Annual Report 2012

Editorial

For time immemorial, we have been shaped by interpersonal relationships and the urge to seek out the new and unknown: trade, commerce and communication have played a pivotal role for mankind over the millennia. In the process, humans left their familiar surroundings and, driven by curiosity and a thirst for knowledge, ventured out to the four corners of the world on journeys of discovery.

So by no means is globalisation a new phenomenon, and it is certainly not just an invention of the Europeans. Its roots are to be found in the centuries-old avenues for buying, selling and communicating that have stretched since antiquity across the Mediterranean region, Africa and the Middle East, all the way to India, China and ultimately North and South America.

The creative leitmotif of our 2012 annual report is: "on the move". By highlighting the key trade routes of the past four thousand years, it illustrates the dynamic force and flow that has always carried humanity to new horizons.

The rendering of banking services has forever gone hand in hand with this evolution of trade and communication. And the means and modes of payment along these routes have been constantly refined.

VP Bank itself is also "on the move" by discovering new products, new advisory approaches, new markets – and above all, new contacts to people and new clients. A passion for the new plays the most important role in VP Bank's way of exchanging ideas and communicating. So navigate with us through the various passages of this annual report and get to know more about VP Bank.

Imprint

This annual report has been produced with the greatest possible care and all data have been closely examined. Rounding, typeset or printing errors however cannot be ruled out.

This annual report includes information and forecasts relating to the future development of VP Bank Group. Those forecasts represent estimates based on all information available at the time of publication. Any such forward-looking statement is subject to risks and uncertainties that could lead to significant variances in actual future results. No guarantee can be made as to the reliability of the prognoses, planned quantities or forward-looking statements contained herein.

This annual report has been produced in German and English, whereas the German version shall prevail in case of doubt.

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Shareholder information

Tuesday, 12 March 2013
Media and analyst conference, 2012 financial results

Friday, 26 April 2013
Annual general meeting of shareholders 2013

Tuesday, 7 May 2013
Dividend payment

Tuesday, 27 August 2013
Round-table discussion on semi-annual results 2013

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

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Statement by the Chairman of the Board

Dear Shareholders,
Ladies and Gentlemen

For VP Bank Group, 2012 was a special year in every respect. Our operative progress in terms of profit and reduced costs stood in stark contrast to challenging personnel changes. And owing to the volatile business environment, appropriate strategic and structural adjustments also had to be made.

For the 2012 financial year, VP Bank Group recorded consolidated net income of CHF 47.2 million compared to the prior-year result of CHF 5.3 million. Net operating income increased versus the previous year by CHF 17.9 million, from CHF 224.5 million to CHF 242.4 million. Although the commission business and trading activities developed unfavourably, income from the interest-differential business and financial investments had a favourable influence on the net result. Operating expense were reduced from CHF 178.8 million in the previous year to CHF 152.8 million. This was mainly attributable to a one-time reduction in personnel expenses as a result of the changeover from a defined-benefit to a defined-contribution employee pension scheme as well as to the early application of the revised IAS 19 standard. For the entire year, client assets under management developed as expected: a modest CHF 65 million outflow of client money was recorded. An additional burden was placed on the trend in net new money through the complete CHF 127 million redemption of the VP Bank bonds issued in July 2007. This is due to the fact that the Bank's own bonds are included in the amount of client assets under management. At the end of December 2012, client assets under management at VP Bank Group amounted to CHF 28.5 billion. Assets held in custody decreased by CHF 2.7 billion to CHF 8.8 billion, so that total client assets on 31 December 2012 stood at CHF 37.3 billion.

Dividend proposal

At the annual general meeting on 26 April 2013, the Board of Directors will propose a dividend of CHF 2.50 per bearer share (previous year: CHF 1.50) and CHF 0.25 per registered share (previous year: CHF 0.15). This dividend increase is in reflection of the significantly higher annual profit and the solid equity base of VP Bank Group.

General business environment

Economic and regulatory conditions have a strong influence on the activities of our Bank. The persistently low level of interest rates, as well as volatility in the financial markets, have had a negative influence on our earnings power. We are going on the assumption that interest rates will remain low for quite some time. In the area of regulation, the new rules governing cross-border private banking as well as the debate on the topic of taxation are indeed vexing. Moreover, regulations such as Basel III and MiFID II pose enormous challenges for financial institutions. However, in terms of equity capital and liquidity, VP Bank Group fulfils today's requirements by far.

Strategic orientation of VP Bank Group

The following addresses selected aspects of VP Bank Group's strategic orientation. A comprehensive overview of all relevant strategic topics can be found in the separate "Strategy report" section of this annual report.

Economic and regulatory conditions also have an influence on the business model of VP Bank Group. Consequently, last summer the Board of Directors decided to place the Bank's strategic focus on the middle segment of the private banking industry as well as on the intermediaries business. We also clearly defined the target markets in Europe and Asia that are of decisive importance to VP Bank as well as the relevant client segments. By doing so, we have charted the course for the coming years. In VP Bank's home market of Liechtenstein, additional need-oriented services will be offered to our regional private and commercial clients.

In the first half of 2013, the Principality of Liechtenstein will introduce the Alternative Investment Fund Managers Directive (AIFMD). This will open up an interesting niche thanks to Liechtenstein's membership in the EEA and affiliation with the Swiss economic region. IFOS Internationale Fonds Service Aktiengesellschaft, a wholly owned subsidiary of VP Bank, will offer services to alternative investment fund managers. IFOS was reorganised for effect as of 1 January 2013 and in future will offer not only classical fund administration activities, but also investment management and risk management services, thereby anchoring itself even more firmly in the Liechtenstein market as one of the leading providers of fund-related services.

Strategic partnerships and cooperative undertakings are also an important component of VP Bank Group's business model as a means of addressing the general trend towards greater efficiency and less complexity, the heightened regulatory requirements and the relentless cost pressures. Also, in the second half of 2012, VP Bank examined the possibility of outsourcing its IT competence centre to an external partner company. However, it was determined that the conditions for realising such a project are not suitable at present.

The Board of Directors still stands by its medium-term goals, i.e. achieving on average 5 per cent annual growth in net new money on the basis of client assets under management, having a cost/income ratio of 65 per cent, and maintaining or exceeding a core capital ratio of 16 per cent.

Personnel changes

The management organisation of VP Bank Group was adapted at the start of 2012. Rolf Jermann was added as a member of the Executive Board at VP Bank Vaduz in order to give corresponding weight to the Commercial Banking business unit at the Head Office.

At the annual general meeting in April 2012, Max E. Katz and Fredy Vogt were elected to the Board of Directors. Subsequently, Fredy Vogt was named Chairman of the Board, following Hans Brunhart. Hans Brunhart was a member of the Board of Directors for 18 years, 16 of which as its Chairman. With his years of experience as Head of Government, he was able to build bridges between politics and the real economy. Under his leadership, VP Bank managed to position itself as a solid, esteemed and globally active private bank. Hans Brunhart's roots in the Principality of Liechtenstein and knowledge of its special characteristics, as well as his renown amongst the populace and beyond our borders, worked repeatedly to the advantage of VP Bank. His consistent leadership, down-to-earthness and calm, level-headed way were greatly appreciated by managers, employees and clients alike. The Board of Directors thanks him for his tremendous commitment to our Bank and wishes him good health in the future.

The Head of Group Finance & Risk, Siegbert Näscher, was named successor to Fredy Vogt as Chief Financial Officer and a member of Group Executive Management as of 1 April 2012.

In mid-July 2012, Chief Executive Officer Roger H. Hartmann took leave of the Bank after roughly two years as its head. VP Bank is in a phase of transition that was introduced by Roger H. Hartmann. The Board of Directors would also like to thank Roger H. Hartmann for his contribution to paving the way for VP Bank's reorientation in what is truly a changing world for the financial services industry.

Two members of Group Executive Management, Siegbert Näscher, Chief Financial Officer, and Juerg W. Sturzenegger, Chief Operating Officer, have been jointly at the helm of VP Bank Group on an ad interim basis since mid-July 2012. With the active support of all the Bank's employees and managers, we arrived at a professional solution and thereby ensured continuity. The Board of Directors thanks Siegbert Näscher and Juerg W. Sturzenegger for their great dedication and efforts on behalf of VP Bank.

Georg Wohlwend, Head of Banking Liechtenstein & Regional Market and a member of Group Executive Management, decided to pursue a new professional challenge as of the end of 2012. The Board of Directors thanks him for his years of service. Georg Wohlwend contributed significantly to the successful positioning of VP Bank in Liechtenstein and the surrounding region.

As of 1 January 2013, the Executive Board at the Head Office in Vaduz was reinforced by Martin Engler, Head of Private Banking Liechtenstein, and Günther Kaufmann, Head of Intermediaries & Transaction Banking. With the promotion of these two heads of client advisory units in Liechtenstein, the Board of Directors is underscoring the Bank's redoubled focus on market and client needs.

Outlook

We are convinced that, with the findings of our strategic analyses, with adapted business models, as well as via investments in future sources of revenue and resolute, comprehensive cost management, we are laying a solid foundation for VP Bank Group's future success. One that is reinforced by the Bank's plenteous core capital and stable shareholder base.

On 1 May 2013, Alfred W. Moeckli will take over the management of VP Bank as its new CEO. He brings to the Bank extensive experience in all areas of the banking business and has proven his management skills at various companies. The Board of Directors looks forward to collaborating with Alfred E. Moeckli and wishes him the greatest of success in his new post.

The cultivation of VP Bank's target markets will take centre stage in 2013. Based on our need-oriented advisory process, we will adapt our existing range of products and services to accommodate the requirements of those markets and target groups to an even greater extent. By continuing our efficiency-enhancement efforts and cost-reduction measures, we will achieve a sustainably viable, future-oriented cost basis.

The previously mentioned regulatory requirements as well as the Liechtenstein government's financial centre strategy will accompany VP Bank also in the new financial year. We are participating in numerous forums, as well as collaborating with all relevant partners in the Liechtenstein financial centre and all the markets in which VP Bank is active.

Mastering all of today's challenges in the best way possible is something we view as our central task – so that VP Bank Group can remain on its path of success and independence. We are rising to those challenges through redoubled efforts to serve even better our existing as well as new clients and by resolutely continuing our transformation process.

A word of gratitude

This report on our 2012 annual financial results shows that VP Bank Group still has a lot of work to do. We thank our employees for their dedicated service in all functions at all of VP Bank's locations, and for the fact that we can also count on their determined commitment as, together, we rise to the challenges that lie ahead.

We should also like to express our sincere thanks to the clients of VP Bank for their abiding loyalty and trust.

And special thanks go to you, our valued shareholders, for your support and confidence in our work. We shall continue to do our utmost to enhance the financial well-being of our clients and, hence, the value of your investment in VP Bank.

Fredy Vogt
Chairman of the Board of Directors

The Amber Road

Aeons ago, vast stretches of forest in northern and north-eastern Europe were swallowed up by the sea. Over the millennia, heavy surf ultimately loosened the petrified resin droplets from the conifers on the seabed and swept them ashore. For centuries, amber has been the name given to this golden semi-precious gemstone of fossilised pine sap, especially large quantities of which are indigenous to the Baltic Sea region. The trade route for transporting this treasure (along with other goods) from the North Sea and Baltic region southward to the Mediterranean and onward via Greece to Egypt was referred to as the Amber Road. In the strictest sense, this was not a single road but instead a web of independent routes that led to the Mediterranean.

Already in the Bronze Age 3000 years ago, amber from northern Europe was a valuable medium of barter and trade that found its way southwards. The honey-like gem has always fascinated people and in all great dynasties it was viewed as a manifestation of luxury and power. But amber was also a gladly received means of payment. Even in prehistoric times it was used as jewellery and for creating works of art. Adornments made from imported amber were worn in Greece in 1600 B.C., and several objects found in Egypt have been proven to date back even more than 3500 years – all from the North Sea region.

In more recent times, the most famous artwork of its kind is the Amber Room, a chamber decorated with amber panels backed with gold leaf and mirrors, which was created at the behest of King Friedrich I of Prussia in the early 18th century. It was ultimately gifted by the king's first son, Friedrich Wilhelm I, to Tsar Peter the Great, thereby cementing a Prussian-Russian alliance against Sweden. For almost two centuries it had its home at the Catherine Palace in Tsarskoye Selo near Saint Petersburg, only to be dismantled during World War II and returned to Germany, where as of 1942 it was exhibited at Königsberg Castle in East Prussia. Its components disappeared at the end of the war, never to be found again. Since 2003, a true-to-original reproduction of the Amber Chamber dazzles visitors at the Catherine Palace.


North Sea
Tollense
Nebra
Kyffhäuser
mountains
Nebelland
Savognin


Baltic Sea
The Amber Coast
Alps
Black Sea
Adria
Aegean Sea
Mycenae
Mediterranean Sea
Qatna
Egypt
Sinai Desert

1

VP Bank Group

VP Bank at a glance

VP Bank Group is an internationally active private bank focused on rendering asset management services for private individuals and financial intermediaries.

VP Bank is one of the largest banks in the Liechtenstein financial centre. In addition to its headquarters in the Principality of Liechtenstein, VP Bank Group is present with offices in six other locations around the globe: Switzerland, Luxembourg, the British Virgin Islands, Singapore, Russia and Hong Kong.

The shares of VP Bank are listed on SIX Swiss Exchange. An "A–" rating from Standard & Poor's vouches for the financial strength of this banking enterprise. A large proportion of its equity capital is in the hands of two major shareholders, Stiftung Fürstlicher Kommerzienrat Guido Feger and U.M.M. Hilti-Stiftung – a guarantee for continuity, independence and sustained quality.

VP Bank's workforce of more than 700 employees administers the wealth of close to 60,000 clients in some 60 countries. Its client advisors are supported by a global network of partner firms that contribute to the outstanding international know-how of VP Bank Group.

The roots, the strengths

Founded in 1956 in Vaduz, Liechtenstein, VP Bank has grown steadily from a friendly local bank to become a globally active financial services group.

The founder of VP Bank, Guido Feger, was a successful entrepreneur and one of Liechtenstein's most highly regarded fiduciaries. Right from the start, he demonstrated innovativeness, competence and courage, while never veering from the fundamental principles of client orientation and financial security. And those tenets have been resolutely upheld for what is now more than half a century.

Performance and trust – Guido Feger lived and breathed this business philosophy. And to this very day, each and every employee of VP Bank Group lays claim to that ethos of quality. An array of international awards for client advice and business excellence, as well as numerous ISO certifications, attest to this pronounced quality consciousness.

In 1983, VP Bank became Liechtenstein's first exchange-listed company, and ever since then it has been present in the international banking system via the euro money market. The philanthropic activities of the Bank's founder have been perpetuated by its major shareholder, Fürstl. Kommerzienrat Guido Feger.

The structure of VP Bank provides for a streamlined, client-oriented management hierarchy. And the linkage of its service and product business units affords strong marketing support.

Client advice

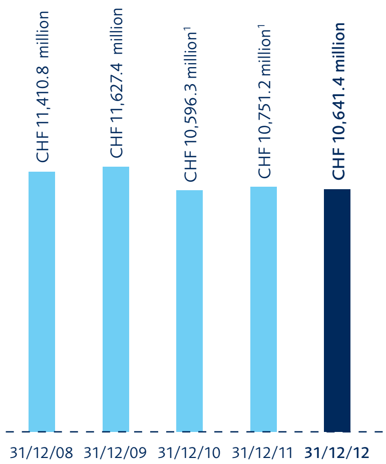
A unique aspect of VP Bank is its independence in terms of providing financial advice. Investment solutions are based on the principle of "open architecture", an approach that also takes into account the best-in-class products and services of third-party providers. The result: avoidance of conflicts of interest right from the start.

VP Bank distinguishes itself through client care and proximity. The following factors are also part of its special uniqueness:

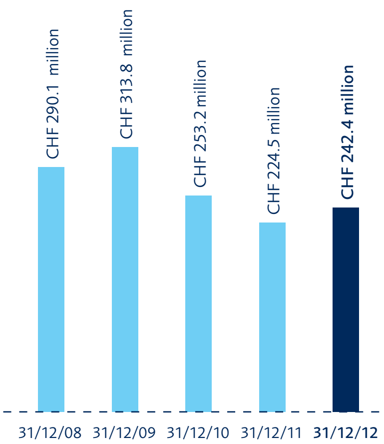
- open architecture with a first-class range of financial products
- tailor-made wealth structuring, asset management and investment advice
- holistic, comprehensive advice and planning
- qualitatively outstanding service
- in-depth grasp of client needs
- trust, transparency and reliability
- resolute protection of the client's private sphere

Top grades earned each year for the quality of advice it provides are a clear confirmation that VP Bank deserves the trust of its clients. With a staff of roughly 700 employees, it has the right size to offer intelligent solutions with a personal touch. Clients enjoy the individualised advice of a private bank while simultaneously gaining access to a worldwide network of specialists. And not least of all, the uniform investment process ensures straightforward decisions, which accrue to the benefit of the client.

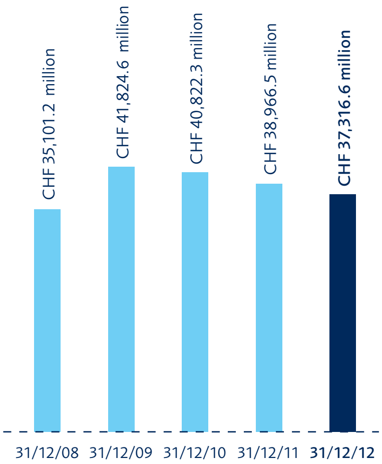
Key figures of VP Bank Group



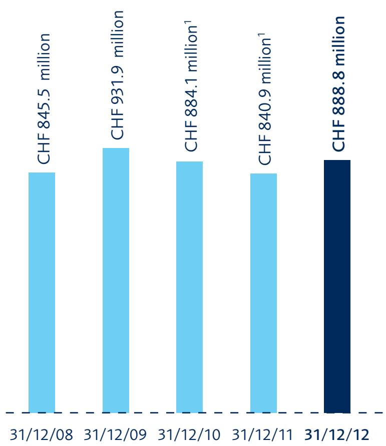
Total assets



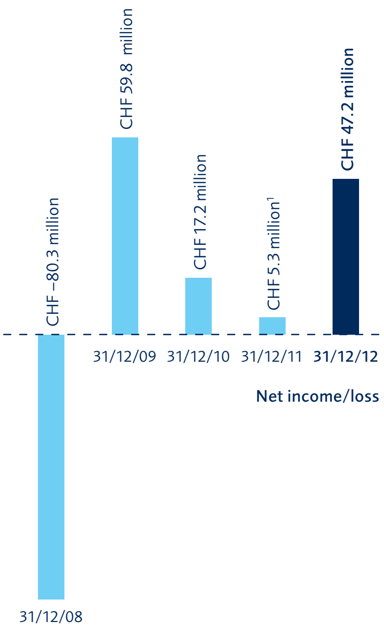
Total net operating income



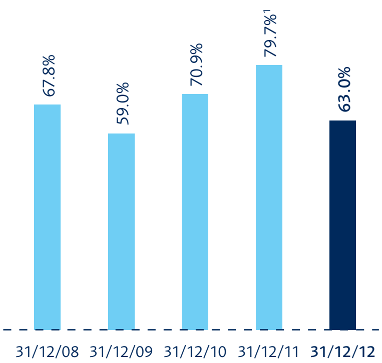
Client assets



Total shareholders' equity



Net income/loss



Cost/income ratio

[1] adjusted (IAS 19R)

Key figures of VP Bank Group

	2012	2011 adjusted [1]	Variance in %
Key balance sheet data in CHF million[2]			
Total assets	10,641.4	10,751.2	–1.0
Due from banks	4,789.1	5,143.9	–6.9
Due from customers	3,713.3	3,851.1	–3.6
Due to customers	8,702.0	8,692.5	0.1
Total shareholders' equity	888.8	840.9	5.7
Shareholders' equity, attributable to shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	871.1	821.9	6.0
Equity ratio (in %)	8.2	7.6	7.1
Tier 1 ratio (in %)[3]	21.5	18.0	19.4
Key income statement data in CHF million			
Total net operating income	242.4	224.5	8.0
Interest income	83.5	66.6	25.3
Income from commission business and services	115.1	121.9	–5.6
Income from trading activities	21.1	29.4	–28.0
Operating expenses	152.8	178.8	–14.5
Net income	47.2	5.3	797.0
Net income attributable to shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	47.1	3.2	n.a.
Client assets in CHF million[3]	**37,316.6**	**38,966.5**	**–4.2**
On-balance-sheet customer deposits (excluding custody assets)	8,979.9	9,028.4	–0.5
Fiduciary deposits (excluding custody assets)	513.8	696.6	–26.2
Client securities accounts	18,996.9	17,703.8	7.3
Custody assets	8,826.1	11,537.7	–23.5
Net new money	–192.0	994.5	n.a.
Key operating indicators			
Ratio of foreign assets (in %)	44.1	47.3	–6.7
Return on equity (in %)[2,4]	5.5	0.5	n.a.
Cost/income ratio (in %)[5]	63.0	79.7	–20.9
Headcount (expressed as full-time equivalents, excluding trainees)[6]	706.9	737.8	–4.2
Total net operating income per employee (in CHF 1,000)	342.9	304.2	12.7
Total operating expenses per employee (in CHF 1,000)	216.2	242.4	–10.8
Net income per employee (in CHF 1,000)	66.7	4.3	n.a.
Key indicators related to shares of VP Bank in CHF[2]			
Net income per bearer share[7]	8.17	0.56	n.a.
Net income per registered share[7]	0.82	0.06	n.a.
Dividend per bearer share	2.50[8]	1.50	66.7
Dividend per registered share	0.25[8]	0.15	66.7
Dividend yield (in %)	3.8	1.8	112.8
Payout ratio (in %)	30.6	269.7	n.a.
Total shareholders' return on bearer shares (in %)	–19.9	–24.7	n.a.
Shareholders' equity per bearer share on the balance-sheet date	150.97	143.02	5.6
Shareholders' equity per registered share on the balance-sheet date	14.84	13.99	6.1
Quoted price per bearer share	65.00	83.00	–21.7
Quoted price per registered share	5.50	7.25	–24.1
Highest quoted price per bearer share	85.00	119.00	–28.6
Lowest quoted price per bearer share	60.00	74.00	–18.9
Market capitalisation (in CHF million)[9]	378	485	–21.9
Price/earnings ratio per bearer share	7.96	149.22	n.a.
Price/earnings ratio per registered share	6.73	130.34	n.a.
Rating Standard & Poor's	**A–/Negative/A–2**	**A–/Stable/A–2**	

1 Adjustments arising from IAS 19R.
2 The reported key data and operating indicators are computed and reported on the basis of the share of the net profit and shareholders' equity attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz.
3 Details in the notes to the consolidated income statement and consolidated balance sheet.
4 Net income / average shareholders' equity less dividend.
5 Total operating expenses / total net operating income.
6 In accordance with legal requirements, trainees are to be included in headcount statistics as 50 per cent of equivalent full-time employees.
7 Based on the weighted average number of shares (bearer) (note 11).
8 Subject to approval by the annual general meeting.
9 Including registered shares.

The organisational structure of VP Bank Group

VP Bank Group is subdivided into four business segments: Banking Liechtenstein & Regional Market, Private Banking International, Chief Operating Officer (COO) and Chief Financial Officer (CFO) & Corporate Center.

Changes to the organisational structure in the 2012 financial year

At the beginning of the year, the Board of Directors of VP Bank agreed on organisational and personnel changes aimed at increasing the responsibilities borne by the local offices, thereby taking a further step towards aligning the organisation with the specific requirements of the given market. Since 1 January 2012, the range of tasks of Group Executive Management and the Executive Board at the parent bank in Vaduz are now more clearly defined and allocated.

VP Bank's most important market segment, Banking Liechtenstein & Regional Market, is now represented in Group Executive Management. The Head of Commercial Banking has also been a member of the Executive Board at the Vaduz location since the start of 2012.

Group Executive Management at VP Bank comprises Siegbert Näscher (Chief Financial Officer) and Juerg W. Sturzenegger (Chief Operating Officer). Both have acted as joint Chief Executive Officers on an ad interim basis following the departure of the former CEO, Roger H. Hartmann.

Effective as of 1 January 2012, the Wealth Management Solutions (WMS) unit, previously headed by Juerg W. Sturzenegger, was integrated into the new Investment Services Center organisational unit of the Private Banking International business segment.

Also on 1 January 2012, the tasks of the Private Banking Liechtenstein, Private Banking Western Europe and Intermediaries LI & CH units, which are part of the Private Banking Liechtenstein & Regional Market business segment, were reoriented. The objective of this change was, on the one hand, to create a more streamlined management structure and, on the other, to lay the organisational foundation for a more efficient and client-oriented approach to providing advice.

Private & Affluent Banking has been combined into a single unit that focuses on the consulting-intensive private client business. In the new Intermediaries & Transaction Banking unit, efficient order execution and operating excellence take centre stage.

At the annual general meeting of shareholders in late April 2012, Chief Financial Officer Fredy Vogt was elected to succeed Hans Brunhart as Chairman of the Board of VP Bank Group. Siegbert Näscher followed Fredy Vogt as a member of Group Executive Management and Chief Financial Officer of VP Bank Group.

After 18 years, 14 of which as a member of Group Executive Management, Georg Wohlwend departed from VP Bank Group at the end of December 2012 in order to pursue new professional challenges. After close to two years in office, former CEO Roger H. Hartmann also decided to leave VP Bank Group in mid-July 2012.

Changes to the organisational structure subsequent to 31 December 2012

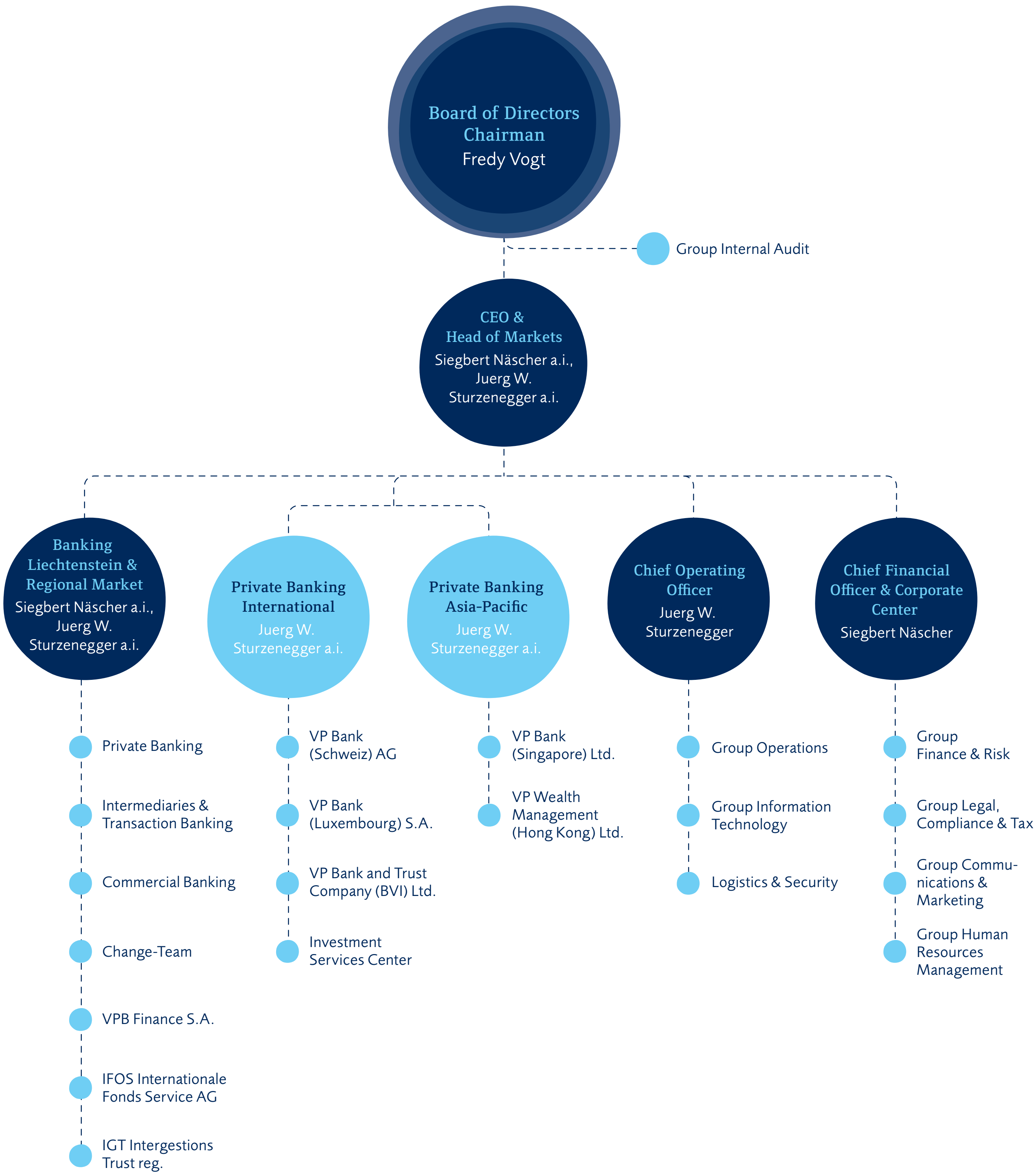
At the start of 2013, VP Bank Group expanded the Executive Board at the Vaduz location through the promotion of Martin Engler, Head of Private Banking Liechtenstein, and Günther Kaufmann, Head of Intermediaries & Transaction Banking, to members of the Executive Board of Verwaltungs- und Privat-Bank Aktiengesellschaft. With these promotions at the Liechtenstein Head Office, the Board of Directors is emphasising the Bank's orientation towards market and client needs.

As a result, the Executive Board at the parent bank in Vaduz comprises as of 1 January 2013 the Group Executive Management members of VP Bank Group, namely Chief Financial Officer Siegbert Näscher and Chief Operating Officer Juerg W. Sturzenegger, as well as the Head of Commercial Banking, Rolf Jermann and new members Martin Engler and Günther Kaufmann.

As of 1 January 2013, the "Investment Services Center" (IVS) and "Group Trading" (GRT) units were merged to create the "Group Investment & Trading Center". Overall responsibility for this new segment is now borne by the previous Head of Group Trading, Hendrik Breitenstein.

The combination of the IVS and GRT units has the goal of establishing a stable leadership structure, even as it maintains the well-organised and time-tested departments. At the same time this new, larger structure makes it possible to exploit synergies in neighbouring work areas and align the development of both fields with the strategic goals of VP Bank Group.

As of 1 January 2013, four new areas were created at IFOS, responsibility for each of which is now assigned to a member of Executive Management. As a result, Executive Management at IFOS has been expanded to include two new members. Reto Grässli and Ralf Konrad have been appointed to join the existing two members, Alex Boss and Sothearith Kol. At the same time, a switch has been made in the chairmanship of Executive Management of IFOS: Sothearith Kol will take over from Alex Boss as chair.


Board of Directors
Chairman
Fredy Vogt
Group Internal Audit
CEO &
Head of Markets
Siegbert Näscher a.i.,
Juerg W.
Sturzenegger a.i.
Banking
Liechtenstein &
Regional Market
Siegbert Näscher a.i.,
Juerg W.
Sturzenegger a.i.
Private Banking
International
Juerg W.
Sturzenegger a.i.
Private Banking
Asia-Pacific
Juerg W.
Sturzenegger a.i.
Chief Operating
Officer
Juerg W.
Sturzenegger
Chief Financial
Officer & Corporate
Center
Siegbert Näscher
Private Banking
Intermediaries &
Transaction Banking
Commercial Banking
Change-Team
VPB Finance S.A.
IFOS Internationale
Fonds Service AG
IGT Intergestions
Trust reg.
VP Bank
(Schweiz) AG
VP Bank
(Luxembourg) S.A.
VP Bank and Trust
Company (BVI) Ltd.
Investment
Services Center
VP Bank
(Singapore) Ltd.
VP Wealth
Management
(Hong Kong) Ltd.
Group Operations
Group Information
Technology
Logistics & Security
Group
Finance & Risk
Group Legal,
Compliance & Tax
Group Commu-
nications &
Marketing
Group Human
Resources
Management

VP Bank, Vaduz, Head Office

Segments	Area	Head
Board of Directors	Group Internal Audit	Nikolaus Blöchlinger
Chief Executive Officer & Head of Markets		
Chief Financial Officer & Corporate Center	Group Finance & Risk Group Legal, Compliance & Tax Group Communications & Marketing Group Human Resources Management	Dr Hanspeter Kaspar Monika Vicandi Tanja Muster Dr Karl Walch
Banking Liechtenstein & Regional Market	Private Banking Intermediaries & Transaction Banking Commercial Banking Change-Team	Martin Engler Günther Kaufmann Rolf Jermann Werner Wessner
Chief Operating Officer	Group Information Technology Group Operations Logistics & Security	Dr Andreas Benz Andreas Zimmerli Lorenz Kindle
Private Banking International	Investment Services Center	Juerg W. Sturzenegger a.i.

Subsidiaries with bank status

Company	Country	City	Head
Verwaltungs- und Privat-Bank Aktiengesellschaft	Liechtenstein	Vaduz	Siegbert Näscher, Juerg W. Sturzenegger, Rolf Jermann
VP Bank (Schweiz) AG	Switzerland	Zurich	Dr Marcel Tschanz, Katharina Vogt-Schädler, Jürg Moll, Marc Wallach
VP Bank (Luxembourg) S.A.	Luxembourg	Luxembourg	Yves de Vos, Romain Moebus, Marco Predetti
VP Bank (BVI) Ltd.	British Virgin Islands	Tortola	Sjoerd Koster a.i.
VP Bank (Singapore) Ltd.	Singapore	Singapore	Reto Isenring

Asset management companies

Company	Country	City	Head
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) Ltd.	British Virgin Islands	Tortola	Dr Christoph Gutmann

Trust companies

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

Representative offices

Company	Country	City	Head
VP Bank (Switzerland) Limited Moscow Representative Office	Russia	Moscow	Jürg Moll a.i.
Verwaltungs- und Privat-Bank Aktiengesellschaft Hong Kong Representative Office	China	Hong Kong	Clare Lam

VP Bank shares

Economic environment

Economic data in the first quarter of 2012 were mainly positive and in many cases even exceeded analysts' expectations. By ensuring sufficient liquidity for European financial institutions, the long-term refinancing operations of the ECB also managed to avert a system crisis and brightened the mood in the financial markets.

Nonetheless, hopes for a sustained stabilisation of the global economy were put to the test again already in the second quarter. Not only a revival of economic concerns about weakness in some of the key leading indicators, but also the rekindled European debt crisis was cause enough for a number of turbulent weeks last spring in the international financial markets.

In particular, the Greek elections led to tremendous uncertainty about the country's ability to remain in the Eurozone as well as the consequences of a "Grexit". And for the first time, a European heavyweight was drawn into the cauldron of the financial crisis, namely Spain. The burst real estate bubble on the Iberian Peninsula and accompanying economic breakdown led to an enormous need for capital on the part of Spanish banks, and they were not in the position to obtain it on their own. But aid from the EU and IMF was not long in coming.

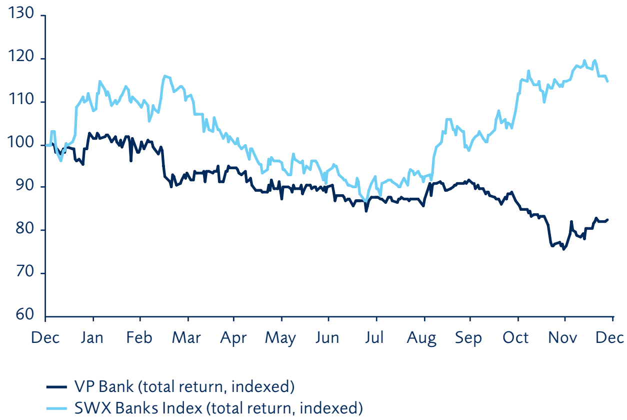
ECB President Draghi made it clear in public that the central bank would take all steps necessary to preserve the euro. Shortly thereafter the ECB announced that, under certain circumstances, it would buy the bonds of beleaguered member states in order to reduce the risk premium on those bonds. That, in combination with the US Federal Reserve Bank's announcement of yet another round of "quantitative easing", represented the starting shot for a significant recovery in all riskier asset classes. On the economic front, the third quarter witnessed a progressively divergent matrix of signals from our main markets.

The Eurozone economy was losing steam already in early 2012. Necessary austerity measures and the uncertainty amongst consumers led to a decline in gross domestic product in the second and third quarters, thereby drawing the eurozone into its second recession since 2009.

In Switzerland, lively private consumption managed to buoy the economy at least temporarily. However, owing to the country's high degree of commercial interlinkage, the Swiss economy was unable to entirely escape the weakness in Eurozone business activity. The only thing that prevented a renewed decline in third-quarter GDP was a significant increase in inventories.

On the other hand, the second half of the year saw increasingly upbeat news from the USA. Following the second-quarter dip in the road, the recovery appeared to be back on a broader, more solid footing. Encouraged also by a further easing of monetary policy, households became more ready to spend again and the long-hoped-for revival of the real estate market finally set in. As the year drew to a close, all eyes were on the "fiscal cliff" debate in Congress. Tax increases and automatic spending cuts threated to push the USA into another recession in 2013. The necessary compromise only came shortly after the turn of the year, but the negotiations over spending cuts have merely been put off.

VP Bank bearer shares versus the SWX Banks Index in 2012



Equity markets

The 2012 year for stocks was dichotomous. After a favourable start for the equity markets, the European debt crisis garnered centre stage again in May and disappointing economic data only aggravated an already tense situation. Within the space of two months, the global equity market (as measured by the MSCI World index) declined in value by more than 13 per cent. Despite the fundamentally cheap valuations and generally positive earnings surprises, it was only the unexpectedly upbeat macroeconomic data from the USA that finally triggered the anxiously awaited turnaround. The announcement of vast monetary support measures on the part of the Fed and ECB underpinned the positive trend and saw to it that most of the major stock exchanges closed out the year with significant gains.

Although the price trends in most regions were quite similar, there were dramatic divergences in certain instances. In Europe, investors ignored the austerity programmes and global economic weakness while continuing to bet on the tried and tested German equity market. The result: a 29 per cent gain in the benchmark DAX index. Despite promises by the ECB to buy, if necessary, unlimited amounts of ailing member states' government bonds, the Spanish and Italian equity markets were unable to keep pace with the annual stock performance in the core countries. Following the lows registered at mid-year, those two markets registered almost twice the gain of the DAX; however, that was no longer sufficient to make up for their catastrophic performance in the first half and therefore left them in the cellar of the European rankings.

Major divergences were also to be seen in the emerging-market stock indices. While Asian shares as well as those in the Eastern European region generated returns of close to 18 per cent, the commodity-heavy South American equity markets were not able to match that after their dive in May.

The shares of VP Bank

VP Bank shares have been listed on Switzerland's stock exchange (SIX Swiss Exchange) since 1983. As at 31/12/2012, the company's market capitalisation amounted to CHF 378 million.

Following several years of weakness, the European banking sector managed to record what in part were significant price gains. Especially banks in Great Britain and France were amongst the winners. In Switzerland and Liechtenstein, however, the picture was ambiguous. Although the action in the equity markets had a positive influence on client funds and returns, the rock-bottom interest rates as well as the structural change under way still posed a challenge. On the whole, the Swiss banking sector rose by a robust 14 per cent but nonetheless lagged its European counterparts.

With a loss in price (including dividends) of 19 per cent, the shares of VP Bank were unable to benefit from the recovery. A high of CHF 85 was reached in January and a low of CHF 60 in November. VP Bank's average share price for the year stood at CHF 74. The earnings breakdown in the 2011 financial year and related reduction of the dividend gave investors cause for uncertainty, and even the lower cost/income ratio at the halfway mark of 2012 was unable to generate price momentum in the stock.

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 2012, analyst and media conferences were key events for intensifying the communication with investors and financial intermediaries.

Regular presentations addressing the latest trend in financial results serve to enhance the dialogue with institutional and private investors. An additional means of communication is the newly designed website www.vpbank.com, where all current information on VP Bank can be accessed.

VP Bank's 2011 annual report was a "Gold Award" winner within the framework of the international "Galaxy Awards". In the world's largest assessment of annual reports conducted by the "League of American Communications Professionals", the 2011 annual report of VP Bank also won the "Silver Award". These prizes attest to the high quality of VP Bank's information policy.

Research coverage of VP Bank is provided by analysts at Crédit Agricole Cheuvreux Switzerland and Zürcher Kantonalbank.

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 are evaluated by a major international rating agency.

