

Compensation Report

Regulatory framework

The basis of this VP Bank Compensation Report is the implementation of EU Regulation No. 575/2013 (with reference to EU 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 Law on Banks and Securities Firms, in particular in Art. 7a para. 6 thereof: "Banks and securities firms shall introduce a compensation policy and practices and shall ensure continuously that they are consistent with robust and effective risk management within the spirit of this Article. The Government has regulated the details of the compensation policy and practices in a related ordinance".

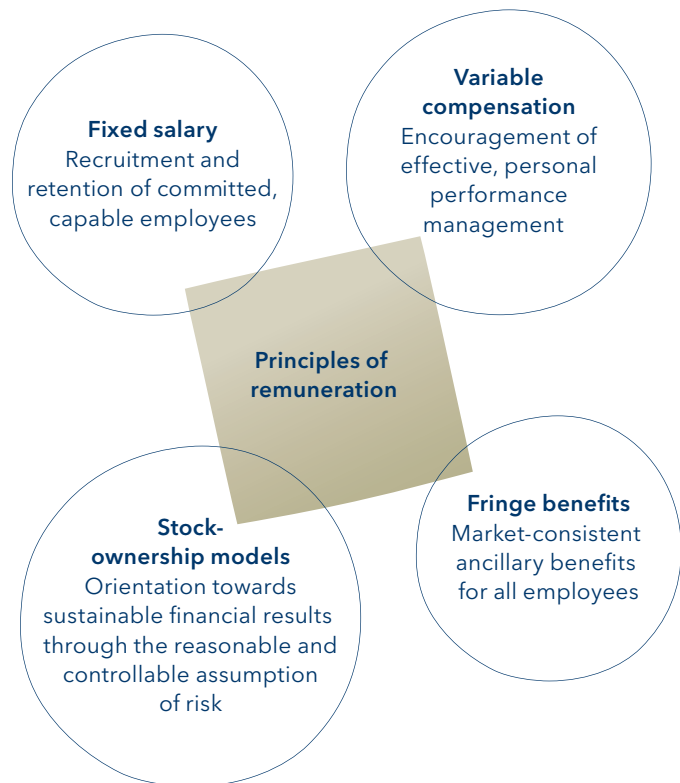
On the other hand, the related subject matter is defined in detail by Annex 1 and Annex 4.4 in the "Ordinance on Banks and Securities Firms" (BankO). The remuneration policy of VP Bank Group corresponds to the size of VP Bank and its business model. This encompasses the offering of banking services for private clients and financial intermediaries in the disclosed target markets, in Liechtenstein and at the other locations, as well as services for investment funds.

Principles of remuneration

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 that are in keeping with the long-term interests of shareholders, employees and clients alike.

The long-standing remuneration practices of VP Bank correspond to the business model of VP Bank as an asset manager and private bank. The principles applied are laid down in the Remuneration Policy:

- A focus on performance 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 remuneration policies and practices of VP Bank Group are simple, transparent and focused on sustainability – in particular environmental, social and governance aspects. They are in line with the business strategy, goals and values as well as the long-term overall success, and take into account the Group's equity situation.
- The compensation policy is compatible with and helps foster robust and effective risk management. It makes sure that remuneration-based conflicts of interests of the functions or individuals involved are avoided. The assumption of excessive risks by employees to increase remuneration in the short term should be best prevented by setting appropriate incentives.



- The compensation policy renders possible a fair and attractive remuneration in line with the market in order to attract, motivate and tie qualified and talented employees to VP Bank Group. Conformity with market conditions is reviewed regularly.
- The remuneration 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.
- Remuneration practices follow the principle of equal treatment. The level of fixed salary varies according to the function. The level of variable remuneration reflects Group performance, the performance of the segment or team and/or individual performance.
- The remuneration policy is subject to regular review. Relevant legal provisions are applied and implemented in remuneration practices. Prescriptions specific to functions, in particular those relating to identified employees, are taken into account.

