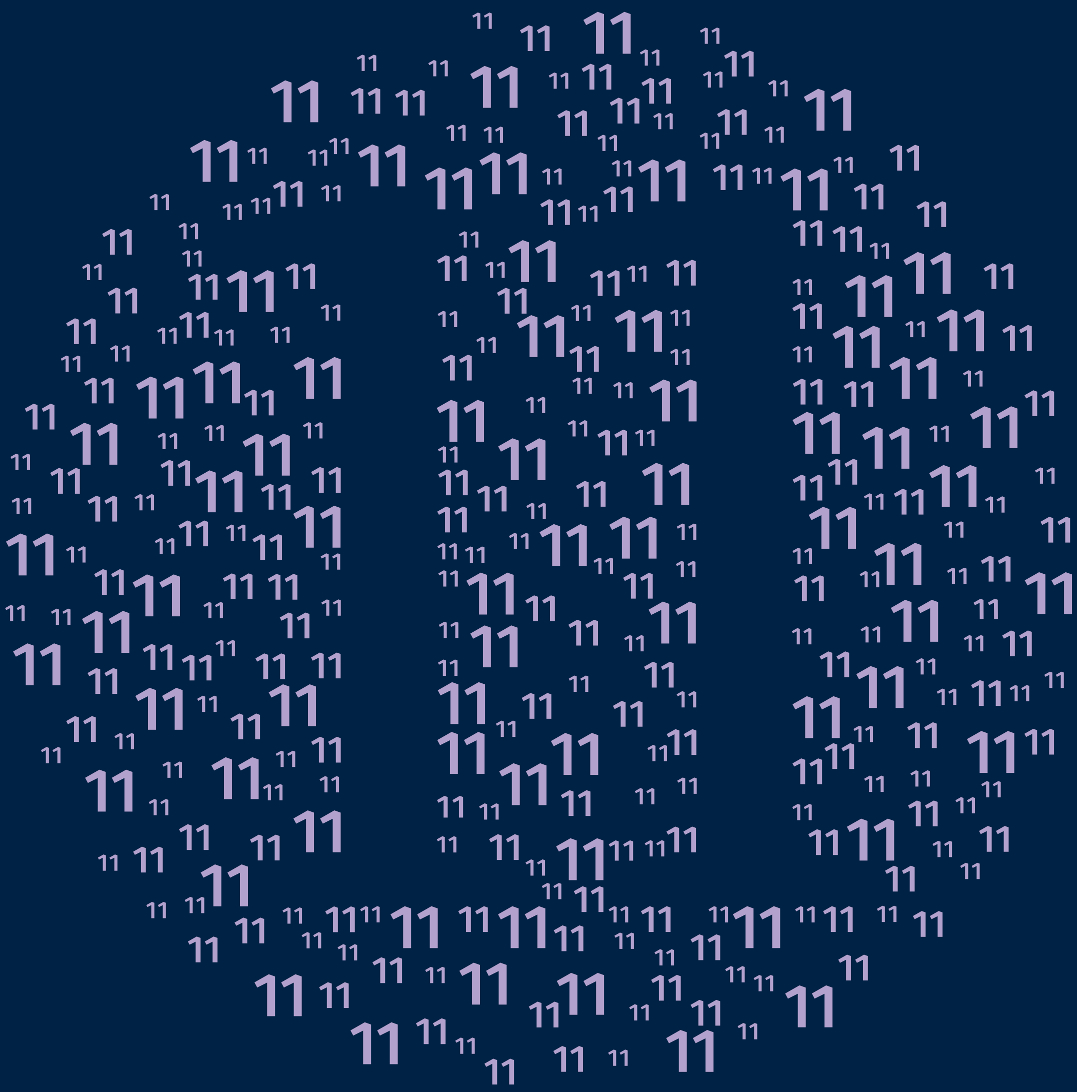


Annual Report 2011

VP BANK

Shareholder information

Tuesday, 6 March 2012
Media and analyst conference, 2011 financial results

Friday, 27 April 2012
49th Annual General Meeting of shareholders

Friday, 4 May 2012
Dividend payment

Tuesday, 28 August 2012
Roundtable, 2012 semi-annual results

Core data on shares

Bearer shares listed on SIX Swiss Exchange

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

Contents

5 Corporate governance

6 Financial report 2011 of VP Bank Group

7 Financial report 2011 Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz

Statement

Dear Shareholders,
Ladies and Gentlemen

The consolidated net income of VP Bank Group for the 2011 financial year amounted to CHF 6.4 million. That result was influenced by the persistent uncertainties within the euro zone and the deteriorating global economic outlook. The historically low level of interest rates fell even further in the second half of 2011. These adverse conditions led to lower margins and restrained client activities. The negative valuation for interest rate swaps, which were utilised to hedge interest risks, had a particularly unfavourable impact.
The interest income contributed CHF 66.6 million (–10.6 per cent) to VP Bank Group's operating results. That evidences today's low interest rates, even though our lending volume increased significantly. Income from the commission and services business declined to CHF 121.9 million (–8.3 per cent), while revenues from trading activities on behalf of clients eased to CHF 24.3 million. Currency hedges produced a substantially lower profit of CHF 5.0 million. Gross income declined by 11.4 per cent versus the previous year to a total of CHF 224.5 million.
These income figures compare with total operating expenses of CHF 177.7 million (–1.0 per cent). Thus through systematic cost management, outlays were reduced for the third consecutive year.
The cost/income ratio stood at 79.2 per cent, clearly higher than in the previous year (2010: 70.9 per cent). Shareholders' equity remained stable at a high level of close to CHF 900 million, while total assets increased slightly to CHF 10.7 billion (+1.4 per cent).
Very pleasing, however, was the net inflow of new money (NNM) in 2011: during the course of the financial year, VP Bank Group on balance attracted CHF 1.0 billion in new client funds. The positive trend in NNM that was observed already in 2010 (+CHF 0.1 billion) not only persisted last year, it accelerated significantly. This substantial net inflow is evidence of the trust VP Bank Group has earned and documents that the Group is well positioned in its various markets and locations. On account of performance- and currency-related factors, client assets under management at VP Bank Group amounted to CHF 27.4 billion at the end of 2011. Assets held in custody also experienced a decline in value to CHF 11.5 billion. Consequently, total client assets including those held in custody closed out the year at CHF 39.0 billion.

Dividend proposal

At the annual general meeting on 27 April 2011, the Board of Directors will propose a dividend of CHF 1.50 per bearer share and CHF 0.15 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 growth of VP Bank Group.

General business environment

Again last year, the overall negative business environment was harsher. In particular, cross-border asset management was targeted by domestic and international regulations. As a result, national location-specific advantages have been diluted and the new rules are leading to higher administrative costs for financial services providers. These developments pertain especially to the exchange of information in tax matters. Thus it is all the more important that each individual financial centre, in a constructive collaboration between policymakers and members of the financial industry, works up clearly defined goals in order to systematically implement far-sighted changes. In the Liechtenstein Declaration of 12 March 2009, the Principality specified those goals, thereby not only lessening the uncertainties but also improving the market environment in general. Also in future years, financial centres such as Liechtenstein and Switzerland – apart from the service quality and political stability they offer – will be in a position to lay claim to the legal certainty and orderly process of law that represent the very cornerstones of client trust.

Targeted initiatives

Since 2009, the Board of Directors has adopted a wide array of resolutions concerning the business model and organisation of VP Bank Group. Last year's inflow of net new money is an indication that VP Bank Group's strategy of expanding onshore banking activities in selected locations and adapting the offshore banking business to the new circumstances is the right path. In the past year, coordination between the various locations was redoubled, and that collaboration will be intensified even more by the fact that, as of 1 January 2012, all of the Bank's locations are now working with the Avaloq banking software system. We are convinced that, with these investments in future-oriented technology, VP Bank Group is well equipped to implement its strategy and face the challenges that lie ahead. The altered circumstances referred to above have a direct influence on the Bank's service quality prerequisites. They are essentially based on the skills of our employees. In a comprehensive programme with the University of Liechtenstein, VP Bank is increasing all Client Advisors' expertise in tax matters, and in the past year has grappled extensively with the topic of cross-border asset management. Anticipated future regulations such as FATCA were also the subject of in-depth consultations.

Management and organisation

The management organisation at VP Bank was adapted for effect as of 1 January 2012. Georg Wohlwend, Head of Banking Liechtenstein, has been added to Group Executive Management (GEM). Simultaneously, Executive Board at the head office in Vaduz, which previously acted in multiple capacities, has been accorded a higher status and reinforced by Rolf Jermann, Head of Commercial Banking. In this connection, the Investment Services unit was reorganised with the aim of further enhancing the client-orientation of the Bank's services. Personnel are being added in an effort to cultivate the growth markets of Asia and Central/Eastern Europe. The new Head of Asia/Pacific has the mandate to systematically develop that region, which is a key to the further development of VP Bank Group.
Given that the Board of Directors has chosen to propose Fredy Vogt, long-standing Chief Financial Officer of VP Bank, for election to the Board of Directors at the annual general meeting of shareholders, 27 April 2012 , his post will be assumed by Siegbert Näscher, who to date has been Head of Finance & Risk. We thank Fredy Vogt for his many years of outstanding service, as well as for his exemplary loyalty and meaningful contribution to the development of VP Bank thus far.

Outlook

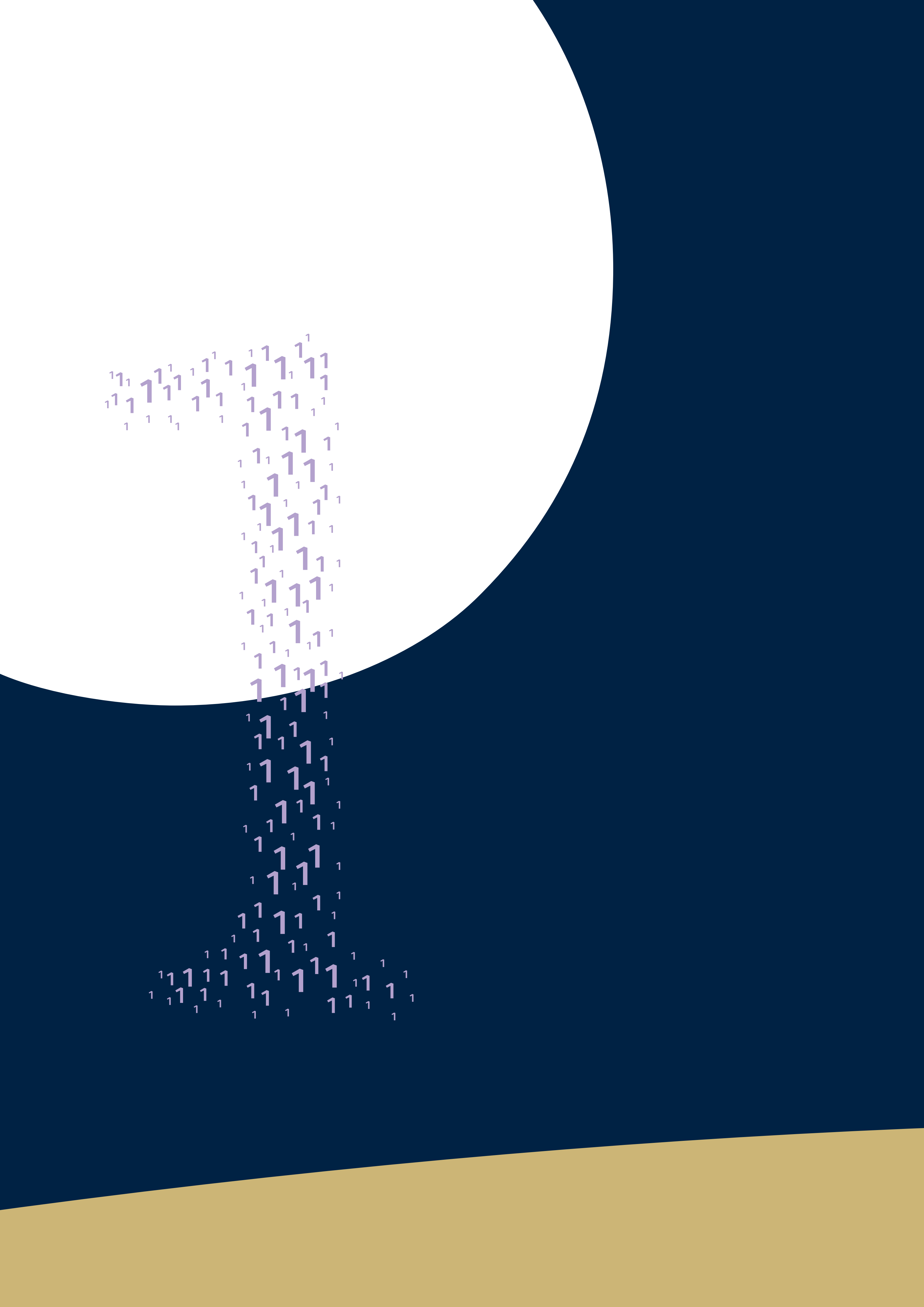
In late November 2010, VP Bank redefined its medium-term goals: we are striving for an average annual 5 per cent increase in net new money, a cost/income ratio of 65 per cent and a tier 1 ratio of 16 per cent. Again in 2011, VP Bank clearly exceeded that tier 1 target. The capitalisation of VP Bank remains solid indeed and will more than suffice the requirements of Basel III. In terms of net new money, a reading of 3.5 per cent of assets under management was achieved. Systematic efforts throughout the organisation should make it possible to reach the 5 per cent NNM target in the current year. The same ambition applies to the cost/income ratio: VP Bank has introduced an efficiency programme which should increase the Bank's performance furthermore and lower its cost base sustainably. VP Bank's cooperation with Liechtensteinische Landesbank AG in the areas of logistics and IT also serves to achieve the goal of enhanced efficiency. Two projects have already been successfully realised, and the jointly utilised data processing centre is under construction. Further projects are being assessed at present.

A word of gratitude

Both from the numbers and the reportage in this annual report, it is clear that major tasks lie ahead for VP Bank Group. Our quest is to achieve the highest possible quality and efficiency on behalf of our clients. We thank our employees for the commitment they devote to achieving the goals of VP Bank and for their conviction to use client satisfaction as the guiding principle in their actions.
We should also like to express our thanks to the clients of VP Bank for the loyalty, trust and partnership they have demonstrated to us especially in the past year.
But special thanks go to you, our valued shareholders, for your faith in our work. We will continue to do our utmost to enhance the financial well-being of our clients and, hence, the value of your investment in VP Bank.

Hans Brunhart
Chairman of the Board of Directors

Roger H. Hartmann
Chief Executive Officer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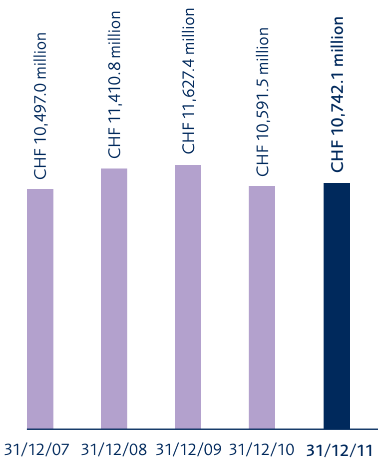
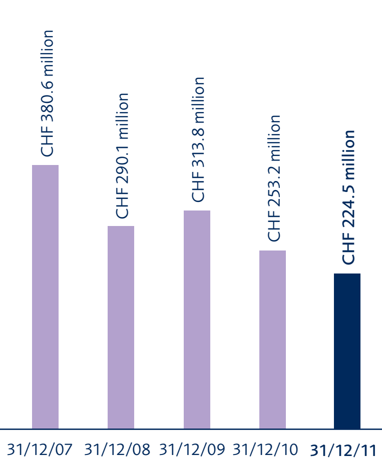
VP Bank Group

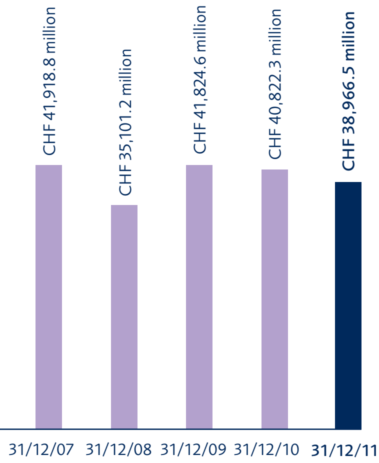
Key figures of VP Bank Group



Total assets

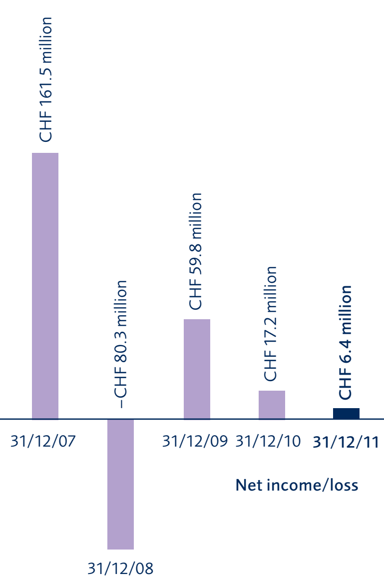


Total net operating income

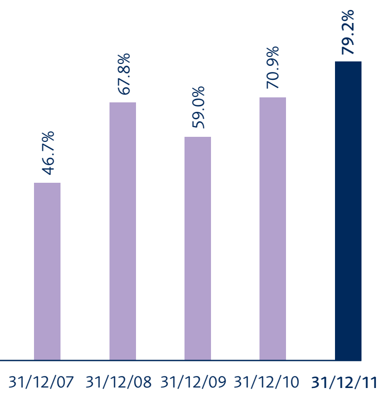


Client assets

Total shareholders' equity



Net income/loss



Cost/income ratio

Key figures of VP Bank Group

	2011	2010	Variance in %
Key balance sheet data in CHF million[1]			
Total assets	10,742.1	10,591.5	1.4
Due from banks	5,143.9	5,622.8	–8.5
Due from customers	3,851.1	3,266.9	17.9
Due to customers	8,692.5	8,707.2	–0.2
Total shareholders' equity	898.6	915.6	–1.9
Shareholders' equity, attributable to shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	879.6	897.8	–2.0
Equity ratio (in %)	8.2	8.5	–3.4
Tier 1 ratio (in %)[2]	18.2	19.0	–4.2
Key income statement data in CHF million			
Total net operating income	224.5	253.2	–11.4
Interest income	66.6	74.5	–10.6
Income from commission business and services	121.9	133.0	–8.3
Income from trading activities	29.4	45.9	–36.0
Operating expenses	177.7	179.5	–1.0
Net income	6.4	17.2	–62.9
Net income attributable to shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	4.3	15.1	–71.3
Client assets in CHF million[2]	**38,966.5**	**40,822.3**	**–4.5**
On-balance-sheet customer deposits (excluding custody assets)	9,028.4	9,288.1	–2.8
Fiduciary deposits (excluding custody assets)	696.6	580.3	20.0
Client securities accounts	17,703.8	18,357.7	–3.6
Custody assets	11,537.7	12,596.2	–8.4
Net new money	994.5	75.9	n.a.
Key operating indicators			
Ratio of foreign assets (in %)	47.3	49.6	–4.5
Return on equity (in %)[1, 3]	0.5	1.7	–71.1
Cost/income ratio (in %)[4]	79.2	70.9	11.7
Headcount (expressed as full-time equivalents, excluding trainees)[5]	737.8	727.2	1.5
Total net operating income per employee in CHF 1,000	304.2	348.2	–12.6
Total operating expenses per employee in CHF 1,000	240.9	246.9	–2.4
Net income per employee in CHF 1,000	5.9	20.7	–71.7
Key indicators related to shares of VP Bank in CHF[1]			
Net income per bearer share[6]	0.75	2.62	–71.3
Net income per registered share[6]	0.08	0.26	–71.3
Dividend per bearer share	1.50[7]	3.50	–57.1
Dividend per registered share	0.15[7]	0.35	–57.1
Dividend yield (in %)	1.8	3.0	–40.7
Payout ratio (in %)	199.5	133.7	n.a.
Total shareholders' return on bearer shares (in %)	–24.7	17.5	n.a.
Shareholders' equity per bearer share on the balance sheet date	153.06	156.21	–2.0
Shareholders' equity per registered share on the balance sheet date	14.97	15.25	–1.8
Quoted price per bearer share	83.00	114.80	–27.7
Quoted price per registered share	7.25	10.50	–31.0
Highest quoted price per bearer share	119.00	142.50	–16.5
Lowest quoted price per bearer share	74.00	98.00	–24.5
Market capitalisation (in CHF million)[8]	485	673	–28.0
Price/earnings ratio per bearer share	110.36	43.85	n.a.
Price/earnings ratio per registered share	96.40	40.11	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 per cent of equivalent full-time employees.
6 Based on the weighted average number of shares (bearer) (note 11).
7 Subject to approval by the annual general meeting.
8 Including registered shares.

The organisational structure of VP Bank Group

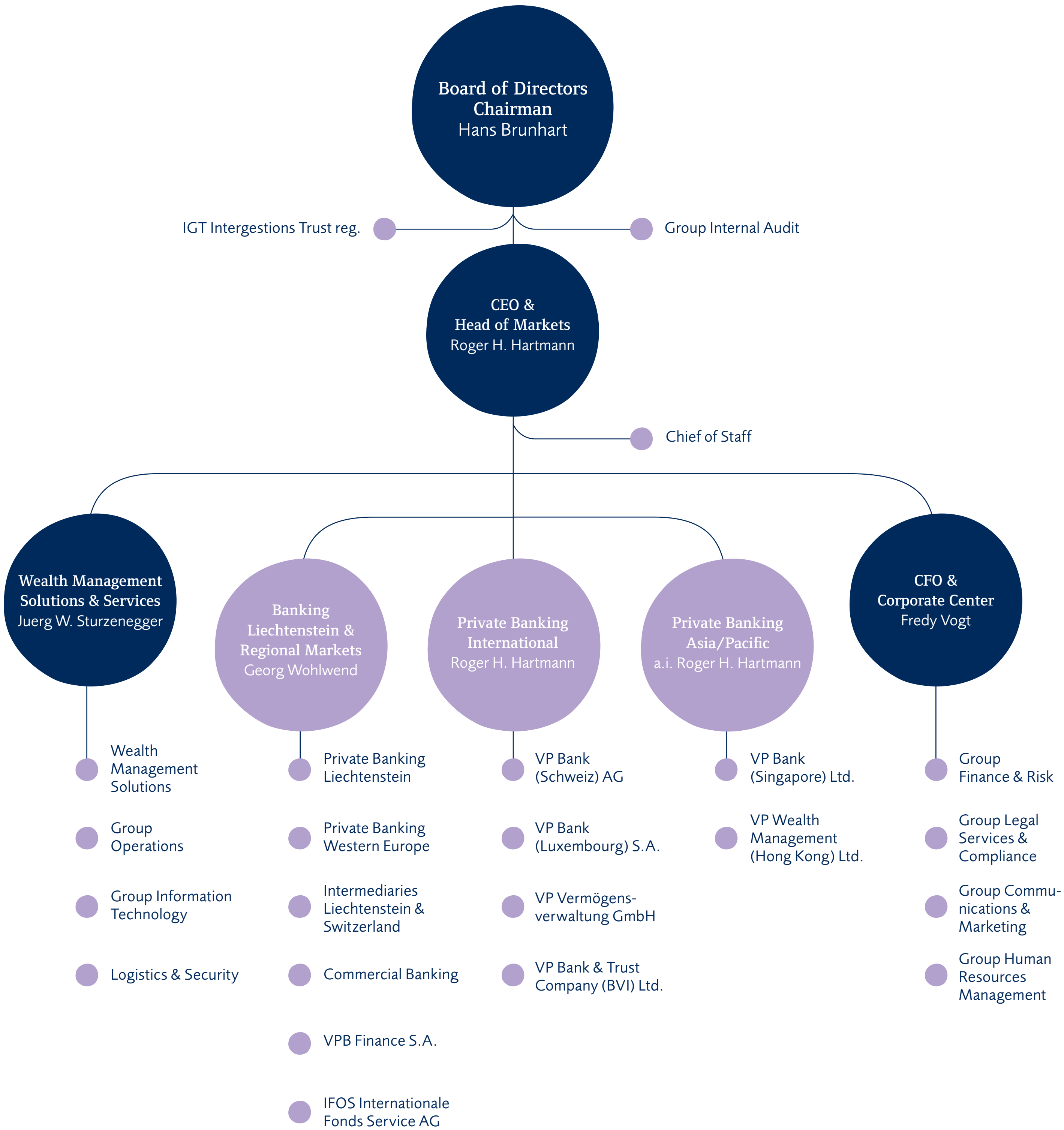
VP Bank Group is subdivided into four business segments: Banking Liechtenstein & Regional Markets, Private Banking International, Wealth Management Solutions & Services and the CFO & Corporate Center.
The Banking Liechtenstein & Regional Markets segment comprises the banking business in the Bank's home market and Switzerland, as well as the international private banking, intermediaries and fund businesses in Liechtenstein.
The Private Banking International segment handles the private banking business at the international locations of VP Bank Group.
The Wealth Management Solutions & Services segment comprises the Wealth Management Solutions, Information Technology, Operations as well as the Logistics & Security units of the entire VP Bank Group.
Included in the Corporate Center are the Group Finance & Risk, Group Legal Services & Compliance, Group Human Resources Management and Group Communications & Marketing units.

Changes in the organisational structure during the 2011 financial year

At the start of 2011, Group Executive Management (GEM) opted to combine the Group Finance and Group Treasury units to create the new Group Finance & Risk unit. Through this combination, the areas of central importance to VP Bank Group – financial management, risk management and supervision, as well as asset and liability management – were aligned with each other. By integrating the activities associated with Treasury transactions into the Trading and Operations units, additional synergies have been achieved within the Bank.

Changes in the organisational structure since the 31 December 2011 balance sheet date

The Board of Directors of VP Bank has taken personnel and organisational decisions as a further means of orienting the organisation towards market needs and increasing the responsibilities at the local offices. Effective as of 1 January 2012, the range of tasks of the GEM and Executive Management at the Head Office in Vaduz have been more clearly regulated and differentiated in terms of the responsible persons. Going forward, VP Bank's most important market segment, Banking Liechtenstein & Regional Markets, will be represented in Group Executive Management. In addition, the Head of Commercial Banking will be a member of Executive Management at the Vaduz location. This is a way of expressing the significance of the Bank's lending business, especially for the Head Office.
As before, Group Executive Management at VP Bank consists of Chief Executive Officer Roger H. Hartmann, Chief Financial Officer Fredy Vogt, Chief Operating Officer Juerg W. Sturzenegger, and now Georg Wohlwend as representative of the Banking Liechtenstein & Regional Markets segment.
As of 1 January 2012, the Wealth Management Solutions (WMS) unit was transferred away from the scope of responsibilities of Juerg W. Sturzenegger into the hands of Chief Economist Dr Jörg Zeuner, who now heads the new Investment Services Center organisational unit. In his new function, he will report directly to Roger H. Hartmann, Head of Private Banking International. The investment process has been revamped and structured in a more front-oriented manner.
As a single-source solution, the Investment Services Center now renders all services involved in the value chain of the investment process, enables synergies to be exploited to a greater extent, and unifies all of the related competencies. Client needs, demand orientation and a dynamic integration of current economic developments are the central rationale for this change.
Chief Operating Officer Juerg W. Sturzenegger remains responsible for the trading function.
Effective as of 1 January 2012, the specific tasks of the Private Banking Liechtenstein, Private Banking Western Europe and Intermediaries LI & CH units, which are part of the Private Banking Liechtenstein & Regional Markets business segment, were also reallocated: the objective of this adjustment was to create a leaner management structure as well as to form the basis for measures aimed at efficient, client-focused advice. Private & Affluent Banking has been condensed into a single unit and concentrates on the consulting-intensive servicing of private clients. For the new Intermediaries & Transaction Banking unit, efficient back-office competence and operational excellence take centre stage.


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

VP Bank, Vaduz, head office

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 Group Communications & Marketing Group Human Resources Management	Siegbert Näscher Monika Vicandi Tanja Muster 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	Dr Marcel Tschanz, Katharina Vogt-Schädler, Jürg Moll, Marc Wallach, Tobias Kaeser
VP Bank (Luxembourg) S.A.	Luxembourg	Luxembourg	Yves de Vos, Romain Moebus, 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, Sothearith Kol
VPB Finance S.A.	Luxembourg	Luxembourg	Enrico Mela, Joachim Kuske, Jos Wautraets
ATU Fund Administrators (BVI) Limited	British Virigin Islands	Tortola	Dr Christoph Gutmann

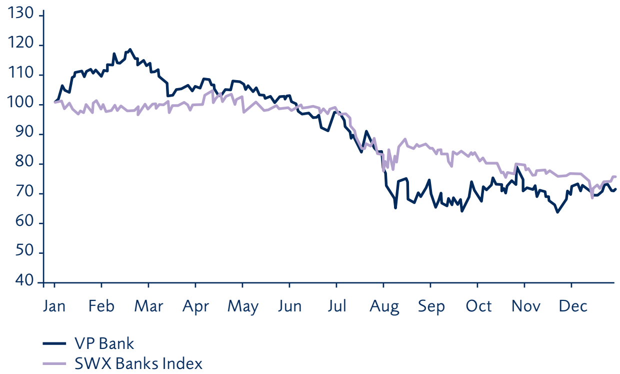
Trust companies

Company	Country	City	Head
IGT Intergestions Trust reg.	Liechtenstein	Vaduz	Viktor Büchel
ATU General Trust (BVI) Limited	British Virgin Islands	Tortola	Dr Christoph Gutmann
ATU General Trust (Anguilla) Inc.	Anguilla	The Valley	Dr Christoph Gutmann

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

VP Bank shares



VP Bank bearer shares versus the SWX Banks Index in 2011 (indexed)

Economic environment

The past year was shaped by the following factors: Economic growth has decelerated in most of the industrialised nations, interest rates remain mired at historically low levels, the European bond markets were in upheaval, and the Swiss franc proved to be extraordinarily strong against the other major currencies. Inflation rates in many of the industrialised nations have exceeded the central bank targets, but not because of the massive amount of liquidity in the system; rather, this was mainly due to developments in commodity prices, which are now far higher than they were in 2010.

On the whole, the economic recovery was at best sluggish. The tsunami and nuclear reactor catastrophe in Japan did not have a sustained impact on the global economy, but the debt problems in a number of euro zone states and the USA was an issue that dominated the markets and the media. In contrast to the industrialised West, high inflation rates and fears of economic overheating in the emerging nations led to more restrictive monetary policies that placed an additional burden on the already difficult economic environment.

But without a doubt, the debt crisis remained the overriding topic in 2011. Although the issue of national indebtedness led at least intermittently to severe political tensions in the USA, financial market participants' attention centred primarily on the beleaguered euro zone. Despite numerous crisis summits and a state-approved enlargement of the rescue umbrella, the community of states was never really able to escape the clutches of the financial markets.

Within Europe, however, economic developments varied greatly from state to state. While the euro zone periphery suffered heavily under government austerity programmes and high interest rates, the seemingly secure core states benefited from rock-bottom interest rates and a weak euro.

The debt crisis and related increase in risk aversion caused considerable turbulence in the currency markets. The "safe haven" Swiss franc appreciated against the European common currency by what at times was more than 18 per cent.

In an effort to limit the negative effects of the strong Swiss franc on Switzerland's real economy, the Swiss National Bank decided to warrent a CHF 1.20 floor for the EUR/CHF exchange rate until further notice.

The US dollar can also be viewed as a beneficiary of the European debt crisis. Although the dollar is not totally convincing due to America's high deficits, the better growth outlook for the USA and the relentlessly deepening crisis on the Continent, especially in the second half of the year, gave the greenback a boost against both the euro and the Swiss franc.

Equity markets

The year for stocks in 2011 was eventful indeed. During the first trimester, most of the exchanges were able to add to the gains recorded in the previous year. However, as summer approached, weak economic readings fuelled fears of a renewed recession and caused stock prices to retreat by roughly 20 per cent. Macroeconomic and political events then started to dominate market developments. Fundamental factors, such as the essentially positive trend in corporate profits, were relegated to the back seat. As of August, the equity markets entered a sideways trend and ultimately managed to recoup some of their losses by year's end.

Regionally viewed, there were noticeable divergences between the various stock indices. While North American shares ended the year with a modest gain, stocks in the Asia/Pacific region were particularly weak (–16 per cent). Even though the public perception may differ in this regard, European equities (with a moderate loss of 8.7 per cent for the year) clearly bested

the performance of emerging-market shares (which in dollar terms declined in value by roughly 18 per cent).
Within Europe, the equity market performance varied greatly from country to country. While the British and Swiss exchanges held up relatively well (–2 and –6 per cent, respectively), the crisis-plagued Italian market for example closed out the year with a loss of close to 20 per cent.

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 31 December 2011, those shares represented a market capitalisation of CHF 485 million.
Last year, banks suffered in particular from the weak equity markets and the low level of interest rates, not to mention the uncertainties surrounding future regulation of the financial industry. Globally, bank shares recorded an average price decline of almost 16 per cent. Consequently, the sector was one of the weakest in the year under review. At European banks, the government debt problems in several euro zone member states added to the pressure. European bank shares (including those of Swiss financial institutions) were down by close to 30 per cent for the year. With a share price loss of 25.5 per cent (all figures including dividends), VP Bank was unable to escape this trend.
VP Bank's average share price for the year stood at CHF 101, with a high of CHF 119 recorded in April and a low of CHF 74 in mid-December of 2011.

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 semi-annual reports and publishing the related financial results, as well as organising the annual general meeting of shareholders. Again in 2011, roadshows as well as analyst and media conferences were key events or for intensifying the communication with investors and financial intermediaries.
In the world's largest assessment of annual reports conducted by the "League of American Communications Professionals", VP Bank's 2010 annual report received a "Gold Award" and was a "Gold Winner" in another international competition.
Regular presentations addressing the financial outlook 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, MainFirst Schweiz AG, UBS and Zurich Cantonal Bank.
Standard & Poor's has accorded VP Bank Group an "A–" rating. VP Bank is one of the few private banks in Liechtenstein and Switzerland that is evaluated by a major international rating agency.

Agenda for 2012	
Media and analyst conference, 2011 financial results	Tuesday, 6 March 2012
49th ordinary general meeting	Friday, 27 April 2012
Dividend payment date	Friday, 4 May 2012
Roundtable on semi-annual results 2012	Tuesday, 28 August 2012

VP Bank share details	
Bearer shares, listed on SIX Swiss Exchange	
Amount listing	5,314,347
Free float	61.8%
Symbol on SIX	VPB
Bloomberg ticker	VPB SW
Reuters ticker	VPB.S
Security number	1073721
ISIN	LI0010737216
Sedol number	5968006 CH

Share-related statistics 2011	
High (08/04/2011)	119.00
Low (16/12/2011)	74.00
Year-end close (final settlement value, 30/12/2011)	83.00
Average price	101.00
Market capitalisation in CHF million	485
Consolidated net profit/loss per bearer share	0.75
Price/earnings ratio (PE)	110.36
Dividend per bearer share (proposed)	1.50
Net dividend yield in %	1.8
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 section, page 63f.

Investor & Media Relations

Contact: Tanja Muster
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

2 Strategy report


2

Strategy report

Despite the uncertainties surrounding the outlook for the financial markets and economic environment as a whole, VP Bank stands by its medium-term goals:

- the growth in net new money – based on assets under management – should average out at an annual 5 per cent;
- VP Bank's cost/income ratio should not exceed 65 per cent for any longer period of time; and
- the core capital (tier 1) ratio should amount at least to 16 per cent.

These goals are ambitious. General developments in the global economic environment have put a damper on VP Bank's growth expectations. No private sector financial institution can exert an influence on these external factors. The negative effects of exchange- and interest-rate trends are precipitating in the banking sector: the Swiss franc's appreciation in value has chipped away at the AUM (assets under management) base which is largely invested in euro- and dollar-denominated investments. Interest rates, on the other hand, are just a little above zero and therefore lead to a noticeable shrinkage in revenues from the interest-differential business.

In the 2011 financial year, VP Bank fell short in realising the first two goals. But since the turnaround in the second half of 2010, VP Bank has recorded a steady increase in the amount of new money. This is a clear indication that a continuous increase in assets under management is a realistic goal. The resolute implementation of cost-savings measures, which VP Bank intends to intensify in the current financial year, will lead to a further significant reduction of the Group's cost base. Thus over the medium term, VP Bank will be able to achieve and maintain its targeted cost/income ratio.

VP Bank's strategy remains oriented towards growth. But that growth needs to be profitable, not just numerical.