Agenda for 2013	
Media and analyst conference, 2012 financial results	Tuesday, 12 March 2013
Annual general meeting	Friday, 26 April 2013
Dividend payment	Tuesday, 7 May 2013
Round-table discussion on semi-annual results 2013	Tuesday, 27 August 2013

VP Bank share details	
Bearer shares, listed on SIX Swiss Exchange	
Amount listing	5,314,347
Free float	62.14%
Symbol on SIX	VPB
Bloomberg ticker	VPB SW
Reuters ticker	VPB.S
Security number	1073721
ISIN	LI0010737216
SEDOL number	5968006 CH

Share-related statistics 2012	
High (27/01/2012)	85.00
Low (22/11/2012)	60.00
Year-end close (final settlement value, 28/12/2012)	65.00
Average price	73.91
Market capitalisation in CHF million	378
Consolidated net profit/loss per bearer share	8.17
Price/earnings ratio (PE)	7.96
Dividend per bearer share (proposed)	2.50
Net dividend yield in %	3.8
Standard & Poor's rating	A– (A–/Negative/A–2)

Further information on VP Bank's shares, capital structure and major shareholders can be found in the "Corporate governance" section on pages 66 ff.

Contact

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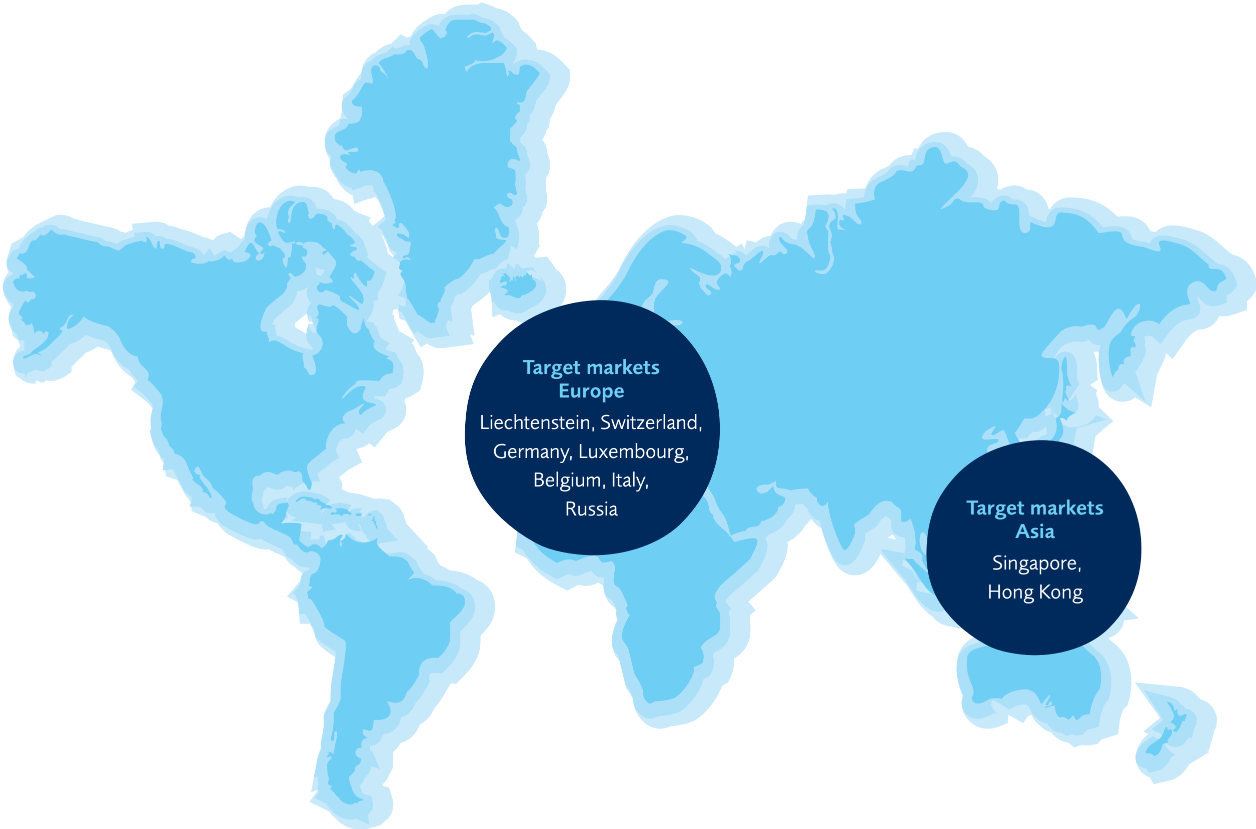
2

Strategy report

Strategy report



Corporate strategy – strategic orientation of VP Bank

The business model of VP Bank is based on two pillars: private banking and the intermediaries business. The home market activities in Liechtenstein are supplemented by retail banking and the commercial business. From the various locations of VP Bank Group – namely Vaduz, Zurich, Luxembourg, Tortola, Singapore, Hong Kong and Moscow – clearly defined target markets are actively cultivated. Those local offices bear responsibility for developing their own markets and receive coordinative assistance from the Group level. For Europe, the Board of Directors has designated Liechtenstein, Switzerland, Germany, Luxembourg, Belgium, Italy and Russia as target markets. In Asia, they are Singapore and Hong Kong.

The primary strategic goal of VP Bank is to grow profitably as a Group via its activities in those target markets and segments while preserving its own independence. Strategic partnerships and cooperative undertakings are a key component of the business model.

The central tasks in this regard are to fulfil all regulatory cross-border requirements and offer a comprehensive array of services that correspond to VP Bank Group's business model. Within the given target markets, clients are grouped according to their needs.

VP Bank has launched the following strategic initiatives:

Market-oriented management structure

The goal here is to establish a client- and marketing-oriented management structure. VP Bank prefers that its local offices enjoy a high degree of autonomy.

As a result, VP Bank has a lean management structure that is focused on the specific needs of its various target markets. And that structure must be flexible enough to respond as quickly as possible to changing market conditions and support implementation of the Group's strategy. Since 1 January 2013, the various tasks of Group Executive Management as well as those of the Executive Board at the Head Office in Vaduz have been more clearly regulated and, in certain instances, allocated differently than before.

In early 2012, Rolf Jermann, Head of Commercial Banking, became a new member of the Executive Board at the Head Office, and Martin Engler, Head of Private Banking, and Günther Kaufmann, Head of Intermediaries & Transaction Banking, were added to that body at the beginning of 2013.

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 Vaduz location also formally acquires the status that it always has implicitly had in terms of the corporate identity and business activities of the entire Group.

Growth initiatives

For VP Bank, growth means attracting new clients and pressing ahead with the qualitative growth of client assets under management. In this connection, markets, client segments as well as products and services are continuously subjected to a precise analysis.

In the private banking area, VP Bank focuses on the medium-sized wealth segment, where the range of offerings for existing clients is to be expanded successively. Included in this are new advisory concepts, a wider array of products, as well as innovative forms of communication such as e-channelling. VP Bank's decades of investment competence will also be keyed on more intently.

The business with intermediaries offers growth opportunities. VP Bank wants to increase the number of its partnerships with this target group and offer new models for cooperation, amongst them expanded platforms for banking services, training, research, the cross-border exchange of know-how, risk control and investment controlling. All of these services and competencies are already in-house and should be offered more extensively.

Geographically, VP Bank continues to see great opportunities for new client acquisition in the Asia/Pacific region. Accordingly, the offices in Hong Kong and Singapore are being used for local Asian transactions. Here, VP Bank is placing great weight on the growth of its intermediaries business.

Central and Eastern Europe is also a region where growth can be generated. VP Bank is concentrating in particular on Russia, where VP Bank Group is present with a representative office in Moscow.

Opportunities are also to be had in Luxembourg, a financial hub for international investors. The Grand Duchy has become specialised in the pan-European investment fund business and is the world's second-largest fund centre behind the USA. VP Bank is the only Liechtenstein-based bank to be present in both the Luxembourg and Liechtenstein fund centres and it wants to exploit that advantage further.

The new legal requirements for alternative investment fund managers (AIFMs) are something that VP Bank views as a chance to win new clients. The Bank is prepared for such an opportunity and expects that 2013 will see new business in this regard.

VP Bank will make no further investment in markets which have no promise for profitable growth in the foreseeable future. For that reason, VP Bank Group decommissioned its Munich-based asset management company in mid-2012. Germany remains an important target market but it will be cultivated efficiently from the Bank's other locations. In this regard, VP Bank is taking advantage of the possibilities afforded by the EU passport: after fulfilment of a modicum of formalities, the European Union has allowed the simplified, EEA-wide distribution of certain financial products.

Efficiency

Localising the potential for cost savings was successfully initiated in 2012 with the "Fit for the Future" project. The related measures, which have been defined and already partially implemented, are aimed at reducing the Bank's cost base to CHF 160 million by the end of 2013. The findings from this cost-reduction programme are being integrated into a disciplined cost management approach and progressively translated into reality.

Even more so than before, VP Bank will think and act as a whole. Efficiency enhancement possibilities within VP Bank Group are being identified on an ongoing basis to ensure success for the entire Group.

One focal point of the measures for increasing efficiency in recent years has been the IT area. With the "Avaloq" banking application, all of the Group's booking locations now have the most modern IT infrastructure that serves all client needs. And major savings have also been achieved through targeted measures in the area of IT processes.

Efficiency gains have an additional positive effect: the centralisation of routine work and automation of certain processes result in heightened quality and the ability to analyse all commercial activities.

Group-wide efficiency gains are also being sought via partnerships. Especially in the Liechtenstein financial centre, cooperative undertakings make it possible to counter increasing costs. With this approach, new alliance-based business models can be developed. To that purpose, VP Bank is permanently engaged with other banks in an exchange of experiences in a joint effort to exploit and optimise the available resources. In the age of globalisation, reciprocal knowledge transfer is advantageous for all parties concerned.

VP Bank cooperates with the Liechtensteinische Landesbank (LLB) in the area of printing and shipment, as well as via a joint procurement company. VP Bank will also lease a floor of the new LLB data processing centre, where it will take up occupancy in the first half of 2013. In this collaboration, making use of the latest IT solutions and efficient data management are the main drivers.

In the second half of 2012, VP Bank examined the possibility of outsourcing its IT competence centre to an external partner company. However, it was determined that the conditions for realising such a project are not suitable at present.

In the years ahead, VP Bank will also continue to examine the viability of partnerships and joint undertakings.

Advisors and teams

The rendering of financial advice is different today than it was just a few years ago. Clients are better informed, more mobile and more demanding. And with those demands, the requirements profile for client advisors has also changed. Excellent, comprehensive client care is indispensable, yet it must include amongst other things specialist insight into tax law and finance. Asset management know-how alone is no longer sufficient.

VP Bank continues to search for highly qualified advisors and advisory teams that come up to those expectations. Staff revitalisation, broader skill sets and discussions with private banking specialists are key elements in this regard.

New strategic circumstances

An international banking group such as VP Bank must be agile and dynamic. Since the start of its transformation process, VP Bank Group has accomplished a lot. However, factors beyond its influence have led to a change of course in terms of implementation. For one, the general economic conditions have not improved, e.g. the situation in the interest-rate area and economic trends in Europe, and also consumer confidence, have both continued to deteriorate. And that puts further pressure on margins. In addition, heightened regulation and the global taxation issue have gained tremendous momentum.

For those reasons, the transformation process has yet to be concluded. VP Bank is still pursuing it resolutely but, depending on the further developments, may opt to alter the priorities.

For example, the topic of tax transparency carries greater weight today than was the case at the beginning of the transformation process.

An overview of the anticipated new and altered legal provisions can be found in the "Legislation and supervisory authorities in Liechtenstein" section on pages 46 ff.

Personnel strategy

Esteem for the contribution of each employee is the guiding principle of the Bank's personnel strategy. VP Bank wants to offer its staff new horizons and interesting personal development opportunities throughout the entire Group.

The Bank's employees represent the very foundation on which optimal client solutions are built. For that reason, it is the desire of VP Bank to retain outstandingly qualified team members to the bank, nurture them, and attract new ones. In the hiring process, it applies a comprehensive selection method that takes into account not only the intellectual and professional capabilities of a candidate, but also the cultural and social aspects. The development of talents, as well as the identification of where an individual's know-how can best be deployed, are continuously pursued.

VP Bank attaches great value to the training and continuing education of its employees. Here, the fostering of qualified, up-and-coming professionals ensures that there is always a pool of highly competent employees to draw on in the future. In the past financial year, 24 apprentices were in training at VP Bank, of which 8 started their curriculum in 2012 and 7 completed their traineeship with professional certification. All of the latter were officially hired.

VP Bank wants to be an attractive employer and offer its people secure jobs. However, in order to achieve the specified savings target, layoffs were necessary at VP Bank Group in 2012. In such instances, it is a fundamental principle of VP Bank that, without exception, socially compatible solutions are found and implemented.

Further information in this regard can be found in the "Employees" section on page 39 ff.

Brand strategy

A company's identity is reflected in its brand. During the 2012 financial year, VP Bank revitalised its brand.

The brand has an impact not only outside the company but also within it. The constant goal of brand management is to harmonise the company's self-perception, or identity, with its public impression. In an effort to elicit 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.

Management strategy – value-oriented leadership

To achieve its strategic goals and increase its enterprise value, VP Bank uses "key performance indicators" as a management instrument. "Economic profit" is the single most important reading for the success of value-oriented leadership. It expresses the total net income of VP Bank Group after deduction of the cost of capital.

The Bank's executives are supported by a management information system which, in addition to quantitative value drivers, also takes into account qualitative aspects. By combining strategic controlling with operative controlling, it can be ensured that the Group's medium-term goals are being properly pursued via corresponding measures at the operating level. Broadly based, resolutely conducted corporate governance also represents a reliable guideline for all of the Bank's management personnel.

With its "Long-Term Incentive Plan" (LTI), VP Bank has a compensation system that bonds managers with the Bank and is tied to its sustained success over the long run. As a result, managers can enjoy the fruits of the company's development as well as benefit from the appreciation of its stock price. The degree of their participation varies according to the actual success of VP Bank Group (see the "Corporate governance" section on page 76 f, and the "Compensation report" on pages 80 ff.).


Venice
Constantinople
Angora
Erzurum
Ani
Yumurtalık (Ayas)
Aleppo
Tabriz
Teheran
Nischapur
Buchara
Syria
Mediterranean Sea
Baghdad
Palmyra
Akko
Cairo
Yazd
Tiab (Hormozgan)
Arabian Sea
Indian Ocean


Hami
Aksu
Korla
Anxi
Beijing
Kaschgar
Dunhuang
Taklamakan
Wuwei
Qargan
Baoji
Chang'an
Yutian
India
Bay of Bengal
South China Sea

The Silk Road

The "Silk Road" refers to a network of caravan routes that connected the Mediterranean area with Central Asia and today's China. From East to West and vice versa, it was a path not just for merchants, scholars and armies, but also for ideas, religions and entire cultures. Only very few people made the entire journey – the goods they transported were usually passed on in barter transactions at the various outposts along the way. But one who did make it, and the most notable Silk Road traveller, was Marco Polo.

In 1271, seventeen-year-old Marco, along with his father Niccolò and uncle Maffeo Polo, took leave of Venice. On foot, horseback, camels and even ships, they mastered the arduous yet adventurous four-year odyssey. Along the Silk Road, they discovered a flourishing trade in precious stones, pearls, silk fabrics, ivory, spices, handicrafts and much more. By 1275 they had reached their goal: China. There, Marco Polo met Kublai Khan, the great ruler of Mongolia and grandson of Genghis Khan. Kublai's empire at the time stretched from China to the region of today's Iraq in the west and Russia in the north. The Great Khan found favour in the young European and named him his prefect. With that title in his pocket, Marco Polo roamed through China in all heavenly directions for several years before returning to Venice by sea on a voyage that lasted from 1292 to 1295.

Over time, ships of the great trading companies superseded the Silk Road as the route to Eastern Asia, where they brought back luxury goods and artworks for the gentry of Europe.

3

Stakeholders’ report

Clients

VP Bank pursues a client-oriented business strategy. Closeness to the customer is a key factor in client care because it is the only way to understand and respond to the latest developments in the market. Again in 2012, VP Bank invested extensively in direct client contact.

A clear definition of the roles involved in client care regulates the interplay between front-office relationship managers and people behind the scenes, such as specialists for securities, tax matters, credits, investment funds and trusts. Within the framework of a holistic approach to advising clients, these teams call on competencies throughout VP Bank Group in order to arrive at individualised solutions that meet the broadest spectrum of requirements.

Moreover, this advisory concept embraces all phases in the lifecycle of a client, and differentiation enables the Bank to offer a tailor-made range of financial products and services. VP Bank Group is the provider of choice for individualised portfolio management and investment advice that meet the needs of private individuals and financial intermediaries. Thanks to the Bank's principle of open architecture, clients benefit from truly unbiased advice. Included in the recommendations are best-in-class products and services of third-party financial institutions as well as the Bank's own investment solutions.

VP Bank focuses intently on client satisfaction and service quality, and thus regularly conducts surveys as a part of its client feedback management activities. Open feedback channels, professional complaint handling, and an ongoing dialogue with clients are evidence of this resolute orientation towards client needs and concerns.

Business units and client segments

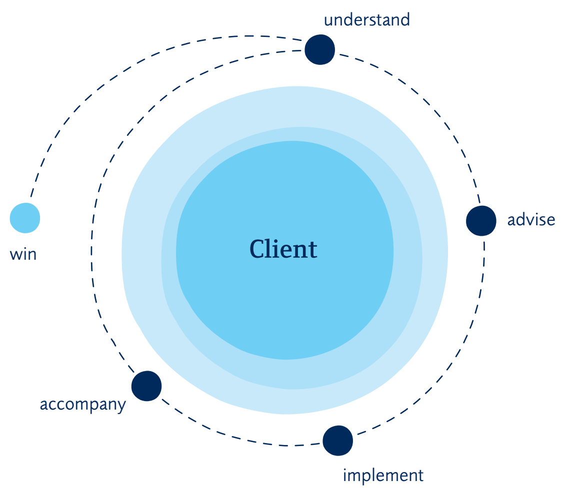
With its Private Banking and Intermediaries business units, VP Bank addresses a predefined and limited number of target markets and client segments. In this connection, it differentiates between target markets in the vicinity of the Bank's booking centres and other markets that lie outside those areas. Private banking services and support to financial intermediaries are offered at all locations of VP Bank throughout the world, while in Liechtenstein and the surrounding region the palette is supplemented by retail banking services that include client-oriented package solutions.

In Liechtenstein as well as eastern Switzerland, VP Bank also caters to the needs of institutional and regional corporate clients by facilitating the financing of investments and operating capital. In particular, the younger target groups are addressed via e-channel initiatives. Youth packages for students and apprentices round off the array of services.

The Private Banking unit concentrates on the mid-range segment with total assets of CHF 1 million to 25 million. Segmentation is accomplished according to the benefit preferences of clients by means of targeted offerings.

Advisory process

For optimal client care, VP Bank conducts a five-stage advisory process.



1. Win the client
The prerequisites for successful client acquisition are systematic planning, preparation and execution, whereas VP Bank wins most of its new clients as a result of recommendations by existing clients.

2. Understand the client
Understanding the client represents the basis for providing professional advice. The quality and quantity of information received from the client through direct questioning or in written form are decisive factors in the ability to identify the client's needs and to develop fine-tuned solutions.

3. Advise the client
Once the needs of the client have been determined, solutions that reflect various scenarios and alternatives need to be presented. The client is not only shown

the solutions that are "the closest fit", but also sensible possibilities in a broader context. VP Bank attaches great value to a team approach in arriving at solutions. Accordingly, specialists as well as other sources of know-how are called upon in this process.

4. Implement the client's wishes

If the client agrees with the proffered solution, implementation is the next step. The time taken for translating solutions into reality underscores VP Bank's devotion to achieving the exceptional. VP Bank considers it extremely important that the implementation of solutions is conducted in a timely manner or in keeping with agreed milestones that fulfil the needs of the client.

5. Accompany the client

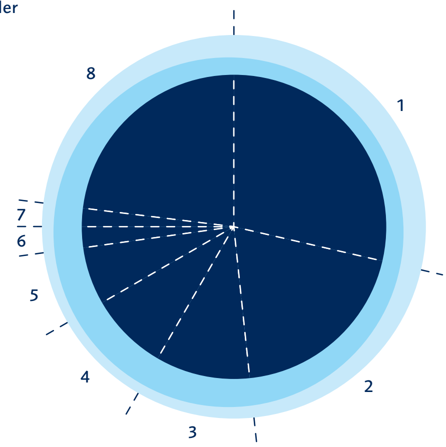
The advisory process does not end merely upon realisation of the solution. A client profile changes steadily and is augmented to reflect new developments. By periodically comparing the client profile with the effects and performance of a previously agreed solution, genuine added value is generated for the client.

Client assets

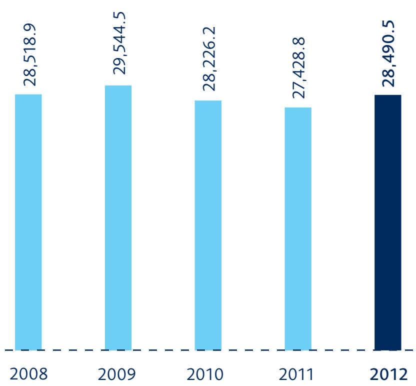
As at 31 December 2012, VP Bank held client assets under management totalling CHF 28.5 billion (3.9 per cent more than in the previous year). In addition, CHF 8.8 billion were in the form of assets held in custody. Thus total client assets on that date amounted to CHF 37.3 billion.

The origin of assets under management in 2012

1 Liechtenstein **28.7%**
2 Switzerland **19.8%**
3 Luxembourg **10.0%**
4 Germany **8.3%**
5 Russian Fed. **6.0%**
6 BVI **2.2%**
7 UK **1.9%**
8 Rest of the world **23.1%**



Client assets under management excluding custody assets (in CHF million)



Employees

VP Bank needs motivated, well-educated employees who project their service focus, competence and openness to their clients. Amongst other things, a precondition is a working climate in which all employees feel comfortable and at the same time feel encouraged. VP Bank offers them personal freedom to develop and implement their own ideas. It motivates them to perform in an above-average manner and offers them future prospects.

Recent years were marked by several changes in internal structures. VP Bank has made every effort to stand by its employees in a supportive role in the necessary processes of change. Cooperation in an atmosphere of mutual trust was a decisive basis for successfully implementing this structural change.

The objective of achieving cost savings in 2012 with the employee headcount demanded drastic measures. At the same time, as a result of developments in the financial sector, the demands placed on employees increased – particularly on client advisory personnel and those specialists who assist them. This meant that, last year, VP Bank focussed on targeted training and further education for employees, recruitment of individuals with additional competencies as well as fair handling of employees in case of personnel downsizing programmes.

Personnel strategy

The Group-wide strategy of Human Resources Management (HRM) is an integral component of corporate strategy. It derives from a resolution of the Board of Directors of December 2007. Since then, it has been reconfirmed each year with minor modifications. The HRM strategy encompasses three central themes:

1. **Personnel and management development:** VP Bank strives to develop a culture based on performance and management by results. VP Bank made the first groundbreaking step in 2008 when it introduced a value-based equity participation plan for management in the form of the Long-Term Incentive Plan (LTI). In 2012, the first ordinary vesting (assignment of equity after expiry of the agreed period) of the LTI plan took place in accordance with the LTI Rules after a three-year period (see Chapter Corporate governance, page 76).
2. **Internationalisation and corporate culture:** The internationalisation of VP Bank Group continues to represent a challenge for the Group's personnel policies. On the one hand, the Group needs a joint, interlinking corporate and management structure; on the other hand, the locations which are embedded in the most diverse cultures require a certain measure of autonomy. Here it is necessary time and again to find the right mixture. It is a permanent task for personnel management to promote intercultural exchange within the Group.
   Again in 2012, several employees within VP Bank Group were temporarily transferred to other locations. This fosters mutual understanding and improves cooperation across location boundaries. Also, cooperation between HR employees at the Head Office and local HR officers, as an important element of personnel strategy, was enhanced.
3. **Personnel marketing:** VP Bank strives to employ highly qualified advisors, advisory teams and technical specialists. These can only be attracted and retained to the desired extent by the Bank if it enjoys a reputation as an attractive employer. A central task of the company consists therefore of enhancing the reputation of VP Bank on the job market. In this context, it is important to have a recruitment process which is undertaken in a professional manner. This process was optimised in prior years and broadened by psychological elements.
   In 2012, employee resignations during their initial year of employment were reduced by approximately one-third. How employees are handled in exceptional situations is also particularly effective as regards the corporate image. Thus in 2012, a personnel downsizing programme was carried out on a selective basis, the basic conditions of which were agreed upon with employee representatives. In addition, the pension fund in Liechtenstein was converted from a defined-benefit to a defined-contribution scheme in January 2012. The ensuing lower pensions especially for older employees were partially offset by the allocation of a multi-million amount by the Bank.

Human Capital Management

Human Capital Management (HCM) is designed to ensure that VP Bank uses the right employees at the right time in the right place. VP Bank wishes to use the knowledge and capabilities which it has in-house in an optimal manner. It wishes to match advisors and clients in such a manner that they fit together from the point of view of competencies and characters. All this must function across frontiers throughout the entire VP Bank Group. For this reason, a robust central informational basis is necessary.

Since 2010, VP Bank has had a technical platform which is being expanded step by step and should be completed by 2015 at the latest. The personnel functions of individual locations can already undertake their HR activities using this platform. In addition, the data is available for reporting and analyses to local HR officers, management as well as on a centralised basis to Group Management with specific access rights.

As a result, it was possible, for the first time, to compute anticipated personnel costs for the entire Group in advance. In 2012, and in the locations Liechtenstein and Switzerland, the qualifications of individual client advisors necessary for cross-frontier advisory activities were recorded; they can now be monitored via HCM for topicality. The further upgrading of the platform will target the introduction of Employee Self Service which will lead to noticeable operational improvements – for instance in the management of absences and out-of-pocket expenses. The recording and ongoing maintenance of HCM employee capabilities and qualifications constitute the basis for an optimal management of human resources.

Specialist careers

VP Bank has launched a project which is designed to give shape to and promote a career as a specialist as an alternative to the traditional management career. The goal is to achieve transparent framework conditions and clearly defined development possibilities for specialists. The social component will also be of crucial importance, however: individuals who strive to pursue a career as a specialist should enjoy the same recognition and high regard as colleagues who pursue a management career.

In 2012, further groundwork was undertaken. Thus, in addition to tasks, competencies and responsibilities for all functions in the parent bank, ideal performance profiles were also defined. The key functions throughout VP Bank Group were documented and now serve as a basis for career planning as well as succession management.

Investments in training and further education

The high expectations of clients and the tough competition within the financial sector must be met at VP Bank with proven capabilities. In order to have employees possessing adequate professional skills and who are socially competent, VP Bank acquires the skills lacking through new appointments, on the one hand, and, on the other, by making targeted investments in the training and further education of its employees.

Again in 2012, the bank placed particular emphasis on the development of technical banking-related knowledge and on the consolidation of knowledge of international tax law. Thus, the basic vocational courses on the theme "International Tax Law in Liechtenstein, Switzerland and Germany", designed jointly with the University of Liechtenstein, were continued. Internal training courses were held with the objective of enhancing the advisory skills of client advisors. In addition, all client advisors in the locations Liechtenstein and Switzerland received training on the subject of "cross-border services" with the goal of compliance with Cross-Border Policy.

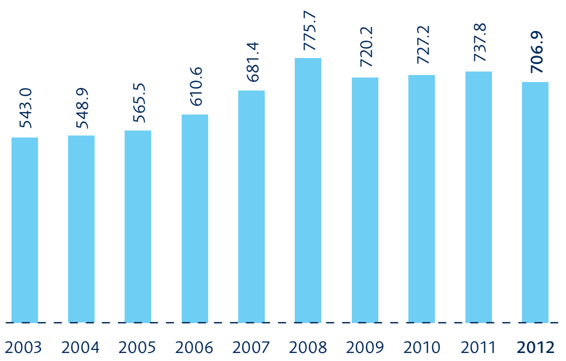
At the end of 2012, VP Bank provided training to 24 young people, enabling them to become qualified business administrators, as well as to a further 4 individuals as IT specialists. In addition, two young people completed their training to become qualified business administrators following their school leaving examination. VP Bank has developed a support model for students: they have the possibility of accepting 50 per cent employment at VP Bank during their studies. Primarily, economics students at the University of Liechtenstein have availed themselves of this possibility during the last ten years or more.

Human resources processes

Many individuals share the management of human resources. In particular, these are the line managers and the local HR officers and central HR employees as well as local and Group management. It is therefore necessary to address the issue of how they appropriately interact through assigned tasks, competencies and responsibilities as well as defining processes for the most important events (such as recruitment, resignations, salary fixing, promotions, etc.).

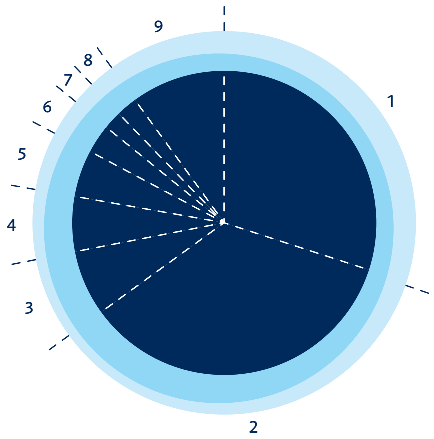
The defined HR process with its sub-processes has been an indispensable tool for many years in joint personnel work. Even if in 2012, for the first time for many years, no maintenance audit was undertaken, the HR processes were kept up to date and optimised whenever possible. For instance, the automatic establishment of the employee headcount by Group Finance or the recording of client advisor qualifications for the carrying out of "cross-border trades" was introduced in 2012.

Headcount VP Bank Group
(full-time equivalents)



Nationality of VP Bank Group's employees

1 Liechtenstein 30%
2 Switzerland 35%
3 Germany 7%
4 Austria 6%
5 Luxembourg 5%
6 Singapore 3%
7 Italy 2%
8 Belgium 2%
9 Rest of the world 10%



Personnel downsizing and involvement of employees

In 2011, within the scope of one project in VP Bank Group, a search was already made for possible cost savings. Finally, it was necessary to reduce staff numbers in order to implement the cost-savings target which was made public in early 2012. Several approaches were used: wherever possible, vacant positions were not filled and the duties of the position were spread over existing employees. Several positions were filled internally, others were actively reduced. In certain cases, a replacement position could be offered to the employee, in other cases, a dismissal notice unfortunately had to be issued.

Regrettably, in the current economic situation judged critical for the whole of the industry segment, the departure of employees cannot be completely avoided. It is all the more important, particularly in this difficult situation for those affected and their work colleagues, to find a fair and acceptable way. Therefore, in conjunction with employee representatives (see below), VP Bank has agreed the framework conditions which are to be followed whenever an employee loses his position through no fault of his own. In contrast to the benefits foreseen by law or as contractually agreed, in particular longer notice periods as well as a contribution to employability (e.g. for training or outplacement advisory services) have been agreed upon. The additional benefits granted according to objective criteria are applied Group-wide.

The Employee Representative Body (ANV) was established in Liechtenstein in 1998 on the basis of the then recently passed Workers' Participation Act. At the end of 2012, the five current members of the ANV were elected. Two individuals stood for re-election and were reconfirmed in their function; the three other representatives are new and were elected for a term of office of four years. The work of the ANV is based upon the Workers' Participation Act, which was adopted by management. The ANV must be informed and involved whenever the general conditions of employment are modified or whenever a reduction in employee headcount is foreseen. The decision-making competence in the matter remains, however, with management.

Employee statistics

As of 31 December 2012, VP Bank Group had 766 employees, which is 27 fewer than in the prior year. Expressed in terms of full-time equivalent employees, this is 30.7 fewer than last year, or 706.9 (see table below). 155 individuals or 20 per cent of the workforce worked on a part-time basis. The fluctuation rate of 14.1 per cent in 2012 was somewhat less than that of the prior year. It is to be noted that 5.0 per cent of the fluctuation was caused by a staff reduction programme initiated by the Bank. The share of employee resignations during the first year of employment was encouragingly on the decline with approximately one-third less than in previous years. The average length of service in VP Bank Group increased from 8.1 to 8.8 years as of the end of 2012. At VP Bank in Vaduz, the corresponding value even increased from 9.5 to 10.4 years. This reflects the relatively lower level of new recruits and resignations and also the wish of many employees to remain at VP Bank.

From the point of view of the nationality mix, a stable number of Liechtenstein citizens and a slight reduction of Swiss citizens was observed in the workforce. As of the end of 2012, 30 per cent were Liechtenstein citizens and 35 per cent Swiss (prior year 37, see graph on page 40). There was a minor increase in the number of client advisors in the Group: the 154 client advisors represent 20 per cent of all Group employees. At the end of 2012, 73 client advisors worked at VP Bank in Liechtenstein.

Employee statistics of VP Bank Group

as of 31/12/2012	Men	Women	Total
Number of employees	459	307	766
Quota in per cent	59.9	40.1	100.0
Average age	40.8	39.0	40.1
Average years of service	8.8	8.7	8.8

Headcount per company

as of 31/12/	2012		2011		Variance with previous year	
	Employees	Full-time equivalents	Employees	Full-time equivalents	Employees	Full-time equivalents
Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz	478	432.5	499	456.0	–21	–23.5
VP Bank (Schweiz) AG	86	80.6	92	87.0	–6	–6.4
VP Bank (Luxembourg) S.A.	79	74.6	78	73.9	1	0.7
VPB Finance S.A.	22	20.8	23	21.7	–1	–0.9
VP Vermögensverwaltung GmbH	0	0.0	5	5.0	–5	–5.0
VP Bank (BVI) Limited	36	35.4	32	32.0	4	3.4
VP Wealth Management (Hong Kong) Ltd.	5	5.0	7	7.0	–2	–2.0
VP Bank (Singapore) Ltd.	33	32.5	29	29.0	4	3.5
Moscow Representative Office	2	2.0	2	2.0	0	0
IGT Intergestions Trust reg.	7	5.6	8	6.4	–1	–0.8
IFOS Internationale Fonds Service AG	18	18.0	18	17.8	0	0.2
Total	**766**	**706.9**	**793**	**737.6**	**–27**	**–30.7**

Sustainability

To remain a successful banking group over the long run, efficient, farsighted corporate leadership is a must. For its part, VP Bank is also committed to taking into account the expectations and wishes of its stakeholders. That is the only way sustainable success can be achieved.

Today, true success is no longer conceivable unless consideration is given to the social and environmental impact of doing business. And a true understanding of sustainability by necessity spans the entire spectrum of corporate practices: from purchasing, to operational ecology, all the way through to product policies and investor relations. In addition, sustainable dealings have become a decisive driver of growth and innovation.

Responsible corporate leadership

Corporate responsibility is progressively becoming a focal point for various interest groups. Even the capital market is attaching greater weight to this factor. As the banking sector is one of the key industries in any economy, it is under the intense scrutiny of analysts and investors, alike. When assessing the value of a company, they are paying more and more attention to responsible corporate behaviour.

The role of VP Bank in society – its "corporate citizenship" – is shaped by a distinct sense of responsibility vis-à-vis clients, employees, investors, shareholders, partners, interest groups and the environment. Its orientation towards long-term economic, environmental and social compatibility is a key element of VP Bank's successful corporate activities.

The avowal of VP Bank

VP Bank Group is commited to the principle of sustainable business practices. It is convinced that responsible dealings and commercial success go hand in hand. The entire business model of a bank is based on the trust of its clients. VP Bank's activities in the area of sustainability help to reinforce and deepen that trust. Responsible dealings are therefore an integral part of its corporate culture, internal work processes and operative banking business.

In order to achieve the goals of commercial success and social integrity, all of VP Bank's employees have been called upon to act in keeping with the principle of sustainability. The internal "Code of Conduct" lays down the ethical principles of VP Bank and serves as a guideline for proper comportment. And it applies to the entire VP Bank Group. Within the scope of their activities, the Board of Directors, Group Executive Management, as well as all other managers at VP Bank, personify the fundamental values and principles of behaviour prescribed in the "Code of Conduct".

In terms of its responsibility towards the environment, VP Bank takes targeted measures for the frugal use of natural resources. Through its business activities, VP Bank is in constant interaction with society and therefore contributes to the safeguarding and further development of Liechtenstein as a commercial and industrial location.

By documenting its activities, VP Bank offers insight into its social responsibility and contribution to the common good. The publication "Sustainability at VP Bank" has been issued since 2010.

Mobility management

Five 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 free use of Mobility Cars, an arrangement that has met with an enthusiastic response. A favourable trend was to be seen again in the total number of kilometres driven for business purposes in employees' own vehicles: after having already declined in 2010 by 47 per cent versus the previous year, the number fell by 8 per cent in 2011 and by a further 36 per cent in 2012. The use of a videoconferencing system has helped to reduce the business travel activities of employees, who also are provided with a free pass for bus and railway transport within Liechtenstein.

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. This concept is exemplary throughout the region. In March 2011, VP Bank's mobility management approach received the "Zurich Climate Prize", which honours measures aimed at improving energy efficiency and reducing 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 353,400 in 2012, as has the number of envelopes from 1,300,000 in 2005 to 821,673 this past year. However, due to the bevy of new regulations, both totals rose versus the previous year as more frequent client mailings were made necessary.

Paper consumption has steadily decreased from 49.59 tonnes in 2008 to 41.09 tonnes in 2012 and now stands at the lowest level since 2004. The sharp increase in the number of e-banking clients has contributed significantly to this gratifying development.

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 have also been 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 declined by roughly 65 per cent over the past five years. Since 2010, the electronic communications of VP Bank Group include the footnote "Please consider the environment before printing this e-mail".

For the Vaduz and Zurich locations, the number of e-mail documents has increased dramatically: in 2007, the total was approximately 130,250; by 2011 it was already more than 696,270 and in 2012 about 778.609 – an increase of 11 per cent compared to the previous year.

Water consumption once again declined markedly versus the previous year and now lies below all readings recorded since 2004: water consumption per employee has dropped from 16.3 m^3 in 2005 to 12.3 m^3 in 2012.

Energy

Through numerous initiatives, VP Bank Group is focussing on the prudent consumption of energy. Those measures extend from the environmentally 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. Total power consumption at the Bank's Liechtenstein facilities has been on the decline for four years now thanks to efficiency-enhancing measures, amongst them an optimised cooling aggregate in Triesen for office air conditioning, which was installed in 2012.

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 continually from 2009 to 2011. However, in 2012 it decreased by some 6 per cent, partly due to unfavourable weather conditions.

The unusually cold temperatures in February 2012 were also responsible for an increase in heating oil consumption. By means of heat-recovery technology, VP Bank recycles thermal energy with the goal of minimising its primary energy consumption. Thanks to a "recuperator", the Bank's natural gas consumption was reduced by more than 60 per cent versus 2011.

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 seasonal fluctuations into account. The results flow into the measures for fine-tuning the Bank's overall energy supply. In addition, the energy supply project foresees the continued use of leading-edge technologies that enable heating on the basis of heat recovery. An initial implementation phase has been under way since the start of 2013.

In the autumn of 2012, a new service contract for photocopiers was signed. The old copiers will be replaced in the spring of 2013. The new devices are made of recycling-capable components and use environmentally friendly polymerised toner, which, in its production, generates 40 per cent less CO_2 emissions than conventional toners. Another major advantage is the lower TEC (typical electricity consumption) rate, which expresses the average weekly power consumption of electronic products based on their normal office uses. This new generation of equipment switches more rapidly to the sleep mode and requires considerably less energy than previous models. That in turn helps VP Bank to reduce its operating costs and fulfils the goal of continually applying new technologies to minimise energy consumption and hence further reduce CO_2 emissions.

Waste avoidance

Ever since 2004, waste separation has been the order of the day at VP Bank: paper, glass, cardboard, polystyrene, PET bottles and green waste each have their own receptacles.

The total amount of waste generated in 2012 was 188 tonnes or 6 tonnes more than in the previous year, this after four years of steady decline. The reading per employee of 0.38 versus 0.36 tonnes was also slightly higher, however still significantly below the amounts recorded in 2007 through 2009.

Environmental management

Responsibility for the Bank's environmental 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 environmental, 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.

VP Bank is certified under ISO 14001:2004 (Environmental Management), which underscores the viability of its environmental and sustainability policy. The themes of "operational ecology" and "social/communal" have been integrated into the existing quality management system.

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 needs to have motivated, well-educated employees who exemplify service orientation, competence and openness vis-à-vis their clients. One prerequisite for that is a work environment in which all employees feel comfortable and at the same time are encouraged. VP Bank offers them the leeway to come up with and implement their own ideas. It motivates them to achieve superior performance, offers them opportunities for training and continuing education, and fosters a healthy 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. VP Bank expressly encourages the private commitment of employees to public offices, schools of higher education, work groups and professional organisations.

In Liechtenstein, the VP Bank Sports Club organises numerous activities that are either 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 stop-smoking programme and a special "Fruit box" offer are also part of this effort. In addition, at its facilities in Vaduz, VP Bank offers the "well.system", which enables individualised management of personal health-related habits.

