

# Compensation report

## General

The basis of this compensation report of VP Bank is the implementation of the EU Directive 2010/76/EU, which, amongst other things, regulates the risks associated with compensation policies and practices.

On the one hand, Liechtenstein has implemented this directive in the Law on Banks and Securities Firms, in particular in Art 7a Par. 6 thereof: "Banks and securities firms are to introduce a compensation policy and compensation practices and to ensure continuously that they are consistent with robust and effective risk management within the spirit of this Article. The government shall regulate the details of the compensation policy and practices in a related ordinance".

On the other hand, the content of Annex 4.4 of the "Ordinance on Banks and Securities Firms" (FL-BankV) has been supplemented accordingly. This ordinance entered into force on 1 January 2012. The remuneration policy of VP Bank Group corresponds to the size of VP Bank and its business model. This encompasses the offering of banking services for private clients and intermediaries in the disclosed target markets, in Liechtenstein and in the other locations, as well as services for investment funds.

## Principles of remuneration

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

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

- Performance orientation and differentiation: VP Bank remunerates employees according to their performance.
- Gender- and age-neutral remuneration and equal treatment: the function determines the level of fixed annual salary.
- Fair and market-oriented pay: VP Bank is guided by market conditions and regularly reviews these.

- Focus of decision-makers on a stable, success-oriented and forward-looking management and the avoidance of excessive risk-taking: VP Bank rewards sustainable positive actions and does not maximise revenues on a short-term basis.

With these principles, VP Bank achieves a remuneration which is in line with the market, with its performance and with the relevant requirements. They set the right performance incentives for individual employees and management, thus fostering the achievement of the goals set out in VP Bank's strategy. Remuneration-related conflicts of interest of the involved functions and/or individuals are avoided.

## Structure of total remuneration

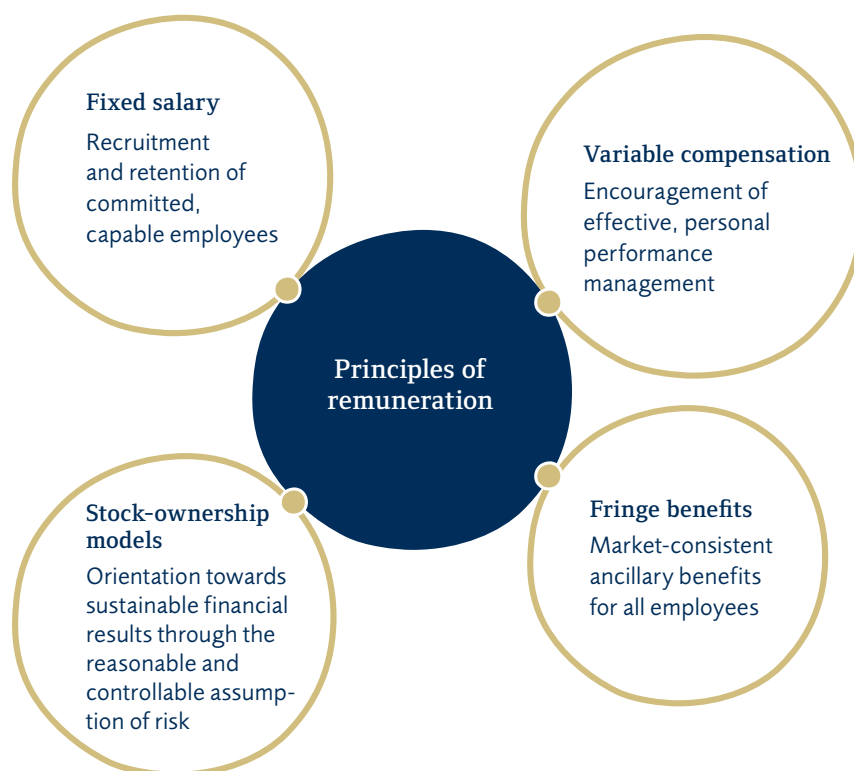
The total remuneration of the employees of VP Bank Group comprises a fixed remuneration, an additional variable salary, equity-share participation models as well as additional perquisites ("fringe benefits").

### Fixed salary

The level of the fixed salary component as a base salary varies in principle according to the function performed and the related requirements. The local labour market is also taken into account. The fixed salary is a contractually agreed salary component which is paid out regularly in cash. The level of the fixed remuneration ensures that the employee does not become financially dependent on variable compensation components.