Transformation

"Transformation" is the keyword not only for the Liechtenstein financial centre, but also for VP Bank. This transformation has many facets, the most important of which is the demand for tax-compliant, transnational financial services. The "niche of sovereignty", in which Liechtenstein and various other countries have been comfortably nestled for decades, is today blockaded. Quality, stability and sustainability must take its place. These are the key concepts of the "Roadmap 2015" adopted by the Liechtenstein Bankers Association in February 2011, which was conceived as a viable long-term strategy for the Liechtenstein financial centre.

What applies to the financial centre as a whole, also applies to the individual participants. The goal of establishing a new niche – one of expertise – is a formative factor in the transformation process at VP Bank. This process was introduced in the autumn of 2010; its core consists of four tasks that should assist VP Bank in achieving its medium-term goals:

- 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

An initial assessment shows: VP Bank is on the right track. Feedback from the market clearly indicates that the change is perceptible. The advisors attach great importance to client proximity and offer them comprehensive solutions. But the assessment also reveals that the pace of the transformation has to be accelerated; that greater efforts are needed in order to break up old structures and change entrenched behavioural patterns. A primary task in the 2012 financial year will be to drive this transformation process forward.

Incorporate a market-oriented management structure

VP Bank has a lean management structure that is oriented to the needs of the market. Management structures must not be rigid. When markets change, the structures must be flexible enough to accommodate new factors. Since 1 January 2012, the various tasks of Group Executive Management as well as those of Executive Board at the head office in Vaduz have been more clearly regulated and, in certain instances, allocated differently than before.

The important Banking Liechtenstein & Regional Markets segment is now represented in Group Executive Management on a par with the Private Banking International market segment. The Liechtenstein and regional line of business is championed

by its head, Georg Wohlwend, who also bears responsibility for the global business with financial intermediaries.
Also since the beginning of 2012, the Head of Commercial Banking now has a seat in Executive Board at the Vaduz headquarters. This mutation reflects just how significant the commerce and lending business is to the Vaduz location and VP Bank as a whole. The head office in Vaduz is the home of VP Bank and the formative factor behind its corporate culture. With local senior management, local responsibilities and an agenda tailored specifically to the region, the Liechtenstein location also formally acquires the status that it always has implicitly had in terms of the corporate identity and business of the entire Group.

Implement growth initiatives

Growth means attracting new money and thereby increasing the volume of client assets under management. Generally, this requires excellent and comprehensive client care that includes tax aspects and financial analyses. And it also requires the aforementioned characteristics of expertise, quality, stability and sustainability in order to meet the demands of clients.
But also necessary in this regard are location-specific growth initiatives. VP Bank considers the Asia/Pacific region to offer the greatest chances for new money inflows. For that reason, the Bank is centring its focus for growth on Southeast Asia and China. In this growth region, VP Bank can expand its business volume if it cultivates the market properly. And to intensify those efforts, VP Bank shifted responsibility for its Asia business to a new, internationally experienced private banking specialist at the beginning of the current year.
The second growth market is Eastern Europe. Here, VP Bank is currently concentrating on Russia, where another representative will become active in the near future. Thanks to this individual's Russian nationality and close network of relationships, he should lend added thrust to the Bank's efforts to cultivate the Russian market. Over the longer term, a number of other former Soviet states should become interesting growth markets.
Meanwhile, there are also opportunities to be had in Western Europe: for example, Luxembourg. VP Bank is the only bank with presence in both the Luxembourg and Liechtenstein fund markets, and it wants to key on this strategic advantage. Another promising area is the ultra-high-net-worth-individuals segment. In this niche, too, VP Bank wants to gain greater penetration.
But growth initiatives also have a flipside: VP Bank will make no further investment in markets which have no promise for meaningful growth in the foreseeable future.

Enhance efficiency

Despite all measures to reduce expenses, VP Bank's cost/income ratio still exceeds the medium-term target. The 2008/09 financial crisis, the reputational crisis in the Liechtenstein financial centre, the present currency and debt crisis, the historically low level of interest rates, as well as what appears to be an impending economic slump, all drastically curb the possibilities for a boost in earnings. VP Bank must – just like other companies – adapt its structures and processes more appropriately to the new extraneous circumstances. Old structures have to be dismantled, rebuilt more efficiently and outfitted with more intelligent processes. To achieve that, VP Bank is working jointly with an external consulting firm on the "Fit for the Future" project.
This project includes measures for heightening efficiency in order to reduce both G&A and personnel costs. For an organisation in transition, keen cost-consciousness is no doubt a must, but savings alone do not equip a company for the future. Apart from the cost side, the income side also has to be addressed. There are business fields to be discovered and worked on where the competitive pressure is still negligible.
Efficiency gains need not be at the cost of quality. Quite to the contrary: experience shows that a centralisation of routine work and the automation of certain processes lead to an increase in quality. This type of organisational transformation requires an in-depth analysis of all corporate processes.
The effects of an internal transformation can be magnified by company-wide efficiency enhancement. Especially in the Liechtenstein financial centre, where all institutions are working under the same circumstances, cooperative undertakings offer a way to counter rising costs.
VP Bank has taken the first step in this regard by cooperating with the Liechtensteinische Landesbank (LLB) in the area of

printing and shipment, as well as in the joint procurement of financial information. VP Bank will also lease a floor of the new LLB data processing centre, which will be ready for occupation in 2012.

Acquire advisors and advisory teams

Along with the demands of clients, the requirements profile for client advisors has also changed, albeit more so in the private banking area than in the traditional banking business. Asset management know-how must be supplemented with specialist insight into tax law and finance. VP Bank is still on the search for highly qualified advisors and advisory teams. It has proved difficult to find people with the requisite professional and interpersonal skills. As previously mentioned, key positions have been filled in Asia and Russia. VP Bank (Schweiz) AG also has a new Head of Executive Management.

Value-oriented management

To achieve its long-term goals and increase its enterprise value, VP Bank uses key performance indicators as a management instrument. The key reading for value-oriented management is economic profit – i.e. invested capital multiplied by the difference between total return on capital and the total capital cost rate – at the Group level.

On a monthly basis, Group Executive Management reviews the quantitative development of the medium-term targeted amounts. The set of key performance indicators includes for instance the ratio of assets under management to total assets, the ratio of investment funds to total assets, the ratio of recurring revenues to total revenues, and the return on assets for each client segment.
With its "Long-term Incentive Plan (LTI)", VP Bank has a compensation mechanism that bonds managers with the company while enabling them to participate in the long-term development of the company and the related performance of its stock. The degree of participation increases or decreases depending on the economic success of VP Bank (see corporate governance section, page 70f., and financial report, page 152).

Outlook

The 2012 financial year will be the pivotal year for the transformation process. Over the course of the coming months, all related decisions will have to be implemented in order to align VP Bank with the new global economic circumstances and developments in the financial markets. And that also entails implementation of the "Fit for Future" project, i.e. the reorganisation and reorientation of processes with the aim of enhancing efficiency. But more than anything else, the transformation means that VP Bank must cater to its clients in a different way – and this in each and every segment.

3

Stakeholders' report

Clients

Bank clients are better informed these days than in the past, and they place higher demands on the advice and service they receive. That applies to all clients segments, but particularly so to private clients. Today's clients insist on quality and transparency. They want products and services that are tailored to their personal circumstances in life. They also expect that the way in which their assets are invested is consistent with the regulations of the given jurisdiction, yet simultaneously that their privacy is safeguarded.

Understanding clients' needs is a key element that VP Bank now explicitly anchors in its brand promise: "Strengths in client dialogue and advice" – an indispensable factor in arriving at intelligent solutions (see VP Bank brand section, page 31). Only through extensive discussions with the client is it possible to acquire and deepen an understanding of his or her personal, family and business situation.

Asset management

The verb "to understand" therefore represents the point of departure in the advisory process, which in terms of portfolio management then traverses the following four phases:

- Comprehension: In a personal, solution-oriented discussion, the advisor and client together draw up a fine-tuned investment profile. Six factors supply the input for that individual profile: the client's yield expectations, security needs, liquidity needs, situation in life, understanding of investments in general, and the restrictions applicable to those investments. An in-depth analysis clarifies the wealth status and preferences of the client. Based on these determinations, VP Bank is in a position to offer investment recommendations that take into account the client's individual circumstances.
- Advice: What characterises high-quality advice? Naturally, specialised know-how in asset management is one feature. But that alone does not suffice: the advisory approach must be comprehensive and consider all financial aspects of the client. Then comes the important part: empathy and service. The advisor must give the client a sense of security, the feeling of being in good hands.
- Implementation: Based on the individualised investment profile, the advisor and client jointly devise a tailor-made investment strategy. In executing a portfolio management mandate, VP Bank experts arrive at the individual investment decisions and continuously monitor the client's portfolio. VP Bank offers a wide range of investment solutions while resolutely adhering to a policy of open architecture, which provides access to the very best products from various third-party providers. The individual asset classes are then weighted in such a way that the risk/reward relationships are always in line with the client's investment profile.
- Accompaniment: When it comes to asset management, the client and the Bank essentially become partners. The trust that is based on the constancy of this partnership must be earned each and every day. That requires not only a successful and responsibly executed investment policy, but also communication between the partners: for the client to be in a position to comprehend and verify the investment decisions, transparent information is an absolute must. And that applies to written documentation as much as it does to the personal dialogue.

Unbiased market observers regularly accord VP Bank high grades for the quality of its asset management services. Yet again last year, The Elite Report – a barometer of quality in the financial services industry – awarded VP Bank its "summa cum laude" in the previous year. VP Bank in Vaduz, VP Bank (Schweiz) AG and the Bank's asset management company in Munich all received this recognition for the fifth year in succession. VP Bank (Luxembourg) S.A. won the highest grades for the second time in a row. The Elite Report evaluates banks and asset management specialists in Germany, Austria, Luxembourg, Switzerland and Liechtenstein.

VP Bank applies its strengths in equal measure for the benefit of all VP Bank clients. Personal, committed, independent and success-oriented – that is how all client segments should perceive VP Bank.

Client segments and clientele structure

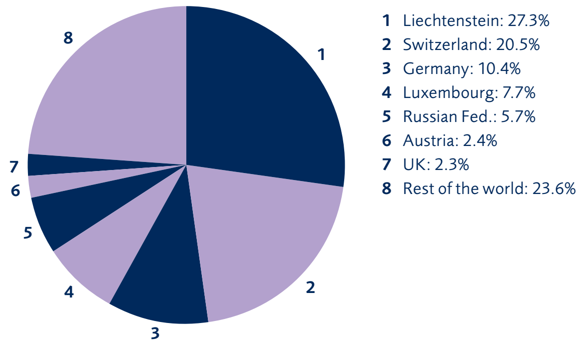
VP Bank distinguishes between four client segments. Collectively, they reflect the self-perception of VP Bank: one of being both a regionally anchored public bank and an internationally active private bank.

- Retail and affluent clients from Liechtenstein and the neighbouring region: VP Bank offers these clients classical banking services and advises them on matters relating to investments and financial security after retirement.

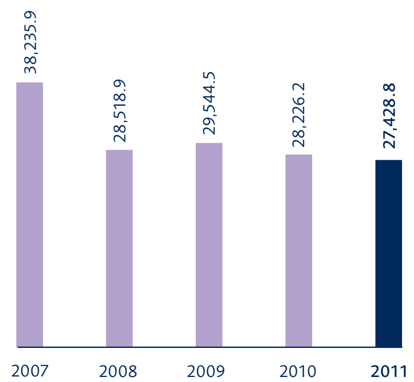
- Corporate clients: VP Bank focuses its commercial business on companies in Liechtenstein and eastern Switzerland. These clients, too, seek traditional banking services such as lines of credit, mortgage funding, import/export financing, and bank guarantees or sureties.
- Intermediary clients: Ever since its founding, VP Bank has been a preferred partner for financial intermediaries. It has decades of experience in satisfying the needs of this client segment: external asset managers, fiduciaries and attorneys expect their banking partner to execute financial transactions rapidly and flawlessly, something that calls for leading-edge bank-internal infrastructure. To that end, VP Bank utilises a banking software system and an e-banking platform that are indeed state of the art. These intermediary clients have access to the entire palette of the Bank's services and are offered advice on asset structuring and all banking-specific topics.
- Private clients: Wealthy individuals and families wish to receive individualised, high-quality advice on all aspects of wealth management. These private clients are interested primarily in implementing an investment strategy that corresponds to their risk/reward profile and specific circumstances in life. In many cases, this centres on structuring their wealth optimally and addressing tax issues; but frequently, private clients also seek assistance in succession planning and counsel on inheritance matters.

Client assets

As at 31 December 2011, VP Bank held client assets under management totalling CHF 27.4 billion (2.8 per cent less than in the previous year). In addition, CHF 11.5 billion were in the form of assets held in custody. Thus total client assets on that date amounted to CHF 39.0 billion. In aggregate, VP Bank Group experienced an inflow of new money of CHF 1.0 billion (previous year: CHF 0.1 billion). The performance-related decline in assets primarily relating to the development in market values amounted to CHF 1.8 billion.



The origin of assets under management in 2011



Client assets under management in 2011
(in CHF million)

Employees

Banking is a "people business": for a financial services company, the expertise and commitment of not only its client advisors, but also its back-office staff, are decisive factors in the company's success. At VP Bank, employees shape the client relationships and personify the VP Bank brand for the outside world. The transformation process VP Bank is currently going through requires the total commitment of each and every one of those individuals. And VP Bank must make targeted investments in their training and continuing education.

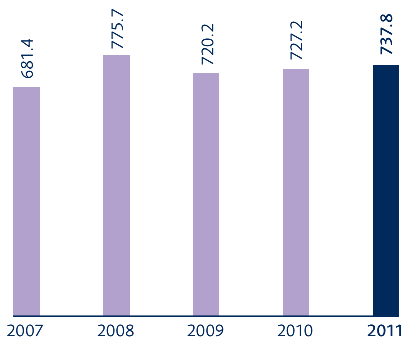
Personnel strategy

The group-wide human resources management (HRM) strategy is an integral part of VP Bank's overall corporate strategy. It harks back to a Board of Directors decision in December 2007 and – with minor modifications – has been reconfirmed every year since then. The HRM strategy encompasses four core topics:

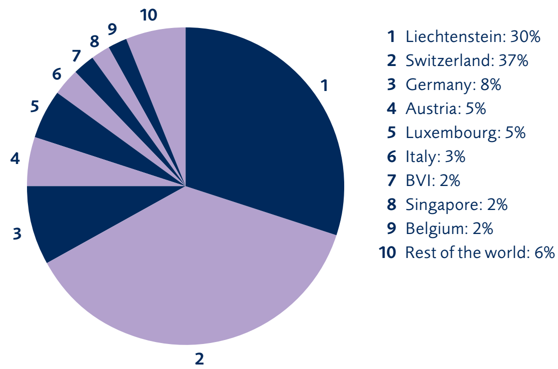
- Personnel and management development: VP Bank desires to develop further its culture of performance and results-oriented management. It is aware that projects aimed at transforming a corporate culture are always long-term endeavours. VP Bank took the first path-breaking step in 2008 by introducing the Long-term Incentive Plan (LTI), a value-based stock ownership scheme for managers. The financial crisis in 2008 and 2009 made it necessary to modify the LTI (see corporate governance section, page 70f.). Meanwhile, the financial markets and associated changes in client expectations have had an effect on the requirements profile for client advisors. In the past year, VP Bank redefined that profile: the advisors must develop a higher degree of self-initiative, approach existing clients proactively, and make every effort to attract new clients. From that evolves a new generation of client advisors: they need to work in a success-oriented and self-responsible manner, but they also enjoy the leeway necessary to do so, as well as a large measure of independence.
- Internationalisation and corporate culture: The internationalisation of VP Bank Group still poses challenges in terms of the personnel policy. The Group needs a common, cohesive corporate culture and management structure; but at the same time, the local offices throughout the world, with their various cultures, need a certain degree of autonomy. Here it is a matter of repeatedly finding the proper mix. A permanent task of personnel management is to foster intercultural exchanges within the Group and to broaden the range of temporary job opportunities at the individual sites. In this regard, and especially as it pertains to the local care provided to seconded employees, VP Bank has achieved gratifying successes of late. The cooperation with local HR heads is an important element of personnel strategy.
- Personnel marketing: One of the most important management tasks is to strengthen the reputation of VP Bank in the market for talent. VP Bank seeks highly qualified advisors and advisory teams. Those individuals can only be won over and retained if the Bank enjoys the reputation of being an attractive employer. In the 2011 financial year, VP Bank significantly improved its recruiting process by, for example, placing more emphasis on the psychological component.

Human Capital Management – the technological platform

Human Capital Management (HCM) has the aim of ensuring that VP Bank has the right people at the right place. It wants to gain optimal benefit from the wealth of in-house skills and know-how. And it wants to match advisors and clients in a way that they suit each other from the standpoint of expertise and character. All of this has to function beyond borders and throughout the entire VP Bank Group. To that purpose, a solid, central information base is necessary. In 2010, VP Bank introduced a technological HCM platform, which, in the interim, has been incrementally expanded. For instance, the HR heads at the Luxembourg and Singapore offices have been responsible on their own since May 2011 for compiling and administering local employee-related data. The HCM project should be concluded by 2014. It will make it possible for VP Bank to manage its human resources optimally across all business units. On the one hand, the personnel administrators at the various locations can independently conduct their own HR activities via this platform. On the other, the compiled data is then available to HR heads and other managers, as well as centrally to Group Executive Management, for the generation of reports and evaluations. HCM makes it possible to record the profiles and



Headcount 2007 to 2011 (full-time equivalents)



Nationality of VP Bank Group's employees

qualifications of individual employees and call up that information under restrictive access rights.

Career as a specialist – an alternative path

As a general rule, making a career out of a job is synonymous with taking over a management role at some point. However, in any organisation there are highly qualified specialists who either have no desire to manage people or do not possess the requisite management skills. This has dire consequences: either those people are blocked from suitable opportunities to develop further, or the organisation creates management jobs in order to open up career opportunities for specialists (who perhaps do not even want to lead). The latter approach bloats the organisation and weaves an unmanageable hierarchical web – at the expense of efficiency and flexibility.

For that reason, VP Bank has initiated a project aimed at designing and promoting a specialist career as an alternative to the classical management career. The objective is to formulate transparent framework conditions and clearly defined development possibilities for specialists. The basis for that is built around functional descriptions with predefined tasks, expertise and responsibilities. But one decisive factor is the social component: people who pursue a specialist career should enjoy the same recognition and appreciation as those who have opted

Headcount per company

	2011		2010		Variance against previous year	
	Employees	full-time equivalent	Employees	full-time equivalent	Employees	full-time equivalent
VP Bank (Vaduz) AG	499	456.0	504	461.8	–5	–5.8
VP Bank (Schweiz) AG	92	87.0	86	80.5	6	6.5
VP Bank (Luxembourg) S.A.	78	73.9	72	69.2	6	4.7
VP Bank Finance S.A.	23	21.7	20	19.3	3	2.4
VP Vermögensverwaltung GmbH	5	5	5	4.5	0	0.5
VP Bank and Trust Company (BVI) Ltd.	32	32	32	32	0	0
VP Wealth Management (Hong Kong) Ltd.	7	7	7	7	0	0
VP Bank (Singapore) Ltd.	29	29	27	27	2	2
Moscow Representative Office	2	2	3	3	–1	–1
IGT Intergestions Trust reg.	8	6.4	7	5.5	1	0.9
IFOS Internationale Fonds Service AG	18	17.8	18	17.4	0	0.4
Total	**793**	**737.8**	**781**	**727.2**	**12**	**10.6**

for the management route. There are precious few people who possess both qualities – the spirit of a researcher and the ability to motivate others.

Investments in training and continuing education

The lofty demands of clients and tough competition within the financial industry are challenges that VP Bank can only master through proven skills. In an effort to have a sufficient number of professionally and socially competent employees, VP Bank adheres to the motto: "Do one thing without abandoning the other." It invests in training and continuing education, while simultaneously closing gaps in its overall skill set by means of new hires. In the 2011 financial year, CHF 0.997 million flowed in the direction of external training and educational measures; this corresponds to an average amount of CHF 1,370 for each employee. One of VP Bank's focal points in this regard centres on broadening the banking-specific professional skills of its workforce and reinforcing its knowledge base in international tax law. In the spring of 2011, VP Bank joined hands with the University of Liechtenstein to launch a fundamental training course on the topic of "International tax law in Liechtenstein, Switzerland and Germany". Due to the success of the first two modules, the course will be continued in 2012.
For decades, VP Bank has been committed to the training of young individuals. Since 2010, it has been providing a learning environment for eight new apprentices each year. At the end of 2001, 22 youths were in the process of being trained in business at the Bank. For a number of years now, VP Bank has also facilitated a career start in informatics. Each year, a new trainee commences a four-year course to become an IT specialist. For students, VP Bank has developed a support model: they have the chance during their studies to have a half-time job at the Bank. Since ten years, it has mainly been economics students at the University of Liechtenstein who have taken advantage of this opportunity. Another education project is called "Career start for high school graduates". This is a bank apprenticeship specifically designed for those who do not wish to start with university studies immediately after their initial graduation.

Human resources processes

This past year, VP Bank revamped its recruiting process to include a modern psychological testing process. It has new analytical tools and the necessary specialised know-how that can be drawn on to assess candidates in job interviews and for personal development purposes. In the search for talented young people, social media are gaining steadily in importance. Here, VP Bank sees the potential to enhance its attractiveness as an employer and is currently formulating guidelines for the use of social media.
In HCM and with international cooperation, VP Bank works continuously on improving its processes. In December 2011, the processes in the entire personnel administration area were subjected to a maintenance audit, which VP Bank passed successfully.

Employee statistics

As at 31 December 2011, VP Bank Group employed 793 individuals; expressed in full-time equivalents, this equates to 737.8 jobs, 10.6 more than in the previous year (see table on page 29). 146 persons, or 18 per cent of the workforce, are employed on a part-time basis.
At 15.4 per cent, the personnel fluctuation rate for the 2011 business year was relatively high, allthough such a reading is not unusual in the advisory business. The 13.8 per cent fluctuation rate at the head office was lower and stood at exactly the same level as in 2009. The desire for a career change was particularly pronounced in persons who have been with VP Bank for fewer than two years.
This also precipitates in the statistics on years of service. The number of employees who have worked fewer than five years at VP Bank has decreased at the Group level, but increased again slightly at the head office. The average years of service at the Group level stood at 8.1 years, and 9.5 years at VP Bank Vaduz. These figures reflect the uncertainty that has been spawned by the situation in the banking industry and the transformation process in Liechtenstein's financial centre.
In terms of nationalities, a modest reduction in the number of employees who are Liechtensteiners can be observed. At the end of 2011, their proportion amounted to 30 per cent compared to 31 per cent in the previous year. The proportion of Swiss citizens remained stable at 37 per cent (see diagram on page 29).
Arranged by function, the employee statistics reveal that 19 per cent of the Group's employees are client advisors. The highest proportion in this regard is to be found at the Hong Kong location, where it stands at 71 per cent. 77 client advisors out of the Group total of 153 work in Liechtenstein.

Employee statistics of VP Bank Group

	Men	Women	Total
Number of employees	468	325	793
Quota in per cent	59	41	100
Average age	40	39	40
Average years of service	8.3	7.8	8.1

The VP Bank brand

A brand reflects the identity of a company. And when the company is in a phase of transition, the task of the brand is to make that evolution visible. VP Bank is in such a transformation process. For that reason, the thematic essence of the VP Bank brand was revamped during the course of the 2011 financial year.

The vision

The key task in this regard was to formulate a vision that conveys strategic goals. It was a matter of painting a vivid picture of the future, making it clear which course VP Bank has charted. The challenge was to conceptualise a vision that sends a consistent message to all stakeholder groups even as it simultaneously reflects the evolution underway at VP Bank and in the banking business per se. This new vision is: "VP Bank – for intelligent solutions."

Intelligent solutions – a common denominator aimed at fostering all client segments, motivating employees, describing the reorganisation of internal processes and adapting VP Bank to the new circumstances in the Liechtenstein financial centre. "Intelligent solutions" is the brand promise VP Bank wants to keep with respect to all of its stakeholder groups.

The brand has an impact both externally and internally. The constant goal of brand management is to harmonise the company's self-impression, or identity, with its public impression, i.e. image.

The external impact

In effort to describe the desired external impact, VP Bank has particularised its "VP Bank – for intelligent solutions" brand promise by describing four specific attributes:

- Strengths in client dialogue and advice
- Networked with the best partners
- Globally linked
- At home in Liechtenstein

These attributes correspond to the self-perception of VP Bank. Through frank and competent communication, the Bank must learn and understand the needs of its clients. Due to its size, it would be illogical for VP Bank to render all services on its own, thus it is networked with strong partners. This open-architecture approach to the Bank's investment process is evidence of its client advisory strength. By being present in important international financial centres, VP Bank can discover the best transnational solutions for its clients. But at the same time, VP Bank still knows where its roots lie: in Liechtenstein – the country, the people and the companies in this region constitute the very foundation of its business activities.

The internal impact

The vision, which is simultaneously the brand promise, must permeate internally the entire organisation. To that purpose, VP Bank has combined its corporate values – "We go for inovation; we act entrepreneurially; we cultivate team spirit" – with the "8 Cs":

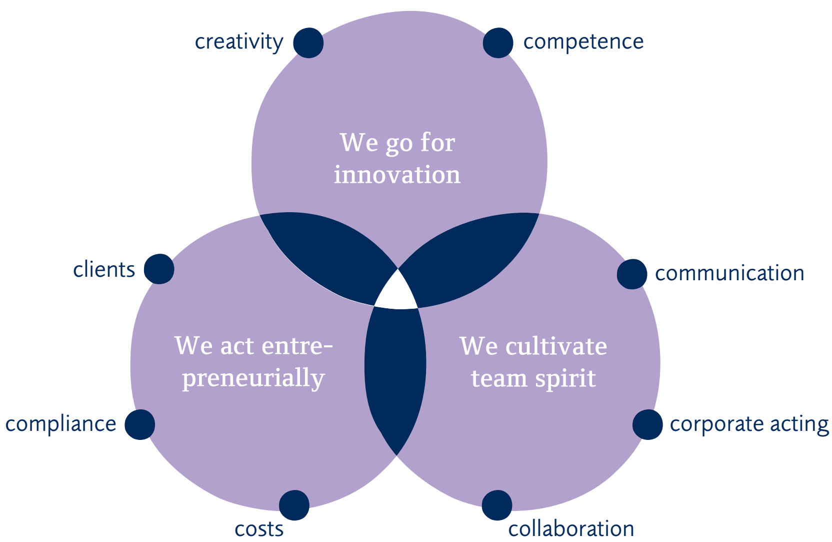
- Creativity and competence express a desire for the new; the will and capability to devise intelligent solutions for the benefit of the client.
- Communication, corporate-acting and collaboration are concrete means of fostering a spirit of togetherness.
- Clients, compliance and costs reflect an entrepreneurial mindset. For a services company, viewing clients as the focal point of all deliberations and actions is the key to success. In addition, compliance with all regulatory provisions is a prerequisite for doing business in the financial world. And strict cost-consciousness is always indispensable, especially in times of change.

Parallel to these basic precepts that all employees must adopt and live by in their day-to-day business activities, VP Bank has also formulated management imperatives. Amongst them are the ability to show and encourage enthusiasm, as well as to include employees in the decision-making process.

The brand profile

The brand profile is a mirror of the brand promise; it reflects the fundamental principles derived from the vision. Grouped around the brand essence of "intelligent solutions" are six brand claims: individual, responsible, far-sighted, personal, successful and verifiable. These attributes are claims in two different ways: internally, they are guides to personal behaviour that engenders the desired identity; externally, they lend expression to the perception goal – i.e. the image that VP Bank strives to project. And to round out the brand identity, each of these six brand claims is specified by three characteristics (see diagram).

The brand profile is the determining factor for each type of communication. It is the brand management instrument that proclaims to the stakeholder groups what they can expect from VP Bank as a partner. This always goes hand in hand with the objective of achieving identity and image congruence.



Sustainability

Sustainability can be defined succinctly with the 3 "Ps": people – profit – planet. This three-pillar model, also referred to as the "triple bottom line", addresses the economic, ecological and social dimensions of sustainability. Sustainable business activity takes into account the rightful 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.
Today, economic success is no longer conceivable without factoring in social and ecological issues. A comprehensive understanding of sustainability is called for in business practice: from procurement, to operational ecology, to product policy and investor relations. Moreover, sustainable corporate behaviour has become a decisive driver of growth and innovation.

Sustainability in the financial world

Inasmuch as banks serve as a hub in corporate and private financing, they assume an additional responsibility within the overall economy. For banks, there are three areas in which they can strategically implement the concept of sustainability. The classical area is of course to be found in the way they run their business. Here, operational ecology takes centre stage. Ecologically sensible measures range from the frugal consumption of energy to the responsible procurement of office materials. In their core business, banks develop and recommend new financial products and services that enable prudent means of investment. The spectrum is broadening steadily and, under the motto SRI (socially responsible investing), has acquired a solid position in the financial world. In the area of corporate management, the topics of corporate governance and professional risk management – a clear cognisance of risk – are of central importance.
Sustainability also opens the door to long-term solutions for financial services companies; it places emphasis on constancy and value awareness. A sense of responsibility and sustainability must be present and also lived by in all areas of the company. Thus a clear commitment on the part of management is a crucial prerequisite.

The avowal of VP Bank

VP Bank Group avows itself to the principle of sustainable business practices. It wishes to secure the foundation of its long-term 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 centre of commerce and industry.
By documenting these activities, VP Bank provides insight into the various dimensions of its corporate citizenship. Since 2010, the publication "Sustainability at VP Bank"[1] has been accessible.

Mobility management

Four years ago, a mobility concept was introduced at the Head Office 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 kilometres driven, the use of Mobility Cars has increased by roughly 23 per cent between 2008 and 2011. In 2011, the number of journeys decreased for the first time; however, a positive trend was observed in the total number of kilometres driven for business purposes in employees' own vehicles: after having declined by 47 per cent between 2008 and 2010, a further 8 per cent drop was recorded last year. The introduction of a videoconferencing system has helped to reduce the business travel activities of employees. The bottom line of the Mobility concept is impressive: all goals have been achieved – a reduction of automobile traffic, the fostering of environmental awareness, the promotion of public transportation, and an elimination of the shortage of parking spaces.

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

In March 2011, VP Bank's mobility management approach received the Zurich Climate Prize, which Zurich Financial Services – regionally subdivided – awards to companies in Switzerland and Liechtenstein in honour of their measures to improve energy efficiency and reduce CO_2 emissions.

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 dispatched only at the express request of the client. In recent years, this has led to a considerable reduction in the use of paper for forms and statements. For example, the number of printed forms has declined steadily from 655,000 in 2005 to 349,775 in 2011, as has the number of envelopes from 1,300,000 to 394,824 over the same time frame. Versus the previous year, the latter reading represents a 53 per cent reduction.

Per-employee paper consumption has also dropped during the past six years from 0.15 to 0.08 tonnes. The sharp increase in the number of e-banking clients has contributed significantly to this gratifying development.

Due to the introduction of Avaloq banking software in 2008, paper consumption for that year increased temporarily, but today the total now stands at 41.8 tonnes, 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 semi-annual reports has halved over the past four 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 electronically transmitted documents has skyrocketed: in 2007, approximately 130,250 documents were sent as attachments to e-mails; in 2011, that number already exceeded 696,270. Last year alone, there was a 30 per cent year-on-year increase in e-mail traffic.

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 12.6 m^3 in 2011.

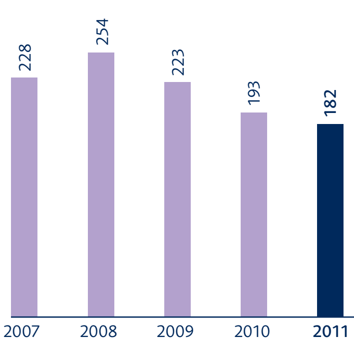
Energy

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 centre 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.

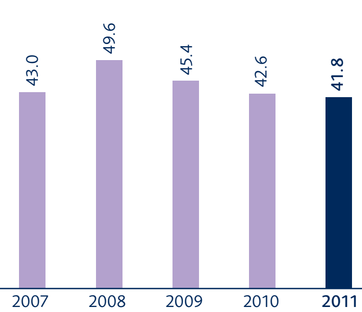
Total energy consumption at the Bank's Liechtenstein facilities has been on the decline for three years now. A protracted outage of a heat pump led to an increase in natural gas consumption. The annual mean temperature for 2011 was 1 degree Celsius higher than in the two previous years and that had a favourable influence on heating oil consumption.

Power consumption at VP Bank's headquarters has decreased for five consecutive years thanks to efficiency-enhancement measures. For more than 15 years, a photovoltaic power generator has been in operation on the roof of the building 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 per cent in the previous year. In 2011, it rose by another 10 per cent to a total of 6,351 kilowatt hours, partly due to the favourable weather conditions.

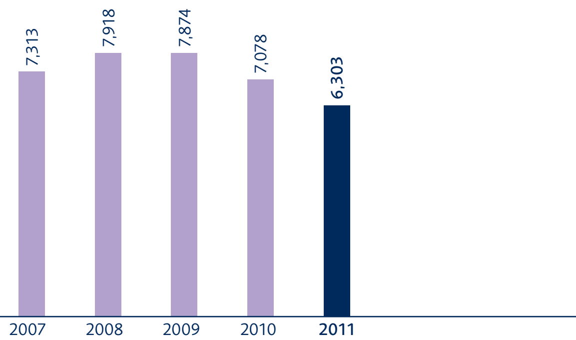
The differing types of buildings at VP Bank call for an overall concept that brings all of its Liechtenstein facilities up to the same level in terms of power technology. The goal of this concept is to harmonise all of the existing installations, optimise the distribution of power and efficiently exploit any ambient heat loss. To that end, energy flow meters were installed in 2009 in order to record and optimise the flows of energy from heating and cooling. The evaluation is adjusted to take sea-



Total waste (in tonnes)



Paper consumption (in tonnes)



Water consumption (in m^3)

sonal fluctuations into account. The results flow into the measures for fine-tuning the Bank's overall energy supply. Also, the energy supply project foresees the continued use of cutting-edge technologies that enable heating 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, polystyrene, PET bottles and greenery clippings each have their own receptacles. The total amount of waste generated in 2011 stood at 182 tonnes, roughly 11 tonnes less than in the previous year. Also, the per-employee amount of waste declined again in 2011 to stand at 0.36 tonnes versus the previous-year total of 0.38 tonnes, the lowest level since 2004.

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 sustainable business operations and think tank for ecological, social and management topics.
VP Bank has been participating in the Carbon Disclosure Project (CDP) since 2008. CDP is an international non-profit organisation that has the goal of seeing to it that companies and communities lower their CO_2 emissions and deal with water in a sustainable manner. 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.

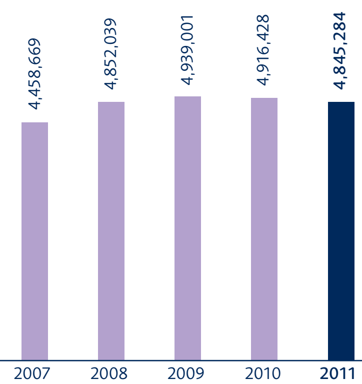
In 2009, VP Bank received certification under ISO 14001:2004 (Environmental Management). The maintenance audits performed in late December 2010 and 2011 underscore the viability of VP Bank's environmental and sustainability policy.
In this connection, the areas of "Business Ecology" and "Social Responsibility" were integrated into the existing Quality Management system. This re-certification encourages VP Bank in its efforts to reduce the consumption of natural resources and seek alternative solutions.

Responsibility as an employer

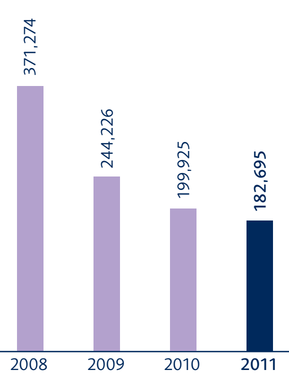
VP Bank evidences its responsibility as an employer by fostering modern and attractive work conditions. Motivation and good health have just as much influence as the actual physical office environment does on the performance of each individual; and that in turn influences the success of the entire company.
VP Bank Group offers its employees a wide range of opportunities for training and continuing education, and also helps them to maintain a work/life balance. Special emphasis is placed on training young people in order to ease 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 organisations is expressly encouraged by VP Bank.
In Liechtenstein, the VP Bank Sports Club organises 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". Stress checks, a non-smoking programme and a special "Fruit box" offer are also part of this effort. In addition, at its facilities in Vaduz, VP Bank makes available the "well.system", which enables the management of one's personal health-related behaviour.

Social and cultural commitment

VP Bank has a long tradition of financially supporting and sponsoring numerous charitable organisations, initiatives and projects in the areas of social services, relief organisations, health, education, culture, nature conservation and ecology.