Social and cultural commitment

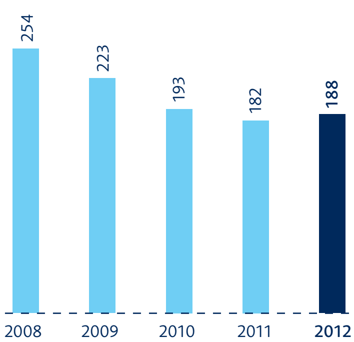
VP Bank has a long tradition of donating to or sponsoring numerous charitable organisations, initiatives and projects in the areas of social services, relief organisations, health, education, culture, nature conservation and the environment.

The VP Bank Art Foundation was established in 1996 for the purpose of collecting contemporary 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 and are also loaned out to third parties for display at art exhibitions. In 2012, three notable paintings were acquired and a new publication was presented. The latter is a status report and discusses the direction in which the collection is headed. But it also addresses the general environment for the collection and thereby takes a closer look at the people involved.

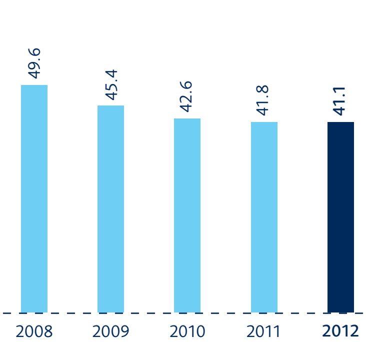
Annual report of the VP Bank Foundation

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 Articles of Incorporation – a wide range of projects, institutions and individuals who stand out for their accomplishments in the areas of ecology, art, education, sciences or culture. Grants are also provided 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. Donations may also be made for welfare and social purposes.

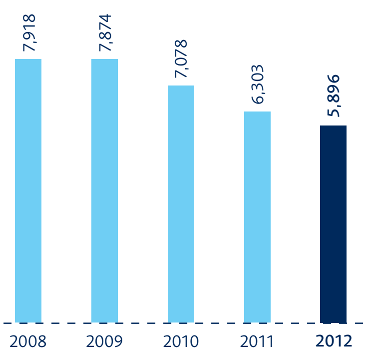
In March 2012, the Board of Directors of VP Bank appointed the existing members of the Foundation's Board of Trustees – Hans Brunhart, Fredy Vogt and IGT Intergestions Trust reg. – to a further term of office. During the year under review, the Foundation distributed grants amounting to approximately CHF 380,000.



Total waste (in tonnes)



Paper consumption (in tonnes)



Water consumption (in m^3)

As in the previous two years, support of the Chair of Company, Foundation and Trust Law at the University of Liechtenstein was a prime example of the Foundation's patronage. By providing annual grants of CHF 100,000 over the past three years, the VP Bank Foundation, in collaboration with the Liechtenstein government, has offered financial as well as ideational backing for this chair. The final CHF 100,000 tranche of this support was paid in January 2013. With this patronage, the Foundation has fostered the scientific assessment of legal issues that are of tremendous significance to the positioning of Liechtenstein as a financial centre. Since its inception, the Chair has gained a high profile and enjoys great acceptance and a fine reputation. The VP Bank Foundation will not prolong this engagement, which had the character of start-up funding, beyond the term of the original agreement; however, it will consider supporting concrete projects of a small magnitude.

The agreement with the University of Liechtenstein on supporting the research project "The specific structure of Liechtenstein as a microeconomy", which also had a three-year term, has expired inasmuch as the project was concluded at the end of last year. The project resulted in new and important findings with regard to the economic structure of Liechtenstein. Thus the VP Bank Foundation can pride itself in the outcome of this sponsorship effort.

With a donation of CHF 18,000, the VP Bank Foundation is supporting a project aimed at facilitating access to data on sustainable investments. The funding has been made available to specific participants in the continuing education programme of the CEPS Centre for Philanthropy Studies as well as students at the University of Basel. Further significant engagements in the field of education include scholarships for especially gifted students at the Rheintal International School and the now long-standing contributions to the Bildungs- und Seminarhaus Gutenberg.

In the area of ecology, the Foundation supported VP Bank's initiated and funded foundation "pro natura – pro ski" this past year with a contribution in the amount of CHF 70,000. The activities of this foundation make a recognised contribution towards balancing the various interests involved in the environmentally friendly development of winter sport areas, in close collaboration with the University of Natural Resources and Life Sciences in Vienna.

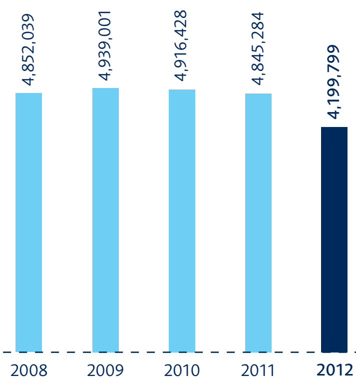
Ever since its establishment, the Foundation has attached great value to the continuity of support in the areas of ecology, education and science and will continue to pursue this policy in the coming years, albeit with some changed accents.

Of particular note in the area of culture is the Foundation's engagement in the "arte povera" exhibition by Liechtenstein Art Museum as a part of the Weimar Art Festival. Through the successful interaction between the Principality of Liechtenstein and a number of local foundations and companies, it was possible to realise this project.

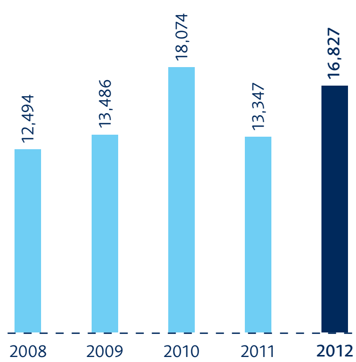
In connection with the annual "Lichtblick" campaign, more than 40 social institutions in Liechtenstein received grants from the Foundation totalling approximately CHF 100,000.

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 of these positions will be maintained. Income from the latter holding was used in part for contributions to the international relief organisations of SolidarMed. Owing to the recognised performance of this NGO, the appropriation of funding was renewed during the period under review and the amounts were increased.

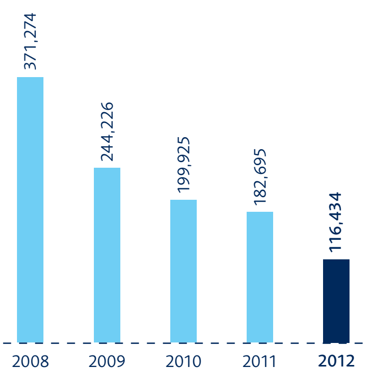
The VP Bank Foundation is a member of the Association of Liechtenstein Non-profit Foundations e.V. and the "SwissFoundations" association of charitable institutions. The Board of Trustees is involved in the expansion of the Liechtenstein association and benefits from the valuable exchange of ideas in both organisations.



Power consumption (in kWh)



Mobility Cars (in km)



Number of kilometres compensated for employees (in km)

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 competent 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, FL-BankV) 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, CAO) 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 Act (PSA);
- 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 Services 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 (PCA).

The following discusses a number of developments and legal foundations of relevance to financial market regulation which have been revised or put into effect during the past financial year or are likely to be of relevance in the future.

EBA, EIOPA and ESMA guidelines

Already in September 2010, the European Parliament approved a new supervisory system that took effect as of 1 January 2011. The previous committees, which merely acted in an advisory capacity, were replaced by three new EU authorities:

- European Banking Authority (EBA)
- European Insurance and Occupational Pensions Authority (EIOPA)
- European Securities and Markets Authority (ESMA)

Ever since the establishment of these three new European supervisory bodies, the FMA has been participating in their meetings. The EBA, EIOPA and ESMA have meanwhile commenced their operative activities. Amongst the competencies of the aforementioned authorities is the power to issue guidelines and recommendations that must be bindingly implemented within the EU.

The first guidelines, in this instance on the topic of internal governance, have already been issued, and it is expected from all national supervisory authorities that the financial services companies within their jurisdiction adopt the guidelines in due time.

This is of interest to Liechtenstein mainly because its financial centre is closely interlinked with the EU member states and therefore relies on being recognised as equivalent in terms of financial market supervision; otherwise, market access under the EU passport could be threatened.

OTC derivatives (European Market Infrastructure Regulation – EMIR)

In September 2009, the G20 heads of state agreed at the summit meeting held in Pittsburgh, USA, that at the latest by the end of 2012 all standardised OTC derivatives contracts are to be processed via a central counterparty and that all such contracts must be recorded in a transaction register. This effort was confirmed at the Toronto meeting in June 2010 and the G20 also committed to implementing far-reaching measures aimed at increasing the transparency and supervision of OTC derivatives trading.

The EU Commission paid heed to this matter by issuing an ordinance (EU No. 648/2012 of 4 July 2012) pertaining to OTC derivatives, central counterparties and a transaction registry ("European Market Infrastructure Regulation, EMIR"). The ordinance was published in the trade register and took effect immediately in the EU region. It is foreseen that, as of 2013, standardised OTC derivatives contracts will no longer be concluded bilaterally but instead via a central counterparty and must be reported to a transaction registrar. To that purpose, both the central counterparty and the transaction registrar need to be licenced in the EEA region by the European Securities and Markets Authority (ESMA). As an EEA member, Liechtenstein must adopt EEA-relevant EU ordinances once they have become recognised in the EEA treaty.

Revision of the Persons and Companies Act (introduction of general accounting obligations)

In its Report and Petition No. 134/2011, the Liechtenstein government wrote that, during the course of the audit procedure that became necessary for determining implementation of international standards relating to the fight against money laundering ("Moneyval" evaluation) and the tax area (Global Forum Peer Review), the implementation of certain measures took priority, especially in terms of introducing accounting obligations for all corporate and legal forms that are also recognised as private wealth entities. In consequence, accounting obligations that correspond to the international standards are to be legally prescribed in particular for trusts, foundations and fiduciary companies that are not run along commercial lines.

It was also expressly determined that the provisions of the Persons and Companies Act governing the keeping and preservation of business records also apply analogously to such legal entities and that their business records must be made available within a reasonable time at the main office of the entity. The goal of the petition was to eliminate one of the most significant weak points in Liechtenstein law identified during the examination process and prevent a new listing or another downgrading of Liechtenstein by the relevant international bodies. Following a second reading and debate at its March session, parliament adopted this revision.

Revision of the Securities Prospectus Act (SPA), Disclosure Act (DA) and Asset Management Act (AMA)

The Report and Petition No. 2/2012 as well as the related Position Statement No. 28/2012 were addressed and approved by parliament after a second reading at its April session. The Report and Petition (RaP) relates to Directive 2010/73/EU of the European Parliament and Council of 24 November 2010 on the revision of Directive RL 2003/71/EC regarding the prospectus which must be published upon the public offering of securities or the admission to trading thereof, as well as Directive 2004/109/EC on Harmonisation of Transparency Requirements relating to information on issuers whose financial instruments are admitted to trading on a regulated market. The RaP states that these Directives essentially pursue the goal of heightening the legal certainty and efficiency of the prospectus regulations as well as taking some of the administrative burden off of issuers and financial intermediaries. They also have the aim of reinforcing investor protection, ensuring reasonable information that meets the needs of small investors and adapting to the legislative powers of the EU Commission.

Through implementation of the aforementioned Directives it became necessary to adapt the Securities Prospectus Act (SPA) and the Disclosure Act (DA) in order to make the rules more comprehensible and thereby achieve greater efficiency in the issuance of securities. The ultimate aim was to ease the administrative burden on issuers and financial intermediaries, provide the employees of issuers with a complete spectrum of investment possibilities, and enable small investors to analyse more effectively the prospectuses and related risks of securities prior to making an investment decision. In addition, a minor adjustment was made to the Asset Management Act (AMA).

Amendment to the Persons and Companies Act (responsibility of corporate bodies)

In April, parliament approved the government's proposal (RaP No. 4/2012) for reinforcing the legal foundation for liability on the part of corporate bodies. In this regard, the joint and several liability previously provided for had led in practice to repeated instances of legal uncertainty. The draft proposal had the purpose of curing that problem and bringing the legal situation in line with modern precepts by adopting the principle of differentiated joint and several liability as applied in Switzerland as well as improving and fine-tuning the prevailing rules on the joint and several liability of corporate bodies. The Act prescribes that the personal culpability of a given corporate officer must form the basis for determining liability. This change has led to more legal certainty for corporate bodies and greater predictability in terms of liability law.

Double taxation agreement with Germany

In keeping with the government's strategy of concluding bilateral treaties, an agreement (Tax Information Exchange Agreement – TIEA) was signed with Germany on 2 September 2009 and entered into force in October 2010. At the signing, both sides expressed the desire to intensify their future collaboration and, in the area of cooperating on tax matters, to conduct further negotiations on the conclusion of a double taxation agreement (DTA). A corresponding DTA was signed on 17 November 2011 in Berlin. The intent of the agreement is to avoid double taxation of income and wealth.

This treaty sets the OECD standard in terms of the exchange of information (extended administrative assistance clause) and the area of enforcement. At the same time, it fully takes into account the very close economic ties between the two countries and creates an advantageous framework for the tax recognition of cross-border investments. However, it does not include any provisions for "ex post facto" taxation of the previously untaxed capital investments of German citizens in Liechtenstein or any potential procedure for the future taxation of capital income on a flat-rate withholding basis. Here, separate talks and negotiations are being conducted.

Parliament approved the corresponding RaP No. 25/2012 on the DTA in April 2012. Following the ratification process in both countries, the DTA entered into force on 1 January 2013.

Double taxation agreement with the United Kingdom of Great Britain and Northern Ireland, as well as revisions to the terms of the "Liechtenstein Disclosure Facility"

Also in keeping with the government's strategy of concluding bilateral treaties, a TIEA was signed with Great Britain on 11 August 2009 as well as a memorandum of understanding (MOU) which, apart from a Tax and Compliance Programme (TACP), regulates a special disclosure programme in the United Kingdom – the "Liechtenstein Disclosure Facility" (LDF). At the same time, negotiations were initiated with regard to the conclusion of an agreement on the avoidance of double taxation (DTA). The corresponding DTA was signed in London on 11 June 2012. The intent of the agreement is to avoid double taxation of income and wealth in line with the OECD standard. Parliament addressed the corresponding RaP No. 109/2012 at its October session.

Owing to the success of the LDF, representatives of Great Britain and Liechtenstein agreed in a "Third Joint Declaration" dated 11 June 2012 to prolong the MOU until 5 April 2016. This prolongation also affects the availability of LDF as a limited-time opportunity for UK taxpayers to get their worldwide tax matters in order under once-only conditions. Also prolonged was the term of applicability of the disclosure obligations imposed on financial intermediaries in Liechtenstein, which were adopted within the framework of the TACP as a means of identifying new "relevant persons" and ensuring the tax conformity of British clients of the Liechtenstein financial centre.

In addition, Liechtenstein and the British tax authority HMRC (Her Majesty's Revenue & Customs) agreed that proof of the tax conformity of new clients who deposit relevant assets with a Liechtenstein-based financial intermediary after 31 March 2012 is possible in the form of a "Self-certification of Tax Compliance", which attests to either the fulfilment or non-existence of tax obligations in Great Britain.

Existing uncertainties in actual practice about the term "meaningful relationship" with a Liechtenstein financial intermediary, which must exist or be justified for participation in the LDF, were eliminated by the Liechtenstein government in an ordinance dated 10 July 2012 as a supplement to the Tax Administrative Assistance Ordinance for the United Kingdom (TAAO-UK). In an amendment to the previously law, it adopted Art. 3 Par. 3 TAAO-UK, under which a "meaningful relationship" is presumed to exist if the following conditions are met:

- for banks, if at least 20 per cent of the relevant person's worldwide bankable assets, which must be registered in order to participate in the disclosure facility, are held in a bank account or safekeeping account in Liechtenstein, whereas the percentage threshold is no longer relevant for amounts in excess of CHF 3 million;
- for fiduciary companies if:
  1. an associated party has its statutory domicile in Liechtenstein or a special endowment of assets is administered by at least one domestic fiduciary and at least 10 per cent of the relevant person's worldwide bankable assets, which must be registered in order to participate in the disclosure facility, are held in a bank account or safekeeping account of that associated party or special endowment in Liechtenstein, whereas the percentage threshold is no longer relevant for amounts in excess of CHF 1 million;
  2. a legal entity with a statutory domicile abroad is predominantly administered by domestic corporate bodies and at least 15 per cent of the relevant person's worldwide bankable assets, which must be registered in order to participate in the disclosure facility, are held in a bank account or safekeeping account that legal entity in Liechtenstein, whereas the percentage threshold is no longer relevant for amounts in excess of CHF 1 million;
- for insurance companies if the relevant person concludes an insurance policy with a minimum premium of CHF 150,000 which is issued by an insurance company in the Principality of Liechtenstein or otherwise from the Principality of Liechtenstein.

These changes took effect as of 1 September 2012.

In future, representatives of the governments and tax authorities of Liechtenstein and the United Kingdom will continue to meet on a regular basis in order to expand the LDF further and coordinate practice-related issues.

Further developments in the tax area

In its Declaration of 12 March 2009, Liechtenstein committed to implementing the OECD standard on transparency and the exchange of information in tax matters. Since then, Liechtenstein has concluded an array of international tax treaties, including agreements on the avoidance of double taxation (DTA) as well as the OECD-consistent exchange of information in tax matters (TIEA).

In 2012, Liechtenstein ratified or put into effect the following international tax agreements:

- The TIEA and MOU concluded with Australia entered into force on 21 June 2011.
- The TIEAs concluded on 17 December 2010 with Denmark, Sweden, Finland, Norway, Iceland and the Faroe Islands entered into force on in 2012.
- The DTA concluded with Uruguay on 18 October 2010 entered into force on 3 September 2012.
- On 5 July 2012, the governments of Japan and the Principality of Liechtenstein concluded a TIEA in accordance with the OECD standard.
- As previously mentioned, the double taxation agreement between Germany and the Principality of Liechtenstein signed on 17 November 2011 was ratified by Liechtenstein's parliament on 25 April 2012.
- And also as previously mentioned, the DTA between the United Kingdom and the Principality of Liechtenstein signed on 11 June 2012 was addressed at the 24 October 2012 session of parliament.

Apart from impending treaties, Liechtenstein initialled further agreements in 2012, e.g. with Singapore, China, South Africa and Bahrain. The Liechtenstein government wants to press ahead with the negotiation and conclusion of bilateral tax treaties. At its December 2012 meeting, it set the priorities for 2013 in terms of DTAs with countries of economic and strategic importance to Liechtenstein. The talks and negotiations on DTAs and TIEAs already under way are to be continued and finalised. In addition, Liechtenstein has entered into discussions with individual partner states, e.g. Germany and Austria, on tax agreements that would regularise the past and regulate the future taxation of capital income.

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 involved in the cross-border financial services business).

The banks must adapt their business 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.

Implementation of the Moneyval package of measures

With the 2009 revision of the Due Diligence Act (DDA) in connection with the adoption of the 3rd EU Money Laundering Directive, the lion's share of the International Monetary Fund (IMF) assessments from 2007 had already been implemented. The remaining recommendations are integral parts of the present revision, which includes DDA, the related ordinance (Due Diligence Ordinance, DDO) and the Criminal Proceedings Ordinance (CPO).

The major points of this revision:

- regulating the heightened due diligence obligations in connection with transactions and business relationships with persons in or from countries whose due diligence measures do not meet international standards, as well as especially complex transactions and structures;
- rounding out the list of sanctionable offences and decriminalising an array of due diligence violations by making them merely infraction offences in order to ensure the completeness of the sanctioning system and its gradation according to the severity of the given breach;
- adjusting to the valid FATF standard the threshold values prescribed in DDA for fulfilling due diligence obligations in the handling of occasional transactions by reducing the limit amounts from CHF 25,000 to CHF 15,000;
- specifying more precisely the Group-wide application of the legal due diligence standards and the prohibition of notification;
- supplementing the definition "politically exposed person" as per Art. 2 Par. 1 lit. a DDO with the term "important party functionaries", as well as referring in Art. 23 Par. 1 lit. g DDO also to the qualification of a previously politically exposed person within the context of Art. 2 Par. 1 lit. h DDO as a criterion for business relationships and transactions with heightened risks.

This revision, which is based on Report and Petition 77/2012, entered into force on 1 February 2013.

Outlook

Total revision of the Trustees Act

Due to the dramatic changes in the international circumstances, the trust sector is in a transition phase which has been taken as an occasion to totally revise the Trustees Act. Until now, fiduciaries have not been subject to prudential supervision but instead are overseen primarily by the FMA in terms of compliance with the Law on Professional Due Diligence to Combat Money Laundering, Organised Crime and Terrorist Financing. The FMA also has the authority to issue the corresponding licences, while the Princely Supreme Court performs disciplinary surveillance.

The objective of this total revision is to enhance international recognition of the fiduciary profession, heighten the trust in this industry and solidify the reputation of the entire Liechtenstein financial centre. To achieve those goals, the effective and efficient supervision of the trust area must be ensured. Accordingly, the planned supervision by the FMA and the restructuring of the disciplinary system are the key aspects of the revision. In future, ongoing compliance with the licensing requirements is to be verified.

In this regard, the draft consultation paper provides for corresponding competencies on the part of the FMA and the creation of an arbitration body – similar to that already known in the banking industry – which will serve clients as a point of contact outside the ordinary judicial procedure in the event of disputes with the fiduciary. The licensing process for fiduciary companies should be formally simplified and thereby streamlined from the standpoint of cost efficiency. It is also foreseen that in future a licence will be granted to only one actual managing director, who will no longer need to be formally approved as long as they fulfil the necessary requirements.

Going forward, the personal integrity of all members of the administration and general management will be verified, and the adaptation of provisions governing the mandatory liability insurance should be emphasised as a further central point of the revision. Also, the rules on administrative assistance are to be reformulated in such a way that they are in line with international standards. A broadening of the penal provisions / criminal acts is foreseen as well. Planned is the designation of new types of violation that are punishable by the Princely Court of Justice or subject to fines by the FMA. Because the new law must take into account the preservation of vested rights, there will be liberal transitional provisions and the possibility to activate "dormant rights". The consultation period for this total revision ended in early July 2012. As yet, however, no corresponding Report and Proposal is available.

MiFID II

The European Commission proposed already in October 2011 that the Markets in Financial Instruments Directive (MiFID, Directive 2004/39/EC of 21.04.2004) be revised to allow for more extensive regulation of the financial markets and securities-related services. The proposal underscored the need to improve the transparency and supervision of less-regulated markets and address the problem of excessive price volatility in the commodity futures markets. Such broader regulation has the purpose of making the financial markets more efficient, resilient and transparent, as well as reinforcing investor protection. This fundamental revamp of the original Directive is referred to as MiFID II. It should be transposed into national law by 2014/15.

Based on current knowledge, the following new features are planned:

- Broader scope of applicability: The new rules should also apply to the mere safekeeping and administration of financial instruments on behalf of clients. Moreover, emissions certificates and organised trading systems should be included in the broader scope of applicability, and the previous exemptions from being subject to MiFID are to be drastically limited. Furthermore, the requirements for the admission of securities firms from third countries will be increased: for those that render services or perform activities for small investors within the context of MiFID, it will become mandatory that they have a branch office in an EEA member state.
- Reinforced investor protection: Stricter requirements will be placed on asset management, investment advice and the offering of complex financial products. Investment advisors and asset managers are to avoid conflicts of interest and must disclose whether and to what extent they receive payments or other financial benefits (retrocessions) from third parties. The provisions relating to the suitability and purposefulness of financial transactions for clients, as well as to the obligation of "best execution" of those transactions, are to be broadened. In order to be deemed an independent investment advisor, the advisor must take into consideration a sufficiently broad array of financial instruments available in the market (i.e. diversification in terms of product type and issuer) when coming up with investment recommendations – in particular, the selection may not be limited solely to financial instruments from issuers or product providers with which the advisor has close ties.
- Written justification for the investment recommendation: the client must be provided with a written, personal declaration as to why the recommended products are suitable for them.
- More extensive reporting: at least every six months, a capital-market and investor-specific performance report must be generated and made available to the client.
- Heightened transparency in the financial markets: The transparency rules already applicable to stocks are to be extended to include other financial instruments, and the requirements for reporting financial transactions are to be increased. Apart from the national supervisory authorities, the EU financial market supervisors should also be empowered to forbid or limit trading in certain financial instruments.
- And lastly, the specification of far-reaching corporate governance rules is planned, and minimum requirements are to be placed on administrative sanctions. Switzerland intends to adapt its legal substrate accordingly (see e.g. FINMA position paper "Distribution Rules" and message on "Partial Revision of CISA").

Tax crimes as predicate offence to money laundering

On 16 February 2012, the Financial Action Task Force (FATF) issued its revised recommendations for combating money laundering, the financing of terrorism and the proliferation of weapons of mass destruction. The revised recommendations provide for, amongst other changes, an expansion of the list of predicate offences to also include severe tax crimes. Going forward, this means that banks, insurers and other financial intermediaries will have to notify the national money-laundering reporting office – in Liechtenstein, the Financial Intelligence Unit (FIU) – if they become aware of any suspicious facts in this regard. Under certain circumstances, that organisation will be obliged to forward the information to foreign reporting offices.

In response to the new FATF recommendations, the European Commission announced that the EU legal framework is to be updated accordingly and the necessary changes are to be made.

However, the draft of the 4th EU Money Laundering Directive, which was originally scheduled for publication last autumn, has yet to be released. In Liechtenstein, the government, FMA, Bankers Association and FIU are following the developments closely to determine whether and in which form any need for action exists on the part of the financial centre.

Revision of the Tax Act

With RaP No. 47/2012 regarding the second package of measures for balancing the national budget, the government of Liechtenstein proposed among other things making changes to the Tax Act. This proposal includes a recommendation to decouple the equity capital interest deduction from base income for the income tax purposes of legal persons. Also, in future it should no longer be possible to generate a loss carryover as a result of the equity capital interest deduction. With regard to this revision of the Tax Act, the government on 12 October 2012 presented a corresponding consultation report and a draft law. Parliament addressed portions of the consultation report at its meeting on 19 December 2012.

Group enquiries as per Art. 26 OECD Model Tax Convention

On 18 July 2012, the OECD adopted a new standard pertaining to the exchange of information as per Art. 26 of the OECD Model Tax Convention and published it in connection with its commentary on the Convention. Under the new standard, enquiries made within the framework of a DTA would no longer be limited to individual cases but also include group enquiries. The definition of a "group" in this regard is not based on pre-established terminological characteristics but instead on sample cases that the OECD has compiled and which could be an indication of non-compliant tax behaviour. In future, this new OECD standard will be observed also by Liechtenstein in connection with existing DTAs (and after transposition into the national tax-authority assistance law).

Creation of a new AIFM law

For the purpose of transposing into national law Directive 2011/61/EU on the regulation of alternative investment fund managers (AIFM Directive), parliament of the Principality of Liechtenstein passed a new law pertaining to the managers of alternative investment funds (AIFMD) on 19 December 2012. The new legislation will take effect on 22 July 2013, assuming the referendum period remains unused, and will supersede the existing IUA. Already on 29 January 2013, the government adopted the related ordinance (AIFMO).

As a result, Liechtenstein is moving into uncharted territory. Until now (with the exception of "UCITS funds") all other investment funds were subject to national and therefore independent regulation (in the Principality of Liechtenstein, in keeping with the IUA). The EU's AIFM Directive on the regulation of alternative investment fund managers was published in the Official Journal of the European Union on 1 July 2011. With this Directive, the EU wishes to take into account the recent developments and current circumstances in the financial markets. It is establishing a legal and supervisory framework for the managers of alternative investment funds (AIFs) who are not subject to the UCITS Directive and take on considerable risks.

In return, AIFs should also enjoy the benefits of the EU passport; in other words, alternative investment funds may then be distributed throughout the EEA upon simple notification of the competent authorities.

The Liechtenstein AIFMD will bring an array of significant changes to the business with alternative investment funds and, with the introduction of the EU passport for the managers, should on one hand increase competition while lowering costs and, on the other, contribute to ensuring the stability of the financial system. Thanks to the managers' (AIFM) stricter disclosure and reporting obligations vis-à-vis investors and supervisors, as well as the organisational requirements the AIFMs must fulfil, even more effective and uniform investor protection should be ensured. The activities and responsibilities of custodian institutions will be comprehensively regulated, whereby in principle no longer just one bank need be the custodian. This new constellation will enable Liechtenstein AIFMs and AIFs – while simultaneously ensuring a high degree of investor protection – to be active or, as it were, issued within the EEA and even beyond in a cross-border manner (EU passport). At the same time, the risks to the financial markets should be mitigated through notification and reporting requirements as well as the close cooperation between the supervisory authorities in the cross-border distribution of these funds.

With this new law and UCITSA which has been in force already since 1 August 2011, the Liechtenstein investment fund centre should become even more attractive to Organisations for Collective Investments in Securities (investment funds) as well as alternative investment funds (AIFs, e.g. private equity funds, hedge funds, real estate funds, etc.) and especially foreign fund initiators and their managers, thereby ensuring the sustainable growth of the fund and financial centre. Hence this proposed law represents a tremendous opportunity for fostering the Liechtenstein investment fund and financial centre.

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 USA 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 (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 plans to 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.

The implementing provisions of FATCA are still not available completely (although the final regulations were published on 17 January 2013) and several countries have already declared their desire to conclude bilateral agreements with the USA that would simplify implementation of the FATCA provisions. Two models for these bilateral agreements ("intergovernmental agreements", IGA) are known at present (Model 1 or also the EU 5 Model; and Model 2, Switzerland/Japan). The government of the Principality of Liechtenstein is taking steps to conclude such an agreement with the USA, but many issues still have to be clarified before the law enters into force on 1 January 2014.

Important links to legislation and the Liechtenstein financial centre

FMA, Financial Market Authority Liechtenstein	www.fma -li.li
Body of Liechtenstein law	www.gesetze.li
Official web portal of the Principality of Liechtenstein	www.liechtenstein.li
Government of the Principality of Liechtenstein	www.regierung.li
Staff Office for International Financial Centre Agendas (SIFA)	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	www.wirtschaftskammer.li
Liechtenstein Insurance Association	www.versicherungsverband.li
Association of Independent Asset Managers	www.vuvl.li
Association of Non-profit Foundations in Liechtenstein	www.vlgs.li

The colonial route

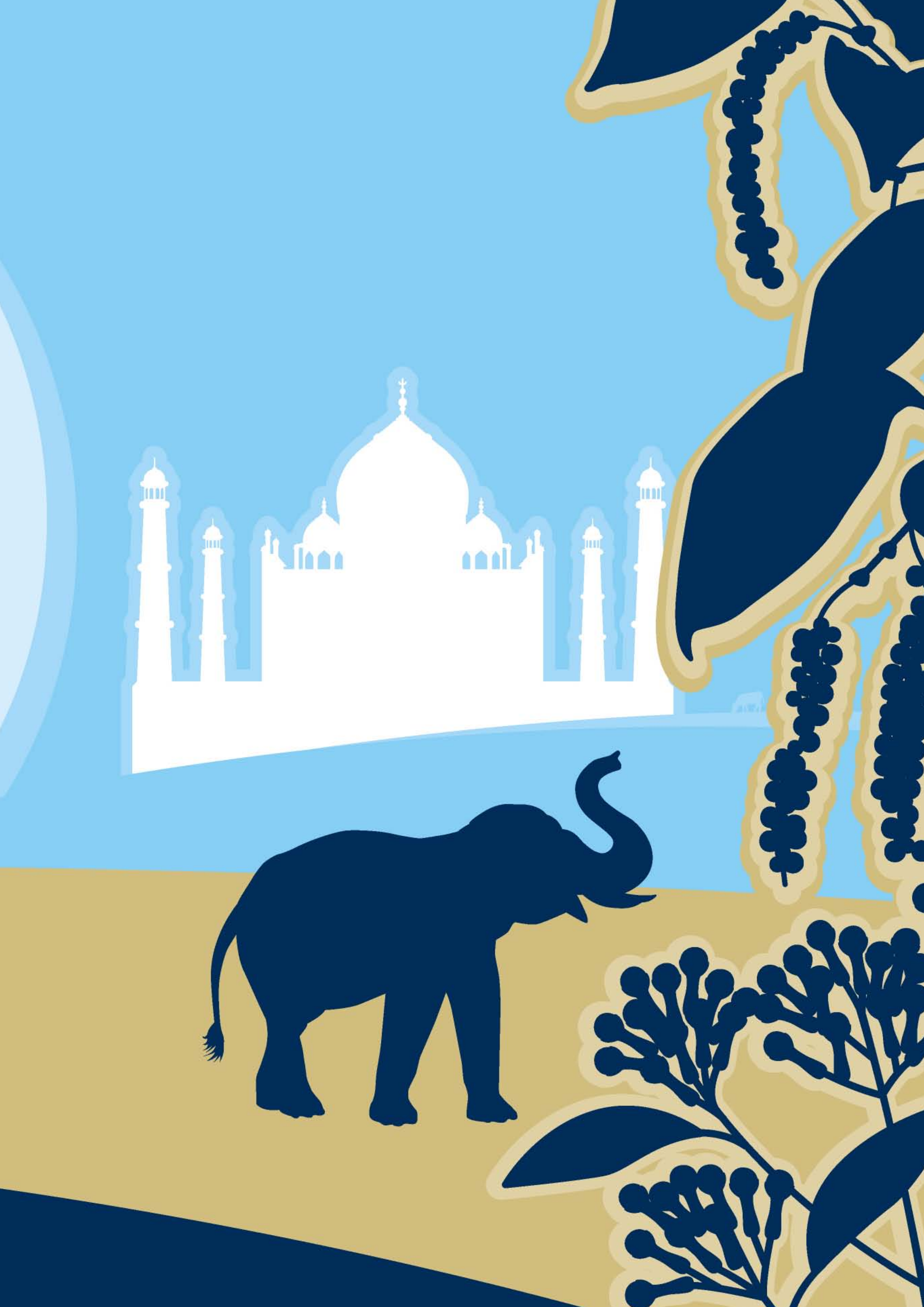
The heyday of trade companies emerged in the era of mercantilism. In the early 16th century, the Republic of Venice dominated the Mediterranean region and, thanks to its connections, trade in the Middle East. The ensuing years saw great colonial empires arise as a result of military protection, extended transport routes, economic hegemony and legal ties to this colonial power.

A number of so-called "Indian companies" were established in the 17th and 18th centuries by various European countries as a means of organising trade with the colonised areas. At the time, the term "Indies" referred to practically all of the newly discovered regions that could be reached via the eastern route (East Indies) or western route (West Indies), in other words not just the areas in the Asian region but also the colonies in the Americas and Africa. The most famous of these trading giants was the British East India Company, which was granted a charter, initially for 15 years and then in perpetuity, to conduct all trade between England and the Asian subcontinent. It received its own official seal, was allowed to elect its own governor and directors, and had permission from the Crown to adopt its own corporate laws, erect fortresses, conscript troops and mint coins. An English delegation sent to India's Great Mogul obtained the right to establish trading posts on the west coast of peninsular India. The company's business – trading in wool fabrics, spices, tea, etc. – flourished and ultimately exerted a considerable influence on the political circumstances in India.

In 1813, the company first lost its special trade rights, later also the rights to govern civil and military matters, and after 1834 became merely an administrative body of the British government. The last meeting of its directors was held on 30 August 1858.


London
North Atlantic Ocean
Bay of Biscay
Mediterranean Sea
South Atlantic Ocean
Cape Town


Calcutta
Macau
Bombay
Rangoon
Arabian Sea
Masulipatam
Madras
Bay of Bengal
South China Sea
Sumatra
Indian Ocean



Segments

4

Segment reporting

Structure

The organisational structure of VP Bank Group, which had been amended as of 1 January 2012 and was designed to support the Group's focus on market needs, remains unchanged as of 31 December 2012.

As previously, VP Bank Group is subdivided into four business segments: Banking Liechtenstein & Regional Market, Private Banking International, Chief Financial Officer & Corporate Center and Chief Operating Officer. The prior year's segment reporting has been restated retroactively.

2012

in CHF 1,000	Banking Liechtenstein & Regional Market	Private Banking International	Chief Operating Officer (COO)	CFO & Corporate Center	Total Group
Total interest income	32,262	20,484	0	30,720	83,466
Total income from commission business and services	82,740	33,756	–3,753	2,351	115,094
Income from trading activities	10,952	8,034	2,517	–356	21,147
Income from financial investments	323	2,055	0	17,093	19,471
Other income	79	2,856	0	287	3,222
Total net operating income	**126,356**	**67,185**	**–1,236**	**50,095**	**242,400**
Personnel expenses [1]	26,745	47,516	29,755	368	104,384
General and administrative expenses	3,640	18,605	10,914	15,257	48,416
Services to/from other segments	42,112	16,097	–59,728	1,519	0
Operating expenses	**72,497**	**82,218**	**–19,059**	**17,144**	**152,800**
Gross income	**53,859**	**–15,033**	**17,823**	**32,951**	**89,600**
Depreciation and amortisation	61	2,612	20,238	6,534	29,445
Valuation allowances, provisions and losses	6,260	4,824	0	–25	11,059
Income/loss before income tax	**47,538**	**–22,469**	**–2,415**	**26,442**	**49,096**
Taxes on income					1,895
Net income					**47,201**
Share of net income attributable to minority interests					54
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank AG, Vaduz					**47,147**
Client assets under management (in CHF billion) [2]	17.8	10.4	0.0	0.2	28.5
Net new money (in CHF billion)	–0.2	0.2	0.0	–0.1	–0.2
Headcount (number of employees)	162	261	213	130	766
Headcount (expressed as full-time equivalents)	156.2	249.7	193.9	107.1	706.9

1 All adjustments arising from the conversion of the Treuhand-Personalstiftung from a defined-benefit to defined-contribution scheme flow into the CFO & Corporate Center segment.
2 Computation in accordance with Table P of the Guidelines issued by the Government of Liechtenstein on the Liechtenstein Banking Ordinance (FL-BankV).

2011

in CHF 1,000	Banking Liechtenstein & Regional Market	Private Banking International	Chief Operating Officer (COO)	CFO & Corporate Center	Total Group
Total interest income	36,627	22,017	0	7,955	66,599
Total income from commission business and services	86,908	36,864	–4,190	2,343	121,925
Income from trading activities	12,687	8,845	2,346	5,489	29,367
Income from financial investments	–72	–291	0	6,275	5,912
Other income	173	430	0	52	655
Total net operating income	**136,323**	**67,865**	**–1,844**	**22,114**	**224,458**
Personnel expenses [1]	26,416	43,946	30,698	24,887	125,947
General and administrative expenses	3,704	17,295	13,944	17,928	52,871
Services to/from other segments	47,260	13,382	–65,290	4,648	0
Operating expenses	**77,380**	**74,623**	**–20,648**	**47,463**	**178,818**
Gross income	**58,943**	**–6,758**	**18,804**	**–25,349**	**45,640**
Depreciation and amortisation	289	3,222	23,797	6,328	33,636
Valuation allowances, provisions and losses	5,560	3,124	0	–2,915	5,769
Income/loss before income tax	**53,094**	**–13,104**	**–4,993**	**–28,762**	**6,235**
Taxes on income					973
Net income					**5,262**
Share of net income attributable to minority interests					2,058
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank AG, Vaduz					**3,204**
Client assets under management (in CHF billion) [2]	17.3	9.8	0.0	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	265	225	132	793
Headcount (expressed as full-time equivalents)	165.3	255.5	207.8	109.2	737.8

[1] All adjustments arising from IAS 19 flow into the CFO & Corporate Center segment.
[2] Computation in accordance with Table P of the Guidelines issued by the Government of Liechtenstein on the Liechtenstein Banking Ordinance (FL-BankV).

Banking Liechtenstein & Regional Market

in CHF 1,000	2012	2011	Variance absolute	Variance in %
Total interest income	32,262	36,627	–4,365	–11.9
Total income from commission business and services	82,740	86,908	–4,168	–4.8
Income from trading activities	10,952	12,687	–1,735	–13.7
Income from financial investments	323	–72	395	n.a.
Other income	79	173	–94	–54.3
Total net operating income	**126,356**	**136,323**	**–9,967**	**–7.3**
Personnel expenses	26,745	26,416	329	1.2
General and administrative expenses	3,640	3,704	–64	–1.7
Services to/from other segments	42,112	47,260	–5,148	–10.9
Operating expenses	**72,497**	**77,380**	**–4,883**	**–6.3**
Gross income	**53,859**	**58,943**	**–5,084**	**–8.6**
Depreciation and amortisation	61	289	–228	–78.9
Valuation allowances, provisions and losses	6,260	5,560	700	12.6
Divisional earnings before income tax	**47,538**	**53,094**	**–5,556**	**–10.5**

Additional information				
Operating expenses excluding depreciation and amortisation / total operating income (in %)	57.4	56.8		
Operating expenses including depreciation and amortisation / total operating income (in %)	57.4	57.0		
Client assets under management (in CHF billion)	17.8	17.3		
Change in client assets under management compared to previous year (in %)	3.0	–7.8		
Net new money (in CHF billion)	–0.2	–0.3		
Gross income / average client assets under management (bp)[1]	71.8	75.4		
Divisional result / average client assets under management (bp)[1]	27.0	29.4		
Cost/income ratio operating income (in %)[2]	57.6	56.8		1.3
Headcount (number of employees)	162	171	–9	–5.3
Headcount (expressed as full-time equivalents)	156.2	165.3	–9.1	–5.5

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

Structure

The Banking Liechtenstein & Regional Market 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 business segment.

