

Regulatory framework

The basis of this compensation report of VP Bank is the implementation of the EU Regulation No. 575/2013 (with reference to Directive 2013/36/EU CRD IV), which, amongst other things, regulates the risks associated with compensation policies and practices.

On the one hand, Liechtenstein has implemented this Regulation in the Act on Banks and Securities Firms (Banking Act, BankA), in particular in Art. 7a(6) thereof: "Banks and securities firms shall introduce and permanently maintain compensation policies and practices that are consistent with sound and effective risk management as set out in this Article. The Government shall provide further details by ordinance".

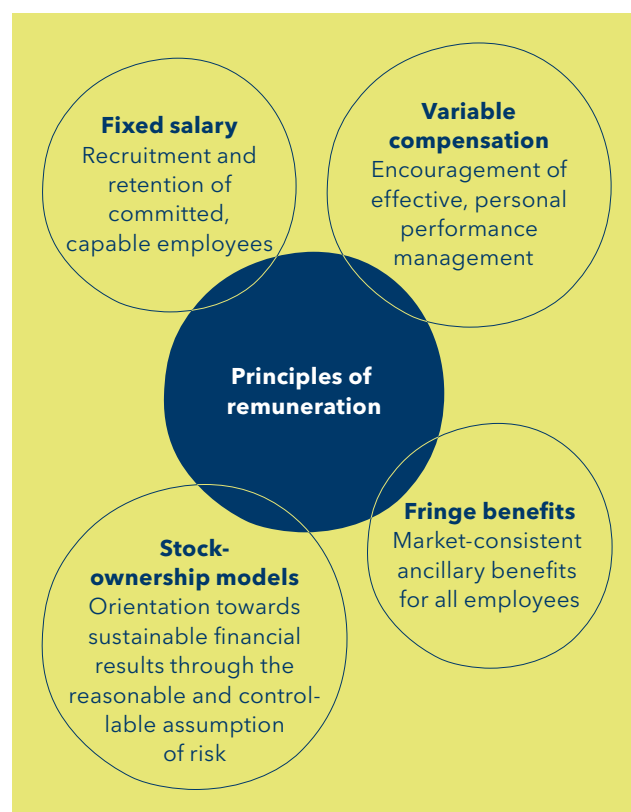
Furthermore, relevant content is set out in specific terms in Annex 1 and Annex 4.4 of the Liechtenstein Ordinance on Banks and Securities Firms (Banking Ordinance, BankO). The compensation policy of VP Bank Group corresponds to the size of VP Bank, its internal organisation and the scope and complexity of its business model. This primarily encompasses the offering of banking services for financial intermediaries and private clients in the disclosed target markets, in Liechtenstein and at the other locations as well as services for investment funds, special purpose vehicles and tokenisation. Details of the business model can be found in the chapter Strategic orientation.

Principles of compensation

Compensation plays a central role in the recruitment and retention of employees. VP Bank subscribes to fair, performance-oriented and balanced practices in terms of compensation which are in keeping with the long-term interests of shareholders, employees and clients alike.

The long-standing compensation practices of VP Bank correspond to the business model of VP Bank as wealth manager and private bank. The principles applied are laid down in the compensation policy.

- The compensation policy and practices of VP Bank Group are simple, transparent and sustainability-oriented – especially with regard to environmental, social and governance aspects. They are in line with the Group's business strategy, objectives and values, as well as its long-term overall success, and take its equity situation into account.
- Performance orientation and performance differentiation are substantive components of the compensation policy and ensure the interlinking of variable compensation with the achievement of the strategic goals of the company.
- The compensation policy is compatible with and helps foster robust and effective risk management. It makes sure that compensation-based conflicts of interests of the functions or persons involved are avoided. The assumption of excessive risks by employees to increase compensation in the short term should be prevented where possible by setting appropriate incentives.



- The compensation policy renders possible a fair and attractive remuneration in line with the market to enable VP Bank Group to attract, motivate and retain qualified and talented employees. Conformity with market conditions is reviewed regularly.
- The compensation system is not founded on a purely formula-based approach and therefore possesses sufficient flexibility to take account of the business performance of VP Bank Group or its subsidiary companies.
- Compensation practices follow the principle of equal treatment. The level of fixed compensation depends on the function. The level of variable compensation reflects Group performance, the performance of the segment or team and/or individual performance.
- The compensation policy is subject to regular review. Relevant legal provisions are applied and implemented in compensation practices. Prescriptions specific to functions, in particular those relating to identified employees (risk takers), are taken into account.