Power consumption (in kWh)



Number of kilometres reimbursed to employees (in km)

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 initiated in 2006 on the occasion of the 50th anniversary of VP Bank and founded in 2007, 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 2011 consisted of Hans Brunhart and Fredy Vogt and IGT Intergestions Trust reg. During the year under review, the foundation distributed grants amounting to approximately CHF 400,000.

Support of the Chair of Company, Foundation and Trust Law at the University 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 chair. 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 centre, but also contributing to a proactive, location-specific economic policy.

Other cornerstones for the political and economic development of the Principality are being laid by the University of Liechtenstein's research project "The specific structure of Liechtenstein as a microeconomy". The VP Bank Foundation, together with other sponsors, is supporting this project with annual grants of CHF 25,000 over three years.

The "pro natura – pro ski" foundation initiated by VP Bank more than a decade ago received funding in 2011 totalling CHF 100,000. With that, the VP Bank Foundation, in collaboration with the University of Natural Resources and Life Sciences in Vienna, is making an enduring contribution towards the development of winter sport resorts that take into account the interests of all parties concerned. At the XI Alpine Conference in Slovenia, the "pro natura – pro ski" award was presented for the second time. The Kitzsteinhorn (Austria) and Schnalstal (Italy) ski areas were commended for their far-sighted and highly transparent concepts for improving their environmental compatibility. The "pro natura – pro ski" foundation makes a recognised contribution to sensitising the public to ecological concerns in the entire Alpine region.

These central commitments of the VP Bank Foundation relate to its primary focal points of ecology, education and science, areas in which the foundation is engaged in ongoing, multi-year projects.

In the fields of science and education, grants were also made to the Liechtenstein National Library, the Werdenberger Namenbuch Association and the Bildungs- und Seminarhaus Gutenberg.

In conjunction with the annual "Lichtblick" campaign, more than 40 social institutions in Liechtenstein received grants totalling CHF 100,000 from the foundation.

Again 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 returns from the latter commitment, the relief organisation "SolidarMed" received financial aid. The Board of Trustees was also engaged this past year in the establishment of the Association of non-profit foundations in Liechtenstein, in which the VP Bank Foundation is a member. The foundation was also admitted as a member of "SwissFoundations" in 2011.

Legislation and supervisory authorities in Liechtenstein

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 Ltd, 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 on Banks and Finance Companies (Banking Act, BankA) of 21 October 1992, as well as the Ordinance on Banks and Finance Companies (Banking Ordinance, BankO) of 22 February 1994. Since January 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 5 December 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 licence 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 Due Diligence to Combat Money Laundering, Organised Crime and Terrorist Financing (Due Diligence Act, DDA) of 11 December 2008 and its related ordinance (Due Diligence Ordinance, DDO) of 17 February 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 revised especially in early 2009 to reflect the implementation of the EC Directive of 26 October 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 1 August 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;
- Law on Undertakings for Collective Investment in Transferable Securities (UCITSA);
- Law on Investment Undertakings for Other Assets or Real Estate (Investment Undertakings Act; IUA);
- Law Governing Supplemental Supervision of Companies of a Financial Conglomerate (Financial Conglomerate Act; FCA);
- Law Governing the Disclosure of Information Relating to Issuers of Securities (Disclosure Act, DA);
- Securities Prospectus Act (SPA);
- Law against Market Abuse in the Trading of Financial Instruments (Market Abuse Act; MAA);
- Law Governing Takeover Offers (Takeover Act; TOA);
- Persons and Companies Act (PGR).

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

Law on Undertakings for Collective Investment in Transferable Securities (UCITSA) and IUA revision

In June 2011, the Liechtenstein parliament addressed and adopted the Law on Undertakings for Collective Investment in Transferable Securities (UCITSA). Simultaneously, the parliament decided on the necessary changes to other related laws. The Act and associated Ordinance (UCITSO) have been in force since 1 August 2011. Consequently, Liechtenstein has incorporated into national law the UCITS IV Directive (2009/65/EC), which it was obliged to do as an EEA member. The Act and its background are of considerable relevance to the Liechtenstein financial centre.

UCITS essentially means investment funds. The Act governs the activities of collective investment schemes and their management companies. With this new law – following an appropriate transition period – the Key Investor Information Document will replace the simplified prospectus, and detailed regulations for transnational mergers and "master feeder" structures will be introduced. The cross-border rendering of services will become more efficient and the issuance and administration of UCITS will be possible in some other member states than the management company's country of domicile. In addition, with the implementation of the UCITS IV Directive, this contractual legal form was also approved for investment funds in Liechtenstein.

The FMA plays a key role in the practical implementation of UCITSA. With the aid of a qualitative differentiation approach, the FMA should be able to reduce significantly its processing time for the admission of new funds, which in turn heightens the attractiveness of the financial centre for high-quality fund providers. To that end, the FMA will offer standardised approval templates which, if correctly and completely filled out, will shorten the time it takes for approval.

The creation of a separate law for UCITS means that the provisions governing investment undertakings for securities have been extracted from the Investment Undertakings Act (IUA) and the associated ordinance (IUO). Thus the IUA will now apply only to investment undertakings for other assets (than securities) or real estate.

Revision of the Financial Market Authority Act (FMAA) and the Due Diligence Act (DDA)

Already at its December session in 2010, the Liechtenstein parliament debated and, after a second reading, adopted revisions to the Financial Market Authority Act and the Due Diligence Act.

Except for a predetermined stipend from the state, the FMA finances itself by means of supervisory imposts and fees. But inasmuch as the Supreme Court ruled as unconstitutional and therefore struck out several provisions of the Financial Market Authority Act and the Due Diligence Act, the financing of the FMA was no longer assured. For that reason, parliament in 2011 was forced to reassess the legal foundation for FMA financing. The objective of the proposed bill was to put the financing of the FMA on a solid legal footing. To accomplish that, the corresponding provisions in the Financial Market Authority Act and Due Diligence Act had to be adapted in such a way that the fees and imposts payable by financial intermediaries are determinable, predictable and in keeping with constitutional provisions.

Law on the Business of Electronic Money Institutions

At its session in March 2011, the Liechtenstein parliament adopted, after a second reading, a revision of the Law on the Business of Electronic Money Institutions (e-Money Act), as well as changes to the Due Diligence Act, the Banking Act, the Financial Intermediaries Act, the Financial Market Authority Act, the Payment Services Directive as well as the Business Act. The total revision of the e-Money Act and changes to the other six tangential laws should be viewed as being instrumental in the implementation of an EC Directive, which has the goal of creating a clearly defined legal framework for e-money institutions and the rendering of e-money services. An e-money institution is a legal entity that is entitled in principle to issue (transfer) e-money within the EEA. With this Directive, the EU desires on one hand to strengthen the domestic market and, on the other, ensure that these institutions are supervised.

Changes to the Banking Act, the Payment Services Directive, the e-Money Act and the Market Abuse Act

At its May session, parliament debated and, after a second reading, adopted changes to the Banking Act, the Payment Services Directive, the e-Money Act and the Market Abuse Act; the first reading took place during the March session.

The point of departure for these changes was the following: In October 2008 the EU Commission, in connection with financial services reforms, planned a total of five revision packages aimed at the Banking Directive 2006/48/EC and the Capital Adequacy Directive 2006/49/EC (collectively referred to as Basel II). This reform pertains in particular to the weak points in capital adequacy provisions and risk management that were exposed as a result of the financial crisis. The intention of the EU Commission's initiative is – through the creation of special supervisory bodies – to reinforce also the cross-border cooperation between national supervisory authorities.

Consumer Credit Act (CCA)

At its 20 May 2011 and 25 November 2011 sessions, parliament addressed and ultimately adopted after two readings the government's proposal for a total revision of the Law on Consumer Credit of 22 October 1992.

The revision of CCA became necessary due to European law: In April 2008, the European Parliament and Council of the European Union issued Directive 2008/48/EC on credit agreements for consumers. The goal of the Directive is to standardise and improve consumer protection in terms of the advertising and granting of consumer loans. The EU wishes to accomplish this mainly via a higher degree of transparency. At the same time, it wants to encourage cross-border competition, which should lead to lower interest rates on consumer credit. As an EEA member, the Principality of Liechtenstein was obliged to abrogate or adapt any domestic provisions that were in conflict with the Directive.

The revised CCA, which will enter into force on 1 May 2012, is applicable only for loans to natural persons that serve no professional or commercial purpose. Not subject to the Act are mortgage loans, credit arrangements involving less than CHF 300 or more than CHF 120,000, rental and leasing contracts that do not involve the purchase of the underlying object, credit contracts in the form of overdrafts for which repayment is to be made within one month's time, interest- and charge-free loans, employee loans at preferential interest rates and the traditional Lombard loan.

For the protection of consumers, disclosure obligations will be substantially broadened. For instance, the lender must provide the potential borrower with the form "Standard information on consumer credits" prior to conclusion of the contract, as well as examine the creditworthiness of the borrower. In order to prevent nullification of the credit contract, it is mandatory that the agreement contains a wide array of particulars (term to maturity, debit interest rate, effective annual rate, costs, interest on arrears, cancellation right, modalities for termination, etc.). In addition, the consumer has a one-month and the lender a two-month period of notice, and the consumer also has the right to withdraw from the loan agreement without cost consequences during a 14-day period subsequent to execution of the contract.

Changes to the Finality Act and Property Act

In March 2011, parliament also debated and approved after a second reading the revision of the Finality Act and Property Act with the intention of implementing two EC Directives: Directive 2009/44/EC on settlement finality in payment and securities settlement systems, as well as Directive 2002/47/EC on financial collateral arrangements (Finality Directive). The two Directives amend the previously valid rules. Here, the goal is to ensure greater certainty about the finality of payment and transfer orders, netting and collateralisation agreements than was the case for participants in those systems under the previous rules.

Cross-border transactions

The legal and reputational risks inherent to the cross-border financial services business have increased noticeably in recent years. The supervisory authorities in various countries expect from banks that they observe and also comply with foreign law in the conduct of their transnational financial services activities (see e.g. the Swiss Financial Market Supervisory Authority FINMA position paper dated 22 October 2010 on the risks in the cross-border financial services). The banks must adapt their processes and service models for the cross-border business so there is assurance that market cultivation activities can be conducted abroad in a legally compliant manner. This requires a comprehensive analysis of the legal and reputational risks that can arise from their cross-border business activities. Once those risks are identified, the banks must introduce suitable measures to mitigate them. Furthermore, in view of the increased supervisory requirements, the banks must enact appropriate internal rules that are to be strictly controlled and complied with and any violations sanctioned. Also, those employees involved in the cross-border business must be thoroughly trained in the supervisory regulations of the foreign markets they service.

International tax agreements

The Liechtenstein government's strategic approach to international cooperation involves implementing the commitment to the OECD standard on the exchange of tax information as well as establishing a network of double taxation agreements (DTAs). The primary emphasis is on the latter.

In 2011, the following international tax treaties were signed, ratified or entered into force:

- The DTA with Hong Kong, which was signed on 12 August 2010, took effect on 8 July 2011.
- Parliament approved the DTA with Uruguay on 22 September 2011. The governments of both countries signed the treaty on 18 October 2010.
- On 17 November 2011, the governments of the Principality of Liechtenstein and the Federal Republic of Germany signed a DTA. The tax information exchange agreement (TIEA) between the two countries has already been in effect since 28 October 2010.
- On 15 December 2011, parliament ratified the TIEAs with seven Nordic states (Norway, Sweden, Finland, Denmark, Iceland, Greenland and the Faroe Islands) which were previously signed on 17 December 2010.
- On 15 December 2011, parliament also approved the TIEA and a Memorandum of Understanding (MoU) with Australia. Both governments had already signed the agreements on 21 June 2011.

Since December 2008 – in other words within the space of three years – Liechtenstein has concluded a total of 25 international tax treaties, amongst theme five agreements on the avoidance in double taxation and 20 OECD-consistent agreements on the exchange of information in tax matters.
This treaty policy has its origins in the "Liechtenstein Declaration" of 12 March 2009. In it, the government of the Principality of Liechtenstein committed to implement the OECD global standards for transparency and the exchange of information in tax-related matters, as well as to participate intensely in international efforts to combat non-compliance with foreign tax laws. The government declared its intention to conclude as soon as possible an array of bilateral agreements in this regard. At the same time, it emphasised that privacy and banking client secrecy must be safeguarded. With this declaration and the related policy, Liechtenstein wishes to uphold the interests of clients of the financial centre as well as the justifiable claims of its contractual partners. Thanks to the Liechtenstein Declaration and the conclusion of 14 bilateral treaties by year-end 2009, Liechtenstein was added to the OECD's "White List".
In order to cement the legal foundation for providing international administrative assistance, the government approved on 30 March 2010 a proposed bill that foresees the provision of international administrative assistance in tax matters (Tax Administrative Assistance Act). This law entered into force on 1 September 2010. It has created a uniform legal foundation for interstate administrative assistance processes in conjunction with the TIEAs and DTAs. Two treaties represent an exception in this regard: the TIEAs with the USA and United Kingdom are being implemented on the basis of their own tax administrative assistance laws.
The treaty between Liechtenstein and the United Kingdom concerning the bilateral exchange of information in tax matters includes specific agreements: in parallel with the TIEA, the governments of both countries signed a "Memorandum of

Understanding" on 11 August 2009, in which both sides agreed in principle on the following: Liechtenstein will conduct a five-year tax administrative assistance and compliance programme (Taxpayer Assistance and Compliance Programme, TACP). The United Kingdom will also introduce a five-year disclosure programme for persons who wish to settle their tax matters in the United Kingdom, the "Liechtenstein Disclosure Facility" (LDF). The LDF provides for special conditions if clients of the Liechtenstein financial centre who are liable to taxation in the United Kingdom make a self-declaration by 15 March 2015 (see in this regard: www.vpbank.com/htm/1919/en/LDF-Liechtenstein-Disclosure-Facility).

The "First Joint Declaration", which was also signed on 11 August 2009, goes into various specific points of the MoU, for example the further means of proceeding, as well as the protection of Liechtenstein financial intermediaries who comply with the MoU. In a "Second Joint Declaration" in the autumn of 2010, Liechtenstein and the United Kingdom repeated their intention to conclude successfully a double taxation agreement.

Government representatives of Liechtenstein and the United Kingdom meet regularly and are broadening the LDF disclosure programme. At their meeting in December 2011, members of the Office for International Financial Affaires of the Government of the Principality of Liechtenstein (SIFA) and representatives of the British tax authorities (HMRC) agreed among other things on the following points:

- As of 1 December 2011, tax-liable persons from the United Kingdom who wish to participate in the LDF disclosure programme must present to the British tax authorities a "confirmation of relevance (COR)". This materiality confirmation will be written up by Liechtenstein financial intermediaries and serves as evidence of a so-called "meaningful relationship" that these British clients have with the Liechtenstein financial centre.
- To ensure that the procedure for identifying and reporting is conducted as effectively as possible, the United Kingdom and Liechtenstein have agreed to prolong the declaration deadline by three months until 1 April 2012. The rationale: clients from the United Kingdom who are beneficial owners of relevant assets administered by Liechtenstein financial intermediaries must provide evidence that they are actually fulfilling their tax obligations vis-à-vis the United Kingdom with regard to those assets. Under the TACP, Liechtenstein financial intermediaries must inform their clients of that fact.

The SIFA commenced its activities on 1 February 2011. The government has delegated to the SIFA all tasks involved in the coordination and implementation of the financial centre strategy. One of those duties is to coordinate international financial-centre negotiations with the affected authorities, institutions and federations. Responsibility for all bilateral and multilateral finance- and tax-related negotiations is still borne by the government.

International inclusion of the FMA

In the wake of the 2008/09 financial crisis, the European supervisory system was revamped. EU committees that previously had only a consultative function were turned into independent supervisory authorities and accorded the corresponding competencies. These bodies are today:

- the European Banking Authority (EBA), London;
- the European Insurance and Occupational Pensions Authority (EIOPA), Frankfurt; and
- the European Securities and Markets Authority (ESMA), Paris.

The FMA, as Liechtenstein's representative, has observer status in the EBA and EIOPA – as it already had in their predecessor organisations. In May 2011, the FMA was invited by the ESMA to participate as an observer in its council of supervisors, committees and working groups. Because the EU supervisory authorities have far-reaching competencies, EEA treaty-consistent adaptations are being worked up for Liechtenstein and the other EEA/EFTA member countries.

In April 2011, the FMA was accepted as an ordinary member of the International Organization of Securities Commissions; IOSCO). Through the adaptation of its policy on administrative assistance in securities matters, which took effect at the start of 2011, Liechtenstein fulfilled the prerequisite for membership in IOSCO.

The inclusion of the FMA in significant international organisations reinforces the integration efforts of the Liechtenstein financial centre and makes it easier for domestic financial intermediaries to access foreign markets.

Outlook

Adoption of a new AIFM law

Apart from the UCITS IV Directive, Liechtenstein must also incorporate into national law Directive 2011/61/EU on alternative investment fund managers (AIFM Directive). With this, Liechtenstein is venturing into unknown territory. Until now, all funds not deemed to be "UCITS funds" were subject to national rules and could be regulated independently. The AIFM Directive on the regulation of alternative investment fund managers was published on 1 July 2011 in the Official Journal of the European Union. With this Directive, the EU desires 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) which are not subject to the UCITS Directive and are exposed to considerable risks. In return, this Directive should in future enable also AIFs to enjoy the benefits of the European Passport; in other words, through mere prior notification, alternative investment funds may be distributed in all EEA member countries. Since 16 November 2011, the Level II Measures of the ESMA have been available; this pertains to the so-called Implementing Provisions regarding the AIFM Directive. The Directive should be incorporated into national law by 2013.

Tax crimes as a predicate offence for money laundering

The Financial Action Task Force (FATF) has revised its recommendations on the battle against money laundering and the financing of terrorism. Between June and October 2011, the FATF subjected its revamped proposals to a second round of public consultation. In February 2012, the FATF presented its newly formulated standards. Apart from numerous other points, there is now the requirement that severe tax violations be qualified as a predicate offence to money laundering. Such a step would result in the need for banks, insurers and other financial intermediaries to inform the national money-laundering reporting office – in the case of Liechtenstein, the Financial Intelligence Unit Staff Office (SFIU) – if any cause for suspicion arises. The latter would in turn be obliged under certain circumstances to forward that information to foreign reporting offices. The Liechtenstein government, FMA, Bankers Association and the SFIU are following these developments closely and examining whether and in which form there is any need for action on the part of the financial centre in response to these directives. Liechtenstein has an outstanding track record on combatting money laundering and, in international comparison, has in place an exemplary, properly functioning system for countering abuse.

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

With the Foreign Account Tax Compliance Act (FATCA), the USA has created a law that contractually obligates foreign financial institutions (FFIs) to identify their US clients and disclose to the US tax authorities, Internal Revenue Service (IRS), those clients' assets and income. The US is attempting in this way to introduce a gapless system for the global exchange of information on US persons, as well as a high degree of tax transparency.
To ensure that, the law provides for the introduction of a 30 per cent withholding tax on all US payment flows (dividends, interest, proceeds from sales of US securities, etc.). The levying of this tax will be waived if the financial institution signs a corresponding agreement and thereby acquires the status of "participating FFI".
A participating FFI must identify and document all accounts that are held directly or indirectly by US persons. As a part of this, it must be determined in particular who the actual beneficial owner of the account is. Three client categories result from this examination:

1. US account holders: here it is a matter of those client relationships with US persons that have already been disclosed under the Qualified Intermediary (QI) rules or are qualified as US persons due to various indicators (e.g. place of birth in the USA).
2. Non-US account holders: these are client relationships with persons who, on the basis of the examination, are not designated as US persons. In addition, accounts (also US accounts) with an average monthly balance of less than USD 50,000 (so-called small accounts) also qualify as "non-US account holders".
3. Recalcitrant account holders: here it is a matter of relationships with clients whose indicators suggest the status of a US account but who do not or refuse to provide the requisite documentation. For these clients, a 30 per cent penalty tax will be charged on practically all transactions in US assets. The USA demands that the participating FFI no longer have business dealings with such clients.

FATCA therefore has a considerably broader reach than the – still applicable – QI regime. The latter mainly focuses on ensuring that US securities are correctly taxed. FATCA, on the other hand, requires that participating FFIs identify their US clients and disclose their total assets and income to the IRS. Affected by this are not only natural persons but also companies and other legal entities.
VP Bank is assuming that it will become a "participating FFI". This way, it can above all maintain the status quo for its non-US client relationships. Also, it can avoid being penalised with the 30 per cent US withholding tax charged by other participating FFIs. Those who work together with uncooperative FFIs run the risk of losing their own status as a participating FFI. VP Bank has commissioned a project group to address the implications and implementation of FATCA.
The IRS has announced that the definitive implementing provisions will be made public in mid-2012. On 8 February 2012, the so-called "Draft Regulations" were published. Whether or not these implementing provisions are merely of a provisional nature, the fact remains that they are at significant variance to the "Notices" published in 2010 and 2011. Until FATCA enters into force on 1 January 2013, there still remain numerous issues that need to be clarified. But one thing is certain: FATCA is not merely a tax-specific topic that affects individual aspects of compliance. Rather, it affects the entire financial services value chain. New and expanded information and reporting systems are being called for, thus the fulfilment of the requirements will involve considerably more time and expense than was the case in the implementation of the QI regime or EU tax on savings income.

Important links to legislation and the Liechtenstein financial centre

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
Government of the Principality of Liechtenstein	www.regierung.li
Office for International Financial Affairs	www.sifa.llv.li
Parliament of the Principality of Liechtenstein	www.landtag.li
Liechtenstein Bankers Association	www.bankenverband.li
Liechtenstein Investment Fund Association	www.lafv.li
Liechtenstein Association of Professional Trustees	www.thv.li
Liechtenstein Association of Auditors	www.wpv.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
Association of non-profit foundations in Liechtenstein	www.vlgs.li

4

Segments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Segment reporting

2011

in CHF 1,000	Banking Liechtenstein & Regional Markets	Private Banking International	Wealth Management Solutions & Services	CFO & Corporate Center	Total Group
Total interest income	34,271	21,483	341	10,504	66,599
Total income from commission business and services	85,982	35,765	–2,970	3,148	121,925
Income from trading activities	15,126	7,626	1,906	4,709	29,367
Income from financial investments	–126	–80	0	6,118	5,912
Other income	188	467	0	0	655
Total net operating income	**135,441**	**65,261**	**–723**	**24,479**	**224,458**
Personnel expenses	24,113	33,254	37,851	29,644	124,862
General and administrative expenses	3,704	15,652	15,585	17,930	52,871
Services to/from other segments	28,625	624	–26,062	–3,187	0
Operating expenses	**56,442**	**49,530**	**27,374**	**44,387**	**177,733**
Gross income	**78,999**	**15,731**	**–28,097**	**–19,908**	**46,725**
Depreciation and amortisation	289	3,210	23,797	6,340	33,636
Valuation allowances, provisions and losses	3,159	3,138	451	–979	5,769
Income/loss before income tax	**75,551**	**9,383**	**–52,345**	**–25,269**	**7,320**
Taxes on income					930
Net income					**6,390**
Share of net income attributable to minority interests					2,058
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz					**4,332**
Client assets under management (in CHF billion)	17.3	8.6	1.2	0.3	27.4
Net new money (in CHF billion)	–0.3	1.5	–0.1	–0.1	1.0
Headcount (number of employees)	171	221	269	132	793
Headcount (expressed as full-time equivalents)	165.3	212.9	250.4	109.2	737.8

2010

in CHF 1,000	Banking Liechtenstein & Regional Markets	Private Banking International	Wealth Management Solutions & Services	CFO & Corporate Center	Total Group
Total interest income	35,817	16,938	500	21,233	74,488
Total income from commission business and services	92,119	39,431	–2,662	4,071	132,959
Income from trading activities	14,549	6,158	3,674	21,524	45,905
Income from financial investments	100	697	0	–1,904	–1,107
Other income	249	694	0	33	976
Total net operating income	**142,834**	**63,918**	**1,512**	**44,957**	**253,221**
Personnel expenses	24,083	33,480	38,605	25,629	121,797
General and administrative expenses	2,871	14,505	19,057	21,295	57,728
Services to/from other segments	30,302	896	–31,261	63	0
Operating expenses	**57,256**	**48,881**	**26,401**	**46,987**	**179,525**
Gross income	**85,578**	**15,037**	**–24,889**	**–2,030**	**73,696**
Depreciation and amortisation	279	3,599	27,944	6,908	38,730
Valuation allowances, provisions and losses	10,078	5,256	1,823	–1,343	15,814
Income/loss before income tax	**75,221**	**6,182**	**–54,656**	**–7,595**	**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)	170	210	270	131	781
Headcount (expressed as full-time equivalents)	164.0	201.9	251.7	109.6	727.2

Banking Liechtenstein & Regional Markets

in CHF 1,000	2011	2010	Absolute variance	Variance in %
Total interest income	34,271	35,817	–1,546	–4.3
Total income from commission business and services	85,982	92,119	–6,137	–6.7
Income from trading activities	15,126	14,549	577	4.0
Income from financial investments	–126	100	–226	226.0
Other income	188	249	–61	–24.5
Total net operating income	**135,441**	**142,834**	**–7,393**	**–5.2**
Personnel expenses	24,113	24,083	30	0.1
General and administrative expenses	3,704	2,871	833	29.0
Services to/from other segments	28,625	30,302	–1,677	–5.5
Operating expenses	**56,442**	**57,256**	**–814**	**–1.4**
Gross income	**78,999**	**85,578**	**–6,579**	**–7.7**
Depreciation and amortisation	289	279	10	3.6
Valuation allowances, provisions and losses	3,159	10,078	–6,919	–68.7
Divisional earnings before income tax	**75,551**	**75,221**	**330**	**0.4**

Additional information				
Operating expenses excluding depreciation and amortisation / total operating income (in %)	41.7	40.1		
Operating expenses including depreciation and amortisation / total operating income (in %)	41.9	40.3		
Client assets under management (in CHF billion)	17.3	18.8		
Change in client assets under management compared to previous year (in %)	–7.8	–9.0		
Net new money (in CHF billion)	–0.3	–1.0		
Gross income / average client assets under management (bp)[1]	75.0	72.4		
Divisional result / average client assets under management (bp)[1]	41.8	38.1		
Cost/income ratio operating income (in %)[2]	41.7	40.2		3.8
Headcount (number of employees)	171	170	1	0.6
Headcount (expressed as full-time equivalents)	165.3	164.0	1.3	0.8

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

Structure

The Banking Liechtenstein & Regional Markets business segment encompasses the universal-banking business in Liechtenstein, the home market, and in Switzerland as well as the international private-banking, intermediaries and fund-solutions 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 division.

Segment results

The strong Swiss franc, the market uncertainties and the low interest-rate level adversely impacted VP Bank's activities. Interest margins were under pressure as a result of the further declining interest rates in the second half of the year. The reticence displayed by clients is reflected in the level of trade-related fee income. Segment costs were reduced year-on-year. For this reason, a segment result at the same level as the previous year could be achieved in 2011.

As a result of the declining net interest and commission and service income, total operating income fell by 5.2 per cent from CHF 142.8 million to CHF 135.4 million. The gross margin amounted to 75.0 basis points (previous year: 72.4 basis points). Cost/income ratio improved from 40.1 to 41.7. Operating expenses fell by 1.4 per cent to CHF 56.4 million (previous year: CHF 57.3 million). This reduction is attributable to lower recharges from other segments. Depreciation and amortisation, valuation allowances and provisions could be reduced by more than half and totalled CHF 3.4 million (previous year: CHF 10.4 million). Pre-tax results increased by 0.4 per cent from CHF 75.2 million to CHF 75.6 million.
The net new money inflow developed positively. The net outflow of client money could be brought under strict control. In 2011, this latter aggregated CHF 0.3 billion and was thus markedly lower than the result in 2010 of CHF 1.0 billion. As at 31 December 2011, client assets under management aggregated CHF 17.3 million (31 December 2010: CHF 18.8 billion). The headcount stood at 165 positions (previous year: 164 positions).

Private Banking International

in CHF 1,000	2011	2010	Absolute variance	Variance in %
Total interest income	21,483	16,938	4,545	26.8
Total income from commission business and services	35,765	39,431	–3,666	–9.3
Income from trading activities	7,626	6,158	1,468	23.8
Income from financial investments	–80	697	–777	111.5
Other income	467	694	–227	–32.7
Total net operating income	**65,261**	**63,918**	**1,343**	**2.1**
Personnel expenses	33,254	33,480	–226	–0.7
General and administrative expenses	15,652	14,505	1,147	7.9
Services to/from other segments	624	896	–272	–30.4
Operating expenses	**49,530**	**48,881**	**649**	**1.3**
Gross income	**15,731**	**15,037**	**694**	**4.6**
Depreciation and amortisation	3,210	3,599	–389	–10.8
Valuation allowances, provisions and losses	3,138	5,256	–2,118	–40.3
Divisional earnings before income tax	**9,383**	**6,182**	**3,201**	**51.8**

Additional information				
Operating expenses excluding depreciation and amortisation / total operating income (in %)	75.9	76.5		
Operating expenses including depreciation and amortisation / total operating income (in %)	80.8	82.1		
Client assets under management (in CHF billion)	8.6	7.7		
Change in client assets under management compared to previous year (in %)	11.3	5.2		
Net new money (in CHF billion)	1.5	0.9		
Gross income / average client assets under management (bp)[1]	80.2	85.1		
Divisional result / average client assets under management (bp)[1]	11.5	8.2		
Cost/income ratio operating income (in %)[2]	76.3	78.2		–2.3
Headcount (number of employees)	221	210	11	5.2
Headcount (expressed as full-time equivalents)	212.9	201.9	11.0	5.4

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

Structure

The Private Banking International business segment comprises the private-banking business in international locations. VP Bank (Schweiz) AG, VP Bank (Luxembourg) S.A., VP Vermögensverwaltung GmbH, VP Bank and Trust Company (BVI) Ltd., VP Bank (Singapore) Ltd. and VP Wealth Management (Hong Kong) Ltd. are allocated to this division.

Segment results

Uncertainties as to market parameters, regulatory prescriptions and the development of the world economy left their mark on the results of the International Private Banking segment during 2011. VP Bank Group again achieved success in client acquisition activities in the international private banking field. The interest business profited from the development of client relationships. On the other hand, commission and service income suffered from competitive pressures and lower levels of client activities. Year-on-year, costs could be reduced. Together, these two factors had the effect of the 2011 segment results exceeding those of the previous year.

Total operating income increased by 2.1 per cent from CHF 63.9 million to CHF 65.3 million. The improved interest and trading income results made up for the decline in commission and service income. The gross margin was 80.2 basis points (previous year: 85.1 basis points). Cost/income ratio improved from 76.5 to 75.9. Operating expenses increased by 1.3 per cent to CHF 49.5 million (previous year: CHF 48.9 million) which was primarily due to an increase in general and administrative expenses. Depreciation and amortisation, valuation allowances and provisions could be reduced by from CHF 8.9 million to CHF 6.3 million. Pre-tax results increased year-on-year by 51.8 per cent from CHF 6.2 million to CHF 9.4 million.
In 2011, the segment experienced an inflow of net new money of CHF 1.5 billion (previous year: CHF 0.9 billion). As at 31 December 2011, client assets under management aggregated CHF 8.6 billion (31 December 2010: CHF 7.7 billion). The headcount increased from 202 to 213 positions.

Wealth Management Solutions & Services

in CHF 1,000	2011	2010	Absolute variance	Variance in %
Total interest income	341	500	–159	–31.8
Total income from commission business and services	–2,970	–2,662	–308	–11.6
Income from trading activities	1,906	3,674	–1,768	–48.1
Income from financial investments	0	0	0	0
Other income	0	0	0	0
Total net operating income	**–723**	**1,512**	**–2,235**	**147.8**
Personnel expenses	37,851	38,605	–754	–2.0
General and administrative expenses	15,585	19,057	–3,472	–18.2
Services to/from other segments	–26,062	–31,261	5,199	–16.6
Operating expenses	**27,374**	**26,401**	**973**	**3.7**
Gross income	**–28,097**	**–24,889**	**–3,208**	**–12.9**
Depreciation and amortisation	23,797	27,944	–4,147	–14.8
Valuation allowances, provisions and losses	451	1,823	–1,372	n.a.
Divisional earnings before income tax	**–52,345**	**–54,656**	**2,311**	**4.2**

Additional information				
Client assets under management (in CHF billion)	1.2	1.3		
Headcount (number of employees)	269	270	–1	–0.4
Headcount (expressed as full-time equivalents)	250.4	251.7	–1.3	–0.5

Structure

The Wealth Management Solutions & Services business segment was responsible for the units Investment Funds and Portfolio Management, for Wealth Management Solutions and for banking operations. It encompasses the units Wealth Management Solutions, Information Technology, Operations as well as Logistics & Security for the entire VP Bank Group.

Segment results

This business segment in 2011 was marked by the deployment of the Avaloq banking software in VP Bank (Luxembourg) S.A. This banking software is used in the Luxembourg subsidiary since 1 January 2012. As a result, all Group subsidiaries having banking status operate on a uniform IT platform. In the area of investment funds, the focus was on the Strategy Fund which was well received by clients.

In 2011, total operating income improved to minus CHF 0.7 million (previous year: minus CHF 1.5 million). Operating expenses increased by 3.7 per cent from CHF 27.4 million (previous year: CHF 26.4 million). In aggregate, depreciation and amortisation, valuation allowances and provisions could be reduced from CHF 29.8 million to CHF 24.2 million. In 2011, pre-tax results were minus CHF 52.3 million, after minus CHF 54.7 million in the previous year. The headcount declined from 252 to 250 positions.

CFO & Corporate Center

in CHF 1,000	2011	2010	Absolute variance	Variance in %
Total interest income	10,504	21,233	–10,729	–50.5
Total income from commission business and services	3,148	4,071	–923	–22.7
Income from trading activities	4,709	21,524	–16,815	–78.1
Income from financial investments	6,118	–1,904	8,022	–421.3
Other income	0	33	–33	–100.0
Total net operating income	**24,479**	**44,957**	**–20,478**	**–45.6**
Personnel expenses	29,644	25,629	4,015	15.7
General and administrative expenses	17,930	21,295	–3,365	–15.8
Services to/from other segments	–3,187	63	–3,250	n.a.
Operating expenses	**44,387**	**46,987**	**–2,600**	**–5.5**
Gross income	**–19,908**	**–2,030**	**–17,878**	**n.a.**
Depreciation and amortisation	6,340	6,908	–568	–8.2
Valuation allowances, provisions and losses	–979	–1,343	364	27.1
Divisional earnings before income tax	**–25,269**	**–7,595**	**–17,674**	**–232.7**
Additional information				
Client assets under management (in CHF billion)	0.3	0.4		
Headcount (number of employees)	132	131	1	0.8
Headcount (expressed as full-time equivalents)	109.2	109.6	–0.4	–0.4

Structure

CFO & Corporate Center encompasses the areas of Group Finance & Risk, Group Legal Services & Compliance, Group Human Resources Management and Group Communications & Marketing. 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 Centre. The results of the subsidiaries IGT Intergestions Trust reg., Vaduz, FIB Finanz- und Beteiligungs-AG, Vaduz, and Proventus Treuhand und Verwaltung AG, Vaduz, are also integrated in the Corporate Center.

Segment results

Historically low interest-rate levels further receded in the second half of the year, adversely impacting the replacement values of the interest-rate swaps which are employed for interest-rate hedging purposes. The appreciation of the Swiss franc in the first half of 2011 was halted as a result of the intervention of the Swiss National Bank in September.
As a result of the negative drop in replacement values for interest-rate swaps and the lower level of foreign-currency gains, total operating income of this segment declined by 45.6 per cent to CHF 24.5 million (previous year: CHF 45.0 million). Operating expenses fell by 5.5 per cent from CHF 47.0 million to CHF 44.4 million. Depreciation and amortisation, valuation allowances and provisions totalled CHF 5.4 million (previous year: CHF 5.6 million). Pre-tax results were minus CHF 25.3 million, as opposed to minus CHF 7.6 million in the previous year. The headcount was 109 positions (previous year: 110 positions).


Corporate governance

Corporate governance 2011

Corporate governance is the manner in which an enterprise is managed and controlled. VP Bank strives to conduct exemplary corporate governance in a way that clearly defines and appropriately allocates the roles, competencies and areas of responsibility of the company's leadership and supervisory bodies. This applies in particular to the operational 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. Thus for years now, it has voluntarily disclosed information on the Group's strategic orientation and its relationships with those stakeholders.