Segment results

The 2012 financial year was marked with daunting challenges. The strong Swiss franc, the uncertainties on markets and the low level of interest rates adversely impacted business in this segment. Interest-rate margins were under pressure because of further declining interest rates. The lower level of client activities principally in the first half of the year reflected in trade-related commissions. Pre-tax segment results in 2012 suffered a decline of CHF 5.6 million to CHF 47.5 million year-on-year (prior year: CHF 53.1 million). The gross margin was 71.8 basis points (prior year: 75.4 basis points). The cost/income ratio increased from 56.8 to 57.6 per cent. Total operating revenues sank by 7.3 per cent as a result of the declining income from both the interest-differential business as well as commission and service income from CHF 136.3 million to CHF 126.4 million. At the same time, operating expenses fell by 6.3 per cent to CHF 72.5 million (prior year: CHF 77.4 million). This decline primarily is a result of lower recharges from other segments. In 2012, charges for valuation allowances, provisions and losses year-on-year increased by CHF 0.7 million to CHF 6.3 million.

The segment recorded a minor outflow of client assets of CHF 0.2 billion. As of 31 December 2012, client assets under management aggregated CHF 17.8 billion (prior year: CHF 17.3 billion). Employee headcount fell from 165.3 (prior year) to 156.2 positions.

Private Banking International

in CHF 1,000	2012	2011	Variance absolute	Variance in %
Total interest income	20,484	22,017	–1,533	–7.0
Total income from commission business and services	33,756	36,864	–3,108	–8.4
Income from trading activities	8,034	8,845	–811	–9.2
Income from financial investments	2,055	–291	2,346	n.a.
Other income	2,856	430	2,426	564.2
Total net operating income	**67,185**	**67,865**	**–680**	**–1.0**
Personnel expenses	47,516	43,946	3,570	8.1
General and administrative expenses	18,605	17,295	1,310	7.6
Services to/from other segments	16,097	13,382	2,715	20.3
Operating expenses	**82,218**	**74,623**	**7,595**	**10.2**
Gross income	**–15,033**	**–6,758**	**–8,275**	**–122.4**
Depreciation and amortisation	2,612	3,222	–610	–18.9
Valuation allowances, provisions and losses	4,824	3,124	1,700	54.4
Divisional earnings before income tax	**–22,469**	**–13,104**	**–9,365**	**–71.5**

Additional information				
Operating expenses excluding depreciation and amortisation / total operating income (in %)	122.4	110.0		
Operating expenses including depreciation and amortisation / total operating income (in %)	126.3	114.7		
Client assets under management (in CHF billion)	10.4	9.8		
Change in client assets under management compared to previous year (in %)	7.0	8.9		
Net new money (in CHF billion)	0.2	1.5		
Gross income / average client assets under management (bp)[1]	66.5	72.4		
Divisional result / average client assets under management (bp)[1]	–22.2	–14.0		
Cost/income ratio operating income (in %)[2]	132.0	110.2		19.8
Headcount (number of employees)	261	265	–4	–1.5
Headcount (expressed as full-time equivalents)	249.7	255.5	–5.8	–2.3

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

Structure

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

Segment results

The strong Swiss franc, uncertainties on financial markets, the economic outlook as well as the costs of intense market-development activities adversely impacted the segment results of International Private Banking. On the other hand, market development activities developed positively (net new money inflow of CHF 0.2 billion).

Year-on-year, the pre-tax segment results recorded a drop of CHF 9.4 million from CHF –13.1 to CHF –22.5 million.

The gross margin fell to 66.5 basis points (prior-year period: 72.4 basis points). The cost/income ratio increased from 110.2 to 132.0 per cent. The lower level of client activities resulting from economic uncertainties adversely impacted commission and service income. This led to a moderate decline of 1.0 per cent in total operating income to CHF 67.2 million (prior-year period: CHF 67.9 million).

Operating expenses rose by 10.2 per cent from CHF 74.6 million to CHF 82.2 million as a result of a broadening of market-development activities. Valuation allowances, provisions and losses increased in total by CHF 1.7 million to CHF 4.8 million.

As of 31 December 2012, client assets stood at CHF 10.4 billion (31 December 2011: CHF 9.8 billion). The employee headcount fell from 255.5 (31 December 2011) to 249.7 positions.

Chief Operating Officer

in CHF 1,000	2012	2011	Variance absolute	Variance in %
Total interest income	0	0	0	n.a.
Total income from commission business and services	–3,753	–4,190	437	10.4
Income from trading activities	2,517	2,346	171	7.3
Income from financial investments	0	0	0	n.a.
Other income	0	0	0	n.a.
Total net operating income	**–1,236**	**–1,844**	**608**	**33.0**
Personnel expenses	29,755	30,698	–943	–3.1
General and administrative expenses	10,914	13,944	–3,030	–21.7
Services to/from other segments	–59,728	–65,290	5,562	–8.5
Operating expenses	**–19,059**	**–20,648**	**1,589**	**7.7**
Gross income	**17,823**	**18,804**	**–981**	**–5.2**
Depreciation and amortisation	20,238	23,797	–3,559	–15.0
Valuation allowances, provisions and losses	0	0	0	n.a.
Divisional earnings before income tax	**–2,415**	**–4,993**	**2,578**	**51.6**
Additional information				
Headcount (number of employees)	213	225	–12	–5.3
Headcount (expressed as full-time equivalents)	193.9	207.8	–13.9	–6.7

Structure

The business segment Chief Operating Officer is responsible for banking operations. It encompasses the units Group Operations, Group Information Technology as well as Logistics & Security for the entire VP Bank Group. In addition, the Group Trading and Group Business Advancement units are allocated to the COO.

The Avaloq banking application was successfully implemented and launched at VP Bank in Luxembourg. All Group companies having banking status thus use the common IT platform as from 1 January 2012.

Segment results

Pre-tax segment results in 2012 were CHF –2.4 million against CHF –5.0 million in the prior-year period. The employee headcount fell by 13.9 positions to 193.9 (31 December 2011: 207.8 positions). Accordingly, personnel expenses fell by 3.1 per cent to CHF 29.8 million. In addition, general and administrative expenses declined from CHF 13.9 million to CHF 10.9 million (–21.7 per cent). Because of the lower expenses in the COO segment, there were CHF 59.7 million less in recharges than in the comparable prior-year period (prior-year period: CHF 65.3 million). Depreciation and amortisation fell by CHF 3.6 million to CHF 20.2 million.

CFO & Corporate Center

in CHF 1,000	2012	2011	Variance absolute	Variance in %
Total interest income	30,720	7,955	22,765	286.2
Total income from commission business and services	2,351	2,343	8	0.3
Income from trading activities	–356	5,489	–5,845	n.a.
Income from financial investments	17,093	6,275	10,818	172.4
Other income	287	52	235	451.9
Total net operating income	**50,095**	**22,114**	**27,981**	**126.5**
Personnel expenses [1]	368	24,887	–24,519	–98.5
General and administrative expenses	15,257	17,928	–2,671	–14.9
Services to/from other segments	1,519	4,648	–3,129	–67.3
Operating expenses	**17,144**	**47,463**	**–30,319**	**–63.9**
Gross income	**32,951**	**–25,349**	**58,300**	**n.a.**
Depreciation and amortisation	6,534	6,328	206	3.3
Valuation allowances, provisions and losses	–25	–2,915	2,890	99.1
Divisional earnings before income tax	**26,442**	**–28,762**	**55,204**	**n.a.**
Additional information				
Client assets under management (in CHF billion)	0.2	0.3		
Headcount (number of employees)	130	132	–2	–1.5
Headcount (expressed as full-time equivalents)	107.1	109.2	–2.1	–1.9

[1] All adjustments arising from IAS 19 and the conversion of the Treuhand-Personalstiftung from a defined-benefit to defined-contribution scheme flow into the CFO & Corporate Center segment.

Structure

CFO & Corporate Center encompasses the areas of Group Finance & Risk, Group Legal, Compliance & Tax, Group Human Resources Management and Group Communications & Marketing. Those revenues and expenses having no direct relationship to the operating divisions, as well as consolidation items, are reported in the Corporate Center. At the same time, all adjustments arising from the conversion of the personnel pension plan from a defined-benefit to defined-contribution scheme as well as the early adoption of IAS 19 (revised) flow into this business segment. The prior year's figures were restated accordingly.

Segment results

Pre-tax results in 2012 amounted to CHF 26.4 million, as opposed to a prior year's result of CHF –28.8 million as restated for IAS 19 (revised).

Net interest income improved noticeably due to lower interest expense as a consequence of the matured debenture bond, higher interest income from financial investments as well as higher revenues from maturity transformation. Year-on-year, it increased by CHF 22.8 million to a value of CHF 30.7 million. Income from financial investments also showed a welcome year-on-year increase of CHF 10.8 million to CHF 17.1 million. On the other hand, trading income declined as a result of lower income from hedging operations in comparison to the prior-year period. Total operating income rose by CHF 28.0 million to CHF 50.1 million (prior-year period: CHF 22.1 million).

Operating expenses fell by CHF 30.3 million (–63.9 per cent) from CHF 47.5 million to CHF 17.1 million. The reasons for this decline were primarily non-recurring credits resulting to the conversion of the Treuhand-Personalstiftung (Group pension fund) from a defined-benefit to defined-contribution scheme as well as the initial adoption of IAS 19 (revised).

Year-on-year, the charge for depreciation and amortisation changed only marginally whilst valuation allowances, provisions and losses on a net basis showed a small or neutral release in comparison with the prior year of CHF 2.9 million. The employee headcount as of 31 December 2012 was 107.1, expressed in terms of full-time equivalents, in comparison to 109.2 positions as of 31 December 2011 (–1.9 per cent).

5

Corporate governance and compensation report

Corporate governance 2012

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 operative management as well as to the Board of Directors and its committees. It is also the objective of good corporate governance to avoid conflicts of interest between the individual stakeholder groups. That requires a high degree of transparency, because even the best internal structures cannot foster trust unless they are communicated to the outside world. It is VP Bank Group's desire to offer its stakeholders insight into its decision-making and control processes. 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 dated 29 October 2008, as well as the relevant laws of Liechtenstein.

The regulations of SIX Swiss Exchange 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 analogously. The relevant details are shown in Section 5.2 (see page 77) as well as in the notes to the annual financial statements (see pages 172f.).

Unless otherwise indicated, all corporate governance disclosures herein are valid as at 31 December 2012.

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 organisational chart on page 22 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 146), together with their names, registered offices, share capital and percentage of share capital held.

Group Executive Management (GEM) bears responsibility for the operative management of VP Bank Group. In principle, the members of Group Executive Management 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 given subsidiary company. The parent bank is managed by its own Executive Board, which comprises Group Executive Management and one further Executive Board member.

1.1.2 Listed companies included in the scope of consolidation

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

	ISIN	Security number	Year-end closing price in CHF	Market value in CHF million
Registered shares (unlisted)	LI0010737596	1.073.759	5.50	33
Bearer shares (listed)	LI0010737216	1.073.721	65.00	345[1]
Total (market capitalisation of the bearer shares plus market value of the registered shares)				**378**

[1] Market capitalisation of the listed bearer shares as at 31 December 2012

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

1.2 Significant shareholders

As at 31 December 2012, the following shareholders declared that they own more than 10 per cent of the share capital of VP Bank or exercise more than 3 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%
Ethenea Independent Investors S.A., Luxembourg	0	795,043	795,043	7.0%	13.4%

During the period under review, no further disclosure reports were received within the context of Art. 25 of the Liechtenstein Law Governing the Disclosure of Information Relating to Issuers of Securities or with the meaning of 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).

	Number	Balance as at 31/12/2012 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	31/12/2012	31/12/2011	31/12/2010
Share capital	59,148	59,148	59,148
Legal reserves	239,800	239,800	239,800
Other reserves	343,791	357,622	357,097
Provisions for general banking risks	63,150	63,150	63,150
Retained earnings	29,479	16,464	25,162
Total	**735,368**	**736,184**	**744,357**

2.4 Shares and participation certificates

The bearer shares of VP Bank are freely tradable on SIX Swiss Exchange. The registered shares are not listed, but are widely held among the regional populace. Both share categories bestow the membership rights provided for in the Liechtenstein Law on Persons and Companies Act (PGR) and the company's Articles of Incorporation. Each registered share (par value of CHF 1.00) and each bearer share (par value of CHF 10.00) grants the holder the right to one vote at the annual general meeting of VP Bank, irrespective of the par value of the share.

VP Bank has issued no participation certificates.

2.5 Profit-sharing certificates

VP Bank has issued no profit-sharing certificates.

2.6 Limitations on transferability and nominee registrations

The recording and transfer of registered shares is regulated in detail in Art. 7 of the Articles of Incorporation[1]. The registered shares are entered into the share register with a precise description of the owner according to name, nationality 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 the overall management, supervision and control duties performed by the Board of Directors, and the duties performed by operative 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 eight members. With the exception of the Chairman, no other member has belonged to the GEM, the Executive Board of VP Bank or Executive Board of 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.

[1] The Articles of Incorporation can be accessed via the Internet at: www.vpbank.com (→ Investors & Media → Publications → Regulations).

The following table provides information on 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
Fredy Vogt	1958	Chairman[1,4]	2012	2015
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
Max E. Katz	1955	Board Member[4]	2012	2015

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

Fredy Vogt (born 11 September 1958; citizen of Liechtenstein) has been the Chairman of the Board since April 2012. He is also Chairman of the Committee of the Board of Directors and a member of the Audit & Risk Management Committee of VP Bank.

- **Educational background:** Swiss Certified Expert in Accounting and Controlling (1984); Swiss Certified Public Accountant (1988); since 1989, individual continuing education studies focused on controlling, international accounting, taxes, operational bookkeeping and management accounting, risk management, employee/corporate leadership and coaching.
- **Professional background:** Liechtensteinische Landesbank, Vaduz; 1983–1987 lead auditor at AREVA AG, Vaduz; 1987 joined VP Bank as Deputy Head of Internal Audit; 1990 as Head of Controlling; 1996 as GEM member (responsible for finance, corporate clients and intermediaries, trading, real estate and security); from 2003 to 2012 CFO. In addition, he also acted as CEO ad interim from 25 August 2009 to 31 March 2010.
- **Other (board of directors) mandates:** none.
- **Other activities and vested interests:** member of the board of trustees of Privatbank-Personalstiftung as well as the board of trustees of the VP Bank Foundation.

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:** chairman of the council of trustees of Allgemeines Treuunternehmen (ATU), Vaduz; partner at Meier & Kieber Attorneys-at-Law, Vaduz.
- **Other (board of directors) mandates:** none.
- **Other activities and vested interests:** 1985 to 1993, part-time judge at the Liechtenstein Constitutional Court; 1993 to 1997, member of Parliament; since 1986, chairman of the Liechtenstein Institute; since 2008, chairman of the council of trustees of Stiftung Fürstlicher Kommerzienrat Guido Feger, Vaduz (see Point 1.2.).

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:** 1973 to 1976, studies in business administration, majoring in finance and accounting, at the University of St. Gallen; graduated as lic. oec. HSG.
- **Professional background:** 1977 to 1980, auditor with Coopers & Lybrand, White Plains NY; 1981 to 1990, various posts in the fields of finance, product management and sales, as well as member of senior management (responsible for product management, purchasing, development, quality assurance as well as head of the Tulsa factory) of Hilti Western Hemisphere, Tulsa/USA.
- **Other (board of directors) mandates:** none.
- **Other activities and vested interests:** 1990 to 2010, Administrative Fiduciary of the Martin Hilti-Familientreuhänderschaft, Schaan; since 2010, 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; since 1983, various management functions within Allgemeines Treuunternehmen (ATU), Vaduz, and since 2000, chairman of the directorate of Allgemeines Treuunternehmen (ATU), Vaduz.
- **Other (board of directors) mandates:** none.
- **Other activities and vested interests:** member of the council of trustees of Stiftung Fürstlicher Kommerzienrat Guido Feger (see Point 1.2), as well as chairman of the council of trustees of Privatbank-Personalstiftung.

Walo Frischknecht (born 7 October 1946; Swiss citizen) is Chairman of the Audit & Risk Management Committee of VP Bank.

- **Educational background:** diploma in business administration KSZ (1976) ; Swiss Certified Public Accountant (1982); Swiss Certified Expert in Accounting and Controlling (1988); Controller's Diploma of the Controller-Akademie, Gauting, Germany (1991).
- **Professional background:** 1976 to 1983, PriceWaterhouse, Zurich; 1983 to 1986, Revision AG, Zurich; 1986 to 1991, auditor and head of accounting and controlling at Bank Leu AG, Zurich; 1991 to 1995, group controller at Leu Holding, Zug; 1996 to 2000, group controller at BZ Trust AG, Wilen SZ; 2001 to 2003, chairman of general management at BZ Bank AG, Wilen SZ; since 2003, independent management consultant (Walo Frischknecht & Partner GmbH, Lachen).
- **Other (board of directors) mandates:** vice chairman and head of the Audit Committee of Clientis AG, Bern; chairman of the board of directors of Carpen AG, Zurich; chairman of the board of directors of Fundus Treuhand AG, Zurich; member of the board of directors of Allhost Holding, Lachen SZ.
- **Other activities and vested interests:** member of the council of trustees of Treuhand-Personalstiftung, Vaduz.

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

- **Educational background:** studied law at the University of Zurich; Dr iur. degree in 1984.
- **Professional background:** 1984 to 1985, financial analyst at Credit Suisse Zurich and New York; 1985 to 1987, activities in the fixed-income area at Credit Suisse First Boston Inc.; 1987 to 1990, vice president and head of international securities trading and sales at Swiss American Securities Inc.; 1990 to 1997, member of senior management and CFO of BEA Associates; 1997 to 1999, global head of institutional asset management at UBS; 2000 to 2005, chairman of Times Square Capital Management Inc.; since 2006, consultant in the field of financial services at DHS International Advisors LLC.
- **Other (board of directors) mandates:** Bellevue Group AG, Zurich; Auerbach Grayson & Co., New York; various investment funds.
- **Other activities and vested interests:** board member and treasurer of the Swiss Institute, New York; board member of the Resurrection Episcopal Day School, New York.

Prof. Dr Teodoro D. Cocca (born 25 July 1972; Swiss citizen).

- **Educational background:** undergraduate and graduate studies in economics at the University of Zurich; Dr oec. degree (2001).
- **Professional background:** 2001 to 2006, senior assistant and senior researcher at the Swiss Banking Institute of the University of Zurich; 2003 to 2004, research activities with Prof. Ingo Walter at the Stern School of Business, New York/USA; 2005, appointment to professorship in business administration, with focus on asset management, at Johannes Kepler University in Linz; since 2006, professor for Asset Management at Johannes Kepler University in Linz; since 2010, Adjunct Professor at the Swiss Finance Institute in Zurich; since 2011, dean of the Social and Economic Sciences Faculty of Johannes Kepler University in Linz.
- **Other (board of directors) mandates:** vice chairman of the board of Geneva Group International, Zurich.
- **Other activities and vested interests:** member of the Research Institute for Banking and Finance, Johannes Kepler University Linz; member of the investment committees of various Austria investment funds; chairman of the annual European Private Banking Summit, Zurich; proprietor of Cocca Asset Management KG, Weißkirchen an der Traun.

Max E. Katz (born 24 April 1955; Swiss citizen) is a member of the Audit & Risk Management Committee of VP Bank.

- **Educational background:** Höhere Wirtschafts- und Verwaltungsschule (HWV), Zurich, with a degree in business administration (1978).
- **Professional background:** 1978 to 1981, product manager at Unilever (Elida Cosmetics AG), Zurich; 1981 to 1987, regional controller at Jacobs Suchard AG, Zurich; 1987 to 1991, director of finance & informatics and member of senior management at Effems AG (Mars Incorporated), Zug; 1991 to 1995, director of finance & informatics and member of senior management at Hürlimann Holding AG, Zurich; 1995 to 2010, CFO and member of group management at Kuoni Reisen Holding AG, Zurich. In 2008, he also headed Kuoni Group as it CEO on an ad interim basis.
- **Other (board of directors) mandates:** vice chairman of the board and head of the audit committee of Charles Vögele Holding AG, Pfäffikon SZ; chairman of the board of Best of Switzerland Tours AG, Zurich; member of the board of directors of PDM Tourismus Holding AG, Zug; chairman of the board of directors of Seventheaven Schweiz AG, Zurich.
- **Other activities and vested interests:** chairman of the Association of Swiss Travel Agents, Zurich.

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 between the Board members of VP Bank and any other listed companies.

3.4 Election and term of office

Details concerning the election and terms of office of the current members of the Board of Directors can be found in the analysis (shown in Point 3.1). Pursuant to Art. 16 of the Articles of Incorporation, the Board of Directors comprises at least five members who are elected for a term of three years. The members of the Board of Directors are elected individually (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 (Art. 17 to 19) and in the Organisation and Business Rules (OBR Sections 2 to 4)[2].

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 and Executive Board. 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

The tasks, competencies, rights and obligations of the Committee of the Board of Directors (Nomination & Compensation Committee) 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.

[2] The Articles of Incorporation and OBR can be accessed via the Internet at: www.vpbank.com (→ Investors & Media → Publications → Regulations).

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. Within the framework of a standard agenda item addressed at the following Board meeting, the chairmen of both committees inform the Board of Directors and GEM about all important matters.

Committee of the Board of Directors (Nomination & Compensation Committee)
The Committee of the Board of Directors currently comprises three members: Fredy Vogt (Chairman), Dr Guido Meier and Markus Thomas Hilti. The Committee of the Board of Directors also functions as the Nomination & Compensation Committee. Pursuant to Section 3.2 OBR, the Committee of the Board of Directors is primarily responsible for the following:
- assisting the Chairman in the 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 fields, 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 submitting the related 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 members of the GEM and Executive Board, including their 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), Fredy Vogt, Roland Feger and Max E. Katz. 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 flow, 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 enforcement of legal and internal regulations;
- judging the quality of the internal and external auditors, as well as the collaboration between the two;
- defining the audit plan of Group Internal Audit, as well as taking note of and discussing the audit planning of the Group and 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 eight to ten times per year for meetings as well as for one strategy conclave. Generally, the meetings consist of three parts:

- a Board-internal part;
- a consultative part during which members of the GEM and Executive Board are also in attendance to present their proposals and exchange information; and
- a 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 present during this 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 2012 financial year, the Board of Directors held ten ordinary and three extraordinary meetings. In addition, the Board and GEM jointly conducted a full-day strategy workshop. With the exception of two meetings, each with one absence, and one meeting with two absences, 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 six to ten meetings per year. The CEO normally takes part in these NCC meetings in an advisory capacity.

In 2012, the Nomination & Compensation Committee held a total of ten 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 one meeting, 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 2012, the Audit & Risk Management Committee met for six ordinary meetings and one extraordinary meeting.

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 outstanding services on behalf of VP Bank. From 1961 to 1990, 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 2.2–2.4 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 overall management, supervision and control of the subsidiary companies of VP Bank Group to Group Executive Management. The Executive Board of the Head Office is responsible for the operative management of VP Bank Vaduz. The tasks and competencies of the Executive Board are laid down in Articles of Incorporation (Art. 21) and in OGR. The OGR contains more detailed provisions for the Executive Board in Section 5 and for the GEM in Section 6.

The separation of functions between the Board of Directors and the GEM / Executive Board can also be seen in the organisational chart ("Structure of VP Bank Group" on page 22).

3.7 Information and control instruments vis-à-vis the GEM and Executive Board

The Board of Directors and its committees have at their disposal various information and control instruments for managing and supervising the activities of the Executive Board. 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 various reports: monthly financial reports, 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, but the matter is also addressed by the Board itself.

A further key instrument to assist the Board of Directors in fulfilling its supervisory and control function is the Internal Audit[3] unit, which conducts its activities in compliance with the internationally recognised standards of the Institute for 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 and Executive Board meetings. He also exchanges information with the CEO on a weekly basis as well as with the other GEM and Executive Board members.

4. Senior management – the GEM and Executive Board

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 were more clearly regulated and allocated as of 1 January 2012. Their tasks and competencies are specified in the OBR of 1 January 2012 as well as in the functional descriptions for the individual GEM and Executive Board members. The Executive Board of VP Bank Vaduz comprises the members of Group Executive Management and one Executive Board member. The GEM head (CEO) is responsible for the overall management and intercompany coordination of the Group.

The GEM members generally 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 the GEM and Executive Board

As at 31 December 2012, the Group Executive Management team (GEM) comprised the following individuals:

Name	Year of birth	Function	Joined VP Bank in	GEM member since
Siegbert Näscher	1965	Chief Executive Officer ad interim Chief Financial Officer (CFO) Member of Group Executive Management	2010	2012
Juerg W. Sturzenegger	1961	Chief Executive Officer ad interim Chief Operating Officer (COO) Member of Group Executive Management	2008	2010

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

Siegbert Näscher (born 25 December 1965; citizen of Liechtenstein) has, since April 2012, held the posts of Chief Financial Officer of VP Bank Group as well as Deputy Chief Executive Officer and Head of the Corporate Center (Group Finance & Risk; Group Legal; Compliance and Tax; Group Communications & Marketing; Group Human Resources Management). Also, as of July 2012, he took over as co-Chief Executive Officer (CEO) ad interim (see "Segment reporting", page 59 f.).

- **Educational background:** Federally Certified Accounting and Controlling Expert (1993); Federally Certified Auditor (1996); 2002 to 2003, Executive Programme of the Swiss Banking School.
- **Professional background:** 1982 to 1987, Bank in Liechtenstein AG, Vaduz (accounting); 1987 to 1991, Revitrust Treuhand AG, Schaan (accounting and auditing); 1991 to 1992, assistant head of finance and accounting at Schild Mode AG, Luzern; 1992 to 1994, controller at Maschinenfabrik Rieter AG, Winterthur; 1994 to 1998, head of finance and controlling at Schoeller Textil AG, Sevelen; 1998 to 2010, head of group finance & risk at Liechtensteinische Landesbank AG, Vaduz; 2010, joined VP Bank Vaduz as Head of Group Finance & Risk.
- **Other (board of directors) mandates:** no mandates outside of VP Bank Group.
- **Other activities and vested interests:** since 2012, member of the board of the Liechtenstein Bankers Association; since 2012, member of the council of trustees (vice chairman) of Deposit Insurance and Investor Protection Foundation of the Liechtenstein Bankers Association.

Juerg W. Sturzenegger (born 6 June 1961; Swiss citizen) has been a member of Group Executive Management since 1 September 2010 and, as of 1 January 2012, Chief Operating Officer (COO) of VP Bank Group. Since July 2012, he has also been co-Chief Executive Officer (CEO) ad interim (see the "Segment reporting" section on pages 59 f.).

- **Educational background:** 1981 to 1987, studies in economics and, from 1988 to 1990, studies in sociology at the University of Zurich; 2000, Management Education Program, IMD, Lausanne; 2002, participation in the Executive Program at the Wharton Business School, Philadelphia, and in 2005, that of the Stanford Graduate School of Business, Stanford.
- **Professional background:** 1992 to 1995, head of the Corporate Finance and Structured Finance unit; 1990 to 1992, member of the Capital Market International unit; and 1988 to 1990, member of the Commerce staff office, all at Bank Leu AG, Zurich; 2006 to 2008, head of the Private Banking – Wealth Engineering unit; and 1995 to 2006 head of the Capital Market and Corporate Finance unit, all at Julius Baer & Co. AG, Zurich; Head of Wealth Management Solutions and member of the Executive Board and, in 2010, Chairman of the Executive Board and Head of Wealth Management Solutions at VP Bank (Schweiz) AG, Zurich.
- **Other (board of directors) mandates:** member of the board of directors of shaPE Capital AG, Freienbach.
- **Other activities and vested interests:** none.

As at 31 December 2012, the Executive Board comprised the members of Group Executive Management and the following Executive Board (EB) member.

Name	Year of birth	Function	Joined VP Bank in	EB member since
Rolf Jerman	1958	Head of Commercial Banking Member of the Executive Board	2007	2012

Rolf Jermann (born 29 October 1958; Swiss citizen) has been a member of the Executive Board of VP Bank Vaduz since 1 January 2012.

- **Educational background:** Federally Certified Banking Professional (1986); 1989, studies in international banking and finance, University of Toronto; 1990 to 1992, Swiss Banking School of the University of Zurich.
- **Professional background:** 1979 to 1980, administrator in the Portefeuille department of Caisse d'Epargne et de Crédit, Lausanne; 1981 to 1988, commercial client advisor at Credit Suisse (at the time, Schweizerische Kreditanstalt), St. Gallen; 1988 to 1989, credit analyst in the Corporate Finance unit of Credit Suisse, Toronto; 1989 to 1992, commercial client advisor at Credit Suisse, St. Gallen; 1993 to 1997, commerce client advisor and member of the directorate at St. Galler Kantonalbank, St. Gallen; 1994, management support during the course of the restructuring/sale of the Solothurner Kantonalbank at the behest of the Association of Swiss Cantonal Banks; 1997 to 2007, team leader and deputy commerce market head as well as member of the directorate of

the St. Galler Kantonalbank, St. Gallen; since 2007 with VP Bank Vaduz, 2007 to 2008 as Head of Client Advisory Commercial Banking, 2009 to 2011 as Head of Commercial Banking.
- **Other (board of directors) mandates:** none.
- **Other activities and vested interests:** since 2011, Chairman of the Credit Committee of the Liechtenstein Bankers Association.

4.2 Other activities and vested interests

The other activities of the GEM and Executive Board 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), the Committee of the Board of Directors proposes to the Board the principles for the compensation of the Board members and members of the GEM and Executive Board, as well as the remuneration paid to members of those corporate bodies. The Board of Directors approves the aforementioned principles and determines the amount of total compensation payable to Board, GEM and Executive Board 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 – GEM and Executive Board members

A long-term, value-oriented compensation model applies to GEM, Executive Board and second-level management members of VP Bank. Under this model, the compensation paid to GEM and Executive Board members 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 individual members. In addition to the base salary, VP Bank pays proportionate contributions to the management insurance scheme 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), "pay for performance" 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 short-term incentive (STI). In the programme for 2012 to 2014, the fulfilment of annual and three-year targets will result in a goal-achievement bonus (LTI and STI) of between 70 and 85 per cent of the fixed base salary. The variable performance-based amount actually paid to acting GEM and Executive Board members as of 31 December 2012 (based on the 2009–2011 LTI) equalled approximately 15 per cent of the fixed base salary. The grant of shares from the 2009 to 2011 LTI programme was made in the first quarter of 2012.

VP Bank has concluded no agreements on severance compensation for members of Group Executive Management or the Executive Board.

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 context of Article 5.2 of the Notes on the Corporate Governance Directive dated 29 October 2008, 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 pages 172 f.).

6. Shareholders' participation rights

6.1 Voting rights and representation restrictions

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

6.2 Statutory quorums

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

6.3 Convocation of the annual general meeting of shareholders

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

6.4 Agenda

The agenda for the annual general meeting is based upon the provisions of law and those of the Articles of Incorporation (Art. 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 card, shareholders receive an entry pass together with the relevant voting material.

The invitation to the annual general meeting is also published in Liechtenstein newspapers and the Swiss financial press.

7. Changes of control and 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[4]) 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. 37ff.). The Auditor in Charge[5], 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 2012 financial year, Ernst & Young AG charged VP Bank Group fees in the amount of CHF 1.56 million (previous year: CHF 1.77 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 TCHF 489.6 (previous year: TCHF 721.2). The services invoiced include support and audits in the following areas:
- advice on regulatory issues (FATCA, MiFID)
- the conduct of an efficiency analysis
- other advisory services

[4] Persons and Companies Act of the Principality of Liechtenstein.
[5] 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 2012, 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. Based on this evaluation, 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 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: 26 April 2013
2013 semi-annual report: 27 August 2013

Investors and other interested parties can find additional information on the Bank as well as the Articles of Incorporation, OBR, and further publications on the website www.vpbank.com.

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Compensation report

Background

The basis for this compensation report is EU Directive 2010/76/EU, which amongst other things addresses the risks associated with a company's compensation policy and practices.

Liechtenstein has transposed this directive domestically by amending the Law on Banks and Finance Companies, in particular Art. 7a Par. 6, which now reads: "Banks and finance companies are to introduce a compensation policy and practice and to ensure continuously that they are consistent with solid and effective risk management within the spirit of this Article. The government shall regulate the details of the compensation policy and practice in a corresponding ordinance."

Also, the content of Annex 4.4 of the "Ordinance on Banks and Finance Companies" (FL-BankV) has been supplemented accordingly. The revised Ordinance entered into force on 1 January 2012.

Principles of compensation

Total compensation plays a central role in the recruitment and retention of employees. It also has an influence on the future success of the company. VP Bank professes to pursue a fair, performance-oriented and balanced practice in terms of compensation, one which is in keeping with the long-term interests of shareholders and employees alike.

VP Bank's long-standing compensation practice corresponds to its business model as an asset manager and private bank. It takes into account the following principles:

- performance orientation and performance differentiation
- unbiased compensation, male or female
- fair and market-oriented pay
- simple, transparent compensation system
- decision-makers' focus on a prudent, success- and future-oriented approach to managing the company and avoiding the assumption of excessive risks

With these principles, VP Bank affords its people market-, performance- and function-consistent compensation. For individual employees as well as managers, it holds out the proper incentives to perform, thereby fostering the achievement of the Bank's goals as specified in its overall business strategy.

Structure of total compensation

The total compensation of VP Bank Group employees consists of a fixed salary, and additional variable compensation component, stock-ownership models, as well as additional perquisites (fringe benefits).

Fixed salary

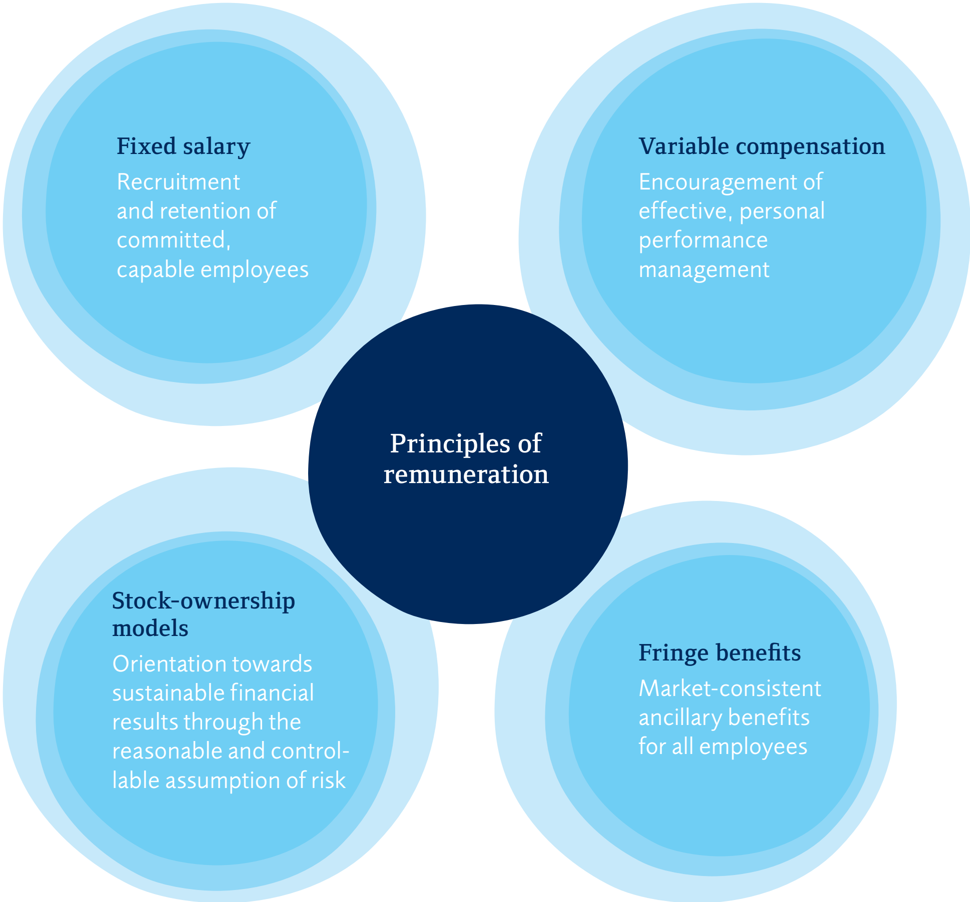
The amount of an employee's fixed salary is based on the function performed and the related requirements. Also taken into account are local labour market conditions. The fixed salary is a contractually agreed compensation component and is paid monthly in cash. With the amount of the given fixed salary, it can be ensured that employees of VP Bank do not become financially dependent on variable compensation components.

Variable, performance-related compensation

Variable compensation may, but need not, be granted. On the one hand, it is dependent on the success of the Bank in general or in individual transactions and, on the other, on the employee's personal performance. After the end of a given financial year, the latter is assessed by their supervisor on the basis of previously agreed tasks and targets. The actual amount is determined in accordance with quantitative and qualitative criteria and is in a reasonable relationship to the fixed salary of the employee. The targeted proportion of this component of overall compensation depends on the function performed and general market customs, but in all cases it is less than 50 per cent of the total. Even after repeated payouts, the employee has no claim to further variable compensation in future years. As a general rule, the amount is a lump sum paid in cash during the first quarter of the subsequent financial year. However, in the case of especially high proportions, VP Bank can spread the payments over several years and/or issue some of the amount in the form of stock. The individual locations of VP Bank are responsible for determining the variable compensation in keeping with Group-wide standards.

Stock-ownership models

The employees of VP Bank are offered the opportunity each year to purchase the Bank's shares at a preferred price. The amount depends on the employee's years of service and specific function. Instead of an outright purchase, it is also possible to obtain them at no charge by merely taking into account the monetary benefit. The shares are restricted as to sale for four years.



For members of senior management as well as certain specialists, VP Bank has established a stock-ownership plan aimed at the long term (Long-Term Incentive Plan, LTI). The determining principles on which the plan is based are the economic profit (i.e. consolidated income less cost of capital) of VP Bank Group over three years, "pay for performance" and the long-term commitment of management to a variable compensation component in the form of shares. The participants must in advance invest a portion of their "target bonus" in the LTI programme. As a "means of payment", shares reflect the objective assessment of the market. For participants, the long-term targets serve to reward success that is not just based on a single year's performance.

Details on the LTI programme can be found in the "Corporate governance" section under "Compensation, shareholdings and loans" on pages 76 f.

Fringe benefits

VP Bank affords fringe benefits to its employees on a voluntary and frequently location-/industry-specific basis. In principle, these benefits are minor in nature. They are accounted for and disclosed in accordance with local regulations.

They mainly include the following:
- insurance benefits that extend beyond the legal requirements;
- contributions to retirement plans, especially voluntary payments by the employer;
- preferred conditions for employees' banking transactions, e.g. reduced mortgage rates for acquiring/financing their own home;
- other benefits customary for the specific location.

Allocation of compensation

At the proposal of Group Executive Management, the Board of Directors decides on the Group budget. That in turn specifies the annual compensation framework for each subsidiary company.

At the end of each year – while taking into account the success of the specific subsidiary and the Group as a whole – provisions are taken for the sums associated with variable compensation (profit participation) per subsidiary, approved by Group Executive Management and then submitted, together with the annual financial statements, to the Board of Directors for approval. Executive Management at each location bears responsibility for establishing more detailed rules and allocating the profit participation accordingly.

Fundamental issues of personnel policy (such as salary and profit-participation systems) are addressed by the Nomination & Compensation Committee, which defines who the "risk takers" are (see below) and determines their salary and profit participation.

Details on the Nomination & Compensation Committee can be found in the "Corporate governance" section under Point 3.5.2 (see page 72).

Risk takers

Employees who have a particularly large influence on the risk profile of the Bank are deemed to be "risk takers". VP Bank views members of Group Executive Management and Executive Management at the subsidiary companies as "risk takers". Details on their compensation can be found in the "Corporate governance" section (see pages 76 f.).

Conformity with compensation rules

The compensation practice at VP Bank is consistent with the provisions of Annex 4.4 to the Banking Ordinance (FL-BankV) as well as those of the EU Directive. It is oriented towards long-term success: fundamentally, there are no automatisms that compel the payment of variable compensation components. The decision to allocate any such total amount ultimately lies in the hands of the Board of Directors.

VP Bank arranges no "golden parachutes". Special payments made upon the entrance of a given individual can occur in certain instances – as a general rule, it is way of compensating forgone benefits from a previous employer.

