



Excerpt
Annual Report

2010

Media and Investor Relations
Verwaltungs- und Privat-Bank Aktiengesellschaft
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Conception, Design, Realization
VP Bank, Vaduz

The English version was translated from the German version,
which shall be binding in case of disparities.

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VP Bank (Schweiz) AG ₄
2. VP Bank Group _{(Excerpt) 10}
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Report by the Board of Directors and Executive Management

Review of business in 2010

The 2010 financial year indeed proved challenging and was marked by persisting uncertainties in the international financial markets. The profit-enhancement measures introduced already in the previous year, coupled with acute cost-awareness, led in 2010 to a clearly more favorable business trend at VP Bank (Schweiz) AG than was the case in the 2009 financial year.

Organization

VP Bank (Schweiz) AG caters to the needs of clients via two business segments: Private Banking Clients (PBC) and Intermediaries (INT). Both are managed in a market-specific manner, offer a differentiated range of products and services and have the mandate to grow internationally, especially as regards the Central & Eastern Europe (CEE) and South Eastern Europe (SEE) operating units. The further penetration and cultivation of the Swiss domestic market was also pursued with noticeable effect in 2010.

The front-office units are actively supported with products and services offered by the Wealth Management Solutions (WMS) competence center, whose activities have a Group-wide, location-transcending orientation.

Together, the Banking Services and Company Centre staff offices constitute an internal service center that provides traditional backoffice support for VP Bank (Schweiz) AG and ensures properly functioning banking operations at the Zurich site.

Entrepreneurial conduct

Again in 2010, entrepreneurialism was accorded a high priority in terms of the deployment of available financial resources.

General and administrative expenses were intentionally kept at a low level so that accumulated working capital could be directed towards areas of strategic importance.

In effort to leverage existing know-how and exploit synergies, some of the back-office services are being rendered in close collaboration with the head office in Vaduz.

2010 financial results

At CHF 16.894 million, income from commission business and services rose by 28.8 percent versus the previous year to CHF 16.894 million (2009: CHF 13.115 million). This increase is attributable in particular to intensive efforts to acquire asset management mandates, revenues from fund management activities, as well as to optimized fee and commission structures. Commission income for 2010 stood at CHF 6.400 million, approximately 4.6 percent lower than the prior-year total (2009: CHF 6.709 million).

Income from the interest-differential business increased during the period under review, from CHF 2.467 million to CHF 3.222 million, while income from trading activities rose versus the previous year by 36.3 percent to CHF 3.169 million (2009: 2.325 million).

Included in other ordinary income are transfer payments from the parent bank as reimbursement for location-overreaching services that are not otherwise compensated through fund management fees.

Compared to the previous year, total operating expenses declined by 1.6 percent to CHF 24.724 million.

Personnel expenses in 2010 totaled CHF 19.170 million, 5 percent lower than in the previous year.

Again in 2010, a tight rein was held on general and administrative expenses, with outlays being made only on the basis of entrepreneurial considerations. The year-on-year 12.2-percent increase from CHF 4.950 million to CHF 5.554 million was mainly attributable to added expenditures for contract adjustments, introduced by various information providers and fees incurred in connection with mandatory regulations.

In the past financial year, VP Bank (Schweiz) AG achieved a significant 93.6-percent improvement in its operating results by recording a net loss of CHF 0.135 million versus the prior-year loss of CHF 2.113 million.

The total assets of VP Bank (Schweiz) AG declined marginally in 2010 by CHF 5 million, and currently stand at CHF 845 million.

Client assets under management at VP Bank (Schweiz) AG decreased during the period under review by 1 percent to CHF 2.890 billion (2009: CHF 2.914 billion). This modest decline of CHF 24 million was attributable to a currency-adjusted performance loss of CHF 216.9 million, which was counter-balanced by a CHF 192.9 million inflow of net new money. The headcount at VP Bank (Schweiz) AG increased during the past financial year by 2.8 percent to 83.5 full-time equivalents (2009: 81.2 full-time equivalents).

Outlook for 2011

The persistently heavy international pressure on the Swiss financial center has been accompanied by a wide array of new rules and regulations. Performing the related tasks with the customary high degree of care is a matter of course, but doing so confronts financial service providers with additional major challenges.

VP Bank (Schweiz) AG will continue to make every effort, in the year ahead, to satisfy its clients' individual needs in the best possible manner. We are committed to quality. And quality creates satisfied clients.

With the organizational measures that have already been introduced and implemented, VP Bank (Schweiz) AG has the necessary flexibility and adaptability to meet the complex, rigorous requirements that lie ahead.

A word of gratitude

We would like to take this opportunity to express our sincere gratitude to all of our clients for the trust they have placed in us. The thanks of the Board of Directors and executive management also go to all VP Bank (Schweiz) AG employees, who, through their dedication, resolutely pursue their activities in a targeted manner and build further on their strengths in client care and the acquisition of new clients.



Roger H. Hartmann
Chairman of the Board of Directors
VP Bank (Schweiz) AG



Katharina Vogt-Schädler
Head of Executive Management a.i.
VP Bank (Schweiz) AG

Governing Bodies

Board of Directors

Roger H. Hartmann, Vaduz	Chairman ¹
Dr. Georg R. Lehner, Thalwil	Vice Chairman ²
Fredy Vogt, Balzers	
Juerg W. Sturzenegger, Schaan ³	
Alexander Vögele, Zurich	

Executive Management

Katharina Vogt-Schädler	Head of Executive Management a.i. ⁴
Tobias Kaeser ⁵	
Jürg Moll	
Marc Wallach	

External and internal auditors

Statutory auditors	Ernst & Young AG, Bern
Internal Audit	Internal Audit of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz

¹ As of October 27, 2010, succeeded Ernst Näf (Chairman a.i.)