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 Ltd dated 29 October 2008 as well as the relevant laws of Liechtenstein.
The regulations of SIX Swiss Exchange Ltd stipulate that companies whose shares are listed on the Exchange but not in their own home countries must apply the provisions of Art. 663b^{bis} CO correspondingly. The relevant details are shown in Section 5.2 on page 71 as well as in the notes to the annual financial statements (see pages 173f.).
Unless otherwise indicated, all corporate governance disclosures herein are valid as at 31 December 2011.

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 organisation chart on page 13 shows the Group's operating structure and reflects the organisation 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 148f.), together with their names, registered offices, share capital and percentage of share capital held. Members of senior management at the parent company, i.e. Group Executive Management (GEM), 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 is referred to as Group Executive Management. Through the end of the 2011, it performed the dual function of managing the parent bank as well as the Group as a whole.

1.1.2 Listed companies included in the scope of consolidation

The bearer shares of VP Bank, Vaduz, are listed on the 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	7.25	44
Bearer shares (listed)	LI0010737216	1.073.721	83.00	441[1]
Total (market capitalisation of the bearer shares plus market value of the registered shares)				**485**

[1] Market capitalisation of the listed bearer shares as at 31 December, 2011

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

1.2 Significant shareholders

As at 31 December 2011, the following shareholders declared that they own more than 10 per cent of the share capital of VP Bank or exercise more than 5 per cent of the voting rights.

Shareholders	Registered shares	Bearer shares	Voting rights	Voting rights as % of total	Ownership of total share capital
Stiftung Fürstlicher Kommerzienrat Guido Feger, Vaduz	4,452,447	1,026,406	5,478,853	48.4%	24.9%
U.M.M. Hilti-Stiftung, Schaan	658,370	540,708	1,199,078	10.6%	10.3%

During the year 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 10.00 each (see Financial Report, page 140).

	Balance as at 31 December 2011	
	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 Authorised and conditional capital

VP Bank has neither authorised 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	31/12/2011	31/12/2010	31/12/2009
Share capital	59,148	59,148	59,148
Legal reserves	239,800	239,800	239,800
Other reserves	357,097	316,588	316,189
Provisions for general banking risks	63,150	71,400	63,150
Retained earnings	16,464	25,162	61,387
Total	**736,184**	**744,357**	**748,323**

2.4 Shares and participation certificates

The bearer shares of VP Bank are freely tradable on the 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 overall management, the supervision and control exercised by the Board of Directors, as well as the operational management. Accordingly, the Board of Directors of VP Bank consists exclusively of non-executive members (i.e. members not actively involved in management).

3.1 Members of the Board of Directors

The Board of Directors of VP Bank consists of seven members, none of whom has belonged to the GEM of VP Bank or any Group company during the past three financial years.
As a 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 names, ages, functions, joining dates and remaining terms of office of the Board members:

Name	Year of birth	Function	Joined Board of Directors in	Elected until AGM in
Hans Brunhart	1945	Chairman[1,4]	1994	2012
Dr iur. Guido Meier	1948	Vice Chairman[2]	1989	2013
Lic. oec. Markus Thomas Hilti	1951	Board Member[2]	1992	2013
Roland Feger	1956	Board Member[4]	2001	2013
Walo Frischknecht	1946	Board Member[3]	2002	2014
Dr iur. Daniel H. Sigg	1956	Board Member	2008	2014
Prof. Dr Teodoro D. Cocca	1972	Board Member	2011	2014

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

Hans Brunhart (born 28 March 1945; citizen of Liechtenstein) has been the Chairman of the Board of Directors since April 1996, and is the Chairman of the Committee of the Board of Directors and a member of the Audit & Risk Management Committee of VP Bank.
Other (board) mandates: SFS Holding AG, Heerbrugg.
Educational background: studied German philology at the universities of Fribourg/Switzerland and Basel.

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

Professional background: as of 1972, head of the Liechtenstein National Library and State Archives.
On 27 March 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 26 April 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 8 January 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 to 1993, part-time judge at the Liechtenstein Constitutional Court; 1993 to 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 3 January 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, New York (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 to 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. Hilti-Stiftung, Schaan (see Point 1.2).

Roland Feger (born 26 December 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 7 October 1946; citizen of Switzerland) is Chairman of the Audit & Risk Management Committee of VP Bank.
Other (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: PricewaterhouseCoopers, 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 SZ).
Other activities and vested interests: none.

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

Prof. Dr Teodoro D. Cocca (born 25 July 1972, citizen of Switzerland)
Other (board) mandates: Geneva Group International, Zurich (vice chairman)
Educational background: studies of business economics at the University of Zurich; Dr oec. publ. degree.
Professional background: Senior Researcher, Swiss Banking Institute, University of Zurich; research fellow at the Stern School of Business, New York/USA (with Prof. Ingo Walter); 2005 appointment to professorship in economics, with focus on asset management, at the Johannes Kepler University Linz; since 2006, professor for asset management at the Johannes Kepler University Linz; since 2010, Adjunct Professor at the Swiss Finance Institute in Zurich; since 2011, dean of the faculty of social sciences, economics and business of the Johannes Kepler University Linz.
Other activities and vested interests: member of the Research Institute for Banking and Finance, Johannes Kepler University in Linz; member of the investment committees of various Austrian investment funds; chairman of the annual European Private Banking Summit, Zurich; proprietor of Cocca Asset Management KG, Weisskirchen an der Traun/Austria.

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

3.5 Internal organisation

The internal organisation and work methods of the Board of Directors are set out in the Articles of Incorporation (Arts. 17 to 19) and in the Organisation and Business Rules (OBR sections 2 to 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 fulfil 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 areas 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 Organisation 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 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 Com-mittee)
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 &

[3] The Articles of Incorporation and £OBR (available in German only) www.vpbank.com (website of VP Bank → Investors → Publications).
[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".

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 fulfilment of his management and coordination tasks as well as the entire Board of Directors in issues concerning corporate governance, organisation 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, succession 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 auditors;
- 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 auditing bodies;
- defining the audit plan of Group Internal Audit, as well as taking note of the audit planning of the Group auditors and 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 Internal Audit.

3.5.3 Work methods of the Board of Directors and its committees

At the invitation of the Chairman, the Board of Directors normally meets 8 to 10 times per year for meetings as well as for one strategy conclave. Generally, the meetings consist of two parts: the first is devoted to consultative discussions for which members of the GEM are in attendance to present their proposals and exchange information, and a second decision-making part during which the Board of Directors arrives at its resolutions. In order to be informed on a first-hand basis, the CEO is also in attendance at the second part.
Specific topics addressed by the Board of Directors and its committees can require that further individuals are called upon (managers of VP Bank Group, representatives of the statutory auditors, as well as internal or external specialists and consultants).
During the 2011 financial year, the Board of Directors held six full-day and two half-day ordinary meetings. In addition, the Board and GEM jointly conducted a full-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) holds 6 to 10 meetings per year. The CEO normally takes part in these meetings in an advisory capacity. In 2011, the Nomination & Compensation Committee held a total of 10 meetings.

The Audit & Risk Management Committee usually holds five to eight meetings per year, with the meeting dates being set to accommodate the needs arising from specific tasks (closing of accounts, financial reporting, Auditors' Reports, etc.). The CFO and Head of Group Internal Audit each take part in these meetings. At these meetings, there is an exchange of information with the GEM regarding the quality of internal control systems and other matters. For the purpose of addressing audit-specific topics, representatives of the external auditing firm (as a general rule, the Auditor in Charge) are invited to attend.
In 2011, 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 this honorary title upon him for his 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 to 1996 Chairman of the Board of Directors.

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 sections 2.2 to 2.4 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 Executive Board 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 Executive Board at the Head Office and Group Executive Management is regulated in detail in section 5 OBR, and that of extended Group-level management in section 6 OBR. The Board of Directors has decided to reallocate the tasks of the GEM and Executive Board of the Head Office, for effect on 1 January 2012. The Articles of Incorporation and OBR will be adapted to reflect these new circumstances.

The separation of functions between the Board of Directors and the GEM can also be seen in the graph of the internal organisation (see organisational structure of VP Bank Group, page 13).

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.
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, semi-annual and annual financial statements (consolidated and individual company accounts). They also include quantitative and qualitative information, as well as budget variances, benchmark comparisons, period-specific and multi-year comparisons, key 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 recognised standards of the Institute of Internal Auditing Switzerland (IIAS) 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.

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

4. Senior management

In connection with VP Bank's sharper focus on market needs, the range of tasks of the GEM and Executive Board at the Head Office will be more clearly regulated and allocated as of 1 January 2012. Through the end of the 2011 financial year, the GEM was responsible for both the operative management of the Head Office and the management of VP Bank Group. Its tasks and competencies are specified in the OBR of 12 November 2010 as well as in the functional descriptions for the individual GEM members. The GEM head (CEO) is responsible for the overall management and intercompany coordination of the Group.
The GEM members meet once a week for a half-day session. Additional meetings and seminars are held for the purpose of assessing the strategy and corporate developments, as well as for dealing with annual planning, budgeting and other current issues.

4.1 Members of senior management

As at 31 December 2011, the Group Executive Management team (GEM) comprised the following individuals:

Name	Year of birth	Function	Joined VP Bank in	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

Roger H. Hartmann (born 16 July 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 1 April 2010. In this function, he bears responsibility for the client advisory segments Banking Liechtenstein & Regional Markets, Private Banking International and Private Banking Asia/Pacific (see Segment Reporting, page 48ff.).
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 11 September 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 the Corporate Center. In the latter function, he is in charge of the central staff functions Group Finance & Risk, Group Legal Services & Compliance, Group Communications & Marketing as well as Group Human Resources Management (see Segment Reporting, page 53).
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 (responsible for finance, corporate clients and intermediaries, trading, real estate and security); CFO since 2003. In addition, he also acted as CEO ad interim from 25 August 2009 to 31 March 2010.
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 6 June 1961; citizen of Switzerland) has been a member of the GEM of VP Bank, Vaduz, since 1 September 2010. As Head of Wealth Management Solutions & Services, he is responsible for the Wealth Management Solutions, Group Operations, Group Information Technology as well as Logistics & Security units (see Segment Reporting, page 52).
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/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 programmes

The Risk Policy Framework Rules of VP Bank stipulate that the Bank's compensation systems and human resources management are to be designed in a manner that minimises the potential for personal conflicts of interest and behavioural risks.
In its function as the Nomination & Compensation Committee (see Point 3.5.2, page 66), the Committee of the Board of Directors, which comprises only independent members of the Board of Directors, proposes to the Board the principles 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 determines the amount of total compensation payable to Board and GEM members in keeping with the applicable rules.

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 functions 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 three components:

1. A fixed base salary that is contractually agreed between the Committee of the Board of Directors (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 are obtained 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 programme for 2011 to 2013, the fulfilment of annual and three-year targets will result in a goal-achievement bonus (LTI and STI) of between 60 and 85 per cent of the fixed base salary. The variable performance-based amount actually paid to GEM members in 2011 was approximately one-third of the fixed base salary. The grant of shares from the programme for 2009 to 2011 will be made in the first quarter of 2012 at current market prices.

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 Swiss Exchange listed issuer domiciled abroad, VP Bank discloses information on compensation, shareholdings and loans within the Commentary on the Corporate Governance Directive, i.e. analogous 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 173f.).

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 regarding 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, including the related agenda, sent to the address known to VP Bank at the time of dispatch. Upon returning their reply cards, 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 defence measures

The provisions of the Stock Exchange Act concerning public takeover offers apply only to companies whose registered offices are 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 27 April 2007).

8.2 Auditing fees

During the 2011 financial year, Ernst & Young AG charged VP Bank Group fees in the amount of CHF 1.77 million (previous year: CHF 1.90 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 721,200 (previous year: CHF 163,000). The services invoiced include support and audits in the following areas:

- cross-border: composing country-specific manuals;
- audit work in connection with IFRS 9;
- tax advice;
- the conduct of an efficiency analysis;
- the review of the reports to the supervisory authorities.

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

8.4 Informational instruments pertaining to the external audit

The Audit & Risk Management Committee reviews the multi-year audit planning as well as the planned 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 particular 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 2011, 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 oral 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

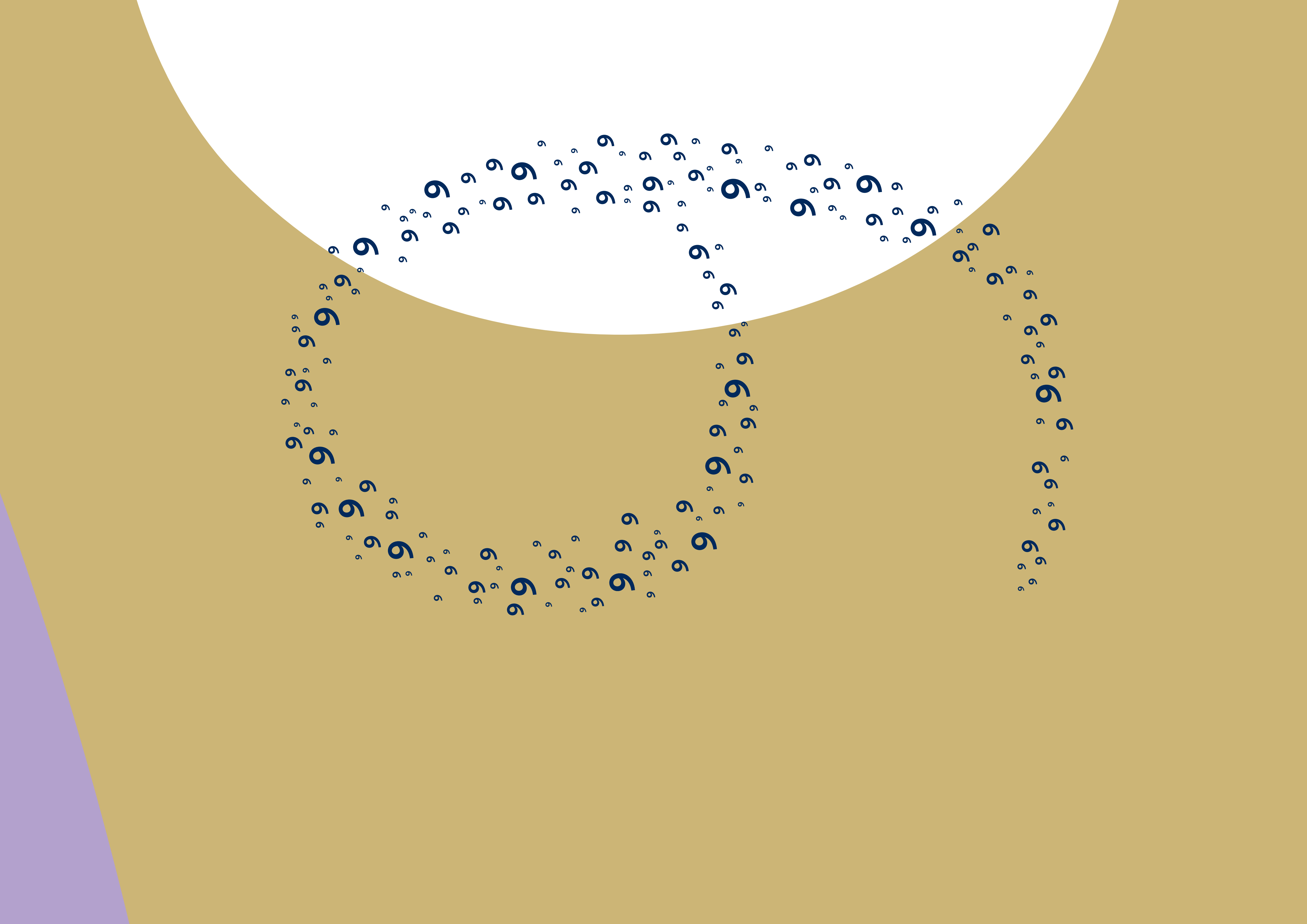
All publications of VP Bank required by law are made in a legally binding manner in the official Liechtenstein publication media (Articles of Incorporation, Art. 25 Point 1).
VP Bank informs shareholders and capital-market participants in an open, comprehensive and timely manner. Its information policy 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 semi-annual 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 the SIX Swiss Exchange, VP Bank is also subject in particular to the obligation to immediately publicise any price-sensitive facts (ad hoc publicity obligation).

Agenda

Annual general meeting: 27 April 2012
2012 semi-annual report: 28 August 2012
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 - Head of Group Communications & Marketing
Aeulestrasse 6 - LI-9490 Vaduz - Tel +423 235 66 55 - Fax +423 235 65 00
vpbank.group@vpbank.com - www.vpbank.com



2011 financial report of VP Bank Group

2011 financial report of VP Bank Group

2011 financial report

Consolidated annual report of VP Bank Group

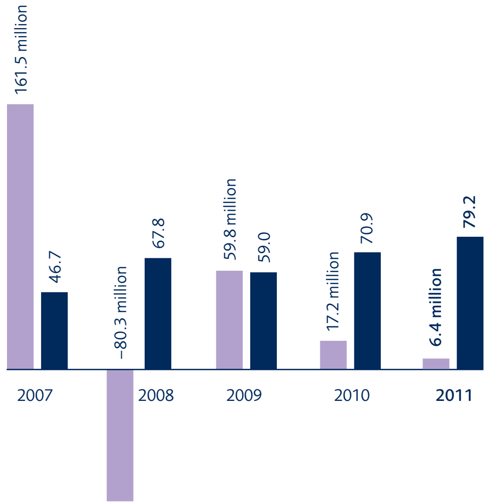
Consolidated results

The consolidated financial statements for 2011 of VP Bank Group, prepared in accordance with International Financial Reporting Standards (IFRS), disclose group net income of CHF 6.4 million. In comparison with the previous year in which the Group generated net income of CHF 17.2 million, this represents a reduction of 62.9 per cent.

2011 was marked by the ongoing uncertainties within the euro zone and the worsening global economic outlook. In the first half of 2011, the Swiss franc again appreciated in value against most currencies. This appreciation was halted in September 2011 by the intervention of the Swiss National Bank. The historically low level of interest rates receded even further in the second half of the year. These factors are reflected in revenues and client activities. The net new money inflow developed very positively. Thanks to intensive marketing efforts, VP Bank Group succeeded in acquiring CHF 1.0 billion of net new client funds in 2011.

Having regard to the lower level of net income and the long-term dividend policy, the Board of Directors will propose a dividend of CHF 1.50 per bearer share and of CHF 0.15 per registered share to the annual general meeting to be held on 27 April 2012.

VP Bank Group has adopted prematurely IFRS 9, Phase I – Financial Instruments – Classification and Measurement (effective 1 January 2015). In compliance with IFRS 9, the prior-year's comparative figures were not restated, thus rendering comparability more difficult with certain prior-year captions.



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

Medium-term goals

In the medium term, VP Bank Group strives to achieve the following goals:

- net new money inflow of an average of 5 per cent per annum
- a cost/income ratio of 65 per cent
- a tier 1 ratio of 16 per cent

The positive trend in net new client money which commenced during 2010 continued into 2011. In the current business year, VP Bank Group achieved an inflow of net new client funds of CHF 1.0 billion, or 3.5 per cent. In 2010, the equivalent amounts were CHF 0.1 billion or 0.3 per cent, respectively.
In 2011, the cost/income ratio rose to 79.2 per cent (previous year: 70.9 per cent). The decline in revenues could not be totally made good by cost reductions. With a tier 1 ratio of 18.2 per cent, VP Bank Group is well capitalised. The medium-term goal of 16 per cent which is far in excess of the legally prescribed level, was again exceeded in 2011. The future regulatory framework Basel III will impose stricter capital-adequacy and liquidity requirements on banking institutions. Even after the introduction of Basel III, VP Bank Group will continue to possess a robust core capital (tier 1), thus reflecting a high measure of stability and security.

Client assets

At the end of 2011, client assets under management of VP Bank Group totalled CHF 27.4 billion. In comparison the previous year's level of CHF 28.2 billion, this constitutes a reduction of 2.8 per cent. Thanks to intensive and successful market development activities, VP Bank Group was able to increase the inflow of net new money. In aggregate, VP Bank Group experienced an inflow of new money of CHF 1.0 billion (previous year: CHF 0.1 billion). The performance-related decline in assets primarily relating to the development in market values amounted to CHF 1.8 billion.
Custody assets also declined by 8.4 per cent to CHF 11.5 billion (previous year: CHF 12.6 billion) as a result of performance-related declines. Client assets including custody assets as of 31 December 2011 amounted to CHF 39.0 billion (previous year: CHF 40.8 billion).

Income statement

The year-on-year comparison of certain captions is rendered more difficult as a result of the early adoption of IFRS 9. This concerns principally the captions interest income and income from financial investments.

Total net operating income

Total net operating income fell year-on-year by 11.4 per cent from CHF 253.2 million to CHF 224.5 million. The interest income fell by 7.9 per cent to CHF 66.6 million. As a result of the continuing low level of interest rates, VP Bank has implemented various measures designed at enhancing the net interest result. Whereas a positive income result could be achieved in the first half of 2011, net interest income was heavily impacted by the negative revaluations of interest-rate swaps in the second half of 2011. These interest-rate swaps are employed to hedge interest-rate risk primarily with respect to long-term client loans. As VP Bank Group does not apply hedge accounting in accordance with IFRS, the underlying assets and the hedges are valued differently; only changes in the value of the hedges are recognised in the income statement.

As a result of the volatile market environment marked by uncertainties, income from commissions and services declined by 8.3 per cent to CHF 121.9 million. The lower level of client activities and the strong Swiss franc adversely impacted the commission business. Both trade-related commissions and those unrelated to trades – with the exception of those for funds management – were on the decline. The results of trading developed as follows: Trading on behalf of clients fell slightly by 2.3 per cent to CHF 24.3 million. Trading for the Bank's own account fell from CHF 20.9 million to CHF 5.0 million as a result of a drop in gains from currency hedges. In 2011, VP Bank Group reports gains and losses from financial investments in a separate caption, in accordance with IFRS 9. In 2011, gains from financial investments totalling CHF 5.9 million were generated, whereas a loss of CHF 1.1 million was incurred in the previous year. Other income amounted to CHF 0.7 million, as opposed to CHF 1.0 million in the previous year.

Money market

Interest – 3 months	31/12/2011	31/12/2010	Δ previous year
Swiss-franc LIBOR	0.05%	0.17%	–12 BP
Euribor	1.29%	0.94%	+35 BP
Dollar LIBOR	0.58%	0.30%	+28 BP
Yen LIBOR	0.20%	0.19%	+1 BP

Capital market

Benchmark bonds – 10 years	31/12/2011	31/12/2010	Δ previous year
Switzerland	0.67%	1.59%	–92 BP
Germany	1.83%	2.89%	–106 BP
USA	1.88%	3.31%	–143 BP
Japan	0.99%	1.12%	–13 BP

Forex rates

Exchange rates	31/12/2011	31/12/2010	Δ previous year
EUR	1.2139	1.2475	–2.7%
USD	0.9351	0.9400	–0.5%
JPY	1.2154	1.1542	+5.3%
GBP	1.4532	1.4489	+0.3%

Operating expenses

Year-on-year, operating expenses fell by 1.0 per cent to CHF 177.7 million. At the end of 2011, VP Bank Group employed 738 employees, expressed in terms of full-time equivalents, corresponding to an increase in personnel of 1.5 per cent. The average headcount in 2011 was 727 employees (previous year: 721 employees). Year-on-year, personnel expenses increased by 2.5 per cent to CHF 124.9 million, due to higher retirement benefit-related expenses pursuant to IAS 19. General and administrative expenses could be reduced by 8.4 per cent to CHF 52.9 million. Cost savings could be achieved in all areas. The reduction in capital taxes is attributable to the new Tax Law in Liechtenstein.

Depreciation and amortisation, valuation allowances, provisions and losses

Depreciation and amortisation was 13.2 per cent less than the prior-year's level and stood at CHF 33.6 million. In 2011, less valuation allowances and provisions were required than in 2010. In addition, valuation allowances which were no longer required could be released. In aggregate, the captions valuation allowances, provisions and losses amounted to CHF 5.8 million (previous year: CHF 15.8 million).

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

After deducting minority interests, there resulted a group net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft of CHF 4.3 million (previous year: CHF 15.1 million). Net income per bearer share fell by CHF 2.62 to CHF 0.75.

Comprehensive income

Comprehensive income encompasses all income and expenses recognised in the income statement as well as in shareholders' equity. VP Bank Group generated comprehensive income of CHF 11.5 million, in contrast to CHF 4.3 million in the previous year.

Balance sheet

With a year-on-year increase of 1.4 per cent total assets of CHF 10.7 billion were marginally higher. On the liabilities side, client deposits and medium-term bonds increased slightly to CHF 8.9 billion. The reduction in the caption debenture bonds is due to the redemption of parts of a debenture bond issue maturing in June 2012 with a nominal value of CHF 0.1 billion. On the assets' side, client loans grew by 17.9 per cent to CHF 3.9 billion, the majority of which relates to secured credits. Conversely, the volume of money-market paper and bank deposits declined by 13.1 per cent to CHF 5.3 billion. Group shareholders' equity totalled CHF 0.9 billion at the end of 2011. The shareholders' equity attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft was also CHF 0.9 billion. As of 31 December 2011, the tier 1 ratio amounted to 18.2 per cent (previous year: 19.0 per cent).

Outlook

At present, little indicates that the economic uncertainty will abate. In 2012, VP Bank Group also expects a low level of client activities. It anticipates that interest rates will remain low and that the Swiss National Bank will strive to maintain a minimum parity between the Swiss franc and Euro at 1.20. These conditions will continue to impact the results of VP Bank Group.

Consolidated income statement

in CHF 1,000	2011	2010	Variance absolute	Variance in %	Note
Interest income	118,841	121,127	–2,286	–1.9	
Interest expense	52,242	46,639	5,603	12.0	
Total interest income	**66,599**	**74,488**	**–7,889**	**–10.6**	1
Commission income	165,963	177,636	–11,673	–6.6	
Commission expense	44,038	44,677	–639	–1.4	
Total income from commission business and services	**121,925**	**132,959**	**–11,034**	**–8.3**	2
Income from trading activities	29,367	45,905	–16,538	–36.0	3
Income from financial instruments	5,912	–1,107	7,019	n.a.	4
Other income	655	976	–321	–32.9	5
Total net operating income	**224,458**	**253,221**	**–28,763**	**–11.4**	
Personnel expenses	124,862	121,797	3,065	2.5	6
General and administrative expenses	52,871	57,728	–4,857	–8.4	7
Operating expenses	**177,733**	**179,525**	**–1,792**	**–1.0**	
Gross income	**46,725**	**73,696**	**–26,971**	**–36.6**	
Depreciation and amortisation	33,636	38,730	–5,094	–13.2	8
Valuation allowances, provisions and losses	5,769	15,814	–10,045	–63.5	9
Income before income tax	**7,320**	**19,152**	**–11,832**	**–61.8**	
Taxes on income	930	1,940	–1,010	–52.1	10a
Net income	**6,390**	**17,212**	**–10,822**	**–62.9**	
Net income attributable to minority interests	2,058	2,128	–70	–3.3	
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz	**4,332**	**15,084**	**–10,752**	**–71.3**	
Undiluted consolidated earnings per share of Verwaltungs- und Privat-Bank AG, Vaduz					
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (in CHF 1,000)	4,332	15,084			
Weighted average number of bearer shares	5,163,336	5,163,237			
Weighted average number of registered shares	5,967,975	5,982,787			
Total weighted average number of bearer shares	5,760,134	5,761,516			
Undiluted net income per bearer share	0.75	2.62			
Undiluted net income per registered share	0.08	0.26			

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)	4,332	15,084
Number of shares used to compute the fully diluted consolidated income	5,760,134	5,761,516
Fully diluted consolidated income per bearer share	0.75	2.62
Fully diluted consolidated income per registered share	0.08	0.26

Consolidated statement of comprehensive income

in CHF 1,000	2011	2010	Variance absolute	Variance in %
Net income	**6,390**	**17,212**	**–10,822**	**–62.9**
Financial instruments				
• Reclassification adjustments recorded in income statement	n.a.	–7,020	7,020	n.a.
• Changes in value transfered to profit reserves	0	676	–676	–100.0
• Changes in value of FVTOCI financial instruments	5,429	n.a.	5,429	n.a.
Total financial instruments	**5,429**	**–6,344**	**11,773**	**n.a.**
Foreign-currency translation differences	–288	–6,586	6,298	n.a.
Other comprehensive income for the period recognised directly in equity (net-of-tax)	**5,141**	**–12,930**	**18,071**	**n.a.**
Total comprehensive income for the period (net-of-tax)	**11,531**	**4,282**	**7,249**	**169.3**
Attributable to minority shareholders	2,027	302	1,725	571.2
Attributable to the shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	9,504	3,980	5,524	138.8

Consolidated balance sheet

Assets

in CHF 1,000	31/12/2011	31/12/2010	Variance absolute	Variance in %	Note
Cash and cash equivalents	245,381	130,548	114,833	88.0	13
Receivables arising from money-market papers	124,938	439,767	–314,829	–71.6	14
Due from banks	5,143,910	5,622,808	–478,898	–8.5	15/16
Due from customers	3,851,050	3,266,872	584,178	17.9	15/16
Trading portfolios	–44	4,011	–4,055	–101.1	17
Derivative financial instruments	103,690	63,322	40,368	63.8	18
Financial instruments at fair value	461,325	108,221	353,104	326.3	19/21
Financial instruments measured at amortised cost	558,297	685,604	–127,307	–18.6	20/21
Associated companies	25	34	–9	–26.5	22
Property and equipment	129,157	135,791	–6,634	–4.9	23
Goodwill and other intangible assets	70,812	85,636	–14,824	–17.3	24
Taxes receivable	368	392	–24	–6.1	10c
Deferred tax assets	7,698	6,338	1,360	21.5	10b
Accrued receivables and prepaid expenses	31,374	28,398	2,976	10.5	
Other assets	14,084	13,805	279	2.0	25
Total assets	**10,742,065**	**10,591,547**	**150,518**	**1.4**	

Liabilities and shareholders' equity

in CHF 1,000	31/12/2011	31/12/2010	Variance absolute	Variance in %	Note
Due to banks	352,481	189,117	163,364	86.4	
Due to customers – savings and deposits	931,733	954,218	–22,485	–2.4	
Due to customers – other liabilities	7,760,773	7,753,020	7,753	0.1	
Derivative financial instruments	129,443	70,034	59,409	84.8	18
Medium-term notes	251,713	183,334	68,379	37.3	26
Debentures issued	324,664	446,798	–122,134	–27.3	27
Tax liabilities	3,230	5,782	–2,552	–44.1	10c
Deferred tax liabilities	9,217	8,512	705	8.3	10b
Accrued liabilities and deferred items	25,791	28,834	–3,043	–10.6	
Other liabilities	48,069	33,056	15,013	45.4	28
Provisions	6,362	3,214	3,148	97.9	29
Total liabilities	**9,843,476**	**9,675,919**	**167,557**	**1.7**	
Share capital	59,148	59,148	0	0.0	31
Less: treasury shares	–38,632	–38,465	–167	–0.4	32
Capital reserves	–3,882	–5,323	1,441	27.1	
Income reserves	880,374	902,648	–22,274	–2.5	

Reserves – financial instruments (IAS 39)	n.a.	–5,841	5,841	n.a.	
Unrealised gains/losses on financial instruments FVTOCI	–2,766	n.a.	–2,766	n.a.	
Foreign-currency translation differences	–14,639	–14,382	–257	–1.8	
Shareholders' equity attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz	879,603	897,785	–18,182	–2.0	
Minority interests	18,986	17,843	1,143	6.4	30
Total shareholders' equity	**898,589**	**915,628**	**–17,039**	**–1.9**	
Total liabilities and shareholders' equity	**10,742,065**	**10,591,547**	**150,518**	**1.4**	

Consolidated changes in shareholders' equity

in CHF 1,000	Share capital	Treasury shares	Capital reserves	Income reserves	Reserves financial instruments IAS 39	Unrealised gains/losses FVTOCI	Foreign-currency translation differences	Equity of shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	Minority interests	Total share-holders' equity
Total shareholders' equity 01/01/2011	**59,148**	**–38,465**	**–5,323**	**902,648**	**–5,841**	**0**	**–14,382**	**897,785**	**17,843**	**915,628**
Initial adoption IFRS 9				–6,429	5,841	–8,195		–8,783		–8,783
Total shareholders' equity 01/01/2011 adjusted	59,148	–38,465	–5,323	896,219	0	–8,195	–14,382	889,002	17,843	906,845
Changes in value transferred to profit reserves				0		0		0		0
Changes in value of FVTOCI financial instruments						5,429		5,429		5,429
Foreign-currency translation differences							–257	–257	–31	–288
Net income				4,332				4,332	2,058	6,390
Total reported result 31/12/2011	**0**	**0**	**0**	**4,332**	**0**	**5,429**	**–257**	**9,504**	**2,027**	**11,531**
Dividends 2010				–20,177				–20,177	–884	–21,061
Management equity participation plan (LTI)			1,313					1,313		1,313
Movement in treasury shares		–167	128					–39		–39
Total shareholders' equity 31/12/2011	**59,148**	**–38,632**	**–3,882**	**880,374**	**0**	**–2,766**	**–14,639**	**879,603**	**18,986**	**898,589**
Total shareholders' equity 01/01/2010	**59,148**	**–38,302**	**–6,093**	**907,755**	**503**	**0**	**–9,622**	**913,389**	**18,529**	**931,918**
Unrealised gains and losses on available for sale financial instruments										
• gains/losses transferred to income statement					–7,020			–7,020		–7,020
• change in unrealised gains and losses (net-of-tax)					676			676		676
Foreign-currency translation differences							–4,760	–4,760	–1,826	–6,586
Net income				15,084				15,084	2,128	17,212
Total reported result 31/12/2010	**0**	**0**	**0**	**15,084**	**–6,344**	**0**	**–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	Unrealised gains/losses FVTOCI	Foreign-currency translation differences	Equity of shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	Minority interests	Total share-holders' equity
Dividends 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 31/12/2010	**59,148**	**–38,465**	**–5,323**	**902,648**	**–5,841**	**0**	**–14,382**	**897,785**	**17,843**	**915,628**

Consolidated statement of cash flow

in CHF 1,000	2011	2010
Cash flow from operating activities		
Net income	4,332	15,084
Share of minority interests in Group net income	2,058	2,128
Depreciation and amortisation	33,636	38,730
Increase/release in retirement pension provisions	4,257	–139
Increase/release in provisions	5,777	8,477
Unrealised gains/losses on trading portfolios	20	–946
Unrealised gains/losses on financial instruments at fair value	–4,320	–3,738
Unrealised gains/losses on financial instruments at amortised cost	12,624	30,375
Deferred income taxes	–1,371	–2,245
Tax on income paid, interest received less interest paid and dividends received	–73,004	–83,428
Subtotal	**–15,991**	**4,298**
Changes in assets and liabilities in connection with operating business activities, after adjustment for non-cash-related transactions:		
Due from/to banks, net	438,819	823,337
Trading portfolios, including replacement values, net	23,004	3,796
Interest received from interest-differential business	103,722	109,592
Interest received from trading portfolio	48	130
Dividends received from trading portfolio	2	6
Interest received on financial instruments at fair value	7,923	1,707

Consolidated statement of cash flow (continued)

Dividends received on financial instruments at fair value	4,761	74
Interest received on financial instruments at amortised cost	10,963	14,232
Dividends received on financial instruments FVTOCI	805	2,522
Due from/to customers	–642,738	–1,532,346
Foreign-exchange impact on intra-group payments	5,113	–12,116
Accrued receivables, prepaid expenses and other assets	–3,080	5,013
Accrued liabilities and other liabilities	5,211	–61,303
Interest paid in connection with interest-differential business	–51,922	–43,795
Taxes on income paid	–3,298	–1,040
Net cash flow from operating activities	**–116,658**	**–685,893**
Cash flow from investment activities		
Net reduction/increase in financial instruments at fair value	–317,762	56,402
Net reduction in financial instruments at amortised cost	94,420	22,923
Acquisition of property and equipment and intangible asset	–12,240	–11,905
Cash flow from investment activities	**–235,582**	**67,420**
Cash flow from financing activities		
Net increase in treasury shares	–35	–657
Dividends paid	–20,177	–20,192
Issuance of medium-term notes	68,379	–16,303
Redemption/issuance of debenture	–125,300	198,312
Dividend payments to minority shareholders	–884	–988
Net cash flow from financing activities	**–78,017**	**160,172**
Impact of foreign-currency translation	13,583	–7,430
Net decrease in cash and cash equivalents	**–416,674**	**–465,731**
Cash and cash equivalents at the beginning of the financial year	1,584,825	2,050,556
Cash and cash equivalents at the end of the financial year	1,168,151	1,584,825
Net decrease in cash and cash equivalents	**–416,674**	**–465,731**
Cash and cash equivalents are represented by		
Cash	245,381	130,548
Receivables arising from money-market papers	124,938	439,767
Due from banks – at-sight balances	797,832	1,014,510
Total cash and cash equivalents	**1,168,151**	**1,584,825**

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 1,168.2 million (2010: CHF 1,584.8 million).