Individual agreements with client advisors for their acquisition successes are limited to individual cases and only possible if such is common locally or in the marketplace.

In keeping with Liechtenstein law, VP Bank must withhold or reclaim benefits in the event of an employee's legal culpability. This applies in particular to the variable compensation.

The variable compensation components may never put VP Bank in a difficult financial situation; if its course of business is poor, the Bank will waive the payment of variable compensation components.

Quantitative information on compensation

Details on the emoluments taken by members of the Board of Directors and Group Executive Management of VP Bank Group can be found in the "Annual report of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz" section under note "Remuneration paid to members of governing bodies" (see pages 172 f.).

Information on personnel expense is provided in the "Financial report 2012" section under note 6, "Personnel expense" (see page 129).


New York
Los Angeles
Atlantic
Ocean
Caribbean
Sea
Panama
Pacific
Ocean
Cape Horn


Colón
Gatún
Gatun Lake
Pedro Miguel
Panama City
Miraflores

The Panama Canal

Ferdinand de Lesseps, constructor of the Suez Canal, used the capital of many small French investors to found the Interoceanic Panama Canal Company. He was convinced that that Panama Canal would be just as easy to build as the Suez Canal and therefore took up the work. What de Lesseps was not aware of though were the climatic, geological and technical peculiarities of Panama. Due to construction hindrances, natural disasters and thousands of deaths from tropical illnesses, Interoceanic Panama Canal Company was ultimately forced to file for bankruptcy.

A shipping link between the Atlantic and Pacific had long been envisaged by the USA, and the demise of the Interoceanic Panama Canal Company opened a door of opportunity for the Americans. The "Spooner Act" of 1902 empowered President Theodore Roosevelt to buy the bankruptcy assets of the company. Panama, now with the backing of America, declared its independence from Colombia in 1903 and the Panama Canal Zone was established. In the summer of 1904, construction work was taken up again, this time under the aegis of American civil engineers who took steps to combat vile tropical diseases such as yellow fever and malaria. On 15 August 1914, the Panama Canal – the world's largest and most expensive engineering project ever to be undertaken until then – opened its floodgates for the first time. Through the end of the 20th century, the Americans held sovereignty over the canal and the strips of land along each of its shorelines. At the turn of the century, the passageway was handed back to Panama.

Close to 50 miles in length, the Panama Canal slices through the Isthmus of Panama from the Atlantic to the Pacific and saves ships the 12,500 mile journey around Cape Horn at the southern tip of South America. With three lockage systems and a total of twelve locks, it overcomes an 85-foot altitude difference between the two oceans and, along with the Suez Canal, is one of the world's most important inland waterways. Roughly 14,000 ships transit the canal each year.

The journey takes approximately twelve hours and the ships are assisted by port and starboard cog-railway locomotives that either tug the vessels or brake their forward motion.

Financial report 2012 of VP Bank Group

Consolidated Annual Report of VP Bank Group

Consolidated results

The consolidated financial statements for 2012 of VP Bank Group, prepared in accordance with International Financial Reporting Standards (IFRS), disclose Group net income of CHF 47.2 million. In the prior year, the Group realised a Group net income, after restatement in accordance with IAS 19 (revised), of CHF 5.3 million.

After a first half-year of 2012 marked by ongoing uncertainties in connection with the debt crisis, the situation gradually eased in the second half of the year. The ECB's clear commitment to the Euro, as well as progress on the political front, led to a noticeable stabilisation on financial markets.

Following the introduction of a minimum Swiss-franc/Euro parity in the autumn of 2012, little movement in the Swiss-franc/Euro exchange rate was noticeable during the financial year. Only after a degree of easing of the debt crisis could be seen to emerge in the autumn was the Euro able to break away somewhat from the minimum parity. A similar momentum was observable with interest rates. In the meantime, yields again came under strong pressure so that even negative yields could be observed over the summer in the case of five-year Swiss government bonds. US and European central banks further extended their expansionary monetary and low-interest-rate policies, thus adding to the general stabilisation of markets.

These factors impacted both revenues and client activities.

During 2012, VP Bank Group succeeded, to a large measure, in offsetting outflows of client money resulting from political uncertainties thanks to intensive market-development activities. For the whole of 2012, only a marginal outflow of client money of CHF 65 million was recorded. In addition, the complete repurchase and redemption of the Group's own debentures maturing in 2012 totalling CHF 127 million further took its toll on the development in inflows of net new money.

Having regard to the increased net income and the balanced dividend policy pursued by the Group, the Board of Directors will propose the payment of a dividend of CHF 2.50 per bearer share and of CHF 0.25 per registered share to the forthcoming annual general meeting of shareholders to be held on 26 April 2013.

Medium-term goals

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

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

The positive net inflows of net client money of the two preceding years could not be carried over to the current financial year. During the past financial year, VP Bank Group suffered a net outflow of client money of CHF 65 million and a further outflow of CHF 127 million, or minus 0.7 per cent, resulting from the repayment of the Group's own debentures. The net inflow for 2011 was CHF 1.0 billion or 3.5 per cent.

In 2012, the cost/income ratio could be reduced to 63.0 per cent (prior year: 79.7 per cent). In the process, income rose by 8.0 per cent and costs reduced by 14.5 per cent. With a tier 1 ratio of 21.5 per cent (prior year: 18.0 per cent), VP Bank Group possesses a very good starting point, compared with other financial institu-

Consolidated net income combined with cost/income ratio

¹ adjusted (IAS 19R)

tions, for its growth strategy, both organically as well as through acquisitions. The medium-term goal of 16.0 per cent which is far in excess of the legally prescribed level was again significantly exceeded in 2012. 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 ratio), thus reflecting a high measure of stability and security.

Client assets under management

At the end of 2012, client assets under management of VP Bank Group aggregated CHF 28.5 billion. Compared to the prior-year figure of CHF 27.4 billion, this equated to an increase of 3.9 per cent. The performance-related increase in assets resulting from the positive development in market values amounted to CHF 1.3 billion. Thanks to successful market-development activities, VP Bank Group was able to keep the outflow of client money within reasonable limits. In total, VP Bank Group recorded an outflow of money totalling CHF 192 million (prior year: inflow of new client money of CHF 995 million). Of this outflow, CHF 127 million relates to repayment of own debentures maturing in 2012.

Custody assets declined by 23.5 per cent to CHF 8.8 billion (prior year: CHF 11.5 billion).

As of 31 December 2012, client assets including custody assets totalled CHF 37.3 billion (prior year: CHF 39.0 billion).

Income statement

The year-on-year comparison of individual items is hampered by the restatement rendered necessary as a result of the early adoption of IAS 19 (revised). This concerns primarily the items personnel expense, Group net income and comprehensive income within shareholders' equity.

Total operating income

Total operating income rose year-on-year by 8.0 per cent from CHF 224.5 million to CHF 242.4 million. Income from the interest-differential business grew by CHF 16.9 million to CHF 83.5 million. Because of the ongoing low level of interest rates, VP Bank implemented several measures designed to enhance net interest income. In comparison with the prior year, changes in the value of interest-rate swaps had a less strong impact on net interest income. These interest-rate swaps are deployed to hedge interest-rate risk primarily on 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 – stock-exchange turnover for Swiss equities on the SIX Swiss Exchange declined by some 30 per cent in 2012 and even by 67 per cent compared with 2007 – income from commissions and services declined by 5.6 per cent to CHF 115.1 million. Both trade-related net commissions as well as those unrelated to trades for the asset-management and investment business recorded a slight increase year-on-year, whilst commissions from the investment-fund business receded.

Trading income declined in 2012 by 28.0 per cent from CHF 29.4 million to CHF 21.1 million. Trading on behalf of clients fell slightly by 6.6 per cent to CHF 22.7 million. Trading for the Bank's own account fell from CHF 5.0 million in 2011 to CHF –1.6 million in 2012 as a result of lower gains from currency hedges.

In 2012, financial investments yielded gains of CHF 19.5 million, the bulk of which result from the positive movement in interest-bearing securities in the conservative investment portfolio. In the prior year, an income of CHF 5.9 million had ensued.

Money market

Interest – 3 months	31/12/2012	31/12/2011	Δ previous year
Swiss-franc LIBOR	0.01%	0.05%	–4 BP
Euribor	0.13%	1.29%	–116 BP
Dollar LIBOR	0.31%	0.58%	–27 BP
Yen LIBOR	0.18%	0.20%	–2 BP

Capital market

Benchmark bonds – 10 years	31/12/2012	31/12/2011	Δ previous year
Switzerland	0.46%	0.67%	–21 BP
Germany	1.30%	1.83%	–53 BP
USA	1.75%	1.88%	–13 BP
Japan	0.79%	0.99%	–20 BP

Forex rates

Exchange rates	31/12/2012	31/12/2011	Δ previous year
EUR	1.2068	1.2139	–0.6%
USD	0.9154	0.9351	–2.1%
JPY	1.0586	1.2154	–12.9%
GBP	1.4879	1.4532	2.4%

Operating expenses

As a result of strict cost discipline and non-recurring items, operating expenses fell by 14.5 per cent to CHF 152.8 year-on-year. At the end of 2012, VP Bank Group employed 707 employees, expressed as full-time equivalents, which corresponds to a reduction of 31 positions (–4.2 per cent).

Year-on-year, personnel expense declined by CHF 21.6 million, or 17.1 per cent to CHF 104.3 million. This relates principally to a non-recurring credit totalling CHF 19.6 million relating to the conversion of the Treuhand-Personalstiftung (Group pension fund) from a defined-benefit to defined-contribution scheme as well as the early adoption of the revised standard IAS 19, in particular a non-recurring credit of CHF 3.2 million arising on plan settlements.

General and administrative expenses could be reduced by 8.4 per cent to CHF 48.4 million. Cost savings were achieved in particular in the areas of IT systems and marketing.

Year-on-year, depreciation and amortisation fell by 12.5 per cent to CHF 29.4 million.

In 2012, valuation allowances, provisions and losses increased year-on-year by CHF 5.3 million reflecting principally increased credit risks. At the same time, unused valuation allowances of CHF 8.1 million could be released (prior year: CHF 7.2 million). In aggregate, the items valuation allowances, provisions and losses totalled CHF 11.1 million (prior year: CHF 5.8 million).

Group net income attributable to the shareholders of VP Bank

After deducting non-controlling interests, there remained a Group net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft of CHF 47.1 million (prior year: CHF 3.2 million). Group net income per bearer share increased from CHF 0.56 to CHF 8.17.

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 73.6 million, in contrast to CHF –14.6 million in the prior year.

Balance sheet

Year-on-year, total assets of CHF 10.6 billion fell marginally by 1.0 per cent. On the assets side, cash and cash equivalents increased to CHF 927.0 million since 1 January 2012 (end of 2011: CHF 245.4 million), explained by the complete winding down of positions in money-market papers on the one hand, and the reduction in deposits with banks (CHF –354.9 million), on the other.

In view of the current situation on the real-estate market and the continuing period of low interest rates, VP Bank continues to pursue a policy of strict discipline and control in credit-granting activities. Client loans declined from the beginning of 2012 by CHF 137.8 million to CHF 3.7 billion, whereby mortgage loans recorded an increase of 11.3 per cent to CHF 2.6 billion.

On the liabilities side, client deposits and medium-term bonds increased marginally by 0.5 per cent to CHF 9.0 billion. With the repayment of the Group's own debentures, the position debentures issued fell from CHF 324.7 million at 31 December 2011 to CHF 198.5 million at the end of 2012.

Group shareholders' equity amounted to CHF 888.8 million at the end of 2012 (end of 2011: CHF 840.9 million). After deducting non-controlling interests, the shareholders' equity attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft was CHF 871.1 million (prior year: CHF 821.9 million). As of 31 December 2012, the tier 1 ratio amounted to 21.5 per cent (prior year: 18.0 per cent).

Outlook

With their liquidity measures, the major central banks have brought about a stabilisation of financial markets. The expansionary monetary policy of central banks and developments on the political front will continue to significantly impact markets in 2013. Positive developments on stock markets at the beginning of the year seem to be more broadly based than in 2012. Even if the debt crisis has lost some of its edge, economic problems remain.

The fragile composition of the real economy and financial markets means that any prognosis regarding future business developments is fraught with great uncertainty. VP Bank Group expects no significant increase in interest-rate levels in the first half of 2013. Furthermore, the Swiss National Bank will not modify its goal of achieving a minimum parity of the Swiss franc in relation to the Euro of CHF 1.20. These conditions and regulatory changes will impact the results of VP Bank Group.

Consolidated income statement

in CHF 1,000	Note	2012	2011 adjusted[1]	Variance absolute	Variance in %
Interest income		109,499	118,841	–9,342	–7.9
Interest expense		26,033	52,242	–26,209	–50.2
Total interest income	**1**	**83,466**	**66,599**	**16,867**	**25.3**
Commission income		159,285	165,963	–6,678	–4.0
Commission expense		44,191	44,038	153	0.3
Total income from commission business and services	**2**	**115,094**	**121,925**	**–6,831**	**–5.6**
Income from trading activities	3	21,147	29,367	–8,220	–28.0
Income from financial instruments	4	19,471	5,912	13,559	229.3
Other income	5	3,222	655	2,567	391.9
Total net operating income		**242,400**	**224,458**	**17,942**	**8.0**
Personnel expenses	6	104,384	125,947	–21,563	–17.1
General and administrative expenses	7	48,416	52,871	–4,455	–8.4
Operating expenses		**152,800**	**178,818**	**–26,018**	**–14.5**
Gross income		**89,600**	**45,640**	**43,960**	**96.3**
Depreciation and amortisation	8	29,445	33,636	–4,191	–12.5
Valuation allowances, provisions and losses	9	11,059	5,769	5,290	91.7
Income before income tax		**49,096**	**6,235**	**42,861**	**687.4**
Taxes on income	10a	1,895	973	922	94.8
Net income		**47,201**	**5,262**	**41,939**	**797.0**
Net income attributable to minority interests		54	2,058	–2,004	–97.4
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank AG, Vaduz		**47,147**	**3,204**	**43,943**	**n.a.**

Undiluted consolidated earnings per share of Verwaltungs- und Privat-Bank AG, Vaduz

	2012	2011
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank AG, Vaduz (in CHF 1,000)	47,147	3,204
Weighted average number of bearer shares	5,174,812	5,163,336
Weighted average number of registered shares	5,963,174	5,967,975
Total weighted average number of bearer shares	5,771,129	5,760,134
Undiluted net income per bearer share	8.17	0.56
Undiluted net income per registered share	0.82	0.06

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

	2012	2011
Adjusted net income attributable to the shareholders of Verwaltungs- und Privat-Bank AG, Vaduz (in CHF 1,000)	47,147	3,204
Number of shares used to compute the fully diluted consolidated income	5,771,129	5,760,134
Fully diluted consolidated income per bearer share	8.17	0.56
Fully diluted consolidated income per registered share	0.82	0.06

[1] Details can be found in note 41 and in Article 2 of the "Principles underlying financial statement reporting", page 99: "Changes to the principles of financial statement reporting and comparability".

Consolidated statement of comprehensive income

in CHF 1,000	2012	2011 adjusted [1]	Variance absolute	Variance in %
Net income	**47,201**	**5,262**	**41,939**	**797.0**
Financial instruments				
• Changes in value transferred to profit reserves	0	0	0	n.a.
• Changes in value of FVTOCI financial instruments	–2,220	5,429	–7,649	–140.9
Total financial instruments	**–2,220**	**5,429**	**–7,649**	**–140.9**
Actuarial gains/losses from defined-benefit pension plans	31,028	–25,025	56,053	n.a.
Foreign-currency translation differences	–2,411	–288	–2,123	n.a.
Other comprehensive income for the period recognised directly in equity (net-of-tax)	**26,397**	**–19,884**	**46,281**	**n.a.**
Total comprehensive income for the period (net-of-tax)	**73,598**	**–14,622**	**88,220**	**n.a.**
Attributable to non-controlling interests	–200	2,027	–2,227	–109.9
Attributable to the shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	73,798	–16,649	90,447	n.a.

[1] Details can be found in note 41 and in Article 2 of the "Principles underlying financial statement reporting", page 99: "Changes to the principles of financial statement reporting and comparability".

Consolidated balance sheet

Assets

in CHF 1,000	Note	31/12/2012	31/12/2011 adjusted [1]	Variance absolute	Variance in %	31/12/2010 adjusted [1]
Cash and cash equivalents	13	926,961	245,381	681,580	277.8	130,548
Receivables arising from money-market papers	14	0	124,938	–124,938	–100.0	439,767
Due from banks	15/16	4,789,054	5,143,910	–354,856	–6.9	5,622,808
Due from customers	15/16	3,713,290	3,851,050	–137,760	–3.6	3,266,872
Trading portfolios	17	215	–44	259	n. a.	4,011
Derivative financial instruments	18	50,751	103,690	–52,939	–51.1	63,322
Financial instruments at fair value	19	429,288	461,325	–32,037	–6.9	108,221
Financial instruments measured at amortised cost	20	502,566	558,297	–55,731	–10.0	685,604
Associated companies	21	44	25	19	76.0	34
Property and equipment	22	122,359	129,157	–6,798	–5.3	135,791
Goodwill and other intangible assets		55,832	70,812	–14,980	–21.2	85,636
Taxes receivable	10c	58	368	–310	–84.2	392
Deferred tax assets	10b	11,903	17,934	–6,031	–33.6	12,396
Accrued receivables and prepaid expenses		25,080	31,374	–6,294	–20.1	28,398
Other assets	24	14,028	12,957	1,071	8.3	12,463
Total assets		**10,641,429**	**10,751,174**	**–109,745**	**–1.0**	**10,596,263**

Liabilities and shareholders' equity

in CHF 1,000	Note	31/12/2012	31/12/2011 adjusted [1]	Variance absolute	Variance in %	31/12/2010 adjusted [1]
Due to banks		374,727	352,481	22,246	6.3	189,117
Due to customers – savings and deposits		966,870	931,733	35,137	3.8	954,218
Due to customers – other liabilities		7,735,165	7,760,773	–25,608	–0.3	7,753,020
Derivative financial instruments	18	82,467	129,443	–46,976	–36.3	70,034
Medium-term notes	25	284,370	251,713	32,657	13.0	183,334
Debentures issued	26	198,513	324,664	–126,151	–38.9	446,798
Tax liabilities	10c	3,689	3,230	459	14.2	5,782
Deferred tax liabilities	10b	8,401	8,992	–591	–6.6	8,244
Accrued liabilities and deferred items		22,547	25,791	–3,244	–12.6	28,834
Other liabilities	27	68,755	115,112	–46,357	–40.3	69,596
Provisions	28	7,098	6,362	736	11.6	3,214
Total liabilities		**9,752,602**	**9,910,294**	**–157,692**	**–1.6**	**9,712,191**
Share capital	30	59,148	59,148	0	0.0	59,148
Less: treasury shares	31	–33,493	–38,632	5,139	–13.3	–38,465
Capital reserves		–10,923	–3,882	–7,041	181.4	–5,323
Income reserves		878,136	822,665	55,471	6.7	871,092
Unrealised gains/losses on financial instruments FVTOCI		–4,986	–2,766	–2,220	80.3	–5,841
Foreign-currency translation differences		–16,796	–14,639	–2,157	14.7	–14,382
Shareholders' equity attributable to the shareholders of Verwaltungs- und Privat-Bank AG, Vaduz		**871,086**	**821,894**	**49,192**	**6.0**	**866,229**
Minority interests	29	17,741	18,986	–1,245	–6.6	17,843
Total shareholders' equity		**888,827**	**840,880**	**47,947**	**5.7**	**884,072**
Total liabilities and shareholders' equity		**10,641,429**	**10,751,174**	**–109,745**	**–1.0**	**10,596,263**

[1] Details can be found in note 41 and in Article 2 of the "Principles underlying financial statement reporting", page 99: "Changes to the principles of financial statement reporting and comparability".

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	Actuarial gains/losses from defined-benefit pension plans	Foreign-currency translation differences	Equity of shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	Minority interests	Total shareholders' equity
Total shareholders' equity 01/01/2012	**59,148**	**−38,632**	**−3,882**	**879,246**	**0**	**−2,766**	**−56,581**	**−14,639**	**821,894**	**18,986**	**840,880**
Changes in value transferred to profit reserves				0		0			0		0
Changes in value of FVTOCI financial instruments						−2,220			−2,220		−2,220
Actuarial gains/losses from defined-benefit pension plans							31,028		31,028		31,028
Foreign-currency translation differences								−2,157	−2,157	−254	−2,411
Net income				47,147					47,147	54	47,201
Total reported result 31/12/2012	**0**	**0**	**0**	**47,147**	**0**	**−2,220**	**31,028**	**−2,157**	**73,798**	**−200**	**73,598**
Dividends 2011				−8,671					−8,671	−1,045	−9,716
Coupon tax on old reserves[1]				−14,033					−14,033		−14,033
Management equity participation plan (LTI)			−3,527						−3,527		−3,527
Movement in treasury shares		5,139	−3,514						1,625		1,625
Total shareholders' equity 31/12/2012	**59,148**	**−33,493**	**−10,923**	**903,689**	**0**	**−4,986**	**−25,553**	**−16,796**	**871,086**	**17,741**	**888,827**
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
Restatement resulting from IAS 19 (revised 2011)[2]							−31,556		−31,556		−31,556
Total shareholders' equity 01/01/2011, adjusted	**59,148**	**−38,465**	**−5,323**	**896,219**	**0**	**−8,195**	**−31,556**	**−14,382**	**857,446**	**17,843**	**875,289**
Changes in value transferred to profit reserves				0		0			0		0
Changes in value of FVTOCI financial instruments						5,429			5,429		5,429
Actuarial gains/losses from defined-benefit pension plans[2]							−25,025		−25,025		−25,025
Foreign-currency translation differences								−257	−257	−31	−288
Net income				3,204					3,204	2,058	5,262
Total reported result 31/12/2011	**0**	**0**	**0**	**3,204**	**0**	**5,429**	**−25,025**	**−257**	**−16,649**	**2,027**	**−14,622**
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**	**879,246**	**0**	**−2,766**	**−56,581**	**−14,639**	**821,894**	**18,986**	**840,880**

1 Reduction of coupon tax on old reserves of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, pursuant to AGM resolution in 2012.
2 Details can be found in note 41 and in Article 2 of the "Principles underlying financial statement reporting", page 99: "Changes to the principles of financial statement reporting and comparability".

Consolidated statement of cash flow

in CHF 1,000	2012	2011 adjusted [1]
Cash flow from operating activities		
Net income	47,147	3,204
Sale of non-controlling interests in Group net income	54	2,058
Valuation allowances on financial instruments available for sale	29,445	33,636
Increase/release in retirement pension provisions	–54,776	5,342
Increase/release in provisions	3,049	5,777
Unrealised gains/losses on trading portfolios	0	20
Unrealised gains/losses on financial instruments at fair value	–4,721	–4,320
Unrealised gains/losses on financial instruments at amortised cost	4,159	12,624
Deferred income taxes	–615	–1,328
Tax on income paid, interest received less interest paid and dividends received	–97,240	–73,004
Subtotal	**–73,498**	**–15,991**
Changes in assets and liabilities in connection with operating business activities, after adjustment for non-cash-related transactions:		
Due from/to banks, net	553,261	438,819
Trading portfolios, including replacement values, net	5,802	23,004
Interest received from interest-differential business	100,919	103,722
Interest received from trading portfolio	–404	48
Dividends received from trading portfolio	0	2
Interest received on financial instruments at fair value	5,717	7,923
Dividends received on financial instruments at fair value	5,372	4,761
Interest received on financial instruments at amortised cost	13,143	10,963
Dividends received on financial instruments, FVTOCI	1,985	805
Due from/to customers	170,225	–642,738
Foreign-exchange impact on intra-group payments	–2,271	5,113
Accrued receivables, prepaid expenses and other assets	6,623	–3,080
Accrued liabilities and other liabilities	17,639	5,211
Interest paid in connection with interest-differential business	–32,449	–51,922
Taxes on income paid	–340	–3,298
Net cash flow from operating activities	**771,724**	**–116,658**

[1] Details can be found in note 41 and in Article 2 of the "Principles underlying financial statement reporting", page 99: "Changes to the principles of financial statement reporting and comparability".

Consolidated statement of cash flow (continued)

in CHF 1,000	2012	2011
Cash flow from investment activities		
Net reduction/increase in financial instruments at fair value	41,069	–317,762
Net reduction in financial instruments at amortised cost	53,544	94,420
Acquisition of property and equipment and intangible asset	–7,780	–12,240
Cash flow from investment activities	**86,833**	**–235,582**
Cash flow from financing activities		
Net reduction/increase in treasury shares	1,630	–35
Dividends paid	–8,671	–20,177
Coupon tax on old reserves	–14,033	0
Issuance of medium-term notes	32,657	68,379
Redemption of debenture	–126,700	–125,300
Dividend payments to minority shareholders	–1,045	–884
Net cash flow from financing activities	**–116,162**	**–78,017**
Impact of foreign-currency translation (incl. non-controlling interests)	–8,149	13,583
Net increase/decrease in cash and cash equivalents	**734,246**	**–416,674**
Cash and cash equivalents at the beginning of the financial year	1,168,151	1,584,825
Cash and cash equivalents at the end of the financial year	1,902,397	1,168,151
Net increase/decrease in cash and cash equivalents	**734,246**	**–416,674**
Cash and cash equivalents are represented by		
Cash	926,961	245,381
Receivables arising from money-market papers	0	124,938
Due from banks – at-sight balances	975,436	797,832
Total cash and cash equivalents	**1,902,397**	**1,168,151**

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 1,902.4 million (2011: CHF 1,168.2 million).

Consolidated off-balance-sheet transactions

in CHF 1,000	2012	2011
Contingent liabilities		
Credit guarantees and similar	13,907	13,345
Performance guarantees and similar	84,554	85,027
Irrevocable commitments	0	0
Other contingent liabilities	0	0
Total contingent liabilities	**98,461**	**98,372**
Credit risks		
Irrevocable facilities granted	24,045	34,204
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	**24,045**	**34,204**
Fiduciary transactions		
Fiduciary deposits [1]	961,029	1,444,199
Fiduciary loans	7,009	12,793
Other fiduciary financial transactions	0	0
Total fiduciary transactions	**968,038**	**1,456,992**

[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
31/12/2012					
Contingent liabilities	35,198	55,686	5,185	2,392	98,461
Credit risks	2,110	19,032	810	2,093	24,045
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

Securities lending and repurchase and reverse repurchase transactions with securities

in CHF 1,000	31/12/2012	31/12/2011
Amounts receivable arising from cash deposits in connection with securities borrowing and reverse repurchase transactions	511,738	203,900
Amounts payable arising from cash deposits in connection with securities lending and repurchase transactions	149,993	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	575,966	605,897
• of which securities where the unlimited right to sell on or pledge has been granted	303,384	433,801
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	974,065	895,076
• of which securities which have been resold or repledged	125,407	243,272

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, the British Virgin Islands, Singapore, Hong Kong, as well as representative offices in Moscow and Hong Kong. As of 31 December 2012, VP Bank Group employed 706.9 persons, expressed as full-time equivalents (previous year: 737.8).

Asset management and portfolio advisory services for private and institutional investors, as well as lending, constitute its core activities.

Values disclosed in the financial statements are expressed in thousands of Swiss francs. The 2012 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 were no post-balance-sheet-date events that materially affected the balance sheet and income statement for 2012. The Board of Directors reviewed and approved the consolidated financial statements in its meeting of 21 February 2013. These consolidated financial statements will be submitted for approval to the annual general meeting of shareholders to be held on 26 April 2013.

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:

- IFRS 1 – First-time Adoption of International Financial Reporting Standards – Amendments in Relation to Severe Hyperinflation
- IAS 12 – Deferred Taxes; Realisation of Underlying Assets

The adoption of these standards had no impact on financial statement reporting or was immaterial.

Changes in financial statement reporting standards as a result of early adoption of IAS 19 (revised 2011) "Employee Benefits"

During 2012, VP Bank Group elected to adopt IAS 19 (revised 2011) "Employee Benefits" and record the changes resulting therefrom prior the date on which the standard takes effect.

On the basis of this decision and in compliance with the transitional provisions of Par. 173 IAS 19 (revised 2011), the comparative figures of the prior year were restated.

The changes required by IAS 19 modify the manner of recording pension obligations arising from defined-benefit pension plans on the occasion of the termination of employment. The most significant amendments result from the recording of changes in plan assets as well as the present value of pension obligations. The revised standard requires these changes be recorded immediately as of the date on which they arise. The "corridor approach" applied by the Group under the previous IAS 19 is discontinued. All actuarial gains and losses must be recognised immediately in the statement of comprehensive income (OCI). As a result of this amendment, the pension liability recognised in the balance sheet corresponds to the deficit/excess of funding of plan assets, adjusted, where applicable, by the effects of IFRIC 14 ("IAS 19 – The limit on a defined-benefit asset, minimum funding requirements and their interaction").

Furthermore, past service costs in future are to be recognised immediately in the income statement. For pension plans where employee contributions are paid on the basis of formal pension rules, a reduction of pension liabilities may ensue as a result of taking into account the risk-sharing between employees and the employer.

The interest expense on the present value of defined-benefit obligations used in the current version of IAS 19 and the anticipated income on plan assets is replaced by net interest expense under IAS 19 (revised 2011). This latter is computed on the basis of the discount rate and the pension liability or plan assets at the beginning of the period. In addition, changes occur in the presentation of pension costs and in note-disclosure information.

Impact of early adoption of IAS 19 (revised 2011)

The early adoption of the revised standard IAS 19 "Employee Benefits" had a material impact on the current financial statements, which is described in note 41 as well as below. In compliance with IAS 8, the shareholders' equity of the Group as of 1 January 2011 was restated by an amount of CHF –31.6 million, and the financial year 2011 was restated in accordance with the requirement of IAS 19 (revised 2011). As a result of this amendment, Group net income for 2011 was restated by CHF –1.1 million from CHF 6.4 million to CHF 5.3 million. The shareholder's equity of the Group decreased by CHF 577 million as at 31 December 2011.

Restatement of prior-year comparative figures

Effect on 2011 financial statements of early adoption of IAS 19R:

in CHF 1,000	31/12/2010 as reported	Restatement IAS 19R	31/12/2010 as restated
Impact on balance sheet and shareholders' equity			
Deferred tax assets	6,338	6,058	12,396
Other assets (accrued receivables – pension costs)	13,805	–1,342	12,463
Deferred tax liabilities	8,512	–268	8,244
Other liabilities (accrued pension costs)	33,056	36,540	69,596
Shareholders' equity	906,845	–31,556	875,289

in CHF 1,000	31/12/2011 as reported	Restatement IAS 19R	31/12/2011 as restated
Impact on balance sheet and shareholders' equity			
Deferred tax assets	7,698	10,236	17,934
Other assets (accrued receivables – pension costs)	14,084	–1,127	12,957
Deferred tax liabilities	9,217	–225	8,992
Other liabilities (accrued pension costs)	48,069	67,043	115,112
Shareholders' equity	898,589	–57,709	840,880
Impact on income statement and Group net income			
Personnel expense	124,862	1,085	125,947
Taxes on income	930	43	973
Group net income	6,390	–1,128	5,262
Group net income per bearer share (in CHF)	0.75	–0.19	0.56
Impact on comprehensive income			
Group net income	**6,390**	**–1,128**	**5,262**
Financial instruments	5,429	0	5,429
Foreign-currency translation differences	–288	0	–288
Actuarial gains and losses	0	–29,203	–29,203
Income taxes on actuarial gains and losses	0	4,178	4,178
Comprehensive income in shareholders' equity	**5,141**	**–25,025**	**–19,884**
Comprehensive income in income statement and shareholders' equity	**11,531**	**–26,153**	**–14,622**
Attributable to non-controlling interests	2,027	0	2,027
Attributable to shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	9,504	–26,153	–16,649
Impact on statement of cash flow			
Group net income	6,390	–1,128	5,262
Cash flow from operating activities	–116,658	0	–116,658
Cash flow from investing activities	–235,582	0	–235,582
Cash flow from financing activities	–78,017	0	–78,017
Foreign-currency impact	13,583	0	13,583
Changes in cash and cash equivalents	–416,674	0	–416,674

Restatement of prior-year comparative figures (continued)

Changes in consolidated shareholders' equity

in CHF 1,000	Share capital	Treasury shares	Capital reserves	Income reserves	Movements in financial instruments FVTOCI	Actuarial gains/losses from defined-benefit pension plans	Foreign-currency translation differences	Equity attributable to shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	Non-controlling interests	Total shareholders' equity
Balance as reported as of 31/12/2010 (restatement for initial adoption IFRS 9)	59,148	–38,465	–5,323	896,219	–8,195	0	–14,382	**889,002**	17,843	906,845
Adjustments early adoption of IAS 19 revised						–37,882		**–37,882**		–37,882
Tax effect						6,326		**6,326**		6,326
Shareholders' equity as of 31/12/2010 (as restated)	59,148	–38,465	–5,323	896,219	–8,195	–31,556	–14,382	**857,446**	17,843	875,289
Balance as reported as of 01/01/2011	59,148	–38,465	–5,323	896,219	–8,195	0	–14,382	**889,002**	17,843	906,845
Movement in shareholders' equity prior to effect of IAS 19 revised		–167	1,441	–15,845	5,429		–257	**–9,399**	1,143	–8,256
Shareholders' equity as of 31/12/2011	59,148	–38,632	–3,882	880,374	–2,766	0	–14,639	**879,603**	18,986	898,589
Adjustments early adoption of IAS 19 revised				–1,128		–67,085		**–68,213**		–68,213
Tax effect						10,504		**10,504**		10,504
Shareholders' equity as of 31/12/2011 (as restated)	59,148	–38,632	–3,882	879,246	–2,766	–56,581	–14,639	**821,894**	18,986	840,880

The restatements resulting from IAS 19 (revised) were allocated to the segment CFO & Corporate Center (see segment reporting).

Based upon provisional calculations, the 2012 personnel expense on defined-benefit pension plans under the superseded version of IAS 19 would have been some CHF 9 million higher than under IAS 19 (revised); after the effect of deferred taxation, this would have resulted in a reduction of Group net income of some CHF 8 million. The increase in personnel expense relates, inter alia, to the differing actuarial calculations as well as from the fact that (delayed) recognition of actuarial gains and losses impacting the income statement under IAS 19 (revised) is eliminated (increase in personnel expense of some CHF 4 million). As a result of the immediate recognition of actuarial gains and losses arising during the financial year, the 2012 consolidated statement of comprehensive income would have been some CHF 39 million lower under the superseded version of IAS 19.

International financial reporting standards to be adopted in 2013 or subsequently

Numerous new standards, revisions and interpretations of existing standards were published which are mandatory for accounting periods beginning on 1 January 2013 or subsequently. Based on the analysis of VP Bank, the following new or revised IFRS Standards are currently being investigated. The Group has not made use of the option of applying them prior to the effective dates.

Annual Improvements to IFRS (2009–2011 Cycle)

The International Accounting Standards Board (IASB) lists a number of amendments to various standards.
The amendments have taken effect on 1 January 2013. They will have no material impact on the Group's consolidated financial statements.

IFRS 7 – Set-off of Financial Instruments

The new provisions are designed to enable the reader of financial statements to assess the impact on the financial situation of the company (or possible impact) of set-off agreements, including rights to set off financial assets and financial liabilities. The revised standard has taken effect on 1 January 2013. They will not have any impact on consolidated shareholders' equity and Group net profit.

IFRS 10 – Consolidated Financial Statements

The new standard creates a uniform definition for the concept of control and thus a uniform basis for consolidation. Control exists when the following three elements are present on a cumulative basis:

- The company has power over the investee.
- The company is exposed to variable returns from its involvement with the investee.
- The company can influence the amount of these variable returns thanks to its power.

The assessment is based upon all available facts and circumstances and is to be reviewed each time there is change thereto. There is control when the investor has existing rights which give him the present ability to direct those activities which materially influence the income from the investee. Control is mostly based on ownership of voting rights, but can also result from contractual rights or a combination of both. The rights to direct the relevant activities are based upon the ability to do this; that is, they must not necessarily be exercised. In assessing whether the investor has control over the investee, potential voting rights, economic dependence and the size of the investment in relation to the other investors and

their voting behaviour at annual general meetings are to be taken into consideration.
The new standard introduces guidelines in assessing whether an investor with decision making powers acts as principal or agent.
The new standard has taken effect on 1 January 2013. The Group does not expect the new provisions to have any impact on the scope of consolidation.

IFRS 11 – Joint Arrangements
The new standard focuses on the rights and obligations arising under joint arrangements instead of the legal form thereof. It differentiates between joint business activities in which each partner records his share in the balance sheet and income statement and joint entities which are reflected in the consolidated financial statements in accordance with the equity method of accounting.
The new standard has taken effect on 1 January 2013. The Group does not expect the new provisions to have any impact on the scope of consolidation.

IFRS 12 – Disclosures of Interests in Other Entities
The new standard contains the disclosure provisions relating to investments in subsidiary companies, associates, joint arrangements and non-consolidated structured entities.
The disclosures should assist the reader of financial statements to be able to estimate the nature and risk inherent in interests in other entities, as well as the effect of these interests on consolidated results, shareholders' equity and cash flows.
The new standard has taken effect on 1 January 2013. The Group does not expect the new provisions to have any impact on the scope of consolidation.

IFRS 13 – Fair Value Measurement
The new standard defines fair value, unifies the guidance concerning the determination of fair value in a standard and requires disclosures regarding the determination of fair value. It is applicable to all standards requiring or allowing fair-value measurements or related disclosures. Fair value equates to the price that would be realised in an orderly transaction between market participants at the date of measurement upon sale of the asset or would be paid in transferring the liability. This definition stresses that the fair value is a market-related measurement and not one specific to the company. Thus the intention of the company to hold the asset or to settle the liability or otherwise realise it is not relevant for determining fair value. If no price for a comparable asset or comparable liability is available, then the company shall use a valuation technique for determining fair value which maximises the use of relevant observable inputs and minimises the use of non-observable inputs.
The new standard has taken effect on 1 January 2013. The Group does not expect the new provisions to have any impact on the amount of assets and liabilities recorded at fair value.

IAS 1 – Changes in Relation to Presentation of Other Comprehensive Income
The revised standard requires that the component parts of other comprehensive income be split into two categories: into gains or losses which will be recorded subsequently in the statement of income (recycling) and those which will never be reflected in the statement of income.
The revised standard has taken effect on 1 January 2013.

IAS 27 – Separate Financial Statements
IAS 27 was revised as a result of the new IFRS 10 "Consolidated Financial Statements". IAS 27 continues to govern financial statement reporting for separate financial statements. Minor clarifications were added.

IAS 28 – Investments in Associates und Joint Ventures
IAS 28 was revised as a result of the new IFRS 11 "Joint Arrangements". Minor clarifications were added.

IAS 32 – Set-off of Financial Instruments
In accordance with the amendments, the right of set-off must not only be legally enforceable during the ordinary course of business, but also for all parties involved in case of default, insolvency or bankruptcy. The second amendment clarifies that certain settlement systems shall satisfy the conditions for simultaneous settlement.
The revised standard will take effect on 1 January 2014. They will not have any impact on consolidated shareholders' equity and Group net profit.

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 are consolidated as of the date on which control is transferred and deconsolidated as of the date control ends.

Changes in scope of consolidation

During 2012, there were no changes in the scope of consolidation.

Method of capital consolidation

Capital consolidation is undertaken in accordance with the Anglo-Saxon purchase method, whereby the shareholders' equity of the consolidated company is set off against the carrying value of the shareholding in the parent company's 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 non-controlling interests in shareholders' equity and Group net income 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 collectability is undertaken at least once a year for all loans of doubtful collectability. 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 1.2 million (2011: CHF 1.6 million).

Valuation adjustment on financial instruments available for sale

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 CEO & Head of Markets, Banking Liechtenstein & Regional Market – as well as COO and 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 instruments 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.

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 and is reported under the item "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 items "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.

Dividends are reported in income from financial investments under the item "dividend income from FVTOCI financial instruments".

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 collectability 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". Group management ensures that the monitoring of credits is appropriate to the risks assumed in the credit business. The collectability 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. If an outflow of funds is unlikely to occur or the amount of the liability cannot be reliably estimated, a contingent liability is shown.

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 provided its purchase or manufactured cost can be determined reliably, it exceeds a certain limit for capitalisation and the expenditure benefits future accounting periods.

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.

Recorded receivables from and liabilities to these pension funds are computed on the basis of statistical and actuarial calculations of experts.

As regards defined-benefit pension plans, pension costs are determined on the basis of various economic and demographic assumptions using the projected unit credit method.

The number of insurance years actually earned through the date of valuation are taken into account. Amongst the computational assumptions taken into account by the Group are, inter alia, the expected future rate of salary increases, long-term interest earned on retirement assets, retirement patterns and life expectancy. The valuations are undertaken annually by independent actuaries. Plan assets are re-measured annually at fair values.