² As of October 27, 2010, succeeded Ernst Näf (Vice Chairman)

³ As of October 27, 2010

⁴ As of September 1, 2010, succeeded Juerg W. Sturzenegger (Head of Executive Management)

⁵ As of September 1, 2010

Income Statement 2010

Income and expenses from ordinary banking activities

in CHF	2010	2009
Interest income		
Income from lending and discounting activities	4,312,257	3,771,990
Interest and dividends from trading inventories		
Interest and dividends from financial investments		
Interest expenses	-1,089,995	-1,305,305
Net interest income	3,222,262	2,466,685
Income from commission business and services		
Commission income from lending activities	98,335	129,201
Commission income from securities and investing activities	21,620,467	16,951,197
Commission income from other services	1,938,543	1,285,200
Commission expenses	-6,763,822	-5,250,277
Net income from commission business and services	16,893,523	13,115,321
Net trading income	3,169,253	2,324,873
Other ordinary income		
Income from sale of financial investments		
Income from financial participations		
Income from real estate		
Other ordinary income	3,015,707	6,477,829
Other ordinary expenses		
Gain on financial investments		
Net other ordinary income	3,015,707	6,477,829
Operating expenses		
Personnel expenses	-19,170,044	-20,186,761
General and administrative expenses	-5,553,508	-4,950,345
Total operating expenses	-24,723,552	-25,137,106
Gross income	1,577,193	-752,398
Depreciation and amortization	-1,054,481	-1,149,490
Value adjustments, provisions and losses	-575,219	-121,389
Subtotal	-52,507	-2,023,277
Extraordinary income		4,443
Extraordinary expenses		-2,290
Taxes on income	-82,700	-92,100
Net income / net loss	-135,207	-2,113,224

Profit appropriation

in CHF	2010	2009
Net income / net loss	-135,207	-2,113,224
Retained earnings	5,392,205	7,505,429
Balance sheet net income	5,256,998	5,392,205

Profit appropriation

Allocation to general legal reserves		
Allocation to other reserves		
Distributions on equity capital		
Retained earnings	5,256,998	5,392,205

Balance Sheet as at December 31, 2010

Assets

in CHF	2010	2009
Cash and cash equivalents	21,153,198	25,035,100
Claims on money market instruments	49,978,274	103,659,219
Due from banks	600,581,499	596,784,392
Due from customers	103,775,272	52,631,166
Mortgage claims	48,868,712	46,453,491
Securities and precious metals trading inventories		
Financial investments		
Financial participations		
Property and equipment	4,076,319	5,049,198
Accrued income and prepaid expenses	6,696,826	8,001,836
Other assets	9,829,876	12,351,568
Corporate capital yet to be paid in		
Total assets	844,959,976	849,965,970

Total subordinated receivables

Total due from Group companies and qualified participants	556,793,029	594,254,454
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Liabilities and shareholders' equity

in CHF	2010	2009
Due on money market instruments		
Due to banks	28,972,692	16,847,130
Due to customers – savings and deposits	725,261	
Due to customers – other liabilities	743,752,090	757,254,367
Medium-term notes		
Debenture issue		
Accrued liabilities and deferred items	3,385,709	5,062,563
Other liabilities	11,437,569	14,415,048
Value adjustments and provisions	7,829,657	7,394,657
Reserves for general banking risks		
Share capital	20,000,000	20,000,000
General legal reserves	2,620,000	2,620,000
Reserves for own financial interests		
Unrealized appreciation reserve		
Other reserves	20,980,000	20,980,000
Retained earnings	5,392,205	7,505,429
Net income / net loss	-135,207	-2,113,224
Total liabilities and shareholders' equity	844,959,976	849,965,970

Total subordinated amounts due (incl. accrued interest)

Total due to Group companies and qualified participants	6,157,560	6,054,288
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Off-Balance-Sheet Transactions

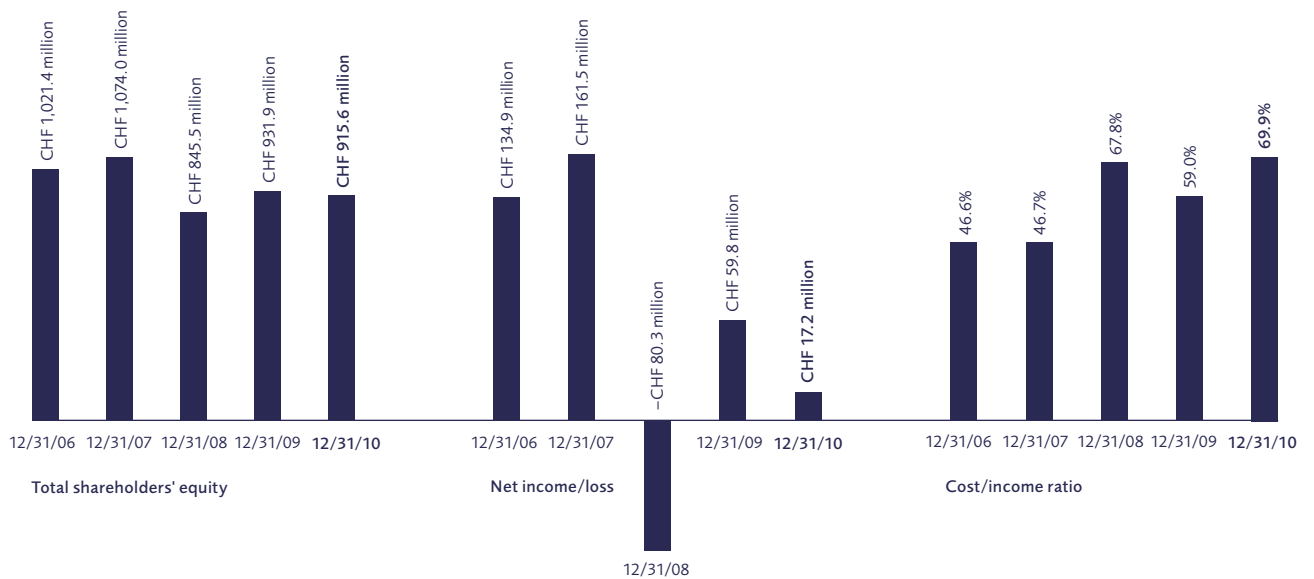
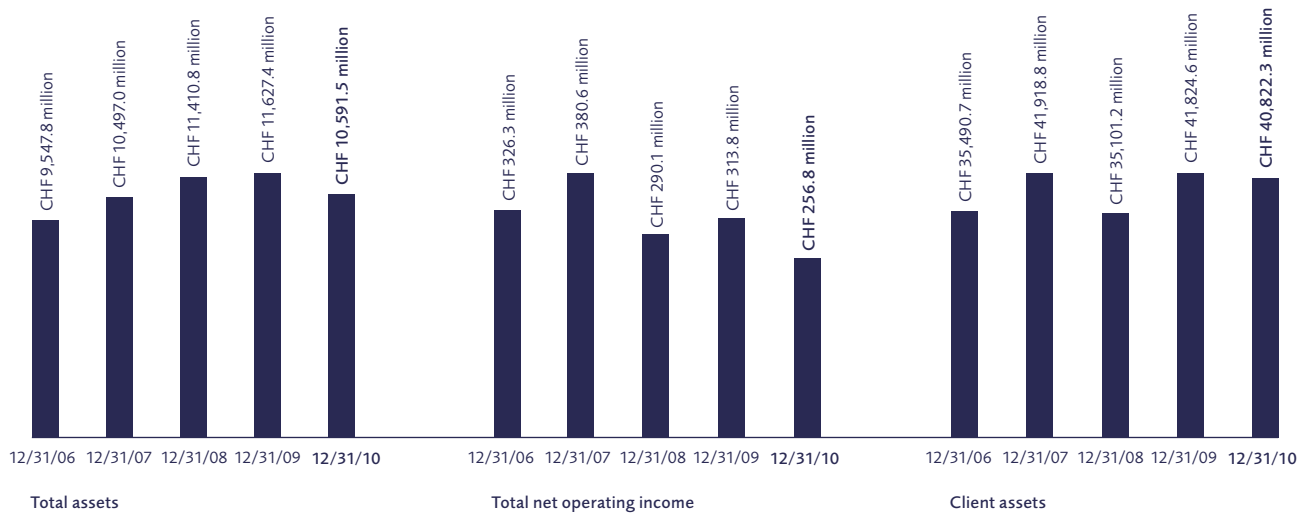
in CHF	2010	2009
Contingent liabilities	6,856,666	6,321,684
Irrevocable commitments	4,408,500	2,063,000
Derivative financial instruments		
Positive replacement values	9,589,078	9,445,315
Negative replacement values	9,468,120	9,420,252
Contract volumes	589,700,044	389,170,828
Fiduciary transactions	310,362,474	425,152,973

