is assured through key controls on the basis of stringently defined business processes.
Active risk management is accompanied by a functionally and organizationally independent risk monitoring process which encompasses the control of risks and reporting. The extent to which overall bank limits are utilized as well as observance of sub-limits are controlled. Group Risk Controlling immediately reports all excesses to the Chief Financial Officer. Periodic reporting ensures that all relevant information on the income-risk situation of VP Bank is presented and reported in a reliable and timely manner.
As of February 1, 2011, Group Treasury was integrated into the area of Group Finance; the functional segregation continues to be ensured through the two units Risk Control (for monitoring) and Group Risk Management (for active management).

4. Disclosures on the Basle capital-adequacy provisions

Capital-adequacy computation

in CHF 1,000	12/31/2010	12/31/2009
Core capital (unadjusted)	**900,767**	**910,713**
• Paid-in capital	59,148	59,148
• Disclosed reserves	867,859	834,629
• Consolidated net income	15,084	57,411
• Deduction for treasury shares	–38,465	–38,302
• Minority interests	17,843	18,529
• Deduction for dividend as per proposal of Board of Directors	–20,702	–20,702
Deduction for goodwill and intangible assets	–85,636	–103,699
Other deductions	–5,841	503
Eligible core capital (tier 1)	**809,290**	**807,517**
Other deductions from supplementary capital from additional capital and from total capital	–9,851	–4,262
Eligible core capital (adjusted)	**799,439**	**803,255**
Credit risk (in accordance with Liechtenstein standard approach)	273,847	269,289
thereof price risk regarding equity securities in the banking book	6,921	8,849
Risks unrelated to counterparties	10,863	11,731
Market risk (in accordance with Liechtenstein standard approach)	13,853	47,213
Operational risk (in accordance with basic indicator approach)	43,036	49,226
Total required equity	**341,599**	**377,459**

Ratio eligible (adjusted)/required equity[1]	234.0%	212.8%
Eligible (adjusted) core capital (incl. "innovative" instruments)	18.7%	17.0%
Eligible equity tier 1[2]	19.0%	17.1%

1 Eligible equity (as adjusted) as a percentage of required equity (net).

2 Eligible core capital (tier 1) as a percentage of the risk-weighted positions plus the required equity for market risks, operational risks and for unsettled transaction positions, converted into equivalent units by multiplying by 12.5.

The required qualitative and quantitative disclosures on capital adequacy, on the strategy and processes for risk management as well as the risk situation of VP Bank are made in this chapter as well as in the commentary on the consolidated financial statements (see page 68).

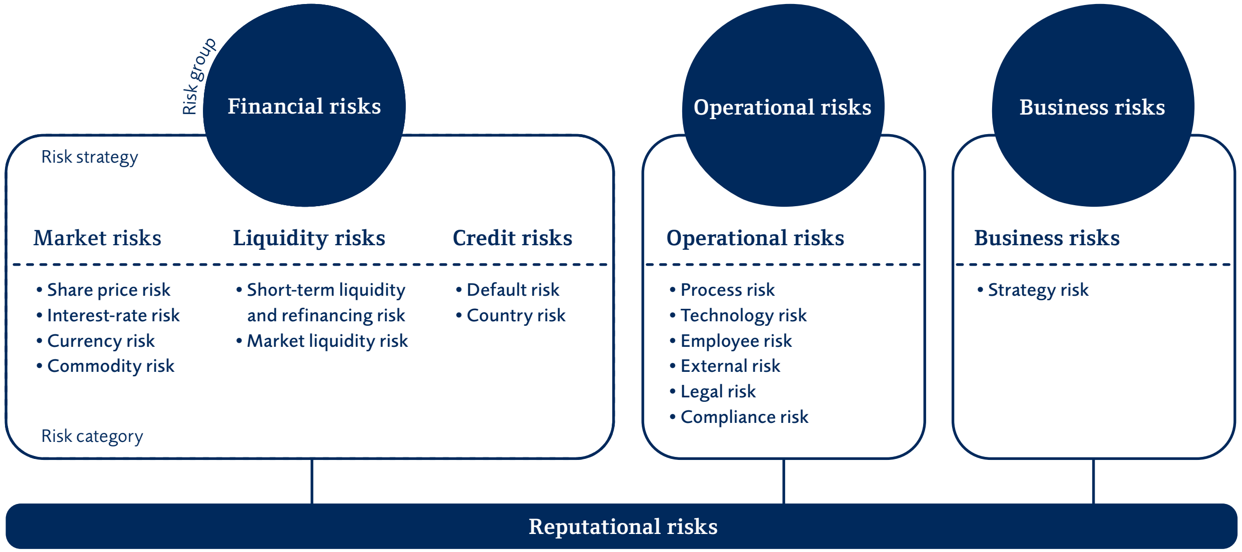
For each risk category, Basle II foresees various approaches for the computation of required equity. VP Bank applies the standard approach for credit and market risks and the basis indicator approach for operational risks.

As of December 31, 2010, the business activities of VP Bank Group required equity of CHF 341.6 million (December 31, 2009: CHF 377.5 million). Adjusted eligible equity totaled CHF 799.4 million (December 31, 2009: CHF 803.3 million). The excess of equity could be increased by 7.5% to CHF 457.8 million (December 31, 2009: CHF 425.8 million) and together with a tier 1 ratio of 19.0 percent (prior year: 17.1 percent) reflects the robust equity base of the Bank. The following table shows the equity situation of the Group as of December 31, 2010.

As VP Bank Group has used no hybrid capital in its eligible equity and because in accordance with International Financial Reporting Standards (IFRS) it does not offset assets against liabilities (reduction in gross assets), the tier 1 ratio of VP Bank is not "diluted" and may be described as solid.

5. Risk categories in detail

The risks to which VP Bank are exposed in 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 managed and monitored. Otherwise, not only significant financial losses can arise, but damage to reputation may be suffered 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.

Within the scope of asset & liability management, market risks are entered into with positions in debt securities, equity paper, foreign currencies and derivatives. In addition, they result from trading in precious metals and precious-metal options as well as in the inter-bank business and business for customers.

In computing the capital charges to support market risks in accordance with Basle II, VP Bank applies the standard approach.

For measuring 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 VP Bank Group as of December 31, 2010 was CHF 27.3 million (December 31, 2009: CHF 34.1 million). The reasons for the reduction lie in the smaller risk exposures in own investments which the VP Bank consciously strove to achieve as a result of the uncertain market situation as well as through the increased deployment of hedging instruments aimed at containing interest-rate and foreign-currency risks. The following table shows the Value-at-Risk (on a monthly basis) analyzed by risk categories as well as that computed over all risk categories. The diversification effect which is to be ascribed to the correlations between the market parameters is reflected in the difference between the overall market VaR and the sum of the VaR values per type of risk. In 2010, this figure was no longer tracked.

Value-at-Risk

in CHF million	Total	Diversification effect	Interest-rate risk	Equity price & commodity risk	Currency risk
per 12/31/2010					
Year-end	27.3	–	8.9	9.9	8.5
Average	27.5	–	8.8	10.7	8.1
Highest value	32.8	n.a.	13.3	11.9	8.5
Lowest value	23.3	n.a.	5.7	9.8	7.5
per 12/31/2009					
Year-end	34.1	–21.5	13.1	18.8	23.6
Average	37.0	–26.5	13.5	26.4	23.6
Highest value	39.6	n.a.	16.4	30.4	40.7
Lowest value	34.1	n.a.	10.7	18.8	12.5

As no maximum losses can be determined using the Value-at-Risk concept, the market-risk analysis is supplemented by stress tests. These tests enable the impact of extreme market fluctuations in the risk factors on interest income and on the net 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. The central influencing variables on interest-rate risk are the on- and off-balance-sheet interest-rate exposures as well as changes in the respective interest-rate curves and their volatility. Thus, the key-rate duration profile shows the impact of a positive shift of one percent (+100 basis points) in the total interest-rate curve on the market value of the assets and liabilities of VP Bank Group in the respective currency.

The following table, divided into time bands and currencies, shows the results of such a scenario as of December 31, 2010 as well as the comparatives for the prior year. Negative values under this scenario indicate an excess of assets, positive values an excess of liabilities in the respective time band.

Key-Rate-Duration-Profil per 100 basis points increase

in CHF 1,000	within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
Increase as of 12/31/2010						
CHF	–706	4,370	–2,825	–25,109	–3,308	–27,578
EUR	–646	3,295	–1,029	–1,999	685	306
USD	–738	1,642	–70	–998	394	230
Other currencies	–141	505	–23	0	0	341
Total	**–2,231**	**9,812**	**–3,947**	**–28,106**	**–2,229**	**–26,701**
Increase as of 12/31/2009						
CHF	–173	–284	–273	6,698	–9,050	–3,082
EUR	–402	–471	2,735	16,658	–2,575	15,945
USD	–283	–1,011	–698	11,260	–43	9,225
Other currencies	–61	–68	69	2,556	0	2,496
Total	**–919**	**–1,834**	**1,833**	**37,172**	**–11,668**	**24,584**

Which effects a negative change in exchange rate has on consolidated net income and shareholders' equity are shown by the following table:

Exchange rate	Variance in %	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
2010			
EUR	–5	–4,273	–71
USD	–12	–6,192	–3,391
2009			
EUR	–5	–5,835	–210
USD	–12	–5,712	–11,340

The impact of a possible downward movement in equity markets of 10%, 20% and 30%, respectively, is illustrated by the following table:

Variances in the relevant stock markets

Variance by %	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
2010		
–10%	–1,271	–5,958
–20%	–2,210	–10,039
–30%	–3,091	–12,415
2009		
–10%	–509	–8,390
–20%	–2,581	–15,216
–30%	–8,638	–18,057

The central staff function Group Treasury, which reports to the Chief Financial Officer, is responsible for the active management of market risks. The steering of market risks is undertaken in the departments Asset & Liability Management, Bank Capital Management and Proprietary Trading.

The department Asset & Liability Management lays down the strategy for interest-rate, currency and equity-price risks by defining the strategic risk exposure and tactical limits for the executing units Bank Capital Management and Proprietary Trading and measures the results from the operational implementation thereof. The investment guidelines for the management of equity are laid down in cooperation with the Group Treasury steering committee. The department Asset & Liability Management is also responsible for the measurement and management of the relationship of risks and returns for all on-balance-sheet and derivative transactions. In this connection, Asset & Liability Management reports to Group Executive Management and informs the individuals with product responsibilities on any matters requiring action.

Amongst the main tasks of Bank Capital Management are the operational and tactical steering of the interest-rate risks over one year, the management of the Group's own investments, collateral management as well as securities' lending and borrowing.

The units Proprietary Trading and Group Trading are responsible for the active management of interest-rate and currency risks in the banking book shorter than one year, the settlement of trades in securities, foreign currencies, precious metals and forward contracts with clients, banks, brokers and similar finance companies as well as those for VP Bank Group's own account.
Asset & Liability Management is responsible for the strategic management of interest-rate and currency risks. In this process, the risk and income profile of variable transactions are mapped using replication portfolios consisting of marketable instruments.
The monitoring of the limits laid down by type of market risk is the task of Group Executive Management. In this respect, it is supported by Group Risk Controlling, which compares the current risk exposures to their respective limits. All excesses over limits are reported by Group Risk Controlling to the specialized unit(s) involved, to the member of the Group Executive Management currently responsible and to the Chief Financial Officer. The latter decides on the course of action. The Audit & Risk Management Committee is informed of any excesses.
Overall market risks are computed each month for the total balance sheet. Reporting is made each month to the Chairman of the Board of Directors, Group Executive Management as well as the Audit & Risk Management Committee. Reporting on stress tests is addressed to the Board of Directors and the Group Executive Management on a semi-annual basis.

Liquidity risks

Liquidity risk lies in the danger that current and future payment obligations cannot be met on the due date or to the full extent. Without sufficient liquidity, 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) in order to meet its payment obligations.
Group Treasury is responsible for the active management of liquidity risks as well as the risk management of limits with banks and brokers. The unit Bank Liquidity Management ensures that VP Bank at all times possesses sufficient liquidity to fulfill its payment obligations as and when they fall due and in full. In addition, the compliance with liquidity norms imposed under supervisory law as well as the limitation of counterparty and credit risks of all exposures of VP Bank Group to banks and brokers figure amongst the core duties of this unit.
Amongst the instruments employed for the management of liquidity 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.
Liquidity risks are measured by computing short-term liquidity, reserve requirements as well as risk concentrations on the assets' and liabilities' side.
The monitoring of liquidity risks is incumbent on Group Risk Controlling. The object of risk monitoring is – 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 for money-market transactions, repo activities and interbank deposits.
The Board of Directors and the Group Executive Management are informed monthly about liquidity risks. An important indicator for the purposes of liquidity monitoring is the relationship between liquid assets and short-term liabilities. Included in liquid assets are the following positions: balances due from banks, bonds and other assets maturing within one month, liquid assets, assets which the Swiss National Bank recognizes for monetary repo operations and those which in the home country of a foreign branch are eligible for discount, pledging or for repo operations with the central bank as well as bonds of domestic issuers and 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 2010 and 2009 as per year end, as well as the average, highest and lowest values.

	2010	2009
As per December, 31	65%	64%
Average during year	63%	54%
Highest value	68%	64%
Lowest value	59%	44%

As of December 31, 2010 and 2009, the following cash flows on the liabilities side of the balance sheet (non-discounted capital and interest payments) were to be reported:

in CHF 1,000	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
as of 12/31/2010							
Due to banks	60,912	212	127,219		817		189,160
Due to clients in the form of savings & deposits		954,218					954,218
Other liabilities to clients	4,565,140	2,001,298	955,104	231,629	2,317		7,755,488
Derivative financial instruments	70,034						70,034
Securitized liabilities			6,416	49,844	419,400	208,881	684,541
Total	**4,696,086**	**2,955,728**	**1,088,739**	**281,473**	**422,534**	**208,881**	**9,653,441**
as of 12/31/2009							
Due to banks	69,545	2,453					71,998
Due to clients in the form of savings & deposits		969,267					969,267
Other liabilities to clients	4,735,774	2,416,426	1,661,896	211,159	86	1,593	9,026,934
Derivative financial instruments	44,048						44,048
Securitized liabilities			23,252	111,846	340,315	3,452	478,865
Total	**4,849,367**	**3,388,146**	**1,685,148**	**323,005**	**340,401**	**5,045**	**10,591,112**

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 exist or can arise: from the credit and money-market business, the management of own investments in securities, trading activities as well as from securities lending. In computing the capital charges to support credit risks in accordance with Basel II, VP Bank applies the standardized approach. Credit risks are evaluated both at the level of the individual exposure as well at a portfolio level through the attribution of a rating which serves as an indicator for the probability of default. For banks, VP Bank used the rating of both rating agencies, Standard & Poors and Moody's. For non-banks, an internal rating system is used. At a portfolio level, risk management aims at avoiding existence-jeopardizing risk concentrations as well as of 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 losses are computed. With the active management of customer loans, VP Bank seeks to achieve a diversified credit portfolio with an optimal relationship between risk and returns. At December 31, 2010, the aggregate credit exposures amounted to CHF 10.1 billion (December 31, 2009: CHF 10.9 billion).

The following table shows the composition of the credit exposures by balance-sheet and off-balance-sheet positions. Provisions for these receivables are raised on the basis of a review for impairment in the individual credit positions. In this process, existing collateral is assessed on the basis of estimated liquidation values.

Credit exposures

in CHF 1,000	12/31/2010	12/31/2009
On-balance-sheet assets		
Receivables arising from money-market paper	439,665	777,654
Due from banks	5,622,808	6,319,844
Due from customers	3,266,402	3,026,639
Public-law enterprises	470	0
Trading portfolios	3,951	1,917
Derivative financial instruments	63,322	42,355
Financial instruments designated at-fair-value	79,107	92,174
Financial instruments available-for-sale	613,966	640,607
Total	**10,089,691**	**10,901,190**
Off-balance-sheet transactions		
Contingent liabilities	98,590	115,851
Irrevocable facilities granted	22,079	17,616
Total	**120,669**	**133,467**

The two following tables show the above listed credit exposures, analyzed by groups of counterparties and collateral, respectively.

Credit exposures by groups of counterparties

in CHF 1,000	Central governments and central banks	Banks and securites dealers	Other institutions	Corporates	Private customers and small enterprieses	Other positions	Total
On-balance-sheet assets as of 12/31/2010							
Receivables arising from money-market paper	439,665						439,665
Due from banks		5,622,800	8				5,622,808
Due from customers	6,857		2,872	667,280	2,589,394		3,266,402
Public-law enterprises			470				470
Trading portfolios		1,501		110		2,340	3,951
Derivative financial instruments		48,016	2	12,940	2,310	54	63,322
Financial instruments designated at-fair-value	42,133	2,624	12,809	3,032	18,163	347	79,107
Financial instruments available-for-sale	45,063	336,483	44,171	176,378		11,870	613,966
Total	**533,718**	**6,011,424**	**60,332**	**859,740**	**2,609,866**	**14,611**	**10,089,691**
Off-balance-sheet transactions as of 12/31/2010							
Contingent liabilities		3,000	10	6,722	18,126	70,733	98,590
Irrevocable facilities granted		1,688			13,838	6,553	22,079
Total	**0**	**4,688**	**10**	**6,722**	**31,963**	**77,286**	**120,669**
On-balance-sheet assets as of 12/31/2009							
Receivables arising from money-market paper	777,570	84					777,654
Due from banks		6,319,837	7				6,319,844
Due from customers				462,570	2,564,069		3,026,639
Public-law enterprises							0
Trading portfolios				1,917			1,917
Derivative financial instruments		14,662	168	321	16,880	10,324	42,355
Financial instruments designated at-fair-value	58,025	19,818	26	13,898		408	92,174
Financial instruments available-for-sale	51,924	328,206	31,103	197,299		32,075	640,607
Total	**887,519**	**6,682,606**	**31,304**	**676,004**	**2,580,950**	**42,807**	**10,901,190**
Off-balance-sheet transactions as of 12/31/2009							
Contingent liabilities		6,242	11	11,188	97,836	574	115,851
Irrevocable facilities granted		1,400		85	10,569	5,563	17,616
Total	**0**	**7,642**	**11**	**11,273**	**108,404**	**6,137**	**133,467**

Credit exposures by collateral

in CHF 1,000	Secured by recognized financial collateral	Not secured by recognized financial collateral	Total
On-balance-sheet assets as of 12/31/2010			
Receivables arising from money-market paper		439,665	439,665
Due from banks		5,622,808	5,622,808
Due from customers	2,741,247	525,155	3,266,402
Public-law enterprises		470	470
Trading portfolios		3,951	3,951
Derivative financial instruments	2,331	60,992	63,322
Financial instruments designated at-fair-value		79,107	79,107
Financial instruments available-for-sale		613,966	613,966
Total	**2,743,578**	**7,346,113**	**10,089,691**
Off-balance-sheet transactions as of 12/31/2010			
Contingent liabilities	98,590		98,590
Irrevocable facilities granted	13,838	8,241	22,079
Total	**112,428**	**8,241**	**120,669**
On-balance-sheet assets as of 12/31/2009			
Receivables arising from money-market paper		777,654	777,654
Due from banks		6,319,844	6,319,844
Due from customers	2,601,923	424,716	3,026,639
Public-law enterprises			0
Trading portfolios		1,917	1,917
Derivative financial instruments	22,017	20,338	42,355
Financial instruments designated at-fair-value		92,174	92,174
Financial instruments available-for-sale		640,607	640,607
Total	**2,623,940**	**8,277,250**	**10,901,190**
Off-balance-sheet transactions as of 12/31/2009			
Contingent liabilities	115,851		115,851
Irrevocable facilities granted	10,569	7,048	17,616
Total	**126,419**	**7,048**	**133,467**

In the case of amounts due from banks, money-market paper as well as of interest-bearing securities amongst its own investments, the valuation is based on external ratings. The following tables show the individual on- and off-balance-sheet positions by rating classes, risk-weighting classes and domicile.