Pension costs comprise three components:
- service costs which are recognised in the income statement;
- net interest expense, which is also recognised in the income statement; and
- revaluation components which are recognised in the statement of comprehensive income.

Service costs encompass current service costs, past service costs and gains and losses from non-routine plan settlements. Gains and losses from plan curtailments are deemed to equate to past service costs.

Employee contributions and contributions from third parties reduce service cost expense and are deducted therefrom provided that these derive from pension plan rules or a de facto obligation.

Net interest expense corresponds to the amount derived from multiplying the discount rate with the pension liability or plan assets at the beginning of the year. In the process, capital flows of less than one year are taken into account on a weighted basis.

Revaluation components encompass actuarial gains and losses from the movement in the present value of pension obligations and plan assets. Actuarial gains and losses result from changes in assumptions and experience adjustments. Gains and losses on plan assets equate to the income from plan assets less the amounts contained in net interest expense. Revaluation components also encompass movements in unrecognised assets less the effects contained in net interest expense. Revaluation components are recognised in the statement of comprehensive income and cannot be booked as earnings in future periods. The amounts recognised in the statement of comprehensive income can be reclassified within shareholders' equity.

Service costs and net interest expense are recorded in the consolidated financial statements under personnel expense. Revaluation components are recognised in the statement of comprehensive income.

The pension liabilities or plan assets recognised in the consolidated financial statements correspond to the deficit or excess of funding of defined-benefit pension plans. The recognised pension assets are limited to the present value of the economic benefit of the Group arising from the future reduction in contributions or repayments.

Liabilities arising in connection with the termination of employment are recognised at the time when the Group has no other alternative but to finance the benefits offered. In any event, the expense is to be recorded at the earliest when the other restructuring cost is also recognised.

For other long-term benefits, the present value of the acquired commitment is recorded as of the balance-sheet date. Movements in present values are recorded directly in the income statement as personnel expense.

Employer contributions to defined-benefit pension plans are recognised in personnel expense at the date when the employee becomes entitled thereto.

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) and each member of Group Executive Management. To be added to the base salary are the contributions made by VP Bank to the executive insurance scheme and pension fund.
2. A variable performance-related portion (Short-Term Incentive STI) depending on the annual value creation of VP Bank Group. It is allocated on the basis of qualitative individual criteria and financial Group targets. The financial Group targets are weighted by some two-thirds. The STI is paid annually in cash.
3. A long-term variable management equity-share plan (Long-Term Incentive LTI) settled in the form of bearer shares of VP Bank. The basic principles thereof are the focus on value creation (economic profit) and the long-term commitment of management to a variable salary component in the form of shares.
   The number of shares which are vested after a period of three years is directly dependent on the trend of the economic profit of VP Bank Group. This takes account of capital- and risk-related costs. The target setting is done on

the basis of an external perspective. The starting point in this connection is the target yield on the market value. Thus, depending on the financial trend, a greater or lesser number of shares are allocated. The factor ranges from a minimum of 0.5 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 Bank's 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.

Risk-weighted assets as of 31 December 2012 aggregated CHF 3.9 billion as against CHF 4.5 billion in the prior year. Core capital as of 31 December 2012 was CHF 834.0 million as against CHF 801.0 million in the prior year. The overall equity ratio increased by 3.5 per centage points from 18.0 per cent as at 31 December 2011 to 21.5 per cent at 31 December 2012. Both as of 31 December 2012 and 31 December 2011, 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 Settlements).

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.

Capital management

The reforms of the Basel III regulatory framework heighten the capital adequacy and liquidity requirements for banks. With a ratio of 21.5 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. Secured reverse repo investments were also deployed in order to limit credit risk.

Market risks

In view of the continuing macroeconomic uncertainties in Europe and the USA, the hedging strategy for currency risks was revised.

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 management of operational risks 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 competencies 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

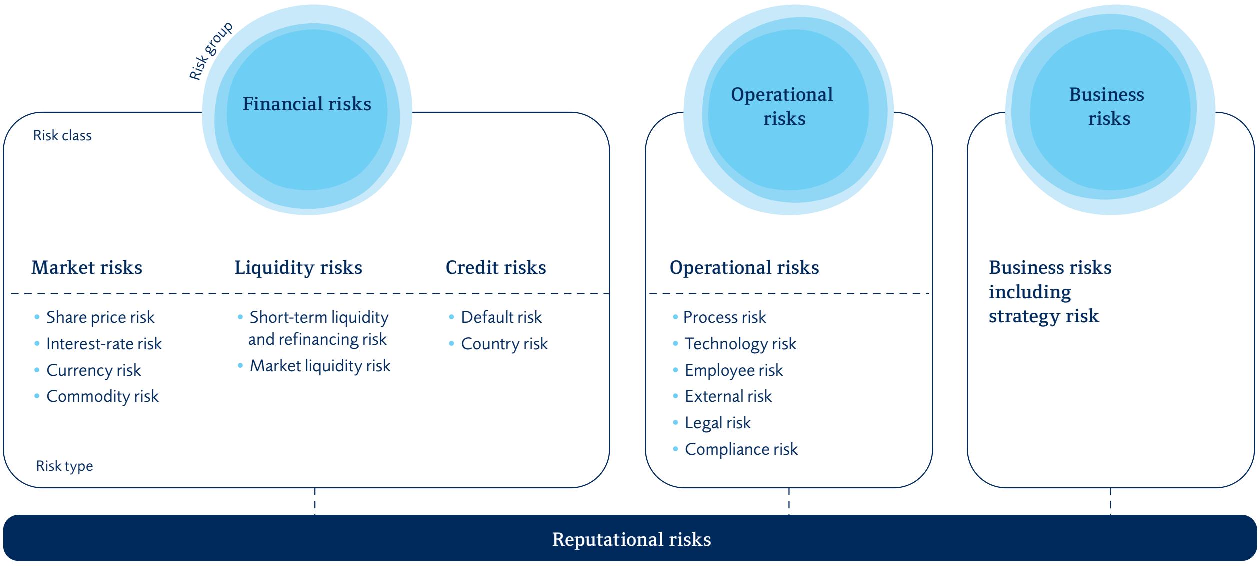
Strategic and operational decisions are taken on the basis of risk/return calculations and aligned with the interests of the stakeholders. Assuming compliance with legal and regulatory provisions and the principles underlying business and ethical policies, VP Bank takes on risks consciously so long as 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). Whilst 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 the 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, in the desired amount and on acceptable conditions.

Credit risks comprise both counterparty and country risks. 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 following graph gives an overview in diagrammed form of the organisation of risk and capital management of VP Bank Group.

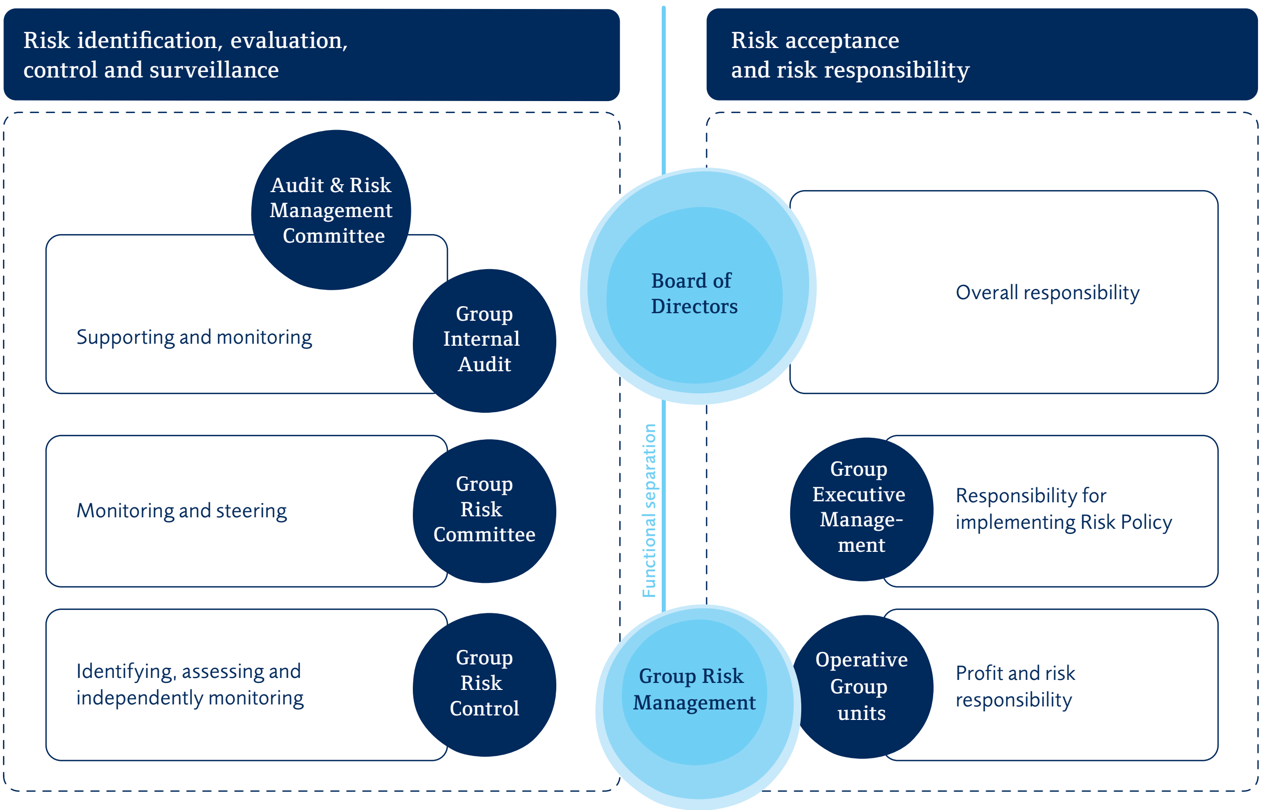
The **Board of Directors** bears the ultimate responsibility for risk and capital management within the Group. It is its remit to establish and maintain an appropriate structure of business processes and organisation as well as an internal control system (ICS) for an effective and efficient management of risk and capital, 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. Amongst 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, 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.

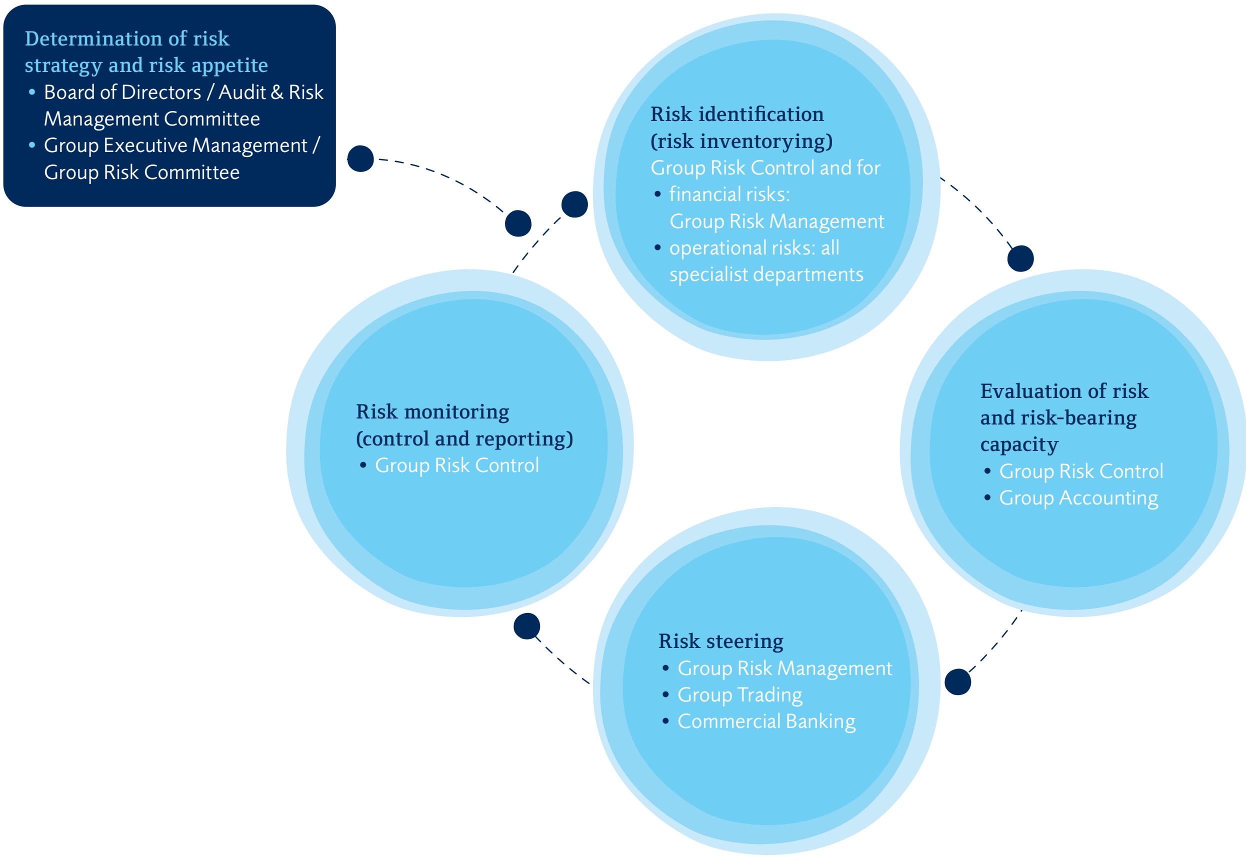
As an independent function for the central identification, evaluation (measurement and assessment) and monitoring (control and reporting) of the risk situation and risk tolerance of the Group, **Group Risk Control** supports the Board of Directors and Group Executive Management in assuming its respective 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, whilst complying with legal and regulatory prescriptions. Part of its core tasks is balance-sheet-structure management whilst 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 supervision (Group Internal Audit)



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 is derived from the global and individual limits is 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

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 section and also 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 2012, the business activities of VP Bank Group required shareholders' equity of CHF 313.3 million (31 December 2011: CHF 360.8 million). Adjusted eligible equity totalled CHF 834.0 million (31 December 2011: CHF 801.0 million). Year-on-year, the excess of equity showed a marked increase of 18.3 per cent to CHF 520.6 million (31 December 2011: CHF 440.2 million) but together with a tier 1 ratio of 21.5 per cent (31 December 2011: 18.0 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 2012.

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 of VP Bank is not "diluted" and can be described as robust.

Capital-adequacy computation

in CHF 1,000	31/12/2012	31/12/2011
Core capital (unadjusted)	**879,026**	**834,774**
• Paid-in capital	59,148	59,148
• Disclosed reserves	803,270	800,940
• Consolidated net income	47,147	3,204
• Deduction for treasury shares	–33,493	–38,632
• Minority interests	17,741	18,986
• Deduction for dividends as per proposal of Board of Directors	–14,787	–8,872
Deduction for goodwill and intangible assets	–55,832	–70,812
Other adjustments	17,373	46,742
Eligible core capital (tier 1)	**840,567**	**810,704**
Other deductions from supplementary capital, from additional capital and from total capital	–6,583	–9,672
Eligible core capital (adjusted)	**833,984**	**801,032**
Credit risk (in accordance with Liechtenstein standard approach)	246,874	286,067
thereof price risk regarding equity securities in the banking book	6,706	7,080
Risks unrelated to counterparties	9,789	10,331
Market risk (in accordance with Liechtenstein standard approach)	20,675	24,848
Operational risk (in accordance with basic indicator approach)	36,004	39,576
Total required equity	**313,342**	**360,822**
Ratio eligible (adjusted)/required equity [1]	266.2%	222.0%
Eligible (adjusted) core capital (incl. "innovative" instruments)	21.3%	17.8%
Eligible equity tier 1 [2]	21.5%	18.0%

[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.

5. Financial risks

Whilst 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. In addition, scenario analyses and stress tests demonstrate 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 both from activities for clients as well as 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 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 risk indicator is computed on a Group-wide basis with the help of historical 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 risk VaR of VP Bank Group at 31 December 2012 amounted to CHF 26.1 million (31 December 2011: CHF 41.8 million). This equates to a reduction of 38 per cent which derives primarily from foreign-currency risk. The foreign-currency value-at-risk gradually declined during the current accounting period as a result of the growth in hedging volumes as well as the discontinuation of negative risk scenarios in the third quarter.

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 to the sum of the respective individual values by risk type.

in CHF million	Total	Interest-rate risk	Equity price & commodity risk	Currency risk
2012				
Year-end	26.1	13.0	6.1	7.0
Average	33.5	12.5	8.5	12.5
Highest value	42.0	13.2	10.5	20.3
Lowest value	26.1	11.2	6.1	7.0
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 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 profile 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
as of 31/12/2012						
CHF	–538	6,175	–3,629	–19,786	–19,753	–37,531
EUR	–714	4,427	–1,312	–1,193	–24	1,184
USD	–622	3,778	–1,213	–4,418	778	–1,697
Other currencies	–137	714	–17	–113		447
Total as of 31/12/2012	**–2,011**	**15,094**	**–6,171**	**–25,510**	**–18,999**	**–37,597**
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		–164
Total as of 31/12/2011	**–2,047**	**12,265**	**–5,765**	**–30,108**	**–8,090**	**–33,745**

In the following table, the effects of a negative movement in the principal currencies on consolidated net income and shareholders' equity are set out. Responsible for the underlying fluctuation of the Swiss franc against the US dollar is the implicit volatility as of 31 December 2012 and 31 December 2011, respectively.

Movement in the principal currencies

Exchange rate	Variance in %	Effect on net income in CHF 1,000	Effect on equity in CHF 1,000
2012			
EUR	–4	–1,994	4
USD	–8	–3,228	–6,579
2011			
EUR	–8	–5,360	–68
USD	–15	–7,022	–12,105

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
2012		
–10%	–5,576	–2,226
–20%	–11,152	–4,452
–30%	–16,727	–6,678
2011		
–10%	–4,722	–2,883
–20%	–9,443	–5,766
–30%	–14,165	–8,648

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.

Whilst complying with the relevant legal liquidity requirements and the provisions regarding risk concentrations amongst 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 2012. The surplus in the minimum reserves and in the area of short-term liquidity amounted to an annual average of 1,014 per cent and 159 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 2012 and 2011 as of 31 December as well as the average, the highest and the lowest amounts.

Liquidity

	2012	2011
Year-end	57%	60%
Average during year	55%	60%
Highest value	57%	65%
Lowest value	51%	58%

Included in liquid assets are the following positions: balances due from banks, bonds and other assets maturing within one month, liquid assets, assets which the Swiss National Bank 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 this manner, the above-mentioned ratios differ sharply from those which are planned within the framework of Basel III. This concerns primarily the liquidity coverage ratio (LCR) for which a minimum requirement of 100 per cent will apply. Thus, short-term liabilities flow into the LCR on a weighted basis (for instance, stable client deposits in all probability at 3 per cent), whereas these amounts are reflected in full in the above mentioned ratios.

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. As of 31 December 2012 and 2011, the cash flows (non-discounted capital and interest payments) are made up as follows:

Cash flows on the liabilities side of the balance sheet

in CHF 1,000	At sight	Cancellable	Maturing within 3 months	Maturing after 3 to 12 months	Maturing after 12 months	Maturing after 5 years	Total
as of 31/12/2012							
Due to banks	174,357	316	193,175	6,923			374,771
Due to clients in the form of savings & deposits		966,870					966,870
Other liabilities to clients	6,943,926	229,088	346,859	211,338	5,960		7,737,171
Derivative financial instruments	82,467						82,467
Securitised liabilities			7,115	74,702	422,776	9,336	513,929
Total	**7,200,750**	**1,196,274**	**547,149**	**292,963**	**428,736**	**9,336**	**9,675,208**
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**

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 actively pursued its objective of securing sources of long-term refinancing during 2012.

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 2012, the credit exposures aggregated CHF 9.4 billion (31 December 2011: CHF 10.1 billion). The following table shows the composition thereof by on- and off-balance-sheet positions.

Credit exposures

	31/12/2012	31/12/2011
On-balance-sheet assets		
Receivables arising from money-market paper		124,938
Due from banks	4,789,055	5,143,910
Due from customers	3,685,007	3,822,758
Public-law enterprises	28,283	28,292
Trading portfolios	112	
Derivative financial instruments	50,751	103,690
Financial instruments designated at fair value	348,741	366,258
Financial instruments available for sale	502,566	558,297
Total	**9,404,515**	**10,148,143**
Off-balance-sheet transactions		
Contingent liabilities	98,461	98,372
Irrevocable facilities granted	24,045	34,204
Total	**122,506**	**132,576**

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 31/12/2012							
Receivables arising from money-market paper							0
Due from banks	13,178	4,658,549	117,328				4,789,055
Due from customers			12,119	1,422,931	2,249,957		3,685,007
Public-law enterprises	26,001		2,282				28,283
Trading portfolios		112					112
Derivative financial instruments		45,151	34	4,346	1,220		50,751
Financial instruments at fair value	10,147	253,875	35,516	37,965		11,238	348,741
Financial instruments measured at amortised cost	37,087	222,542	41,295	190,886		10,756	502,566
Total	**86,413**	**5,180,229**	**208,574**	**1,656,128**	**2,251,177**	**21,994**	**9,404,515**
Off-balance-sheet transactions as of 31/12/2012							
Contingent liabilities	4,361	20,675	904	56,206	13,631	2,684	98,461
Irrevocable facilities granted		7,500	1,055		15,490		24,045
Total	**4,361**	**28,175**	**1,959**	**56,206**	**29,121**	**2,684**	**122,506**
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 at fair value	36,439	210,995	34,166	79,414		5,245	366,258
Financial instruments measured at amortised cost	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**

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 31/12/2012			
Receivables arising from money-market paper			0
Due from banks	511,662	4,277,393	4,789,055
Due from customers	3,098,177	586,830	3,685,007
Public-law enterprises		28,283	28,283
Trading portfolios		112	112
Derivative financial instruments	13,376	37,375	50,751
Financial instruments at fair value		348,741	348,741
Financial instruments available for sale		502,566	502,566
Total	**3,623,215**	**5,781,300**	**9,404,515**
Off-balance-sheet transactions as of 31/12/2012			
Contingent liabilities	80,734	17,727	98,461
Irrevocable facilities granted	5,178	18,867	24,045
Total	**85,912**	**36,594**	**122,506**
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 at fair value		366,258	366,258
Financial instruments measured at amortised cost		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**

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 31/12/2012						
Receivables arising from money-market paper						0
Due from banks	4,757,211			34,860	3,016	4,789,055
Due from customers				3,736,410	51,403	3,685,007
Public-law enterprises				28,283		28,283
Trading portfolios	112					112
Derivative financial instruments	30,244			20,507		50,751
Financial instruments at fair value	336,310			12,431		348,741
Financial instruments measured at amortised cost	495,863			6,703		502,566
Total	**5,619,740**	**0**	**0**	**3,839,194**	**54,419**	**9,404,515**
Off-balance-sheet transactions as of 31/12/2012						
Contingent liabilities				98,461		98,461
Irrevocable facilities granted				24,045		24,045
Total	**0**	**0**	**0**	**122,506**	**0**	**122,506**

Credit exposures by rating classes (continued)

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 customers				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 at fair value	341,219			25,039		366,258
Financial instruments measured at amortised cost	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**

Credit exposures by risk-weighting classes

in CHF 1,000	0%	20%	35%	50%	75%	100%	150%	Total
On-balance-sheet assets as of 31/12/2012								
Receivables arising from money-market paper								0
Due from banks	511,662	3,894,861		198,358		184,174		4,789,055
Due from customers	458,052	122,868	1,673,669	257,903	73,171	1,103,410	24,217	3,713,290
Derivative financial instruments	443	43,340	10	2,004		4,905	49	50,751
Financial instruments	92,074	490,162		239,599		21,515	7,957	851,307
Other assets	12,088		140	2,858		35,983		51,069
Total	**1,074,319**	**4,551,231**	**1,673,819**	**700,722**	**73,171**	**1,349,987**	**32,223**	**9,455,472**
Off-balance-sheet transactions as of 31/12/2012								
Contingent liabilities	67,632	6,390	439	12,544	956	10,430	70	98,461
Irrevocable facilities granted	52	3,473	2,624	7,806		10,090		24,045
Total	**67,684**	**9,863**	**3,063**	**20,350**	**956**	**20,520**	**70**	**122,506**
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**	**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**	**72**	**22,536**	**16,713**	**0**	**15,793**	**0**	**132,576**

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 31/12/2012							
Receivables arising from money-market paper							0
Due from banks	1,692,728	2,664,368	275,681	3,814	122,938	29,525	4,789,055
Due from customers	2,848,565	428,298	30,641	61,977	37,526	278,000	3,685,007
Public-law enterprises		27,825				458	28,283
Trading portfolios		112					112
Derivative financial instruments	43,764	4,974	3	23	463	1,524	50,751
Financial instruments at fair value	23,211	232,372	28,869	2,000	38,266	24,023	348,741
Financial instruments measured at amortised cost	4,980	321,323	116,158		15,487	44,618	502,566
Total	**4,613,249**	**3,679,272**	**451,352**	**67,814**	**214,680**	**378,148**	**9,404,515**
Off-balance-sheet transactions as of 31/12/2012							
Contingent liabilities	36,844	38,422	1,778	3,371	2,739	15,307	98,461
Irrevocable facilities granted	16,766		16		29	7,234	24,045
Total	**53,610**	**38,422**	**1,794**	**3,371**	**2,768**	**22,541**	**122,506**
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 at fair value	3,756	276,453	29,147		41,085	15,816	366,258
Financial instruments measured at amortised cost	3,981	375,805	121,894		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**

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 2.6 billion of credits secured by mortgage (31 December 2011: CHF 2.4 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 ten largest single exposures to clients encompass 22 per cent of total credit exposures (31 December 2011: 19 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 (incl. bank guarantees, correspondent and metal accounts), secured positions arising from the reverse repo business, securities & 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. 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 31/12/2011
Credit-linked notes	4,827	4,856
Other credit derivatives	6,540	9,677
Total	**11,367**	**14,533**

The following table shows impaired and overdue receivables, as well as specific valuation allowances, by 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 31/12/2012			
Liechtenstein and Switzerland	22,331	18,843	8,665
Europe	5,084	68	1,827
North America			
South America	87	87	87
Asia			
Other	29,256	14,829	22,125
Total	**56,758**	**33,827**	**32,704**
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	15,918
Total	**61,445**	**25,038**	**29,863**

Overdue receivables by remaining term

in CHF 1,000	Due within 3 months	Due within 3 to 6 months	Due within 6 to 12 months	Due after 12 months	Total
as of 31/12/2012					
Total reporting period 2012	26,177		7,650		33,827
Total reporting period 2011	25,038				25,038

Country risks

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 %	31/12/2012	31/12/2011
AAA	95.0%	95.8%
AA	3.4%	2.2%
A	0.1%	0.1%
BBB – B	0.2%	0.5%
Not rated	1.3%	1.4%
Total	**100.0%**	**100.0%**

Financial instruments in GIIPS countries

in CHF 1,000	At fair value	At amortised cost	Total as of 31/12/2012	Total as of 31/12/2011
Greece				
Ireland[1]	5,278		5,278	10,992
Italy				
Portugal				2,409
Spain				
Total	**5,278**	**0**	**5,278**	**13,401**

[1] As of 31/12/2012, 85 per cent of the total is collateralised by the European Investment Bank (as of 31/12/2011: 38 per cent).

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.

As a result of intense co-operation amongst specialist departments to further develop a complete system of management of operational risks, risk consciousness could be reinforced at all levels. In this connection, a catalogue of key controls was further developed and the database of losses was expanded to include specific valuation allowances and provisions raised in addition to losses incurred. Knowledge and experience were exchanged within the Group in order to ensure a coordinated approach. Thanks to a uniform implementation of the project, it is now possible to provide the relevant target groups (Board of Directors, Group Executive Management and Senior Management) with a meaningful quarterly status report on operational risks within VP Bank Group. Business Continuity Management (BCM) as a further important sub-area is systematically pursued by VP Bank with expert and specialised knowledge along the lines of norm 25999-2:2007. The basis thereof is the BCM and IT service continuity strategy which was gradually implemented by Group Executive Management and reviewed on an ongoing basis for compliance and accuracy. Operationally critical processes are reviewed in detail, discussed and, where necessary, documented with a clear course of action whenever risks crystallise. The organisation necessary for crisis management has been established, its members are routinely trained and instructed.

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 Market, Private Banking International, Chief Operating Officer 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 Market

The Banking Liechtenstein & Regional Market 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 business segment.

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 Bank and Trust Company (BVI) Ltd., VP Bank (Singapore) Ltd. and VP Wealth Management (Hong Kong) Ltd. are allocated to this division. Additionally, the Investment Services Center is allocated to this business segment.

Chief Operating Officer

The business segment Chief Operating Officer is responsible for banking operations. It encompasses the units Group Operations, Group Information Technology as well as Logistics & Security for the entire VP Bank Group. In addition, the Group Trading and Group Business Advancement are allocated to the COO.

CFO & Corporate Center

CFO & Corporate Center encompasses the areas of Group Finance & Risk, Group Legal, Compliance & Tax, 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
2012				
Total net operating income	192,157	33,310	16,933	242,400
Assets (in CHF million)	9,116	1,303	222	10,641
Investments in property and equipment	7,087	473	220	7,780
2011				
Total net operating income	175,754	32,467	16,237	224,458
Assets (in CHF million)	8,841	1,335	575	10,751
Investments in property and equipment	11,574	596	70	12,240

Segment reporting follows the principle of branch accounting.

Business segment reporting 2012

in CHF 1,000	Banking Liechtenstein & Regional Market	Private Banking International	Chief Operating Officer (COO)	CFO & Corporate Center	Total Group
Total interest income	32,262	20,484	0	30,720	83,466
Total income from commission business and services	82,740	33,756	–3,753	2,351	115,094
Income from trading activities	10,952	8,034	2,517	–356	21,147
Income from financial investments	323	2,055	0	17,093	19,471
Other income	79	2,856	0	287	3,222
Total net operating income	**126,356**	**67,185**	**–1,236**	**50,095**	**242,400**
Personnel expenses [1]	26,745	47,516	29,755	368	104,384
General and administrative expenses	3,640	18,605	10,914	15,257	48,416
Services to/from other segments	42,112	16,097	–59,728	1,519	0
Operating expenses	**72,497**	**82,218**	**–19,059**	**17,144**	**152,800**
Gross income	**53,859**	**–15,033**	**17,823**	**32,951**	**89,600**
Depreciation and amortisation	61	2,612	20,238	6,534	29,445
Valuation allowances, provisions and losses	6,260	4,824	0	–25	11,059
Income/loss before income tax	**47,538**	**–22,469**	**–2,415**	**26,442**	**49,096**
Taxes on income					1,895
Net income					**47,201**
Share of net income attributable to minority interests					54
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank AG, Vaduz					**47,147**
Segment assets (in CHF million)	3,137	2,972	70	4,462	10,641
Segment liabilities (in CHF million)	6,207	2,838	0	708	9,753
Investments in property and equipment	6	714	5,730	1,330	7,780
Depreciation and amortisation	61	2,612	20,238	6,534	29,445
Creation of valuation allowances for credit risks	9,637	4,302	0	0	13,939
Release of valuation allowances for credit risks	3,492	4,113	0	173	7,778
Headcount (full-time equivalents)	156.2	249.7	193.9	107.1	706.9

[1] All adjustments arising from the conversion of the Treuhand-Personalstiftung from a defined-benefit to defined-contribution scheme flow into the CFO & Corporate Center segment.

The recharging of costs and revenues between the business units is made on the basis of internal prices or at market rates. The transfer prices within the segments are reviewed annually and renegotiated to reflect current economic conditions.

Business segment reporting 2011

in CHF 1,000	Banking Liechtenstein & Regional Market	Private Banking International	Chief Operating Officer (COO)	CFO & Corporate Center	Total Group
Total interest income	36,627	22,017	0	7,955	66,599
Total income from commission business and services	86,908	36,864	–4,190	2,343	121,925
Income from trading activities	12,687	8,845	2,346	5,489	29,367
Income from financial investments	–72	–291	0	6,275	5,912
Other income	173	430	0	52	655
Total net operating income	**136,323**	**67,865**	**–1,844**	**22,114**	**224,458**
Personnel expenses [1]	26,416	43,946	30,698	24,887	125,947
General and administrative expenses	3,704	17,295	13,944	17,928	52,871
Services to/from other segments	47,260	13,382	–65,290	4,648	0
Operating expenses	**77,380**	**74,623**	**–20,648**	**47,463**	**178,818**
Gross income	**58,943**	**–6,758**	**18,804**	**–25,349**	**45,640**
Depreciation and amortisation	289	3,222	23,797	6,328	33,636
Valuation allowances, provisions and losses	5,560	3,124	0	–2,915	5,769
Income/loss before income tax	**53,094**	**–13,104**	**–4,993**	**–28,762**	**6,235**
Taxes on income					973
Net income					**5,262**
Share of net income attributable to minority interests					2,058
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank AG, Vaduz					**3,204**
Segment assets (in CHF million)	3,235	2,972	93	4,451	10,751
Segment liabilities (in CHF million)	6,638	2,831	160	281	9,910
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	255.5	207.8	109.2	737.8

[1] All adjustments arising from IAS 19 flow into the CFO & Corporate Center segment.

The recharging of costs and revenues between the business units is made on the basis of internal prices or at market rates. The transfer prices within the segments are reviewed annually and renegotiated to reflect current economic conditions.

A new organisational structure was introduced in VP Bank as of 1 January 2012. Segment reporting was restated retroactively.

Notes to the consolidated income statement and consolidated balance sheet

1 Interest income

in CHF 1,000	2012	2011	Variance absolute	Variance in %
Interest and discount income	62	860	–798	–92.8
Interest income from banks	26,807	54,904	–28,097	–51.2
Interest income from customers	74,163	74,824	–661	–0.9
Interest income from financial instruments measured at amortised cost	13,143	10,963	2,180	19.9
Interest-rate instruments	–5,738	–23,550	17,812	–75.6
Loan commissions with the character of interest	1,062	840	222	26.4
Total interest income	**109,499**	**118,841**	**–9,342**	**–7.9**
Interest expenses on liabilities due to banks	864	14,942	–14,078	–94.2
Interest expenses on liabilities due to customers	14,661	21,475	–6,814	–31.7
Interest expenses on medium-term bonds	3,687	3,010	677	22.5
Interest expenses on debenture bonds	6,821	12,815	–5,994	–46.8
Total interest expense	**26,033**	**52,242**	**–26,209**	**–50.2**
Total interest income	**83,466**	**66,599**	**16,867**	**25.3**

2 Income from commission business and services

in CHF 1,000	2012	2011	Variance absolute	Variance in %
Commission income from credit business	1,053	987	66	6.7
Asset management and investment business [1]	37,365	37,340	25	0.1
Brokerage fees	32,194	34,217	–2,023	–5.9
Securities account fees	15,399	15,815	–416	–2.6
Fund management fees	51,799	56,091	–4,292	–7.7
Fiduciary commissions	1,187	1,439	–252	–17.5
Miscellaneous commission and service expense [2]	20,288	20,074	214	1.1
Total income from commission business and services	**159,285**	**165,963**	**–6,678**	**–4.0**
Brokerage expenses	4,010	6,665	–2,655	–39.8
Other commission and services-related expenses [2]	40,181	37,373	2,808	7.5
Total expenses from commission business and services	**44,191**	**44,038**	**153**	**0.3**
Total income from commission business and services	**115,094**	**121,925**	**–6,831**	**–5.6**

[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.

3 Income from trading activities

in CHF 1,000	2012	2011	Variance absolute	Variance in %
Securities trading [1]	–1,595	4,979	–6,574	–132.0
Interest income from trading portfolios	0	48	–48	–100.0
Dividend income from trading portfolios	0	2	–2	–100.0
Foreign currency	20,662	22,427	–1,765	–7.9
Banknotes, precious metals and other	2,080	1,911	169	8.8
Total income from trading activities	**21,147**	**29,367**	**–8,220**	**–28.0**

[1] The results from trading derivatives are included in this item.

4 Income from financial investments

in CHF 1,000	2012	2011	Variance absolute	Variance in %
Income from financial instruments at fair value	23,835	21,078	2,757	13.1
Income from financial instruments at amortised cost	–4,364	–15,166	10,802	n.a.
Total income from financial investments	**19,471**	**5,912**	**13,559**	**229.3**

Income from financial instruments at fair value				
Income from financial instruments at fair value	10,761	7,589	3,172	41.8
Interest income from financial instruments at fair value	5,717	7,923	–2,206	–27.8
Dividend income from financial instruments at fair value	5,372	4,761	611	12.8
Dividend income from financial instruments FVTOCI	1,985	805	1,180	146.6
thereof from FVTOCI financial instruments sold	0	0	0	n.a.
Income from liabilities at fair value	0	0	0	n.a.
Total	**23,835**	**21,078**	**2,757**	**13.1**

Income from financial instruments at amortised cost				
Revaluation gains/losses on financial instruments at amortised cost	–4,624	–13,282	8,658	n.a.
Realised gains/losses on financial instruments at amortised cost	260	–1,884	2,144	n.a.
Total	**–4,364**	**–15,166**	**10,802**	**n.a.**

5 Other income

in CHF 1,000	2012	2011	Variance absolute	Variance in %
Income from real estate	258	302	–44	–14.6
Loss of associated companies	19	–9	28	n.a.
Miscellaneous other income	2,945	362	2,583	713.5
Total other income	**3,222**	**655**	**2,567**	**391.9**

6 Personnel expenses

in CHF 1,000	2012	2011	Variance absolute	Variance in %
Salaries and wages	98,608	97,112	1,496	1.5
Social contributions required by law	7,497	8,531	–1,034	–12.1
Contributions to pension plans/defined-benefit plans [1]	–9,000	12,171	–21,171	–173.9
Contributions to pension plans/defined-contribution plans	1,022	1,219	–197	–16.2
Other personnel expenses	6,257	6,914	–657	–9.5
Total personnel expenses	**104,384**	**125,947**	**–21,563**	**–17.1**

[1] Details can be found in note 41 and in Article 2 of the "Principles underlying financial statement reporting", page 99: "Changes to the principles of financial statement reporting and comparability".

7 General and administrative expenses

in CHF 1,000	2012	2011	Variance absolute	Variance in %
Occupancy expenses	8,417	8,038	379	4.7
Insurance	970	1,061	–91	–8.6
Professional fees	6,859	5,779	1,080	18.7
Financial information procurement	6,155	6,042	113	1.9
Telecommunication and postage	1,174	1,265	–91	–7.2
IT systems	12,870	17,685	–4,815	–27.2
Marketing and public relations	4,263	5,023	–760	–15.1
Capital taxes	108	184	–76	–41.3
Other general and administrative expenses	7,600	7,794	–194	–2.5
Total general and administrative expenses	**48,416**	**52,871**	**–4,455**	**–8.4**

8 Depreciation and amortisation

in CHF 1,000	Note	2012	2011	Variance absolute	Variance in %
Depreciation and amortisation of property and equipment	22	10,813	10,961	–148	–1.4
Amortisation of intangible assets	23	18,632	22,675	–4,043	–17.8
Total depreciation and amortisation		**29,445**	**33,636**	**–4,191**	**–12.5**

9 Valuation allowances, provisions and losses

in CHF 1,000	Note	2012	2011	Variance absolute	Variance in %
Credit risks [1]	16	13,871	8,750	5,121	58.5
Legal and litigation risks		0	0	0	0
Other		5,278	4,199	1,079	25.7
Release of valuation allowances and provisions no longer required		–8,090	–7,180	–910	12.7
Total valuation allowances, provisions and losses		**11,059**	**5,769**	**5,290**	**91.7**

[1] Additions including currency effects.