Consolidated off-balance-sheet transactions

in CHF 1,000	31/12/2011	31/12/2010
Contingent liabilities		
Credit guarantees and similar	13,345	3,995
Performance guarantees and similar	85,027	94,595
Irrevocable commitments	0	0
Other contingent liabilities	0	0
Total contingent liabilities	**98,372**	**98,590**
Credit risks		
Irrevocable facilities granted	34,204	22,079
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	**34,204**	**22,079**
Fiduciary transactions		
Fiduciary deposits[1]	1,444,199	1,937,560
Fiduciary loans	12,793	8,787
Other fiduciary financial transactions	0	0
Total fiduciary transactions	**1,456,992**	**1,946,347**

[1] Placements that Group companies made with banks outside of the scope of consolidation in their own name but at the expense and risk of the client.

Maturity structure

in CHF 1,000	at sight	1 year	1 to 5 years	over 5 years	Total
31/12/2011					
Contingent liabilities	30,635	56,408	8,694	2,635	**98,372**
Credit risks	2,748	23,991	5,040	2,425	**34,204**
31/12/2010					
Contingent liabilities	27,965	59,210	8,050	3,365	**98,590**
Credit risks	5,380	16,699	0	0	**22,079**

Securities lending and repurchase and reverse-repurchase transactions with securities

in CHF 1,000	31/12/2011	31/12/2010
Amounts receivable arising from cash deposits in connection with securities borrowing and reverse repurchase transactions	203,900	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	605,897	584,955
of which securities where the unlimited right to sell on or pledge has been granted	433,801	407,843
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	895,076	744,663
of which securities which have been resold or repledged	243,272	299,422

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 reporting

1. Fundamental principles underlying financial statement reporting

Verwaltungs- und Privat-Bank Aktiengesellschaft, which has its registered office in Vaduz, was established in 1956 and is one of the three largest banks in Liechtenstein. Today, it 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 31 December 2011, VP Bank Group employed 737.8 persons, expressed as full-time equivalents (previous year: 727.2).
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 2011 financial statements were drawn up in accordance with International Financial Reporting Standards (IFRS). IFRS contain guidelines which require assumptions and estimates to be made by VP Bank Group in drawing up the consolidated financial statements. 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 2011.
The Board of Directors reviewed and approved the consolidated financial statements in its meeting of 23 February 2012. These consolidated financial statements will be submitted for approval to the annual general meeting of shareholders to be held on 27 April 2012.

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

New and revised International Financial Reporting Standards

Since 1 January 2011, the following new or revised standards and interpretations have taken effect:

- IAS 24 (amended, effective 1 January 2011) – Related Party Transactions
- IAS 32 (amended, effective 1 February 2010) – Classification of Rights Issues
- IAS improvements 2010 (various amendments, effective 1 January 2011)
- IFRIC 14 (effective 1 January 2011) – Prepayments of a Minimum Funding Requirement
- IFRIC 19 (effective 1 July 2010) – Debt for Equity Swaps
- IFRS 7 – Improved disclosures relating to transfers of financial assets

The adoption of these standards had no material impact on financial reporting.
In 2011, VP Bank Group adopted the following new standards:

- IFRS 9, Phase I (effective 1 January 2015) – Financial Instruments – Classification and Measurement

As a result of the early adoption of this standard, unrealised gains and losses on financial instruments as of 1 January 2011 were reclassified to profit reserves. The related financial instruments were also reclassified from the caption "available for sale financial instruments" to "financial instruments at fair value" and "financial instruments at amortised cost". The reclassification is necessary on the basis of the nature of the instruments. In compliance with IFRS 9, the prior-year comparatives were not restated.

International financial reporting standards to be adopted in 2012 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 1 January 2012 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 analysed.

IFRS 10 – Consolidated financial statements

IFRS 10 creates a uniform definition for the concept of control and thus a uniform basis for the presence of a parent/subsidiary relationship and the related definition of the scope of consolidation. The new standard replaces the previously relevant IAS 27 (2008) "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". The standard is effective for accounting periods commencing on or subsequent to 1 January 2013. Early adoption is permitted.

IFRS 11 – Joint arrangement

IFRS 11 regulates the accounting for situations in which an enterprise exercises joint control over a joint venture or joint operation. The new standard replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities - Non-Monetary Contributions by Venturers" as being the relevant provisions until the present governing issues of accounting for joint ventures. The standard is effective for accounting periods commencing on or subsequent to 1 January 2013. Early adoption is permitted.

IFRS 12 – Disclosure of interests in other entities

IFRS 12 contains the required disclosures for all types of interests in other entities. The standard is effective for accounting periods commencing on or subsequent to 1 January 2013. Early adoption is permitted.
As a consequence of the new IFRS 10, IFRS 11 and IFRS 12, the International Accounting Standards Board (IASB) has amended IAS 27 (2011) "Separate Financial Statements" which now contains exclusively the unamended provisions regarding IFRS financial statements for entities on a stand-alone basis. Finally, IAS 28 (2011) "Investments in Associates and Joint Ventures" was amended.

IFRS 13 – Fair value measurement

IFRS 13 describes how fair value is to be determined and expands the disclosures regarding fair value. The standard is effective for accounting periods commencing on or subsequent to 1 January 2013. Early adoption is permitted.

IAS 1 – Changes in the presentation of other comprehensive income

The amended standard requires that the component parts of other comprehensive income be divided into two categories: on the one hand, into those components which will be recognised in the income statement at a later time (so-called recycling) and on the other, into those components which will never be recognised in the income statement. The standard is effective for accounting periods commencing on or subsequent to 1 January 2013. It will lead to a modified presentation of other comprehensive income; the level of the related amounts, however, will not change.

IAS 19 – Employee benefits (amended 2011)

The amended standard requires the immediate recognition of actuarial gains and losses in other comprehensive income. The use of corridor method is no longer permitted. As a result, the volatility of consolidated shareholders' equity and other comprehensive income will increase. Furthermore, the computation of personnel expense of defined-benefit pension plans was amended in such a manner that net interest or income will now be taken in account instead of the interest expense on the retirement-benefit obligations less the expected return on the assets. The former is arrived at by reference to the interest return on the net assets or net liabilities of a defined-benefit pension plan and the interest rate previously used for discounting the retirement-benefit obligations.
The standard is effective for accounting periods commencing on or subsequent to 1 January 2013. Early adoption is permitted.

3. Scope of consolidation

Fully consolidated companies

The consolidated financial statements encompass the financial statements of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, as well as those of its subsidiary companies, which are all presented as a single economic unit. Subsidiary companies which are directly or indirectly controlled by 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

Data Info Services AG, Vaduz, was founded in 2011. Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, holds 50 per cent of the capital of this company; it is accounted for in consolidation using the equity method.

Method of capital consolidation

Capital consolidation is undertaken in accordance with the Anglo-Saxon purchase method, whereby the shareholders' equity of the consolidated company is set off against the carrying value of the shareholding in the parent company's 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 is shown separately in the consolidated balance sheet and income statement.

Shareholdings in associated companies

Shareholdings of between 20 and 50 per cent 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 realisable 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 and estimates 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 realisation from the sale of any collateral. A change in the net present value of the estimated future monetary flows of +/–5 per cent increases or decreases, respectively, the amount of the valuation adjustment by CHF 1.6 million (previous year: CHF 2.1 million).

Valuation adjustment on available for sale financial instruments: Financial investments are classified as being 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 realisable value is determined by considering the market price. For non-quoted equity securities, the realisable 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 unfavourable 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.

5. General principles

Trade date versus 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 and 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. Unrealised 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 unrealised foreign-exchange differences are recorded under shareholders' equity until realised.

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 versus foreign

The term "domestic" also includes Switzerland besides Liechtenstein.

Segments

VP Bank Group is organised into the business segments Banking Liechtenstein & Regional Markets, Private Banking International, Wealth Management Solutions & Services as well as the CFO & Corporate Center. External segment reporting reflects the organisational 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 subdivides 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 at fair value"
- Financial instruments at amortised cost
- Financial instruments at fair value through other comprehensive income (FVTOCI)
- Loans granted which are neither held for trading purposes nor represent financial assets available for sale ("loans and receivables")

The categorisation of financial instruments is made at the time of initial recognition using the criteria set out in IFRS 9 (from 1 January 2011; IAS 39 until 31 December 2010).

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. Realised and unrealised 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 interest 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.

Financial instruments at amortised cost

Investments where the objective consists of holding the financial asset in order to realise the contractual payment flows therefrom and which are made up solely of interest as well as the redemption of parts of the nominal value are recognised at amortised cost using the effective interest method. A financial investment recognised at amortised cost is classified as being value-impaired whenever it is probable that the total contractually agreed amount due will not be collected in full. Causes giving rise to an impairment loss can be counterparty-specific or country-specific. Whenever impairment occurs, the carrying value of the financial investment is reduced to its realisable value by charges to income in the caption "income from financial investments".
Interest is recognised in the period when it accrues using the effective interest method and is reported in interest income under "interest income from financial instruments at amortised cost".

Financial instruments at fair value (FVTPL)

Financial instruments not meeting the aforementioned criteria are recorded at fair value. The ensuing gains/losses are reported in "income on financial instruments at fair value" under "income from financial investments".
Insofar as the criteria of IFRS 9 are not met, a financial instrument may be designated and recorded under this category upon initial recognition.
Interest and dividend income are recorded in "income from financial investments" under the captions "interest income from FVTPL financial instruments" and "dividend income from FVTPL financial instruments".

Financial instruments at fair value through other comprehensive income (FVTOCI)

Investments in equity capital instruments are recognised in the balance sheet at fair value. Changes in value are taken to income except in those cases for which VP Bank Group has decided that they are to be recognised at fair value through other comprehensive income.
Dividend income is recorded in "income from financial investments" in the caption "dividend income from FVTOCI financial instruments".

Until 31 December 2010: financial instruments 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. Unrealised and realised 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.

Until 12 December 2010: 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.

Unrealised and realised gains or losses arising from available for sale finan-cial 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 unrealised 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 realisable 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 realisable 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.

Until 31 December 2010; investments held to maturity

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 amortised 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 realisable 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 collateralising of assets. This margin must be set in such a manner that changes in market values, market volatility, debtor creditworthiness 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 recognised 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 per cent of the official market value/bank appraisal or appraisal of a recognised 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 creditworthiness of the borrower is subjected to ongoing 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. Realised and unrealised 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 recognised less (when appropriate) the cumulative amortisation recognised 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 amortised cost for balance-sheet reporting purposes. In this connection, the effective interest method is employed in order to amortise 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, Vaduz, 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 ongoing 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 fulfil 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 realisable 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 amortisation. Property and equipment is capitalised 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 amortisation is charged on a straight-line basis over the estimated useful lives:

Depreciation and amortisation	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 amortisation 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 capitalised. These are depreciated or amortised over their useful lives. Gains on disposal of property and equipment are disclosed as other income. Losses on sale lead to additional depreciation and amortisation 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 capitalisable intangible assets), the remaining amount constitutes the acquired goodwill. Goodwill is capitalised 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 capitalised and amortised over three to seven years. Minor purchases are charged directly to general and administrative expenses. Internally generated intangible assets such as software are capitalised insofar as the prerequisites for capitalisation 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 capitalised values are amortised on a straight-line basis over their useful lives. The period of amortisation 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 amortised on a straight-line basis over an estimated useful life of 5 to 10 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 realisable 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 utilisation of tax loss carry-forwards are only recognised 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 realised 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 utilisation of estimated future realisable loss carry-forwards are capitalised. The probability of realising expected taxation benefits is taken into account when valuing a capitalised 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 realisable 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, among 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 is 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 is allocated. The factor ranges from a minimum of 0.5 to 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 jeopardise 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 capitalisation, VP Bank can invest in the expansion of its business. In managing the equity resources, VP Bank measures both the equity required (minimum amount of equity to cover the bank's risks in accordance with the requirements of applicable supervisory law) and 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 capitalisation 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 unrealised gains are deducted from core capital. Total capital (core capital and supplementary capital) must amount to a minimum of 8 per cent of the risk-weighted assets. As of 31 December 2011, risk-weighted assets were CHF 4.5 billion compared to CHF 4.3 billion in the previous year. Core capital as of 31 December 2011 was CHF 809.2 million compared to CHF 799.4 million in the previous year. The overall equity ratio decreased by 0.8 percentage points from 19.0 per cent as at 31 December 2009 to 18.2 per cent as of 31 December 2011. Both on 31 December 2011 and 31 December 2010, VP Bank Group was adequately capitalised 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. Overview

Effective risk and capital management is a fundamental prerequisite to the success and stability of a bank. VP Bank understands this term to mean the systematic processes to identify, evaluate, manage and monitor the relevant risks as well as the steering of the capital necessary to assume risks and guarantee risk tolerance. The risk policy constitutes the mandatory operating framework in this respect. It contains an overarching framework as well as a risk strategy for each individual risk group (financial risks, operational risks, business risks). Described and regulated therein are the specific goals and principles, organisational structures and processes, methods and instruments as well as target measures and limits.

Risk policy

VP Bank has adapted its risk policy to current overall economic conditions and legal and regulatory requirements; it was approved by the Board of Directors in December.

Capital management

The reforms of the Basel III regulatory framework heighten the capital adequacy and liquidity requirements for banks. With a ratio of 18.2 per cent, VP Bank possesses a tier 1 ratio which far exceeds that which will be required in future and which continues to reflect a high measure of stability and security.

Credit risks

Following the onset of the crisis in financial markets, exposures in countries affected by the debt crisis were reduced or the related limits were in part completely suspended. As a further measure to reduce credit risk, the volume of unsecured money-market deposits was reduced in favour of reverse-repo deposits. Since 1 July 2011, new legal prescriptions to limit risk concentrations are in force. In accordance therewith, aggregate exposures to a single counterparty are to be limited to the greater of CHF 250 million or 25 per cent of eligible equity.

Market risks

VP Bank does not apply hedge accounting, and the interest-rate swaps held to hedge interest-rate risk are managed from the trading book, which leads to an asymmetric reporting of changes in value between the underlying security and the hedge transaction. The negative changes in the value of interest-rate swaps weigh on the interest income because of the decline in interest-rate levels. With the backdrop of continuing macroeconomic uncertainties in Europe and the USA, the hedging strategy for foreign-currency risks was updated.

Liquidity risks

Assuring liquidity continues to have foremost priority, for which reason the holdings of securities which are eligible for repo transactions as well as giro clearing positions were increased.

Operational Risks (OpRisks)

Systematic OpRisk management was further stepped up. The standard achieved in the parent bank was improved and implemented throughout the Group companies.

2. Principles underlying risk policy

Risk and capital management is predicated on the following principles:

Alignment of risk tolerance and risk appetite

Risk appetite is reflected in the risk capital and indicates the maximum loss which the bank is prepared to bear arising from crystallising risks without thereby jeopardising the bank's ability to continue as a going concern. As a strategic success factor, risk tolerance is to be maintained and enhanced by employing a suitable process to ensure an appropriate capital basis.

Clear competences and responsibilities

Risk appetite is rendered operational with the aid of a comprehensive system of limits and implemented in an effective manner together with a clear set of guidelines governing the tasks, limits of authority and responsibility of all functions, organisational units and bodies participating in risk- and capital-management processes. The risk coverage potential, the risk capital and limits are reviewed annually as and when required, but at a minimum once a year, and are adjusted whenever necessary.

Scrupulous attitude to risks

Strategic and operational decisions are taken on the basis of risk/return calculations and aligned with the interests of the stakeholders. Assuming compliance with legal and regulatory provisions and the principles underlying business and ethical policies, VP Bank takes on risks consciously so long as the extent of these are known and the technical prerequisites to apprehend them are at hand and that the bank is adequately rewarded. It avoids transactions with an inadequate relationship of risks to returns as well as large risks and risk concentrations which could jeopardise risk tolerance and thus the ability of the bank to continue as a going concern.

Segregation of functions

Risk control and risk reporting are assured by functions which are independent of those involved in the management of risks.

Transparency

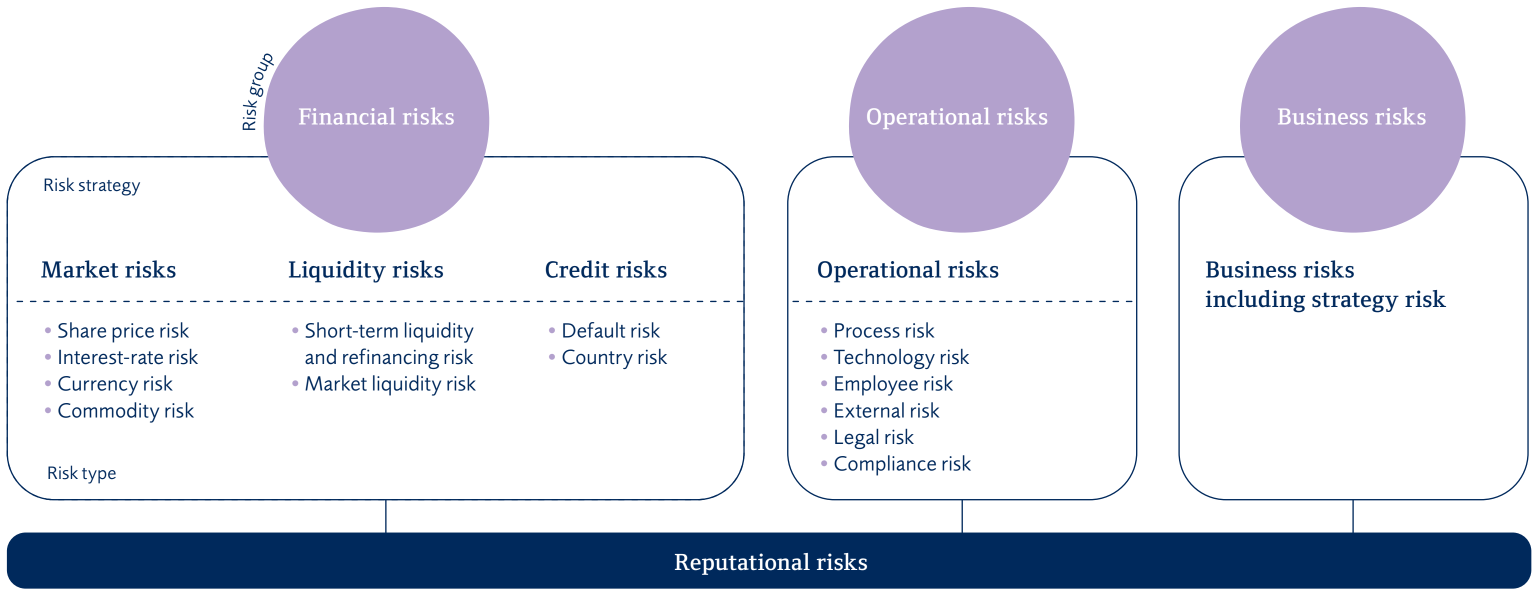
The underlying principle of risk monitoring is a comprehensive, objective, timely and transparent disclosure of risks to Group Executive Management and the Board of Directors.

3. Organisation of risk and capital management

Classification of banking risks

The risks to which VP Bank is exposed in its ordinary course of business are allocated to three risk groups – financial risks, operational risks and business risks (including strategic risks).
While financial risks are consciously entered into in order to generate revenues, operational risks are to be avoided through appropriate controls and measures or, if that is not possible, to be reduced to a level laid down by the bank.

Other than business risks, financial and operational risks are the result of a bottom-up process in the risk management process of the bank. Measures designed to contain them are elaborated by the responsible functions, organisational units or committees and approved by the Board of Directors or Group Executive Management. Business risks, on the other hand, are analysed by the Board of Directors and Group Executive Management after considering the banking environment and the internal situation of the company. Company management derives top risk scenarios from the analysis and



designs related measures, the implementation of which is delegated to the competent function or organisational unit (top-down process).

Market risk expresses the danger that possible economic losses in value in the banking and trading books will arise from adverse changes in market prices (interest rates, currency rates, equity share prices and commodity quotations) or other price-influencing parameters such as volatility.

Liquidity risks comprise liquidity and refinancing risks as well as market liquidity risk. Liquidity and refinancing risks express the danger that current and future payment obligations cannot be met on the due date or to the full extent. Market liquidity risk includes cases where it is not possible, as a result of insufficient market liquidity, to liquidate positions subject to risk on a timely basis and in the desired amount and on acceptable conditions.

Credit risks comprise both counterparty and country risk. Counterparty risks describe the danger of a financial loss which may arise if a counterparty of the bank cannot or does not wish to meet its contractual commitments in full or on the due date (default risk) or the creditworthiness of the debtor has deteriorated (credit risk). Country risks as a further extension of credit risk arise whenever political or economic conditions specific to a country diminish the value of an exposure abroad.

Operational risks represent the danger of incurring losses arising from the inappropriateness or failure of internal procedures, people or systems or as a result of external events.

Business risks, on the one hand, result from unexpected changes in market conditions and circumstances having a negative impact on profitability; on the other, they describe the danger of unexpected losses resulting from management decisions concerning the business policy orientation of the Group (strategic risks).

If the above-mentioned risks are not recognised, appropriately controlled, managed and monitored, this may lead – apart from financial losses – to reputation being damaged. VP Bank therefore considers **reputational risk** not to be a separate risk category but rather the danger of losses resulting from the individual types of risk of the other risk categories. Management of reputational risks is incumbent on the Board of Directors and Group Executive Management.

Duties, powers of authority and responsibilities

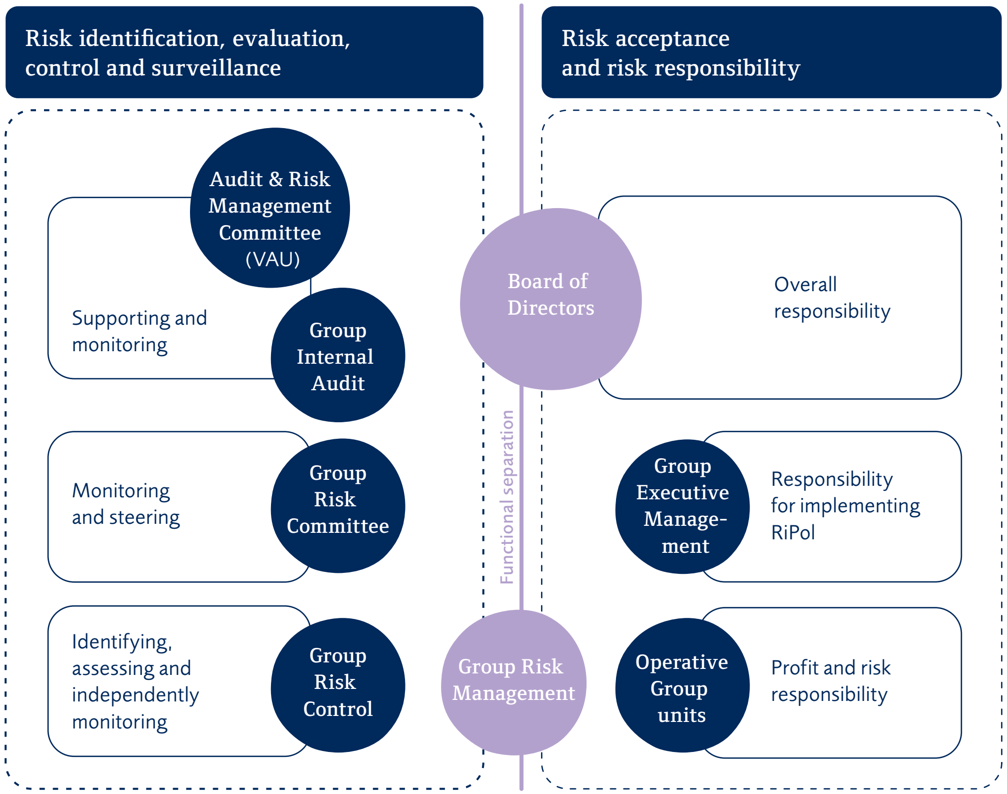
The graph on the right side gives an overview in diagrammed form over the organisation of risk and capital management of VP Bank Group.

The **Board of Directors** bears the ultimate responsibility for risk and capital management within the Group. It is its remit to establish and maintain an appropriate structure of business processes and organisation as well as an internal control system (ICS) for an effective and efficient management of risk and capital and thereby ensure the risk tolerance of the bank on a sustainable basis. The Board of Directors is responsible for approving the Risk Policy and monitoring its implementation, laying down the risk appetite on a Group level and stipulating the target measures and limits for risk and capital management. In assuming its duties, the Board of Directors is supported by the Audit & Risk Management Committee and Group Internal Audit.

The **Group Executive Management** is responsible for the implementation and observance of the Risk Policy. Among its core tasks are the allocation of the target measures and limits laid down by the Board of Directors to the individual Group companies, the Group-wide management of credit, market liquidity, operational, business and reputational risks as well as capital management activities. Group Executive Management is supported by the Group Risk Committee. As the supreme body for the day-to-day management of risks and risk monitoring, it is also responsible for the implementation of risk strategies.

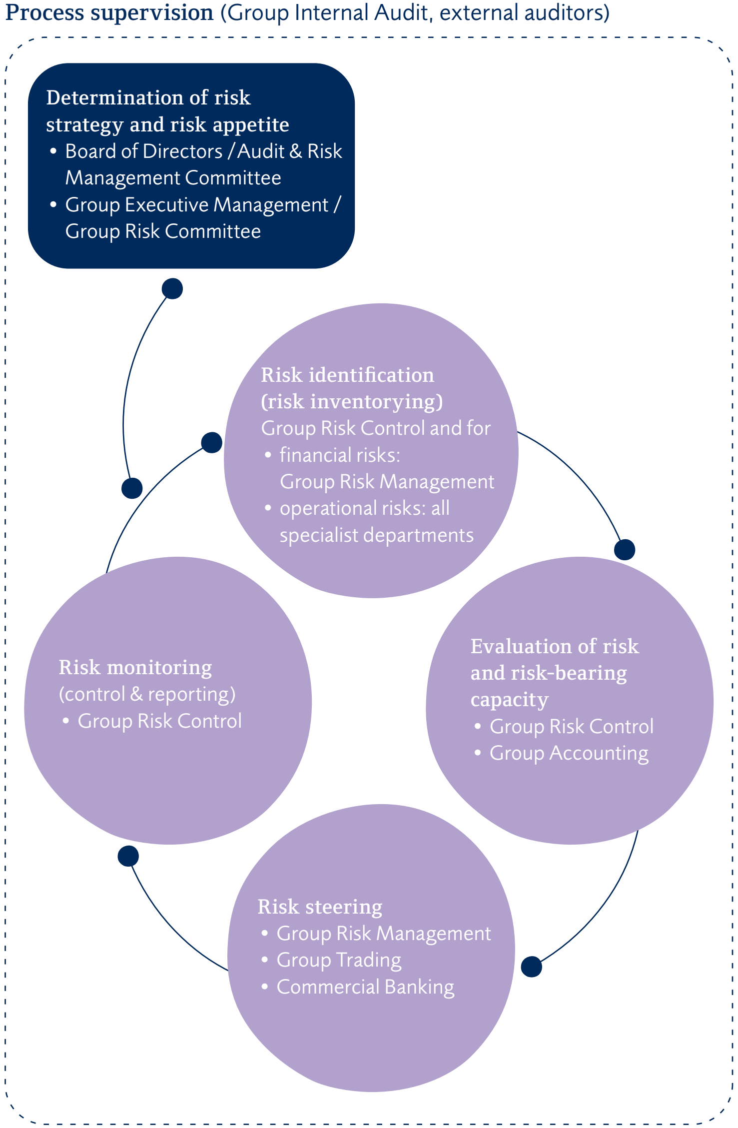
As an independent function for the central identification, evaluation (measurement and assessment) and monitoring (control and reporting) of the risk situation and risk tolerance of the Group, **Group Risk Control** supports the Board of Directors and Group Executive Management in assuming its respective duties. A further task of Group Risk Control consists of ensuring that existing legal, regulatory and internal bank prescriptions are complied with and new prescriptions implemented. In addition thereto is the regular review and review of the ongoing effectiveness and appropriateness of the methods, performance indicators and systems deployed in risk management.

Group Risk Management bears the responsibility for the day-to-day management of the target measures and limits laid down by the Board of Directors and Group Executive Management, while complying with legal and regulatory prescriptions. Part of its core tasks is balance-sheet structure management while taking account of the profitability, risks and equity situation of VP Bank as well as liquidity management, collateral management, bank capital management and the management of limits for banks and countries. All risk-taking functions and organisational units belong to the **operating units**.



Process to ensure an appropriate capital base

VP Bank Group employs the Internal Capital Adequacy Assessment Process (ICAAP) to ensure a capital base appropriate to the risk situation of VP Bank Group. It is briefly described as follows:



The **risk strategy** and **risk appetite** (risk capital) which are derived from the global and individual limits are laid down during the course of the annual planning process on the basis of a risk tolerance analysis and taking into account stress scenarios, strategic initiatives and changes in regulatory directives on the part of the Board of Directors. The risk capital includes the regulatory capital required for business activities and the economic capital for extreme unexpected losses arising from market, credit and operational losses. For the latter, the Board of Directors makes available a part of the maximum available risk cover potential in the form of an overall bank limit. Accordingly, not all of the freely available equity (after deducting the regulatory required capital as well as funds planned for future capital expenditure) is made available; a portion thereof is retained rather as a risk buffer for unquantifiable or not fully identified risks.

The annual inventory of risks ensures that all risks of relevance for the Group are identified. In addition, an **identification of risks** is undertaken on a mandatory basis during the course of introducing new financial instruments, the assumption of activities in new fields of business or geographic markets as well as in the event of changes to legal or regulatory provisions.

Risk tolerance is determined on the basis of the extent to which the economic required capital is used up, measured by reference to the freely available equity less the risk buffer as laid down by the Board of Directors. In computing the economic required capital, the risks are aggregated to form an overall assessment whereby the value-at-risk method is employed for the financial risks. Operational risks are computed using the basis indicator approach. Over and above this, VP Bank resorts to a panoply of methods and indicators, which are described in greater detail in the sections on the individual risk groups.

Day-to-day **risk management** is performed on a strategic level by setting goals, limits, principles of conduct as well as process guidelines. On an operating level, risk diversification is ensured by managing the financial risk within the target measures and limits set as well by observing regulatory requirements.

Risk monitoring encompasses control and reporting on the risk situation. An impetus for extended controls is given by possible exceeded limits highlighted during a regular target performance comparison. The reference standard equals the internal target measures and limits as well as legal and regulatory norms. In this respect, advance warning stages enable an early course of action in order to avoid an exceeded limit. As part of reporting, the results of the control are set forth in a reliable, regular and transparent manner. Reporting is made ex ante to the preparation of decisions, ex post to control purposes as well as ad hoc in the case of suddenly and unexpectedly occurring risks.

4. Disclosures on the Basel capital-adequacy provisions

Capital-adequacy computation

in CHF 1,000	31/12/2011	31/12/2010
Core capital (unadjusted)	**892,483**	**900,767**
• Paid-in capital	59,148	59,148
• Disclosed reserves	857,521	867,859
• Consolidated net income	4,332	15,084
• Deduction for treasury shares	–38,632	– 38,465
• Minority interests	18,986	17,843
• Deduction for dividends as per proposal of Board of Directors	–8,872	–20,702
Deduction for goodwill and intangible assets	–70,812	– 85,636
Other deductions	–2,766	5,841
Eligible core capital (tier 1)	**818,905**	**809,290**
Other deductions from supplementary capital, from additional capital and from total capital	–9,672	– 9,851
Eligible core capital (adjusted)	**809,233**	**799,439**
Credit risk (in accordance with Liechtenstein standard approach)	286,067	273,847
thereof price risk regarding equity securities in the banking book	7,080	6,921
Risks unrelated to counterparties	10,331	10,863
Market risk (in accordance with Liechtenstein standard approach)	24,848	13,853
Operational risk (in accordance with basic indicator approach)	39,576	43,036
Total required equity	**360,822**	**341,599**

Ratio eligible (adjusted)/required equity[1]	224.3%	234.0%
Eligible (adjusted) core capital (incl. "innovative" instruments)	17.9%	18.7%
Eligible equity tier 1[2]	18.2%	19.0%

[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.

For each risk category, Basel 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 31 December 2011, the business activities of VP Bank Group required shareholders' equity of CHF 360.8 million (31 December 2010: CHF 341.6 million). Adjusted eligible equity totalled CHF 809.2 million (31 December 2010: CHF 799.4 million). Year-on-year, the excess of equity showed a slight decrease of 2.1 per cent to CHF 448.4 million (31 December 2010: CHF 457.8 million) but together with a tier 1 ratio of 18.2 per cent (31 December 2010: 19.0 per cent) it continues to reflect the robust equity base of the Bank. The following table shows the equity situation of the Group as of 31 December 2011.

As VP Bank Group has not recognised any hybrid capital in eligible equity and as it does not offset (balance sheet reduction) assets against liabilities in accordance with International Financial Reporting Standards (IFRS), the tier 1 ratio of VP Bank is not "diluted" and can be described as robust.

5. Financial risks

While complying with the relevant legal and regulatory provisions, the monitoring and daily management of financial risks is based upon internal bank target measures and limits relating to volumes, sensitivities and losses. Scenario analyses and stress tests demonstrate in addition the effect of events which were not or not sufficiently taken into consideration within the scope of ordinary risk evaluation.
The unit Group Risk Management with its already mentioned areas of duty is responsible for the centralised management of financial risks within the limits laid down. Group Executive Management distributes the value-at-risk (VaR) limit for financial risks, as set by the Board of Directors, over the individual Group companies and risk categories, within which the individual companies manage the risks under their own responsibility. The unit Group Risk Control monitors observance of the limits throughout the Group.

Market risks

Market risks arise as a result of positions being entered into in debt securities, equity paper and other securities under financial investments, foreign currencies, precious metals and in related derivatives, arising from activities for clients and for Group companies whose functional currency is denominated in a foreign currency.
The Bank employs a comprehensive set of methods and indicators for the monitoring and management of market risks. In this respect, the value-at-risk (VaR) approach has established itself as the standard method to measure general market risk. The value-at-risk method quantifies the negative deviation, expressed in Swiss francs, from the value of all positions exposed to market risk as of the date of the evaluation. The VaR indicator is computed on a Group-wide basis with the help of historic simulation. In this process, the historical movements in market data of the last 260 trading days are read in order to measure all market risk positions. The projected loss is valid for a holding period of 30 days and does not occur with a probability of 99 per cent. In order to compute the VaR for interest rate risk, fixed interest-bearing positions are mapped with the interest lock-up period and variable interest positions using an internal replication model.

The market VaR of VP Bank Group amounted to CHF 41.8 million at 31 December 2011 (31 December 2010: CHF 27.3 million). Responsible for the increase was the marked growth in market volatility provoked primarily by the US debt crisis but also by the euro and European debt crisis, which again reached a peak during the course of the year. The setting by the Swiss National Bank of a lower limit for the Swiss franc/euro parity of 1.20 led to markedly worse scenarios in the field of foreign-currency risk and thus to a massive rise year-on-year in the foreign-currency value-at-risk.
The following table shows the value-at-risk (on a monthly basis) analysed by types of risk and the market VaR computed over all risk categories. The computation of the average, highest, lowest and aggregate values is based on a separate year-on-year perspective; the total value does therefore equate the sum of the respective individual values by risk type.

Value-at-risk

in CHF million	Total	Interest-rate risk	Equity price & commodity risk	Currency risk
as of 31/12/2011				
Year-end	41.8	12.2	10.7	18.9
Average	34.2	11.6	10.3	12.3
Highest value	41.8	12.3	10.7	18.9
Lowest value	28.2	10.4	9.2	7.4
as of 31/12/2010				
Year-end	27.3	8.9	9.9	8.5
Average	27.5	8.8	10.7	8.1
Highest value	32.8	13.3	11.9	8.5
Lowest value	23.3	5.7	9.8	7.5

As the maximum losses arising from extreme market situations cannot be determined with the value-at-risk approach, the market risk analysis is supplemented by stress tests. Such tests render possible an estimate of the effects on the net present value of equity of extreme market fluctuations in the risk factors. In this

manner, the net present value fluctuations from all balance-sheet positions in the area of interest-rate and currency risks are computed with the aid of sensitivity indicators on the basis of synthetically produced market movements (parallel shift, rotation or inclination changes in interest rate curves, exchange rate fluctuations by a multiple of their implicit volatility).
The following table exemplifies the results of the key rate duration process. First, the present values of all asset and liability positions as well as derivative financial instruments are determined. Subsequently, the interest rates of the relevant interest-rate curve in each maturity band and per currency are increased by 1 per cent (+100 basis points). The respective movements represent the gain or loss of the present value resulting from the shift in the interest-rate curve. Negative values point to an excess of assets, positive values to an excess of liabilities in the maturity 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 31/12/2011						
CHF	–656	5,371	–4,071	–21,882	–9,016	–30,254
EUR	–500	2,381	–986	–2,894	10	–1,989
USD	–832	4,179	–791	–4,810	916	–1,338
Other currencies	–59	334	83	–522	0	–164
Total	**–2,047**	**12,265**	**–5,765**	**–30,108**	**–8,090**	**–33,745**
Increase as of 31/12/2010						
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**

In the following table are set out the effects of a negative movement in the principal currencies on consolidated net income and shareholders' equity. Responsible for the underlying fluctuation of the Swiss franc against the US dollar is the implicit volatility as of 31 December 2011 and 31 December 2010, respectively.