Credit exposures by rating classes

in CHF 1,000	Not-value-adjusted positions Investment grade (AAA to BBB)	Safe (BB+ to BB–)	Unsafe (B– to C)	Without external rating	Value-adjusted positions	Total
On-balance-sheet assets as of 12/31/2010						
Receivables arising from money-market paper	439,665					439,665
Due from banks	5,434,073			196,139	7,404	5,622,808
Due from clients				3,313,011	46,609	3,266,402
Public-law enterprises				470		470
Trading portfolios	1,611			2,340		3,951
Derivative financial instruments	36,727			26,595		63,322
Financial instruments designated at-fair-value	78,760			347		79,107
Financial instruments available-for-sale	603,593			10,372		613,966
Total	**6,594,430**	**0**	**0**	**3,549,275**	**54,013**	**10,089,691**
Off-balance-sheet transactions as of 12/31/2010						
Contingent liabilities	131			98,460		98,590
Irrevocable facilities granted				22,079		22,079
Total	**131**	**0**	**0**	**120,539**	**0**	**120,669**
On-balance-sheet assets as of 12/31/2009						
Receivables arising from money-market paper	777,654					777,654
Due from banks	6,156,430			170,715	7,301	6,319,844
Due from clients				3,067,548	40,909	3,026,639
Public-law enterprises						0
Trading portfolios				1,917		1,917
Derivative financial instruments	11,493			30,862		42,355
Financial instruments designated at-fair-value	89,809			2,365		92,174
Financial instruments available-for-sale	621,139			19,468		640,607
Total	**7,656,525**	**0**	**0**	**3,292,876**	**48,210**	**10,901,190**
Off-balance-sheet transactions as of 12/31/2009						
Contingent liabilities	284			115,566		115,851
Irrevocable facilities granted				17,616		17,616
Total	**284**	**0**	**0**	**133,183**	**0**	**133,467**

Credit exposures by risk-weighting classes

in CHF 1,000	0%	10%	20%	35%	50%	75%	100%	150%	Total
On-balance-sheet assets as of 12/31/2010									
Receivables arising from money-market paper	439,665								439,665
Due from banks	571,672		4,603,128		443,791		4,216		5,622,808
Due from customers	443,713		48,051	1,551,117	209,390	54,505	925,213	34,883	3,266,872
Derivative financial instruments	13,177		20,681		19,850	14	9,599	1	63,322
Financial instruments	87,672		411,155		159,165		127,825	7,957	793,775
Other assets	1,199		12,805	1	2,246		32,680	2	48,934
Total	**1,557,097**	**0**	**5,095,821**	**1,551,119**	**834,443**	**54,519**	**1,099,534**	**42,843**	**10,235,376**
Off-balance-sheet transactions as of 12/31/2010									
Contingent liabilities	92,121		286	886	1,931		3,366		98,590
Irrevocable facilities granted	2,483			7,130	2,374		10,092		22,079
Total	**94,604**	**0**	**286**	**8,016**	**4,305**	**0**	**13,458**	**0**	**120,669**
On-balance-sheet assets as of 12/31/2009									
Receivables arising from money-market paper	777,654								777,654
Due from banks	168,596		5,463,728		680,712		6,808		6,319,844
Due from customers	478,229		11,731	1,541,580	42,835	94,364	845,181	12,720	3,026,639
Derivative financial instruments	2,935		10,769		8,170	2,390	18,091		42,355
Financial instruments	106,528		380,102		218,078		173,044	8,013	885,765
Other assets	739		1,678	1	13,539	1,910	37,133		55,000
Total	**1,534,681**	**0**	**5,868,007**	**1,541,581**	**963,334**	**98,665**	**1,080,257**	**20,733**	**11,107,257**
Off-balance-sheet transactions as of 12/31/2009									
Contingent liabilities	104,519		5,324	553	669	3,436	1,350		115,851
Irrevocable facilities granted	1,128			6,732	1,400	1,000	7,357		17,616
Total	**105,647**	**0**	**5,324**	**7,285**	**2,069**	**4,436**	**8,707**	**0**	**133,467**

Credit exposures by domicile

in CHF 1,000	Liechtenstein and Switzerland	Europe	North America	South America	Asia	Others	Total
On-balance-sheet assets as of 12/31/2010							
Receivables arising from money-market paper	439,665						439,665
Due from banks	1,899,207	3,578,702	139,560		870	4,469	5,622,808
Due from customers	2,502,493	375,424	21,439	12,420	15,055	339,571	3,266,402
Public-law enterprises						470	470
Trading portfolios		3,951					3,951
Derivative financial instruments	56,480	2,926	114	195	209	3,398	63,322
Financial instruments designated at-fair-value		65,882	12,878			347	79,107
Financial instruments available-for-sale	4,788	446,888	92,767		19,397	50,125	613,966
Total	**4,902,633**	**4,473,773**	**266,759**	**12,615**	**35,532**	**398,381**	**10,089,691**
Off-balance-sheet transactions as of 12/31/2010							
Contingent liabilities	34,579	26,594	695	913	804	35,005	98,590
Irrevocable facilities granted	15,262	152	654		17	5,995	22,079
Total	**49,841**	**26,745**	**1,349**	**913**	**821**	**41,000**	**120,669**
On-balance-sheet assets as of 12/31/2009							
Receivables arising from money-market paper	777,570	84					777,654
Due from banks	989,230	5,026,722	294,450		2,479	6,964	6,319,844
Due from customers	2,452,528	236,761	20,928	10,869	10,241	295,311	3,026,639
Public-law enterprises							0
Trading portfolios		1,917					1,917
Derivative financial instruments	30,507	6,175	215	94	55	5,308	42,355
Financial instruments designated at-fair-value	1,019	65,186	25,536			434	92,174
Financial instruments available-for-sale	4,104	463,397	109,703		31,225	32,178	640,607
Total	**4,254,958**	**5,800,241**	**450,833**	**10,963**	**44,000**	**340,195**	**10,901,190**
Off-balance-sheet transactions as of 12/31/2009							
Contingent liabilities	82,448	12,604	945	823	813	18,217	115,851
Irrevocable facilities granted	11,514	340	90		1,112	4,561	17,616
Total	**93,962**	**12,944**	**1,035**	**823**	**1,925**	**22,778**	**133,467**

The following table shows the receivables vulnerable to default and overdue receivables as well as related specific valuation allowances according to domicile.

Credit exposures vulnerable to default by domicile

in CHF 1,000	Impaired receivables subject to default risk (gross amount)	Overdue receivables (gross amount)	Individual value adjustments
as of 12/31/2010			
Liechtenstein and Switzerland	35,954	14,145	10,521
Europe	1,246	1,299	1,213
South America	83	154	88
Asia		11	
Others	31,963	3,280	15,626
Total	**69,246**	**18,897**	**27,448**
as of 12/31/2009			
Liechtenstein and Switzerland	52,111	21,910	9,206
Europe	3,386	1,318	6,190
South America	73	73	81
Asia			
Others	17,705	167	8,602
Total	**73,275**	**23,468**	**24,079**

The ten largest individual exposures to banks aggregate CHF 2.6 billion (December 31, 2009: CHF 3.1 billion). These relate exclusively to institutions with a high credit capacity (minimum rating A) and a registered office in an OECD country. The principal focus in the traditional credit business is constituted by mortgage credits with CHF 2.2 billion (2009: CHF 2.1 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. As a result of the broad distribution of exposures, there exists no concentration of risks within industry segments. The ten largest single exposures to customers encompass 17 percent of total customer loans or 5 percent of total assets (December 31, 2009: 15 percent of total customer loans or 4 percent of total assets).

Within the reducing risks, the volume of credit derivatives in its own investments was cut back during last year.

The following table shows the contract values by type of product.

Credit derivatives (contract volumes)

in CHF 1,000	Provider of collateral per 12/31/2010	Receiver of security per 12/31/2009
Credit-linked notes	6,870	18,268
Other credit derivatives	9,865	12,299
Total	**16,735**	**30,567**

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 management of country risks is made 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.

For categorizing and estimating the risks of individual countries, VP Bank employs the ratings of Standard & Poor's and Moody's. The following table shows the distribution of credit exposures by country rating. Non-rated positions are mostly exposures from local business activities (receivables secured by mortgage) of VP Bank (BVI) Limited.

Country exposures by rating	12/31/2010	12/31/2009	12/31/2008
AAA	94.5%	94.4%	88.8%
AA	3.3%	4.0%	6.0%
A	0.3%	0.1%	4.0%
BBB – B	0.1%	0.2%	0.2%
Not Rated	1.8%	1.3%	1.0%
Total	**100.0%**	**100.0%**	**100.0%**

Operational risks

Operational risks represent the danger of incurring losses arising 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 of due-diligence obligations ("compliance risk"). In computing the capital charges to support operational risks in accordance with Basel II, VP Bank applies the basic indicator approach. During the past year, the systematic and uniform process to identify, value, manage and monitor operational risks was pushed ahead with. The main focus here targeted the improvement, standardization and extension of the risk-based internal control system (ICS) to further areas of the company. In order to be prepared on a timely basis for meet the changes in both regulatory as well as technical environments, an intensive exchange of experiences was again undertaken in 2010 with other banks in Liechtenstein and Switzerland. Group Risk Controlling is responsible for the uniform, Group-wide implementation of the risk management process. The management of operational risks is undertaken primarily on a decentralized basis on the second and third management level. Central staff functions take appropriate management measures for identified transverse risks, e.g. IT risks. Group Risk Controlling holds itself available on the sidelines in an advisory capacity and is responsible for the quarterly reporting on operational risks and on the status of projects to the Board of Directors and Group Executive 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 highly charged are those risks could jeopardize on an on-going basis the attainment of the long-term corporate goals as a result of the currently prevailing external and internal risk factors. The assessment of business risks is subject to continual review and they remain valid only until such time as the management bodies undertake a further revalidation and prioritization thereof. VP Bank thus does not understand business risks to be an autonomous risk category. Those business risks which the Board of Directors and Group Executive Management have identified as important, 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 (last time in 2008); the validation and prioritization of business risks is undertaken annually by the Audit & Risk Management Committee and Group Executive Management. Probabilities of crystallization are given to each risk scenario and evaluated as 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 variables 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

Segment reporting includes the four business segments, Banking Liechtenstein & Regional Markets, Private Banking International, Wealth Management Solutions & Services and the Corporate Center. Indirect costs for services rendered between these units are basically accounted for with the provider of the services as income and with the recipient as expenses, following the originator principle.

Banking Liechtenstein & Regional Markets

The Banking Liechtenstein & Regional Markets business segment encompasses the banking business in Liechtenstein (the home market) and in Switzerland, as well as the international private banking, intermediaries and fund businesses conducted in Liechtenstein. Those entities of Verwaltungs- und Privat-Bank Aktiengesellschaft having direct contact with clients, IFOS Internationale Fonds Service Aktiengesellschaft and VPB Finance S.A. are allocated to this segment.

Private Banking International

The Private Banking International business segment addresses the private banking business at the international locations of VP Bank Group. VP Bank (Schweiz) AG, Zürich, VP Bank (Luxembourg) S.A., Luxembourg, VP Vermögensverwaltung GmbH, München, VP Bank and Trust Company (BVI) Limited, Tortola, VP Bank (Singapore) Ltd., Singapore, and VP Wealth Management (Hong Kong) Ltd. Hong Kong, are allocated to this segment.

Wealth Management Solutions & Services

The Wealth Management Solutions & Services business segment comprises the Wealth Management Solutions, Information Technology, Operations as well as Logistics & Security units of the entire VP Bank Group.

Corporate Center

Corporate Center encompasses the Group Finance & Risk, Group Legal Services & Compliance, Investment Controlling, Group Human Resources Management and Group Communications & Marketing units. Those revenues and expenses having no direct relationship to the operating divisions, as well as variable salary components and consolidation adjustments, are reported under the Corporate Center. The management of equity resources by the Risk Management central staff function, and the gains/losses from asset and liability management are allocated to the Corporate Center. Also integrated 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.

Geographic Segment Reporting

in CHF 1,000	Liechtenstein and Switzerland	Rest of Europe	Other countries	Total Group
2010				
Total net operating income	207,578	31,825	17,383	256,786
Assets (in CHF million)	8,623	1,425	544	10,592
Investments in property and equipment	10,570	768	567	11,905
2009				
Total net operating income	257'444	42'093	14'311	313'848
Assets (in CHF million)	9'650	1'473	504	11'627
Investments in property and equipmen	42'279	755	133	43'167

Segment reporting follows the principle of branch accounting.

Business Segment Reporting 2010

in CHF 1,000	Banking Liechtenstein & Regional Markets	Private Banking International	Wealth Management Solutions & Services	CFO & Corporate Center	Total Group
Total income from interest-differential business	35,817	18,088	500	24,522	78,927
Total income from commission business and services	89,019	35,499	438	469	125,425
Income from trading activities	11,949	6,123	6,274	21,423	45,769
Other income	2,173	5,606	0	–1,114	6,665
Total net operating income	**138,958**	**65,316**	**7,212**	**45,300**	**256,786**
Personnel expenses	24,083	33,480	38,244	25,990	121,797
General and administrative expenses	2,871	14,505	19,036	21,316	57,728
Services to/from other segments	30,302	896	–31,261	63	0
Operating expenses	**57,256**	**48,881**	**26,019**	**47,369**	**179,525**
Gross income	**81,702**	**16,435**	**–18,807**	**–2,069**	**77,261**
Depreciation and amortization	279	3,599	27,944	6,908	38,730
Valuation allowances, provisions and losses	11,929	5,627	1,823	0	19,379
Income/loss before income tax	**69,494**	**7,209**	**–48,574**	**–8,977**	**19,152**
Taxes on income					1,940
Net income					**17,212**
Share of net income attributable to minority interests					2,128
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz					**15,084**
Segment assets (in CHF million)	2,778	2,843	91	4,880	10,592
Segment liabilities (in CHF million)	6,652	2,754	127	143	9,676
Investments in property and equipment	36	1,417	10,096	356	11,905
Depreciation and amortization	279	3,599	27,944	6,908	38,730
Creation of valuation allowances for credit risks	10,091	3,680	1,773	0	15,544
Release of valuation allowances for credit risks	1,891	404	0	1,343	3,638
Headcount (full-time equivalents)	164.0	201.9	248.7	112.6	727.2

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.

Business Segment Reporting 2009

in CHF 1,000	Banking Liechtenstein & Regional Markets	Private Banking International	Wealth Management Solutions & Services	CFO & Corporate Center	Total Group
Total income from interest-differential business	51,136	29,500	703	39,677	121,016
Total income from commission business and services	90,966	31,038	1,040	477	123,521
Income from trading activities	12,014	5,657	6,204	–6,310	17,565
Other income	2,126	5,234	0	44,386	51,746
Total net operating income	**156,242**	**71,429**	**7,947**	**78,230**	**313,848**
Personnel expenses	24,943	35,299	40,906	22,919	124,067
General and administrative expenses	3,317	16,634	13,922	27,156	61,029
Services to/from other segments	30,410	1,202	–29,586	–2,026	0
Operating expenses	**58,670**	**53,135**	**25,242**	**48,049**	**185,096**
Gross income	**97,572**	**18,294**	**–17,295**	**30,181**	**128,752**
Depreciation and amortization	302	4,247	29,199	6,745	40,493
Valuation allowances, provisions and losses	10,300	1,040	0	4,529	15,869
Income/loss before income tax	**86,970**	**13,007**	**–46,494**	**18,907**	**72,390**
Taxes on income					12,563
Net income					**59,827**
Share of net income attributable to minority interests					2,416
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz					**57,411**
Segment assets (in CHF million)	2,786	2,863	104	5,875	11,627
Segment liabilities (in CHF million)	7,516	2,833	201	146	10,695
Investments in property and equipment	171	1,116	38,627	3,253	43,167
Depreciation and amortization	302	4,247	29,199	6,745	40,493
Creation of valuation allowances for credit risks	7,914	577	0	3,591	12,082
Release of valuation allowances for credit risks	1,559	738	0	0	2,297
Headcount (full-time equivalents)	158.6	190.9	254.6	116.1	720.2

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.

Notes to Consolidated Income Statement and Consolidated Balance Sheet

1 Income from interest-differential business

in CHF 1,000	2010	2009	Variance absolute	Variance in %
Interest and discount income[1]	113,574	177,292	–63,718	–35.9
Interest income on available-for-sale financial instruments	14,232	23,292	–9,060	–38.9
Dividend income on available-for-sale financial instruments	2,522	2,044	478	23.4
Subtotal	**130,328**	**202,628**	**–72,300**	**–35.7**
Interest income from trading portfolios and interest-rate derivatives	–6,549	–1,345	–5,204	n.a.
Interest income from financial instruments designated at fair value	1,707	4,592	–2,885	–62.8
Dividend income from trading portfolios	6	3	3	100.0
Dividend income from financial instruments designated at fair value	74	4	70	n.a.
Total interest income	**125,566**	**205,882**	**–80,316**	**–39.0**
Interest expenses on liabilities	32,004	70,637	–38,633	–54.7
Interest expenses on medium-term notes	3,622	6,424	–2,802	–43.6
Interest expenses on debenture issues	11,013	7,805	3,208	41.1
Total interest expenses	**46,639**	**84,866**	**–38,227**	**–45.0**
Total income from interest-differential business	**78,927**	**121,016**	**–42,089**	**–34.8**

[1] The interest income from value-impaired loans (note 15) in 2010 amounted to CHF 0.449 million (2009: CHF 0.973 million).

2 Income from commission business and services

in CHF 1,000	2010	2009	Variance absolute	Variance in %
Commission income from credit business	1,080	1,252	–172	–13.7
Asset management and investment business[1]	39,293	35,039	4,254	12.1
Brokerage fees	41,459	45,307	–3,848	–8.5
Securities account fees	17,426	17,720	–294	–1.7
Fund management fees	54,369	49,279	5,090	10.3
Fiduciary commissions	1,567	3,753	–2,186	–58.2
Commission income from other services	14,147	13,794	353	2.6
Total income from commission business and services	**169,341**	**166,144**	**3,197**	**1.9**
Brokerage expenses	7,553	8,282	–729	–8.8
Other commission and services-related expenses	36,363	34,341	2,022	5.9
Total expenses from commission business and services	**43,916**	**42,623**	**1,293**	**3.0**
Total income from commission business and services	**125,425**	**123,521**	**1,904**	**1.5**

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

3 Income from trading activities

in CHF 1,000	2010	2009	Variance absolute	Variance in %
Securities trading[1]	20,850	-5,442	26,292	n.a.
Foreign currency	24,846	22,269	2,577	11.6
Bank notes, precious metals and other	73	738	–665	–90.1
Total income from trading activities	**45,769**	**17,565**	**28,204**	**160.6**

[1] The result arising from trading derivatives, options, etc. is included in the securities trading item.