1. Financial Year 2010
VP Bank (Schweiz) AG ₄
2. **VP Bank Group** (Excerpt) ₁₀
3. Financial Report 2010
VP Bank Group ₁₆

Key Figures of VP Bank Group ₁₀

The Organizational Structure of VP Bank Group ₁₂

Key Figures of VP Bank Group



Key Figures of VP Bank Group

	2010	2009	Variance in %
Key balance sheet data in CHF million¹			
Total assets	10,591.5	11,627.4	-8.9
Due from banks	5,622.8	6,319.8	-11.0
Due from customers	3,266.9	3,026.6	7.9
Due to customers	8,707.2	9,993.7	-12.9
Total shareholders' equity	915.6	931.9	-1.7
Shareholders' equity, attributable to shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	897.8	913.4	-1.7
Equity ratio (in %)	8.5	7.9	7.9
Tier 1 ratio (in %) ²	19.0	17.1	10.7
Key income statement data in CHF million			
Total net operating income	256.8	313.8	-18.2
Income from interest-differential business	78.9	121.0	-34.8
Income from commission business and services	125.4	123.5	1.5
Income from trading activities	45.8	17.6	160.6
Operating expenses	179.5	185.1	-3.0
Net income	17.2	59.8	-71.2
Net income attributable to shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	15.1	57.4	-73.7
Client assets in CHF million²			
	40,822.3	41,824.6	-2.4
On-balance-sheet customer deposits (excluding custody assets)	9,288.1	10,370.8	-10.4
Fiduciary deposits (excluding custody assets)	580.3	856.6	-32.3
Client securities accounts	18,357.7	18,317.1	0.2
Custody assets	12,596.2	12,280.1	2.6
Net new money	75.9	-1,125.6	n.a.
Key operating indicators			
Ratio of foreign assets (in %)	49.6	57.8	-14.3
Return on equity (in %) ^{1, 3}	1.7	6.6	-74.6
Cost/income ratio (in %) ⁴	69.9	59.0	18.5
Headcount (expressed as full-time equivalents, excluding trainees) ⁵	727.2	720.2	1.0
Total net operating income per employee in CHF 1,000	353.1	435.8	-19.0
Total operating expenses per employee in CHF 1,000	246.9	257.0	-3.9
Net income per employee in CHF 1,000	20.7	79.7	-74.0
Key indicators related to shares of VP Bank in CHF¹			
Net income per bearer share ⁶	2.62	9.97	-73.7
Net income per registered share ⁶	0.26	1.00	-73.7
Dividend per bearer share	3.50 ⁷	3.50	0.0
Dividend per registered share	0.35 ⁷	0.35	0.0
Dividend yield (in %)	3.0	3.5	-12.3
Pay-out ratio (in %)	133.7	35.1	n.a.
Total shareholders' return on bearer shares (in %)	17.5	-26.3	n.a.
Shareholders' equity per bearer share	156.21	158.93	-1.7
Shareholders' equity per registered share	15.25	15.48	-1.5
Quoted price per bearer share	114.80	100.70	14.0
Quoted price per registered share	10.50	9.50	10.5
Highest quoted price per bearer share	142.50	151.00	-5.6
Lowest quoted price per bearer share	98.00	46.55	110.5
Market capitalization (in CHF million) ⁸	673	592	-13.7
Price-earnings ratio per bearer share	43.85	10.10	n.a.
Price-earnings ratio per registered share	40.11	9.53	n.a.

Rating Standard & Poor's

A-/Stable/A-2

A-/Stable/A-2

¹ The reported key data and operating indicators are computed and reported on the basis of the share of the net profit and shareholders' equity attributable to shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz.

² Details in the notes to the consolidated income statement and consolidated balance sheet.

³ Net income / average shareholders' equity less dividend.

⁴ Total operating expenses / total net operating income.

⁵ In accordance with legal requirements, trainees are to be included in headcount statistics as 50 percent of equivalent full-time employees.

⁶ Based on the weighted average number of shares (bearer) (note 10).

⁷ Subject to approval by the Annual General Meeting.

⁸ Including registered shares.

The Organizational Structure of VP Bank Group

Changes in the organizational structure

VP Bank has responded to the far-reaching changes in the marketplace by introducing a new management structure (see organizational chart on page 11). As of September 1, 2010, the two previous business units Private Banking Clients and Intermediaries were transferred to a leaner management structure. Since then, VP Bank Group has been divided into four segments: Banking Liechtenstein & Regional Markets, Private Banking International, Wealth Management Solutions & Services, as well as CFO & Corporate Center.

The Banking Liechtenstein & Regional Markets business segment encompasses the universal banking business in the Bank's home market and Switzerland, as well as the international private banking, intermediaries and fund businesses in Liechtenstein.