Components of remuneration

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

account. In particular, identified employees, which includes Group Executive Management, receive a maximum variable remuneration which complies with the legal relationship to the annual salary (maximum of 1:2). The limitation of the ratio of fixed to variable compensation at VP Bank to a maximum of 1:2 was determined within the scope of 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 remuneration. The level thereof varies in accordance with the function exercised and the demands and responsibilities associated therewith which are assessed based on objective criteria. This enables internal comparability as well as the equal treatment in remuneration matters, and also permits comparison with market data. VP Bank considers the fixed salary 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 remuneration can consist of a directly paid-out portion as well as deferred remuneration instruments. In this respect, it 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 remuneration

The overall amount of variable remuneration is determined by the Board of Directors and is based upon performance

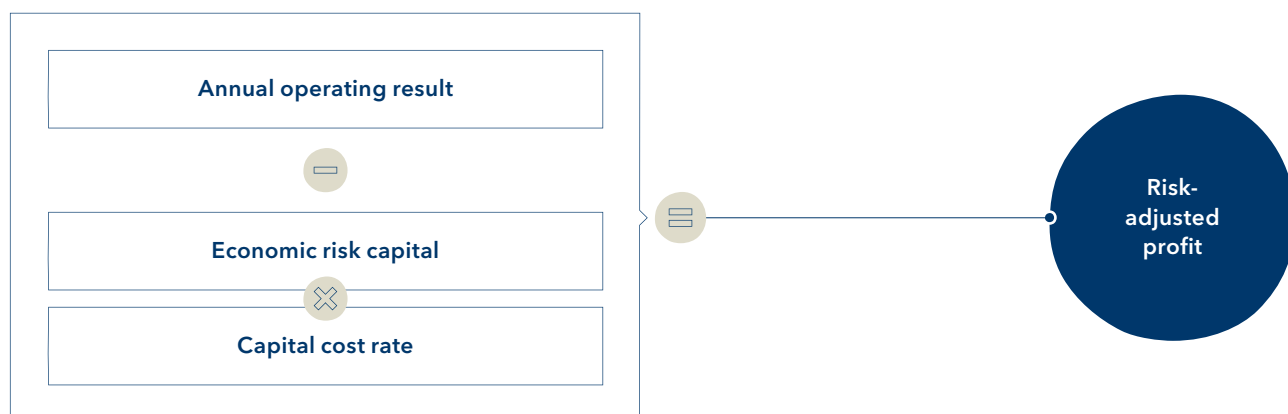
indicators as well as qualitative performance criteria. The overall amount takes into consideration the multi-annual, risk-adjusted profitability of VP Bank Group (→ **table** below), the sustainable level of profitability and capital costs, and thus takes account of current and future risks.

The Board of Directors makes a facts-based assessment of the total amount of variable remuneration and can adapt the amount to a limited degree. In times of adverse operating conditions, the overall amount of variable remuneration is reduced accordingly and can even amount to zero. The sum of provisions for variable remuneration 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 remuneration

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 into account the degree of compliance with the directives of the legislator, the guidelines set by the Bank, 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. Performance is evaluated using quantitative and qualitative criteria. 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. 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

Calculation of the risk-adjusted profit



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.

Settlement of variable remuneration

- Immediately payable variable remuneration (bonus):**
 The bonus is that part of the variable remuneration paid annually in cash as compensation for the contribution made to earnings in the preceding business year. Should the bonus be particularly high in relation to overall remuneration, 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 remuneration instruments or in the form of equity shares which may not be disposed of during a limited period.
- Deferred remuneration 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. As deferred remuneration instruments, VP Bank deploys, in principle, equity-share and index-based schemes which are exposed to market risk. Entitlement to deferred remuneration instruments is dependent on the function exercised and the individual. It is confirmed by a certificate of allocation. Through the deployment of deferred remuneration 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 remuneration is granted in the form of deferred remuneration instruments which are linked to a possible malus and/or clawback rule and accordingly can be forfeited. The regulations on deferred remuneration instruments are set out in separate plan rules.

