A-u indeterminate

Rating Committee: 07/24/2020

VP Bank AG, Liechtenstein

Rating result

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-. Due to the effects of the Covid-19 pandemic on the stability of the financial market in general and the economic effects on your institution in particular, which cannot yet be finally assessed, GBB-Rating, changes the outlook from stable to indeterminate.

Given the favorable capital market environment in 2019, an expanding lending business and a rising commission and fee income, Group net income increased by 34 % to CHF 73.5 million. The bank achieved further inflow of net new money in particular through further acquisitions and additional hiring of client advisors, thus laying the foundation for future income growth. All international sites contributed to this development. Due to its strict discipline, the administration cost base remained nearly flat. In 2020 the bank had to make a valuation adjustment to one individual position of approximately CHF 20 million due to the effects of the Covid-19 pandemic. As a consequence, the bank reorganized its credit department that finally led to staff changes at management and Board level. The CFO resigned and left the bank by mid-June 2020. In addition, the VP Bank Luxembourg S.A.´s Board of Management will be reorganized, as well; the subsidiary's CEO asked to resign prior to his planned discharge in November 2020 in order to ease the way for the desired reorganization.

As a local system-relevant institution, VP Bank has to maintain a total capital ratio of at least 13.0 %. With a reported CET1 ratio of 20.2 % at year end, VP Bank continues to be comfortably capitalized and easily exceeds regulatory requirements.

The strategic focus of VP Bank lies on private banking for wealthy individuals and on the intermediaries business in Europe and Asia. VP Bank also has its own international fund competency centre. 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 overriding importance. In 2019 the client advisory program came

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:

- Market losses and valuation adjustments in the loan portfollio 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)	2019	2018
Gross profit	327,220	291,542
Operating result	82,941	58,531
Net income	73,543	54,717
Total assets	13,399,856	12,428,180
CET1 capital ratio	20.22 %	20.90 %
Total capital ratio	20.22 %	20.90 %
Leverage Ratio	7.1 %	7.3 %
LCR	213 %	143 %

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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	**indeterminate**	**07/24/2020**
A-u	stable	03/26/2020
A-u	stable	05/16/2019
A-u	positive	05/16/2018
A- u	stable	06/14/2017

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

to an end but VP Bank intends to continue its initiatives in line with the strategy 2025 plan. Following former acquisitions, the bank closed the transaction with Catella Bank in 2019. Furthermore, in July 2020 the bank arranged with the Swedish Öhman Group for taking over the Private Banking Business of Öhman Bank S.A. in Luxemburg in order to expand its Nordics Business. With respect to the strategy 2020 VP Bank made further progress to reach the medium-term goals regarding the volume of client assets under management, the consolidated income and the cost/income ratio. Based on the current strategy 2020 VP Bank will start a new strategic cycle until 2025. The new strategy focuses on profitable growth, efficiency and cost discipline and new sources of income, the success will be evaluated by appropriate key performance indicators.

GBB-Rating assesses VP Bank's risk profile as adequate. The NPL ratio remained at its low level. Market risks are largely hedged by derivatives whereas customer loans are mostly backed by collateral. However, attention is drawn to the economic effects in connection with the spread of the Covid-19 pandemic and a possible deterioration in the 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

The health policy measures to reduce the spread of the corona virus (SARS-CoV-2) are associated with strong economic effects and a high degree of uncertainty about future economic developments worldwide.
It remains to be seen to what extent the ECB's and SNB’s measures to provide liquidity to credit institutions, the options discussed at EU level to stabilize the financial markets and the extensive package of measures by the Federal Government and other countries are sufficient to limit economic upheavals.
In this respect, an essential factor that could affect your rating result is an economic burden on VP Bank due to the possible deterioration of the economic situation as a result of the pandemic crisis.

Appendix

Assets – selected data (CHF Tsd1,000)	**12/31/2019**	**12/31/2018**	**12/31/2017**
Cash and cash equivalents	2,909,935	2,521,276	3,614,578
Due from banks[1]	857,982	838,514	912,899
Due from customers	6,797,316	6,196,326	5,647,578
Trading portfolios	199	123	135
Derivative financial instruments	72,513	42,164	29,457
Financial instruments at fair value	215,690	232,263	200,808
Financial instruments measured at amortized cost	2,302,477	2,389,521	2,171,837
Associated companies	28	30	33
Property and equipment	115,368	87,819	79,132
Goodwill	17,593	10,810	10,810
Other intangible assets	44,596	40,644	43,704
Tax assets	10,821	16,988	20,704
Other assets	55,338	51,702	46,395
Total Assets	**13,399,856**	**12,428,180**	**12,778,070**