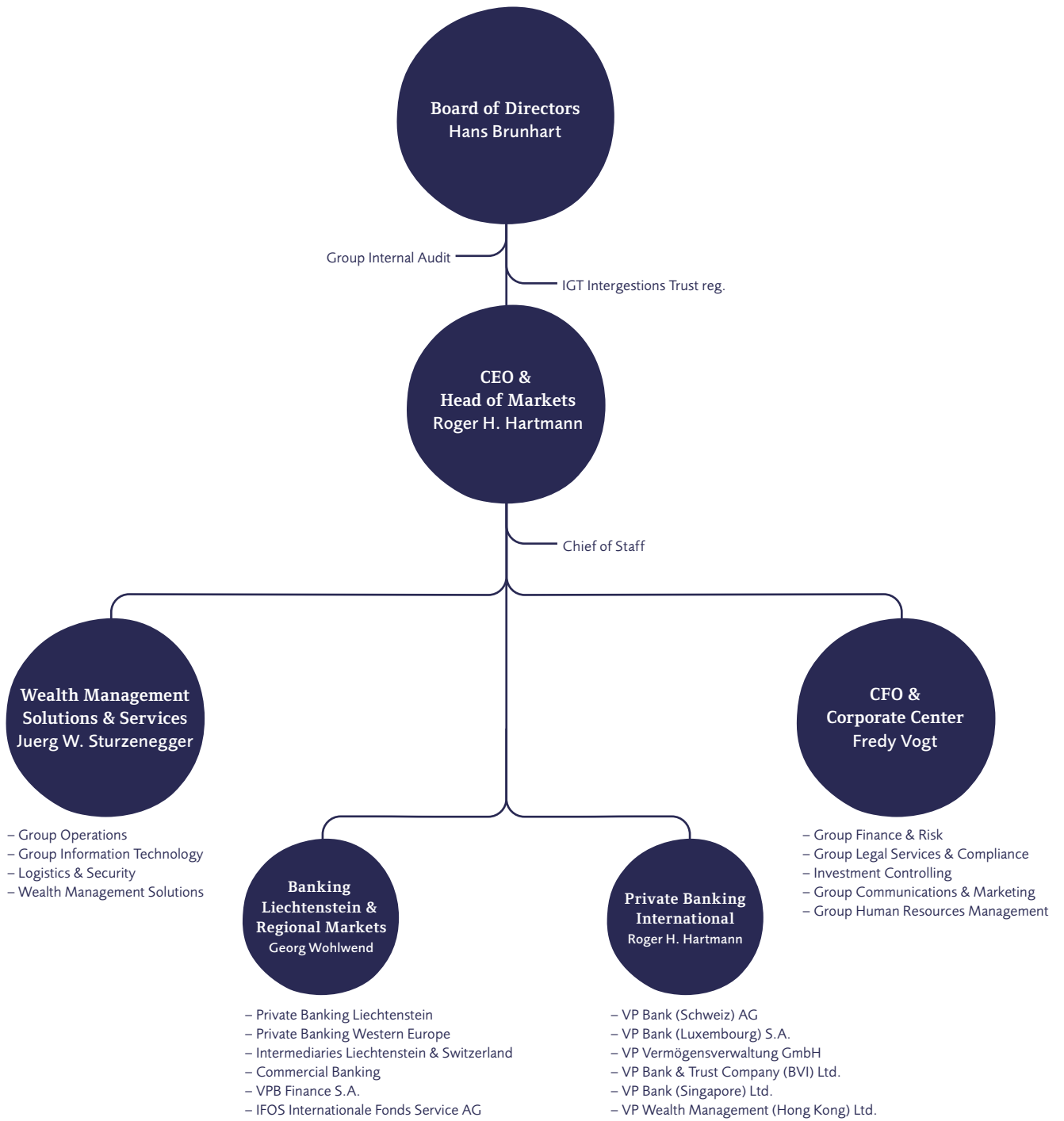
The Private Banking International business segment addresses the private banking business at the international locations of VP Bank Group.

The Wealth Management Solutions & Services business segment comprises the Wealth Management Solutions, Information Technology, Operations as well as Logistics & Security units of the entire VP Bank Group.

Included in the Corporate Center are the Group Finance & Risk, Group Legal Services & Compliance, Investment Controlling, Group Human Resources Management and Group Communications & Marketing units.

With the structural adaptation, the number of members of Group Executive Management was reduced to three: Chief Executive Officer Roger H. Hartmann is Chairman of Group Executive Management and, as Head of Markets, is responsible for client advisory segments Banking Liechtenstein & Regional Markets and Private Banking International.

Chief Financial Officer Fredy Vogt is in charge of the Corporate Center of VP Bank Group. The service units are combined in Wealth Management Solutions & Services, headed by Juerg W. Sturzenegger.



Parent Bank

Segment	Area	Head
Board of Directors	Group Internal Audit	Nikolaus Blöchlinger
Chief Executive Officer & Head of Markets	Chief of Staff	Armin Lauer
Chief Financial Officer	Group Finance & Risk Group Legal Services & Compliance Investment Controlling Group Communications & Marketing Group Human Resources Management	Siegbert Näscher Thomas Ritter Willi Wüthrich Tanja Muster-Gartmann Dr. Karl Walch
Banking Liechtenstein & Regional Markets	Private Banking Clients Liechtenstein Private Banking Clients Western Europe Commercial Banking Clients Intermediaries Liechtenstein & Switzerland	Werner Wessner Martin Engler Rolf Jermann Günther Kaufmann
Wealth Management Solutions & Services	Group Information Technology Group Operations Logistics & Security Wealth Management Solutions	Dr. Andreas Benz Andreas Zimmerli Lorenz Kindle Tobias Kaeser

Subsidiaries with bank status

Company	Country	City	Head
Verwaltungs- und Privat-Bank Aktiengesellschaft	Liechtenstein	Vaduz	Roger H. Hartmann, Fredy Vogt, Juerg W. Sturzenegger
VP Bank (Schweiz) AG	Switzerland	Zurich	Katharina Vogt-Schädler, Jürg Moll, Marc Wallach, Tobias Kaeser
VP Bank (Luxembourg) S.A.	Luxembourg	Luxembourg	Yves de Vos, Paul Harr, Marco Predetti
VP Bank (BVI) Limited	British Virgin Islands	Tortola	Dr. Peter Reichenstein
VP Bank (Singapore) Ltd.	Singapore	Singapore	Reto Isenring

Asset management companies

Company	Country	City	Head
VP Vermögensverwaltung GmbH	Germany	Munich	Willi Heigl
VP Wealth Management (Hong Kong) Ltd.	China	Hong Kong	Clare Lam

Fund management companies

Company	Country	City	Head
IFOS Internationale Fonds Service Aktiengesellschaft	Liechtenstein	Vaduz	Alexander Boss, Natalie Flatz
VPB Finance S.A.	Luxembourg	Luxembourg	Romain Moebus, Rolf Diderrich, Jos Wautraets
ATU Fund Administrators (BVI) Limited	British Virgin Islands	Tortola	Dr. Peter Reichenstein