4 Other income

in CHF 1,000	2010	2009	Variance absolute	Variance in %
Income from financial instruments designated at fair value	7,803	42,369	–34,566	–81.6
Income from available-for-sale financial instruments	–13,213	–5,904	–7,309	n.a.
Income from real estate	214	118	96	81.4
Release of valuation allowances and provisions no longer required	3,565	2,397	1,168	48.7
Miscellaneous other income[1]	8,704	17,329	–8,625	–49.8
Loss of associated companies	–14	–2,517	2,503	n.a.
Miscellaneous other expenses	–394	–2,046	1,652	–80.7
Total other income	**6,665**	**51,746**	**–45,081**	**–87.1**

[1] Principally, revenues from Group companies with fiduciary services.

Income from financial instruments designated at fair value

Income from assets designated at fair value	7,803	42,369	–34,566	–81.6
Income from liabilities designated at fair value	0	0	0	0
Total[1]	**7,803**	**42,369**	**–34,566**	**–81.6**

[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	–14,758	–8,103	–6,655	n.a.
Equity instruments/investment-fund units	1,545	2,199	–654	–29.7
Total[1]	**–13,213**	**–5,904**	**–7,309**	**n.a.**

[1] In this amount are included amounts transferred from shareholders' equity to the income statement on the disposal of "available-for-sale" financial instruments.

5 Personnel expenses

in CHF 1,000	2010	2009	Variance absolute	Variance in %
Salaries and wages	98,806	100,752	–1,946	–1.9
Social contributions required by law	8,176	9,030	–854	–9.5
Contributions to pension plans/defined-benefit plans	8,134	7,277	857	11.8
Contributions to pension plans/defined-contribution plans	2,592	2,271	321	14.1
Other personnel expenses[1]	4,089	7,237	–3,148	–43.5
Capitalized personnel expenses[2]	0	–2,500	2,500	n.a.
Total personnel expenses	**121,797**	**124,067**	**–2,270**	**–1.8**

[1] In the prior-year figures, a reclassification of CHF 1.152 million was made from other personnel expenses to contributions to defined-contribution retirement pension plans (note 40).

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

6 General and administrative expenses

in CHF 1,000	2010	2009	Variance absolute	Variance in %
Occupancy expenses	8,434	9,248	–814	–8.8
Insurance	1,168	1,108	60	5.4
Professional fees	5,909	8,092	–2,183	–27.0
Financial information procurement	6,549	7,627	–1,078	–14.1
Telecommunications and postage	2,525	2,524	1	0.0
IT systems	18,497	17,445	1,052	6.0
Marketing and public relations	5,119	5,570	–451	–8.1
Capital taxes	1,519	1,786	–267	–14.9
Other general and administrative expenses	8,008	7,629	379	5.0
Total general and administrative expenses	**57,728**	**61,029**	**–3,301**	**–5.4**

7 Depreciation and amortization

in CHF 1,000	2010	2009	Variance absolute	Variance in %
Depreciation and amortization of property and equipment (note 21)	12,935	14,313	–1,378	–9.6
Amortization of intangible assets (note 22)	25,795	26,180	–385	–1.5
Total depreciation and amortization	**38,730**	**40,493**	**–1,763**	**–4.4**

8 Valuation allowances, provisions and losses

in CHF 1,000	2010	2009	Variance absolute	Variance in %
Credit risks[1]	15,132	12,693	2,439	19.2
Legal and litigation risks	0	600	–600	–100.0
Valuation allowances on available-for-sale financial instruments	0	503	–503	–100.0
Other	4,247	2,073	2,174	104.9
Total valuation allowances, provisions and losses	**19,379**	**15,869**	**3,510**	**22.1**

[1] New creation, including foreign-currency effects (note 15).

9a Taxes on income

in CHF 1,000	2010	2009
Domestic		
Current taxes	1,559	1,119
Deferred taxes	–811	9,184
Foreign		
Current taxes	2,626	2,252
Deferred taxes	–1,434	8
Total current taxes	4,185	3,371
Total deferred taxes	–2,245	9,192
Total taxes on income	**1,940**	**12,563**

Actual payments for domestic and foreign taxes made by the Group in 2010: CHF 1.040 million (2009: CHF 1.210 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:

	2010	2009
Liechtenstein	12.5%	7.5%
Switzerland	20%	20%
Luxembourg	29%	29%
British Virgin Islands	0%	0%
Singapore	10%	10%
Hong Kong	16.5%	16.5%

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	2010	2009
Domestic	11,425	57,509
Foreign	7,727	14,881
Taxes on income using an assumed average charge	**1,915**	**7,239**
Reasons for increased/decreased taxable income:		
Difference between actual and assumed tax rates	2,270	8,095
Change in deferred tax assets and liabilities	–2,245	9,192
Utilization of tax loss carry-forwards	0	–11,963
Total income taxes	**1,940**	**12,563**

9b Deferred taxes

in CHF 1,000	2010	2009
Deferred tax assets		
Real estate and property and equipment	5,888	3,025
Tax loss carry-forwards[1]	450	423
Securities	0	0
Total deferred tax assets	**6,338**	**3,448**
Deferred tax liabilities		
Real estate and property and equipment	2,444	1,911
Financial instruments	3,160	2,166
Financial instruments directly offset within shareholders' equity	–699	41
Valuation allowances for credit risks	338	934
Other provisions	3,291	2,656
Other liabilities	–22	122
Total deferred tax liabilities	**8,512**	**7,830**
Deferred tax assets		
Balance at beginning of financial year	3,448	14,765
Tax loss carry-forwards[1]	27	423
Charged to income statement	508	230
Released to income statement	0	–11,970
Impact of deferred tax rate changes	2,355	0
Total deferred tax assets	**6,338**	**3,448**

[1] Providing that the realization of future tax benefits is considered probable, these must be treated as an asset. The offset of deferred tax assets and liabilities is only possible if they are due to/from the same taxing authority.

Deferred tax liabilities		
Balance at beginning of financial year	7,830	14,739
Appropriation	0	–8,250
Reclassifications	37	3,466
Charged to income statement	2,079	966
Released to income statement	–154	–2,958
Impact of deferred tax rate changes	–1,280	–133
Total deferred tax liabilities	**8,512**	**7,830**

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

9b Deferred taxes (continued)

Loss carry-forwards not reflected in the balance sheet expire as follows:

Within 1 year	0	0
Within 2–4 years	78	561
After 4 years	551	805
Total	**629**	**1,366**

During the year under review, a loss carryforward of CHF 0.693 million was used (2009: CHF 0).

9c Tax assets and liabilities

in CHF 1,000	12/31/2010	12/31/2009
Tax assets		
Amounts receivable arising on current taxes on income	392	447
Deferred tax assets (note 9b)	6,338	3,448
Total tax assets	**6,730**	**3,895**
Tax liabilities		
Liabilities arising on current taxes on income	5,782	4,687
Deferred tax liabilities (note 9b)	8,512	7,830
Total tax liabilities	**14,294**	**12,517**

10 Earnings per share

	2010	2009
Consolidated earnings per share of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz		
Net income (in CHF 1,000)[1]	15,084	57,411
Weighted average bearer shares	5,163,237	5,158,256
Weighted average registered shares	5,982,787	5,993,021
Total weighted average number of bearer shares	5,761,516	5,757,559
Undiluted consolidated earnings per bearer share	2.62	9.97
Undiluted consolidated earnings per registered share	0.26	1.00
Fully-diluted consolidated earnings per share of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz		
Net income (in CHF 1,000)[1]	15,084	57,411
Adjusted consolidated net income (in CHF 1,000)	15,084	57,411
Number of shares used to compute the fully-diluted consolidated net income	5,761,516	5,757,559
Fully-diluted consolidated earnings per bearer share	2.62	9.97
Fully-diluted consolidated earnings per registered share	0.26	1.00

[1] On the basis of Group profits attributable to the shareholders of Verwaltungs- und Privat-Bank AG, Vaduz.

11 Dividend

	2010	2009
Approved and paid dividend of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz		
Dividend (in CHF 1,000) for the financial year 2009 (2008)	20,702	14,787
Dividend per bearer share	3.50	2.50
Dividend per registered share	0.35	0.25
Pay-out ratio (in %)	35.1	n.a.

Proposed dividend to be approved by the Annual General Meeting of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (not reflected as liability as of December 31)	
Dividend (in CHF 1,000) for the financial year 2010	20,702
Dividend per bearer share	3.50
Dividend per registered share	0.35
Pay-out ratio (in %)	133.7

12 Cash and cash equivalents

in CHF 1,000	12/31/2010	12/31/2009
Cash on hand	16,868	34,119
At-sight balances on postal checking accounts	5,573	8,574
At-sight balances with National and Central Banks	108,107	224,973
Total cash and cash equivalents	**130,548**	**267,666**

13 Receivables arising from money-market paper

in CHF 1,000	12/31/2010	12/31/2009
Money-market paper (qualifying for refinancing purposes)	439,665	777,570
Other money-market paper	102	84
Total receivables arising from money-market paper	**439,767**	**777,654**

14 Due from banks and customers

in CHF 1,000	12/31/2010	12/31/2009
By type of exposures		
Due from banks – at-sight balances	1,014,510	1,005,236
Due from banks – term balances	4,615,702	5,321,910
Valuation allowances for credit risks (note 15)	–7,404	–7,302
Due from banks	**5,622,808**	**6,319,844**

14 Due from banks and customers (continued)

Mortgage receivables	2,226,896	2,163,688
Other receivables	1,086,585	903,860
Valuation allowances for credit risks (note 15)	–46,609	–40,909
Due from customers	**3,266,872**	**3,026,639**
Total due from banks and customers	**8,889,680**	**9,346,483**

Due from customers by type of collateral		
Mortgage collateral	2,182,275	2,127,280
Other collateral	814,642	723,418
Without collateral	316,564	216,850
Subtotal	**3,313,481**	**3,067,548**
Valuation allowances for credit risks	–46,609	–40,909
Total due from customers	**3,266,872**	**3,026,639**

15 Valuation allowances for credit risks

in CHF 1,000	2010	2009
Balance at beginning of financial year	48,211	38,626
Amounts written off on loans / utilization in accordance with purpose	–5,692	–811
Creation of valuation allowances and provisions for credit risks	15,544	12,082
Release of valuation allowances and provisions for credit risks	–3,638	–2,297
Foreign-currency translation differences and other adjustments	–412	611
Balance at end of financial year	**54,013**	**48,211**
As valuation adjustment for due from banks	7,404	7,302
As valuation adjustment for due from customers	46,609	40,909
Total valuation allowances for credit risks	**54,013**	**48,211**

in CHF 1,000	Banks	Mortgage receivables	Other receivables	Total 2010
By type of exposure 2010				
Balance at beginning of financial year	7,302	11,293	29,616	48,211
Amounts written off on loans / utilization in accordance with purpose	0	–2,632	–3,060	–5,692
Creation of valuation allowances and provisions for credit risks	1,464	2,336	11,744	15,544
Release of valuation allowances and provisions for credit risks	–1,358	–833	–1,447	–3,638
Foreign-currency translation differences and other adjustments	4	–133	–275	–412
Balance at end of financial year 2010	**7,404**	**10,031**	**36,578**	**54,013**
of which				
Individual valuation allowances	0	5,765	21,684	27,449
Lump-sum valuation allowances	7,404	4,266	14,894	26,564
Total	**7,404**	**10,031**	**36,578**	**54,013**

Other receivables primarily compromise lombard loans, debit balances on accounts and unsecured loans.

15 Valuation allowances for credit risks (continued)

in CHF 1,000	Banks	Mortgage receivables	Other receivables	Total 2009
By type of exposure 2009				
Balance at beginning of financial year	5,951	9,664	23,011	38,626
Amounts written off on loans / utilization in accordance with purpose	–289	–140	–382	–811
Creation of valuation allowances and provisions for credit risks	3,591	2,863	5,628	12,082
Release of valuation allowances and provisions for credit risks	–218	–1,095	–984	–2,297
Foreign-currency translation differences and other adjustments	–1,733	1	2,343	611
Balance at end of financial year 2009	**7,302**	**11,293**	**29,616**	**48,211**
of which				
Individual valuation allowances	0	7,024	17,055	24,079
Lump-sum valuation allowances	7,302	4,269	12,561	24,132
Total	**7,302**	**11,293**	**29,616**	**48,211**

in CHF 1,000	Individual 12/31/2010	Lump-sum 12/31/2010	Individual 12/31/2009	Lump-sum 12/31/2009
By type of valuation allowances				
Balance at beginning of financial year	24,079	24,132	19,444	19,182
Amounts written off on loans / utilization in accordance with purpose	–5,692	0	–811	0
Creation of valuation allowances and provisions for credit risks	11,598	3,946	6,889	5,193
Release of valuation allowances and provisions for credit risks	–2,261	–1,377	–2,079	–218
Foreign-currency translation differences and other adjustments	–275	–137	636	–25
Balance at end of financial year	**27,449**	**26,564**	**24,079**	**24,132**

Individual valuation allowances relate to loans that are not covered by the liquidation proceeds of collateral, or unsecured loans.

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	2010	2009
Value-impaired loans[1]	69,246	73,275
Amount of valuation allowances for credit losses from non-performing loans	27,450	24,079
Net amounts due	**41,796**	**49,196**
Estimated realizable value of value-impaired loans	**41,796**	**49,196**
Average amount of value-impaired loans	**71,236**	**73,282**

[1] Interest receivable on non-performing loans in 2010 was CHF 0.449 million (2009: CHF 0.973 million).

Recoveries from loans already written off (other income)	11	3

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	2010	2009
Non-performing loans	18,897	23,468
Amount of valuation allowances for credit losses from non-performing loans	7,655	8,037
Net amounts due	**11,242**	**15,431**
Average amount of non-performing loans	**21,183**	**26,751**
Valuation allowances on non-performing loans at beginning of financial year	8,037	10,983
Net increase/decrease	2,614	–2,720
Amounts written off and disposals / utilization in conformity with purpose	–2,996	–226
Valuation allowances on non-performing loans at end of financial year	**7,655**	**8,037**

According to type of exposure in CHF 1,000	12/31/2010	12/31/2009
Banks	**0**	**0**
Mortgage receivables	14,249	17,538
Other receivables	4,648	5,930
Customers	**18,897**	**23,468**
Total non-income-producing loans	**18,897**	**23,468**

According to regions (domicile of debtor) in CHF 1,000	12/31/2010	12/31/2009
Liechtenstein and Switzerland	14,076	21,910
Rest of Europe	1,369	1,318
North and South America	79	73
Other countries	3,373	167
Total non-income-producing loans	**18,897**	**23,468**

16 Trading portfolios

in CHF 1,000	12/31/2010	12/31/2009
Debt securities valued at fair value, exchange listed	1,566	1,917
Equity instruments / investment fund units valued at fair value, exchange listed	45	0
Equity instruments / investment fund units valued at fair value, non-exchange listed	2,340	0
Other	60	188
Total trading portfolios	**4,011**	**2,105**

17 Derivative financial instruments

in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments 2010			
Forward contracts			
Swaps	140	6,604	280,365
Futures			
Options (OTC)	12	277	45,336
Options (exchange-traded)			
Total interest-rate instruments 12/31/2010	**152**	**6,881**	**325,701**
Foreign currencies 2010			
Forward contracts	37,160	18,699	1,667,633
Combined interest-rate/currency swaps	21,259	39,709	1,803,975
Futures			
Options (OTC)	327	57	59,026
Options (exchange-traded)			
Total foreign currencies 12/31/2010	**58,746**	**58,465**	**3,530,634**
Equity securities / indices 2010			
Forward contracts			
Futures			
Options (OTC)	1,933	1,933	16,566
Options (exchange-traded)			
Total equity securities / indices 12/31/2010	**1,933**	**1,933**	**16,566**
Precious metals 2010			
Forward contracts			
Futures			
Options (OTC)	2,491	2,755	161,069
Options (exchange-traded)			
Total precious metals 12/31/2010	**2,491**	**2,755**	**161,069**
Total derivative financial instruments 12/31/2010	**63,322**	**70,034**	**4,033,970**

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.

17 Derivative financial instruments (continued)

in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments 2009			
Forward contracts			
Swaps	182	2,912	52,263
Futures			
Options (OTC)		278	148,915
Options (exchange-traded)			
Total interest-rate instruments 12/31/2009	**182**	**3,190**	**201,178**
Foreign currencies 2009			
Forward contracts	32,227	32,054	3,077,826
Combined interest-rate/currency swaps	1,584	442	50,436
Futures			
Options (OTC)			
Options (exchange-traded)			
Total foreign currencies 12/31/2009	**33,811**	**32,496**	**3,128,262**
Equity securities / indices 2009			
Forward contracts			
Futures			
Options (OTC)	5,660	5,660	47,156
Options (exchange-traded)			
Total equity securities / indices 12/31/2009	**5,660**	**5,660**	**47,156**
Precious metals 2009			
Forward contracts			
Futures			
Options (OTC)	2,702	2,702	71,439
Options (exchange-traded)			
Total precious metals 12/31/2009	**2,702**	**2,702**	**71,439**
Total derivative financial instruments 12/31/2009	**42,355**	**44,048**	**3,448,035**

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.

18 Financial instruments designated at fair value

in CHF 1,000	12/31/2010	12/31/2009
Debt securities valued at fair value		
Public-law institutions outside Liechtenstein and Switzerland	47,861	58,363
Exchange-listed	31,199	33,728
Non-exchange listed	47	83
Total	**79,107**	**92,174**
Equity securities / investment-fund units valued at fair value		
Exchange-listed	0	0
Non-exchange listed	2,774	2,758
Total	**2,774**	**2,758**
Structured products valued at-fair-value		
Exchange-listed	2,510	41,236
Non-exchange listed	23,830	20,652
Total	**26,340**	**61,888**
Total financial instruments designated at-fair-value	**108,221**	**156,820**

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

19 Financial instruments available-for-sale

in CHF 1,000	12/31/2010	12/31/2009
Debt securities valued at fair value		
Public-law institutions outside Liechtenstein and Switzerland	64,615	59,736
Exchange-listed	348,230	513,921
Non-exchange listed	201,121	66,950
Total	**613,966**	**640,607**
Equity securities / investment-fund units valued at fair value		
Exchange-listed	11,691	88,112
Non-exchange listed	59,947	226
Total	**71,638**	**88,338**
Total financial instruments available-for-sale	**685,604**	**728,945**
of which, securities lent or delivered as collateral	37,699	43,958

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 interest rates of a supervised, active and liquid 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.