Liabilities and shareholders' equity – selected data (CHF Tsd1,000)	**12/31/2019**	**12/31/2018**	**12/31/2017**
Liabilities due to banks	401,844	433,793	547,687
Liabilities due to customers	11,137,534	10,334,883	10,559,449
Derivative financial instruments	94,625	59,374	47,184
Medium-term notes	177,493	240,616	256,155
Debentures issued	355,327	200,474	200,597
Provisions	942	1,209	16,987
Tax liabilities[2]	6,286	7,041	12,514
Other liabilities	193,760	169,210	147,366
Equity	1,032,045	981,580	990,131
Capital reserve	26,772	28,419	24,181
Retained earnings	1,043,893	994,582	983,502
Revaluation reserve	-36,770	-41,768	-35,817
Total liabilities and equity	**13,399,856**	**12,428,180**	**12,778,070**

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

Income statement (CHF Tsd1,000)	**2019**	**2018**	**2017**
Net interest income	115,098	110,910	104,364
Net fee and commission income	137,166	124,272	123,876
Income from financial instruments and trading activities	75,257	53,402	70,255
Other net operating income	-301	2,958	-10,025
Adjusted gross profit	327,220	291,542	288,470
Administration costs	-221,689	-220,553	-192,588
Depreciation	-29,343	-25,117	-23,564
Provisions for credit risks	6,753	12,659	-1,976
Gross result at year-end	82,941	58,531	70,342
Income tax	-9,398	-3,814	-4,572
Net income	73,543	54,717	65,770

Operational/market price risk cluster	**2019**	**2018**	**2017**
Gross profitability 1 Adjusted gross profit / Average total risk exposure amount	7.00%	6.78%	7.98%
Net profitability 1 Operating result after provisions for cr and val. adjustments / Average total risk exposure amount	1.77%	1.41%	1.94%
Net profitability 2 Operating result after provisions for credit risks and valuation adjustments / Average total assets	0.64%	0.46%	0.57%
Return on equity 1 Operating result after provisions for cr and val. adjustments / Average adjusted equity	7.93%	5.71%	7.05%
Return on equity 2 Gross annual profit / Average adjusted equity	7.93%	5.71%	7.05%
Cost income ratio 1 Administration costs and provisions for credit risks / Gross profit	74.58%	75.61%	77.74%
Cost income ratio 2 Administration costs / Adjusted gross profit	76.72%	87.21%	74.54%

Financial data (CHF Tsd1,000)	**2019**	**2018**	**2017**
Gross profit	327,521	295,175	282,521
Adjusted gross profit	327,220	291,542	288,470
Administration costs	-251,032	-245,670	-216,152
Administration costs and provisions for credit risks	-244,279	-233,011	-218,128
Operating result after provisions for credit risks and valuation adjustments	82,941	58,531	70,342
Gross annual profit	82,941	58,531	70,342
Average total risk exposure amount	4,676,089	4,154,867	3,631,710
Average total assets	12,914,018	12,603,125	12,285,898
Average adjusted equity	1,046,082	1,024,648	997,476

Indicators of sustained capital position	**12/31/2019**	**12/31/2018**	**12/31/2017**
Total capital ratio Own funds / Total risk exposure amount	20.22%	20.90%	25.70%
Tier 1 capital ratio Tier 1 capital / Total risk exposure amount	20.22%	20.90%	25.70%
Common equity Tier 1 ratio Common Equity Tier 1 capital / Total risk exposure amount	20.22%	20.90%	25.70%

Financial data (CHF Tsd)	**12/31/2019**	**12/31/2018**	**12/31/2017**
Own funds	978,962	942,783	976,553
Tier 1 capital	978,962	942,783	976,553
Common Equity Tier 1 capital	978,962	942,783	976,553
Total risk exposure amount	4,841,859	4,510,319	3,799,413

GBB-Rating

Regulatory disclosure requirements

Name and function of the analysts:

- Volker Stein, Lead Rating Analyst, Senior Analyst, GBB-Rating, Cologne
- Angelika Komenda, Rating Analyst, Head of Department, GBB-Rating, Cologne

Company address:

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Members of the Rating Committee:

- Harald Erven, Manager, GBB-Rating Cologne
- Carlo Pflitsch, Junior Manager, GBB-Rating Cologne
- Thomas Sauter, Junior Manager, GBB-Rating Cologne

Date	Rating Committee	Notification	Issue
▪ First rating	07/14/2016	07/15/2016	07/29/2016
▪ Current rating	07/24/2020	07/27/2020	08/10/2020

Validity:

- Rating: 12 months
- Outlook: 24 months

Subsequent rating changes after notification to the rated entity:

- none

Major sources of information for the rating:

- Annual report as at 12/31/2019
- 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

Applicable rating methodology, rating type and release:

- Unsolicited rating
- Methodology for Rating 3.0.04 Banks – operational/market price risk (OR/MPR)
- GBB-Rating, Policy on Performing and Issuing Unsolicited Credit Ratings, 07-2019
- https://gbb-rating.eu/en/ratings/methodik/Pages/default.aspx

Meaning of the rating category:

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

Business relationship:

- Besides the rating mandate there is no further business relationship with the rated entity

Legal remarks

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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.

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