Trust companies

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

Representative office

Company	Country	City	Head
VP Bank (Switzerland) Limited Moscow Representative Office	Russia	Moscow	Walter Moretti
Verwaltungs- und Privat-Bank Aktiengesellschaft Hong Kong Representative Office	China	Hong Kong	Clare Lam

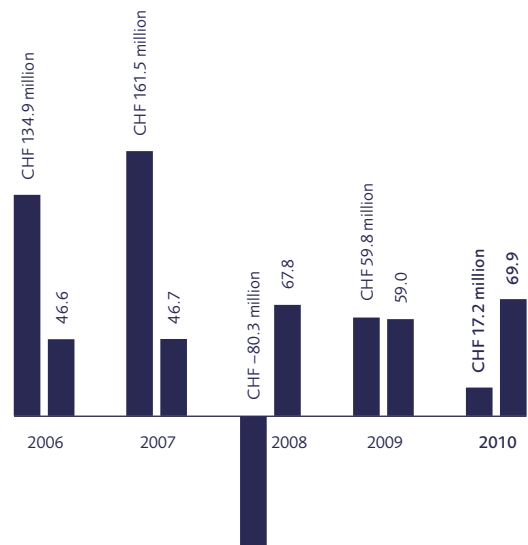
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Consolidated Annual Report of VP Bank Group

Consolidated results

The consolidated financial statements for 2010 of VP Bank Group, prepared in accordance with International Financial Reporting Standards (IFRS), disclose Group net income of CHF 17.2 million. In comparison with the prior year in which the Group generated net income of CHF 59.8 million, this represents a reduction of 71.2 percent. The unstable market environment, the strength of the Swiss franc and the historically low level of interest rates have contributed significantly to the decline in revenues. Despite the implementation of a new organizational structure and the intensification of market-development activities, costs were reduced to a certain degree. Within the spirit of a long-term dividend policy, the Board of Directors will propose to the annual general meeting of shareholders of April 29, 2011, an unchanged dividend of CHF 3.50 and CHF 0.35 for each bearer share and registered share, respectively.



Consolidated net income (in CHF) combined with cost/income ratio (in percent)

Medium-term goals

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

- net inflow of new client assets of an average of 5 percent per annum
- a cost/income ratio of 65 percent
- a tier 1 capital ratio of 16 percent

During 2010, after two difficult years, VP Bank Group has turned a page in the development of new client assets. Because of intensified market-development activities, the Group experienced a net inflow of CHF 0.4 billion in the second half of 2010. For the whole year, the net inflow of new client assets amounted to CHF 0.1 billion (prior year: outflow of CHF 1.1 billion). During 2010, the cost/income ratio stood at 69.9 percent. The improvement over the prior year's level of 59.0 percent is due to the trend of earnings. The positive development of costs of recent years could be pursued; in 2010, costs declined by a

further CHF 5.6 million or 3.0 percent. VP Bank Group is well capitalized with a tier 1 capital ratio of 19.0 percent. The medium-term objective of 16 percent, which is far in excess of the legally prescribed level, was exceeded in 2010. The future regulatory framework, Basel III, will impose stricter capital-adequacy and liquidity requirements on credit institutions. Even after the introduction of Basel III, VP Bank Group, which possesses a robust core capital (tier 1), will continue to have a tier 1 capital ratio that reflects a high measure of stability and security.

Business segments

As of September 1, 2010, a new organizational structure was implemented within VP Bank Group. VP Bank Group is now or-

ganized into four business segments: Banking Liechtenstein & Regional Markets, Private Banking International, Wealth Management Solutions & Services, as well as the Corporate Center. Segment reporting was restated retroactively.

Banking Liechtenstein & Regional Markets

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

The low interest-rate level and high competitive pressures negatively impacted revenues. In 2010, operating expenses in this division fell, but this was insufficient to fully offset the decline in income. Total operating income retreated by 11.1 percent to CHF 139.0 million (prior year: CHF 156.2 million). Operating expenses declined by 2.4 percent to CHF 57.3 million (prior year: CHF 58.7 million). Pre-tax results fell year-on-year by 20.1 percent, from CHF 87.0 million to CHF 69.5 million. As in the prior year, the division reported an outflow of net client assets. As of December 31, 2010, this outflow stood at CHF 1.0 billion and thus was less than the comparative prior-year amount of CHF 1.6 billion. Client assets under management amounted to CHF 18.8 billion as of December 31, 2010 (prior year: CHF 20.7 billion). The headcount increased from 158.6 to 164.0 positions.

Private Banking International

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

Market developments and general investor insecurity weighed negatively on the income side. Total operating income fell by 8.6 percent to CHF 65.3 million (prior year: CHF 71.4 million). Operating expenses declined by 8.0 percent to CHF 48.9 million (prior year: CHF 53.1 million). Pre-tax results in 2010 were CHF 7.2 million (prior year: CHF 13.0 million). Net inflows of client assets under management developed very positively: as a result of intensive marketing activities, the division was able to gain new client assets under management primarily in the second half of the year. For the whole of 2010, the net inflow of new client assets aggregated CHF 0.9 billion (prior year: CHF 0.8 billion). As of December 31, 2010, client assets totaled CHF 7.7 billion (prior year: CHF 7.3 billion). The headcount increased from 190.9 to 201.9 positions.

Wealth Management Solutions & Services

The Wealth Management Solutions & Services business segment comprises the Wealth Management Solutions, Information Technology, Operations as well as Logistics & Security units of the entire VP Bank Group.

Total operating income retreated by 9.2 percent to CHF 7.2 million (prior year: CHF 7.9 million). Operating expenses grew by 3.1 percent to CHF 26.0 million (prior year: CHF 25.2 million). Pre-tax results in 2010 were minus CHF 48.6 million, following minus CHF 46.5 million in the prior year. The headcount declined from 254.6 to 248.7 positions.

Corporate Center

Corporate Center encompasses the Group Finance & Risk, Group Legal Services & Compliance, Investment Controlling, Group Human Resources Management and Group Communications & Marketing units. 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.

As a result of the reduction in interest income and in income from securities, total operating income fell by 42.1 percent to CHF 45.3 million (prior year: CHF 78.2 million). Operating expenses declined marginally from CHF 48.0 million to CHF 47.4 million. Pre-tax results amounted to minus CHF 9.0 million in contrast to the prior-year results of CHF 18.9 million. The headcount fell from 116.1 to 112.6 positions.