Exchange rate	Variance in %	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
2011			
EUR	–8	–5,360	–68
USD	–15	–7,022	–12,105
2010			
EUR	–5	–4,273	–71
USD	–12	–6,192	–3,391

The impact of a possible downward movement in equity markets of 10, 20 and 30 per cent, respectively, on consolidated net income is illustrated by the following table.

Variances in the relevant stock markets

Variance	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
2011		
–10%	–4,722	–2,883
–20%	–9,443	–5,766
–30%	–14,165	–8,648
2010		
–10%	–1,271	–5,958
–20%	–2,210	–10,039
–30%	–3,091	–12,415

For daily risk management purposes, derivative financial instruments are entered into exclusively in the banking book and serve to hedge equity price, interest-rate and currency risks as well as to manage the banking book. The derivatives approved for this purpose are laid down in the Risk Policy. VP Bank deploys interest-rate swaps principally to hedge interest-rate risk. From an economic point of view, the offsetting revaluation effects from the underlying position and the hedge cancel each other out. As VP Bank does not apply hedge accounting and interest-rate swaps held to hedge interest-rate risk are managed from the trading book, there results an asymmetric reporting of changes in value between the underlying security and the hedge transaction in the income statement.
During the financial year, VP Bank hedged its own financial investments against currency fluctuations in the main currencies through the conclusion

of foreign-currency forward contracts. In principle, no currency risks should arise from client activities; remaining unsettled foreign-currency positions are closed out over the foreign-currency spot market. Group Trading is responsible for the management of foreign-currency risks arising from client activities.

Liquidity risks

Liquidity risks may arise through contractual mismatches between the in- and outflows of liquidity in the individual maturity bands. Any differences arising demonstrate how much liquidity the bank must eventually procure in each maturity band should there be an outflow of all volumes at the earliest possible time. Furthermore, concentrations of refinancing may lead to a liquidity risk if they are so important that a massive withdrawal of the related funds could trigger liquidity problems. Also the lack of availability of assets eligible for repo operations at the Swiss National Bank (SNB) could represent a liquidity risk. While complying with the relevant legal liquidity requirements and the provisions regarding risk concentrations among both assets and liabilities, liquidity risks are monitored and managed through internal guidelines and limits for the interbank business. The minimum reserve requirements of the SNB and the provisions of the Liechtenstein Banking Law on short-term liquidity were complied with at all times during the course of 2011. The surplus in the minimum reserves and in the area of short-term liquidity amounted to an annual average of 212 per cent and 185 per cent, respectively, of the required values.

The ratio of liquid assets to short-term liabilities constitutes an important indication in liquidity management. The following table illustrates the relevant ratios for 2011 and 2010 as of 31 December as well as the average, highest and lowest amounts.

	2011	2010
As of 31 December	60%	65%
Average during year	60%	63%
Highest value	65%	68%
Lowest value	58%	59%

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 SNB authorises for repo operations required under monetary policy 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 clients maturing during the following month.

In the area of short-term maturities, the Bank principally refinances itself with sight deposits from clients. The following table shows the maturity structure of liabilities according to the maturity bands. The following cash flows (non-discounted capital and interest payments) arose as of 31 December 2011 and 31 December 2010:

Cashflows on the liabilities side of the balance sheet

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 31/12/2011							
Due to banks	281,798	7,413	56,356	7,089			352,656
Due to clients in the form of savings & deposits		931,733					931,733
Other liabilities to clients	5,728,782	763,935	1,012,937	227,988	31,770		7,765,412
Derivative financial instruments	129,443						129,443
Securitised liabilities			5,544	216,385	383,609	10,124	615,662
Total	**6,140,023**	**1,703,081**	**1,074,837**	**451,462**	**415,379**	**10,124**	**9,794,906**
as of 31/12/2010							
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
Securitised 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**

VP Bank can rapidly procure liquidity on a secured basis over its access to the Eurex repo market. In addition, the holdings of securities eligible for repo transactions as well as clearing giro balances, which serve the bank as a liquidity reserve, were increased during the course of the year. In view of the continuing financial market crisis as well as of Basel III, VP Bank stepped up the securing of sources of long-term refinancing during 2011.

Credit risks

Credit risks arise from all transactions for which payment obligations of third parties in favour of the bank exist or can arise. Credit risks accrue to the Bank from client lending activities, the money-market business including bank guarantees, correspondent and metal accounts, the reverse repo business, the Bank's own investments in securities, securities lending and borrowing, collateral management as well as OTC derivative trades.

As of 31 December 2011, the credit exposures aggregated CHF 10.1 billion (31 December 2010: CHF 10.1 billion). The following table shows the composition thereof by on- and off-balance sheet positions.

Credit exposures

in CHF 1,000	31/12/2011	31/12/2010
On-balance-sheet assets		
Receivables arising from money-market paper	124,938	439,665
Due from banks	5,143,910	5,622,808
Due from customers	3,822,758	3,266,402
Public-law enterprises	28,292	470
Trading portfolios	0	3,951
Derivative financial instruments	103,690	63,322
Financial instruments designated at fair value	366,258	79,107
Financial instruments available for sale	558,297	613,966
Total	**10,148,143**	**10,089,69**
Off-balance-sheet transactions		
Contingent liabilities	98,372	98,590
Irrevocable facilities granted	34,204	22,079
Total	**132,576**	**120,669**

Within the scope of the client loan business, credits are granted on a regional and international basis to private and commercial clients whereby the focus is in the private client business with CHF 2.4 billion of credits secured by mortgage (31 December 2010: CHF 2.2 billion). From a regional perspective, VP Bank conducts the lion's share of this business in the Principality of Liechtenstein and in the eastern part of Switzerland. Given the broad diversification of the exposures, there are no risk concentrations by industry or segment.

The 10 largest single exposures to clients encompass 19 per cent of total credit exposures (31 December 2010: 26 per cent). Exposures to banks relate exclusively to institutions with a high credit capacity (minimum rating A) and a registered office in an OECD country (excluding GIIPS countries). In addition to the Risk Policy, the Business Rules on Credit constitute the binding framework regulating customer lending activities. Set out therein are not only the general guidelines governing credit (principles) as well as the framework conditions for the conclusion of all types of credit business; they also designate those who can take valid decisions and the corresponding bandwidths within the framework of which credits may be approved (powers of authority).

With only few exceptions in the area of private and commercial clients, customer lending exposures must be covered by the collateral value of the security (collateral less a deduction for risk). Counterparty risks in the loan business are governed by limits which restrict the amount of exposure depending on creditworthiness, industry segment, collateral and risk domicile of the client. VP Bank employs an internal rating procedure to evaluate creditworthiness.

VP Bank enters into both secured and unsecured positions in the interbank business. Unsecured positions result from money-market activities (including bank guarantees, correspondent and metal accounts), secured positions arising from the reverse repo business, securities and lending activities, collateral management as well as OTC derivative transactions. As repo deposits are fully secured and the collateral received serves as a reliable source of liquidity in a crisis situation, not only counterparty but also liquidity risk could be reduced with the introduction of the business with reverse repo transactions.

Counterparty risks in the interbank business may only be assumed in approved countries and with approved counterparties. A comprehensive system of limits reduces the level of exposure depending on the duration, rating, risk domicile and collateral of the counterparty. In this connection, VP Bank uses the ratings of the two rating agencies Standard & Poor's and Moody's. In addition, since the enactment of the new legal provisions to limit risk concentrations in Liechtenstein on 1 July 2011, the aggregate exposure to a single counterparty is limited to the higher of either CHF 250 million or 25 per cent of eligible equity. Finally, OTC derivative transactions may only be concluded with counterparties with whom a netting contract has been agreed.

Credit risks are managed and monitored not only on an individual client level but also on a portfolio level. At the portfolio level, VP Bank uses the expected and unexpected credit loss to monitor and measure credit risk. The expected credit loss calculates – on the basis of historical loss data and estimated default probabilities – the loss per credit portfolio which may be anticipated within a year. In addition, the results of the analysis flow into the calculation of the general valuation allowances in the annual financial statements. The unexpected credit loss values the deviation of the actual loss, expressed as the value-at-risk, from the expected loss assuming a certain probability. In this model-based measurement of credit risk, rating changes of counterparties and changes in credit spreads impact the results.

During the past financial year, VP Bank has further reduced the volume of credit derivatives in its own portfolio. The following table shows the contract volume of credit derivatives by type of product.

Credit derivatives (contract volumes)

in CHF 1,000	Provider of collateral as of 31/12/2011	Receiver of security as of 31/12/2010
Credit-linked notes	6'870	18'268
Other credit derivatives	9'865	12'299
Total	**16'735**	**30'567**

The following tables contain quantitative information on credit risks in accordance with Basel II as part of an extended disclosure.

Credit exposures by groups of counterparties

in CHF 1,000	Central governments and central banks	Banks and securities dealers	Other institutions	Corporates	Private customers and small enterprises	Other positions	Total
On-balance-sheet assets as of 31/12/2011							
Receivables arising from money-market paper	124,938						124,938
Due from banks		5,143,759	151				5,143,910
Due from customers			23,381	1,600,240	2,199,137		3,822,758
Public-law enterprises	26,001		2,291				28,292
Trading portfolios							0
Derivative financial instruments		29,597	165	67,722	6,206		103,690
Financial instruments designated at fair value	36,439	210,995	34,166	79,414		5,245	366,258
Financial instruments available for sale	44,015	263,876	38,908	200,297		11,200	558,297
Total	**231,393**	**5,648,228**	**99,061**	**1,947,673**	**2,205,343**	**16,445**	**10,148,143**
Off-balance-sheet transactions as of 31/12/2011							
Contingent liabilities		11,838	10	17,883	18,665	49,976	98,372
Irrevocable facilities granted		1,948		15,433	14,592	2,231	34,204
Total	**0**	**13,786**	**10**	**33,316**	**33,257**	**52,207**	**132,576**
On-balance-sheet assets as of 31/12/2010							
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 31/12/2010							
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**

Credit exposures by collateral

in CHF 1,000	Secured by recognised financial collateral	Not secured by recognised financial collateral	Total
On-balance-sheet assets as of 31/12/2011			
Receivables arising from money-market paper		124,938	124,938
Due from banks	203,322	4,940,589	5,143,910
Due from customers	3,367,411	455,347	3,822,758
Public-law enterprises		28,292	28,292
Trading portfolios			0
Derivative financial instruments	24,636	79,054	103,690
Financial instruments designated at fair value		366,258	366,258
Financial instruments available for sale		558,297	558,297
Total	**3,595,369**	**6,552,774**	**10,148,143**
Off-balance-sheet transactions as of 31/12/2011			
Contingent liabilities	76,872	21,500	98,372
Irrevocable facilities granted	34,204		34,204
Total	**111,076**	**21,500**	**132,576**
On-balance-sheet assets as of 31/12/2010			
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 31/12/2010			
Contingent liabilities	98,590		98,590
Irrevocable facilities granted	13,838	8,241	22,079
Total	**112,428**	**8,241**	**120,669**

In the case of amounts due from banks, money-market paper as well as of interest-bearing securities among 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				Value-adjusted positions	Total
	Investment grade (AAA to BBB)	Safe (BB+ to BB–)	Unsafe (B– to C)	Without external rating		
On-balance-sheet assets as of 31/12/2011						
Receivables arising from money-market paper	124,938					124,938
Due from banks	5,118,559			28,316	2,964	5,143,910
Due from clients				3,875,137	52,379	3,822,758
Public-law enterprises	15,968			12,324		28,292
Trading portfolios						0
Derivative financial instruments	26,250			77,440		103,690
Financial instruments designated at fair value	341,219			25,039		366,258
Financial instruments available for sale	554,316			3,981		558,297
Total	**6,181,250**	**0**	**0**	**4,022,236**	**55,343**	**10,148,143**
Off-balance-sheet transactions as of 31/12/2011						
Contingent liabilities				98,372		98,372
Irrevocable facilities granted				34,204		34,204
Total	**0**	**0**	**0**	**132,576**	**0**	**132,576**
On-balance-sheet assets as of 31/12/2010						
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 31/12/2010						
Contingent liabilities	131			98,460		98,590
Irrevocable facilities granted				22,079		22,079
Total	**131**	**0**	**0**	**120,539**	**0**	**120,669**

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 31/12/2011									
Receivables arising from money-market paper	124,938								124,938
Due from banks	176,313		4,847,623		105,566		14,408		5,143,910
Due from customers	619,863		40,186	1,549,537	186,070	70,420	1,355,608	29,366	3,851,050
Derivative financial instruments	10,180		29,042		838	1	63,629		103,690
Financial instruments	94,490		529,132		234,886		66,047		924,555
Other assets	2,352		8,333	1	9,238		33,601		53,524
Total	**1,028,137**	**0**	**5,454,315**	**1,549,538**	**536,598**	**70,421**	**1,533,293**	**29,366**	**10,201,668**
Off-balance-sheet transactions as of 31/12/2011									
Contingent liabilities	75,750		72	562	11,890		10,098		98,372
Irrevocable facilities granted	1,712			21,974	4,823		5,695		34,204
Total	**77,462**	**0**	**72**	**22,536**	**16,713**	**0**	**15,793**	**0**	**132,576**
On-balance-sheet assets as of 31/12/2010									
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 31/12/2010									
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**

Credit exposures by domicile

in CHF 1,000	Liechtenstein and Switzerland	Europe	North America	South America	Asia	Other	Total
On-balance-sheet assets as of 31/12/2011							
Receivables arising from money-market paper	124,938						124,938
Due from banks	1,707,309	3,278,720	121,634		33,733	2,514	5,143,910
Due from customers	2,812,899	541,956	47,366	39,332	22,352	358,853	3,822,758
Public-law enterprises		27,825				467	28,292
Trading portfolios							0
Derivative financial instruments	73,344	15,961	59	20	540	13,766	103,690
Financial instruments designated at fair value	3,756	276,453	29,147	0	41,085	15,816	366,258
Financial instruments available for sale	3,981	375,805	121,894	0	16,806	39,812	558,297
Total	**4,726,227**	**4,516,720**	**320,100**	**39,352**	**114,516**	**431,228**	**10,148,143**
Off-balance-sheet transactions as of 31/12/2011							
Contingent liabilities	42,101	36,647	988	867	723	17,047	98,372
Irrevocable facilities granted	31,881	41	330			1,952	34,204
Total	**73,982**	**36,688**	**1,318**	**867**	**723**	**18,999**	**132,576**
On-balance-sheet assets as of 31/12/2010							
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 31/12/2010							
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**

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 31/12/2011			
Liechtenstein and Switzerland	26,656	9,623	8,746
Europe	9,957	1,318	4,977
North America		167	135
South America	87	349	87
Asia		3	
Other	24,745	13,578	15,833
Total	**61,445**	**25,038**	**29,778**
as of 31/12/2010			
Liechtenstein and Switzerland	35,954	14,145	10,521
Europe	1,246	1,299	1,213
North America		8	
South America	83	154	88
Asia		11	
Other	31,963	3,280	15,626
Total	**69,246**	**18,897**	**27,448**

Overdue receivables by remaining term

in CHF 1,000	Due within 3 months	Due within 3 to months	Due 6 to 12 months	Due after 12 months	Total
Total reporting period 2011	25,038				25,038
Total reporting period 2010	14,333			4,564	18,897

Country risk

Country risks arise whenever political or economic conditions specific to a country impinge on the value of an exposure abroad.

The monitoring and management of country risks is made using volume limits which restrict the respective aggregate exposures per country rating (Standard & Poor's and Moody's). All on- and off-balance-sheet receivables are considered in this process; investments in the Principality of Liechtenstein and Switzerland do not fall under this country limit rule. The risk domicile of an exposure is the basis for recognising country risk. In the case of secured exposures, in principle the country in which the collateral is located is considered.

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

in %	31/12/2011	31/12/2010
AAA	95.8%	94.5%
AA	2.2%	3.3%
A	0.1%	0.3%
BBB – B	0.5%	0.1%
Not rated	1.4%	1.8%
Total	**100.0%**	**100.0%**

Financial instruments in GIIPS countries

in CHF 1,000	At fair value	At amortised cost	Total as of 31/12/2011	Total as of 31/12/2010
Greece				2,737
Ireland[1]	4,983	6,009	10,992	23,207
Italy				1,247
Portugal	2,409		2,409	2,498
Spain				
Total	**7,392**	**6,009**	**13,401**	**29,689**

[1] As of 31/12/2011, 38% of the total is collateralised by the European Investment Bank (as of 31/12/2010: 21%).

6. Operational risks

The causes for operational risks are multiple. People make mistakes, IT systems fail or business processes are inoperative. Therefore it is necessary to detect the events which trigger important risk occurrences and their impact in order to limit them with suitable preventive measures.
The management of operational risks is understood in VP Bank to be an integral cross-divisional function which is to be implemented on a uniform Group-wide basis over all areas and processes. The second level of management is responsible for the identification and evaluation of operational risks as well as for the definition and conduct of key controls and measures to contain risks. Within the scope of its decision-making authority, the central functional unit Group Risk Control makes available on a Group-wide basis the instruments for a systematic OpRisk management and ensures their ongoing development. These include the conduct of risk assessments as part of risk identification and evaluation, the conduct of key controls, the maintenance of a databank of incidents as well as the employment of early warning indicators. During the current year, systematic OpRisk management could be further developed. The principal focus in this respect is on the enhancement of the standards achieved in the parent bank and their implementation in further Group companies. Within the scope of the annual business-impact-analysis, Business Continuity Management (BCM) developed, in cooperation with management, risk scenarios which may jeopardise the safeguarding of employees, of information, of assets and the infrastructure of VP Bank. Targeted directives and rules which are designed to avoid or reduce the identified risks are issued as a result of this risk survey.

7. Business risks

Business risks are the object of a qualitative management process with VP Bank. Within the scope of the ordinary strategy process, business risks are identified by the Board of Directors and Group Executive Management and taken account of in an appropriate manner. In view of the complexity of the effects which can be impacted by the future development of the business and the profitability of the bank, potential business risks and their probability of occurrence and effects are discussed on the basis of scenarios and appropriate measures decided upon to contain the risks. The results serve as a basis for the strategic planning process and thus flow into the annual planning and budgeting process.

Segment reporting

VP Bank Group is divided into four business segments, Banking Liechtenstein & Regional Markets, Private Banking International, Wealth Management Solutions & Services as well as CFO & Corporate Center. Indirect costs for internal recharges between the segments are basically accounted for by the provider of the services as income and by the recipient as expenses, following the originator principle.

Banking Liechtenstein & Regional Markets

The Banking Liechtenstein & Regional Markets business segment encompasses the universal-banking business in Liechtenstein, the home market, and in Switzerland as well as the international private-banking, intermediaries and fund-solutions 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 division.

Private Banking International

The Private Banking International business segment comprises the private-banking business in international locations. VP Bank (Schweiz) AG, VP Bank (Luxembourg) S.A., VP Vermögensverwaltung GmbH, VP Bank and Trust Company (BVI) Ltd., VP Bank (Singapore) Ltd. and VP Wealth Management (Hong Kong) Ltd. are allocated to this division.

Wealth Management Solutions & Services

The Wealth Management Solutions & Services business segment is responsible for the units Investment Funds and Portfolio Management, for Wealth Management Solutions and for Banking Operations. It encompasses the units Wealth Management Solutions, Information Technology, Operations as well as Logistics & Security for the entire VP Bank Group.

CFO & Corporate Center

CFO & Corporate Center encompasses the areas of Group Finance & Risk, Group Legal Services & Compliance, Group Human Resources Management and Group Communications & Marketing. 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.

Geographic segment reporting

in CHF 1,000	Liechtenstein and Switzerland	Rest of Europe	Other countries	Total Group
2011				
Total net operating income	175,754	32,467	16,237	224,458
Assets (in CHF million)	8,832	1,335	575	10,742
Investments in property and equipment	11,574	596	70	12,240
2010				
Total net operating income	204,384	31,454	17,383	253,221
Assets (in CHF million)	8,623	1,425	544	10,592
Investments in property and equipment	10,570	768	567	11,905

Segment reporting follows the principle of branch accounting.

Business segment reporting 2011

in CHF 1,000	Banking Liechtenstein & Regional Markets	Private Banking International	Wealth Management Solutions & Services	CFO & Corporate Center	Total Group
Total interest income	34,271	21,483	341	10,504	66,599
Total income from commission business and services	85,982	35,765	–2,970	3,148	121,925
Income from trading activities	15,126	7,626	1,906	4,709	29,367
Income from financial investments	–126	–80	0	6,118	5,912
Other income	188	467	0	0	655
Total net operating income	**135,441**	**65,261**	**–723**	**24,479**	**224,458**
Personnel expenses	24,113	33,254	37,851	29,644	124,862
General and administrative expenses	3,704	15,652	15,585	17,930	52,871
Services to/from other segments	28,625	624	–26,062	–3,187	0
Operating expenses	**56,442**	**49,530**	**27,374**	**44,387**	**177,733**
Gross income	**78,999**	**15,731**	**–28,097**	**–19,908**	**46,725**
Depreciation and amortisation	289	3,210	23,797	6,340	33,636
Valuation allowances, provisions and losses	3,159	3,138	451	–979	5,769
Income/loss before income tax	**75,551**	**9,383**	**–52,345**	**–25,269**	**7,320**
Taxes on income					930
Net income					**6,390**
Share of net income attributable to minority interests					2,058
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz					**4,332**
Segment assets (in CHF million)	3,235	2,966	99	4,442	10,742
Segment liabilities (in CHF million)	6,593	2,812	159	279	9,843
Investments in property and equipment	65	1,008	10,262	905	12,240
Depreciation and amortisation	289	3,210	23,797	6,340	33,636
Creation of valuation allowances for credit risks	3,853	4,755	105	0	8,713
Release of valuation allowances for credit risks	2,423	1,821	0	2,967	7,211
Headcount (full-time equivalents)	165.3	212.9	250.4	109.2	737.8

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 2010

in CHF 1,000	Banking Liechtenstein & Regional Markets	Private Banking International	Wealth Management Solutions & Services	CFO & Corporate Center	Total Group
Total interest income	35,817	16,938	500	21,233	74,488
Total income from commission business and services	92,119	39,431	–2,662	4,071	132,959
Income from trading activities	14,549	6,158	3,674	21,524	45,905
Income from financial investments	100	697	0	–1,904	–1,107
Other income	249	694	0	33	976
Total net operating income	**142,834**	**63,918**	**1,512**	**44,957**	**253,221**
Personnel expenses	24,083	33,480	38,605	25,629	121,797
General and administrative expenses	2,871	14,505	19,057	21,295	57,728
Services to/from other segments	30,302	896	–31,261	63	0
Operating expenses	**57,256**	**48,881**	**26,401**	**46,987**	**179,525**
Gross income	**85,578**	**15,037**	**–24,889**	**–2,030**	**73,696**
Depreciation and amortisation	279	3,599	27,944	6,908	38,730
Valuation allowances, provisions and losses	10,078	5,256	1,823	–1,343	15,814
Income/loss before income tax	**75,221**	**6,182**	**–54,656**	**–7,595**	**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 amortisation	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	201.9	251.7	109.6	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.

Notes to consolidated income statement and consolidated balance sheet

1 Interest income

in CHF 1,000	2011	2010	Variance absolute	Variance in %
Interest and discount income	860	2,035	–1,175	–57.7
Interest income from banks	54,904	42,309	12,595	29.8
Interest income from customers	74,824	68,590	6,234	9.1
Interest income from financial instruments measured at amortised cost (IFRS 9)	10,963	0	10,963	n.a.
Interest income from available for sale financial instruments (IAS 39)	0	14,232	–14,232	n.a.
Interest-rate instruments	–23,550	–6,679	–16,871	n.a.
Loan commissions with the character of interest	840	640	200	31.3
Total interest income[1]	**118,841**	**121,127**	**–2,286**	**–1.9**
Interest expenses on liabilities due to banks	14,942	11,822	3,120	26.4
Interest expenses on liabilities due to customers	21,475	20,182	1,293	6.4
Interest expenses on medium-term bonds	3,010	3,622	–612	–16.9
Interest expenses on debenture bonds	12,815	11,013	1,802	16.4
Total interest expense	**52,242**	**46,639**	**5,603**	**12.0**
Total interest income[1]	**66,599**	**74,488**	**–7,889**	**–10.6**

[1] The captions interest and dividend income on trading and fair value portfolios are now reported under trading income (note 3) and income from financial investments (note 4).

2 Income from commission business and services

in CHF 1,000	2011	2010	Variance absolute	Variance in %
Commission income from credit business	987	1,080	–93	–8.6
Asset management and investment business[1]	37,340	39,293	–1,953	–5.0
Brokerage fees	34,217	41,459	–7,242	–17.5
Securities account fees	15,815	17,426	–1,611	–9.2
Fund management fees	56,091	54,369	1,722	3.2
Fiduciary commissions	1,439	1,567	–128	–8.2
Miscellaneous commission and service expense[2]	20,074	22,442	–2,368	–10.6
Total income from commission business and services	**165,963**	**177,636**	**–11,673**	**–6.6**
Brokerage expenses	6,665	7,553	–888	–11.8
Other commission and services-related expenses[2]	37,373	37,124	249	0.7
Total expenses from commission business and services	**44,038**	**44,677**	**–639**	**–1.4**
Total income from commission business and services	**121,925**	**132,959**	**–11,034**	**–8.3**

[1] Corporate actions, asset management commissions, investment-advisory services, all-in fees, securities lending and borrowing, retrocessions.
[2] Including income and expense from Group companies with commission character (note 5).

3 Income from trading activities

in CHF 1,000	2011	2010	Variance absolute	Variance in %
Securities trading[1]	4,979	20,850	–15,871	–76.1
Interest income from trading portfolios[2]	48	130	–82	–63.1
Dividend income from trading portfolios[2]	2	6	–4	–66.7
Foreign currency	22,427	24,846	–2,419	–9.7
Banknotes, precious metals and other	1,911	73	1,838	n.a.
Total income from trading activities	**29,367**	**45,905**	**–16,538**	**–36.0**

[1] The results from trading derivates are included in this caption.
[2] These positions were previously reported under interest income (note 1).

4 Income from financial investments

in CHF 1,000	2011	2010	Variance absolute	Variance in %
Income from financial instruments at fair value (IFRS 9)	21,078		n.a.	n.a.
Income from financial instruments at amortised cost (IFRS 9)	–15,166		n.a.	n.a.
Income from financial instruments designated at fair value (IAS 39)		9,584	n.a.	n.a.
Income from available for sale financial instruments (IAS 39)		–10,691	n.a.	n.a.
Total income from financial investments	**5,912**	**–1,107**	**n.a.**	**n.a.**

Income from financial instruments at fair value (IFRS 9 as from 01/01/2011)

Income from financial instruments at fair value	7,589
Interest income from financial instruments at fair value[1]	7,923
Dividend income from financial instruments at fair value[1]	4,761
Dividend income from financial instruments FVTOCI[1]	805
thereof from FVTOCI financial instruments sold	0
Income from liabilities at fair value	0
Total	**21,078**

[1] These positions were previously reported under interest income (note 1).

Income from financial instruments at amortised cost (IFRS 9 as from 01/01/2011)

Revaluation gains/losses on financial instruments at amortised cost	–13,282
Realised gains/losses on financial instruments at amortised cost	–1,884
Total	**–15,166**

Income from financial instruments designated at fair value (IAS 39 until 31/12/2010)

Income from financial instruments designated at fair value		7,803
Interest income from financial instruments designated at fair value[1]		1,707
Dividend income from financial instruments designated at fair value[1]		74
Income from liabilities designated at fair value		0
Total[2]		**9,584**

[1] These positions were previously reported under interest income (note 1).
[2] Included in this amount are gains/losses on purchases and sales and market-related movements of financial instruments designated at fair value.

4 Income from financial investments (continued)

in CHF 1,000	2011	2010	Variance absolute	Variance in %
Income from available for sale financial instruments (IAS 39 until 31/12/2010)				
Interest-rate instruments		–14,758		
Equity shares/investment fund units		1,545		
Dividend income on available for sale financial instruments[1]		2,522		
Total[2]		**–10,691**		

[1] These positions were previously reported under interest income (note 1).
[2] Included in this amount are amounts transferred from equity to the income statement for available for sale financial instruments.

5 Other income

in CHF 1,000	2011	2010	Variance absolute	Variance in %
Income from real estate	302	214	88	41.1
Loss of associated companies	–9	–14	5	n.a.
Miscellaneous other income[1]	362	776	–414	–53.4
Total other income[2]	**655**	**976**	**–321**	**–32.9**

[1] Income and expenses from Group companies with commission character (e.g. fiduciary services) are now reported in the caption "commission income from other services" and "other commissions and service expenses" (note 2).
[2] The caption "release of valuation allowances and provisions no longer required" is now reported under "valuation allowances, provisions and losses" (note 9).

6 Personnel expenses

in CHF 1,000	2011	2010	Variance absolute	Variance in %
Salaries and wages	97,112	98,806	–1,694	–1.7
Social contributions required by law	8,531	8,176	355	4.3
Contributions to pension plans/defined-benefit plans	11,291	8,134	3,157	38.8
Contributions to pension plans/defined-contribution plans	2,291	2,592	–301	–11.6
Other personnel expenses	5,637	4,089	1,548	37.9
Total personnel expenses	**124,862**	**121,797**	**3,065**	**2.5**

7 General and administrative expenses

in CHF 1,000	2011	2010	Variance absolute	Variance in %
Occupancy expenses	8,038	8,434	–396	–4.7
Insurance	1,061	1,168	–107	–9.2
Professional fees	5,779	5,909	–130	–2.2
Financial information procurement	6,042	6,549	–507	–7.7
Telecommunication and postage	1,265	2,525	–1,260	–49.9
IT systems	17,685	18,497	–812	–4.4
Marketing and public relations	5,023	5,119	–96	–1.9
Capital taxes	184	1,519	–1,335	–87.9
Other general and administrative expenses	7,794	8,008	–214	–2.7
Total general and administrative expenses	**52,871**	**57,728**	**–4,857**	**–8.4**

8 Depreciation and amortisation

in CHF 1,000	2011	2010	Variance absolute	Variance in %
Depreciation and amortisation of property and equipment (note 23)	10,961	12,935	–1,974	–15.3
Amortisation of intangible assets (note 24)	22,675	25,795	–3,120	–12.1
Total depreciation and amortisation	**33,636**	**38,730**	**–5,094**	**–13.2**

9 Valuation allowances, provisions and losses

in CHF 1,000	2011	2010	Variance absolute	Variance in %
Credit risks[1]	8,750	15,132	–6,382	–42.2
Legal and litigation risks	0	0	0	0
Other	4,199	4,247	–48	–1.1
Release of valuation allowances and provisions no longer required[2]	–7,180	–3,565	–3,615	n.a.
Total valuation allowances, provisions and losses	**5,769**	**15,814**	**–10,045**	**–63.5**

[1] Additions including currency effects (note 16).
[2] This position was previously reported under other income (note 5).

10a Taxes on income

in CHF 1,000	2011	2010
Domestic		
Current taxes	613	1,559
Deferred taxes	–1,555	–811
Foreign		
Current taxes	1,688	2,626
Deferred taxes	184	–1,434
Total current taxes	2,301	4,185
Total deferred taxes	–1,371	–2,245
Total taxes on income	**930**	**1,940**

Actual payments for domestic and foreign taxes made by the Group in 2011 totalled CHF 3.298 million (2010: CHF 1.040 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:

	2011	2010
Liechtenstein	12.5%	12.5%
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 per cent, may be analysed as follows:

in CHF 1,000	2011	2010
Income before income tax		
Domestic	–2,291	11,425
Foreign	9,611	7,727
Taxes on income using an assumed average charge	**732**	**1,915**
Reasons for increased/decreased taxable income		
Difference between actual and assumed tax rates	2,019	2,270
Change in deferred tax assets and liabilities	–1,371	–2,245
Utilization of tax loss carry-forwards	–450	0
Total income taxes	**930**	**1,940**

10b Deferred tax assets and liabilities

in CHF 1,000	2011	2010
Deferred tax assets		
Real estate and property and equipment	7,698	5,888
Tax loss carry-forwards[1]	0	450
Total deferred tax assets	**7,698**	**6,338**

10b Deferred tax assets and liabilities (continued)

Deferred tax liabilities		
Real estate and property and equipment	2,018	2,444
Financial instruments	2,879	3,160
Financial instruments directly offset within shareholders' equity	864	–699
Valuation allowances for credit risks	224	338
Other provisions	3,111	3,291
Other liabilities	121	–22
Total deferred tax liabilities	**9,217**	**8,512**

Deferred tax assets		
Balance at the beginning of the financial year	6,338	3,448
Tax loss carry-forwards[1]	–450	27
Charged to income statement	1,810	508
Released to income statement	0	0
Impact of deferred tax rate changes	0	2,355
Total deferred tax assets	**7,698**	**6,338**

Deferred tax liabilities		
Balance at the beginning of the financial year	8,512	7,830
Reclassifications	716	37
Charged to income statement	872	2,079
Released to income statement	–883	–154
Impact of deferred tax rate changes	0	–1,280
Total deferred tax liabilities	**9,217**	**8,512**

[1] Providing that the realisation 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 taxes arise because of timing differences between the IFRS financial statements and the statutory accounts as a result of differing valuation policies.

Loss carry-forwards not reflected in the balance sheet expire as follows:		
Within 1 year	0	0
Within 2 to 4 years	366	78
After 4 years	426	551
Total	**792**	**629**

In the reporting period, no loss carry-forwards were used (previous year: CHF 0.693 million).