### Variable, performance- and profit-related salary

Variable remuneration can, but need not be granted. On the one hand, it is dependent on the success of the Bank or individual companies, on the other hand, on individual performance. The latter is evaluated by the employee's supervisor at the end of a year on the basis of the agreed-upon tasks and goals. The extent to which the provisions of the legislator, the Bank and the individual client are observed is also taken into consideration. The level of profit participation is fixed according to quantitative and qualitative criteria and is in reasonable relationship to the fixed portion of income. The target proportion to total remuneration varies according to function and market practices. It shall remain under 50 per cent at all times. Even after repeated payouts, no entitlement to a variable salary arises in the subsequent year.



Payment is made in principle in cash in the first quarter of the following year and, as a general rule, in the full amount. In the case of particularly high variable salary portions, VP Bank may spread a part of the payment thereof over several years and/or settle a part in the form of VP Bank shares or vested entitlements thereto.

#### Equity-share participation models

Each year, shares are offered for sale at a preferential price to the employees of VP Bank. The number of shares varies according to years of service and function. Instead of an outright purchase, the shares may also be drawn at no charge whilst deducting the monetary benefit. The shares remain restricted for four years.

A long-term oriented management equity-share participation model (Long Term Incentive Plan, LTI) has been established for the members of senior management and certain specialists. The basic principles underlying this programme are the creation of value of VP Bank Group (economic profit = Group net income after deducting costs of capital) over a period of three years, "pay for performance" and the long-term commitment of management to a variable remuneration component in the form of equity shares. The participants must invest a part of their "target bonus" in the LTI programme. Equity shares as a means of payment reflect an objective assessment by the market. The long-term target-setting for the participants has the objective of rewarding success that is not just based on a single year's performance.

Details on the LTI programme are to be found in the chapter "Corporate governance" under "Compensation, shareholdings and loans" (see page 77).

#### Fringe benefits

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

They relate principally to the following benefits:

- insurance benefits in excess of legal prescriptions
- retirement-benefit-related amounts, in particular voluntary employer contributions
- preferential conditions for employees in the case of banking transactions, such as reduced-rate mortgages for residential property
- further fringe benefits which are customary for the given location.

#### Individuals and functions subject to particular provisions

Employees having a particularly large influence on the risk profile of the Bank are designated as "risk takers". VP Bank identifies the members of Group Executive Management and the Executive Board as decision-makers and substantial "risk takers". Details on their remuneration are set out in the section on "Corporate governance 2013" (see page 77).

Individuals performing compliance or other control functions are remunerated principally with fixed remuneration components. The variable part of their remuneration is unrelated to the profit of the entities which they audit or monitor.

### Compliance with remuneration rules

The remuneration practices of VP Bank are in compliance with Annex 4.4 of the Banking Ordinance (FL-BankV) as well as the EU Directive. They are oriented towards long-term success. There are no events which trigger the automatic payment of variable salary components. The decision concerning the earmarking of a total amount for remuneration lies ultimately with the Board of Directors.

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

The Remuneration Policy allows for individual performance agreements in specific cases in order to compute the amount of a bonus depending on an objectively measurable success. Group Executive Management must consent to the related method of computation. The safeguarding of client interests and compliance with all regulatory directives must continue to exist in an unequivocal manner.

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

The sum of variable-salary provisions must be tolerable in the aggregate. VP Bank Group or an individual subsidiary company should never fall into financial difficulty as a result thereof. In the case of adverse trading conditions, the Bank shall refrain from paying variable remuneration components.

### Determination of remuneration

By consenting to the budget, the Board of Directors approves the total of fixed remuneration and, at the end of the year, decides on the level of provisions for the variable portion of salary with regard to the annual results. It lays down the fixed and variable portion of remuneration for Group Executive Management and the Executive Board. The Nomination & Compensation Committee (NCC) supports the Board of Directors in all issues involving the setting of salaries, defines, together with Group Executive Management, those individuals designated as "risk takers" and monitors

their remuneration. Together with Internal Audit, the NCC reviews compliance with the Remuneration Policy.

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

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

### Quantitative information on remuneration

Information on the remuneration of members of the Board of Directors as well as the members of Group Executive Management and the Executive Board are to be found in the financial report, the stand-alone financial statements of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz, under "Remuneration paid to members of governing bodies" (see page 176).

Disclosures regarding personnel expense are set out in the 2013 Financial Report of VP Bank Group under "Personnel expense" (see page 132).

#### Split of fixed and variable remuneration 2013

	Fixed remuneration	Variable remuneration
Total	95.0%	5.0%
First/second management level	87.1%	12.9%