Client assets under management

As at the end of 2010, client assets under management of VP Bank Group totaled CHF 28.2 billion. Compared to the prior-year total of CHF 29.5 billion, this represents a reduction of 4.5 percent. As a result of increased market development activities, VP Bank Group succeeded, primarily in the second half of 2010, in increasing the net inflow of new client assets under management. In total, VP Bank Group experienced inflows of client assets totaling CHF 0.1 billion (prior year: outflow of CHF 1.1 billion). The performance-related decline in portfolio values amounted to CHF 1.4 billion. In the prior year, the positive developments in the markets produced an increase of CHF 2.1 billion. Custody assets remained constant during 2010, aggregating CHF 12.6 billion at the end of 2010 (prior year: CHF 12.3 billion). Total client assets including custody assets as of December 31, 2010, amounted to CHF 40.8 billion (prior year: CHF 41.8 billion).

Income statement

Total operating income

Year-on-year, total operating income declined by 18.2 percent: from CHF 313.8 million to CHF 256.8 million. Income from the interest-differential business fell by 34.8 percent to CHF 78.9 million as a consequence of the ongoing low level of interest rates. Above all, the continuing decline of market interest rates in 2010 took its toll on revenues. Despite a volatile market environment pervaded by uncertainty, commission and service income improved by 1.5 percent to CHF 125.4 million. The individual components thereof showed the following trends: income from asset management and investment: plus 12.1 percent; brokerage income: minus 8.5 percent; custodian fees: minus 1.7 percent; investment fund management: plus 10.3 percent. The results of trading developed in a positive manner: trading on behalf of clients increased by 8.3 percent to CHF 24.9 million. Proprietary trading reported gains of CHF 20.9 million (prior year: losses of CHF 5.4 million) as a result of currency hedges. Other income in 2010 fell markedly to CHF 6.7 million. Whereas the Group's own investments had yielded gains of CHF 36.5 million in the prior year, they totaled minus CHF 5.4 million in 2010.

Money market

Interest – 3 months	12/31/2010	12/31/2009	Δ Prior year
Swiss-franc LIBOR	0.17%	0.25%	–8 BP
Euribor	0.94%	0.66%	+28 BP
Dollar LIBOR	0.30%	0.25%	+5 BP
Yen LIBOR	0.19%	0.28%	–9 BP

Capital market

Benchmark bonds – 10 years	12/31/2010	12/31/2009	Δ Prior year
Switzerland	1.59%	1.92%	–33 BP
Germany	2.89%	3.39%	–50 BP
USA	3.31%	3.84%	–53 BP
Japan	1.12%	1.28%	–16 BP

Forex rates

Exchange rates	12/31/2010	12/31/2009	Δ Prior year
EUR	1.2475	1.4850	–16.0%
USD	0.9400	1.0375	–9.4%
JPY	1.1542	1.1220	2.9%
GBP	1.4489	1.6600	–12.7%

Operating expenses

Operating expenses fell year-on-year by 3.0 percent to CHF 179.5 million. At the end of 2010, VP Bank Group had 727.2 employees, expressed as full-time equivalents, which equates a slight increase in headcount of 1.0 percent. The average number of employees during 2010 was 721.0 employees (prior year: 756.0 employees). Personnel expense fell by 1.8 percent to CHF 121.8 million. Strict cost management was also reflected in the area of general and administrative expenses: these fell by 5.4 percent to CHF 57.7 million.

IT-related costs increased year-on-year by 6.0 percent because of the migration to the new Avaloq banking software. Savings were achieved in professional fees and information procurement costs.

Depreciation and amortization, valuation allowances, provisions and losses

Depreciation and amortization was 4.4 percent less than the prior year's level and stood at CHF 38.7 million. Credit provisions reflecting the difficult economic situation increased. Valuation allowances, provisions and losses aggregated CHF 19.4 million.

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

After deducting minority interests, a Group net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft of CHF 15.1 million remained (prior year: CHF 57.4 million). Group net income per bearer share fell by CHF 7.35 to CHF 2.62.

Balance sheet

Total assets fell year-on-year by 8.9 percent to CHF 10.6 billion. On the liabilities' side, client deposits declined from CHF 10.0 billion to CHF 8.7 billion. In May 2010, Verwaltungs- und Privat-Bank Aktiengesellschaft issued debentures for a total of CHF 0.2 billion bearing interest at 2.5 percent with a term of six years. This borrowing serves to diversify refinancing. On the assets' side, principally the volume of money market paper and bank deposits declined. In aggregate, these positions fell by 14.6 percent to CHF 6.1 billion. Loans to clients rose by 7.9 percent to CHF 3.3 billion. At the end of 2010, consolidated shareholders' equity aggregated CHF 0.9 billion. The equity attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft also amounted to CHF 0.9 billion. The tier 1 capital ratio as of December 31, 2010, was 19.0 percent (prior year: 17.1 percent).

Consolidated Income Statement

in CHF 1,000	2010	2009	Variance absolute	Variance in %
Interest income	125,566	205,882	-80,316	-39.0
Interest expenses	46,639	84,866	-38,227	-45.0
Total income from interest-differential business	78,927	121,016	-42,089	-34.8
Commission income	169,341	166,144	3,197	1.9
Commission expenses	43,916	42,623	1,293	3.0
Total income from commission business and services	125,425	123,521	1,904	1.5
Income from trading activities	45,769	17,565	28,204	160.6
Other income	6,665	51,746	-45,081	-87.1
Total net operating income	256,786	313,848	-57,062	-18.2
Personnel expenses	121,797	124,067	-2,270	-1.8
General and administrative expenses	57,728	61,029	-3,301	-5.4
Operating expenses	179,525	185,096	-5,571	-3.0
Gross income	77,261	128,752	-51,491	-40.0
Depreciation and amortization	38,730	40,493	-1,763	-4.4
Valuation allowances, provisions and losses	19,379	15,869	3,510	22.1
Income before income tax	19,152	72,390	-53,238	-73.5
Taxes on income	1,940	12,563	-10,623	-84.6
Net income	17,212	59,827	-42,615	-71.2
Net income attributable to minority interests	2,128	2,416	-288	-11.9
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz	15,084	57,411	-42,327	-73.7
Undiluted consolidated earnings per share of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz				
Net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft (in CHF 1,000)	15,084	57,411		
Weighted average number of bearer shares	5,163,237	5,158,256		
Weighted average number of registered shares	5,982,787	5,993,021		
Total weighted average number of bearer shares	5,761,516	5,757,559		
Undiluted net income per bearer share	2.62	9.97		
Undiluted net income per registered share	0.26	1.00		
Fully-diluted consolidated earnings per share of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz				
Adjusted net income attributable to the shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz (in CHF 1,000)	15,084	57,411		
Number of shares used to compute the fully-diluted consolidated income	5,761,516	5,757,559		
Fully-diluted consolidated income per bearer share	2.62	9.97		
Fully-diluted consolidated income per registered share	0.26	1.00		