10c Tax assets and liabilities

in CHF 1,000	31/12/2011	31/12/2010
Tax assets		
Amounts receivable arising on current taxes on income	368	392
Deferred tax assets (note 10b)	7,698	6,338
Total tax assets	**8,066**	**6,730**
Tax liabilities		
Liabilities arising on current taxes on income	3,230	5,782
Deferred tax liabilities (note 10b)	9,217	8,512
Total tax liabilities	**12,447**	**14,294**

11 Earnings per share

	2011	2010
Consolidated earnings per share of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz		
Net income (in CHF 1,000)[1]	4,332	15,084
Weighted average of bearer shares	5,163,336	5,163,237
Weighted average of registered shares	5,967,975	5,982,787
Total weighted average number of bearer shares	5,760,134	5,761,516
Undiluted consolidated earnings per bearer share	0.75	2.62
Undiluted consolidated earnings per registered share	0.08	0.26
Fully diluted consolidated earnings per share of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz		
Net income (in CHF 1,000)[1]	4,332	15,084
Adjusted consolidated net income (in CHF 1,000)	4,332	15,084
Number of shares used to compute the fully diluted consolidated net income	5,760,134	5,761,516
Fully diluted consolidated earnings per bearer share	0.75	2.62
Fully diluted consolidated earnings per registered share	0.08	0.26

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

12 Dividend

	2011	2010
Approved and paid dividend of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz		
Dividend (in CHF 1,000) for the financial year 2010 (2009)	20,702	20,702
Dividend per bearer share	3.50	3.50
Dividend per registered share	0.35	0.35
Payout ratio (in %)	133.7	35.1

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 2011	8,872	
Dividend per bearer share	1.50	
Dividend per registered share	0.15	
Payout ratio (in %)	199.5	

13 Cash and cash equivalents

in CHF 1,000	31/12/2011	31/12/2010
Cash on hand	16,442	16,868
At-sight balances on postal checking accounts	2,899	5,573
At-sight balances with national and central banks	226,040	108,107
Total cash and cash equivalents	**245,381**	**130,548**

14 Receivables arising from money-market paper

in CHF 1,000	31/12/2011	31/12/2010
Money-market paper (qualifying for refinancing purposes)	124,938	439,665
Other money-market paper	0	102
Total receivables arising from money-market paper	**124,938**	**439,767**

15 Due from banks and customers

in CHF 1,000	31/12/2011	31/12/2010
By type of exposures		
Due from banks – at-sight balances	797,832	1,014,510
Due from banks – term balances	4,349,042	4,615,702
Valuation allowances for credit risks (note 16)	–2,964	–7,404
Due from banks	**5,143,910**	**5,622,808**

15 Due from banks and customers (continued)

Mortgage receivables	2,366,946	2,226,896
Other receivables	1,536,483	1,086,585
Valuation allowances for credit risks (note 16)	–52,379	–46,609
Due from customers	3,851,050	3,266,872
Total due from banks and customers	**8,994,960**	**8,889,680**

Due from customers by type of collateral		
Mortgage collateral	2,321,124	2,182,275
Other collateral	1,159,697	814,642
Without collateral	422,608	316,564
Subtotal	**3,903,429**	**3,313,481**
Valuation allowances for credit risks	–52,379	–46,609
Total due from customers	**3,851,050**	**3,266,872**

16 Valuation allowances for credit risks

in CHF 1,000	2011	2010
Balance at the beginning of the financial year	54,013	48,211
Amounts written off on loans / utilisation in accordance with purpose	–209	–5,692
Creation of valuation allowances and provisions for credit risks	8,713	15,544
Release of valuation allowances and provisions for credit risks	–7,211	–3,638
Foreign-currency translation differences and other adjustments	37	–412
Balance at the end of the financial year	**55,343**	**54,013**
As valuation adjustment for due from banks	2,964	7,404
As valuation adjustment for due from customers	52,379	46,609
Total valuation allowances for credit risks	**55,343**	**54,013**

in CHF 1,000	Banks	Mortgage receivables	Other receivables	Total 2011
By type of exposure 2011				
Balance at the beginning of the financial year	7,404	10,031	36,578	54,013
Amounts written off on loans / utilisation in accordance with purpose	0	0	–209	–209
Creation of valuation allowances and provisions for credit risks	60	1,112	7,541	8,713
Release of valuation allowances and provisions for credit risks	–4,500	–748	–1,963	–7,211
Foreign-currency translation differences and other adjustments	0	0	37	37
Balance at the end of the financial year 2011	**2,964**	**10,395**	**41,984**	**55,343**
of which				
Individual valuation allowances	0	5,778	24,085	29,863
Lump-sum valuation allowances	2,964	4,617	17,899	25,480
Total	**2,964**	**10,395**	**41,984**	**55,343**

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

16 Valuation allowances for credit risks (continued)

in CHF 1,000	Banks	Mortgage receivables	Other receivables	Total 2010
By type of exposure 2010				
Balance at the beginning of the financial year	7,302	11,293	29,616	48,211
Amounts written off on loans / utilisation 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 the end of the 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**

in CHF 1,000	Individual 2011	Lump-sum 2011	Individual 2010	Lump-sum /2010
By type of valuation allowances				
Balance at the beginning of the financial year	27,449	26,564	24,079	24,132
Amounts written off on loans / utilisation in accordance with purpose	–209	0	–5,692	0
Creation of valuation allowances and provisions for credit risks	5,174	3,539	11,598	3,946
Release of valuation allowances and provisions for credit risks	–2,551	–4,660	–2,261	–1,377
Foreign-currency translation differences and other adjustments	0	37	–275	–137
Balance at the end of the financial year	**29,863**	**25,480**	**27,449**	**26,564**

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 customers and banks where it is improbable that the debtor can meet its obligations.

in CHF 1,000	2011	2010
Value-impaired loans[1]	61,445	69,246
Amount of valuation allowances for credit losses from non-performing loans	29,863	27,450
Net amounts due	**31,582**	**41,796**
Estimated realisable value of value-impaired loans	**31,582**	**41,796**
Average amount of value-impaired loans	**65,334**	**71,236**

[1] Interest receivable on non-performing loans in 2011 was CHF 0.727 million (2010: CHF 0.449 million).

Recoveries from loans already written off (other income)	37	11

16 Valuation allowances for credit risks (continued)

Non-performing 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. Such loans are not to be classified as value-impaired if it can be assumed that they are still covered by existing collateral.

in CHF 1,000	2011	2010
Non-performing loans	25,038	18,897
Amount of valuation allowances for credit losses from non-performing loans	19,815	7,655
Net amounts due	**5,223**	**11,242**
Average amount of non-performing loans	**21,968**	**21,183**
Valuation allowances on non-performing loans at the beginning of the financial year	7,655	8,037
Net increase/decrease	12,267	2,614
Amounts written off and disposals / utilisation in conformity with purpose	–107	–2,996
Valuation allowances on non-performing loans at the end of the financial year	**19,815**	**7,655**

According to type of exposure in CHF 1,000	31/12/2011	31/12/2010
Banks	**0**	**0**
Mortgage receivables	8,251	14,249
Other receivables	16,787	4,648
Customers	**25,038**	**18,897**
Total non-performing loans	**25,038**	**18,897**

According to regions (domicile of debtor) in CHF 1,000	31/12/2011	31/12/2010
Liechtenstein and Switzerland	9,623	14,076
Rest of Europe	1,405	1,369
North and South America	429	79
Other countries	13,581	3,373
Total non-performing loans	**25,038**	**18,897**

17 Trading portfolios

in CHF 1,000	31/12/2011	31/12/2010
Debt securities valued at fair value		
exchange listed	0	1,566
Total	**0**	**1,566**
Equity securities / investment-fund units valued at fair value	0	0
exchange listed	–57	45
not-exchange listed	0	2,340
Total	**–57**	**2,385**
Other	**13**	**60**
Total trading portfolios	**–44**	**4,011**

18 Derivative financial instruments

in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments 2011			
Forward contracts			
Swaps	1	26,641	381,455
Futures			
Options (OTC)			
Options (exchange traded)			
Total interest-rate instruments 31/12/2011	**1**	**26,641**	**381,455**
Foreign currencies 2011			
Forward contracts	52,579	41,569	1,430,704
Combined interest-rate/currency swaps	47,382	57,505	2,815,582
Futures			
Options (OTC)	49	49	5,560
Options (exchange traded)			
Total foreign currencies 31/12/2011	**100,010**	**99,123**	**4,251,846**
Equity securities/indices 2011			
Forward contracts			
Futures			
Options (OTC)	2,525	2,525	22,727
Options (exchange traded)			
Total equity securities/indices 31/12/2011	**2,525**	**2,525**	**22,727**
Precious metals 2011			
Forward contracts			
Futures			
Options (OTC)	1,154	1,154	39,002
Options (exchange traded)			
Total precious metals 31/12/2011	**1,154**	**1,154**	**39,002**
Total derivative financial instruments 31/12/2011	**103,690**	**129,443**	**4,695,030**

The fair value of derivative financial instruments without market value is arrived at by recognised 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 Derivative financial instruments (continued)

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 31/12/2010	**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 31/12/2010	**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 31/12/2010	**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 31/12/2010	**2,491**	**2,755**	**161,069**
Total derivative financial instruments 31/12/2010	**63,322**	**70,034**	**4,033,970**

19 Financial instruments at fair value

in CHF 1,000	31/12/2011	31/12/2010
Debt instruments		
Public-law institutions outside Liechtenstein and Switzerland	54,567	47,861
Exchange listed	250,474	31,199
Non-exchange listed	61,217	47
Total[1]	**366,258**	**79,107**
Equity shares/investment fund units		
Exchange listed	12,039	0
Non-exchange listed	69,154	2,774
Total[1]	**81,193**	**2,774**
Structured products		
Exchange listed	0	2,510
Non-exchange listed[2]	13,874	23,830
Total[1]	**13,874**	**26,340**
Total financial instruments designated at fair value	**461,325**	**108,221**

1 The previous-year comparatives correspond to the categorisation and measurement in accordance with IAS 39 (note 21).
2 Principally structured credit notes (Credit linked notes and credit default notes).

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 Financial instruments at amortised cost

in CHF 1,000	31/12/2011	31/12/2010
Debt instruments		
Public-law institutions outside Liechtenstein and Switzerland	68,328	64,615
exchange listed	337,723	348,230
Non-exchange listed	152,246	201,121
Total[1]	**558,297**	**613,966**
Equity shares/investment fund units		
Exchange listed	0	11,691
Non-exchange listed	0	59,947
Total[1]	**0**	**71,638**
Total financial instruments at amortised cost[1]	**558,297**	**685,604**
of which, securities lent or delivered as collateral	33,786	37,699

1 The previous-year comparatives correspond to the categorisation and measurement in accordance with IAS 39 (note 21).

21 Reconciliation from IAS 39 to IFRS 9

in CHF 1,000	01/01/2011 Carrying value[1]	01/01/2011 Market value	31/12/2010 Market value
Category in accordance with IAS 39			
Financial instruments designated at fair value			108,221
Category in accordance with IFRS 9			
Financial instruments at fair value		108,221	
Category in accordance with IAS 39			
available for sale financial instruments			685,604
Category in accordance with IFRS 9			
Financial instruments at amortised cost[1]	417,260	426,043	
Financial instruments at fair value		246,015	
Financial instruments at fair value through other comprehensive income (FVTOCI)		13,546	

[1] The difference of CHF 8.783 million between amortised cost (carrying value) and market value was offset against profit reserves in accordance with IFRS 9.

22 Associated companies

in CHF 1,000	31/12/2011	31/12/2010
Balance at the beginning of the financial year	34	48
Additions	30	0
Value impairments	–39	–14
Balance as of balance-sheet date	**25**	**34**

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

Name	Registered office	Activity	Share capital	% of capital held 31/12/2011	% of capital held 31/12/2010
VAM Corporate Holdings Ltd.	Mauritius	Fund Promoter Company	GBP 50,000	20	20
Data Info Services AG	Vaduz	Procurement, trading and brokerage of goods and services	CHF 50,000	50	0

23 Property and equipment

in CHF 1,000	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total
Acquisition cost 2011					
Balance on 01/01/2011	195,042	22,036	20,097	28,941	266,116
Additions	502	136	579	3,134	4,351
Disposals/derecognitions[1]		–435	–91	–3,049	–3,575
Reclassifications					0
Foreign-currency translation	–7	–4	–11	–11	–33
Other movements					0
Balance on 31/12/2011	**195,537**	**21,733**	**20,574**	**29,015**	**266,859**

in CHF 1,000	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total
Accumulated depreciation and amortisation					
Balance on 01/01/2011	–89,319	–4,464	–13,684	–22,858	–130,325
Depreciation and amortisation	–5,904	–288	–1,471	–3,298	–10,961
Valuation allowances					0
Disposals/derecognitions[1]		435	90	3,049	3,574
Foreign-currency translation	4	1	3	2	10
Other movements					0
Balance on 31/12/2011	**–95,219**	**–4,316**	**–15,062**	**–23,105**	**–137,702**
Net book values on 31/12/2011	**100,318**	**17,417**	**5,512**	**5,910**	**129,157**

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

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 31/12/2010	**195,042**	**22,036**	**20,097**	**28,941**	**266,116**
Accumulated depreciation and amortisation					
Balance on 01/01/2010	–83,433	–4,135	–13,151	–19,403	–120,122
Depreciation and amortisation	–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 31/12/2010	**–89,319**	**–4,464**	**–13,684**	**–22,858**	**–130,325**
Net book values on 31/12/2010	**105,723**	**17,572**	**6,413**	**6,083**	**135,791**

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

Additional information regarding property and equipment	2011	2010
Fire insurance value of real estate	171,160	161,667
Fire insurance value of other property and equipment	39,343	41,327
Fair value of other real estate	17,417	17,572

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

24 Goodwill and other intangible assets

in CHF 1,000	Software	Other intangible assets capitalised	Goodwill	Total
Acquisition cost 2011				
Balance on 01/01/2011	134,506	3,041	46,112	183,659
Additions	7,889			7,889
Disposals/derecognitions	–3,352			–3,352
Foreign-currency translation	–39			–39
Balance on 31/12/2011	**139,004**	**3,041**	**46,112**	**188,157**
Accumulated amortisation 2011				
Balance on 01/01/2011	–60,287	–2,434	–35,302	–98,023
Amortisation	–22,068	–607		–22,675
Disposals/derecognitions	3,352			3,352
Foreign-currency translation	1			1
Balance on 31/12/2011	**–79,002**	**–3,041**	**–35,302**	**–117,345**
Net book values on 31/12/2011	**60,002**	**0**	**10,810**	**70,812**

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

in CHF 1,000	Software	Other intangible assets capitalised	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 31/12/2010	**134,506**	**3,041**	**46,112**	**183,659**
Accumulated amortisation 2010				
Balance on 01/01/2010	–47,815	–1,826	–35,302	–84,943
Amortisation	–25,187	–608		–25,795
Disposals/derecognitions	12,681			12,681
Foreign-currency translation	34			34
Balance on 31/12/2010	**–60,287**	**–2,434**	**–35,302**	**–98,023**
Net book values on 31/12/2010	**74,219**	**607**	**10,810**	**85,636**

There are no other capitalised intangible assets on 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 10.810 million arises from the acquisition of VP Bank (Luxembourg) S.A. in 2001 and is allocated to the cash-generating unit Private Banking International. Since 1 January 2005, this goodwill amount has no longer been subject to amortisation, but rather to an annual impairment test. For the purposes of the impairment test carried out in 2011, the realisable 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.

25 Other assets

in CHF 1,000	31/12/2011	31/12/2010
Value-added taxes and other tax receivables	818	516
Prepaid retirement pension contributions	1,127	1,342
Miscellaneous other assets[1]	12,139	11,947
Total other assets	**14,084**	**13,805**

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

26 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
2012	30,934	45,185	5,404	2,772	84,295
2013	8,565	59,689	3,815	2,130	74,199
2014	275	52,696	2,071	434	55,476
2015		16,235	2,111	872	19,218
2016		7,385	835	620	8,840
2017		1,721	2,700	263	4,684
2018			1,995	111	2,106
longer			2,895		2,895
Total 31/12/2011	**39,774**	**182,911**	**21,826**	**7,202**	**251,713**
Total 31/12/2010	20,107	118,625	33,675	10,927	183,334

The average interest rate as of 31 December 2011 was 1.84 per cent (31 December 2010: 1.73 per cent).

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

Year of issue in CHF 1,000	ISIN	Interest rate in %	Currency	Maturity	Nominal amount	Total 31/12/2011	Total 31/12/2010
2007	CH0030896697	2.875	CHF	04/06/2012[1]	160,000	126,562	249,096
2010	CH0112734469	2.500	CHF	27/05/2016	200,000	198,102	197,702
					360,000	**324,664**	**446,798**

[1] In 2011, in accordance with the debenture issuance conditions, Verwaltungs- und Privat-Bank AG, Vaduz, repurchased debentures on the market for a nominal value of CHF 90 million. These repurchased debentures were cancelled. Accordingly, there were still debentures totalling CHF 160 million from this issue in circulation as of 31 December 2011. At 31 December 2011, the bank's own portfolio of securities included debentures from this issue with a nominal value of CHF 33.3 million which had been repurchased on the market. Thereof, CHF 30.0 million were cancelled on 18 January 2012. The difference between the carrying value and the repurchase values was recorded under income from financial investments (note 4).

Debt securities issued are recorded at fair value plus transaction costs upon initial recognition. Fair value corresponds to the consideration received. Subsequently, they are re-measured at amortised cost. The difference between issue price and redemption price of the security is amortised over the duration of the debt security using the effective interest method (3.14 per cent debenture issue 2012, 2.73 per cent debenture issue 2016).

28 Other liabilities

in CHF 1,000	31/12/2011	31/12/2010
Value-added taxes and other tax receivables	8,348	8,874
Accrued retirement pension contributions	14,320	10,278
Miscellaneous other liabilities[1]	25,401	13,904
Total other liabilities	**48,069**	**33,056**

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

29 Provisions

in CHF 1,000	Default risks	Legal and litigation risks	Other provisions	Total 31/12/2011	Total 31/12/2010
Carrying value at the beginning of the financial year	389	897	1,928	3,214	1,803
Utilisation in accordance with purpose		–45	–318	–363	0
New provisions charged to income statement	589		4,013	4,602	1,457
Provisions releases to income statement	–751	–350		–1,101	–46
Foreign-currency translation differences and other adjustments			10	10	0
Carrying value at the end of the financial year	**227**	**502**	**5,633**	**6,362**	**3,214**

Maturity of provisions		
• within one year	0	0
• over one year	6,362	3,214

30 Minority interests

in CHF 1,000	2011	2010
Balance at the beginning of the financial year	17,843	18,529
Reductions and dividend payments	–884	–988
Foreign-currency translation differences	–31	–1,826
Share of minorities in net income	2,058	2,128
Balance at the end of the financial year	**18,986**	**17,843**

31 Share capital

	Number of shares 31/12/2011	Nominal CHF 31/12/2011	Number of shares 31/12/2010	Nominal CHF 31/12/2010
Registered shares of CHF 1.00 nominal value	6,004,167	6,004,167	6,004,167	6,004,167
Bearer shares 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.

32 Treasury shares

	No. of shares 2011	in CHF 1,000 2011	No. of shares 2010	in CHF 1,000 2010
Registered shares at the beginning of the financial year	28,515	459	12,915	284
Purchases	12,233	128	17,450	205
Sales	0	0	–1,850	–30
Balance of registered shares as of balance-sheet date	**40,748**	**587**	**28,515**	**459**
Bearer shares at the beginning of the financial year	150,538	38,006	150,745	38,018
Purchases	25,815	2,643	24,824	2,829
Sales	–25,383	–2,604	–25,031	–2,841
Balance of bearer shares as of balance-sheet date	**150,970**	**38,045**	**150,538**	**38,006**

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

in CHF 1,000	Market value 31/12/2011	Actual liability 31/12/2011	Market value 31/12/2010	Actual liability 31/12/2010
Securities	790,807	33,786	877,735	36,009
Money-market paper	0	0	0	0
Other	0	0	0	0
Total pledged assets	**790,807**	**33,786**	**877,735**	**36,009**

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 organisations 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 87).

34 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	31/12/2011	31/12/2010
Remaining duration of up to 1 year	5,393	6,535
Remaining duration of 1 to 5 years	8,668	14,338
Remaining duration of over 5 years	6,900	7,219
Total minimum commitments under operating leases	**20,961**	**28,092**

As of 31 December 2011, general and administrative expenses include CHF 8.368 million of operating lease costs (31 December 2010: CHF 8.865 million).

35 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 29).

36 Balance sheet per currency

in CHF 1,000	CHF	USD	EUR	Other	Total
Assets 2011					
Cash and cash equivalents	213,186	677	31,093	425	245,381
Receivables arising from money-market paper	124,938				124,938
Due from banks	585,408	1,785,011	2,058,397	715,094	5,143,910
Due from customers	2,635,998	575,052	437,458	202,542	3,851,050
Trading portfolios	–40	–6	–11	13	–44
Derivative financial instruments	102,499	1,180		11	103,690
Financial instruments at fair value	243,663	77,223	120,058	20,381	461,325
Financial instruments at amortised cost	257,610	142,302	158,385		558,297
Associated companies	25				25
Property and equipment	128,262	742	146	7	129,157
Intangible assets	68,788	2,024			70,812
Tax receivables	27		341		368
Deferred tax assets	7,698				7,698
Accrued receivables and prepaid expenses	19,214	3,694	7,820	646	31,374
Other assets	11,318	1,702	1,043	21	14,084
Total assets 31/12/2011	**4,398,594**	**2,589,601**	**2,814,730**	**939,140**	**10,742,065**
Liabilities and shareholders' equity 2011					
Due to banks	25,709	240,479	84,416	1,877	352,481
Due to customers – savings and deposits	931,568	1	162	2	931,733
Due to customers – other liabilities	1,997,643	2,398,503	2,621,426	743,201	7,760,773
Derivative financial instruments	120,875	5,122	3,435	11	129,443
Medium-term notes	240,317		11,396		251,713
Debenture issues	324,664				324,664
Tax liabilities	1,167		2,062	1	3,230
Deferred tax liabilities	9,217				9,217
Accrued liabilities and deferred items	18,641	680	5,197	1,273	25,791
Other liabilities	31,291	6,949	9,486	343	48,069
Provisions	6,175	187			6,362
Total liabilities	**3,707,267**	**2,651,921**	**2,737,580**	**746,708**	**9,843,476**
Total shareholders' equity	**817,290**	**80,698**	**851**	**–250**	**898,589**
Total liabilities and shareholders' equity 31/12/2011	**4,524,557**	**2,732,619**	**2,738,431**	**746,458**	**10,742,065**

36 Balance sheet per currency (continued)

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 31/12/2010	**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 31/12/2010	**4,269,594**	**2,850,015**	**2,810,172**	**661,766**	**10,591,547**

37 Maturity structure of assets and liabilities

in CHF 1,000	At sight	Callable	1 year	1 to 5 years	Over 5 years	Total
Assets 2011						
Cash and cash equivalents	245,381					245,381
Receivables arising from money-market paper	124,938					124,938
Due from banks	797,832		4,343,977	2,101		5,143,910
Due from customers	25,960	769,642	1,546,511	1,291,337	217,600	3,851,050
Trading portfolios	–44					–44
Derivative financial instruments	103,690					103,690
Financial instruments at fair value	432,316				29,009	461,325
Financial instruments at amortised cost			71,204	477,329	9,764	558,297
Associated companies	25					25
Property and equipment	129,157					129,157
Intangible assets	70,812					70,812
Tax receivables	367		1			368
Deferred tax assets				7,698		7,698
Accrued receivables and prepaid expenses	31,318		56			31,374
Other assets	12,282	325	1,477			14,084
Total assets 31/12/2011	**1,974,034**	**769,967**	**5,963,226**	**1,778,465**	**256,373**	**10,742,065**
Liabilities and shareholders' equity 2011						
Due to banks	281,798	7,413	63,270			352,481
Due to customers – savings and deposits		931,733				931,733
Due to customers – other liabilities	5,728,782	763,935	1,237,142	30,914		7,760,773
Derivative financial instruments	129,443					129,443
Medium-term notes			83,294	158,734	9,685	251,713
Debenture issues			126,562	198,102		324,664
Tax liabilities	3,230					3,230
Deferred tax liabilities				9,217		9,217
Accrued liabilities and deferred items	25,426		342	23		25,791
Other liabilities	47,399		670			48,069
Provisions	6,362					6,362
Total liabilities 31/12/2011	**6,222,440**	**1,703,081**	**1,511,280**	**396,990**	**9,685**	**9,843,476**

37 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 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 at fair value	108,221					108,221
Financial instruments at amortised cost	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 31/12/2010	**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 31/12/2010	**4,765,226**	**2,955,728**	**1,353,825**	**399,790**	**201,350**	**9,675,919**

38 Classification of assets by country or groups of countries

	in CHF 1,000 31/12/2011	Proportion in % 31/12/2011	in CHF 1,000 31/12/2010	Proportion in % 31/12/2010
Liechtenstein and Switzerland	5,656,531	52.7	5,342,274	50.4
Rest of Europe	4,089,619	38.1	4,422,792	41.8
North America	305,340	2.8	310,517	2.9
Other countries	690,575	6.4	515,964	4.9
Total assets	**10,742,065**	**100.0**	**10,591,547**	**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.

39 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 recognised 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 31/12/2011	Fair value 31/12/2011	Variance	Carrying value 31/12/2010	Fair value 31/12/2010	Variance
Assets						
Cash and cash equivalents	245	245	0	131	131	0
Receivables arising from money-market paper	125	125	0	440	440	0
Due from banks	5,144	5,151	7	5,623	5,629	6
Due from customers	3,851	3,956	105	3,267	3,337	70
Trading portfolios	0	0	0	4	4	0
Derivative financial instruments	104	104	0	63	63	0
Financial instruments at fair value	461	461	0	108	108	0
Financial instruments at amortised cost	558	568	10	686	686	0
Subtotal			**122**			**76**
Liabilities						
Due to banks	352	352	0	189	189	0
Due to customers	8,693	8,689	4	8,707	8,704	3
Derivative financial instruments	129	129	0	70	70	0
Medium-term notes	252	258	–6	183	187	–4
Debenture issue	325	351	–26	447	476	–29
Subtotal			**–28**			**–30**
Total variance			**94**			**46**

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 recognised 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 pledged as security, financial instruments at fair value

Fair value corresponds to market value for the majority of these financial instruments. The fair value of non-exchange listed financial instruments (in particular for structured credit loans) is determined 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 18), 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 Level 1	Valuation methods, based on market data Level 2	Valuation methods, not based on market data Level 3	**Total 31/12/2011**	Quoted market prices Level 1	Valuation methods, based on market data Level 2	Valuation methods not based on market data Level 3	**Total 31/12/2010**
Assets								
Receivables arising from money-market paper	125	0	0	**125**	440	0	0	**440**
Trading portfolios	0	0	0	**0**	4	0	0	**4**
Derivative financial instruments	0	104	0	**104**	0	63	0	**63**
Financial instruments at fair value	399	44	18	**461**	86	22	0	**108**
Financial instruments at amortised cost	568	0	0	**568**	653	33	0	**686**
Liabilities								
Derivative financial instruments	0	129	0	**129**	0	70	0	**70**

In the financial year 2011, positions with a fair value of CHF 0.5 million (2010: CHF 10.2 million) were reclassified from Level 1 (quoted market prices) to Level 2 (valuation methods based on market data), positions with a fair value of CHF 8.1 million (2010: CHF 0.0 million) were reclassified from Level 2 to Level 3 (valuation methods not based on market data).

Level 3 financial instruments	31/12/2011	31/12/2010
Balance sheet		
Holdings at the beginning of the year	0	0
Investments	9.2	0
Disposals	–0.2	0
Issues	0	0
Redemptions	0	0
Losses recognised in the income statement	–1.3	0
Losses recognised as other comprehensive income	0	0
Gains recognised in the income statement	0	0
Gains recognised as other comprehensive income	2.4	0
Reclassification to level 3	8.1	0
Reclassification from level 3	0	0
Translation differences	0	0
Total book value at balance sheet date	**18.2**	**0**
Income on holdings on balance sheet date		
Unrealised losses recognised in the income statement	–1.2	0
Unrealised losses recognised as other comprehensive income	0	0
Unrealised gains recognised in the income statement	0	0
Unrealised gains recognised as other comprehensive income	2.4	0

No deferred day 1 profit or loss (difference between the transaction price and the fair value calculated on the transaction dat) was reported for level 3 positions as of 31 December 2011 or 31 December 2010.

40 Scope of consolidation

Company	Registered office	Base currency	Capital	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. which holds the following sub-participation:	Luxembourg	CHF	20,000,000	100%
VPB Finance S.A.	Luxembourg	CHF	5,000,000	100%
VPB Finanz Holding AG which holds the following sub-participation:	Zurich	CHF	20,000,000	100%
VP Bank (Schweiz) AG	Zurich	CHF	20,000,000	100%
VP Bank and Trust Company (BVI) Limited which holds the following sub-participation:	Tortola	USD	11,000,000	60%
VP Bank (BVI) Limited	Tortola	USD	10,000,000	100%
ATU General Trust (BVI) Limited	Tortola	USD	250,000	100%

Shareholdings excluded from the scope of consolidation	none
Associated companies	VAM Corporate Holdings Ltd., Mauritius
	Data Info Services AG, Vaduz
Companies consolidated for the first time	none
Shareholdings accounted for the first time in accordance with the equity method	Data Info Services AG, Vaduz
Name changes during the financial year	none

41 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	2011	2010
Remuneration of the members of the Board of Directors		
Remuneration due in the short term[1, 2]	702	672
Post-employment benefits	0	0
Other long-term remuneration due	0	0
Remuneration due upon termination of contract of employment	0	0
Share-based payment[1, 2, 4]	231	223
Remuneration of the members of Group Executive Management		
Remuneration due in the short term	2,295	2,577
Post-employment benefits	0	0
Other long-term remuneration due[3]	0	0
Remuneration due upon termination of contract of employment	0	0
Share-based payments[4]	0	0

1 The social-security costs and any applicable value-added taxes on the emoluments paid to Board members are not included.
2 Compensation for out-of-pocket expenses is not included.
3 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 173f.). The precise number of bearer shares, as well as the monetary value of the related benefit, is 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 70f.)
4 The shares are not subject to any sales restrictions (see note 44).

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 2011 totalled CHF 0.257 million (2010: CHF 0.256 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 31 December, 2011, held 74,102 bearer shares and 169,600 registered shares of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (previous year: 71,736 bearer shares and 169,600 registered shares).

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

in CHF 1,000	2011 7,734	2010 10,811
Mortgages and loans at the beginning of the financial year	300	1,487
Additions	–391	–4,564
Repayments	**7,643**	**7,734**
Mortgages and loans at the end of the financial year		

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.

42 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 31 December, 2011. 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 per cent. The employer contributions amount to 160 per cent 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 2.291 million for the year 2011 (2010: CHF 2.592 million).

Retirement pension expenses

in CHF 1,000	2011	2010
Service expenses of the current period	8,084	6,142
Interest expenses for pension liabilities	6,451	6,425
Anticipated income from assets[1]	–5,545	–5,052
Amortisation of actuarial losses not yet recorded	2,301	619
Impact of upper limit pursuant to IAS 19.58b	0	0
Pension expenses for defined-benefit retirement pension plans according to actuarial computation	**11,291**	**8,134**
Contributions to defined-contribution retirement pension plans	**2,291**	**2,592**
Total retirement pension expenses	**13,582**	**10,726**
[1] Actual income on assets	4,882	4,842

Defined-benefit retirement pension plans

in CHF 1,000	31/12/2011	31/12/2010
Net assets of retirement pension plans at market values	162,979	168,569
Net present value of anticipated claims	251,453	222,341
Actuarial losses not yet recorded	–75,281	–44,836
Recorded under other liabilities	**14,320**	**10,278**
Capitalised under other assets	**1,127**	**1,342**

Changes in the consolidated balance sheet

in CHF 1,000	2011	2010
Liabilities at the beginning of the financial year	10,278	10,374
Pension expenses for defined-benefit retirement pension plans according to actuarial computation (above)	8,990	8,134
Amortisation of actuarial losses not yet recorded	2,301	0
Fund endowments made by employer	–7,249	–8,230
Liabilities at the end of the financial year	**14,320**	**10,278**

Changes in pension plan benefit obligations

in CHF 1,000	2011	2010
Balance at the beginning of the financial year	222,341	187,984
Service cost of the current period	8,084	6,142
Interest expenses for pension liabilities	6,451	6,425
Employee contributions	4,457	4,925
Actuarial gains/losses	23,587	21,315
Benefits paid out/received	–13,467	–4,450
Balance at the end of the financial year	**251,453**	**222,341**

Changes in plan assets

in CHF 1,000	2011	2010
Net assets at the beginning of the financial year	168,569	154,979
Anticipated return on plan assets	5,545	5,052
Actuarial gains (losses)	–9,159	–210
Employer contributions	7,034	8,273
Employee contributions	4,457	4,925
Benefits paid out	–13,467	–4,450
Net assets at the end of the financial year	**162,979**	**168,569**

The pension plans hold shares of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, with a market value of CHF 1.1 million (2010: CHF 1.6 million). Payments into the plans of CHF 4.4 million (employee contributions) and CHF 7.2 million (employer contributions) are expected for 2012.

Principal categories of plan assets

in %	2011	2010
Liquidity	26	33
Equity instruments	14	17
Debt instruments	53	44
Real estate	7	6
Total	100	100

Amounts for the current and four preceding reporting periods

in CHF 1,000	2011	2010	2009	2008	2007
Net present value of anticipated benefit obligations	251,453	222,341	187,984	184,565	150,468
Net assets of pension plans	162,979	168,569	154,979	141,824	137,644
Non-recognised actuarial losses	75,281	44,836	23,930	35,134	4,029
Surplus/deficit	–14,320	–10,278	–10,374	–7,607	–8,795
Experience adjustments on liabilities	–6,643	2,373	–1,405	–1,795	–139
Experience adjustments on pension plan assets	–9,159	–210	8,282	–20,176	–6,084

42 Retirement pension plans (continued)

Actuarial assumptions

in %	31/12/2011	31/12/2010
Technical interest	2.5	3.0
Anticipated yield on assets	3.5	3.5
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

43 Significant foreign exchange rates

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

	Year-end rates 31/12/2011	Year-end rates 31/12/2010	Annual average rates 2011	Annual average rates 2010
USD/CHF	0.9351	0.9400	0.88617	1.04188
EUR/CHF	1.2139	1.2475	1.23246	1.38041
SGD/CHF	0.7212	0.7289	0.70446	0.76455
HKD/CHF	0.1204	0.1209	0.11384	0.13413
GBP/CHF	1.4532	1.4489	1.42046	1.60888

44 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 2011, 7,183 shares were issued at a preferential price (2010: 7,423 shares). Share issue expenses in 2011 were CHF 0.7 million (2010: CHF 0.7 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 41). A profit-sharing plan exists for general management and other management members (note 45).

45 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 Plan 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 Plan 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 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 programme, a target bonus (LTI and STI) of between 60 and 85 per cent of the fix base salary was calculated provided that the annual and three-year goals are attained.

Management equity-sharing plan (LTI)

Number	2011	2010	Variance in %
Balance of entitlements at the beginning of the year	38,260	33,084	15.6
New entitlements	21,333	17,005	25.5
Reduction in entitlements as a result of expiry or allocation	–9,501	–4,123	130.4
Changes in entitlements as a result of changes in factors	–2,656	–7,706	–65.5
Balance of calculated entitlements at the end of the year	47,436	38,260	24.0

in CHF 1,000	2011	2010	Variance in %
Accrual for Management equity-sharing plan (LTI) in equity at the beginning of the year	7,102.4	5,838.8	21.6
Personnel expense for Management equity-sharing plan (LTI)	1,947.2	1,843.0	5.7
Effect of allocation, forfeiture and change in factors	–634.0	–579.4	9.4
Accrual for Management equity-sharing plan (LTI) in equity at the end of the year	8,415.6	7,102.4	18.5
Fair value of bearer shares allocated	658.6	406.8	61.9

Client assets

in CHF million	2011	2010	Variance in %
Analysis of client assets under management			
Assets in self-administered investment funds	2,916.4	3,129.0	–6.8
Assets in discretionary asset-management accounts	2,512.6	2,459.5	2.2
Other client assets under management	21,999.8	22,637.6	–2.8
Total client assets under management (including amounts counted twice)	**27,428.8**	**28,226.2**	**–2.8**
of which: amounts counted twice	2,487.5	2,058.4	20.8
Net new money	**994.5**	**75.9**	**n.a.**
Custody assets	**11,537.7**	**12,596.2**	**–8.4**
Total client assets			
Total client assets under management (including amounts counted twice)	27,428.8	28,226.2	–2.8
Custody assets	11,537.7	12,596.2	–8.4
Total client assets	**38,966.5**	**40,822.3**	**–4.5**

Classification of client assets under management

in %	2011	2010
Analysis by asset class		
Liquidity	33	33
Bonds	25	22
Equities	18	19
Investment funds	21	23
Other	3	3
Total	**100**	**100**
Analysis by currency		
CHF	29	28
EUR	36	37
USD	23	22
Other	12	13
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 and 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 statutory auditor on the consolidatet financial statements

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

As Group auditor, we have audited the consolidated financial statements (balance sheet, income statement, statement of comprehensive income, statement of cash flows, statement of changes in equity and notes; (pages 80–154) and the consolidated annual report (pages 76–79) of Verwaltungs- und Privat-Bank Aktiengesellschaft for the year ended 31 December 2011.

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 Report of the Group Auditors 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 31 December 2011, 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, 29 February 2012

2011 financial report of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz

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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 150,970 bearer shares as well as 40,748 registered shares (previous year: 150,538 bearer shares and 28,515 registered shares). This equates to a capital share of approximately 2.6 per cent (previous year: 2.6 per cent). 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 1.50 per bearer share and CHF 0.15 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 27 Apri 2012.