Components of compensation

The total compensation of the employees of VP Bank Group comprises a fixed compensation, an additional variable salary, equity-participation programmes, as well as additional perquisites (fringe benefits). In laying down the structure of compensation, an appropriate relationship between the fixed components and variable compensation as well as a function-specific compensation is taken into account.

In particular, identified employees, which include the Group Executive Management (GEM), receive a maximum variable compensation which complies with the legal relationship to the annual salary (maximum of 1:2). Limitation of the ratio of fixed to variable compensation at VP Bank to a maximum of 1:2 was approved by shareholders at the 53rd annual general meeting on 29 April 2016.

Fixed salary

The annual salary set out in the individual employment contract and payable in cash in monthly instalments forms the basis of compensation. The level thereof varies in accordance with the function exercised and the demands and responsibilities deriving therefrom which are assessed based on objective criteria. This enables internal comparability as well as the equal treatment in compensation matters and also permits the comparison with market data. VP Bank considers the fixed compensation to be compensation for the employee's activities performed in an orderly manner. The fixed salary is reviewed annually for ongoing appropriateness within the scope of the salary and wage round negotiations and, where necessary, adjusted.

Variable compensation

The variable compensation can consist of a directly paid-out portion as well as of deferred compensation instruments. The variable compensation constitutes an additional voluntary benefit payable by VP Bank Group to which no legal entitlement exists, not even after repeated, unconditional payment thereof.

Funding of variable compensation

The total amount of variable compensation is determined by the Board of Directors within a range known as the "value share" and is based primarily on the net profit of VP Bank Group. The Board of Directors makes a facts-based

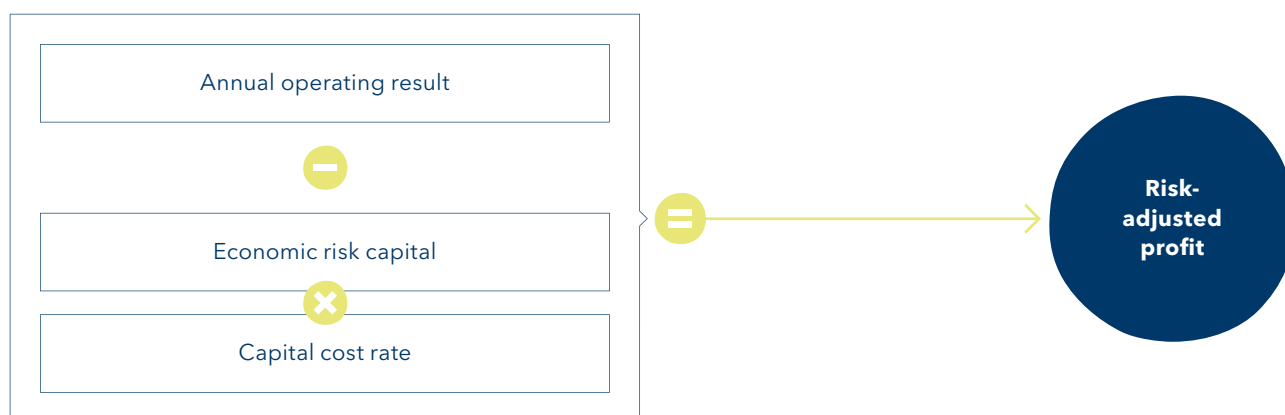
assessment of the total amount of variable compensation and can adapt the amount on a limited scale. In times of adverse operating conditions, the overall amount of variable compensation is reduced accordingly and can even amount to zero. This takes into consideration the multi-annual, risk-adjusted profitability of VP Bank Group (cf. table below), the sustainable level of profitability, capital costs and thus takes account of current and future risks.

The sum of provisions for variable compensation must be affordable in the aggregate. Never should VP Bank Group nor any individual Group subsidiary fall into financial difficulties as a result. The impact on the Group's equity situation is taken into consideration in this process.