Consolidated Statement of Comprehensive Income

in CHF 1,000	2010	2009	Variance absolute	Variance in %
Consolidated net income	17,212	59,827	-42,615	-71.2
Financial instruments available for sale				
• Reclassifying adjustments recorded in Income Statement	-7,020	12,509	-19,529	-156.1
• Net change in unrealized gains	676	30,181	-29,505	-97.8
Total financial instruments available for sale	-6,344	42,690	-49,034	-114.9
Foreign-currency translation differences	-6,586	-775	-5,811	n.a.
Other comprehensive income for the period recognized directly in equity (net-of-tax)	-12,930	41,915	-54,845	-130.8
Total comprehensive income for the period (net-of-tax)	4,282	101,742	-97,460	-95.8
Attributable to minority shareholders	302	1,893	-1,591	-84.0
Attributable to shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	3,980	99,849	-95,869	-96.0

Consolidated Balance Sheet

Assets

in CHF 1,000	12/31/2010	12/31/2009	Variance absolute	Variance in %
Cash and cash equivalents	130,548	267,666	-137,118	-51.2
Receivables arising from money-market paper	439,767	777,654	-337,887	-43.4
Due from banks	5,622,808	6,319,844	-697,036	-11.0
Due from customers	3,266,872	3,026,639	240,233	7.9
Trading portfolios	4,011	2,105	1,906	90.5
Derivative financial instruments	63,322	42,355	20,967	49.5
Financial instruments designated at fair value	108,221	156,820	-48,599	-31.0
Financial instruments available for sale	685,604	728,945	-43,341	-5.9
Associated companies	34	48	-14	-29.2
Property and equipment	135,791	146,636	-10,845	-7.4
Goodwill and other intangible assets	85,636	103,699	-18,063	-17.4
Taxes receivable	392	447	-55	-12.3
Deferred tax assets	6,338	3,448	2,890	83.8
Accrued receivables and prepaid expenses	28,398	31,222	-2,824	-9.0
Other assets	13,805	19,883	-6,078	-30.6
Total assets	10,591,547	11,627,411	-1,035,864	-8.9

Liabilities and shareholders' equity

in CHF 1,000	12/31/2010	12/31/2009	Variance absolute	Variance in %
Due to banks	189,117	71,998	117,119	162.7
Due to customers – savings and deposits	954,218	969,267	-15,049	-1.6
Due to customers – other liabilities	7,753,020	9,024,384	-1,271,364	-14.1
Derivative financial instruments	70,034	44,048	25,986	59.0
Medium-term notes	183,334	199,637	-16,303	-8.2
Debenture issue	446,798	248,486	198,312	79.8
Tax liabilities	5,782	4,687	1,095	23.4
Deferred tax liabilities	8,512	7,830	682	8.7
Accrued liabilities and deferred items	28,834	33,569	-4,735	-14.1
Other liabilities	33,056	89,784	-56,728	-63.2
Provisions	3,214	1,803	1,411	78.3
Total liabilities	9,675,919	10,695,493	-1,019,574	-9.5
Share capital	59,148	59,148	0	0.0
Less: treasury shares	-38,465	-38,302	-163	-0.4
Capital reserves	-5,323	-6,093	770	12.6
Income reserves	902,648	907,755	-5,107	-0.6
IAS 39 reserves	-5,841	503	-6,344	n.a.
Foreign-currency translation differences	-14,382	-9,622	-4,760	-49.5
Shareholders' equity attributable to shareholders of Verwaltungs- und Privat-Bank Aktiengesellschaft, Vaduz	897,785	913,389	-15,604	-1.7
Minority interests	17,843	18,529	-686	-3.7
Total shareholders' equity	915,628	931,918	-16,290	-1.7
Total liabilities and shareholders' equity	10,591,547	11,627,411	-1,035,864	-8.9

Consolidated Changes in Shareholders' Equity

in CHF 1,000	Share capital	Treasury shares	Capital reserves	Income reserves
Total shareholders' equity 01/01/2009	59,148	-38,521	-6,045	865,131
Unrealized gains and losses on available-for-sale financial instruments				
• gains/losses transferred to income statement				
• change in unrealized gains and losses (net of tax)				
Foreign-currency translation differences				
Consolidated net income				57,411
Total reported result 12/31/2009	0	0	0	57,411
Dividend 2008				-14,787
Management equity-participation plan (LTI)			-157	
Change in treasury shares		219	109	
Total shareholders' equity 12/31/2009	59,148	-38,302	-6,093	907,755
Total shareholders' equity 01/01/2010	59,148	-38,302	-6,093	907,755
Unrealized gains and losses on available-for-sale financial instruments				
• gains/losses transferred to income statement				
• change in unrealized gains and losses (net of tax)				
Foreign-currency translation differences				
Consolidated net income				15,084
Total reported result 12/31/2010	0	0	0	15,084
Dividend 2009				-20,191
Management equity-participation plan (LTI)			1,264	
Change in treasury shares		-163	-494	
Total shareholders' equity 12/31/2010	59,148	-38,465	-5,323	902,648

Consolidated Changes in Shareholders' Equity (continued)

Reserves financial instruments IAS 39	Foreign- currency translation differences	Equity of shareholders of Verwaltungs- und Privat-Bank AG, Vaduz	Minority interests	Total shareholders' capital
-42,187	-9,370	828,156	17,330	845,486
12,509		12,509		12,509
30,181		30,181		30,181
	-252	-252	-523	-775
		57,411	2,416	59,827
42,690	-252	99,849	1,893	101,742
		-14,787	-694	-15,481
		-157		-157
		328		328
503	-9,622	913,389	18,529	931,918
503	-9,622	913,389	18,529	931,918
-7,020		-7,020		-7,020
676		676		676
	-4,760	-4,760	-1,826	-6,586
		15,084	2,128	17,212
-6,344	-4,760	3,980	302	4,282
		-20,191	-988	-21,179
		1,264		1,264
		-657		-657
-5,841	-14,382	897,785	17,843	915,628