20 Associated companies

in CHF 1,000	12/31/2010	12/31/2009
Balance at beginning of financial year	48	2'565
Additions	0	0
Value impairments	–14	–2'517
Balance as of balance sheet date	**34**	**48**

Details of material companies reflected in the consolidation using the equity method

Name	Registered office	Activity	Share capital in GBP	% of capital held 12/31/2010	% of capital held 12/31/2009
VAM Corporate Holdings Ltd.	Mauritius	Fund Promoter Company	50,000	20	20

21 Property and equipment

in CHF 1,000	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total
Acquisition cost 2010					
Balance on 01/01/2010	194,737	21,617	21,577	28,827	266,758
Additions	356	418	282	1,982	3,038
Disposals/derecognitions[1]		–371	–1,403	–1,795	–3,569
Reclassifications		367	–367		0
Foreign-currency translation	–51	5	–101	–81	–228
Other movements			109	8	117
Balance on 12/31/2010	**195,042**	**22,036**	**20,097**	**28,941**	**266,116**
Accumulated depreciation and amortization					
Balance on 01/01/2010	–83,433	–4,135	–13,151	–19,403	–120,122
Depreciation and amortization	–5,916	–379	–2,039	–4,601	–12,935
Valuation allowances					0
Disposals/derecognitions[1]		231	1,262	1,110	2,603
Foreign-currency translation	30	1	62	36	129
Other movements		–182	182		0
Balance on 12/31/2010	**–89,319**	**–4,464**	**–13,684**	**–22,858**	**–130,325**
Net book values on 12/31/2010	**105,723**	**17,572**	**6,413**	**6,083**	**135,791**

[1] Includes the derecognitions of completely depreciated and amortized assets.

21 Property and equipment (continued)

in CHF 1,000	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total
Acquisition cost 2009					
Balance on 01/01/2009	194,170	21,617	21,389	28,235	265,411
Additions	676		357	3,335	4,368
Disposals/derecognitions[1]	–106		–141	–2,713	–2,960
Foreign-currency translation	–3		–28	–30	–61
Balance on 12/31/2009	**194,737**	**21,617**	**21,577**	**28,827**	**266,758**
Accumulated depreciation and amortization 2009					
Balance on 01/01/2009	–77,624	–3,686	–10,998	–16,506	–108,814
Depreciation and amortization	–5,917	–449	–2,117	–5,609	–14,092
Valuation allowances			–201	–20	–221
Disposals/derecognitions[1]	106		141	2,713	2,960
Foreign-currency translation	2		24	19	45
Balance on 12/31/2009	**–83,433**	**–4,135**	**–13,151**	**–19,403**	**–120,122**
Net book values on 12/31/2009	**111,304**	**17,482**	**8,426**	**9,424**	**146,636**

[1] Includes the derecognitions of completely depreciated and amortized assets.

Additional information regarding property and equipment	2010	2009
Fire insurance value of real estate	161,667	161,763
Fire insurance value of other property and equipment	41,327	41,342
Fair value of other real estate	17,572	17,482

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

22 Goodwill and other intangible assets

in CHF 1,000	Software	Other intangible assets capitalized	Goodwill	Total
Acquisition cost 2010				
Balance on 01/01/2010	139,489	3,041	46,112	188,642
Additions	8,867			8,867
Disposals/derecognitions	–13,525			–13,525
Foreign-currency translation	–325			–325
Balance on 12/31/2010	**134,506**	**3,041**	**46,112**	**183,659**

22 Goodwill and other intangible assets (continued)

in CHF 1,000	Software	Other intangible assets capitalized	Goodwill	Total
Accumulated amortization 2010				
Balance on 01/01/2010	–47,815	–1,826	–35,302	–84,943
Amortization	–25,187	–608		–25,795
Disposals/derecognitions	12,681			12,681
Foreign-currency translation	34			34
Balance on 12/31/2010	**–60,287**	**–2,434**	**–35,302**	**–98,023**
Net book values on 12/31/2010	**74,219**	**607**	**10,810**	**85,636**

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

in CHF 1,000	Software[1]	Other intangible assets capitalized	Goodwill	Total
Acquisition cost 2009				
Balance on 01/01/2009	122,120	3,041	46,112	171,273
Additions	38,799			38,799
Disposals/derecognitions	–21,320			–21,320
Foreign-currency translation	–110			–110
Balance on 12/31/2009	**139,489**	**3,041**	**46,112**	**188,642**
Accumulated amortization 2009				
Balance on 01/01/2009	–43,573	–1,218	–35,302	–80,093
Amortization	–25,572	–608		–26,180
Disposals/derecognitions	21,320			21,320
Foreign-currency translation	10			10
Balance on 12/31/2009	**–47,815**	**–1,826**	**–35,302**	**–84,943**
Net book values on 12/31/2009	**91,674**	**1,215**	**10,810**	**103,699**

[1] In conformity with IAS 38, a portion of self-created software is capitalized. The amount of CHF 2.5 million, which is capitalized, is reduced from personnel expenses accordingly.

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

Review of impairment in value of goodwill

The existing goodwill of CHF 10.81 million arises from an acquisition of VP Bank (Luxembourg) S.A. in 2001 and is allocated to the cash-generating unit Private Banking International. 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 2010, 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 was 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 amount based upon the value in use was dispensed with.

Other intangible assets

Customer relationships are capitalized under other intangible assets.

in CHF 1,000	2011	Total
Estimated aggregated amortization of other intangible assets	607	607

23 Other assets

in CHF 1,000	12/31/2010	12/31/2009
Value-added taxes and other tax receivables	516	1,869
Prepaid retirement pension contributions	1,342	1,299
Miscellaneous other assets[1]	11,947	16,715
Total other assets	**13,805**	**19,883**

[1] Compensation accounts, settlement accounts, miscellaneous other assets.

24 Medium-term notes

Maturity in CHF 1,000	Interest rate 0–0.9999%	Interest rate 1–1.9999%	Interest rate 2–2.9999%	Interest rate 3–3.9999%	Total
2011	4,175	15,141	18,178	3,775	41,269
2012	15,518	44,185	5,484	2,722	67,909
2013	414	49,477	3,815	2,130	55,836
2014		6,416	2,071	434	8,921
2015		3,290	1,589	872	5,751
2016		116	103	620	839
2017			407	263	670
2018			1,322	111	1,433
longer			706		706
Total 12/31/2010	**20,107**	**118,625**	**33,675**	**10,927**	**183,334**
Total 12/31/2010	**0**	**24,480**	**128,172**	**46,985**	**199,637**

The average interest rate as per December 31, 2010, amounted to 1.73 percent (December 31, 2009: 2.55 percent).

25 Debentures, Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz

Year of issue in CHF 1,000	Valor	Interest rate in %	Currency	Maturity	Nominal amount	Total 12/31/2010	Total 12/31/2009
2007	CH0030896697	2.875	CHF	06/04/2012	250,000	249,096	248,486
2010	CH0112734469	2.500	CHF	05/27/2016	200,000	197,702	0
					450,000	**446,798**	**248,486**

At the time of their initial recording, debt securities are accounted for at their fair value plus transaction costs. The fair value equals the consideration received. Subsequently, they are valued for balance sheet purposes at their amortized cost, using the effective interest method (debenture 2012: 3.14 percent; debenture 2016: 2.73 percent) in order to amortize the difference between issuance price and redemption value over the duration of the debt securities.

26 Other liabilities

in CHF 1,000	12/31/2010	12/31/2009
Value-added taxes and other tax receivables	8,874	11,702
Accrued retirement pension contributions	10,278	10,374
Miscellaneous other liabilities[1]	13,904	67,708
Total other liabilities	**33,056**	**89,784**

[1] Compensation accounts, settlement accounts, miscellaneous other liabilities.

27 Provisions

in CHF 1,000	Default risks	Legal and litigation risks	Other provisions	Total 12/31/2010	Total 12/31/2009
Carrying value at beginning of financial year	356	897	550	1,803	69,847
Utilization in accordance with purpose				0	–68,961
New provisions charged to income statement	79		1,378	1,457	1,052
Provisions releases to income statement	–46			–46	–135
Foreign-currency translation differences and other adjustments				0	0
Carrying value at end of financial year	**389**	**897**	**1,928**	**3,214**	**1,803**

Maturity of provisions		
• within one year	0	1,803
• over one year	3,214	0

28 Minority interests

in CHF 1,000	2010	2009
Balance at beginning of financial year	18,529	17,330
Reductions and dividend payments	–988	–694
Foreign-currency translation differences	–1,826	–523
Share of minorities in net income	2,128	2,416
Balance at end of financial year	**17,843**	**18,529**

29 Share capital

	Number of shares 12/31/2010	Nominal CHF 12/31/2010	Number of shares 12/31/2009	Nominal CHF 12/31/2009
Registered shares of CHF 1.00 nominal value	6,004,167	6,004,167	6,004,167	6,004,167
Bearer sharers of CHF 10.00 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 up.

30 Treasury shares

	No. of shares 2010	in CHF 1,000 2010	No. of shares 2009	in CHF 1,000 2009
Registered shares at beginning of financial year	**12,915**	**284**	**9,915**	**252**
Purchases	17,450	205	3,000	32
Sales	–1,850	–30	0	0
Balance of registered shares as of balance sheet date	**28,515**	**459**	**12,915**	**284**
Bearer shares at beginning of financial year	**150,745**	**38,018**	**151,695**	**38,269**
Purchases	24,824	2,829	18,942	1,688
Sales	–25,031	–2,841	–19,892	–1,939
Balance of bearer shares as of balance sheet date	**150,538**	**38,006**	**150,745**	**38,018**

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

in CHF 1,000	Market value 12/31/2010	Actual liability 12/31/2010	Market value 12/31/2009	Actual liability 12/31/2009
Securities	877,735	36,009	830,347	41,743
Money-market paper	0	0	0	0
Other	0	0	0	0
Total pledged assets	**877,735**	**36,009**	**830,347**	**41,743**

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 provisions. 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" (see page 79).

32 Future commitments under operating leases

At the end of the year, there were 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 equipment leasing contracts contain renewal options as well as escape clauses.

in CHF 1,000	12/31/2010	12/31/2009
Remaining duration of up to 1 year	6,535	8,444
Remaining duration of 1 to 5 years	14,338	16,058
Remaining duration of over 5 years	7,219	508
Total minimum commitments under operating leases	**28,092**	**25,010**

As of December 31, 2010, general and administrative expenses include CHF 8.865 million of operating lease costs (December 31, 2009: CHF 9.449 million).

33 Litigation

Within the normal course of business, 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 item "Other provisions" in the consolidated balance sheet (note 27).

34 Balance sheet per currency

in CHF 1,000	CHF	USD	EUR	Other	Total
Assets 2010					
Cash and cash equivalents	100,087	574	29,181	706	130,548
Receivables arising from money-market paper	439,665	7	79	16	439,767
Due from banks	250,464	2,363,602	2,382,020	626,722	5,622,808
Due from customers	2,437,253	342,966	399,072	87,581	3,266,872
Trading portfolios		926	1,612	1,473	4,011
Derivative financial instruments	58,928	4,351		43	63,322
Financial instruments designated at-fair-value	18,931	22,308	66,982		108,221
Financial instruments available-for-sale	470,024	56,429	158,967	184	685,604
Associated companies				34	34
Property and equipment	134,668	929	194		135,791
Intangible assets	83,094	2,542			85,636
Tax receivables	40		349	3	392
Deferred tax assets	6,338				6,338
Accrued receivables and prepaid expenses	19,838	1,280	6,816	464	28,398
Other assets	10,640	843	2,186	136	13,805
Total assets 12/31/2010	**4,029,970**	**2,796,757**	**3,047,458**	**717,362**	**10,591,547**
Liabilities and shareholders' equity 2010					
Due to banks	13,860	134,314	20,279	20,664	189,117
Due to customers – savings and deposits	954,148	1	67	2	954,218
Due to customers – other liabilities	1,723,699	2,620,030	2,771,297	637,994	7,753,020
Derivative financial instruments	63,860	4,615	1,514	45	70,034
Medium-term notes	178,067		5,267		183,334
Debenture issues	446,798				446,798
Tax liabilities	2,445		3,337		5,782
Deferred tax liabilities	8,512				8,512
Accrued liabilities and deferred items	22,367	1,118	4,944	405	28,834
Other liabilities	28,119	669	2,044	2,224	33,056
Provisions	3,214				3,214
Total liabilities	**3,445,089**	**2,760,747**	**2,808,749**	**661,334**	**9,675,919**
Total shareholders' equity	**824,505**	**89,268**	**1,423**	**432**	**915,628**
Total liabilities and shareholders' equity 12/31/2010	**4,269,594**	**2,850,015**	**2,810,172**	**661,766**	**10,591,547**

34 Balance sheet per currency (continued)

in CHF 1,000	CHF	USD	EUR	Other	Total
Assets 2009					
Cash and cash equivalents	229,453	1,011	36,671	531	267,666
Receivables arising from money-market paper		777,570	23	61	777,654
Due from banks	462,422	1,846,264	3,343,844	667,314	6,319,844
Due from customers	2,418,590	292,376	217,269	98,404	3,026,639
Trading portfolios			1,917	188	2,105
Derivative financial instruments	31,671	985	3,223	6,476	42,355
Financial instruments designated at-fair-value	28,295	40,445	88,080		156,820
Financial instruments available-for-sale	400,167	41,469	282,772	4,537	728,945
Associated companies				48	48
Property and equipment	145,381	940	315		146,636
Intangible assets	100,331	3,368			103,699
Tax receivables	31		416		447
Deferred tax assets	3,448				3,448
Accrued receivables and prepaid expenses	18,818	2,622	8,791	991	31,222
Other assets	11,901	1,484	5,889	609	19,883
Total assets 12/31/2009	**3,850,508**	**3,008,534**	**3,989,210**	**779,159**	**11,627,411**
Liabilities and shareholders' equity 2009					
Due to banks	0	19,383	41,251	11,364	71,998
Due to customers – savings and deposits	969,150	1	116		969,267
Due to customers – other liabilities	1,789,303	2,916,659	3,637,576	680,846	9,024,384
Derivative financial instruments	33,997	264	3,311	6,476	44,048
Medium-term notes	199,637				199,637
Debenture issues	248,486				248,486
Tax liabilities	1,479		3,172	36	4,687
Deferred tax liabilities	7,830				7,830
Accrued liabilities and deferred items	25,507	2,441	5,295	326	33,569
Other liabilities	59,169	4,615	25,343	657	89,784
Provisions	1,803				1,803
Total liabilities	**3,336,361**	**2,943,363**	**3,716,064**	**699,705**	**10,695,493**
Total shareholders' equity	**832,323**	**94,503**	**4,198**	**894**	**931,918**
Total liabilities and shareholders' equity 12/31/2009	**4,168,684**	**3,037,866**	**3,720,262**	**700,599**	**11,627,411**

35 Maturity structure of assets and liabilities

in CHF 1,000	At sight	Callable	1 year	1 to 5 years	Over 5 years	Total
Assets 2010						
Cash and cash equivalents	130,548					130,548
Receivables arising from money-market paper	389,789		49,978			439,767
Due from banks	1,014,510	2,478	4,603,560	2,238	22	5,622,808
Due from customers	17,689	446,596	1,425,109	1,270,887	106,591	3,266,872
Trading portfolios	4,011					4,011
Derivative financial instruments	63,322					63,322
Financial instruments designated at-fair-value	108,221					108,221
Financial instruments available-for-sale	685,604					685,604
Associated companies	34					34
Property and equipment	135,791					135,791
Intangible assets	85,636					85,636
Tax receivables	392					392
Deferred tax assets				6,338		6,338
Accrued receivables and prepaid expenses	28,372		26			28,398
Other assets	13,180		625			13,805
Total assets 12/31/2010	**2,677,099**	**449,074**	**6,079,298**	**1,279,463**	**106,613**	**10,591,547**
Liabilities and shareholders' equity 2010						
Due to banks	60,912	212	127,207	786		189,117
Due to customers – savings and deposits		954,218				954,218
Due to customers – other liabilities	4,565,140	2,001,298	1,184,289	2,293		7,753,020
Derivative financial instruments	70,034					70,034
Medium-term notes			41,269	138,417	3,648	183,334
Debenture issues				249,096	197,702	446,798
Tax liabilities	5,782					5,782
Deferred tax liabilities	2,528			5,984		8,512
Accrued liabilities and deferred items	28,174		660			28,834
Other liabilities	32,656		400			33,056
Provisions				3,214		3,214
Total liabilities 12/31/2010	**4,765,226**	**2,955,728**	**1,353,825**	**399,790**	**201,350**	**9,675,919**

35 Maturity structure of assets and liabilities (continued)

in CHF 1,000	At sight	Callable	1 year	1 to 5 years	Over 5 years	Total
Assets 2009						
Cash and cash equivalents	267,666					267,666
Receivables arising from money-market paper	673,995		103,659			777,654
Due from banks	1,005,236		5,307,176	5,996	1,436	6,319,844
Due from customers	29,363	587,459	1,185,224	1,164,557	60,036	3,026,639
Trading portfolios	2,105					2,105
Derivative financial instruments	42,355					42,355
Financial instruments designated at-fair-value	156,820					156,820
Financial instruments available-for-sale	728,945					728,945
Associated companies	48					48
Property and equipment	146,636					146,636
Intangible assets	103,699					103,699
Tax receivables	447					447
Deferred tax assets				3,448		3,448
Accrued receivables and prepaid expenses	31,222					31,222
Other assets	18,564		1,319			19,883
Total assets 12/31/2009	**3,207,101**	**587,459**	**6,597,378**	**1,174,001**	**61,472**	**11,627,411**
Liabilities and shareholders' equity 2009						
Due to banks	69,545	2,453				71,998
Due to customers – savings and deposits		969,267				969,267
Due to customers – other liabilities	4,735,774	2,416,426	1,870,505	86	1,593	9,024,384
Derivative financial instruments	44,048					44,048
Medium-term notes			123,122	73,256	3,259	199,637
Debenture issues				248,486		248,486
Tax liabilities	4,687					4,687
Deferred tax liabilities				7,830		7,830
Accrued liabilities and deferred items	32,847		722			33,569
Other liabilities	88,942		842			89,784
Provisions	1,803					1,803
Total liabilities 12/31/2009	**4,977,646**	**3,388,146**	**1,995,191**	**329,658**	**4,852**	**10,695,493**

36 Classification of assets by country or groups of countries

	in CHF 1,000 12/31/2010	Proportion in % 12/31/2010	in CHF 1,000 12/31/2009	Proportion in % 12/31/2009
Liechtenstein and Switzerland	5,342,274	50.4	4,904,479	42.2
Rest of Europe	4,422,792	41.8	5,845,357	50.3
North America	310,517	2.9	435,518	3.7
Other countries	515,964	4.9	442,057	3.8
Total assets	**10,591,547**	**100.0**	**11,627,411**	**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.

37 Financial instruments

Fair value of financial instruments

The following table shows the fair values of financial instruments based on the 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. Fair value means the price at which assets could be freely exchanged or liabilities could be fulfilled by parties who are willing to conduct transactions between one another and who are knowledgeable and independent of each other. Insofar as an active market exists (e.g. a recognized stock exchange), 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 12/31/2010	Fair Value 12/31/2010	Variance	Carrying value 12/31/2009	Fair Value 12/31/2009	Variance
Assets						
Cash and cash equivalents	131	131	0	268	268	0
Receivables arising from money-market paper	440	440	0	778	778	0
Due from banks	5,623	5,629	6	6,320	6,327	7
Due from customers	3,267	3,337	70	3,027	3,094	67
Trading portfolios	4	4	0	2	2	0
Derivative financial instruments	63	63	0	42	42	0
Financial instruments designated at-fair-value	108	108	0	157	157	0
Financial instruments available-for-sale	686	686	0	729	729	0
Subtotal			**76**			**74**
Liabilities						
Due to banks	189	189	0	72	72	0
Due to customers	8,707	8,704	3	9,994	9,867	127
Derivative financial instruments	70	70	0	44	44	0
Medium-term notes	183	187	–4	200	205	–5
Debenture issue	447	476	–29	248	265	–17
Subtotal			**–30**			**105**
Total variance			**46**			**179**

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 items 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 issues

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 of 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 denominated 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 only on the basis of external traders' prices or pricing models which are based on prices and interest rates in an observable, active and liquid market.