10a Taxes on income

in CHF 1,000	2012	2011
Domestic		
Current taxes	386	613
Deferred taxes	–123	–1,512
Foreign		
Current taxes	2,124	1,688
Deferred taxes	–492	184
Total current taxes	**2,510**	**2,301**
Total deferred taxes	**–615**	**–1,328**
Total taxes on income	**1,895**	**973**

Actual payments for domestic and foreign taxes made by the Group in 2012 totalled CHF 0.3 million (2011: CHF 3.3 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:

	2012	2011
Liechtenstein	12.5%	12.5 %
Switzerland	20.0%	20.0%
Luxembourg	28.8%	29.0%
British Virgin Islands	0.0%	0.0%
Singapore	10.0%	10.0%
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	2012	2011
Income before income tax		
Domestic	36,295	–3,376
Foreign	12,801	9,611
Taxes on income using an assumed average charge	**7,364**	**624**
Reasons for increased/decreased taxable income		
Difference between actual and assumed tax rates	–4,854	2,128
Change in deferred tax assets and liabilities	–615	–1,328
Utilisation of tax loss carry-forwards	0	–450
Total income taxes	**1,895**	**973**

10b Deferred tax assets and liabilities

in CHF 1,000	2012	2011
Deferred tax assets		
Real estate and property and equipment	8,318	7,698
Tax loss carry-forwards[1]	0	0
Securities	3,585	0
Others	0	10,236
Total deferred tax assets	**11,903**	**17,934**
Deferred tax liabilities		
Real estate and property and equipment	1,875	2,018
Financial instruments	2,141	2,879
Financial instruments directly offset within shareholders' equity	637	864
Valuation allowances for credit risks	732	224
Other provisions	3,016	2,886
Other liabilities	0	121
Total deferred tax liabilities	**8,401**	**8,992**
Deferred tax assets		
Balance at the beginning of the financial year	17,934	12,396
Tax loss carry-forwards[1]	–6,651	4,178
Charged to income statement	0	–450
Released to income statement	620	1,810
Impact of deferred tax rate changes	0	0
Total deferred tax assets	0	0
Total deferred tax assets	**11,903**	**17,934**
Deferred tax liabilities		
Balance at the beginning of the financial year	8,992	8,244
Reclassifications	–596	716
Charged to income statement	1,510	872
Released to income statement	–1,505	–840
Impact of deferred tax rate changes	0	0
Total deferred tax liabilities	**8,401**	**8,992**

[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	366
After 4 years	589	426
Total	**955**	**792**

10c Tax assets and liabilities

in CHF 1,000	31/12/2012	31/12/2011
Tax assets		
Amounts receivable arising on current taxes on income	58	368
Deferred tax assets (note 10b)	11,903	17,934
Total tax assets	**11,961**	**18,302**
Tax liabilities		
Liabilities arising on current taxes on income	3,689	3,230
Deferred tax liabilities (note 10b)	8,401	8,992
Total tax liabilities	**12,090**	**12,222**

11 Earnings per share

	2012	2011
Consolidated earnings per share of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz		
Net income (in CHF 1,000) [1]	47,147	3,204
Weighted average of bearer shares	5,174,812	5,163,336
Weighted average of registered shares	5,963,174	5,967,975
Total weighted average number of bearer shares	5,771,129	5,760,134
Undiluted consolidated earnings per bearer share	8.17	0.56
Undiluted consolidated earnings per registered share	0.82	0.06
Fully diluted consolidated earnings per share of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz		
Net income (in CHF 1,000) [1]	47,147	3,204
Adjusted consolidated net income (in CHF 1,000)	47,147	3,204
Number of shares used to compute the fully diluted consolidated net income	5,771,129	5,760,134
Fully diluted consolidated earnings per bearer share	8.17	0.56
Fully diluted consolidated earnings per registered share	0.82	0.06

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

12 Dividend

	2012	2011
Approved and paid dividend of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz		
Dividend (in CHF 1,000) for the financial year 2011 (2010)	8,872	20,702
Dividend per bearer share	1.50	3.50
Dividend per registered share	0.15	0.35
Payout ratio (in %)	269.7	133.7
Proposed dividend to be approved by the annual general meeting of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (not reflected as liability as of 31 December)		
Dividend (in CHF 1,000) for the financial year 2012	14,787	
Dividend per bearer share	2.50	
Dividend per registered share	0.25	
Payout ratio (in %)	30.6	

13 Cash and cash equivalents

in CHF 1,000	31/12/2012	31/12/2011
Cash on hand	15,480	16,442
At-sight balances on postal checking accounts	6,933	2,899
At-sight balances with national and central banks	904,548	226,040
Total cash and cash equivalents	**926,961**	**245,381**

14 Receivables arising from money-market paper

in CHF 1,000	31/12/2012	31/12/2011
Money-market paper (qualifying for refinancing purposes)	0	124,938
Other money-market paper	0	0
Total receivables arising from money-market paper	**0**	**124,938**

15 Due from banks and customers

in CHF 1,000	31/12/2012	31/12/2011
By type of exposures		
Due from banks – at-sight balances	975,436	797,832
Due from banks – term balances	3,816,634	4,349,042
Valuation allowances for credit risks (note 16)	–3,016	–2,964
Due from banks	**4,789,054**	**5,143,910**
Mortgage receivables	2,635,546	2,366,946
Other receivables	1,129,147	1,536,483
Valuation allowances for credit risks (note 16)	–51,403	–52,379
Due from customers	**3,713,290**	**3,851,050**
Total due from banks and customers	**8,502,344**	**8,994,960**

15 Due from banks and customers (continued)

in CHF 1,000	31/12/2012	31/12/2011
Due from customers by type of collateral		
Mortgage collateral	2,577,427	2,321,124
Other collateral	969,531	1,159,697
Without collateral	217,735	422,608
Subtotal	**3,764,693**	**3,903,429**
Valuation allowances for credit risks	–51,403	–52,379
Total due from customers	**3,713,290**	**3,851,050**

16 Valuation allowances for credit risks

in CHF 1,000	2012	2011
Balance at the beginning of the financial year	55,343	54,013
Amounts written off on loans / utilisation in accordance with purpose	–7,017	–209
Creation of valuation allowances and provisions for credit risks	13,939	8,713
Release of valuation allowances and provisions for credit risks	–7,778	–7,211
Foreign-currency translation differences and other adjustments	–68	37
Balance at the end of the financial year	**54,419**	**55,343**
As valuation adjustment for due from banks	3,016	2,964
As valuation adjustment for due from customers	51,403	52,379
Total valuation allowances for credit risks	**54,419**	**55,343**

in CHF 1,000	Banks	Mortgage receivables	Other receivables[1]	Total
By type of exposure 2012				
Balance at the beginning of the financial year	2,964	10,395	41,984	55,343
Amounts written off on loans / utilisation in accordance with purpose	0	0	–7,017	–7,017
Creation of valuation allowances and provisions for credit risks	197	2,314	11,428	13,939
Release of valuation allowances and provisions for credit risks	–144	–89	–7,545	–7,778
Foreign-currency translation differences and other adjustments	–1	–10	–57	–68
Balance at the end of the financial year 2012	**3,016**	**12,610**	**38,793**	**54,419**
of which				
Individual valuation allowances	0	7,491	25,213	32,704
Lump-sum valuation allowances	3,016	5,119	13,580	21,715
Total	**3,016**	**12,610**	**38,793**	**54,419**
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**

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

in CHF 1,000	Individual 2012	Lump-sum 2012	Individual 2011	Lump-sum 2011
By type of valuation allowances				
Balance at the beginning of the financial year	29,863	25,480	27,449	26,564
Amounts written off on loans / utilisation in accordance with purpose	–7,017	0	–209	0
Creation of valuation allowances and provisions for credit risks	13,073	866	5,174	3,539
Release of valuation allowances and provisions for credit risks	–3,163	–4,615	–2,551	–4,660
Foreign-currency translation differences and other adjustments	–52	–16	0	37
Balance at the end of the financial year	**32,704**	**21,715**	**29,863**	**25,480**

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

16 Valuation allowances for credit risks (continued)

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	2012	2011
Value-impaired loans [1]	56,758	61,445
Amount of valuation allowances for credit losses from non-performing loans	32,704	29,863
Net amounts due	**24,054**	**31,582**
Estimated realisable value of value-impaired loans	**24,054**	**31,582**
Average amount of value-impaired loans	**59,102**	**65,334**
Recoveries from loans already written off (other income)	110	37

[1] Interest receivable on non-performing loans in 2012 was CHF 0.724 million (2011: CHF 0.727 million).

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	2012	2011
Non-performing loans	33,827	25,038
Amount of valuation allowances for credit losses from non-performing loans	19,728	19,815
Net amounts due	**14,099**	**5,223**
Average amount of non-performing loans	**29,433**	**21,968**
Valuation allowances on non-performing loans at the beginning of the financial year	19,815	7,655
Net increase	3,300	12,267
Amounts written off and disposals / utilisation in conformity with purpose	–3,387	–107
Valuation allowances on non-performing loans at the end of the financial year	**19,728**	**19,815**

in CHF 1,000	31/12/2012	31/12/2011
According to type of exposure		
Banks	0	0
Mortgage receivables	20,749	8,251
Other receivables	13,078	16,787
Customers	33,827	25,038
Total non-performing loans	**33,827**	**25,038**

in CHF 1,000	31/12/2012	31/12/2011
According to region (domicile of debtor)		
Liechtenstein and Switzerland	18,843	9,623
Rest of Europe	108	1,405
North and South America	235	429
Other countries	14,641	13,581
Total non-performing loans	**33,827**	**25,038**

17 Trading portfolios

in CHF 1,000	31/12/2012	31/12/2011
Debt securities valued at fair value		
exchange listed	112	0
Total	112	0
Equity securities / investment-fund units valued at fair value		
exchange listed	0	–57
non-exchange listed	0	0
Total	0	–57
Other	103	13
Total trading portfolios	**215**	**–44**

18 Derivative financial instruments

31/12/2012 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments			
Forward contracts			
Swaps	26	30,254	312,267
Futures			12,443
Options (OTC)			
Options (exchange traded)			
Total interest-rate instruments 31/12/2012	**26**	**30,254**	**324,710**
Foreign currencies			
Forward contracts	1,416	3,266	329,309
Combined interest-rate/currency swaps	48,156	46,819	3,589,350
Futures			
Options (OTC)	412	287	85,146
Options (exchange traded)			
Total foreign currencies 31/12/2012	**49,984**	**50,372**	**4,003,805**
Equity securities/indices			
Forward contracts			
Futures			8,701
Options (OTC)			
Options (exchange traded)		1,100	17,687
Total equity securities/indices 31/12/2012	**0**	**1,100**	**26,388**
Precious metals			
Forward contracts			
Futures			
Options (OTC)	741	741	40,049
Options (exchange traded)			
Total precious metals 31/12/2012	**741**	**741**	**40,049**
Total derivative financial instruments 31/12/2012	**50,751**	**82,467**	**4,394,952**

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.

31/12/2011 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments			
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			
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			
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**

18 Derivative financial instruments (continued)

31/12/2011 in CHF 1,000	Positive replacement values	Negative replacement values	Contract volumes
Precious metals			
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**

19 Financial instruments at fair value

in CHF 1,000	31/12/2012	31/12/2011
Debt instruments		
public-law institutions outside Liechtenstein and Switzerland	67,731	54,567
exchange listed	255,526	250,474
non-exchange listed	25,484	61,217
Total	**348,741**	**366,258**
Equity shares / investment fund units		
exchange listed	11,889	12,039
non-exchange listed	62,136	69,154
Total	**74,025**	**81,193**
Structured products		
exchange listed	0	0
non-exchange listed [1]	6,522	13,874
Total	**6,522**	**13,874**
Total financial instruments at fair value	**429,288**	**461,325**

[1] 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	31/12/2012	31/12/2011
Debt instruments		
public-law institutions outside Liechtenstein and Switzerland	75,466	68,328
exchange listed	416,440	337,723
non-exchange listed	10,660	152,246
Total	**502,566**	**558,297**
Total financial instruments at amortised cost	**502,566**	**558,297**
of which, securities lent or delivered as collateral	0	33,786

21 Associated companies

in CHF 1,000	31/12/2012	31/12/2011
Balance at the beginning of the financial year	25	34
Additions	19	30
Value impairments	0	–39
Balance as of balance-sheet date	**44**	**25**

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

Name	Registered office	Activity	Share capital	% of capital held	
				31/12/2012	31/12/2011
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	50

22 Property and equipment

in CHF 1,000	Bank buildings	Other real estate	Furniture and equipment	IT systems	Total
Acquisition cost 2012					
Balance on 01/01/2012	195,537	21,733	20,574	29,015	266,859
Additions	1,161	95	254	2,583	4,093
Disposals/derecognitions [1]			–416	–454	–870
Reclassifications	–25		25		0
Foreign-currency translation	–3	–7	–10	–29	–49
Balance on 31/12/2012	**196,670**	**21,821**	**20,427**	**31,115**	**270,033**
Accumulated depreciation and amortisation					
Balance on 01/01/2012	–95,219	–4,316	–15,062	–23,105	–137,702
Depreciation and amortisation	–6,035	–281	–1,558	–2,939	–10,813
Valuation allowances					0
Disposals/derecognitions [1]			416	399	815
Reclassification	2		–2		0
Foreign-currency translation	2	1	6	17	26
Balance on 31/12/2012	**–101,250**	**–4,596**	**–16,200**	**–25,628**	**–147,674**
Net book values on 31/12/2012	**95,420**	**17,225**	**4,227**	**5,487**	**122,359**
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
Balance on 31/12/2011	**195,537**	**21,733**	**20,574**	**29,015**	**266,859**
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
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.

Additional information regarding property and equipment	2012	2011
Fire insurance value of real estate	171,147	171,160
Fire insurance value of other property and equipment	39,355	39,343
Fair value of other real estate	17,225	17,417

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

23 Goodwill and other intangible assets

in CHF 1,000	Software	Other intangible assets capitalised	Goodwill	Total
Acquisition cost 2012				
Balance on 01/01/2012	139,004	3,041	46,112	188,157
Additions	3,687			3,687
Disposals/derecognitions	–1,977			–1,977
Foreign-currency translation	–80			–80
Balance on 31/12/2012	**140,634**	**3,041**	**46,112**	**189,787**
Accumulated amortisation 2012				
Balance on 01/01/2012	–79,002	–3,041	–35,302	–117,345
Amortisation	–18,632			–18,632
Valuation allowances				0
Disposals/derecognitions	1,977			1,977
Foreign-currency translation	45			45
Balance on 31/12/2012	**–95,612**	**–3,041**	**–35,302**	**–133,955**
Net book values on 31/12/2012	**45,022**	**0**	**10,810**	**55,832**
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
Valuation allowances				0
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.

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 2012, 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.

24 Other assets

in CHF 1,000	31/12/2012	31/12/2011
Value-added taxes and other tax receivables		
Prepaid retirement pension contributions	0	0
Miscellaneous other assets [1]	14,028	12,139
Total other assets	**14,028**	**12,957**

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

25 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
2013	8,151	59,161	3,775	2,130	73,217
2014	15,697	81,240	2,071	434	99,442
2015	14,594	21,470	2,108	872	39,044
2016	5,758	38,786	835	620	45,999
2017	165	12,155	5,133	263	17,716
2018		2,139	2,019	111	4,269
2019		431	1,556		1,987
Longer		563	2,133		2,696
Total 31/12/2012	**44,365**	**215,945**	**19,630**	**4,430**	**284,370**
Total 31/12/2011	39,774	182,911	21,826	7,202	251,713

The average interest rate as of 31 December 2012 was 1.52 per cent (prior year: 1.84 per cent).

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

Year of issue in CHF 1,000	ISIN	Interest rate in %	Currency	Maturity	Nominal amount	Total 31/12/2012	Total 31/12/2011
2007	CH0030896697	2.875	CHF	04/06/2012	160,000[1]	0	126,562
2010	CH0112734469	2.500	CHF	27/05/2016	200,000	198,513	198,102
					360,000	**198,513**	**324,664**

[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.

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).

27 Other liabilities

in CHF 1,000	31/12/2012	31/12/2011
Value-added taxes and other tax receivables	10,187	8,348
Accrued retirement pension contributions	26,587	81,363
Miscellaneous other liabilities[1]	31,981	25,401
Total other liabilities	**68,755**	**115,112**

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

28 Provisions

in CHF 1,000	Default risks	Legal and litigation risks	Other provisions	Total 31/12/2012	Total 31/12/2011
Carrying value at the beginning of the financial year	227	502	5,633	6,362	3,214
Utilisation in accordance with purpose		–120	–5,639	–5,759	–363
New provisions charged to income statement	13		5,201	5,214	4,602
Provisions releases to income statement	–29		–592	–621	–1,101
Foreign-currency translation differences and other adjustments			1,950	1,950	0
Carrying value at the end of the financial year			–48	–48	10
Carrying value at the end of the financial year	**211**	**382**	**6,505**	**7,098**	**6,362**
Maturity of provisions					
• within one year				7,098	6,362
• over one year				0	0

29 Minority interests

in CHF 1,000	2012	2011
Balance at the beginning of the financial year	18,986	17,843
Reductions and dividend payments	–1,045	–884
Foreign-currency translation differences	–254	–31
Share of minorities in net income	54	2,058
Balance at the end of the financial year	**17,741**	**18,986**

30 Share capital

	Number of shares 31/12/2012	Nominal CHF 31/12/2012	Number of shares 31/12/2011	Nominal CHF 31/12/2011
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.

31 Treasury shares

	No. of shares 2012	in CHF 1,000 2012	No. of shares 2011	in CHF 1,000 2011
Registered shares at the beginning of the financial year	**40,748**	**587**	**28,515**	**459**
Purchases	9,336	56	12,233	128
Sales	–5,000	–71	0	0
Balance of registered shares as of balance-sheet date	**45,084**	**572**	**40,748**	**587**
Bearer shares at the beginning of the financial year	**150,970**	**38,045**	**150,538**	**38,006**
Purchases	47,764	3,528	25,815	2,643
Sales	–68,527	–8,652	–25,383	–2,604
Balance of bearer shares as of balance-sheet date	**130,207**	**32,921**	**150,970**	**38,045**

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

in CHF 1,000	Market value 31/12/2012	Actual liability 31/12/2012	Market value 31/12/2011	Actual liability 31/12/2011
Securities	603,971	0	790,807	33,786
Money-market paper	0	0	0	0
Other	0	0	0	0
Total pledged assets	**603,971**	**0**	**790,807**	**33,786**

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 98).

33 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	31/12/2012	31/12/2011
Remaining duration of up to 1 year	7,746	5,393
Remaining duration of 1 to 5 years	15,412	8,668
Remaining duration of over 5 years	6,000	6,900
Total minimum commitments under operating leases	**29,158**	**20,961**

As of 31 December 2012, general and administrative expenses include CHF 6.472 million of operating lease costs (31 December 2011: CHF 8.368 million).

34 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. If no outflow of resources is probable or the amount of the liabilities cannot be reliably estimated, a contingent liability is to be disclosed. All provisions are recorded in the item "Other provisions" in the consolidated balance sheet (note 28).

35 Balance sheet per currency

in CHF 1,000	CHF	USD	EUR	Other	Total
Assets 2012					
Cash and cash equivalents	905,347	506	20,688	420	926,961
Receivables arising from money-market paper					0
Due from banks	188,792	2,025,239	1,913,340	661,683	4,789,054
Due from customers	2,778,056	390,612	416,679	127,943	3,713,290
Trading portfolios	112			103	215
Derivative financial instruments	49,569	1,041	0	141	50,751
Financial instruments at fair value	251,327	56,595	84,089	37,277	429,288
Financial instruments at amortised cost	219,566	144,743	138,257		502,566
Associated companies	44				44
Property and equipment	121,649	602	72	36	122,359
Intangible assets	54,346	1,486			55,832
Tax receivables	57		1		58
Deferred tax assets	11,874		29		11,903
Accrued receivables and prepaid expenses	14,309	3,483	6,418	870	25,080
Other assets	11,639	1,194	1,175	20	14,028
Total assets 31/12/2012	**4,606,687**	**2,625,501**	**2,580,748**	**828,493**	**10,641,429**
Liabilities and shareholders' equity 2012					
Due to banks	156,261	111,071	31,554	75,841	374,727
Due to customers – savings and deposits	966,705	1	163	1	966,870
Due to customers – other liabilities	2,031,120	2,473,152	2,514,543	716,350	7,735,165
Derivative financial instruments	74,113	2,920	5,252	182	82,467
Medium-term notes	262,120	1,645	20,605		284,370
Debenture issues	198,513				198,513
Tax liabilities	1,884		1,805		3,689
Deferred tax liabilities	8,401				8,401
Accrued liabilities and deferred items	17,691	958	3,576	322	22,547
Other liabilities	50,803	4,102	11,790	2,060	68,755
Provisions	6,855	243			7,098
Total liabilities	**3,774,466**	**2,594,092**	**2,589,288**	**794,756**	**9,752,602**
Total shareholders' equity	**805,979**	**82,234**	**–98**	**712**	**888,827**
Total liabilities and shareholders' equity 31/12/2012	**4,580,445**	**2,676,326**	**2,589,190**	**795,468**	**10,641,429**

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	17,934				17,934
Accrued receivables and prepaid expenses	19,214	3,694	7,820	646	31,374
Other assets	10,191	1,702	1,043	21	12,957
Total assets 31/12/2011	**4,407,703**	**2,589,601**	**2,814,730**	**939,140**	**10,751,174**

35 Balance sheet per currency (continued)

in CHF 1,000	CHF	USD	EUR	Other	Total
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	8,992				8,992
Accrued liabilities and deferred items	18,641	680	5,197	1,273	25,791
Other liabilities	98,334	6,949	9,486	343	115,112
Provisions	6,175	187			6,362
Total liabilities	**3,774,085**	**2,651,921**	**2,737,580**	**746,708**	**9,910,294**
Total shareholders' equity	**759,581**	**80,698**	**851**	**–250**	**840,880**
Total liabilities and shareholders' equity 31/12/2011	**4,533,666**	**2,732,619**	**2,738,431**	**746,458**	**10,751,174**

36 Maturity structure of assets and liabilities

in CHF 1,000	At sight	Callable	1 year	1 to 5 years	Over 5 years	Total
Assets 2012						
Cash and cash equivalents	926,961					926,961
Receivables arising from money-market paper						0
Due from banks	975,436		3,813,618			4,789,054
Due from customers	19,896	390,790	1,656,138	1,197,011	449,455	3,713,290
Trading portfolios	103				112	215
Derivative financial instruments	50,751					50,751
Financial instruments at fair value	406,926				22,362	429,288
Financial instruments at amortised cost			79,536	400,282	22,748	502,566
Associated companies	44					44
Property and equipment[1]					122,359	122,359
Intangible assets					55,832	55,832
Tax receivables	57		1			58
Deferred tax assets				11,903		11,903
Accrued receivables and prepaid expenses	22,777		1,945	358		25,080
Other assets	13,601	219	208			14,028
Total assets 31/12/2012	**2,416,552**	**391,009**	**5,551,446**	**1,609,554**	**672,868**	**10,641,429**
Liabilities and shareholders' equity 2012						
Due to banks	174,357	316	200,054	0	0	374,727
Due to customers – savings and deposits		966,870				966,870
Due to customers – other liabilities	6,943,926	229,088	556,290	5,861		7,735,165
Derivative financial instruments	82,467					82,467
Medium-term notes			73,217	202,201	8,952	284,370
Debenture issues				198,513		198,513
Tax liabilities	3,689					3,689
Deferred tax liabilities	2,792			5,609		8,401
Accrued liabilities and deferred items	20,610		1,849	88		22,547
Other liabilities	66,380		2,375			68,755
Provisions	7,098					7,098
Total liabilities 31/12/2012	**7,301,319**	**1,196,274**	**833,785**	**412,272**	**8,952**	**9,752,602**

[1] without maturity

36 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 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[1]					129,157	129,157
Intangible assets					70,812	70,812
Tax receivables	367		1			368
Deferred tax assets				17,934		17,934
Accrued receivables and prepaid expenses	31,318		56			31,374
Other assets	11,155	325	1,477			12,957
Total assets 31/12/2011	**1,772,938**	**769,967**	**5,963,226**	**1,788,701**	**456,342**	**10,751,174**
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				8,992		8,992
Accrued liabilities and deferred items	25,426		342	23		25,791
Other liabilities	114,442		670			115,112
Provisions	6,362					6,362
Total liabilities 31/12/2011	**6,289,483**	**1,703,081**	**1,511,280**	**396,765**	**9,685**	**9,910,294**

[1] without maturity

37 Classification of assets by country or groups of countries

	in CHF 1,000 31/12/2012	Proportion in % 31/12/2012	in CHF 1,000 31/12/2011	Proportion in % 31/12/2011
Liechtenstein and Switzerland	5,945,559	55.9	5,665,640	52.7
Rest of Europe	3,661,658	34.4	4,089,619	38.0
North America	365,048	3.4	305,340	2.8
Other countries	669,164	6.3	690,575	6.4
Total assets	**10,641,429**	**100.0**	**10,751,174**	**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.

38 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 31/12/2012	Fair value 31/12/2012	Variance	Carrying value 31/12/2011	Fair value 31/12/2011	Variance
Assets						
Cash and cash equivalents	927	927	0	245	245	0
Receivables arising from money-market paper	0	0	0	125	125	0
Due from banks	4,789	4,790	1	5,144	5,151	7
Due from customers	3,713	3,818	105	3,851	3,956	105
Trading portfolios	0	0	0	0	0	0
Derivative financial instruments	51	51	0	104	104	0
Financial instruments at fair value	429	429	0	461	461	0
Financial instruments at amortised cost	503	522	19	558	568	10
Subtotal			**125**			**122**
Liabilities						
Due to banks	375	375	0	352	352	0
Due to customers	8,702	8,701	1	8,693	8,689	4
Derivative financial instruments	82	82	0	129	129	0
Medium-term notes	284	291	–7	252	258	–6
Debenture issue	199	216	–17	325	351	–26
Subtotal			**–23**			**–28**
Total variance			**102**			**94**

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	Quote market prices Level 1	Valuation methods, based on market data Level 2	Valuation methods, not based on market data Level 3	Total
Assets 2012				
Receivables arising from money-market paper	0	0	0	**0**
Trading portfolios	0	0	0	**0**
Derivative financial instruments	0	51	0	**51**
Financial instruments at fair value	383	40	6	**429**
Financial instruments at amortised cost	522	0	0	**522**
Liabilities 2012				
Derivative financial instruments	0	82	0	**82**
Assets 2011				
Receivables arising from money-market paper	125	0	0	**125**
Trading portfolios	0	0	0	**0**
Derivative financial instruments	0	104	0	**104**
Financial instruments at fair value	399	44	18	**461**
Financial instruments at amortised cost	568	0	0	**568**
Liabilities 2011				
Derivative financial instruments	0	129	0	**129**

In the financial year 2012, positions with a fair value of CHF 0.0 million (2011: CHF 0.5 million) were reclassified from Level 1 (quoted market prices) to Level 2 (valuation methods based on market data) and positions with a fair value of CHF 0.0 million (2011: CHF 8.1 million) were reclassified from Level 2 to Level 3 (valuation methods not based on market data).

Level 3 financial instruments in CHF million	31/12/2012	31/12/2011
Balance sheet		
Holdings at the beginning of the year	18.2	0.0
Investments	0.0	9.2
Disposals	–0.1	–0.2
Issues	0.0	0.0
Redemptions	–4.7	0.0
Losses recognised in the income statement	–5.3	–1.3
Losses recognised as other comprehensive income	–2.2	0.0
Gains recognised in the income statement	0.0	0.0
Gains recognised as other comprehensive income	0.0	2.4
Reclassification to level 3	0.0	8.1
Reclassification from level 3	0.0	0.0
Translation differences	–0.1	0.0
Total book value at balance-sheet date	**5.8**	**18.2**
Income on holdings on balance-sheet date		
Unrealised losses recognised in the income statement	–0.4	–1.2
Unrealised losses recognised as other comprehensive income	–2.2	0.0
Unrealised gains recognised in the income statement	0.0	0.0
Unrealised gains recognised as other comprehensive income	0.0	2.4

No deferred day 1 profit or loss (difference between the transaction price and the fair value calculated on the transaction day) was reported for level 3 positions as of 31 December 2012 or 31 December 2011.

39 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 Aktiengesellschaft	Vaduz	CHF	1,000,000	100%
VP Verwaltung GmbH	Munich	EUR	500,000	100%
VP Bank (Singapore) Ltd.	Singapore	SGD	54,500,000	100%
VP Wealth Management (Hong Kong) Ltd.	Hong Kong	HKD	5,000,000	100%
Proventus Treuhand und Verwaltung AG	Vaduz	CHF	250,000	100%
VP Bank (Luxembourg) S.A.	Luxembourg	CHF	20,000,000	100%
which holds the following sub-participation:				
VPB Finance S.A.	Luxembourg	CHF	5,000,000	100%
VPB Finanz Holding AG	Zurich	CHF	20,000,000	100%
which holds the following sub-participation:				
VP Bank (Schweiz) AG	Zurich	CHF	20,000,000	100%
VP Bank and Trust Company (BVI) Limited	Tortola	USD	11,000,000	60%
which holds the following sub-participation:				
VP Bank (BVI) Limited	Tortola	USD	10,000,000	100%
ATU General Trust (BVI) Limited	Tortola	USD	250,000	100%

Shareholdings excluded from the scope of consolidation	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	none
Name changes during the financial year	VP Vermögensverwaltung GmbH changed its name to VP Verwaltung GmbH. During 2012, VP Vermögensverwaltung GmbH ceased operations. The impact on diluted and undiluted earnings was CHF –0.22 per bearer share and CHF –0.02 per registered share.

40 Transactions with related companies and individuals

Members of the Board of Directors and Group 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	2012	2011
Remuneration of the members of the Board of Directors		
Remuneration due in the short term [1,2]	977	702
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 [1,2,3]	326	231
Remuneration of the members of Group Management		
Remuneration due in the short term	1,913	2,295
Post-employment benefits	0	0
Other long-term remuneration due	0	0
Remuneration due upon termination of contract of employment	0	0
Share-based payments [3]	799	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 The shares are not subject to any minimum holding period (see notes 43 and 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 2012 totalled CHF 0.253 million (previous year: CHF 0.257 million).

The Board of Directors and the Group Management as well as parties related thereto (excluding qualifying shareholders) and retirement pension plans as of 31 December 2012, held 77,577 bearer shares and 163,100 registered shares of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (previous year: 74,102 bearer shares and 169,600 registered shares).

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

in CHF 1,000	2012	2011
Mortgages and loans at the beginning of the financial year	7,643	7,734
Additions	4,234	300
Repayments	–2,396	–391
Mortgages and loans at the end of the financial year	**9,481**	**7,643**

With regard to members of the Board of Directors and 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.

41 Retirement pension plans

Benefits after termination of employment

The Group maintains a number of pension plans in the Principality of Liechtenstein and abroad for employees meeting the criteria for admission to the pension plans. Amongst these are both defined-benefit and defined-contribution plans which insure most employees against the effects of death, invalidity and retirement.

Defined-contribution pension plans

The Group offers defined-contribution pension plans to those employees meeting the appropriate admission criteria. The company is obligated to transfer a predetermined percentage of the annual salary to the pension plans. In certain of these plans, the employees are also obligated to make contributions. These contributions are deducted by the employer from the salary typically each month and also passed on to the pension plans. Apart from the payment of contributions and the transfer of employee contributions, there are presently no further obligations incumbent on the employer.

The employer's contribution in 2012 to defined-contribution pension plans amounted to CHF 1.022 million (prior year: CHF 1.219 million). The prior-year amount was restated as certain of the plans which until now were dealt with as defined-contribution plans on grounds of materiality, under IAS (revised 2011), were transferred to the category of defined-benefit plans. The impact of the transfers to defined-benefit plans were reported under additions as of 01.01. Pension obligations as of 1 January 2011 increased as a result by CHF 0.644 million.

Defined-benefit pension plans

The Group finances defined-benefit pension plans for employees meeting the admission criteria. The most significant of such plans are located in the Principality of Liechtenstein and Switzerland.

For employees in the Principality of Liechtenstein and Switzerland, the Group operates several pension plans with fixed, predefined admission criteria. The largest of the plans are operated using an autonomous foundation, the remaining plans are handled using collective foundations of insurance companies. In these foundations, the assets available to meet the pension obligations are segregated out.

For the pension plans which are operated using collective foundations, there exist pension commissions which comprise an equal number of representatives.

The Council of the Foundation of the autonomous pension plan is also made up of an equal number of employer and employee representatives. On the basis of the Law and the Rules of the Pension Fund, the Foundation Council is obligated to act solely in the interests of the Foundation and of the beneficiaries (current actively insured employees and pensioners). Thus, in this plan, the employer cannot himself determine pension benefits and their financing, but resolutions are taken on an equal representation basis. The Council of the Foundation is responsible for setting the investment strategy, for changes to the Rules of the Pension Fund and in particular also for determining how pension benefits are to be financed.

Until 31 December 2011, the pension plan was organised as a final salary plan, i.e. all pension benefits were computed as a percentage of the insured salary. As from 1 January 2012, the plan was remodelled and a capital savings account is now maintained for each employee to which is added each year an annual savings credit and interest (no negative interest is allowed). On the date of retirement, the insured person has the choice between a life-time pension which includes a reversionary spouse's pension, or the payment of a capital sum. In addition to retirement pension benefits, employee benefits also include an invalidity pension and partner pension. These are computed as a percentage of the insured annual salary. The insured person can purchase additional benefits in order to improve his/her situation up to the maximum allowed under the pension rules. Upon termination of employment, the accumulated savings capital is transferred to the pension plan of the new employer or to a vested benefits scheme. This form of employment benefit can lead to a situation where pension payments may vary significantly between the various years.

The minimum provisions of the Law on Occupational Pension Plans and its Implementing Provisions (BPVG) are to be observed in determining employee benefits. The minimum insurable salary and the minimum savings credits are laid down in the BPVG.

As a result of the form of the pension plan and the legal provisions of the BPVG, the employer is exposed to actuarial risks, the most significant of which are the investment risk, interest-rate risk, invalidity risk and longevity risk. The employee and employer contributions are laid down by the Councils of the Foundations. In this connection, the employer must bear, at a minimum, half of all contributions. In the event of a funding deficit, restructuring contributions to eliminate the funding deficit may be demanded both from the employer and employees.

The conversion of the pension plan undertaken as of 1 January 2012 led to a reduction of retirement-benefit liabilities of CHF 19.6 million, which, in accordance with IAS 19 (revised 2011), is to be recognised immediately in personnel expense.

During 2012, a restructuring was undertaken which led to a plan settlement. As a consequence, pension liabilities and plan assets were transferred in an amount of CHF 7.4 million and CHF 4.2 million, respectively, thus resulting in a gain from plan settlement of CHF 3.2 million.

The latest actuarial valuation of the present value of the defined-benefit obligations and service costs was carried out as of 31 December 2012 by independent actuaries using the Projected Unit Credit Method. The fair value of plan assets as of 31 December 2012 was determined based upon information available at the time of preparation of the annual financial statements.

The most significant assumptions underlying the actuarial computations may be summarised as follows:

	31/12/2012	31/12/2011
Discount rate	2.0%	2.5%
Rate of future salary increases	1.5%	2.0%
Rate of future pension increases	0.0%	0.5%
Life expectancy at the age of 65, in years		
Year of birth 1947		
• men	21	19
• women	24	21
Year of birth 1967		
• men	23	19
• women	25	21

The amounts recognised in the income statement and in shareholders' equity may be summarised as follows:

Pension costs

in CHF 1,000	2012	2011
Pension expense recognised in income statement		
Service cost		
• current service cost	11,669	10,638
• past service cost	–19,554	0
• plan settlements	–3,180	0
Net interest expense	1,828	1,193
Administrative costs	237	340
Total pension cost expense of the period	**–9,000**	**12,171**
Revaluation components recognised in comprehensive income		
Actuarial (gains) / losses		
Result of changes to demographic assumptions	7,046	–6,218
Result of changes to economic assumptions	–22,269	21,206
Experience adjustments	–4,342	5,596
Return on plan assets (excluding amounts in net interest expense)	–14,751	8,619
Total expense recognised in comprehensive income	**–34,316**	**29,203**
Total pension cost	**–43,316**	**41,374**

The movement in pension obligations and plan assets may be summarised as follows:

Movement in present value of defined-benefit obligations

in CHF 1,000	2012	2011
Present value of defined-benefit obligations at beginning of financial year	252,840	214,743
Additions as of 01/01	0	10,257
Current service cost	11,669	10,638
Employee contributions	5,086	5,339
Interest expense on present value of pension obligations	6,072	6,349
Actuarial (gains) / losses	–19,565	20,584
Past service cost	–19,554	0
Plan settlements	–7,407	0
Pension payments financed by plan assets	–13,004	–15,070
Balance at end of financial year	**216,137**	**252,840**

Movements in plan assets

in CHF 1,000	2012	2011
Plan assets at beginning of financial year	172,969	168,569
Additions as of 01/01	0	9,613
Employee contributions	5,086	5,339
Employer contributions	7,968	8,321
Third-party contributions	2,000	0
Interest income on plan assets	4,244	5,156
Return on plan assets (excl. amounts under interest income)	14,751	–8,619
Transfers of assets through plan settlements	–4,227	0
Pension payments financed by plan assets	–13,004	–15,070
Administrative costs	–237	–340
Balance at end of financial year	**189,550**	**172,969**

The net position of pension obligations recognised in the balance sheet may be summarised as follows:

Net position of pension obligations recognised in balance sheet

in CHF 1,000	2012	2011
Present value of pension obligations financed over fund at beginning of financial year	216,137	252,840
Market value of plan assets	–189,550	–172,969
Under-/(Excess of) funding	**26,587**	**79,871**
Present value of pension obligations not financed over fund	0	0
Unrecognised assets	0	1,492
Recognised pension obligations at end of financial year	**26,587**	**81,363**

In the case of the autonomous pension plan, the Foundation Council issues investment guidelines for the investment of the plan's assets which contain the tactical asset allocation and the benchmarks for comparing the results with those of the general investment universe. The plan assets are well diversified and, in addition, the legal provisions of the BPVG are to be observed.

The plan assets of collective pension foundations are invested in insurance policies with insurance companies.

The Council of the Foundation reviews on an ongoing basis whether the investment strategy chosen is appropriate to cover the pension benefits and whether the risk budget corresponds to the demographic structure. Compliance with investment guidelines and the investment performance of investment advisors is also subject to ongoing review.

Plan assets consist primarily of the following categories of securities:

in CHF 1,000	31/12/2012	31/12/2011
Equity shares	17,075	17,194
Bonds	96,039	68,648
Alternative financial investments	4,993	5,430
Real estate	8,867	8,662
Qualifying insurance paper	40,232	41,306
Cash equivalents	19,842	30,178
Other financial investments	2,502	1,551
Total	**189,550**	**172,969**

The pension plans hold shares in Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, of a market value totalling CHF 0.9 million (previous year: CHF 1.1 million). In 2012, the return on plan assets was TCHF 18,995 and in 2011, a loss of TCHF 3,463 was incurred.

The defined-benefit pension obligations may be allocated as follows to the currently active insured employees, those who have left the Group with vested rights and pensioners as well as the duration of the pension obligations:

in CHF 1,000	31/12/2012	31/12/2011
Current actively insured employees	162,366	202,414
Pensioners	53,771	50,426
Total	**216,137**	**252,840**

The duration of pension obligations is approx. 14 years.

Presented in the following table are the sensitivities for the most important factors in the computation of the present value of pension obligations.

Changes in present value of defined-benefit obligations

in CHF 1,000 31/12/2012	Variance 0.25%	Variance –0.25%
Discount rate	–5,988	6,313
Interest on pension capital accounts	1,099	–1,033
Development of salaries	361	–369

42 Significant foreign exchange rates

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

	Year-end rates 31/12/2012	Year-end rates 31/12/2011	Annual average rates 2012	Annual average rates 2011
USD/CHF	0.9154	0.9351	0.93828	0.88617
EUR/CHF	1.2068	1.2139	1.20520	1.23246
SGD/CHF	0.7494	0.7212	0.75104	0.70446
HKD/CHF	0.1181	0.1204	0.12095	0.11384
GBP/CHF	1.4879	1.4532	1.48661	1.42046

43 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 2012, 9,396 shares were issued at a preferential price (2011: 7,183 shares). Share issue expenses in 2012 were CHF 0.7 million (2011: CHF 0.7 million).

There is no profit-sharing plan for the Board of Directors. Its members receive, however, a part of their remuneration/bonuses in the form of equity shares which are not subject to any lock-up period (note 40). A profit-sharing plan exists for Group Management and other management members (note 44). VP Bank has defined waiting periods for the Board of Directors, Group Management and selected executives and employees, during which it is forbidden to trade in the shares of VP Bank.