Consolidated Statement of Cash Flows

in CHF 1,000	2010	2009
Cash flow from operating activities		
Group net income	15,084	57,411
Share of minority interests in Group net income	2,128	2,416
Depreciation and amortization	38,730	40,493
Write-off for value impairment on financial instruments available for sale	0	503
Reduction/increase in retirement pension provisions	-139	1,468
Increase/release in provisions	8,477	-58,616
Unrealized gains and losses on trading portfolios	-946	-284
Unrealized gains and losses on financial instruments designated at fair value	-3,738	-6,803
Unrealized gains and losses on financial instruments available for sale	30,375	2,831
Deferred income taxes	-2,245	9,192
Tax on income paid, interest received less interest paid and dividends received	-83,428	-124,346
Subtotal	4,298	-75,735
Changes in assets and liabilities in connection with operating business activities, after adjustment for non-cash-related transactions:		
Due from/to banks, net	823,337	861,727
Trading portfolios, including replacement values, net	3,796	-3,432
Interest received from interest-differential business	109,592	192,401
Interest received from trading portfolio interests	130	66
Dividends received from trading portfolio interests	6	3
Interest received on financial instruments designated at fair value	1,707	4,592
Dividends received on financial instruments designated at fair value	74	4
Interest received on financial instruments available for sale	14,232	23,292
Dividends received on financial instruments available for sale	2,522	2,044
Due from/to customers	-1,532,346	333,485
Foreign-exchange impact on intra-group payments	-12,116	-3,229
Accrued receivables, prepaid expenses and other assets	5,013	-10,987
Accrued liabilities and other liabilities	-61,303	30,136
Interest paid in connection with interest-differential business	-43,795	-96,846
Taxes on income paid	-1,040	-1,210
Net cash flow from operating activities	-685,893	1,256,311

Consolidated Statement of Cash Flows (continued)

in CHF 1,000	2010	2009
Cash flow from investment activities		
Net decrease in financial instruments designated at fair value	56,402	60,091
Net decrease/increase in financial instruments available for sale	22,923	-53,222
Acquisition of property and equipment and intangible asset	-11,905	-40,667
Cash flow from financing activities	67,420	-33,798
Net increase in treasury shares		
Net decrease/increase in treasury shares	-657	328
Dividends paid	-20,192	-14,787
Redemption/issue of medium-term notes	-16,303	-156,599
Issuance of debenture	198,312	0
Dividend payments to minority shareholders	-988	-694
Net cash flow from financing activities	160,172	-171,752
Impact of foreign-currency translation (including minority interests)	-7,430	-6,122
Net decrease/increase in cash and cash equivalents	-465,731	1,044,639
Cash and cash equivalents at the beginning of the financial year	2,050,556	1,005,917
Cash and cash equivalents at the end of the financial year	1,584,825	2,050,556
Net decrease/increase in cash and cash equivalents	-465,731	1,044,639
Cash and cash equivalents are represented by		
Cash	130,548	267,666
Receivables arising from money-market paper	439,767	777,654
Due from banks – at-sight balances	1,014,510	1,005,236
Total cash and cash equivalents	1,584,825	2,050,556

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 1,584.8 million (2009: CHF 2,050.6 million).

Consolidated Off-Balance-Sheet Transactions

in CHF 1,000	12/31/2010	12/31/2009
Contingent liabilities		
Credit guarantees and similar	3,995	3,489
Performance guarantees and similar	94,595	112,368
Irrevocable commitments	0	0
Other contingent liabilities	0	0
Total contingent liabilities	98,590	115,851
Credit risks		
Irrevocable facilities granted	22,079	17,616
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	22,079	17,616
Fiduciary transactions		
Fiduciary deposits ¹	1,937,560	2,616,093
Fiduciary loans	8,787	8,393
Other fiduciary financial transactions	0	0
Total fiduciary transactions	1,946,347	2,624,486

¹ Placements with banks which Group companies made with non-consolidated Group companies in their own name.

Maturity structure

in CHF 1,000	At sight	1 year	1 to 5 years	over 5 years	Total
12/31/2010					
Contingent liabilities	27,965	59,210	8,050	3,365	98,590
Credit risks	5,380	16,699			22,079
12/31/2009					
Contingent liabilities	31,117	68,284	12,677	3,773	115,851
Credit risks	6,963	9,874	779		17,616

Securities lending and repurchase and reverse-repurchase transactions with securities

in CHF 1,000	12/31/2010	12/31/2009
Amounts receivable arising from cash deposits in connection with securities borrowing and reverse-repurchase transactions	0	0
Amounts payable arising from cash deposits in connection with securities lending and repurchase transactions	0	0
Securities lent out within the scope of securities lending or delivered as collateral within the scope of securities borrowing activities, as well as securities in own portfolio transferred within the framework of repurchase transactions	584,955	350,881
• of which securities where the unlimited right to sell on or pledge has been granted	407,843	249,045
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	744,663	494,742
• of which securities which have been resold or repledged	299,422	228,117

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.

The VP Bank Group

Verwaltungs- und Privat-Bank Aktiengesellschaft is a bank domiciled in Liechtenstein and is subject to the Liechtenstein Financial Market Authority (FMA), Heiligkreuz 8, P.O. Box 279, LI-9490 Vaduz, www.fma-li.li.

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at banking market via its correspondent-bank network.
Bank collaborated with firms such as the European branch
operations in the international financial centers until 1988. In
in early September 1986, the bank's international advisory
by home-country bank supervisory authorities. As a bank
in the Grand Dudy. Surprisingly, VP Bank's board of directors
one in Luxembourg and the other in Switzerland. In order to
CHF 4 million. In 1989, the firm was converted into a bank.
business opportunities for foreign companies situated in
Switzerland Ltd. After the founding of these two subsidiary
companies; the first were opened in 1991 and 1993 in Munich
changed circumstances - in addition to adjustments in the
1, 1995 - VP Bank and ASU have been evaluating various options
VP Bank and Trust Company (BVI) Ltd. as a joint venture,
frequently opened representative offices in Morocco and Hong
Kong. ASU was founded in Vaduz with an initial share
the new Investment Undertakings Act. Afterwards, VP Bank
for third parties (so-called "private label funds"). Additional
VP Bank Funds and private label funds totaling approx
succeeded former chairman Erich Seeger and became
the Bener Kantonalbank. In his place, Rolf Kormann was
adjustments in the banking industry. For that reason, management
the rationalization measures. After having grown in leaps and
that its strengths could be better exploited and its weaknesses minimized.
Equally spoken, it still wanted to rely on its firm local
array of "efficient services" and, on the other, by remaining
The bank's intention was to achieve the highest possible
of the Principality while becoming less dependent on those at
level. The key elements of the newly formulated strategy
The previously product-related matrix was replaced by a