- Malus and clawback rules:** VP Bank, under certain conditions, may withhold, reduce or cancel variable remuneration components awarded to an employee (malus) or reclaim amounts which have already been paid (clawback). 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, entitlements to deferred, not yet disbursed variable salary components are forfeited as a rule.

Equity-participation programmes

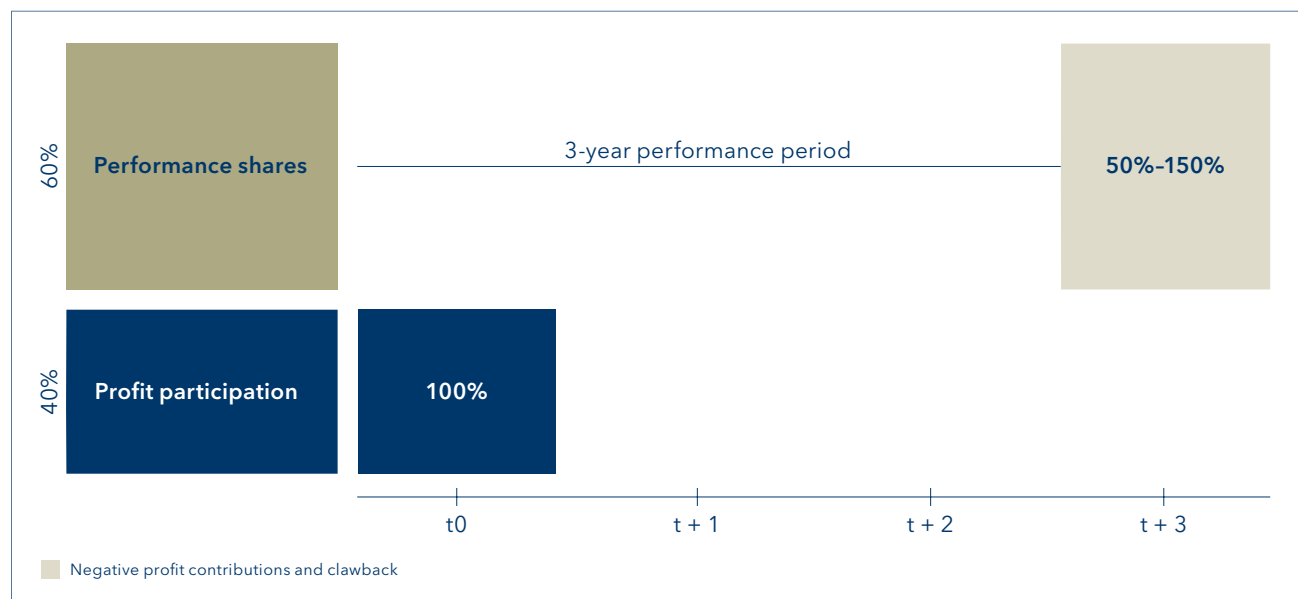
Each year, registered shares A are offered to the employees of VP Bank on preferential terms. The number thereof depends in equal shares on the level of the fixed salary and the period of employment as of the measurement date, 1 May. The shares may not be disposed of during a sales restriction period of three years.

The Board of Directors modified the participation in VP Bank Ltd by members of the first- and second-levels of management and laid down two new programmes from 2019 onwards. The Performance Share Plan (PSP) is a long-term variable management participation programme in the form of registered shares A of VP Bank Ltd and is applied for programme participants.

The Restricted Share Plan (RSP) is settled over the plan duration of three years in three equal instalments in the form of registered shares A. In justified cases, the RSP programme is invoked in order to compensate a deferred variable salary component, to implement special retention measures or to compensate for foregone performance with a previous employer.

The table below gives an overview over the various instruments of variable remuneration for the members of the first and second management levels using a time axis (t).