Balance sheet

Assets

in CHF 1,000 (Art. 24b FL-BankO)	31/12/2011	31/12/2010	Variance absolute	Variance in %
Cash balances	207,371	88,565	118,806	134.1
Debt instruments of the public sector and bills of exchange eligible for refinancing at central banks	0	1	–1	–100.0
• debt instruments of the public sector and similar securities	0	0	0	0
Due from banks	4,089,379	4,541,982	–452,603	–10.0
• maturing daily	604,774	775,981	–171,207	–22.1
• other receivables	3,484,605	3,766,001	–281,396	–7.5
Due from customers	3,187,164	2,797,723	389,441	13.9
of which mortgage receivables	2,196,251	2,063,871	132,380	6.4
Debentures and other interest-bearing securities	1,001,231	997,869	3,362	0.3
• Money-market paper	124,938	389,687	–264,749	–67.9
• from public-sector issuers	124,938	389,687	–264,749	–67.9
• debt securities	876,293	608,183	268,110	44.1
• from public-sector issuers	107,322	65,930	41,392	62.8
• from other issuers	768,971	542,253	226,718	41.8
Equity shares and other non-interest-bearing securities	77,592	79,298	–1,706	–2.2
Participations	127	102	25	24.5
Shares in affiliated companies	93,004	94,075	–1,071	–1.1
Intangible assets	42,606	54,180	–11,574	–21.4
Property and equipment	121,075	126,530	–5,455	–4.3
Treasury shares	12,781	17,521	–4,740	–27.1
Other assets	121,926	69,931	51,995	74.3
Accrued receivables and prepaid expenses	25,759	29,992	–4,233	–14.1
Total assets	**8,980,015**	**8,897,769**	**82,246**	**0.9**

Balance sheet (continued)

Total liabilities and shareholders' equity

in CHF 1,000 (Art. 24b FL-BankO)	31/12/2011	31/12/2010	Variance absolute	Variance in %
Due to banks	1,075,069	802,190	272,879	34.0
• maturing daily	931,755	675,133	256,622	38.0
• with agreed duration or term of notice	143,314	127,057	16,257	12.8
Due to customers	6,376,511	6,600,154	–223,643	–3.4
• savings deposits	816,818	825,217	–8,399	–1.0
• other liabilities	5,559,693	5,774,937	–215,244	–3.7
• maturing daily	4,676,359	4,934,386	–258,027	–5.2
• with agreed duration or term of notice	883,334	840,551	42,783	5.1
Securitised liabilities	614,263	634,384	–20,121	–3.2
• issued debentures	614,263	634,384	–20,121	–3.2
of which medium-term notes	254,263	184,384	69,879	37.9
Other liabilities and deferred items	143,158	81,117	62,041	76.5
Accrued liabilities and deferred items	20,214	22,299	–2,085	–9.3
Provisions	14,616	13,268	1,348	10.2
• tax provisions	0	2,870	–2,870	–100.0
• other provisions	14,616	10,398	4,218	40.6
Provisions for general banking risks	63,150	63,150	0	0
Subscribed capital	59,148	59,148	0	0
Income reserves	597,422	596,897	525	0.1
• legal reserves	239,800	239,800	0	0
• reserve for treasury shares and stock	12,781	17,521	–4,740	–27.1
• other reserves	344,841	339,576	5,265	1.6
Retained earnings brought forward	4,460	686	3,774	n.a.
Net income for the year	12,004	24,476	–12,472	–51.0
Total liabilities and shareholders' equity	**8,980,015**	**8,897,769**	**82,246**	**0.9**

Off-balance-sheet items

in CHF 1,000 (Art. 24b FL-BankO)	31/12/2011	31/12/2010	Variance absolute	Variance in %
Contingent liabilities	**79,624**	**90,069**	**–10,445**	**–11.6**
Credit risks	**42,975**	**29,475**	**13,500**	**45.8**
• irrevocable facilities granted	42,975	29,475	13,500	45.8
Derivative financial instruments				
• positive replacement values	93,593	61,240	32,353	52.8
• negative replacement values	118,637	67,874	50,763	74.8
• contract volumes	3,933,055	3,703,238	229,817	6.2
Fiduciary transactions	**1,341,056**	**1,901,956**	**–560,900**	**–29.5**

Income statement

in CHF 1,000 (Art. 24c FL-BankO)	2011	2010	Variance absolute	Variance in %
Interest income	120,963	108,119	12,844	11.9
of which from interest-bearing securities	17,622	15,393	2,229	14.5
of which from trading transactions	–782	96	–878	n.a.
Interest expenses	46,435	44,351	2,084	4.7
Income from interest-differential business	74,528	63,768	10,760	16.9
Current income from securities	6,741	5,177	1,564	30.2
• shares and other non-interest-bearing securities	5,404	2,528	2,876	113.8
of which from trading transactions	0	5	–5	–100.0
• participations	11	0	11	n.a.
• shares in affiliated companies	1,326	2,649	–1,323	–50.0
Income from commission business and services	78,622	92,712	–14,090	–15.2
• commission income from credit business	773	898	–125	–13.9
• commission income from securities and investing business	69,667	82,890	–13,223	–16.0
• commission income from other services	8,182	8,924	–742	–8.3
Commission expenses	13,309	16,786	–3,477	–20.7
Income from commission business and services	65,313	75,926	–10,613	–14.0
Income from financial transactions	5,911	35,135	–29,224	–83.2
of which from trading transactions	20,171	39,725	–19,554	–49.2
Other ordinary income	1,301	2,412	–1,111	–46.0
• income from real estate	249	244	5	2.2
• other ordinary income	1,052	2,168	–1,116	–51.4
Total net operating income	**153,794**	**182,418**	**–28,624**	**–15.7**
Operating expenses	111,205	118,200	–6,995	–5.9
• personnel expenses	75,596	76,487	–891	–1.2
• general and administrative expenses	35,609	41,713	–6,104	–14.6
Gross profit	**42,589**	**64,218**	**–21,629**	**–33.7**
Depreciation and amortisation of intangible assets and property and equipment	28,196	32,197	–4,001	–12.4
Other ordinary expenses	1,278	2,324	–1,046	–45.0
Valuation allowances on receivables and increases in provisions for contingent liabilities and credit risks	6,728	16,028	–9,300	–58.0
Income from release of valuation allowances on receivables and from the release of provisions for contingent liabilities and credit risks	7,350	7,342	8	0.1
Write-offs on participations, shares in affiliated companies and securities dealt with as non-current assets	5,500	2,000	3,500	175.0
Earnings from appreciations on participations, shares in affiliated companies and securities dealt with as non-current assets	4,000	0	4,000	n.a.
Income from normal business operations	**12,237**	**19,011**	**–6,774**	**–35.6**

Income statement (continued)

Extraordinary income	0	0	0	0
Extraordinary expenses	–1	–1	0	0
Taxes on income	252	1,171	–919	–78.5
Other taxes if not included in above items	–18	1,615	–1,633	–101.1
Increases in provisions for general banking risks / income from release for provisions for general banking risks	0	8,250	–8,250	–100.0
Net income for the year	**12,004**	**24,476**	**–12,472**	**–51.0**

Appropriation of income

in CHF 1,000 (Art. 24c FL-BankO)	2011	2010	Variance absolute	Variance in %
Net income for the year	12,004	24,476	–12,472	–51.0
Retained earnings brought forward	4,460	686	3,774	n.a.
Retained earnings	16,464	25,162	-8,698	–34.6
Appropriation of retained earnings				
• appropriation to other reserves	0	0	0	0
• distribution on the basis of company capital	8,872	20,702	–11,830	–57.1
• release from other reserves	0	0	0	0
Retained earnings to be carried forward	**7,592**	**4,460**	**3,132**	**70.2**

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 31 December 2011, 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 2011 VP Bank had 456.0 individuals under its employment (previous year: 461.8).
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 capitalised and amortised on a straight-line basis over the estimated service life of three to seven years. Self-developed intangible assets are not capitalised. 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 capitalised 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 amortisation. Depreciation and amortisation 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 2011 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 realises 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 100ff.

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)	20,395	566,956	403,562	990,913
Mortgage loans secured by	2,121,547	56,280	18,424	2,196,251
• residential property	1,709,176	0	0	1,709,176
• office and business premises	33,476	0	0	33,476
• commercial and industrial property	330,382	0	0	330,382
• other	48,513	56,280	18,424	123,217
Total loans, 31/12/2011	**2,141,942**	**623,236**	**421,986**	**3,187,164**
Total loans, 31/12/2010	2,013,709	462,107	321,907	2,797,723
Off-balance-sheet amounts				
Contingent liabilities	1,097	61,649	16,878	79,624
Irrevocable facilities granted	23,885	1,528	17,562	42,975
Total off-balance-sheet amounts, 31/12/2011	**24,982**	**63,177**	**34,440**	**122,599**
Total off-balance-sheet amounts, 31/12/2010	10,133	88,651	20,760	119,544

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, 31/12/2011	**49,219**	**24,566**	**24,653**	**24,653**
Total value-impaired loans, 31/12/2010	62,982	37,617	25,365	25,365

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	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Trading portfolios of securities and precious metals						
Dept securities	33,640	0	33,821	0	33,640	0
• exchange listed	33,640	0	33,821	0	33,640	0
• not exchange listed	0	0	0	0	0	0
• of which own debenture loans	33,640	0	33,821	0	33,640	0
Equity shares	273	287	581	465	273	287
of which equity shares in the treasury	331	301	632	459	331	301
Precious metals	13	60	13	62	13	60
Total	**33,926**	**347**	**34,415**	**527**	**33,926**	**347**

Portfolios of securities and precious metals (continued)

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)	93,593	61,087			93,593	61,087
Negative replacement values of derivative financial instruments in trading portfolios (other liabilities)	91,996	60,993			91,996	60,993
Total	**185,589**	**122,080**			**185,589**	**122,080**

Portfolios of securities and precious metals in current assets (excluding trading portfolios)

Debt securities	967,591	997,870	1,002,221	1,032,753	990,155	1,013,787
Equity shares	90,100	96,532	146,830	145,811	103,245	105,112
of which equity shares in the treasury	12,450	17,220	37,946	37,946	12,450	17,220
Precious metals	0	0	0	0	0	0
Total	**1,057,691**	**1,094,402**	**1,149,051**	**1,178,564**	**1,093,400**	**1,118,899**
of which repo-eligible securities	748,427	837,143	777,286	860,612	767,048	851,006
of which exchange-listed securities	595,278	389,526	646,138	419,694	611,525	400,714

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 2011	Amount 2010	Carrying value 2011	Carrying value 2010
Balance at beginning of year	**150,000**	**150,000**	**17,220**	**15,105**
Purchase				
Disposals				
Valuation allowances			–4,770	
Appreciation				2,115
Balance at end of year	**150,000**	**150,000**	**12,450**	**17,220**

Participations and shares in affiliated companies

in CHF 1,000 (Art. 24e Par. 1 Point 3.2 FL-BankO)	Carrying value 31/12/2011	Carrying value 31/12/2010
Participations		
without quoted market value	127	102
Total participations	**127**	**102**
Shares in affiliated companies		
without quoted market value[1]	93,004	94,075
Total shares in affiliated companies	**93,004**	**94,075**

[1] Waiver of fully possible revaluation pursuant to Art. 1090 PGR under consideration of the discretionary powers applicable in valuing participations. Appreciation of CHF 4.0 million in the financial year 2011.

Participations and shares in affiliated companies

in CHF 1,000 (Art. 24e Par. 1 Point 3.3 FL-BankO)	31/12/2011			31/12/2010		
	Currency	Corporate capital	Percentage ownership	Currency	Corporate capital	Percentage ownership
Participations						
Finarbit AG, Küsnacht (money-market and foreign-exchange broker)	CHF	1,500	5%	CHF	1,500	5%
Data Info Services AG, Vaduz (Procurement, trade and exchange of goods and services)	CHF	50	50%	CHF	0	0%
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, Zürich[1] (holding company)	CHF	20,000	100%	CHF	20,000	100%
VP Bank (Luxembourg) S.A., Luxembourg (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 (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	44,500	100%

[1] As regards VP Bank (Schweiz) AG, which is a 100-per-cent subsidiary of VPB Finanz Holding AG, Zurich, there is a subordinate loan in the amount of CHF 6.0 million.

The carrying value of affiliated banks included under shares in affiliated companies amounts to CHF 74.5 million including subordinated loans (previous year: CHF 70.5 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 31/12/2010	Financial year 2011 Investments	Divestments	Reclassifications	Depr. and amortisation	Depr. and amort. on disposal	Carrying value 31/12/2011
Total participations (minority participations)	230	–128	102	25					127
Total shares in affiliated companies	140,056	–45,981	94,075	429		4,000	–5,500		93,004
Total intangible assets (excluding goodwill)	118,197	–64,017	54,180	7,704	–3,288		–19,278	3,288	42,606
Real estate									
• bank premises	194,774	–89,584	105,190	501			–5,891		99,800
• other real estate	17,214	–714	16,500						16,500
Other property and equipment	34,978	–30,138	4,840	2,962	–1,747		–3,027	1,747	4,775
Total property and equipment	246,966	–120,436	126,530	3,463	–1,747		–8,918	1,747	121,075
Fire-insurance values of real estate			159,590						168,790
Fire-insurance values of other property and equipment			29,720						28,120

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)	31/12/2011	31/12/2010
Total minimum commitments arising from operating leases	**13,035**	**16,660**

Operating expenses as of 31 December 2011 include CHF 4.574 million arising from operating leases (31 December 2010: CHF 4.988 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)	31/12/2011	31/12/2010
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	748,427	837,143
Effective liabilities	33,786	36,009
Securities lending/borrowing and repurchase transactions		
Amounts receivable arising from cash deposits in connection with securities borrowing and reverse repurchase transactions	203,900	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	605,897	584,955
of which securities for which an unconditional right has been granted to sell on or repledge	433,801	407,843
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	895,076	744,663
of which securities repledged or sold on	243,272	293,422

Liabilities to own retirement pension plans

in CHF 1,000 (Art. 24e Par. 1 Point 3.7 FL-BankO)	31/12/2011	31/12/2010
Due to customers	45,810	50,581
Securitised liabilities	905	905
Other liabilities	35	4,221
Total liabilities to own retirement pension plans	**46,750**	**55,707**

Outstanding debenture loan

in CHF 1,000 (Art. 24e Par. 1 Point 3.8 FL-BankO)	Interest rate in %	Year of issue	Maturity	31/12/2011 Nominal amount	31/12/2010 Nominal amount
VP Bank debenture issue	2.875	2007	04/06/2012	160,000	250,000
VP Bank debenture issue	2.500	2010	27/05/2016	200,000	200,000

Valuation allowances/provisions for general banking risks

in CHF 1,000 (Art. 24e Par. 1 Point 3.9 FL-BankO)	01/01/2011	Utilisation in accordance with purpose	Recoveries, overdue interest, forex diff.	Charges to income statement	Releases to income statement	31/12/2011
Valuation allowances for default risks						
• individual valuation allowances	25,365	107	617	1,201	2,423	24,653
• individual valuation allowances made on lump-sum basis						0
• lump-sum valuation allowances	22,625			1,748	3,995	20,378
• individual valuation allowances made on lump-sum basis for country risks	1,500				500	1,000
Provisions for contingent liabilities and credit risks	252				81	171
Provisions for other business risks						0
Provisions for taxes and deferred taxes	2,870	3,104		252	18	0
Other provisions	8,646	633		5,783	351	13,445
Total valuation allowances and provisions	**61,258**	**3,844**	**617**	**8,984**	**7,368**	**59,647**
less: valuation allowances	47,990					45,031
Total provisions as per balance sheet	**13,268**					**14,616**
Provisions for general banking risks	**63,150**					**63,150**

Company capital

in CHF 1,000 (Art. 24e Par. 1 Point 3.10 FL-BankO)		31/12/2011			31/12/2010	
	Total par value	Number	Capital entitled to dividends	Total par value	Number	Capital entitled to dividends
Bearer shares	53,143	5,314,347	53,143	53,143	5,314,347	53,143
Registered shares	6,005	6,004,167	6,005	6,005	6,004,167	6,005
Total company capital	**59,148**	**11,318,514**	**59,148**	**59,148**	**11,318,514**	**59,148**

Significant stakeholders and groups of stakeholders with interlinking voting rights

in CHF 1,000 (Art. 24e Par. 1 Point 3.10.1 FL-BankO)		31/12/2011			31/12/2010	
	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	6,065	10.3	10.6	6,007	10.2	10.5

Statement of changes in shareholders' equity

in CHF 1'000 (Art. 24e Par. 1 Point 3.11 FL-BankO)	2011
Shareholders' equity at beginning of financial year	
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
Total shareholders' equity at beginning of financial year	**744,357**
Capital increase / capital reduction (–)	
Other appropriations/releases from reserves (–)	525
Dividends and other distributions from net income of the previous year[1]	–20,702
Net income for the financial year	12,004
Total shareholders' equity at end of financial year	**736,184**
of which:	
Subscribed and paid-up capital	59,148
Legal reserves	239,800
Reserve for treasury shares	12,781
Other reserves	344,841
Provisions for general banking risks	63,150
Retained earnings	16,464

[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	207,371							207,371
Debt instruments of the public sector and bills of exchange eligible for refinancing at central banks								0
Due from banks	604,774		3,139,298	335,836	9,074	397		4,089,379
Due from customers	2,307	439,267	961,444	406,664	1,165,979	211,503		3,187,164
of which mortgage receivables	2,306	145,517	517,417	197,806	1,121,702	211,503		2,196,251
Trading portfolios of securities and precious metals	33,926							33,926
Portfolios of securities and precious metals in current assets (excluding trading portfolios)	1,057,691							1,057,691
Other assets	287,859		325				116,300	404,484
Total assets, 31/12/2011	**2,193,928**	**439,267**	**4,101,067**	**742,500**	**1,175,053**	**211,900**	**116,300**	**8,980,015**
Total assets, 31/12/2010	2,215,086	337,166	4,364,449	632,106	1,125,609	101,663	121,690	8,897,769

Maturity structure of assets as well as liabilities and provisions (continued)

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
Liabilities and provisions								
Due to banks	931,755	7,412	105,957	29,945				1,075,069
Due to customers	4,057,274	1,549,547	596,985	171,587	1,118			6,376,511
• savings deposits		816,818						816,818
• other liabilities	4,057,274	732,729	596,985	171,587	1,118			5,559,693
Securitised liabilities			5,240	239,104	360,234	9,685		614,263
• issued debentures			5,240	239,104	360,234	9,685		614,263
of which medium-term notes			5,240	79,104	160,234	9,685		254,263
Provisions (excluding provisions for general banking risks)	14,616							14,616
Other liabilities	162,779		593					163,372
Total liabilities, 31/12/2011	**5,166,424**	**1,556,959**	**708,775**	**440,636**	**361,352**	**9,685**		**8,243,831**
Total liabilities, 31/12/2010	3,897,797	2,806,269	674,196	180,147	391,355	203,648		8,153,412

Debentures and other interest-bearing securities which mature in the following financial year	246,878
Issued debentures which mature in the following financial year	244,344

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)	31/12/2011	31/12/2010
Receivables and payables from participations, affiliated companies and qualifying participants		
Receivables from participations	0	0
Payables to participations	71	0
Receivables from affiliated companies	284,897	277,463
Payables to affiliated companies	852,712	768,596
Receivables from qualifying participants	0	0
Payables to qualifying participants	18,384	16,624
Loans to governing bodies		
Members of Executive Board and parties related thereto	1,492	1,208
Members of the Board of Directors and parties related thereto[1]	3,331	3,607

[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 2011 totalled CHF 0.257 million (2010: CHF 0.256 million).

Remuneration paid to members of governing bodies

In CHF 1'000 (Art. 663bbis Code of Obligations (Switzerland))	Fixed		Remuneration[1, 2] There of in bearer shares (market value)		Pension fund, senior employee insurance		Total Remuneration	
	2011	2010	2011	2010	2011	2010	2011	2010
Board of Directors								
Hans Brunhart, Chairman[A, D]	400	400	100	100			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
Dr Daniel H. Sigg, BoD	65	65	16	16			65	65
Prof. Dr Teodoro D. Cocca, BoD[E]	65		16				65	
Prof. Dr Beat Bernet, BoD[F]	33	65	8	16			33	65
Total Board of Directors	**928**	**895**	**231**	**223**	**none**	**none**	**928**	**895**
International Council[4], 11 individuals		**100**						**100**

In CHF 1'000 (Art. 663bbis Code of Obligations (Switzerland))	Fixed basic salary[6]		Remuneration[2, 5] Short-Term Incentive (STI)		Pension fund, senior employee insurance		Total Remuneration		Long-Term Incentive (LTI), number of bearer shares (prospective entitlement)[9]	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Executive Management	**1,610**	**2,197**	**515**	**150**	**170**	**230**	**2,295**	**2,577**	**9,329**	**5,653**
Highest remuneration										
Roger Hartmann, CEO[7]	650		200		65		915		1,864	
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 70f.). 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 programme 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 programmes for 2008–2012, 2009–2011, 2010–2012 and 2011–2013, 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.
E Member of the Board of Directors since General Meeting 2011.
F Member of the Board of Directors until General Meeting 2011.

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 The International Advisory Board was disassembled at the end of 2010.
5 Gifts for length of service are included.
6 Payments due in the calendar year are shown.
7 CEO since 1 April 2010.
8 CEO a.i. from 25 August 2009, to 31 March 2010.
9 Of the members of the Executive Board in office at the end of the year.

Remuneration paid to members of governing bodies (continued)

	Shareholdings in VP Bank Number of shares (including related parties, excluding qualifying participants)				Loans and credits		Related parties[1]			
	Registered shares		Bearer shares				Loans and credits[2]		Remuneration for services provided	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Board of Directors										
Hans Brunhart	6,000	6,000	6,541	5,275	1,900	1,900				
Dr Guido Meier	23,250[3]	23,250[3]	21,549[3]	21,216[3]	1,023	1,295				
Markus Thomas Hilti			4,345[3]	4,107[3]						
Roland Feger	40,350[3]	40,350[3]	30,221[3]	29,967[3]	408	412			250	256
Walo Frischknecht			1,381	1,048						
Dr Daniel Sigg			629	423						
Prof. Dr Teodoro D. Cocca			206						7	
Prof. Dr Beat Bernet				540						
Total Board of Directors	**69,600**	**69,600**	**64,872**	**62,576**	**3,331**	**3,607**	**none**	**none**	**257**	**256**
International Council[4]		none		none		none		none		none
Executive Management	none	none	4,230	4,160	1,492	1,208	none	none	none	none
Roger H. Hartmann, CEO[5]			120	50						
Fredy Vogt, CFO[6]			4,110	4,110						
Juerg W. Sturzenegger, Head of WSS					1,000	700				

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 The International Advisory Board was disassembled at the end of 2010.
5 CEO from 1 April 2010.
6 CEO a.i. from 25 August 2009, to 31 March 2010.

Domestic and foreign liabilities

in CHF 1,000 (Art. 24e Par. 1 Point 3.14 FL-BankO)	Domestic 31/12/2011	Foreign 31/12/2011	Domestic 31/12/2010	Foreign 31/12/2010
Assets				
Cash balances	207,371		88,565	
Debt instruments of the public sector and bills of exchange eligible for refinancing at central banks			1	
Due from banks	1,657,022	2,432,357	1,553,444	2,988,538
Due from customers	2,846,190	340,974	2,567,889	229,834
of which mortgage receivables	2,193,204	3,047	2,063,685	186
Debentures and other interest-bearing securities	162,559	838,672	393,668	604,202
Equity shares and other non-interest-bearing securities	42,878	34,714	48,201	31,097
Participations	127		102	
Shares in affiliated companies	11,014	81,990	11,014	83,061
Intangible assets	42,606		54,180	
Property and equipment	121,075		126,530	
Treasury shares	12,781		17,521	
Other assets	107,805	14,121	61,229	8,702
Accrued receivables and prepaid expenses	12,267	13,492	19,487	10,505
Total assets	**5,223,695**	**3,756,320**	**4,941,831**	**3,955,939**
Liabilities and shareholders' equity				
Due to banks	809,996	265,073	588,225	213,965
Due to customers	4,252,247	2,124,264	4,165,276	2,434,878
• savings deposits	670,379	146,439	687,594	137,623
• other liabilities	3,581,868	1,977,825	3,477,682	2,297,255
Securitised liabilities	614,263		634,384	
Other liabilities and deferred items	124,386	18,772	69,140	11,977
Accrued liabilities and deferred items	18,585	1,629	19,481	2,818
Provisions	14,616		13,268	
Provisions for general banking risks	63,150		63,150	
Subscribed capital	59,148		59,148	
Income reserves	597,422		596,897	
• legal reserves	239,800		239,800	
• reserve for treasury shares	12,781		17,521	
• other reserves	344,841		339,576	
Retained earnings brought forward	4,460		686	
Net profit for the year	12,004		24,476	
Total liabilities and shareholders' equity	**6,570,277**	**2,409,738**	**6,234,131**	**2,663,638**

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

Assets in individual countries / groups of countries

in CHF 1,000 (Art. 24e Par. 1 Point 3.15 FL-BankO)	31/12/2011 Absolute	31/12/2011 Share in %	31/12/2010 Absolute	31/12/2010 Share in %
Assets				
Liechtenstein/Switzerland	5,223,695	58.2	4,941,831	55.5
Europe (excluding Liechtenstein/Switzerland)	3,231,278	35.9	3,324,275	37.3
North America	187,239	2.1	240,585	2.7
Caribbean	179,643	2.0	237,949	2.7
Asia	116,537	1.3	120,882	1.4
Other	41,623	0.5	32,247	0.4
Total assets	**8,980,015**	**100.0**	**8,897,769**	**100.0**

Balance sheet by currency

in CHF 1,000 (Art. 24e Par. 1 Point 3.16 FL-BankO)	CHF	USD	EUR	Other	Total
Assets					
Cash balances	200,783	356	5,991	241	207,371
Debt instruments of the public sector and bills of exchange eligible for refinancing at central banks					0
Due from banks	474,936	1,259,322	1,736,123	618,998	4,089,379
Due from customers	2,566,541	281,998	293,453	45,172	3,187,164
of which mortgage receivables	2,189,333	335	6,583		2,196,251
Debentures and other interest-bearing securities	613,118	169,927	218,186		1,001,231
Equity shares and other non-interest-bearing securities	18,694	33,462	25,246	190	77,592
Participations	127				127
Shares in affiliated companies	93,004				93,004
Intangible assets	42,606				42,606
Property and equipment	121,075				121,075
Treasury shares	12,781				12,781
Other assets	112,603	5,656	3,462	205	121,926
Accrued receivables and prepaid expenses	16,365	2,789	6,157	448	25,759
Total on-balance-sheet assets	**4,272,633**	**1,753,510**	**2,288,618**	**665,254**	**8,980,015**
Delivery claims arising from foreign-exchange spot, forward and option transactions	1,099,050	1,161,169	943,196	325,457	3,528,872
Total assets, 31/12/2011	**5,371,683**	**2,914,679**	**3,231,814**	**990,711**	**12,508,887**
Total assets, 31/12/2010	4,014,631	2,387,283	2,620,797	882,098	9,904,808

Balance sheet by currency (continued)

in CHF 1,000 (Art. 24e Par. 1 Point 3.16 FL-BankO)	CHF	USD	EUR	Other	Total
Liabilities and shareholders' equity					
Due to banks	183,106	442,752	284,467	164,744	1,075,069
Due to customers	2,720,105	1,345,309	1,853,413	457,684	6,376,511
• savings deposits	816,653	1	162	2	816,818
• other liabilities	1,903,452	1,345,308	1,853,251	457,682	5,559,693
Securitised liabilities	602,867		11,396		614,263
Other liabilities	120,996	11,301	10,531	330	143,158
Accrued liabilities and deferred items	18,133	121	1,789	171	20,214
Provisions	14,616				14,616
Provisions for general banking risks	63,150				63,150
Subscribed capital	59,148				59,148
Income reserves	597,422				597,422
• legal reserves	239,800				239,800
• reserve for treasury shares	12,781				12,781
• other reserves	344,841				344,841
Retained earnings brought forward	4,460				4,460
Net income of the year	12,004				12,004
Total on-balance-sheet liabilities and shareholders' equity	**4,396,007**	**1,799,483**	**2,161,596**	**622,929**	**8,980,015**
Delivery obligations arising from foreign-exchange spot, forward and option transactions	1,092,562	1,079,270	988,016	367,428	3,527,276
Total liabilities and shareholders' equity, 31/12/2011	**5,488,569**	**2,878,753**	**3,149,612**	**990,357**	**12,507,291**
Total liabilities and shareholders' equity, 31/12/2010	4,362,754	2,179,919	2,524,709	838,002	9,905,384
Net position per currency	**–116,886**	**35,926**	**82,202**	**354**	

Contingent liabilities

in CHF 1,000 (Art. 24e Par. 1 Point 4.1 FL-BankO)	31/12/2011	31/12/2010	Variance absolute	Variance in %
Contingent liabilities				
Credit guarantees and similar	645	1,338	–693	–51.8
Performance guarantees and similar	78,979	88,731	–9,752	–11.0
Other contingent liabilities	0	0	0	0
Total contingent liabilities	**79,624**	**90,069**	**–10,445**	**–11.6**

Unsettled derivative financial instruments

in CHF 1,000 (Art. 24e Par. 1 Point 4.3 FL-BankO)	Trading instruments Positive replacement values	Negative replacement values	Contract volumes	Hedging instruments Positive replacement values	Negative replacement values	Contract volume
Interest-rate instruments						
Swaps					26,640	345,790
Futures						10,665
Options (OTC)	1	1	25,000			
Foreign exchange / precious metals						
Forward contracts	47,739	33,903	984,912	186		30,530
Combined interest / currency swaps	41,940	54,366	2,468,868			
Options (OTC)	1,202	1,202	44,562			
Equity instruments / indices						
Forward contracts						
Futures						4,914
Options (OTC)	2,525	2,525	17,813			
Total prior to consideration of netting agreements, 31/12/2011	**93,407**	**91,997**	**3,541,155**	**186**	**26,640**	**391,900**
Total prior to consideration of netting agreements, 31/12/2010	61,099	60,522	3,304,664	141	7,352	398,574

VP Bank has no netting agreements.

Fiduciary transactions

in CHF 1,000 (Art. 24e Par. 1 Point 4.4 FL-BankO)	31/12/2011	31/12/2010	Variance absolute	Variance in %
Fiduciary transactions				
Fiduciary deposits	1,338,049	1,898,861	–560,812	–29.5
• fiduciary deposits with third-party banks	1,290,396	1,850,392	–559,996	–30.3
• fiduciary deposits with affiliated banks and finance companies	47,653	48,469	–816	–1.7
Fiduciary loans	3,007	3,095	–88	–2.8
Other fiduciary transactions of financial nature	0	0	0	0.0
Total fiduciary transactions	**1,341,056**	**1,901,956**	**–560,900**	**–29.5**

Information regarding the income statement

in CHF 1,000 (Art. 24e Par. 1 Point 5.2 FL-BankO)	2011	2010	Variance absolute	Variance in %
Income from trading activities				
Gains/losses from securities	–1,628	180	–1,808	n.a.
Gains/losses from foreign-exchange derivatives	4,830	20,748	–15,918	–76.7
Gains/losses from foreign-exchange transactions	15,037	18,552	–3,515	–18.9
Gains/losses from trading in banknotes	1,421	–130	1,551	n.a.
Gains/losses from precious metals	511	375	136	36.2
Total income from trading activities	**20,171**	**39,725**	**–19,554**	**–49.2**

Information regarding the income statement (continued)

in CHF 1,000 (Art. 24e Par. 1 Point 5.3 FL-BankO)	2011	2010	Variance absolute	Variance in %
Personnel expenses				
Salaries and wages	60,424	60,546	–122	–0.2
Social security costs and staff retirement pensions and assistance costs	10,668	12,014	–1,346	–11.2
of which for staff retirement pensions	9,441	10,788	–1,347	–12.5
Other personnel expenses	4,504	3,927	577	14.7
Total personnel expenses	**75,596**	**76,487**	**–891**	**–1.2**
Emoluments of members of the Board of Directors[1, 2]	928	895	33	3.7
Compensation of members of Group Executive Management[2, 3]	2,295	2,577	–282	–10.9

1 Social costs and any applicable value-added taxes on the emoluments paid to Board members are not included.
2 Compensation for out-of-pocket expenses is not included.
3 The compensation paid for the current year has been recorded.

in CHF 1,000 (Art. 24e Par. 1 Point 5.4 FL-BankO)	2011	2010	Variance absolute	Variance in %
General and administrative expenses				
Occupancy expenses	3,002	3,057	–55	–1.8
Expenses for IT, equipment, furniture, motor vehicles and other installations	15,121	16,280	–1,159	–7.1
Other business expenses	17,486	22,376	–4,890	–21.9
Total general and administrative expenses	**35,609**	**41,713**	**–6,104**	**–14.6**

in CHF 1,000 (Art. 24e Par. 1 Point 5.5 FL-BankO)	2011	2010	Variance absolute	Variance in %
Creation and release for provisions for general banking risks				
Creation and earnings from release for provisions for general banking risks	0	8,250	–8,250	–100.0

Other assets and liabilities

in CHF 1,000 (Art. 24e Par. 2 Point 6 FL-BankO)	31/12/2011	31/12/2010	Variance absolute	Variance in %
Other assets				
Precious metals	13	60	–47	–78.5
Unsettled derivative financial instruments (positive replacement values)	93,593	61,240	32,353	52.8
• trading positions	93,593	61,087	32,506	53.2
• liquidity positions	0	153	–153	–99.5
Compensation accounts	26,640	6,604	20,036	303.4
Settlement accounts	909	1,586	–677	–42.7
Miscellaneous other assets	771	441	330	74.8
Total other assets	**121,926**	**69,931**	**51,995**	**74.3**
Other liabilities				
Accounts for disbursement of taxes and fees	5,009	4,580	429	9.4
Unsettled derivative financial instruments (negative replacement values)	118,637	67,874	50,763	74.8
• trading positions	91,996	60,993	31,003	50.8
• liquidity positions	26,641	6,881	19,760	287.2
Compensation accounts	0	140	–140	–100.0
Settlement accounts	18,467	7,260	11,207	154.4
Miscellaneous other liabilities	1,045	1,263	–218	–17.3
Total other liabilities	**143,158**	**81,117**	**62,041**	**76.5**

Report of the statutory auditor on the financial statements

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 158–180), and the annual report (page 158) of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, for the year ended 31 December 2011.

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 31 December 2011 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 Ltd

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

Berne, 29 February 2012

VP Bank Group

Verwaltungs- und Privat-Bank Aktiengesellschaft is a bank domiciled in Liechtenstein and is subject to the Liechtenstein Financial Market Authority (FMA), Landstrasse 109, PO Box 279, LI-9490 Vaduz, www.fma-li.li.

Verwaltungs- und Privat-Bank Aktiengesellschaft
Aeulestrasse 6 - LI-9490 Vaduz - Liechtenstein - Tel +423 235 66 55 - Fax +423 235 65 00 - info@vpbank.com - www.vpbank.com - VAT No. 51.263 - Reg. No. FL-0001.007.080

VP Bank (Schweiz) AG
Bahnhofstrasse 3 - P.O. Box 2993
CH-8022 Zurich - Switzerland
Tel +41 44 226 24 24 - Fax +41 44 226 25 24
info.ch@vpbank.com

IFOS Internationale Fonds Service Aktiengesellschaft
Aeulestrasse 6 - LI-9490 Vaduz - Liechtenstein
Tel +423 235 67 67 - Fax +423 235 67 77
ifos@vpbank.com

IGT Intergestions Trust reg.
Aeulestrasse 6 - LI-9490 Vaduz - Liechtenstein
Tel +423 233 11 51 - Fax +423 233 22 24
igt@vpbank.com

VP Bank (Luxembourg) S.A.
Avenue de la Liberté 26
LU-1930 Luxembourg - Luxembourg
Tel +352 404 770-1 - Fax +352 481 117
info.lu@vpbank.com

VPB Finance S.A.
Avenue de la Liberté 26
LU-1930 Luxembourg - Luxembourg
Tel +352 404 777 383 - Fax +352 404 777 389
vpbfinance@vpbank.com

VP Bank and Trust Company (BVI) Limited
3076 Sir Francis Drake's Highway
Road Town, Tortola - VG-British Virgin Islands
Tel +1 284 494 11 00 - Fax +1 284 494 11 99
info.bvi@vpbank.com

VP Vermögensverwaltung GmbH
Theatinerstrasse 12 - DE-80333 Munich - Germany
Tel +49 89 21 11 38-0 - Fax +49 89 21 11 38-99
info@vpvv.de, www.vpvv.de

Verwaltungs- und Privat-Bank Aktiengesellschaft
Hong Kong Representative Office
33/F - Suite 3305 - Two Exchange Square
8 Connaught Place - Central - Hong Kong
Tel +852 3628 99 99 - Fax +852 3628 99 11
info.hk@vpbank.com

VP Wealth Management (Hong Kong) Ltd.
33/F - Suite 3305 - Two Exchange Square
8 Connaught Place - Central - Hong Kong
Tel +852 3628 99 00 - Fax +852 3628 99 55
info.hkwm@vpbank.com

VP Bank (Singapore) Ltd.
9 Raffles Place - #49-01 Republic Plaza
Singapore 048619
Tel +65 6305 0050 - Fax +65 6305 0051
info.sg@vpbank.com

VP Bank (Switzerland) Ltd.
Moscow Representative Office
World Trade Center
Entrance 7, 5th Floor, Office 511
12 Krasnopresnenskaya Emb.
RU-123610 Moscow - Russian Federation
Tel +7 495 967 00 95 - Fax +7 495 967 00 98
info.ru@vpbank.com