Allocation of variable compensation

The allocation of variable payments is made on a discretionary basis and in addition to the attainment of quantitative and/or qualitative goals, also takes account of the degree of compliance with statutory requirements, guidelines set by the company, including the Code of Conduct, as well as any requirements defined by the client. Longer-term perspectives may also flow into the performance evaluation. The performance evaluation of identified employees is performed based upon the individual's goals as well as the goals of the team, the business segment, the subsidiary and the overall result of VP Bank Group. The variable compensation of employees in controlling functions, internal audit or with legal and compliance tasks is determined based upon the achievement of the targets related to their tasks irrespective of the results of the business units being controlled. A participation in the results of the company or of VP Bank Group is admissible within normal limits and is sensible within the spirit of equal treatment. Achievement of targets is evaluated after the end of the business year within the scope of the performance management process. The amount of the individual variable compensation is determined by the employee's superior.

CALCULATION OF THE RISK-ADJUSTED PROFIT



Payment of variable compensation

- **Immediately payable variable compensation (bonus):** The bonus is the part of the variable compensation settled annually in cash as compensation for the contribution made to earnings in the previous business year. Should the bonus be particularly high in relation to overall compensation, a part of the payment thereof can be withheld. Where it appears sensible and appropriate, such withheld portion can also be settled in the form of deferred compensation instruments or in the form of equity shares which may not be disposed of during a limited period.
- **Deferred compensation instruments:** Using deferred compensation instruments, the long-term alignment of the interests of shareholders and employees is to be achieved by a participation of the employees in the growth in the value of the Group. VP Bank deploys, in principle, equity-share and index-based schemes which are exposed to the market risk as deferred compensation instruments. Entitlement to deferred compensation instruments is dependent on the function exercised and the individual. It is confirmed by a certificate of allocation. Through the deployment of deferred compensation instruments, VP Bank Group complies with the legal regulations concerning payment schemes for risk takers, i.e. a minimum of 40 per cent of the variable compensation is granted in the form of deferred compensation instruments which are linked to a possible malus and/or claw-back rule and accordingly can be forfeited. The rules on deferred compensation instruments are set out in separate plan regulations.
- **Malus and claw-back rules:** VP Bank, under certain conditions, may withhold, reduce or cancel variable compensation components awarded to an employee (malus) or reclaim amounts which have already been paid (claw-back). This applies particularly in the case of the subsequently discovered fault of the employee or in the case of disproportionately high risks being entered into to increase revenues. On leaving VP Bank, the relevant rules laid down by the Board of Directors in the regulations governing the compensation instruments apply.

Equity-participation programmes

Every year, employees are offered the chance to purchase VP Bank registered shares A on preferential terms. The number thereof depends in equal shares on the level of the fixed salary and the period of employment as of the measurement date, 1 May. The shares are subject to a sales restriction period of three years.

A Performance Share Plan (PSP) exists for the Executive Board and selected key managers. The PSP is a long-term variable management equity-participation programme in the form of registered shares A of VP Bank Ltd. At the end of the three-year plan period and depending upon performance, 50 to 150 per cent of the allocated vested benefits are transferred in the form of VP Bank registered shares A.

The Restricted Share Plan (RSP) may also be used, in individual justified cases, to compensate for any postponed variable salary components, to implement special retention measures or to compensate for loss of benefits at previous employers. The RSP will be paid out annually in thirds over a scheduled duration of three years in the form of registered shares A.

Content and method of determining compensation and equity-participation programmes

The compensation policy regulations as well as the risk policy regulations of VP Bank stipulate that the Bank's compensation systems and human resources management are to be designed in a manner that minimises personal conflicts of interest and behavioural risks.

The Nomination & Compensation Committee (see chapter on Corporate Governance under point 3.5.2 → page 82) makes proposals to the Board of Directors on the principles underlying compensation as well as the level of compensation paid to the members of the Board of Directors and the Executive Board. The Board of Directors approves these principles and determines the amount of total compensation payable to itself and the members of the Executive Board in keeping with the applicable regulations.

Board of Directors

The Board of Directors receives compensation for the duties and responsibilities conferred on them by law and pursuant to Art. 20 of the Articles of Association. This is laid down annually by the Board of Directors in plenary session acting on the proposal of the Nomination & Compensation Committee. Compensation to the members of the Board of Directors is paid on a graduated basis according to their function in the Board of Directors and its committees or in other bodies (e.g. the pension fund). Three quarters of this compensation is paid in cash and one quarter is settled in the form of freely disposable VP Bank registered shares A, the number of which is determined by the current market price at the time of receipt.

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

Nomination & Compensation Committee

The Nomination & Compensation Committee comprises the members Dr Thomas R. Meier (chairman), Philipp Elkuch, Markus Hilti and Dr Gabriela Payer. As a rule, it convenes six to ten times per annum. In case of need, the CEO participates in the meetings of the Nomination & Compensation Committee in an advisory capacity.