Instruments of variable remuneration



Content and method of setting compensation and equity-participation programmes

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

The Nomination & Compensation Committee (see the chapter on Corporate Governance under section 3.5.2, → page 70) makes proposals to the Board of Directors on the principles underlying remuneration 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 rules.

Board of Directors

The Board of Directors receives remuneration as compensation for the duties and responsibilities conferred on them by law and pursuant to Art. 20 of the Articles of Incorporation. 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.

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 by 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. A Performance Share Plan (PSP), which is a long-term variable management participation in the form of registered shares A of VP Bank Ltd. The bases thereof are the risk-adjusted profit (operating annual result adjusted for non-recurring items, less capital costs), weighted over three years, as well as the long-term commitment of management to a variable compensation component 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 makes up approximately 60 per cent of the total variable performance-related remuneration.

3. A cash compensation which also depends on the risk-adjusted profit weighted over three years. The share of this profit-related participation amounts to approximately 40 per cent of the total variable performance-related remuneration.

The Board of Directors lays down each year the planning parameters of the profit-related remuneration (PSP and cash compensation) for the following three years as well as the amount thereof. The target share of total compensation varies according to function and market customs.

In 2020, 21,987 (2019: 28,868) shares with a market value as of the date of allocation aggregating CHF 3,189,375.00 (2019: CHF 4,047,293.60) were transferred to the Executive Board as part of the 2017-2019 management equity-share participation plan, the RSP 2017-2019 as well as the RSP 2018-2020. The vested benefits from previous management equity-share participation plans (2018-2020, 2019-2021 and 2020-2022) 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.

They relate principally to the following benefits:

- Insurance benefits in excess of legal prescriptions
- 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 decision-makers and substantial "risk-takers" along with other selected functions. These are, in particular, the Heads of the units "Group Internal Audit", "Group Compliance", "Group Finance", "Group Risk", "Chief Investment Officer", "Group Operations", "Intermediaries", "Private Banking", "Group Information Technology", "Group Human Resources", "Group Treasury & Execution", "Head of CEO-Office", the members of the Credit Committee, the CEOs of Group subsidiaries, as well as other persons 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 remuneration provisions

The remuneration practices of VP Bank are in compliance with appendix 4.4 of the Banking Ordinance (BankO) as well as the EU Directive, and are geared to long-term success. The decision concerning the earmarking of a total amount for remuneration resides ultimately 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 a 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 reclaimed. This applies in particular in the case of proven guilt of an employee or the acceptance of excessive risk to achieve goals.

Determination of remuneration (governance)

With the budget, the Board of Directors approves the framework for the fixed remuneration and, at the end of the year, decides on the level of provisions for the variable salary components based on the annual results. It lays down the fixed and variable portion of remuneration for the members of Group Executive Management, the Head of Group Compliance and the Head of Group Risk. The Nomination & Compensation Committee (NCC) 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 remuneration. Together with Group Internal Audit, the NCC reviews compliance with the Remuneration 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 remuneration 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 remuneration

Information on the remuneration 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 "Remuneration paid to members of governing bodies" (→ page 185).

Disclosures regarding personnel expenses are set out in the 2020 Financial Report of VP Bank Group under "6 Personnel expenses" (→ page 135).

The aggregate remuneration paid to all risk-takers in 2020 amounted to:

| | CHF | Share of total remuneration |
|--|------------|-----------------------------|
| Fixed basic salary | 9,751,404 | 50% |
| Short-Term Incentive (STI, cash) for performance year 2019 | 3,623,611 | 19% |
| Restricted Share Plan (RSP) entitlement for performance year 2019 | 602,182 | 3% |
| Performance Share Plan (PSP) entitlement relating to performance years 2020–2022 | 4,404,418 | 23% |
| Pension fund senior employees employer contributions | 1,159,331 | 6% |
| Total remuneration | 19,540,946 | 100% |
| Vesting 2020, equity-share value | | |
| PSP 2017–2019 / RSP 2017–2019 | | |
| RSP 2018–2020 / RSP 2019–2021 | 7,385,665 | |