GBB-Rating

A-u

stable

Rating Committee : 05/19/2021

VP Bank AG, Liechtenstein

Rating result

Strengths/Opportunities:

- Strong capitalization and stable shareholder structure
- Diversified business model
- Good reputation and high degree of prominence in its home market Liechtenstein
- Moderate risk profile with a low NPL ratio
- Sufficient funds for possible future acquisitions

Weaknesses/Threats:

- Possible market losses and valuation adjustments in the loan portfolio due to the effects of the Covid-19 pandemic
- Intensive competition within the private banking sector in Liechtenstein and Switzerland
- High margin pressure due to growing regulatory requirements, low interest rates and digitalization
- Potential further rising CIR as a result of growth-related costs
- Commission income and income from financial instruments dependent on stock market development

Financial data :

(in CHF 1,000)	2020	2019
Gross profit	318,074	327,220
Operating result	49,544	82,941
Net income/Net loss	41,622	73,543
Total assets	13,523,351	13,399,856
CET1 capital ratio	20.81 %	20.22 %
Total capital ratio	20.81 %	20.22 %
Leverage Ratio	7.1 %	7.1 %
LCR	179.4 %	213.0 %

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Based on the information available at the date of the rating, the creditworthiness of VP Bank Group, Vaduz, Liechtenstein (hereinafter referred to as "Bank", "Group" or "VP Bank") is evaluated as high. GBB-Rating confirms the unsolicited rating result of A-. As the Covid-19 pandemic has so far marginally affected the earnings situation, GBB-Rating changes the outlook from indeterminate to stable. In view of the further effects of the pandemic that cannot be finally assessed yet, the watch status is maintained.

The earnings development was limited due to the Covid-19 pandemic in 2020. In the past, occasional fluctuations in earnings could be absorbed by other segments and had no noticeable impact on earnings volatility. Besides the late recovery of the stock markets which did not take place until the second half of 2020 as well as the reduction of interests on EUR and USD that led to a cutback of margins on swaps, the bank's profitability was hit hard by the valuation adjustment of one individual loan of CHF 20 million in 03/2020. The decline in interest income, dividends and trading income could not be compensated by the slight increase in fee income. The cost base remained stable. Consequently, net income fell by 43 % to CHF 41.6 million. Although the ongoing Covid-19 pandemic could lead to further earnings reductions, this should not be material for the bank. As vaccinations continue to advance, further economic recovery can be expected. In summary, the bank's earnings position is adequate.

As a locally system-relevant institution, VP Bank has to maintain a total capital ratio of at least 12.5 %. It can be assumed that the bank will recognize capitalization needs in time and react appropriately. VP Bank is able to build up capital from its own resources due to its possibility of retaining profits and adjustments to its dividend policy. With a reported CET1 ratio of 20.8 % at year end, VP Bank continues to be comfortably capitalized.

Summary:

	Rating
Financial profile	adequate
- Earnings position	adequate
- Capital position	strong
Business profile	adequate
- Strategy and market	adequate
- Risk profile	adequate
- Capitalization potential	adequate

(strong > adequate > acceptable > deficient > problematic > insufficient)

Rating history:

Rating	Outlook	Date
A-u	**stable**	**05/19/2021**
A-u	indeterminate	07/24/2020
A-u	stable	03/26/2020
A-u	stable	05/16/2019
A-u	positive	05/16/2018

Rating scale:

Rating	Rating categories
AAA	highest financial standing
AA+ / AA / AA-	very high financial standing
A+ / A / A-	high financial standing
BBB+ / BBB / BBB-	good financial standing
BB+ / BB / BB-	satisfactory financial standing
B+ / B / B-	financial standing scarcely adequate
CCC+ / CCC / CCC-	financial standing no longer adequate
CC / C	inadequate financial standing
D	moratorium / insolvency proceedings

The strategic focus of VP Bank remains on the private banking for wealthy individuals and on the intermediaries business in Europe and Asia. In Liechtenstein, it additionally operates as a commercial and retail bank. In recent years, the Bank has increased its presence in Asia, but also widened its footprint in the Scandinavian market. With regard to the earnings situation, however, the European market remains of utmost importance.