Derivative financial instruments

For the majority of the positive and negative replacement values (see note 17), the fair value equates to the market 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.

Valuation methods for financial instruments

The fair value of listed securities held for trading purposes or as financial instruments, as well as that of listed derivatives and other financial instruments with a price established in an active market, is determined on the basis of current market value (Level 1). Valuation methods or pricing models are used to determine the fair value of financial instruments if no direct market prices are available. If possible, the underlying assumptions are based on observed market prices or other market indicators as at the balance sheet date (Level 2). For most of the derivatives traded over the counter, as well as for other financial instruments that are not traded in an active market, fair value is determined by means of valuation methods or pricing models. Among the most frequently applied of those methods and models are cash-value-based forward pricing and swap models, as well as options pricing models such as the Black-Scholes model or derivations thereof. The fair values arrived at on the basis of these methods and models are influenced to a significant degree by the choice of the specific valuation model and the underlying assumptions applied, for example the amounts and time sequence of future cash flows, discount rates, volatilities and/or credit risks. If neither current market prices nor valuation methods/models based on observable market data can be drawn on for the purpose of determining fair value, then valuation methods or pricing models supported by realistic assumptions derived from actual market data are used (Level 3).

Valuation methods for financial instruments

in CHF million	Quoted market prices	Valuation methods based on market data	Total 12/31/2010	Quoted market prices	Valuation methods based on market data	Total 12/31/2009
Assets						
Receivables arising from money-market paper	440	0	440	778	0	778
Trading portfolios	4	0	4	2	0	2
Derivative financial instruments	0	63	63	0	42	42
Financial instruments designated at-fair-value	86	22	108	110	47	157
Financial instruments available-for-sale	653	33	686	710	19	729
Liabilities						
Derivative financial instruments	0	70	70	0	44	44

During the reporting period ending December 31, 2010, there were CHF 10.2 million (2009: CHF 61.0 million) transferred between Level 1 and Level 2 fair value measurements.

38 Scope of consolidation

Company	Registered office	Base currency	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 Bank (Singapore) Ltd.	Singapore	SGD	44,500,000	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.	Luxembourg	CHF	20,000,000	100%
which holds the following sub-participation:				
VPB Finance S.A.	Luxembourg	CHF	5,000,000	100%
VPB Finanz Holding AG	Zurich	CHF	20,000,000	100%
which holds the following sub-participation:				
VP Bank (Schweiz) AG	Zurich	CHF	20,000,000	100%
VP Bank and Trust Company (BVI) Limited	Tortola	USD	11,000,000	60%
which holds the following sub-participation:				
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	VP Wealth Management (Middle East) Ltd.
Associated companies	VAM Corporate Holdings Ltd., Mauritius
Companies consolidated for the first time	none
Shareholdings accounted for the first time in accordance with the equity method	none
Name changes during the financial year	none

39 Transactions with related companies and individuals

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 are considered to be related companies and individuals.

in CHF 1,000	2010	2009
Remuneration of the members of the Board of Directors[1]		
Remuneration due in the short term[2, 3]	672	673
Post-employment benefits		
Other long-term remuneration due		
Remuneration due upon termination of contract of employment		
Share-based payment[2, 3, 6]	223	222
Remuneration of the members of Group Executive Management[1]		
Remuneration due in the short term[2]	2'577	3'125
Post-employment benefits		
Other long-term remuneration due[4]		
Remuneration due upon termination of contract of employment[5]		975
Share-based payments[6]		

[1] Payments due in the calendar year are shown.
[2] The social-security costs and any applicable value-added taxes on the emoluments paid to Board members are not included.
[3] Compensation for out-of-pocket expenses is not included.
[4] With regard to entitlements under the LTI (long term incentive plan), reference is made to the table "Remuneration paid to members of governing bodies" (page 166). The precise number of bearer shares, as well as the monetary value of the related benefit, are only determined definitively at the end of the plan period. The calculation of the number of shares depends on the average economic profit achieved during the plan period. The monetary value of the benefit is determined by the share price on the vesting date (see Corporate Governance section 5.1.2, page 61).
[5] At VP Bank, there are no agreements on severance compensation for acting members of Group Executive Management. In connection with the departure of Adolf E. Real from the GEM and in reflection of his 26 years of activity on behalf of VP Bank, a termination grant in the amount of CHF 975,000 was agreed.
[6] The shares are not subject to any sales restrictions (see note 43).

VP Bank Group also makes payments to related persons within the framework of brokerage services and bought-in advisory services. These correspond to customary market conditions. The aggregate amount of such payments and fees in 2010 totaled CHF 0.256 million (2009: CHF 0.340 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, 2010, held 71,736 bearer shares and 169,600 registered shares of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (prior year: 75,510 bearer shares and 168,600 registered shares).

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

in CHF 1,000	2010	2009
Mortgages and loans at beginning of financial year	10,811	11,448
Additions	1,487	1,611
Repayments	–4,564	–2,248
Mortgages and loans at end of financial year	**7,734**	**10,811**

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, VP Bank Group maintains several retirement pension plans in the Principality of Liechtenstein, Switzerland 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 an independent pension plan which is separated 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, 2010. The employee contributions are 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) amounts to 7.5 percent. The employer contributions 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 with defined contributions are considered as performance-oriented plans because of the interest-rate guarantee and the prescribed conversion rate.

Retirement pension plans abroad

The employees of the subsidiary companies are insured within collective and grouped pension plans (multi-employer plans). These retirement pension plans are treated as defined-contribution plans. Pension expenses for these plans amounted to CHF 2.592 million for the year 2010.

Retirement pension expenses

in CHF 1,000	2010	2009
Service expenses of the current period[3]	6,142	7,641
Interest expenses for pension liabilities	6,425	6,287
Anticipated income from assets[1]	–5,052	–5,118
Amortization of actuarial losses not yet recorded	619	2,037
Impact of upper limit pursuant to IAS 19.58b	0	–3,570
Pension expenses for defined-benefit retirement pension plans according to actuarial computation	**8,134**	**7,277**
Contributions to defined-contribution retirement pension plans[2]	**2,592**	**2,271**
Total retirement pension expenses	**10,726**	**9,548**
[1] Actual income on assets	4,842	13,400

[2] The comparative figures were restated (note 5).

Defined-benefit retirement pension plans

in CHF 1,000	12/31/2010	12/31/2009
Net assets of retirement pension plans at market values	168,569	154,979
Net present value of anticipated claims	222,341	187,984
Actuarial losses not yet recorded	–44,836	–23,930
Recorded under other liabilities	**10,278**	**10,374**
Capitalized under other assets	**1,342**	**1,299**

Changes in the consolidated balance sheet

in CHF 1,000	2010	2009
Liabilities at beginning of financial year	10,374	7,607
Pension expenses for defined-benefit retirement pension plans according to actuarial computation (above)	8,134	7,277
Fund endowments made by employer	–8,230	–4,510
Liabilities at end of financial year	**10,278**	**10,374**

Changes in pension plan benefit obligations

in CHF 1,000	2010	2009
Balance at beginning of business year	187,984	184,565
Service cost of the current period[3]	6,142	7,641
Interest expenses for pension liabilities	6,425	6,287
Employee contributions[3]	4,925	4,547
Actuarial gains/losses	21,315	–4,455
Benefits paid out/received[3]	–4,450	–10,601
Balance at end of business year	**222,341**	**187,984**

Changes in plan assets

in CHF 1,000	2010	2009
Net assets at beginning of business year	154,979	141,824
Anticipated return on plan assets	5,052	5,118
Actuarial gains (losses)	–210	8,282
Employer contributions[3]	8,273	5,809
Employee contributions[3]	4,925	4,547
Benefits paid out	–4,450	–10,601
Net assets at end of business year	**168,569**	**154,979**

[3] Certain detailed comparative figures were restated.

The pension plans hold shares of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, with a market value of CHF 1.6 million (2009: CHF 1.5 million).

Payments into the plans of CHF 4.9 million (employee contributions) and CHF 8.7 million (employer contributions) are expected for 2011.

Principal categories of plan assets

in %	2010	2009
Liquidity	33	31
Equity instruments	17	10
Debt instruments	44	51
Real estate	6	8
Total	100	100

Amounts for the current and four preceding reporting periods

in CHF 1,000	2010	2009	2008	2007	2006
Net present value of anticipated benefit obligations	222,341	187,984	184,565	150,468	156,525
Net assets of pension plans	168,569	154,979	141,824	137,644	128,981
Non-recognized actuarial losses	44,836	23,930	35,134	4,029	17,269
Surplus/deficit	–10,278	–10,374	–7,607	–8,795	–10,275

Actuarial assumptions

in %	12/31/2010	12/31/2009
Technical interest	3.0	3.5
Anticipated yield on assets	3.5	3.3
Development of salaries	2.0	2.0
Development of pensions	0.5	0.5
Probability of departure (at age 20, on a straight-line basis declining to 0% at the age of 50), men	19.5	19.5
Probability of departure (at age 20, on a straight-line basis declining to 0% at the age of 50), women	25.0	25.0
Probability of retirement (at age 64)	100.0	100.0

41 Significant foreign exchange rates

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

	Year-end rates 12/31/2010	Year-end rates 12/31/2009	Annual average rates 2010	Annual average rates 2009
USD/CHF	0.9400	1.0375	1.04188	1.08492
EUR/CHF	1.2475	1.4850	1.38041	1.50978
SGD/CHF	0.7289	0.7393	0.76455	0.74617
HKD/CHF	0.1209	0.1340	0.13413	0.14002
GBP/CHF	1.4489	1.6600	1.60888	1.69678

42 Employee stock-ownership plan

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 four-year restriction on selling. Upon expiration of the sales restriction period, or at the time of resignation from VP Bank Group, the related shares become freely available. As the employees are therefore ultimately able to take 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 allocation. The number of bearer shares that can be subscribed to depends upon the years of service, rank and management level. The purchase price is determined annually in relation to the market value of the bearer shares on the Swiss Exchange (ex-dividend). The shares issued in this manner derive either from shareholdings of VP Bank Group or must be purchased for this purpose over the exchange. The expense thereby incurred is charged directly to personnel costs. During 2010, 7,423 shares were issued at a preferential price (2009: 0). Share issue expenses in 2010 were CHF 0.7 million (2009: CHF 0.0 million).
There is no profit-sharing plan for the Board of Directors. 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 39). A profit-sharing plan exists for general management and other management members (note 43).

43 Management profit-sharing plan

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

1. A fixed base salary that is contractually agreed between the Committee of the Board of Directors (in its function as Nomination & Compensation Committee) and the members of Group Executive Management. In addition to the base salary, VP Bank will pay proportionate contributions to cadre insurance and the pension fund.
2. A variable performance-related portion (Short-Term Incentive STI) which depends on the annual value creation of VP Bank Group. It is allocated on the basis of qualitative individual criteria and financial Group targets. The financial Group targets are weighted by some two thirds. The STI is paid annually in cash.
3. A long-term variable management equity-share plan (Long-Term Incentive LTI) settled in the form of bearer shares of VP Bank. The basic principles thereof are the focus on value creation (economic profit), the principle of «pay for performance» and the long-term commitment of Management to a variable salary component in the form of shares. The number of shares which are vested after a period of three years is directly dependent on the trend of the economic profit of VP Bank Group. This latter takes account of capital- and risk-related costs. The target setting is done on the basis of an external perspective. The starting point in this connection is the target yield on the market value. Thus, depending on the financial trend, a greater or lesser number of shares are allocated. The factor ranges from a minimum of 0.5 and a maximum of 2.0. The basis for calculating expenses for management stock participation consists of the number of shares, the goal-achievement factor, and the current price of the stock at the time the goals were set. The market value is based on the closing price of the SIX-listed bearer shares as recorded on the date of the grant. The monetary benefit settled in shares at the end of the plan is also dependent on the stock price of the VP Bank bearer shares. The bearer shares required to service the LTI equity-share plan, are either taken from the portfolio of treasury shares of VP Bank Group or are purchased on the stock exchange.

The Board of Directors lays down each year the planning parameters of the LTI for the following three years as well as the level of the STI. In the 2010-2012 program, a target bonus (LTI and STI) of between 60 and 85 percent of the fix base salary was calculated provided that the annual and three-year goals are attained.

Management equity-sharing plan (LTI)

Number	2010	2009	Variance in %
Balance of entitlements at beginning of year	33,084	18,459	79.2
New entitlements	17,005	15,678	8.5
Reduction in entitlements as a result of expiry or allocation	–4,123	–1,053	291.5
Changes in entitlements as a result of changes in factors	–7,706	0	n.a.
Balance of calculated entitlements at end of year	38,260	33,084	15.6

in CHF 1,000	2010	2009	Variance in %
Accrual for Management equity-sharing plan (LTI) in equity at beginning of year	5,838.8	5,996.0	–2.6
Personnel expense for Management equity-sharing plan (LTI)[1]	1,263.6	–157.2	n.a.
Accrual for Management equity-sharing plan (LTI) in equity at end of year	7,102.4	5,838.8	21.6
Fair value of bearer shares allocated	406.8	67.5	502.1

[1] Including effect on allocation of bearer shares.

Client assets under management

in CHF million	2010	2009	Variance in %
Analysis of client assets under management			
Assets in self-administered investment funds	3,129.0	3,006.0	4.1
Assets in discretionary asset-management accounts	2,459.5	2,626.7	–6.4
Other client assets under management	22,637.6	23,911.8	–5.3
Total client assets under management (including amounts counted twice)	**28,226.2**	**29,544.5**	**–4.5**
of which: amounts counted twice	2,058.4	2,160.6	–4.7
Net new money	**75.9**	**–1,125.6**	**n.a.**
Custody assets	**12,596.2**	**12,280.1**	**2.6**
Total client assets			
Total client assets under management (including amounts counted twice)	28,226.2	29,544.5	–4.5
Custody assets	12,596.2	12,280.1	2.6
Total client assets	**40,822.3**	**41,824.6**	**–2.4**

Classification of client assets under management

in %	2010	2009
Analysis by asset class		
Liquidity	33	37
Bonds	22	24
Equities	19	17
Investment funds	23	20
Other	3	2
Total	**100**	**100**
Analysis by currency		
CHF	28	27
EUR	37	41
USD	22	22
Other	13	10
Total	**100**	**100**

Calculation method

All client assets that are managed or held for investment purposes for which investment-advisory and asset-management services are provided are considered as client assets under management. In principle all amounts owed to clients, fiduciary deposits and all assets in security deposits with a value are included therein. The calculation is made on the basis of the provisions of the Liechtenstein Banking Ordinance (Note 3, Point 88a FL-BankO) and the internal guidelines of VP Bank Group.

Assets in self-administered investment funds

This item contains the assets of all investment funds of 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 value 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 value and client deposits. The data encompasses assets which are the object of an administration or advisory mandate.

Amounts counted twice

This item 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 new money

This item comprises the acquisition of new clients, lost clients and inflows or outflows from existing clients. Performance-related changes in assets such as share price movements, 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 VP Bank Group is limited to custodian and collection activities.

Report of the Group Auditors

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

As Group auditor, we have audited the consolidated financial statements (balance sheet, income statement, comprehensive income, statement of cash flows, changes in shareholders' equity and notes; (see pages 72–145) and the consolidated annual report (see pages 68–71) of Verwaltungs- und Privat-Bank Aktiengesellschaft for the year ended December 31, 2010.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the law as well as the consolidated annual report. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements and its accordance with the consolidated annual report based on our audit. We conducted our audit in accordance with Liechtenstein law, the auditing standards promulgated by the Liechtenstein profession and International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance that the consolidated financial statements and consolidated annual report are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2010, give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Liechtenstein law. Furthermore, the consolidated annual report corresponds to the consolidated financial statements.

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

Ernst & Young Ltd.

Stefan Fuchs	Bruno Taugner
Certified Accountant (Auditor in charge)	Certified Accountant

Berne, March 4, 2011

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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 VP Bank Group. As of the balance-sheet date, Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, and/or its subsidiaries held in total 150,538 bearer shares as well as 28,515 registered shares (prior year: 150,745 bearer shares and 12,915 registered shares). This equates to a capital share of approximately 2.6 percent (prior year: 2.6 percent). In addition, we refer to the notes to the relevant annual financial statements regarding the number of and changes in treasury shares in the parent company. In keeping with the spirit of VP Bank's long-term dividend policy, the Board of Directors will propose a dividend of CHF 3.50 per bearer share and CHF 0.35 per registered share (previous year: CHF 3.50 per bearer share and CHF 0.35 per registered share) at the Annual General Meeting of shareholders on April 29, 2011.