During 2021, the Nomination & Compensation Committee met on a total of six occasions.

Executive Board

In accordance with the model approved by the Board of Directors on 5 July 2018, the compensation payable to the Executive Board consists of the following three components:

1. A fixed base salary that is contractually agreed between the Nomination & Compensation Committee and the individual members. In addition to the base salary, VP Bank pays proportionate contributions to the management insurance scheme and the pension fund.
2. The Performance Share Plan (PSP) is a long-term variable management equity-participation programme in the form of registered shares A of VP Bank Ltd and promotes the long-term commitment of management in the form of equity shares. At the end of the plan period and depending upon performance, 50 to 150 per cent of the allocated vested benefits are transferred in the form of equity shares. This vesting multiple is determined from the weighting of an average Group net income and the average net inflow of new client assets over a three-year period.
Until the time of transfer of ownership, the Board of Directors reserves the right to reduce or suspend the allocated vested benefits in the case of defined occurrences and in extraordinary situations. The share of the PSP generally makes up 60 per cent of total variable performance-related compensation. In 2021, the share of the PSP made up 80 per cent of the total variable compensation.
3. A cash compensation, the share of which generally amounts to 40 per cent of total variable performance-related compensation. In 2021, the share of the

profit-related participation made up 20 per cent of the total variable compensation.

Each year, the Board of Directors lays down the planning parameters of the profit-related compensation (PSP and cash-based compensation) for the following three years. The target share of total compensation varies according to function and market customs.

In 2021, 3,327 shares with a market value as of the date of allocation aggregating CHF 397,909.20 were transferred to the Executive Board as part of the 2018-2020 management equity-participation plan and the RSP 2018-2020. The vested benefits from previous management equity-participation plans (2019-2021, 2020-2022 and 2021-2023) continue to run unchanged until the end of the plan period.

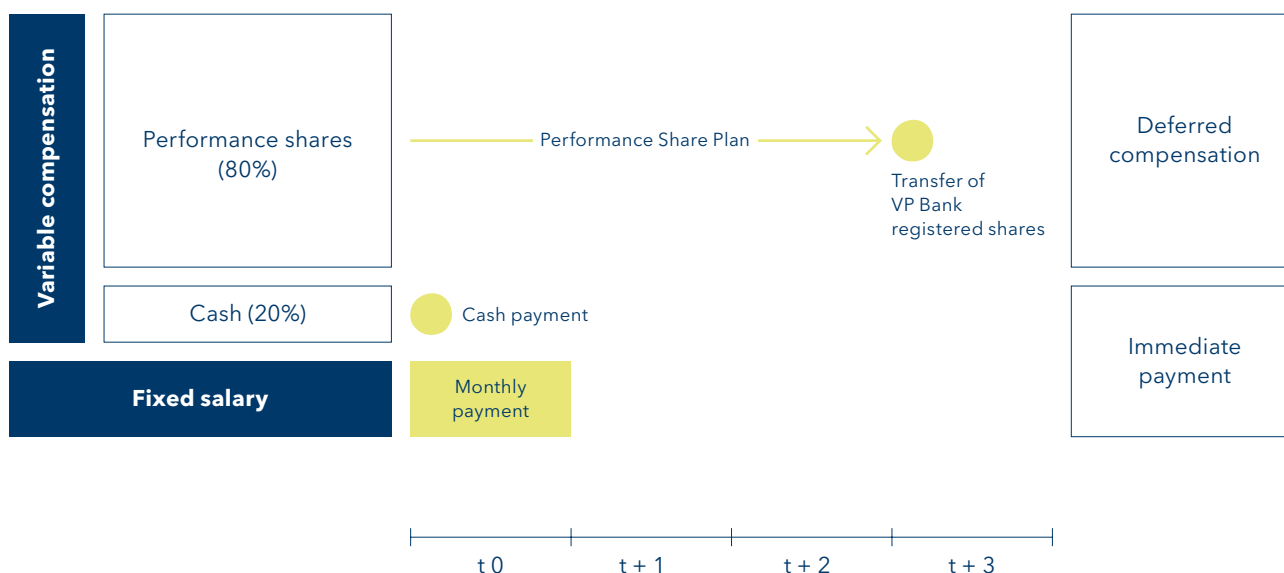
VP Bank has concluded no agreements on severance pay with members of the Executive Board.