In the reporting period the strategy 2020 came to an end. Due to the Covid-19 pandemic not all financial targets could be met. The strategy 2026 was launched and is based on the bank's national roots in Liechtenstein, its existing business segments and excellent networks as well as on investment sustainability. The transition to an extensive Wealth Management Service provider for high-worth clients is its overall objective. In general, the financial targets of the strategy 2026 are plausible albeit ambitious in the current economic environment. In order to strengthen its market position in the Scandinavian Market, VP Bank completed the takeover of the Private Banking Business of Öhman Bank S.A. in Luxemburg from the Swedish Öhman Group in 01/2021.

GBB-Rating assesses VP Bank's risk profile as adequate. As a consequence of the high valuation adjustment, the bank reorganized its credit department that finally led to staff changes at management and Board level. In general, the risk management seems to be improved by this reorganization. The NPL ratio remained low. Market risks are largely hedged by derivatives whereas customer loans are mostly backed by collateral. As the Covid-19 pandemic has been going on in 2021, the attention is further drawn to its possible impact in form of further valuation adjustments on the bank's risk profile. Based on the information available, the risk management is evaluated as appropriate and consistent with the business model and risk structure.

Rating drivers

A growth in interest, fee and trading income as well as valuation gains on the investment portfolio could stabilize the rating. Due to the ongoing pandemic, the need for further valuation adjustments on loans could have a negative impact on the rating. A worsening of the current economic situation could have negative consequences for the earning development of the bank as well.

Appendix

Assets – selected data (Tsd. CHF)	**12/31/2020**	**12/31/2019**	**12/31/2018**
Cash and cash equivalents	2,592,706	2,909,935	2,521,276
Due from banks[1]	1,900,486	857,982	838,514
Due from customers	6,281,529	6,797,316	6,196,326
Trading portfolios	290	199	123
Derivative financial instruments	79,491	72,513	42,164
Financial instruments at fair value	182,936	215,690	232,263
Financial instruments measured at amortized cost	2,201,303	2,302,477	2,389,521
Associated companies	25	28	30
Property and equipment	108,156	115,368	87,819
Goodwill	17,593	17,593	10,810
Other intangible assets	49,086	44,596	40,644
Tax assets	10,332	10,821	16,988
Other assets	99,418	55,338	51,702
Total assets	**13,523,351**	**13,399,856**	**12,428,180**

Liabilities and shareholders' equity – selected data (Tsd. CHF)	**12/31/2020**	**12/31/2019**	**12/31/2018**
Liabilities due to banks	250,426	401,844	433,793
Liabilities due to customers	11,511,655	11,137,534	10,334,883
Derivative financial instruments	104,371	94,625	59,374
Medium-term notes	76,148	177,493	240,616
Debentures issued	355,205	355,327	200,474
Provisions	812	942	1,209
Tax liabilities[2]	12,349	6,286	7,041
Other liabilities	187,328	193,760	169,210
Equity	1,025,057	1,032,045	981,580
Share capital and share premium[3]	5,083	-1,850	347
Capital reserve	23,377	26,772	28,419
Retained earnings	1,107,739	1,043,893	994,582
Revaluation reserve	-53,283	-36,770	-41,768
Total liabilities and equity	**13,523,351**	**13,399,856**	**12,428,180**

[1] Including receivables arising from money market papers
[2] 2017 figures restated by VP Bank
[3] Excluding treasury shares

Income statement (Tsd. CHF)	**2020**	**2019**	**2018**
Net interest income	113,565	115,098	110,910
Net fee and commission income	139,980	137,166	124,272
Income from financial instruments and trading activities	64,532	75,259	53,405
Income from joint venture companies	-3	-2	-3
Other net operating income	573	-301	2,958
Adjusted gross profit	**318,647**	**327,220**	**291,542**
Administration costs	-220,981	-221,689	-220,553
Depreciation	-28,763	-29,343	-25,117
Provisions for credit risks	-19,359	6,753	12,659
Gross result at year-end	**49,544**	**82,941**	**58,531**
Income tax	-7,922	-9,398	-3,814
Net income	**41,622**	**73,543**	**54,717**