Balance Sheet

Assets

in CHF 1,000 (Art. 24b FL-BankO)	12/31/2010	12/31/2009	Variance absolute	Variance in %
Cash balances	88,565	219,253	–130,688	–59.6
Debt instruments of the public sector and bills of exchange eligible for refinancing at central banks	1	0	1	127.1
• debt instruments of the public sector and similar securities	0	0	0	0
Due from banks	4,541,982	5,266,124	–724,142	–13.8
• maturing daily	775,981	779,336	–3,355	–0.4
• other receivables	3,766,001	4,486,788	–720,787	–16.1
Due from customers	2,797,723	2,694,359	103,364	3.8
of which mortgage receivables	2,063,871	1,999,712	64,159	3.2
Debentures and other interest-bearing securities	997,869	1,328,219	–330,350	–24.9
• Money-market paper	389,687	673,911	–284,224	–42.2
• from public-sector issuers	389,687	673,911	–284,224	–42.2
• debt securities	608,183	654,308	–46,125	–7.0
• from public-sector issuers	65,930	62,373	3,557	5.7
• from other issuers	542,253	591,935	–49,682	–8.4
Equity shares and other non-interest-bearing securities	79,298	105,173	–25,875	–24.6
Participations	102	170	–68	–40.0
Shares in affiliated companies	94,075	113,385	–19,310	–17.0
Intangible assets	54,180	68,833	–14,653	–21.3
Property and equipment	126,530	135,136	–8,606	–6.4
Treasury shares	17,521	15,295	2,226	14.6
Other assets	69,931	50,931	19,000	37.3
Accrued receivables and prepaid expenses	29,992	31,122	–1,130	–3.6
Total assets	**8,897,769**	**10,028,000**	**–1,130,231**	**–11.3**

Balance Sheet (continued)

Total liabilities and shareholders' equity

in CHF 1,000 (Art. 24b FL-BankO)	12/31/2010	12/31/2009	Variance absolute	Variance in %
Due to banks	802,190	1,078,271	–276,081	–25.6
• maturing daily	675,133	738,119	–62,986	–8.5
• with agreed duration or term of notice	127,057	340,152	–213,095	–62.6
Due to customers	6,600,154	7,582,282	–982,128	–13.0
• savings deposits	825,217	818,493	6,724	0.8
• other liabilities	5,774,937	6,763,789	–988,852	–14.6
• maturing daily	4,934,386	5,560,225	–625,839	–11.3
• with agreed duration or term of notice	840,551	1,203,564	–363,013	–30.2
Securitized liabilities	634,384	449,937	184,447	41.0
• issued debentures	634,384	449,937	184,447	41.0
of which medium-term notes	184,384	199,937	–15,553	–7.8
Other liabilities and deferred items	81,117	130,762	–49,645	–38.0
Accrued liabilities and deferred items	22,299	27,040	–4,741	–17.5
Provisions	13,268	11,385	1,883	16.5
• tax provisions	2,870	2,396	474	19.8
• other provisions	10,398	8,989	1,409	15.7
Provisions for general banking risks	63,150	71,400	–8,250	–11.6
Subscribed capital	59,148	59,148	0	0
Income reserves	596,897	556,388	40,509	7.3
• legal reserves	239,800	239,800	0	0
• reserve for treasury shares and stock	17,521	15,295	2,226	14.6
• other reserves	339,576	301,293	38,283	12.7
Retained earnings brought forward	686	270	416	153.7
Net income for the year	24,476	61,117	–36,641	–60.0
Total liabilities and shareholders' equity	**8,897,769**	**10,028,000**	**–1,130,231**	**–11.3**

Off-balance-sheet items

in CHF 1,000 (Art. 24b FL-BankO)	12/31/2010	12/31/2009	Variance absolute	Variance in %
Contingent liabilities	**90,069**	**113,851**	**–23,782**	**–20.9**
Credit risks	**29,475**	**26,953**	**2,522**	**9.4**
• irrevocable facilities granted	29,475	26,953	2,522	9.4
Derivative financial instruments				
• positive replacement values	61,240	38,179	23,061	60.4
• negative replacement values	67,874	40,108	27,766	69.2
• contract volumes	3,703,238	3,005,306	697,932	23.2
Fiduciary transactions	**1,901,956**	**2,756,091**	**–854,135**	**–31.0**

Income Statement

in CHF 1,000 (Art. 24c FL-BankO)	2010	2009	Variance absolute	Variance in %
Interest income	108,119	160,197	–52,078	–32.5
of which from interest-bearing securities	15,393	19,863	–4,470	–22.5
of which from trading transactions	96	0	96	n.a.
Interest expenses	44,351	75,417	–31,066	–41.2
Income from interest-differential business	63,768	84,780	–21,012	–24.8
Current income from securities	5,177	9,594	–4,417	–46.0
• shares and other non-interest-bearing securities	2,528	2,044	484	23.6
of which from trading transactions	5	0	5	100.0
• participations	0	0	0	0
• shares in affiliated companies	2,649	7,550	–4,901	–64.9
Income from commission business and services	92,712	100,295	–7,583	–7.6
• commission income from credit business	898	971	–73	–7.5
• commission income from securities and investing business	82,890	90,095	–7,205	–8.0
• commission income from other services	8,924	9,229	–305	–3.3
Commission expenses	16,786	18,379	–1,593	–8.7
Income from commission business and services	75,926	81,916	–5,990	–7.3
Income from financial transactions	35'135	67,087	–31,952	–47.6
of which from trading transactions	39,725	12,186	27,539	226.0
Other ordinary income	2,412	1,421	991	69.7
• income from real estate	244	238	6	2.2
• other ordinary income	2,168	1,183	985	83.3
Total net operating income	**182,418**	**244,798**	**–62,380**	**–25.5**
Operating expenses	118,200	126,182	–7,982	–6.3
• personnel expenses	76,487	77,634	–1,147	–1.5
• general and administrative expenses	41,713	48,548	–6,835	–14.1
Gross profit	**64,218**	**118,616**	**–54,398**	**–45.9**
Depreciation and amortization of intangible assets and property and equipment	32,197	33,585	–1,388	–4.1
Other ordinary expenses	2,324	2,375	–51	–2.2
Valuation allowances on receivables and increases in provisions for contingent liabilities and credit risks	16,028	12,524	3,504	28.0
Income from release of valuation allowances on receivables and from the release of provisions for contingent liabilities and credit risks	7,342	1,585	5,757	363.1
Write-offs on participations, shares in affiliated companies and securities dealt with as non-current assets	2,000	8,500	–6,500	–76.5
Income from normal business operations	**19,011**	**63,217**	**–44,206**	**–69.9**

Income Statement (continued)

Extraordinary income	0	8,250	–8,250	–100.0
Extraordinary expenses	–1	1	–2	
Taxes on income	1,171	700	471	67.2
Other taxes if not included in above items	1,615	1,399	216	15.4
Increases in provisions for general banking risks / income from release for provisions for general banking risks	8,250	–8,250	16,500	–200.0
Net income for the year	**24,476**	**61,117**	**–36,641**	**–60.0**

Appropriation of income

in CHF 1,000 (Art. 24c FL-BankO)	2010	2009	Variance absolute	Variance in %
Net income for the year	24,476	61,117	–36,641	–60.0
Retained earnings brought forward	686	270	416	153.7
Retained earnings	**25,162**	**61,388**	**–36,226**	**–59.0**
Appropriation of retained earnings				
• appropriation to other reserves	0	40,000	–40,000	–100.0
• distribution on the basis of company capital	20,702	20,702	0	0
• release from other reserves	0	0	0	0
Retained earnings to be carried forward	**4,460**	**686**	**3,774**	**n.a.**

Information regarding Business Activities and Number of Employees (Art. 24e Par. 1 Point 1 FL-BankO)

Verwaltungs- und Privat-Bank Aktiengesellschaft (VP Bank), which has its registered office in Vaduz, was established in 1956 and is one of the three largest banks in Liechtenstein. As at December 31, 2010, it owns subsidiary companies in Zurich, Luxembourg, on the British Virgin Islands and in Singapore, asset management companies in Munich, Hong Kong, as well as representative offices in Moscow and Hong Kong.
Adjusted to reflect full-time equivalents, at year end 2010 VP Bank had 461.8 individuals under its employment (previous year: 473.1).
VP Bank's core activities consist of asset-management and investment-advisory 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 and fiduciary services. VP Bank earns a significant portion of its total commission-related revenues from transactions in securities on behalf of clients.

Lending business
The credit business of the Bank is primarily geared to providing financing for mortgages for private clients, as well as asset-management and investment-advisory services for private clients. The Bank also grants commercial loans 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 transaction. 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
Accounting and valuation follow the prescriptions of Liechtenstein 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 accounts as of their trade date. Forward contracts are recorded under off-balance-sheet transactions until their settlement or value date. Income and expenditure in foreign currencies are converted into Swiss francs at their respective daily rates; assets and liabilities are converted 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 clients
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 is a 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 interest income item, dividend income in the current income from securities item. Gains and losses from revaluation are disclosed in the gains/losses arising from financial transactions item.

Participations
Equity shareholdings in 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 affiliated companies

The existing majority shareholdings of VP Bank are recorded as shares in affiliated companies. Shares in affiliated companies are valued at acquisition cost less economically required valuation allowances.
These affiliated 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 on a straight-line basis over the estimated service life of three to seven years. Self-developed intangible assets are not capitalized. 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 and other real estate: 25 years; furniture and equipment: 8 years; IT: 3 years; software: 3 to 7 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 derivative instruments open at the balance-sheet date arising from nostro transactions as well as over-the-counter contracts (OTC) 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 item 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 VP Bank Group is a part of the consolidated financial statements.

Post-balance-sheet date events

There were no material occurences having an impact on the balance sheet and income statement to be reported for the 2010 financial year.

Commentaries on Risk Management

Appropriate risk management is the basic prerequisite for the sustainable development and continuing success of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz. 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 exactly mirror the risk management and control framework of VP Bank Group, for which reason reference is made at this point to the commentaries on risk management of VP Bank Group set out on page 92.

Information regarding Balance Sheet and Income Statement

Analysis of collateral

in CHF 1,000 (Art. 24e Par. 1 Point 3.1 FL-BankO)	Mortgage collateral	Other collateral	Without collateral	Total
Loans				
Due from clients (excluding mortgage-backed receivables)	24,592	410,291	298,969	733,852
Mortgage loans secured by	1,989,117	51,816	22,938	2,063,871
• residential property	1,695,179	0	7,048	1,702,227
• office and business premises	32,446	0	295	32,741
• commercial and industrial property	219,016	0	311	219,327
• other	42,476	51,816	15,284	109,576
Total loans, 12/31/2010	**2,013,709**	**462,107**	**321,907**	**2,797,723**
Total loans, 12/31/2009	1,960,863	499,098	234,398	2,694,359
Off-balance-sheet amounts				
Contingent liabilities	1,260	86,560	2,249	90,069
Irrevocable facilities granted	8,873	2,091	18,511	29,475
Total off-balance-sheet amounts, 12/31/2010	**10,133**	**88,651**	**20,760**	**119,544**
Total off-balance-sheet amounts, 12/31/2009	7,095	103,541	30,168	140,804

Value-impaired loans

in CHF 1,000	Gross amount owed	Estimated liquidation proceeds from collateral	Net amount owed	Individual value adjustments
Total value-impaired loans, 12/31/2010	**62,982**	**37,617**	**25,365**	**25,365**
Total value-impaired loans, 12/31/2009	66,852	45,302	21,550	21,550

Portfolios of securities and precious metals

in CHF 1,000 (Art. 24e Par. 1 Point 3.2 FL-BankO)	Carrying value		Acquisition cost		Market value	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Trading portfolios of securities and precious metals						
Equity shares	287	190	465	350	287	190
of which equity shares in the treasury	301	190	459	350	301	190
Precious metals	60	188	62	193	60	188
Total	**347**	**378**	**527**	**543**	**347**	**378**
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)	61,087	38,179			61,087	38,179
Negative replacement values of derivative financial instruments in trading portfolios (other liabilities)	60,993	40,108			60,993	40,108
Total	**122,080**	**78,287**			**122,080**	**78,287**
Portfolios of securities and precious metals in current assets (excluding trading portfolios)						
Debt securities	997,870	1,328,219	1,032,753	1,351,614	1,013,787	1,355,997
Equity shares	96'532	120,278	145,811	163,409	105,112	123,626
of which equity shares in the treasury	17,220	15,105	37,946	37,946	17,220	15,105
Precious metals	0	0	0	0	0	0
Total	**1,094,402**	**1,448,497**	**1,178,564**	**1,515,023**	**1,118,899**	**1,479,623**
of which repo-eligible securities	837,143	1,193,101	860,612	1,206,010	851,006	1,216,295
of which exchange-listed securities	389,526	689,273	419,694	766,364	400,714	713,799

Disclosures on treasury shares included in current assets (excluding trading portfolios)

in numbers / in CHF 1,000 (Art. 24e Par. 1 Point 3.2 FL-BankO)	Amount 2010	Amount 2009	Carrying value 2010	Carrying value 2009
Balance at beginning of year	**150,000**	**150,000**	**15,105**	**21,015**
Purchase				
Disposals				
Valuation allowances				–5,910
Appreciation			2,115	
Balance at end of year	**150,000**	**150,000**	**17,220**	**15,105**

Participations and shares in affiliated companies

in CHF 1,000 (Art. 24e Par. 1 Point 3.2 FL-BankO)	Carrying value 12/31/2010	Carrying value 12/31/2009
Participations		
without quoted market value	102	170
Total participations	**102**	**170**
Shares in affiliated companies		
without quoted market value[1]	94,075	113,385
Total shares in affiliated companies	**94,075**	**113,385**

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

Participations and shares in affiliated companies

in CHF 1,000 (Art. 24e Par. 1 Point 3.1 FL-BankO)	12/31/2010			12/31/2009		
	Currency	Corporate capital	Percentage ownership	Currency	Corporate capital	Percentage ownership
Participations						
Finarbit AG, Küsnacht (money-market and foreign-exchange broker)	CHF	1,500	5.00%		1,500	8.33%
Shares in affiliated 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[3] (asset management company)				USD	2,000	100%
VP Wealth Management (Hong Kong) Ltd., Hongkong (asset management company)	HKD	5,000	100%	HKD	5,000	100%
VP Bank (Singapore) Ltd., Singapore (bank)	SGD	44,500	100%	SGD	40,000	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 20.0 million. This loan was paid back beginning of 2010.
[3] The company was liquidated in 2010.

The carrying value of affiliated banks included under shares in affiliated companies amounts to CHF 70.5 million including subordinated loans (prior year: CHF 87.1 million).

Overview of investments

in CHF 1,000 (Art. 24e Par. 1 Point 3.4 FL-BankO)	Acquisition cost	Cumulative depreciation to date	Carrying value 12/31/2009	Financial year 2010					Carrying value 12/31/2010
				Investments	Divestments	Reclassi-fications	Depr. and amortization	Depr. and amort. on disposal	
Total participations (minority participations)	298	–128	170		–68				102
Total shares in affiliated companies	157,366	–43,981	113,385	3,324	–20,634		–2,000		94,075
Total intangible assets (excluding goodwill)	122,772	–53,939	68,833	8,667	–13,242		–22,476	12,398	54,180
Real estate									
• bank premises	194,417	–83,689	110,728	357			–5,895		105,190
• other real estate	17,214	–714	16,500						16,500
Other property and equipment	34,911	–27,003	7,908	1,429	–1,362		–3,826	691	4,840
Total property and equipment	246,542	–111,406	135,136	1,786	–1,362		–9,721	691	126,530
Fire-insurance values of real estate			159,290						159,590
Fire-insurance values of other property and equipment			29,720						29,720

Future commitments under operating leases

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

in CHF 1,000 (Art. 1092 Point 3 PGR)	12/31/2010	12/31/2009
Total minimum commitments arising from operating leases	**16,660**	**10,847**

Operating expenses as of December 31, 2010 include CHF 4.988 million arising from operating leases (December 31, 2009: CHF 5.050 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 and Art. 24e Par. 1 Point 3.6 FL-BankO)	12/31/2010	12/31/2009
Assets pledged or assigned to secure own or third-party liabilities and assets subject to reservation of title excluding securities lending/borrowing and repo transactions		
Carrying value of assets pledged or assigned as security	837,143	794,425
Effective liabilities	36,009	41,743
Securities lending/borrowing and repurchase transactions		
Amounts receivable arising from cash deposits in connection with securities borrowing and reverse-repurchase transactions	0	0
Amounts payable arising from cash deposits in connection with securities lending and repurchase transactions	0	0
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	584,955	350,881
of which securities for which an unconditional right has been granted to sell on or repledge	407,843	249,045
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	744,663	494,742
of which securities repledged or sold on	293,422	228,117

Liabilities to own retirement pension plans

in CHF 1,000 (Art. 24e Par. 1 Point 3.7 FL-BankO)	12/31/2010	12/31/2009
Due to customers	50,581	45,829
Securitized liabilities	905	905
Other liabilities	4,221	831
Total liabilities to own retirement pension plans	**55,707**	**47,565**

Outstanding debenture loan

in CHF 1,000 (Art. 24e Par. 1 Point 3.8 FL-BankO)	Interest rate in %	Year of issue	Maturity	12/31/2010 Nominal amount	12/31/2009 Nominal amount
VP Bank debenture issue	2.875	2007	06/12/2012	250,000	250,000
VP Bank debenture issue	2.500	2010	05/27/2016	200,000	0

Valuation allowances/provisions for general banking risks

in CHF 1,000 (Art. 24e Par. 1 Point 3.9 FL-BankO)	01/01/2010	Utilization in accordance with purpose	Recoveries, overdue interest, forex diff.	Charges to income statement	Releases to income statement	12/31/2010
Valuation allowances for default risks						
• individual valuation allowances	21,550	5,692	353	11,045	1,891	25,365
• individual valuation allowances made on lump-sum basis						
• lump-sum valuation allowances	22,046			4,983	4,404	22,625
• individual valuation allowances made on lump-sum basis for country risks	2,500				1,000	1,500
Provisions for contingent liabilities and credit risks	300				48	252
Provisions for other business risks						
Provisions for taxes and deferred taxes	2,396	2,312		2,995	209	2,870
Other provisions	6,189	579		3,036		8,646
Total valuation allowances and provisions	**54,981**	**8,583**	**353**	**22,059**	**7,552**	**61,258**
less: valuation allowances	43,596					47,990
Total provisions as per balance sheet	**11,385**					**13,268**
Provisions for general banking risks	**71,400**				**8,250**	**63,150**

Company capital

in CHF 1,000 (Art. 24e Par. 1 Point 3.10 FL-BankO)		12/31/2010			12/31/2009	
	Total par value	Number	Capital entitled to dividend	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)		12/31/2010			12/31/2009	
	Par value	Share in % of par value	Share of voting rights in %	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	6,007	10.2	10.5	5,959	10.1	10.5

Statement of changes in shareholders' equity

in CHF 1,000 (Art. 24e Par. 1 Point 3.11 FL-BankO)	2010
Shareholders' equity at beginning of financial year	
Subscribed and paid-up capital	59,148
Legal reserves	239,800
Reserve for treasury shares	15,295
Other reserves	301,293
Provisions for general banking risks	71,400
Retained earnings	61,387
Total shareholders' equity at beginning of financial year	**748,323**
Capital increase / capital reduction (–)	
Other appropriations/releases from reserves (–)	–7,740
Dividends and other distributions from net income of the prior year[1]	–20,702
Net income for the financial year	24,476
Total shareholders' equity at end of financial year	**744,357**
of which:	
Subscribed and paid-up capital	59,148
Legal reserves	239,800
Reserve for treasury shares	17,521
Other reserves	339,576
Provisions for general banking risks	63,150
Retained earnings	25,162

[1] Only dividends to third parties.

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	88,565							88,565
Debt instruments of the public sector and bills of exchange eligible for refinancing at central banks	1							1
Due from banks	775,981		3,468,653	289,046	7,902	400		4,541,982
Due from customers	2,779	337,166	895,748	343,060	1,117,707	101,263		2,797,723
of which mortgage receivables	2,654	189,521	620,632	176,581	974,150	100,333		2,063,871
Trading portfolios of securities and precious metals	347							347
Portfolios of securities and precious metals in current assets (excluding trading portfolios)	1,094,401							1,094,401
Other assets	253,012		48				121,690	374,750
Total assets, 12/31/2010	**2,215,086**	**337,166**	**4,364,449**	**632,106**	**1,125,609**	**101,663**	**121,690**	**8,897,769**
Total assets, 12/31/2009	2,723,475	467,128	4,646,972	875,707	1,127,833	59,657	127,228	10,028,000
Liabilities and provisions								
Due to banks	675,132	24,770	89,996	11,506	786			802,190
Due to customers	3,106,380	2,781,499	577,751	133,422	1,102			6,600,154
• savings deposits		825,217						825,217
• other liabilities	3,106,380	1,956,282	577,751	133,422	1,102			5,774,937
Securitized liabilities			6,050	35,219	389,467	203,648		634,384
• issued debentures			6,050	35,219	389,467	203,648		634,384
of which medium-term notes			6,050	35,219	139,467	3,648		184,384
Provisions (excluding provisions for general banking risks)	13,268							13,268
Other liabilities	103,017		399					103,416
Total liabilities, 12/31/2010	**3,897,797**	**2,806,269**	**674,196**	**180,147**	**391,355**	**203,648**		**8,153,412**
Total liabilities, 12/31/2009	4,211,416	3,243,854	1,232,192	264,714	324,242	3,259		9,279,677

Debentures and other interest-bearing securities which mature in the following financial year	452,854
Issued debentures which mature in the following financial year	41,269

Receivables and payables to participations, affiliated 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)	12/31/2010	12/31/2009
Receivables and payables from participations, affiliated companies and qualifying participants		
Receivables from participations	0	0
Payables to participations	0	0
Receivables from affiliated companies	277,463	150,556
Payables to affiliated companies	768,596	1,025,846
Receivables from qualifying participants	0	0
Payables to qualifying participants	16,624	12,787
Loans to governing bodies		
Members of Executive Board and parties related thereto	1,208	4,106
Members of the Board of Directors and parties related thereto[1]	3,607	2,925

[1] Excluding receivables from related qualifying participants.