44 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 management 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 share price is determined by reference to the average closing price of the three preceding months of the bearer shares quoted on the SWX for the respective grant date. 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 2012–2014 programme, a target bonus (LTI and STI) of between 70 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	2012	2011	Variance in %
Balance of entitlements at the beginning of the year	47,436	38,260	24.0
New entitlements	26,944	21,333	26.3
Reduction in entitlements as a result of expiry or allocation	–37,964	–9,501	299.6
Changes in entitlements as a result of changes in factors	0	–2,656	–100.0
Balance of calculated entitlements at the end of the year	36,416	47,436	–23.2

in CHF 1,000	2012	2011	Variance in %
Accrual for management equity-sharing plan (LTI) in equity at the beginning of the year	8,415.6	7,102.4	18.5
Personnel expense for management equity-sharing plan (LTI)	1,142.3	1,947.2	–41.3
Effect of allocation, forfeiture and change in factors	–4,543.9	–634.0	616.7
Accrual for management equity-sharing plan (LTI) in equity at the end of the year	5,014.0	8,415.6	–40.4
Fair value of bearer shares allocated	2,048.0	658.6	211.0

Client assets

in CHF million	2012	2011	Variance in %
Analysis of client assets under management			
Assets in self-administered investment funds	3,123.4	2,916.4	7.1
Assets in discretionary asset-management accounts	2,855.5	2,512.6	13.6
Other client assets under management	22,511.6	21,999.8	2.3
Total client assets under management (including amounts counted twice)	**28,490.5**	**27,428.8**	**3.9**
of which: amounts counted twice	2,013.3	2,487.5	–19.1
Net new money	**–192.0**	**994.5**	**n.a.**
Custody assets	**8,826.1**	**11,537.7**	**–23.5**
Total client assets			
Total client assets under management (including amounts counted twice)	28,490.5	27,428.8	3.9
Custody assets	8,826.1	11,537.7	–23.5
Total client assets	**37,316.6**	**38,966.5**	**–4.2**

Classification of client assets under management

in %	2012	2011
Analysis by asset class		
Liquidity	31	33
Bonds	25	25
Equities	18	18
Investment funds	23	21
Other	3	3
Total	**100**	**100**
Analysis by currency		
CHF	28	29
EUR	36	36
USD	22	23
Other	14	12
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-BankV) 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 include 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 encompass 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 consolidated 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 (income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes; pages 92–151) and the consolidated annual report (pages 89–91) of Verwaltungs- und Privat-Bank Aktiengesellschaft for the year ended 31 December 2012.

Board of Directors' responsibility

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements and its accordance with the consolidated annual report based on our audit. We conducted our audit in accordance with Liechtenstein law, the auditing standards promulgated by the Liechtenstein profession and International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance that the consolidated financial statements and consolidated annual report are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2012, 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
Certified Accountant
(Auditor in charge)

Bruno Taugner
Certified Accountant

Berne, 28 February 2013

The global data highway

Today's information and communication landscape is crisscrossed by a bevy of paths that help to channel the daily exchange of information and make its dissemination more efficient. The classical media family of radio and television has grown to include the Internet and mobile telephony. Now the challenge is to heighten the efficiency of that communication and the transfer of data.

However, along with the myriad communication possibilities that have become everyday tools since the '90s comes the time it takes for people to actually communicate. Today, international commerce has a lot to do also with the selling and exchange of data.

The quantity of data generated globally is growing exponentially. Every two years, it doubles. As a result, the 1.8 zettabyte mark was reached in 2012 – meaning that an amount equivalent to 1.8 trillion gigabytes of data was added to the existing worldwide store of information. That seemingly absurd zettabyte figure can be visualised by imagining 20 stacks of books that extend from Earth to the planet Neptune. And this relentless increase in data is being driven by constantly improved technology and declining investment costs.

Despite numerous attempts to do so, the true magnitude of the global inventory of data is difficult to assess. Not all of the generated bits and bytes are actually stored, thus many data have a lifespan of mere seconds before they are deleted.

Accordingly, this torrid pace of growth in the amount of data, data transfers and data storage requirements also calls for infrastructural reorientation. The issues surrounding an efficient, long-term means of archiving the information are just one aspect. There is also an increasing need for lightning-fast search algorithms that make it even possible to ferret out the desired information from such a gigantic hoard of data. Realtime services such as Twitter and Facebook pose extreme challenges for the existing storage architecture of those systems, the new concepts for storage, as well as the database systems themselves. Technological evolution in this area is not even close to its end.

Financial report 2012 of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz

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

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

As of the balance-sheet date, Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, and/or its subsidiaries held in total 130,207 bearer shares as well as 45,084 registered shares (previous year: 150,970 bearer shares and 40,748 registered shares). This equates to a capital share of approximately 2.3 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 2.50 per bearer share and CHF 0.25 per registered share (previous year: CHF 1.50 per bearer share and CHF 0.15 per registered share) at the annual general meeting of shareholders on 26 April 2013.

Balance sheet

Assets

in CHF 1,000 (Art. 24b FL-BankV)	31/12/2012	31/12/2011	Variance absolute	Variance in %
Cash balances	858,321	207,371	650,950	313.9
Public-sector debt instruments and bills of exchange eligible for refinancing at central banks	0	0	0	0.0
• public-sector debt instruments and similar securities	0	0	0	0.0
Due from banks	3,758,551	4,089,379	–330,828	–8.1
• maturing daily	725,683	604,774	120,909	20.0
• other receivables	3,032,868	3,484,605	–451,737	–13.0
Due from customers	3,108,535	3,187,164	–78,629	–2.5
of which mortgage receivables	2,440,453	2,196,251	244,202	11.1
Debentures and other interest-bearing securities	779,666	1,001,231	–221,565	–22.1
• money-market paper	0	124,938	–124,938	–100.0
• from public-sector issuers	0	124,938	–124,938	–100.0
• from other issuers	0	0	0	0.0
• debt securities	779,666	876,293	–96,627	–11.0
• from public-sector issuers	103,682	107,322	–3,640	–3.4
• from other issuers	675,984	768,971	–92,987	–12.1
Equity shares and other non-interest-bearing securities	68,597	77,592	–8,995	–11.6
Participations	127	127	0	0.0
Shares in affiliated companies	97,304	93,004	4,300	4.6
Intangible assets	29,779	42,606	–12,827	–30.1
Property and equipment	115,315	121,075	–5,760	–4.8
Treasury shares	8,711	12,781	–4,070	–31.8
Other assets	66,989	121,926	–54,937	–45.1
Accrued receivables and prepaid expenses	19,600	25,759	–6,159	–23.9
Total assets	**8,911,495**	**8,980,015**	**–68,520**	**–0.8**

Total liabilities and shareholders' equity

in CHF 1,000 (Art. 24b FL-BankV)	31/12/2012	31/12/2011	Variance absolute	Variance in %
Due to banks	1,158,343	1,075,069	83,274	7.7
• maturing daily	887,863	931,755	–43,892	–4.7
• with agreed duration or term of notice	270,480	143,314	127,166	88.7
Due to customers	6,418,676	6,376,511	42,165	0.7
• savings deposits	857,889	816,818	41,071	5.0
• other liabilities	5,560,787	5,559,693	1,094	0.0
• maturing daily	5,184,466	4,676,359	508,107	10.9
• with agreed duration or term of notice	376,321	883,334	–507,013	–57.4
Securitised liabilities	487,870	614,263	–126,393	–20.6
• issued debentures	487,870	614,263	–126,393	–20.6
of which medium-term notes	287,870	254,263	33,607	13.2
Other liabilities and deferred items	84,381	143,158	–58,777	–41.1
Accrued liabilities and deferred items	16,769	20,214	–3,445	–17.0
Provisions	10,088	14,616	–4,528	–31.0
• tax provisions	100	0	100	n.a.
• other provisions	9,988	14,616	–4,628	–31.7
Provisions for general banking risks	63,150	63,150	0	0.0
Subscribed capital	59,148	59,148	0	0.0
Income reserves	583,591	597,422	–13,831	–2.3
• legal reserves	239,800	239,800	0	0.0
• reserve for treasury shares and stock	8,711	12,781	–4,070	–31.8
• other reserves	335,080	344,841	–9,761	–2.8
Retained earnings brought forward	7,592	4,460	3,132	70.2
Net income for the year	21,887	12,004	9,883	82.3
Total liabilities and shareholders' equity	**8,911,495**	**8,980,015**	**–68,520**	**–0.8**

Off-balance-sheet items

in CHF 1,000 (Art. 24b FL-BankV)	31/12/2012	31/12/2011	Variance absolute	Variance in %
Contingent liabilities	**74,800**	**79,624**	**–4,824**	**–6.1**
Credit risks	**27,801**	**42,975**	**–15,174**	**–35.3**
• irrevocable facilities granted	27,801	42,975	–15,174	–35.3
Derivative financial instruments				
• positive replacement values	35,003	93,593	–58,590	–62.6
• negative replacement values	66,253	118,637	–52,384	–44.2
• contract volumes	3,540,787	3,933,055	–392,268	–10.0
Fiduciary transactions	**841,195**	**1,341,056**	**–499,861**	**–37.3**

Income statement

in CHF 1,000 (Art. 24c FL-BankV)	2012	2011	Variance absolute	Variance in %
Interest income	93,838	120,963	–27,125	–22.4
of which from interest-bearing securities	18,439	17,622	817	4.6
of which from trading transactions	–406	–782	376	–48.1
Interest expenses	23,044	46,435	–23,391	–50.4
Income from interest-differential business	70,794	74,528	–3,734	–5.0
Current income from securities	12,499	6,741	5,758	85.4
• shares and other non-interest-bearing securities	7,358	5,404	1,954	36.2
of which from trading transactions	0	0	0	0.0
• participations	5	11	–6	–54.5
• shares in affiliated companies	5,136	1,326	3,810	287.3
Income from commission business and services	73,026	78,622	–5,596	–7.1
• commission income from credit business	793	773	20	2.6
• commission income from securities and investing business	64,127	69,667	–5,540	–8.0
• commission income from other services	8,106	8,182	–76	–0.9
Commission expenses	13,350	13,309	41	0.3
Income from commission business and services	59,676	65,313	–5,637	–8.6
Income from financial transactions	17,286	5,911	11,375	192.4
of which from trading transactions	13,733	20,171	–6,438	–31.9
Other ordinary income	3,870	1,301	2,569	197.2
• income from real estate	248	249	–1	–0.3
• other ordinary income	3,622	1,052	2,570	244.0
Total net operating income	**164,125**	**153,794**	**10,331**	**6.7**
Operating expenses	101,292	111,205	–9,913	–8.9
• personnel expenses	71,271	75,596	–4,325	–5.7
• general and administrative expenses	30,021	35,609	–5,588	–15.7
Gross profit	**62,833**	**42,589**	**20,244**	**47.5**
Depreciation and amortisation of intangible assets and property and equipment	25,616	28,196	–2,580	–9.1
Other ordinary expenses	6,041	1,278	4,763	372.7
Valuation allowances on receivables and increases in provisions for contingent liabilities and credit risks	9,827	6,728	3,099	46.1
Income from release of valuation allowances on receivables and from the release of provisions for contingent liabilities and credit risks	4,090	7,350	–3,260	–44.4
Write-offs on participations, shares in affiliated companies and securities dealt with as non-current assets	15,531	5,500	10,031	182.4
Earnings from appreciations on participations, shares in affiliated companies and securities dealt with as non-current assets	12,081	4,000	8,081	202.0
Income from normal business operations	**21,989**	**12,237**	**9,752**	**79.7**
Extraordinary income	0	0	0	0.0
Extraordinary expenses	0	0	0	0.0
Taxes on income	101	252	–151	–59.8
Other taxes if not included in above items	0	–18	18	–100.0
Increases in provisions for general banking risks / income from release for provisions for general banking risks	0	0	0	0.0
Net income for the year	**21,887**	**12,004**	**9,883**	**82.3**

Appropriation of income

in CHF 1,000 (Art. 24c FL-BankV)	2012	2011	Variance absolute	Variance in %
Net income for the year	21,887	12,004	9,883	82.3
Retained earnings brought forward	7,592	4,460	3,132	70.2
Retained earnings	29,479	16,464	13,015	79.1
Appropriation of retained earnings				
• appropriation to other reserves	0	0	0	0.0
• distribution on the basis of company capital	14,787	8,872	5,915	66.7
• release from other reserves	0	0	0	0.0
Retained earnings to be carried forward	**14,692**	**7,592**	**7,100**	**93.5**

Information regarding business activities and number of employees

(Art. 24e Par. 1 Point 1 FL-BankV)

Verwaltungs- und Privat-Bank Aktiengesellschaft (VP Bank), which has its registered office in Vaduz, Liechtenstein, was established in 1956 and is one of the three largest banks in Liechtenstein. As at 31 December 2012, it owns subsidiary companies in Zurich, Luxembourg, the British Virgin Islands, Singapore and Hong Kong, as well as representative offices in Moscow and Hong Kong. Adjusted to reflect full-time equivalents, at year-end 2012 VP Bank had 432.5 individuals under its employment (previous year: 456.0).

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 to 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 security and equity positions.

Principles of accounting and valuation, disclosures on risk management

(Art. 24e Par. 1 Point 2 FL-BankV)

Principles of Accounting and Valuation

General principles

Accounting and valuation follow the prescriptions of the Liechtenstein Civil and Company Act, 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 trading 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, public-sector debt securities 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 realisable 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 collectability 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 recognisable 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 flow

VP Bank is exempted from drawing up a statement of cash flow as a result of the obligation to prepare consolidated financial statements (Art. 24l FL-BankV). The consolidated statement of cash flow 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 2012 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 110 ff.

Information regarding balance sheet and income statement

Analysis of collateral

in CHF 1,000 (Art. 24e Par. 1 Point 3.1 FL-BankV)	Mortgage collateral	Other collateral	Without collateral	Total
Loans				
Due from clients (excluding mortgage-backed receivables)	22,637	352,121	293,324	668,082
Mortgage loans secured by	2,356,857	62,312	21,284	2,440,453
• residential property	1,918,357	0	0	1,918,357
• office and business premises	36,209	0	0	36,209
• commercial and industrial property	335,246	0	0	335,246
• other	67,045	62,312	21,284	150,641
Total loans, 31/12/2012	**2,379,494**	**414,433**	**314,608**	**3,108,535**
Total loans, 31/12/2011	2,141,942	623,236	421,986	3,187,164
Off-balance-sheet amounts				
Contingent liabilities	762	60,636	13,402	74,800
Irrevocable facilities granted	5,875	4,501	17,425	27,801
Total off-balance-sheet amounts, 31/12/2012	**6,637**	**65,137**	**30,827**	**102,601**
Total off-balance-sheet amounts, 31/12/2011	24,982	63,177	34,440	122,599

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, 31/12/2012	**46,028**	**16,602**	**29,426**	**29,426**
Total value-impaired loans, 31/12/2011	49,219	24,566	24,653	24,653

Portfolios of securities and precious metals

in CHF 1,000	Carrying value		Acquisition cost		Market value	
(Art. 24e Par. 1 Point 3.2 FL-BankV)	31/12/2012	31/12/2011	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Trading portfolios of securities and precious metals						
Debt securities	0	33,640	0	33,821	0	33,640
• exchange listed	0	33,640	0	33,821	0	33,640
• non-exchange listed	0	0	0	0	0	0
• of which own debenture loans	0	33,640	0	33,821	0	33,640
Equity shares	261	273	597	581	261	273
of which equity shares in the treasury	261	331	597	632	261	331
Precious metals	103	13	106	13	103	13
Total	**364**	**33,926**	**703**	**34,415**	**364**	**33,926**
Material receivables and liabilities included in other balance-sheet positions which are marked to market value and whose revaluation is recorded in the item "gains/losses from trading transactions":						
Positive replacement values of derivative financial instruments in trading portfolios (other assets)	34,977	93,593			34,977	93,593
Negative replacement values of derivative financial instruments in trading portfolios (other liabilities)	35,999	91,996			35,999	91,996
Total	**70,976**	**185,589**			**70,976**	**185,589**
Portfolios of securities and precious metals in current assets (excluding trading portfolios)						
Debt securities	779,666	967,591	807,212	1,002,221	812,038	990,155
Equity shares	77,047	90,100	133,514	146,830	86,468	103,245
of which equity shares in the treasury	8,450	12,450	32,886	37,946	8,450	12,450
Precious metals	0	0	0	0	0	0
Total	**856,713**	**1,057,691**	**940,726**	**1,149,051**	**898,506**	**1,093,400**
of which repo-eligible securities	560,104	748,427	582,092	777,286	584,654	767,048
of which exchange-listed securities	754,051	595,278	811,072	646,138	785,845	611,525

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-BankV)	Amount		Carrying value	
	2012	2011	2012	2011
Balance at the beginning of the year	**150,000**	**150,000**	**12,450**	**17,220**
Purchase				
Disposals	–20,000		–1,540	
Valuation allowances			–2,460	–4,770
Appreciation				
Balance at the end of the year	**130,000**	**150,000**	**8,450**	**12,450**

Participations and shares in affiliated companies

in CHF 1,000 (Art. 24e Par. 1 Point 3.2 FL-BankV)	Carrying value 31/12/2012	Carrying value 31/12/2011
Participations		
without quoted market value	127	127
Total participations	**127**	**127**
Shares in affiliated companies		
without quoted market value [1]	97,304	93,004
Total shares in affiliated companies	**97,304**	**93,004**

1 During 2012, recoveries in value of CHF 12.1 million (prior year: CHF 4.0 million) were recorded pursuant to Art. 1090 PGR.

in CHF 1,000 (Art. 24e Par. 1 Point 3.3 FL-BankV)	31/12/2012			31/12/2011		
	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	50	50%
Shares in affiliated companies						
FIB Finanz- und Beteiligungs-AG, Vaduz (investment company)	CHF	50	100%	CHF	50	100%
IGT Intergestions Trust reg., Vaduz (trustee company)	CHF	100	100%	CHF	100	100%
IFOS Internationale Fonds Service AG, Vaduz (fund management company)	CHF	1,000	100%	CHF	1,000	100%
VP Bank and Trust Company (BVI) Limited, Tortola (holding company)	USD	11,000	60%	USD	11,000	60%
VPB Finanz Holding AG, Zurich [1] (holding company)	CHF	20,000	100%	CHF	20,000	100%
VP Bank (Luxembourg) S.A., Luxembourg (bank)	CHF	20,000	100%	CHF	20,000	100%
Proventus Treuhand und Verwaltung AG, Vaduz (trustee company)	CHF	250	100%	CHF	250	100%
VP Verwaltung GmbH, Munich (management company) [2]	EUR	500	100%	EUR	500	100%
VP Wealth Management (Hong Kong) Ltd., Hong Kong (asset management company)	HKD	5,000	100%	HKD	5,000	100%
VP Bank (Singapore) Ltd., Singapore (bank)	SGD	54,500	100%	SGD	44,500	100%

1 As regards VP Bank (Schweiz) AG, which is a wholly owned subsidiary of VPB Finanz Holding AG, Zurich, there is a subordinate loan in the amount of CHF 6.0 million.
2 VP Vermögensverwaltung GmbH changed its name to VP Verwaltung GmbH. During 2012, VP Vermögensverwaltung GmbH ceased operations.

The carrying value of affiliated banks included under shares in affiliated companies amounts to CHF 81.0 million including subordinated loans (previous year: CHF 74.5 million).

Overview of investments

in CHF 1,000 (Art. 24e Par. 1 Point 3.4 FL-BankV)	Acquisition cost	Cumulative depreciation to date	Carrying value 31/12/2011	Financial year 2012 Investments	Divestments	Reclassifications	Revaluations	Depr. and amortisation	Depr. and amort. on disposal	Carrying value 31/12/2012
Total participations (minority participations)	255	–128	127							**127**
Total shares in affiliated companies	140,485	–47,481	93,004	7,750			12,081	–15,531		**97,304**
Total intangible assets (excluding goodwill)	122,612	–80,006	42,606	3,563				–16,390		**29,779**
Real estate										
• bank premises	195,276	–95,476	99,800	1,162		–24		–6,010		**94,928**
• other real estate	17,214	–714	16,500							**16,500**
Other property and equipment	36,192	–31,417	4,775	2,334	–148	24		–3,216	118	**3,887**
Total property and equipment	248,682	–127,607	121,075	3,496	–148			–9,226	118	**115,315**
Fire-insurance values of real estate			168,790							**168,790**
Fire-insurance values of other property and equipment			28,120							**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)	31/12/2012	31/12/2011
Total minimum commitments arising from operating leases	**13,750**	**13,035**

Operating expenses as of 31 December 2012 include CHF 2.792 million arising from operating leases (previous year: CHF 4.574 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-BankV)	31/12/2012	31/12/2011
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	560,104	748,427
Effective liabilities	0	33,786
Securities lending/borrowing and repurchase transactions		
Amounts receivable arising from cash deposits in connection with securities borrowing and reverse repurchase transactions	511,738	203,900
Amounts payable arising from cash deposits in connection with securities lending and repurchase transactions	149,993	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	575,966	605,897
of which securities for which an unconditional right has been granted to sell on or repledge	303,384	433,801
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	974,065	895,076
of which securities repledged or sold on	125,407	243,272

Liabilities to own retirement pension plans

in CHF 1,000 (Art. 24e Par. 1 Point 3.7 FL-BankV)	31/12/2012	31/12/2011
Due to customers	25,651	45,810
Securitised liabilities	0	905
Other liabilities	3,312	35
Total liabilities to own retirement pension plans	**28,963**	**46,750**

Outstanding debenture loan

in CHF 1,000 (Art. 24e Par. 1 Point 3.8 FL-BankV)	Interest rate in %	Year of issue	Maturity	Nominal amount 31/12/2012	Nominal amount 31/12/2011
VP Bank debenture issue	2.875	2007	04/06/2012	0	160,000
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-BankV)	01/01/2012	Utilisation in accordance with purpose	Change in purpose (reclassification)	Recoveries, overdue interest, forex diff.	Charges to income statement	Releases to income statement	31/12/2012
Valuation allowances for default risks							
• individual valuation allowances	24,653	3,412		904	8,392	1,110	29,427
• individual valuation allowances made on lump-sum basis	0						0
• lump-sum valuation allowances	20,378				451	2,620	18,209
• individual valuation allowances made on lump-sum basis for country risks	1,000						1,000
Provisions for contingent liabilities and credit risks	171				54		225
Provisions for other business risks	0						0
Provisions for taxes and deferred taxes	0				100		100
Other provisions	13,445	3,595	1,950		957	3,995	8,762
Total valuation allowances and provisions	**59,647**	**7,007**	**1,950**	**904**	**9,954**	**7,725**	**57,723**
less: valuation allowances	45,031						47,635
Total provisions as per balance sheet	**14,616**						**10,088**
Provisions for general banking risks	**63,150**						**63,150**

Company capital

in CHF 1,000 (Art. 24e Par. 1 Point 3.10 FL-BankV)	31/12/2012			31/12/2011		
	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-BankV)	31/12/2012			31/12/2011		
	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	6,065	10.3	10.6
Ethenea Independent Investors S.A., Luxembourg	7,950	13.4	7.0	0	0.0	0.0

Statement of changes in shareholders' equity

in CHF 1'000 (Art. 24e Par. 1 Point 3.11 FL-BankV)	2012
Shareholders' equity at the beginning of the financial year	
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
Total shareholders' equity at the beginning of the financial year	**736,184**
Capital increase / capital reduction (–)	0
Other appropriations / releases from reserves (–)	–13,831
Dividends and other distributions from net income of the previous year [1]	–8,872
Net income for the financial year	21,887
Total shareholders' equity at the end of the financial year	**735,368**
of which	
Subscribed and paid-up capital	59,148
Legal reserves	239,800
Reserve for treasury shares	8,711
Other reserves	335,080
Provisions for general banking risks	63,150
Retained earnings	29,479

[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-BankV)	Sight	Callable	Due within 3 months	Due after 3 to 12 months	Due after 12 months to 5 years	Due after 5 years	Without maturity	Total
Assets								
Cash balances	858,321							858,321
Public-sector debt instruments and bills of exchange eligible for refinancing at central banks								0
Due from banks	725,683		2,589,596	435,054	7,829	389		3,758,551
Due from customers	2,499	234,291	1,048,237	275,581	1,109,011	438,916		3,108,535
of which mortgage receivables	2,499	136,194	636,428	191,242	1,035,292	438,798		2,440,453
Trading portfolios of securities and precious metals	365							365
Portfolios of securities and precious metals in current assets (excluding trading portfolios)	856,712							856,712
Other assets	217,300		283				111,428	329,011
Total assets, 31/12/2012	**2,660,880**	**234,291**	**3,638,116**	**710,635**	**1,116,840**	**439,305**	**111,428**	**8,911,495**
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
Liabilities and provisions								
Due to banks	887,863	316	239,568	30,596				1,158,343
Due to customers	5,154,164	994,716	116,744	152,707	345			6,418,676
• savings deposits		857,889						857,889
• other liabilities	5,154,164	136,827	116,744	152,707	345			5,560,787
Securitised liabilities			7,999	66,718	404,200	8,953		487,870
• issued debentures			7,999	66,718	404,200	8,953		487,870
of which medium-term notes			7,999	66,718	204,200	8,953		287,870
Provisions (excluding provisions for general banking risks)	10,088							10,088
Other liabilities	100,367		783					101,150
Total liabilities, 31/12/2012	**6,152,482**	**995,032**	**365,094**	**250,021**	**404,545**	**8,953**		**8,176,127**
Total liabilities, 31/12/2011	5,166,424	1,556,959	708,775	440,636	361,352	9,685		8,243,831

Debentures and other interest-bearing securities which mature in the following financial year	144,750
Issued debentures which mature in the following financial year	74,717

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-BankV)	31/12/2012	31/12/2011
Receivables and payables from participations, affiliated companies and qualifying participants		
Receivables from participations	0	0
Payables to participations	173	71
Receivables from affiliated companies	153,460	284,897
Payables to affiliated companies	947,853	852,712
Receivables from qualifying participants	0	0
Payables to qualifying participants	20,382	18,384
Loans to governing bodies		
Members of the Executive Board and parties related thereto	2,470	1,492
Members of the Board of Directors and parties related thereto [1]	3,941	3,331

[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 2012 totalled CHF 0.253 million (2011: CHF 0.257 million).

Remuneration paid to members of governing bodies

in CHF 1,000	Remuneration [1,2]						Total remuneration	
(Art. $663b^{\text{bis}}$ Code of Obligations (Switzerland))	Fixed		Thereof in bearer shares (market value)		Pension fund, senior employee insurance			
	2012	2011	2012	2011	2012	2011	2012	2011
Board of Directors								
Fredy Vogt, Chairman [A,D,H]	400		100				400	
Hans Brunhart, Chairman [A,D,G]	200	400	50	100			200	400
Dr Guido Meier, Vice Chairman [B]	115	105	29	26			115	105
Prof. Teodoro D. Cocca, BoD [F]	80	65	20	16			80	65
Roland Feger, BoD [D]	115	80	29	20			115	80
Walo Frischknecht, BoD [C]	135 [3]	105 [3]	34	26			135	105
Markus Thomas Hilti, BoD [B]	105	75	26	19			105	75
Max E. Katz, BoD [D,H]	73		18				73	0
Dr Daniel H. Sigg, BoD	80	65	20	16			80	65
Prof. Dr Beat Bernet, BoD [E]		33		8			0	33
Total Board of Directors	**1,303**	**928**	**326**	**231**	**none**	**none**	**1,303**	**928**

[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] up to Annual General Meeting 2011
[F] as from Annual General Meeting 2011
[G] up to Annual General Meeting 2012
[E] as from Annual General Meeting 2012

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 expenses is not included.
3 Including remuneration as representative of the Board of Directors in the pension fund.

in CHF 1,000	Remuneration [1,2,3]								Total remuneration			
(Art. $663b^{\text{bis}}$ Code of Obligations (Switzerland))	Fixed basic salary [4]		Short-Term Incentive (STI)		Long-Term Incentive (LTI)		Pension fund, senior employee insurance				Long-Term Incentive (LTI), number of bearer shares (prospective entitlement) [7]	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Executive Management	2,072	1,610	0	515	845	0	244	170	3,161	2,295	6,574	9,329
Highest remuneration												
Georg Wohlwend, Head of BLI [5]	405		0		329		44		778		0	
Roger Hartmann, CEO [6]		650		200				65		915		1,864

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 pages 76 f.). 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. The monetary benefit arising from the respective LTI programme is determined, by definition, by the equity share price at the time of ownership. The transfer of bearer shares from the LTI programme 2009–2011 was made during the first half of 2012. 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.

1 Compensation for out-of-pocket expenses is not included.
2 The compensation paid for the calendar year is reported.
3 The members of the Executive Board retiring during the financial year are included up to the date when they relinquish their functions.
4 Gifts for length of service are included.
5 Head of Banking Liechtenstein & Regional Market up to 30 September 2012.
6 CEO through mid-July 2012.
7 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				Loans and credits		Related parties[1]			
	Number of shares (including related parties, excluding qualifying participants)						Loans and credits[2]		Remuneration for services provided	
	Registered shares		Bearer shares							
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Board of Directors										
Fredy Vogt			10,337		637					
Hans Brunhart		6,000		6,541		1,900				
Dr Guido Meier	22,750[3]	23,250[3]	21,500[3]	21,549[3]	2,900	1,023				
Prof. Teodoro D. Cocca			505	206					3	7
Roland Feger	40,350[3]	40,350[3]	30,651[3]	30,221[3]	404	408			250	250
Walo Frischknecht			1,885	1,381						
Markus Thomas Hilti			4,737[3]	4,345[3]						
Max E. Katz			274							
Dr Daniel Sigg			928	629						
Total Board of Directors	**63,100**	**69,600**	**70,817**	**64,872**	**3,941**	**3,331**	**none**	**none**	**253**	**257**
Executive Management	none	none	1,760	4,230	2,470	1,492	none	none	none	none
Rolf Jermann			610							
Siegbert Näscher, CFO[4,5]			250							
Juerg W. Sturzenegger, COO[5]			900		1,000	1,000				
Roger Hartmann, CEO[6]				120						
Fredy Vogt, CFO[7]				4,110						

[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] CFO as from 1 April 2012
[5] CEO ad interim as from mid-July 2012
[6] CEO up to mid-July 2012
[7] CFO up to 31 March 2012

Domestic and foreign liabilities

in CHF 1,000 (Art. 24e Par. 1 Point 3.14 FL-BankV)	Domestic 31/12/2012	Foreign 31/12/2012	Domestic 31/12/2011	Foreign 31/12/2011
Assets				
Cash balances	858,321		207,371	
Due from banks	1,347,181	2,411,370	1,657,022	2,432,357
Due from customers	2,852,482	256,053	2,846,190	340,974
of which mortgage receivables	2,436,120	4,333	2,193,204	3,047
Debentures and other interest-bearing securities	4,981	774,685	162,559	838,672
Equity shares and other non-interest-bearing securities	39,782	28,815	42,878	34,714
Participations	127		127	
Shares in affiliated companies	11,014	86,290	11,014	81,990
Intangible assets	29,779		42,606	
Property and equipment	115,315		121,075	
Treasury shares	8,711		12,781	
Other assets	55,815	11,174	107,805	14,121
Accrued receivables and prepaid expenses	8,645	10,955	12,267	13,492
Total assets	**5,332,153**	**3,579,342**	**5,223,695**	**3,756,320**

Domestic and foreign liabilities (continued)

in CHF 1,000 (Art. 24e Par. 1 Point 3.14 FL-BankV)	Domestic 31/12/2012	Foreign 31/12/2012	Domestic 31/12/2011	Foreign 31/12/2011
Liabilities and shareholders' equity				
Due to banks	834,232	324,111	809,996	265,073
Due to customers	4,208,571	2,210,105	4,252,247	2,124,264
• savings deposits	707,601	150,288	670,379	146,439
• other liabilities	3,500,970	2,059,817	3,581,868	1,977,825
Securitised liabilities	487,870		614,263	
Other liabilities and deferred items	75,028	9,353	124,386	18,772
Accrued liabilities and deferred items	15,814	955	18,585	1,629
Provisions	10,088		14,616	
Provisions for general banking risks	63,150		63,150	
Subscribed capital	59,148		59,148	
Income reserves	583,591		597,422	
• legal reserves	239,800		239,800	
• reserve for treasury shares	8,711		12,781	
• other reserves	335,080		344,841	
Retained earnings brought forward	7,592		4,460	
Net profit for the year	21,887		12,004	
Total liabilities and shareholders' equity	**6,366,971**	**2,544,524**	**6,570,277**	**2,409,738**

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-BankV)	31/12/2012 Absolute	31/12/2012 Share in %	31/12/2011 Absolute	31/12/2011 Share in %
Assets				
Liechtenstein/Switzerland	5,332,153	59.8	5,223,695	58.2
Europe (excluding Liechtenstein/Switzerland)	2,963,985	33.3	3,231,278	35.9
North America	233,730	2.6	187,239	2.1
Caribbean	168,286	1.9	116,537	1.3
Asia	140,805	1.6	179,643	2.0
Other	72,536	0.8	41,623	0.5
Total assets	**8,911,495**	**100.0**	**8,980,015**	**100.0**

Balance sheet by currency

in CHF 1,000 (Art. 24e Par. 1 Point 3.16 FL-BankV)	CHF	USD	EUR	Other	Total
Assets					
Cash balances	852,996	269	4,773	283	858,321
Due from banks	171,185	1,398,301	1,581,737	607,328	3,758,551
Due from customers	2,678,038	153,739	234,610	42,148	3,108,535
of which mortgage receivables	2,428,215	6	12,232		2,440,453
Debentures and other interest-bearing securities	423,087	172,331	184,248		779,666
Equity shares and other non-interest-bearing securities	20,098	22,616	25,883		68,597
Participations	127				127
Shares in affiliated companies	97,304				97,304
Intangible assets	29,779				29,779
Property and equipment	115,315				115,315
Treasury shares	8,711				8,711
Other assets	58,634	2,694	5,297	364	66,989
Accrued receivables and prepaid expenses	11,472	2,668	4,981	479	19,600
Total on-balance-sheet assets	**4,466,746**	**1,752,618**	**2,041,529**	**650,602**	**8,911,495**
Delivery claims arising from foreign-exchange spot, forward and option transactions	1,058,197	928,745	969,956	235,936	3,192,834
Total assets, 31/12/2012	**5,524,943**	**2,681,363**	**3,011,485**	**886,538**	**12,104,329**
Total assets, 31/12/2011	5,371,683	2,914,679	3,231,814	990,711	12,508,887

Balance sheet by currency (continued)

in CHF 1,000 (Art. 24e Par. 1 Point 3.16 FL-BankV)	CHF	USD	EUR	Other	Total
Liabilities and shareholders' equity					
Due to banks	416,210	294,166	253,255	194,712	1,158,343
Due to customers	2,728,797	1,458,978	1,773,687	457,214	6,418,676
• savings deposits	857,723	1	163	2	857,889
• other liabilities	1,871,074	1,458,977	1,773,524	457,212	5,560,787
Securitised liabilities	465,620	1,645	20,605		487,870
Other liabilities	70,140	2,539	9,719	1,983	84,381
Accrued liabilities and deferred items	15,489	162	995	123	16,769
Provisions	10,088				10,088
Provisions for general banking risks	63,150				63,150
Subscribed capital	59,148				59,148
Income reserves	583,591				583,591
• legal reserves	239,800				239,800
• reserve for treasury shares	8,711				8,711
• other reserves	335,080				335,080
Retained earnings brought forward	7,592				7,592
Net income of the year	21,887				21,887
Total on-balance-sheet liabilities and shareholders' equity	**4,441,712**	**1,757,490**	**2,058,261**	**654,032**	**8,911,495**
Delivery obligations arising from foreign-exchange spot, forward and option transactions	1,132,781	896,900	929,513	231,944	3,191,138
Total liabilities and shareholders' equity, 31/12/2012	**5,574,493**	**2,654,390**	**2,987,774**	**885,976**	**12,102,633**
Total liabilities and shareholders' equity, 31/12/2011	5,488,569	2,878,753	3,149,612	990,357	12,507,291
Net position per currency	**–49,550**	**26,973**	**23,711**	**562**	

Contingent liabilities

in CHF 1,000 (Art. 24e Par. 1 Point 4.1 FL-BankV)	31/12/2012	31/12/2011	Variance absolute	Variance in %
Contingent liabilities				
Credit guarantees and similar	0	645	–645	–100.0
Performance guarantees and similar	74,800	78,979	–4,179	–5.3
Other contingent liabilities	0	0	0	n.a.
Total contingent liabilities	**74,800**	**79,624**	**–4,824**	**–6.1**

Unsettled derivative financial instruments

in CHF 1,000 (Art. 24e Par. 1 Point 4.3 FL-BankV)	Trading instruments			Hedging instruments		
	Positive replacement values	Negative replacement values	Contract volumes	Positive replacement values	Negative replacement values	Contract volumes
Interest-rate instruments						
Swaps				26	30,254	312,267
Futures						12,443
Options (OTC)						
Foreign exchange / precious metals						
Forward contracts	1,815	4,662	362,400		272	32,311
Combined interest / currency swaps	32,041	28,969	2,673,528			
Options (OTC)	995	995	87,620	126		33,290
Equity instruments / indices						
Forward contracts						
Futures						8,701
Options (OTC)		1,101	18,226			
Total prior to consideration of netting agreements, 31/12/2012	**34,851**	**35,727**	**3,141,774**	**152**	**30,526**	**399,012**
Total prior to consideration of netting agreements, 31/12/2011	93,407	91,997	3,541,155	186	26,640	391,900

VP Bank has no netting agreements.

Fiduciary transactions

in CHF 1,000 (Art. 24e Par. 1 Point 4.4 FL-BankV)	31/12/2012	31/12/2011	Variance absolute	Variance in %
Fiduciary transactions				
Fiduciary deposits	838,192	1,338,049	–499,857	–37.4
• fiduciary deposits with third-party banks	826,322	1,290,396	–464,074	–36.0
• fiduciary deposits with affiliated banks and finance companies	11,870	47,653	–35,783	–75.1
Fiduciary loans	3,003	3,007	–4	–0.2
Other fiduciary transactions of financial nature	0	0	0	0.0
Total fiduciary transactions	**841,195**	**1,341,056**	**–499,861**	**–37.3**

Information regarding the income statement

in CHF 1,000 (Art. 24e Par. 1 Point 5.2 FL-BankV)	2012	2011	Variance absolute	Variance in %
Income from trading activities				
Gains from securities	–395	–1,628	1,233	–75.8
Gains from foreign-exchange derivatives	–2,080	4,830	–6,910	n.a.
Gains from foreign-exchange transactions	14,311	15,037	–726	–4.8
Gains from trading in banknotes	1,353	1,421	–68	–4.8
Gains from precious metals	544	511	33	6.4
Total income from trading activities	**13,733**	**20,171**	**–6,438**	**–31.9**

in CHF 1,000 (Art. 24e Par. 1 Point 5.3 FL-BankV)	2012	2011	Variance absolute	Variance in %
Personnel expenses				
Salaries and wages	56,151	60,424	–4,273	–7.1
Social security costs and staff retirement pensions and assistance costs	11,124	10,668	456	4.3
of which for staff retirement pensions	9,984	9,441	543	5.8
Other personnel expenses	3,996	4,504	–508	–11.3
Total personnel expenses	**71,271**	**75,596**	**–4,325**	**–5.7**
Emoluments of members of the Board of Directors [1,2]	1,303	928	375	40.4
Compensation of members of Group Executive Management [2,3]	3,161	2,295	866	37.7

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-BankV)	2012	2011	Variance absolute	Variance in %
General and administrative expenses				
Occupancy expenses	3,115	3,002	113	3.7
Expenses for IT, equipment, furniture, motor vehicles and other installations	10,744	15,121	–4,377	–28.9
Other business expenses	16,162	17,486	–1,324	–7.6
Total general and administrative expenses	**30,021**	**35,609**	**–5,588**	**–15.7**

in CHF 1,000 (Art. 24e Par. 2 Point 6e FL-BankV)	2012	2011	Variance absolute	Variance in %
Other ordinary income				
Income from real estate	248	249	–1	–0.3
Other ordinary income	3,622[1]	1,052	2,570	244.0
Total other ordinary income	**3,870**	**1,301**	**2,569**	**197.2**

1 Thereof CHF 2.362 million resulting from the release of provisions for management share equity plans constituted in prior years which were excess to requirements.

Other assets and liabilities

in CHF 1,000 (Art. 24e Par. 2 Point 6 FL-BankV)	31/12/2012	31/12/2011	Variance absolute	Variance in %
Other assets				
Precious metals	103	13	90	n.a.
Unsettled derivative financial instruments (positive replacement values)	35,003	93,593	–58,590	–62.6
• trading positions	34,977	93,593	–58,616	–62.6
• liquidity positions	26	0	26	n.a.
Compensation accounts	30,254	26,640	3,614	13.6
Settlement accounts	1,104	909	195	21.4
Miscellaneous other assets	525	771	–246	–31.9
Total other assets	**66,989**	**121,926**	**–54,937**	**–45.1**
Other liabilities				
Accounts for disbursement of taxes and fees	5,437	5,009	428	8.6
Unsettled derivative financial instruments (negative replacement values)	66,253	118,637	–52,384	–44.2
• trading positions	35,999	91,996	–55,997	–60.9
• liquidity positions	30,254	26,641	3,613	13.6
Compensation accounts	26	0	26	n.a.
Settlement accounts	12,223	18,467	–6,244	–33.8
Miscellaneous other liabilities	442	1,045	–603	–57.7
Total other liabilities	**84,381**	**143,158**	**–58,777**	**–41.1**

Report of the statutory auditor on the financial statements

To the 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 160–177), and the annual report (page 159) of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, for the year ended 31 December 2012.

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 2012 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 Certified Accountant (Auditor in charge)	**Bruno Taugner** Certified Accountant

Berne, 28 February 2013

VP Bank Group

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

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