Operational/market price risk cluster	**2020**	**2019**	**2018**
Gross profitability 1 Adjusted gross profit / Average total risk exposure amount	6.70%	7.00%	6,78%
Net profitability 1 Operating result after provisions for cr and val. adjustments / Average total risk exposure amount	1.04%	1.77%	1.41%
Net profitability 2 Operating result after provisions for credit risks and valuation adjustments / Average total assets	0.37%	0.64%	0.46%
Return on equity 1 Operating result after provisions for cr and val. adjustments / Average adjusted equity	4.63%	7.93%	5.71%
Return on equity 2 Gross annual profit / Average adjusted equity	4.63%	7.93%	5.71%
Cost income ratio 1 Administration costs and provisions for credit risks / Gross profit	84.60%	74.58%	75,61%
Cost income ratio 2 Administration costs / Adjusted gross profit	78.38%	76.72%	87,21%

Financial data (Tsd. CHF)	**2020**	**2019**	**2018**
Gross profit	318,074	327,521	295,175
Adjusted gross profit	318,647	327,220	291,542
Administration costs	-249,744	-251,032	-245,670
Administration costs and provisions for credit risks	-269,103	-244,279	-233,011
Operating result after provisions for credit risks and valuation adjustments	49,544	82,941	58,531
Gross annual profit	49,544	82,941	58,531
Average total risk exposure amount	4,758,670	4,676,089	4,154,867
Average total assets	13,461,604	12,914,018	12,603,125
Average adjusted equity	1,070,696	1,046,082	1,024,648

Indicators of sustained capital position	**12/31/2020**	**12/31/2019**	**12/31/2018**
Total capital ratio Own funds / Total risk exposure amount	20.81%	20.22%	20.90%
Tier 1 capital ratio Tier 1 capital / Total risk exposure amount	20.81%	20.22%	20.90%
Common equity Tier 1 ratio Common Equity Tier 1 capital / Total risk exposure amount	20.81%	20.22%	20.90%

Financial data (Tsd. CHF)	**12/31/2020**	**12/31/2019**	**12/31/2018**
Own funds	972,754	978,962	942,783
Tier 1 capital	972,754	978,962	942,783
Common Equity Tier 1 capital	972,754	978,962	942,783
Total risk exposure amount	4,675,481	4,841,859	4,510,319

Regulatory disclosure requirements

Name and function of the analysts:

- Volker Stein, Lead Rating Analyst, Senior Analyst, GBB-Rating, Cologne
- Philipp Krohs, Rating Analyst, Head of Department, GBB-Rating, Cologne

Company address:

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Members of the Rating Committee:

- Martin Anspach, Manager, GBB-Rating, Cologne
- Stefan Groos, Senior Manager, GBB-Rating, Cologne
- Volker Jindra, Senior Manager, GBB-Rating, Cologne

Date	Rating Committee	Notification	Issue
First rating	07/14/2016	07/15/2016	07/29/2016
Current rating	05/19/2021	05/25/2021	

Validity:

- Rating: 12 months
- Outlook: 24 months

Subsequent rating changes after notification to the rated entity:

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Major sources of information for the rating:

- Annual report as at 12/31/2020
- Publicly available information

Statement about the quality of information available (including potential restrictions):

- The quality and extent of information (interviews and documents) were suitable to obtain a comprehensive picture of the bank and to assign an objective, transparent and professional credit rating

Rating type:

- Unsolicited credit rating
- Without rated entity or related third party participation
- Without access to internal documents
- Without access to management

Applicable rating methodology and release:

- Methodology for Rating 3.0.04 Banks – operational/market price risk (OR/MPR)
- https://gbb-rating.eu/en/ratings/methodik/Seiten/default.aspx

Meaning of the rating category:

- https://gbb-rating.eu/en/ratings/ratingskala/Seiten/default.aspx

Business relationship:

- Besides the rating mandate there is no further business relationship

Legal remarks

Since 28 July 2011 GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH has been registered with the European Securities and Markets Authority (ESMA) as a European rating agency and therefore complies with the applicable regulatory require-ments of the European supervisory authorities for a European rating agency.

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Future events are uncertain. Ratings are based on predictions of these and thus inevitably rely upon estimates. Therefore they solely represent statements of opinion rather than statements of fact or investment advice.

Credit ratings are performed with proficiency and due professional care. Ratings are based on the data and information provided by the applicant. This information is used in reaching an opinion about the future viability as well as the strengths and weaknesses of the rated company as of the date of rating issuance.

GBB-Rating puts focus on sustainability and is a signatory of the UN Global Compact since 2018. We support the 10 principles of the UN Global Compact relating to human rights, labor standards, the environment and anti-corruption.