VP Bank Group also makes payments to related persons within the framework of brokerage services and bought-in advisory services.
These correspond to customary market conditions. The aggregate amount of such payments and fees in 2010 totaled CHF 0.256 million (2009: CHF 0.340 million).

Remuneration paid to members of governing bodies

in CHF 1,000 (Art. 663bbis Code of Obligations (Switzerland))	Remuneration[1, 2, 5] Fixed		There of in bearer shares (market value)		Pension fund, senior employee insurance		Total Remuneration	
	2010	2009	2010	2009	2010	2009	2010	2009
Board of Directors								
Hans Brunhart, Chairman[A, D]	400	400	100	99			400	400
Dr. Guido Meier, Vice-Chairman[B]	105	105	26	26			105	105
Markus Thomas Hilti, BoD[B]	75	75	19	19			75	75
Roland Feger, BoD[D]	80	80	20	20			80	80
Walo Frischknecht, BoD[C]	105[3]	105[3]	26	26			105	105
Prof. Dr. Beat Bernet, BoD	65	65	16	16			65	65
Dr. Daniel H. Sigg, BoD	65	65	16	16			65	65
Total Board of Directors	**895**	**895**	**223**	**222**	**none**	**none**	**895**	**895**
International Council[4], 11 individuals	**100**	**120**					**100**	**120**

in CHF 1,000 (Art. 663bbis Code of Obligations (Switzerland))	Remuneration[2, 5] Fixed basic salary[6]		Short-Term Incentive (STI)		Pension fund, senior employee insurance		Total Remuneration		Long-Term Incentive (LTI), number of bearer shares (prospective entitlement)[9]	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Executive Management, 6 individuals	2,197	3,816	150	0	230	284	2,577	4,100	5,653	4,664
Highest remuneration										
Adolf E. Real, CEO[7]		1,625[10]		0		67		1,692		
Fredy Vogt, CFO[8]	570		60		57		687		3,250	

The model of variable remuneration with a Short-Term Incentive (STI) and Long-Term Incentive (LTI) is described in the Corporate Governance section (see section 5.1.2 page 61). The number of bearer shares (eligibility from LTI – see last column) and the corresponding monetary value will not be defined until the end of the term of the plan. The calculation of the number of shares depends on the average economic profit over the performance period. Naturally the performance in money terms under the respective LTI program is determined by the share price at the time of transfer of title. The imputed entitlement shows the total numbers of shares under the LTI programs for 2008–2012, 2009–2011, and 2010–2012, taking account of economic profits hitherto earned and of a time limit.

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 Including remuneration as representative of the Board of Directors in the pension fund.
4 Corresponds to the lump-sum compensation for expenses paid to the external members of the International Council and Honorary Chairman.
5 Payments due in the calendar year are shown.
6 Gifts for length of service are included.
7 CEO until August 25, 2009.
8 CEO a.i. from August 25, 2009, to March 31, 2010.
9 Of the members of the Executive Board in office at the end of the year.
10 Including agreed termination grant.

	Shareholdings in VP Bank Number of shares (including related parties, excluding qualifying participants)				Loans and credits		Related parties[1]			
	Registered		Bearer				Loans and credits[2]		Remuneration for services provided	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Board of Directors										
Hans Brunhart	6,000	5,000	5,275	4,210	1,900	1,900				
Dr. Guido Meier	23,250[3]	23,250[3]	21,216[3]	20,986[3]	1,295	609				
Markus Thomas Hilti			4,107[3]	3,943[3]						
Roland Feger	40,350[3]	40,350[3]	29,967[3]	29,792[3]	412	416			256	250
Walo Frischknecht			1,048	818						48
Prof. Dr. Beat Bernet			540	257						
Dr. Daniel H. Sigg			423	280						42
Total Board of Directors	**69,600**	**68,600**	**62,576**	**60,286**	**3,607**	**2,925**	**none**	**none**	**256**	**340**
International Council	none	none	none[4]	none[4]	none	none	none	none	none	none
Executive Management	none	none	4,160	10,224	1,208	4,106	none	none	none	none
Roger H. Hartmann, CEO[5]			50							
Fredy Vogt, CFO[6]			4,110	4,000						
Juerg W. Sturzenegger, Head of WSS[7]					700					
Georg Wohlwend[8]				4,047						
Ernst Näf[8]				1,663		1,800				
Gerhard Häring[8]				514						

[1] Individual or legal entities which are economically, legally or de facto closely related to a member of one of the governing bodies.
[2] As of the balance-sheet date, there were no loans or credits to related parties that were not granted at market conditions.
[3] Excluding the number of shares of the significant shareholders (qualifying participants).
[4] Deposited shares by the Verwaltungs- und Privat-Bank AG.
[5] CEO from April 1, 2010.
[6] CEO a.i. from August 25, 2009, to March 31, 2010.
[7] Member of the Executive Management since September 1, 2010.
[8] Member of the Executive Management until August 31, 2010.

Domestic and foreign liabilities

in CHF 1,000 (Art. 24e Par. 1 Point 3.14 FL-BankO)	Domestic 12/31/2010	Foreign 12/31/2010	Domestic 12/31/2009	Foreign 12/31/2009
Assets				
Cash balances	88,565		219,253	
Debt instruments of the public sector and bills of exchange eligible for refinancing at central banks	1			
Due from banks	1,553,444	2,988,538	819,702	4,446,422
Due from customers	2,567,889	229,834	2,511,724	182,635
of which mortgage receivables	2,063,685	186	1,999,522	190
Debentures and other interest-bearing securities	393,668	604,202	677,891	650,328
Equity shares and other non-interest-bearing securities	48,201	31,097	57,724	47,449
Participations	102		170	
Shares in affiliated companies	11,014	83,061	11,014	102,371
Intangible assets	54,180		68,833	
Property and equipment	126,530		135,136	
Treasury shares	17,521		15,295	
Other assets	61,229	8,702	42,554	8,377
Accrued receivables and prepaid expenses	19,487	10,505	17,498	13,624
Total assets	**4,941,831**	**3,955,939**	**4,576,794**	**5,451,206**
Liabilities and shareholders' equity				
Due to banks	588,225	213,965	616,067	462,204
Due to customers	4,165,276	2,434,878	4,580,026	3,002,256
• savings deposits	687,594	137,623	684,651	133,842
• other liabilities	3,477,682	2,297,255	3,895,375	2,868,414
Securitized liabilities	634,384		449,937	
Other liabilities and deferred items	69,140	11,977	123,540	7,222
Accrued liabilities and deferred items	19,481	2,818	23,510	3,530
Provisions	13,268		11,385	
Provisions for general banking risks	63,150		71,400	
Subscribed capital	59,148		59,148	
Income reserves	596,897		556,388	
• legal reserves	239,800		239,800	
• reserve for treasury shares	17,521		15,295	
• other reserves	339,576		301,293	
Retained earnings brought forward	686		270	
Net profit for the year	24,476		61,117	
Total liabilities and shareholders' equity	**6,234,131**	**2,663,638**	**6,552,788**	**3,475,212**

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)	12/31/2009 Absolute	12/31/2009 Share in %	12/31/2008 Absolute	12/31/2008 Share in %
Assets				
Liechtenstein/Switzerland	4,941,831	55.5	4,576,794	45.6
Europe (excluding Liechtenstein/Switzerland)	3,324,275	37.3	4,794,493	47.8
North America	240,585	2.7	345,531	3.5
Caribbean	237,949	2.7	172,151	1.7
Asia	120,882	1.4	126,524	1.3
Others	32,247	0.4	12,507	0.1
Total assets	**8,897,769**	**100.0**	**10,028,000**	**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	82,543	106	5,612	304	88,565
Debt instruments of the public sector and bills of exchange eligible for refinancing at central banks	1				1
Due from banks	113,100	1,802,789	2,039,632	586,461	4,541,982
Due from customers	2,450,711	108,551	174,785	63,676	2,797,723
of which mortgage receivables	2,063,424	199	248		2,063,871
Debentures and other interest-bearing securities	826,419	37,186	134,265		997,869
Equity shares and other non-interest-bearing securities	22,604	27,785	28,690	219	79,298
Participations	102				102
Shares in affiliated companies	94,075				94,075
Intangible assets	54,180				54,180
Property and equipment	126,530				126,530
Treasury shares	17,521				17,521
Other assets	62,641	2,695	2,124	2,471	69,931
Accrued receivables and prepaid expenses	23,459	1,158	4,727	648	29,992
Total on-balance-sheet assets	**3,873,886**	**1,980,270**	**2,389,835**	**653,779**	**8,897,769**
Delivery claims arising from foreign-exchange spot, forward and option transactions	140,745	407,013	230,962	228,319	1,007,039
Total assets, 12/31/2010	**4,014,631**	**2,387,283**	**2,620,797**	**882,098**	**9,904,808**
Total assets, 12/31/2009	3,932,246	2,494,271	3,552,643	888,672	10,867,832

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	82,536	314,074	264,726	140,854	802,190
Due to customers	2,508,822	1,639,457	1,988,482	463,393	6,600,154
• savings deposits	825,147	1	67	2	825,217
• other liabilities	1,683,675	1,639,456	1,988,415	463,391	5,774,937
Securitized liabilities	629,117		5,267		634,384
Other liabilities	74,105	2,849	1,855	2,308	81,117
Accrued liabilities and deferred items	20,444	400	1,345	110	22,299
Provisions	13,268				13,268
Provisions for general banking risks	63,150				63,150
Subscribed capital	59,148				59,148
Income reserves	596,897				596,897
• legal reserves	239,800				239,800
• reserve for treasury shares	17,521				17,521
• other reserves	339,576				339,576
Retained earnings brought forward	686				686
Net income of the year	24,476				24,476
Total on-balance-sheet liabilities and shareholders' equity	**4,072,649**	**1,956,780**	**2,261,675**	**606,665**	**8,897,769**
Delivery obligations arising from foreign-exchange spot, forward and option transactions	290,105	223,139	263,034	231,337	1,007,615
Total liabilities and shareholders' equity, 12/31/2010	**4,362,754**	**2,179,919**	**2,524,709**	**838,002**	**9,905,384**
Total liabilities and shareholders' equity, 12/31/2009	4,319,986	2,392,637	3,315,467	839,371	10,867,461
Net position per currency	**–348,123**	**207,364**	**96,088**	**44,096**	

Contingent liabilities

in CHF 1,000 (Art. 24e Par. 1 Point 4.1 FL-BankO)	12/31/2010	12/31/2009	Variance absolute	Variance in %
Contingent liabilities				
Credit guarantees and similar	1,338	1,218	120	9.9
Performance guarantees and similar	88,731	112,633	–23,902	–21.2
Other contingent liabilities	0	0	0	n.a.
Total contingent liabilities	**90,069**	**113,851**	**–23,782**	**–20.9**

Unsettled derivative financial instruments

in CHF 1,000 (Art. 24e Par. 1 Point 4.3 FL-BankO)	Trading instruments			Hedging instruments		
	Positive replacement values	Negative replacement values	Contract volumes	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments						
Swaps				141	6,604	280,365
Futures						936
Options (OTC)	12	277	44,400			
Foreign exchange / precious metals						
Forward contracts	35,390	16,546	1,288,638		748	103,543
Combined interest / currency swaps	20,947	38,949	1,748,327			
Options (OTC)	2,817	2,817	211,063			9,400
Equity instruments / indices						
Forward contracts						
Futures						4,330
Options (OTC)	1,933	1,933	12,236			
Total prior to consideration of netting agreements, 12/31/2010	**61,099**	**60,522**	**3,304,664**	**141**	**7,352**	**398,574**
Total prior to consideration of netting agreements, 12/31/2009	37,997	37,196	2,953,044	182	2,912	52,263

VP Bank has no netting agreements.

Fiduciary transactions

in CHF 1,000 (Art. 24e Par. 1 Point 4.4 FL-BankO)	12/31/2010	12/31/2009	Variance absolute	Variance in %
Fiduciary transactions				
Fiduciary deposits	1,898,861	2,752,626	–853,765	–31.0
• fiduciary deposits with third-party banks	1,850,392	2,563,152	–712,760	–27.8
• fiduciary deposits with affiliated banks and finance companies	48,469	189,474	–141,005	–74.4
Fiduciary loans	3,095	3,465	–370	–10.7
Other fiduciary transactions of financial nature	0	0	0	0.0
Total fiduciary transactions	**1,901,956**	**2,756,091**	**–854,135**	**–31.0**

Information regarding the income statement

in CHF 1,000 (Art. 24e Par. 1 Point 5.2 FL-BankO)	2010	2009	Variance absolute	Variance in %
Income from trading activities				
Gains/losses from securities	180	–125	305	–243.1
Gains/losses from foreign-exchange derivatives	20,748	–6,263	27,011	–431.3
Gains/losses from foreign-exchange transactions	18,552	17,800	752	4.2
Gains/losses from trading in bank notes	–130	180	–310	–172.4
Gains/losses from precious metals	375	594	–219	–36.9
Total income from trading activities	**39,725**	**12,186**	**27,539**	**226.0**

in CHF 1,000 (Art. 24e Par. 1 Point 5.3 FL-BankO)	2010	2009	Variance absolute	Variance in %
Personnel expenses				
Salaries and wages	60,546	61,900	–1,354	–2.2
Social security costs and staff retirement pensions and assistance costs	12,014	11,341	673	5.9
of which for staff retirement pensions	10,788	10,089	699	6.9
Other personnel expenses[1]	3,927	4,393	–466	–10.6
Total personnel expenses	**76,487**	**77,634**	**–1,147**	**–1.5**
Emoluments of members of the Board of Directors[2, 3]	895	895	0	0
Compensation of members of Group Executive Management[3, 4]	2,577	4,100	–1,523	–37.2

[1] The prior year's comparative figure has been adjusted accordingly.
[2] Social costs and any applicable value-added taxes on the emoluments paid to Board members are not included.
[3] Compensation for out-of-pocket expenses is not included.
[4] The compensation entitlement for the current year has been recorded (excluding any applicable vesting rights from LTI).

in CHF 1,000 (Art. 24e Par. 1 Point 5.4 FL-BankO)	2010	2009	Variance absolute	Variance in %
General and administrative expenses				
Occupancy expenses	3,057	3,189	–132	–4.1
Expenses for IT, equipment, furniture, motor vehicles and other installations	16,280	14,940	1,340	9.0
Other business expenses[1]	22,376	30,419	–8,043	–26.4
Total general and administrative expenses	**41,713**	**48,548**	**–6,835**	**–14.1**

[1] The prior year's comparative figure has been adjusted accordingly.

in CHF 1,000 (Art. 24e Par. 1 Point 5.5 FL-BankO)	2010	2009	Variance absolute	Variance in %
Extraordinary income				
Extraordinary expense[1]	0	8,250	–8,250	–100.0
Creation and release for provisions for general banking risks				
Creation and earnings from release for provisions for general banking risks	8,250	–8,250	16,500	n.a.

[1] Release of deferred tax liabilities.

Other assets and liabilities

in CHF 1,000 (Art. 24e Par. 2 Point 6 FL-BankO)	12/31/2010	12/31/2009	Variance absolute	Variance in %
Other assets				
Precious metals	60	188	–128	–68.1
Unsettled derivative financial instruments (positive replacement values)	61,240	38,179	23,061	60.4
• trading positions	61,087	38,179	22,908	60.0
• liquidity positions	153	0	153	n.a.
Clearing accounts	6,604	2,912	3,692	n.a.
Settlement accounts	1,586	7,312	–5,726	–78.3
Miscellaneous other assets	441	2,340	–1,899	–81.2
Total other assets	**69,931**	**50,931**	**19,000**	**37.3**
Other liabilities				
Accounts for disbursement of taxes and fees	4,580	6,066	–1,486	–24.5
Unsettled derivative financial instruments (negative replacement values)	67,874	40,108	27,766	69.2
• trading positions	60,993	40,108	20,885	52.1
• liquidity positions	6,881	0	6,881	n.a.
Compensation accounts	140	182	–42	–22.6
Settlement accounts	7,260	78,025	–70,765	–90.7
Miscellaneous other liabilities	1,263	6,381	–5,118	–80.2
Total other liabilities	**81,117**	**130,762**	**–49,645**	**–38.0**

Report of the Auditors

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

As statutory auditor, we have audited the accounting records and the financial statements (balance sheet, income statement and notes – pages 150–173), and the annual report (page 150) of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, for the year ended December 31, 2010.

These financial statements and the annual report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these 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 that 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 for the year ended December 31, 2010 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, the 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	Bruno Taugner
Certified Accountant (Auditor in charge)	Certified Accountant

Berne, March 4, 2011

al banking market via its correspondent-bank network
P Bank collaborated with firms such as the European bran
stations in the international financial centers until 1988. A
g in early September 1986, the bank's international advisory s
d by home-country bank supervisory authorities. As a bankin
es in the Grand Duchy. Surprisingly, VP Bank's board of di
one in Luxembourg and the other in Switzerland. In order to
HF 4 million. In 1989, the firm was converted into a bank
ew business opportunities for foreign companies situated in
(Switzerland) Ltd. After the founding of these two subsidiari
companies; the first were opened in 1991 and 1993 in Munich
hanged circumstances – in addition to adjustments in the
ry 1, 1995 – VP Bank and ATU have been evaluating various o
VP Bank and Trust Company (BVI) Ltd. as a joint venture,
bsequently opened representative offices in Moscow and Hong
dsleitung AG was founded in Vaduz with an initial share
the new Investment Undertakings Act. Afterwards, VP Bank
or third parties (so-called "private label funds"). Additional f
d VP Bank Funds and private label funds totaling appro
ner succeeded former chairman Erich Seeger and became
the Berner Kantonalbank. In his place, Rolf Kormann was
adjustments in the banking industry. For that reason, mana
the rationalization measures. After having grown in leaps an
at its strengths could be better exploited and its weaknesses m
nts. Equally spoken, it still wanted to rely on its firms local
e array of "efficient services" and, on the other, by remaining
The bank's intention was to achieve the highest possible
of the Principality while becoming less dependent on those a
d level. The key elements of the newly formulated strategy
. The previously product-related matrix was replaced by a

Trends in Private Banking

The financial crisis was a jarring blow to the private banking industry. This was less due to the crisis per se than to its ultimate consequences: heightened regulation, the watering-down of banking secrecy, as well as the more critical view clients are adopting of the financial industry as a whole, have forced banks to adapt their business models. This applies especially to the transnational private banking industry.