An external advisor who has no other mandates from VP Bank Group was commissioned to structure the compensation model.

Fringe benefits

Fringe benefits are ancillary benefits which VP Bank offers its employees on a voluntary basis, often as a result of practices which are customary in the given location or business segment. In principle, the benefits are only of a minor amount. They are settled and reported in accordance with local regulations.

INSTRUMENTS OF VARIABLE REMUNERATION



They include the following benefits in particular:

- Insurance benefits in excess of statutory provisions
- Retirement-benefit-related amounts, in particular voluntary employer contributions
- Preferential conditions for employees in the case of banking transactions, such as reduced-rate mortgages for an individual's own home
- Further fringe benefits which are customary in the given location

Individuals and functions subject to particular provisions

Employees having a particularly large impact on the risk profile of the bank are designated as risk takers. VP Bank identifies the members of the Board of Directors and Executive Board as well as selected functions as decision-makers and substantial risk takers. These are in particular the heads of the units "Group Internal Audit", "Group Compliance", "Group Finance", "Group Investment Center", "Group Operations", "Intermediaries", "Private Banking", "Group Information Technology", "Group Human Resources", "Group Treasury & Execution", "Group Credit Risk", "Chief of Staff CEO" and the members of the Credit Committee and the CEOs of the subsidiaries with bank status and other employees identified on the basis of quantitative criteria.

Individuals performing compliance and control functions are predominantly remunerated with fixed compensation components. Their variable compensation elements do not depend on the success of the business units which they verify or monitor.

Compliance with compensation provisions

The compensation practices of VP Bank are in compliance with appendix 4.4 of the Banking Ordinance as well as the EU Directive and are geared to long-term success. The decision concerning the earmarking of a total amount for compensation ultimately lies with the Board of Directors.

VP Bank does not make guaranteed payments in addition to fixed salaries such as end-of-service indemnities agreed in advance. Special payments upon commencement of employment may occur in given individual cases – as a rule, these relate to compensation for foregone benefits from the previous employer.

In application of Liechtenstein law, variable salary components, where applicable, may be cancelled, those withheld may be forfeited or those already paid out may be reclaimed. This applies in particular in the case of proven fault of an employee or the acceptance of excessive risk to achieve goals.

Determination of compensation (governance)

With the budget, the Board of Directors approves the framework for the fixed compensation and, at the end of the year, decides on the level of provisions for the variable portion of salary – taking the annual results into account.

It determines the fixed and variable compensation for the Members of Group Executive Management and for the Head of Group Compliance. The Nomination & Compensation Committee supports the Board of Directors in all issues involving the setting of salaries, defines – together with Group Executive Management – those individuals designated as risk takers and monitors their compensation. Together with Internal Audit, the Nomination & Compensation Committee reviews compliance with the compensation policy.

Group Executive Management is responsible for all aspects involving the implementation of compensation processes within the scope of the policy and lays down the framework thereof for the individual companies. It specifies the fixed and variable compensation of the second-management-level heads, including the managers in charge of subsidiary companies. Furthermore, it issues annual implementing regulations to the companies and/or supervisors for the fixing of individual variable salaries.

The individual supervisors agree tasks and goals as part of the MBO process and evaluate the achievement of goals at the end of the period. In addition to performance, particular attention is paid to the observance of all relevant regulatory provisions.

Quantitative information on compensation

Information on the compensation of members of the Board of Directors of VP Bank Ltd as well as the members of the Executive Board are to be found in the financial report, the stand-alone financial statements of VP Bank Ltd, Vaduz, under Compensation paid to members of governing bodies (→ page 205).

Disclosures regarding personnel expense are set out in the Financial Report 2021 of VP Bank Group under 6 Personnel expense (→ page 153).

The aggregate compensation paid to all risk takers in 2021 amounted to:

	CHF	Share of total compensation
Fixed basic salary	9,595,660	65%
Short-Term Incentive (STI, cash) for performance year 2020	1,063,049	7%
Restricted Share Plan (RSP) entitlement for performance year 2020	-	-
Performance Share Plan (PSP) entitlement relating to performance 2021-2023	2,983,924	20%
Pension fund senior employees, employer contributions	1,099,016	7%
Total compensation	14,741,649	100%
Vesting 2021, equity share value PSP 2018-2020 / RSP 2018-2020		
RSP 2019-2021 / RSP 2020-2022	1,887,886	