A growing private banking market

In 2010, the major auditing and consulting firms published comprehensive studies on the future of private banking. Although the empirical data relate to Switzerland, the basic statements are also valid for the Liechtenstein financial center. The good news: the industry is once again looking to the future with optimism. According to KPMG, 75 percent of the polled institutions expect the market for private banking to grow. Ernst & Young's "Bank Barometer" confirms this upbeat mood: 58 percent of the surveyed banks are anticipating a favorable, and 34 percent a very favorable course of business. However, the studies also reveal that the fundamental upheaval in the market environment has intensified the competition in private banking, and a consolidation of the market has to be reckoned with.

Increasing competition

Just how challenging the private banking business has become is substantiated by the findings of a PwC investigation: the days of continuously growing sums of assets under management are over; the flows of new money are diminishing. Only rising prices in the capital markets can compensate for the lack of net new money. Margins are on the decline – in 2008 and 2009 by a net 38 percent – and costs are increasing. In the Swiss private banking industry, the average cost/income ratio (before write-downs) rose between 2006 and 2009 by 14 percentage points from 65 to 79 percent. By way of comparison: for 2009, the five largest Liechtenstein banks reported an average cost/income ratio of 56 percent.
The falloff in profitability is therefore, also for larger banks, the key argument in favor of a consolidation. Small institutions see the problem mainly from the standpoint of gaining critical mass. Intensified regulation – the second most important rationale for a market shakeout according to KPMG – is intertwined with the other two aspects because compliance costs put pressure on margins. These costs add up particularly in the transnational private banking industry. Nonetheless, the banks want to hold on to that cross-border business. Above all, they wish to cultivate

> There are practically no market-exit scenarios – with one exception: several of the institutions are weighing a retreat from the US market.

more intensively the Western European, Latin American, Eastern and Southeast Asian markets, as well as Middle Eastern markets. There are practically no market-exit scenarios – with one exception: several of the institutions are weighing a retreat from the US market.

Security and transparency

The transnational business offers the promise of sustainable growth only if it is possible to comply with the increasingly complex regulatory provisions and simultaneously satisfy the greater demands of clients. The KPMG survey reveals a consensus among the banks: in the coming years, their strategic focus will be on developing and implementing an offshore banking model that meets all regulatory requirements.

Almost two-thirds of the institutions consider this a unique chance to explore new business opportunities. The banks are placing the highest priority on compliance with EU regulations. Although Western Europe is viewed as the most important foreign market, only 35 percent of the Swiss respondents have integrated the provisions of MiFID (Markets in Financial Instruments Directive) into their internal regulatory policies. But in this regard, the majority of banks foresee a convergence of European and Swiss standards on investor protection and transparency. In Liechtenstein, the adoption of MiFID has been a reality since November 1, 2007. The directive was primarily translated into national law through corresponding amendments of the Banking Act and Asset Management Act.

Transparency in tax matters is yet another trend in the transnational private banking industry. The majority of surveyed Swiss institutions are convinced that this is an essential prerequisite for a rule-compliant offshore strategy. It is questionable whether tax transparency will lead to an outflow of money. After all, an increasing number of clients are demanding that their bank not only performs, but also offers security and transparency. Most of the banks reckon that they can retain their clients if they conduct their investment activities under a declared status.

The banks must and will intensify their client relationships – this was a common finding in all of the surveys. Private clients have become more demanding: they expect to be served by a competent advisor who can listen; they want to have a say in the investment strategy; and they desire not only performance, but transparency as well. The banks find themselves forced to reorient their philosophy of client relationship management: it is imperative to approach clients proactively, conduct dialogues rather than monologues, provide insight into the whys and wherefores of investment ideas, and offer a good mix of proprietary and third-party products. Centers of Excellence can assist client advisors in devising optimal solutions for and together with the client.

New business models

For private banks, an era of tax transparency has unfolded, one in which client trust must be won back; trust in the markets, trust in the advice received, and trust in the services of the bank. Here, too, the majority of banks are in agreement: the introduction of new business models will take three years. And those models will be accompanied by major changes in terms of structures and human resources.

The Liechtenstein banks are a step ahead of many of their Swiss competitors. They have already implemented many of the requirements for tax transparency – in harmony with the government's strategy that explicitly aims to "… encourage the financial center's role as a tax-compliant destination and to strengthen its transparency and accountability" (Liechtenstein Declaration of March 2009).

Cited studies: KPMG in collaboration with the Management Institute of the University of St. Gallen: "Defining the Future of Swiss Private Banking" (2010); Ernst & Young: Bank Barometer 2011 "Positive Zukunftsaussichten trotz fundamentaler Herausforderungen?" (2011); PwC: "Heading for new horizons. Private banking in Switzerland" (2010)

Corporate Values and Corporate Culture

"Values" is a term from moral philosophy. It implies a ruling on those things that society understands to be right as opposed to wrong – even though there is by no means always a consensus on the given matter. So what business do values have being in the world of business? In an environment of securities prices and financial figures, "value" in the singular would of course be much more appropriate.
But think about it: not only do modern companies wish to create value through their products and services, generate added value for their shareholders, and increase their enterprise value – they also want to nurture their own values. This lends them a certain moral legitimacy. Corporate values shape the reputation of a company in the eyes of the outside world, and inside the company act to foster a sense of identity. They embody the supreme guiding principle for the comportment of all employees – from the board of directors down to the warehousemen – and are therefore tightly intertwined with the corporate culture.

Values increase performance
Several years ago, strategy consulting firm Booz Allen Hamilton and the Aspen Institute conducted a global investigation to determine if and how corporate values actually generate value. Their findings reflect the responses of 365 companies. And today, six years after the survey, they are still likely to be representative of the consensus, according to which the companies generally establish their values along the same lines. They formulate a set of values and attempt to incorporate them into their managerial practices. By doing so, they hope the value-consistent comportment of their employees will accrue to the benefit of both internal and external stakeholder groups, which in turn reinforces the rectitude of those values.

The survey came to the following conclusions:
- ethical behavior is viewed as part and parcel of the license to operate;
- most companies believe that those values influence two important strategic aspects: relationships and reputation; however they perceive no direct connection with corporate growth and have derived no yardstick for return on values;
- financially successful companies emphasize the interrelationship between their corporate values, operating activities and performance;
- most of the respondents view the "tone at the top" as being the most decisive element for implementing values within their organization.

Living the values

> Corporate values are only credible when senior management lives and breathes them.

The keywords here are "tone at the top": corporate values are only credible when senior management lives and breathes them. If values are to permeate the entire organization, they have to be based on conviction, as well as the comprehension that they are good for the company and its stakeholder groups. Values are not a party line or marketing slogan, but are instead a personally internalized code of conduct. And they apply in economically good and bad times.

Values shape the management style, the personal interaction within a company and the way that clients are treated – in short, they determine the corporate culture. Economics professor Jean-Paul Thommen defines this term in the following way: "Corporate culture is deemed to be the totality of norms, value perceptions and mind-sets that mark the behavior and hence the image of a company."

The personality profile and comportment of managers are frequently underscored as the defining characteristics of a corporate culture. This is correct to a certain extent, but it does not go far enough. Because ultimately, the corporate culture is defined through each and every employee. It should come as no surprise that many companies these days try to find the "appropriate" employees, people who not only have the required skills but who also are in sync with the mind-set and behavioral code of the company's culture.

Essential communication

The way in which one communicates is another key factor in a corporate culture. The flow of information both internally and externally, as well as the style with which information is communicated, offers clues to the type of culture that prevails in a company. If values are to be perceived as credible, they have to be evident in the communication – because communication is the means of projecting values and culture to the outside world.

Many companies summarize their values in "mission statements", adopt codes of conduct and stipulate guidelines for grooming and appearance. All of this serves to safeguard identity and image, but there is one factor that should not be ignored: the value set and corporate culture must also crystallize in terms of corporate governance. Or in other words: the corporate constitution and corporate culture must be coherent. Good governance nurtures the culture; bad governance can destroy it.

At the latest now it should be clear that corporate values can also create value. Today, good corporate governance is a license to operate. Regulators and supervisory authorities call for it; stakeholders, providers of capital and the broad public demand it. Reputation is something that is perhaps impossible to measure – but it, too, is a value; one that gains expression in client relationships, a company's attractiveness as an employer, and at the end of the day also on the stock exchange.

These observations are nothing new. Management theoreticians Thomas J. Peters and Robert H. Waterman already wrote in 1982: "Every excellent company we studied is clear on what it stands for, and takes the process of value shaping seriously. In fact, we wonder whether it is possible to be an excellent company without clarity on values and without having the right sort of values."

Booz Allen Hamilton / The Aspen Institute: Deriving Value from Corporate Values (2004)

Post-Financial-Crisis Client Advice

The effects of the financial and economic crisis have led to a change in climate in the banking world, especially in the field of asset management for private clients. The situation in the financial markets, but also the debate surrounding international financial centers, is a central topic these days in discussions with clients. Uncertainty about interest-rate developments and foreign currency fronts, as well as the contention over international and domestic regulations, have made one thing clear: to compete on a global scale, banks must offer their clients a broad spectrum of competencies and capabilities in wealth management. Four crucial factors take center stage in this regard: quality, loyalty, transparency and privacy.

Quality

Banks must now invest more heavily in the quality of their advice and processes. The training of their employees is more important than ever, as is the selection of suitable advisors. Here, companies are called upon to ensure that, by means of a broad range of educational opportunities and a targeted approach to recruitment, they have highly qualified advisors – both professionally and personally – on board who are not merely administrators of client assets, but are also active counselors who closely follow and can interpret economic and political developments.

Loyalty

The times in which bank clients had the same banking relationship for an entire lifetime are history. Today, clients frequently compare a number of offers before arriving at a decision. Changing to another institution has been made easy, and that option is open to the client at any time. There is also the fact that comparing products and conditions has become simpler – mainly thanks to the Internet. Moreover, Internet banks are aggressively soliciting client funds at conditions that established financial institutions can hardly match. Here, it is a matter of justifying those higher costs by affording traditional values such as integrity, profound know-how and personal engagement. In an age in which products, services and companies are becoming progressively interchangeable, differentiation can only be achieved through "soft factors" such as personality, empathy and flexibility. To cement client trust, it is necessary to foster a relationship based on continuous, easily understood and honest dialogue. Each and every client wants the assurance that they are being taken seriously and accompanied in the best possible manner.

Transparency

The clients of today know exactly what they want – and also what they don’t want. That applies to product selection just as much as it does to performance. Given that clients are more informed these days, the advisory process has to be conducted at eye level and as a partnership. Clients want to have a say, want to know what is happening with their money, and need to be convinced that the investment process or product recommendation suits them. The advantage a particular investment strategy or financial product offers them must be clearly recognizable. For that reason, each client advisor represents a decisive link in the entire investment process and, by providing open and cooperative counsel, contributes greatly to client satisfaction.

The clients of today know exactly what they want – and also what they don't want.

Privacy

The inviolability of the private sphere is at odds with the increasing call for an international exchange of personal information. But between the totally transparent client and the total confidentiality of client data lies a divide that is being progressively regulated by legislation and codes of conduct. Whatever the case, life is becoming more difficult for tax refugees. Here, the advisor is obligated to draw clients' attention to the necessity of properly declaring their assets and, as the case may be, will be forced to refuse the acceptance of funds.

Conclusion – client focus

Banks and asset managers have recognized that, given these new circumstances, they have to work their markets more intensively. Many financial services institutions are capitalizing on that fact by investing more heavily in training, in infrastructure and in their own reputation by developing client-bonding programs and advisory initiatives in the crucial areas of taxation and investment funds, or by offering specific products and services.
"Open architecture" in terms of products lends credibility to, and heightened trust in, the advice a bank provides. Assuming that this principle is applied consistently, it guarantees unbiased counsel: with no conflicts of interest in the background, the advisor can select the most suitable financial products and services and, together with the client, arrive at the best solutions to any given issue. However, even the most trusted advisor cannot be highly versed in every specialized area. Thus, for clients who have complex financial circumstances, the advisor must be in a position to draw on the skills of experts on particular topics and include those persons in the discussion.

Sustainability in the Financial World

A transformation has been underway at many companies in recent decades: no longer can an enterprise afford being labeled as a ruthless profit hunter. While even as late as the 1980s the topic of sustainability was primarily associated with environmentalism and a somewhat negative post-hippie image, today there is only a positive impression to be made. Sustainability is by no means a hindrance to success but instead offers outstanding opportunities for profitable and responsible growth.

> Sustainability is by no means a hindrance to success but instead offers outstanding opportunities for profitable and responsible growth.

In this day and age, economic success is practically inconceivable throughout the world without taking into account the social and ecological aspects of one's business activities. The understanding of sustainability is an all-encompassing element of day-to-day corporate practices: it extends from purchasing to operational ecology, all the way through to production policy and investor relations. Moreover, sustainable dealings have evolved into being a decisive driver of growth and innovation.

By the same token, communication is called for in this regard, because sustainability is also an increasingly important competitive factor. Precisely in the financial services industry, where products are becoming more interchangeable with each passing day, companies are faced with the task of not being viewed as interchangeable. So yes, commercial success these days is also dependent, to an increasing degree, on public perception. Credible and strategically fitting sustainability communication is therefore just as important as the measures themselves. As Marshall McLuhan once said, "The message is in the media."

Three levels

Sustainability is defined by the three Ps: people – profit – planet. This principle, which is also referred to as the "triple bottom line", therefore embraces the three areas of economy, ecology and society. Depending on the nature of the given company, accents can be set on these specific areas in different ways. Ecology, i.e. the environmental dimension, would appear to be the easiest of the three: one takes measures to minimize the burden on the environment by separating refuse, reducing energy consumption and utilizing environment-friendly technologies.

Sustainable business practices, in terms of the economic dimension, are aimed at generating durable and solid profits. But they also involve organizational and regulatory precautions to prevent corruption or enhance risk management.

The social dimension mainly pertains to the employees of a company, but also extends to the support of social initiatives. A company's commitment to society is also referred to as corporate citizenship: it is a sign of responsibility vis-à-vis the outside world. That includes the financial sponsorship of local clubs and associations, as well as participation in humanitarian projects.

A sustainable financial world

Banks serve as a hub for financing myriad activities in this world, and therefore bear added responsibility in the overall economy. For banks, there are three areas in which they can implement sustainability in a strategic manner:
The classic area is in their operative business. As previously mentioned, this is where operational ecology comes into play. The related measures span the gamut from consuming energy sparingly to buying office materials with an eye on ecological responsibility. In their core business, banks develop and recommend new products and services that facilitate responsible forms of investment. The range of offerings in this regard is growing continuously and, under the banner of SRI (socially responsible investing), has gained a firm foothold in the financial world. In the area of corporate leadership, the topics of corporate governance and professional risk management – i.e. a clear understanding of all risks involved – are of central importance.
In the commercial world, codes of conduct have gained sway, and companies are complying with it to varying degrees. Each company should define the rules of comportment that apply to employees as well as top management. Apart from compliance with legal provisions, that codex can also encompass moral standards and ethical principles that stipulate the "ground rules" in everyday business life.

The true core capital

Sustainability is a key element of any organization. It opens the door to long-term solutions and focuses on permanence and value consciousness. Responsibility – in all of its definitions – as well as sustainability must be present, lived and breathed in each and every corner of a company. A prerequisite for that is senior management's firm avowal of this principle.
The financial crisis has shown that, apart from financial solidity, trust is a company's true core capital. Investments in sustainability also represent investments in the future of a company. Thus a targeted sustainability strategy accrues to the benefit of not only the company, but also to the best interests of its stakeholders and society as a whole – an exemplary triple-win situation.

The financial crisis has shown that, apart from financial solidity, trust is a company's true core capital.

Private Label Funds

The demand for private label funds has increased sharply in recent years. Private label funds are investment vehicles that independent asset managers or institutional investors launch on their own. In addition, family offices are also showing interest in issuing this type of fund for qualified investors. As the name suggests, private label funds are typically offered in the name of the issuing entity and pursue an investment policy defined by the fund promoter or fund manager. The special allure of private label funds comes from the fact that the value chain of the fund is divided up: the fund management, fund administration and custodian bank aspects are the responsibility of an investment company or bank, while the asset management, marketing and distribution of the fund is the job of the investor or asset manager, who has the option of delegating those tasks to a third party.
For asset managers, private label funds open up a pooling opportunity that provides a number of advantages: the asset management company offers its own product under its own name and thereby underscores its independence; the ultimate performance of the fund is a good marketing tool in the asset manager's client acquisition efforts; the manager need not attend to the legal, administrative and operative aspects of the fund, therefore he can concentrate on his core competence – asset management – and on client care.

Growing investment fund center Liechtenstein

Liechtenstein has developed into a prospering investment fund center in recent years, one that is characterized by short decision-making paths, a professional financial market supervisory authority (the FMA) and a resolute focus on client needs. In addition to the high degree of flexibility the fund center offers thanks to the wide array of fund types that are available, another advantage is to be found in the tax treatment of the given fund: on one hand, the assets managed in Liechtenstein-based funds are not taxed, meaning that taxation takes place only at the investor level; and on the other, no stamp tax is charged.
Establishing an investment fund is no complicated matter: the Financial Market Authority grants its approval within several weeks' time. Being geographically and legally embedded in the Principality makes it possible for the fund manager to be active in the entire EEA as well as to benefit from the advantages and proximity of the Swiss financial center. Thus a small yet superb investment fund center has come into being. Its EEA membership obligates Liechtenstein to adopt all legislation of relevance to the fund sector and enables cross-border distribution of a Liechtenstein-based fund as long as it is in compliance with the provi-

Private label funds are investment vehicles that independent asset managers or institutional investors launch on their own.

sions of Directive 85/611/EEC on Undertakings for Collective Investment in Transferable Securities (UCITS). Through the approval of the Financial Market Authority Liechtenstein, these funds have a "Europass" and, based on a simple notification procedure associated with the free exchange of services, can be distributed anywhere in the EEA. As a result, fund management companies have easy and non-discriminative access to the EU marketplace.
The Liechtenstein investment fund center not only supports UCITS funds, but also domestic fund types that enable the promoter to implement all investment strategies and investment themes, and thereby offer the highest degree of flexibility.
The Liechtenstein investment fund center is growing continuously. According to statistics compiled by the Liechtenstein Investment Fund Association, at the end of 2010 there were a total of 663 Liechtenstein-based funds with a collective value of CHF 40 billion. This represents a doubling of the fund volume over the past ten years, and the trend should also persist in the years to come.

These are the advantages of the Liechtenstein investment fund center:

- The approval periods are legally specified and, depending on the given fund type, last two to five months. Through implementation of the new UCITS IV Directive in Liechtenstein, the approval periods for European funds should be shortened significantly.
- Funds intended only for qualified investors do not require formal approval; issuance is possible within several weeks' time.
- The minimum permissible amount of assets per fund is CHF 2 million.
- The disclosure obligations can be fulfilled by electronic means.
- Funds can be structured as either open-ended or closed-ended.
- Public and special funds of all kinds can be issued, thereby satisfying the widest range of differing needs.
- Thanks to its EEA membership, Liechtenstein has EU-compatible funds: Liechtenstein UCITS III funds can be distributed throughout the Eurozone.
- The Financial Market Authority Liechtenstein (FMA) is officially recognized in Europe.