



A-u positive

Rating-Committee: May 16, 2018

VP Bank Group Rating result

Strengths/Opportunities:

- Strong capitalization, capital ratios at an outstanding level
- Moderate risk profile with a low NPL ratio
- Good market position in its home market Liechtenstein with an increasing importance of the Asian market
- Stable shareholder structure with long-term approach
- Sufficient funds for possible acquisitions in the future

Weaknesses/Threats:

- Intensive competition within the private banking industry in Liechtenstein and Switzerland
- High margin pressure due to growing regulatory requirements, low interest rates and digitalization
- Dependency of the commission income on the development in the stock market

Financial data:

Figures (CHF 1,000)	2017	2016
Adjusted gross profit	289,969	270,987
Operating result	70,342	61,049
Net income	65,770	57,986
Total assets	12,778,070	11,793,726
CET1 capital ratio	25.7%	27.1%
Total capital ratio	25.7%	27.1%

Analysts:

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Based on the information available, the creditworthiness of VP Bank Group, Vaduz, Liechtenstein (hereinafter referred to as "Bank", "Group" or "VP Bank") is unchanged evaluated as high. GBB-Rating confirms the unsolicited rating result of A-, but upgrades the outlook from stable to positive due to improved earnings ratios.

Driven by a CHF 18 million increase of the result from financial instruments, with net interest and commission income being slightly above last year's level, the Group was able to raise its adjusted gross profit by 7.0 % to CHF 290 million. While personnel expenses profited from a positive one-off effect, resulting from a change in the pension conversion rate, administration costs rose in total by CHF 5.6 million due to higher other administrative expenses. Overall, the Bank realized a net income of CHF 65.8 million, an improvement of 13.4 % compared to 2016.

With a Tier 1 capital ratio of 25.7 % as at the end of 2017, the capitalization of the Group remains on an excellent level.

VP Bank focuses on private banking and intermediaries businesses in Europe and Asia. In Liechtenstein, it additionally operates as a commercial and retail bank. The Group intends to increase its presence in Asia, yet the Asian market still plays a minor role compared with the business in Europe. Within the Bank's growth strategy, VP Bank will attempt to hire 75 new advisers by the end of 2019, primarily in Switzerland and Asia. As at 31.12.2017, 13 of them have already been recruited in Switzerland. Moreover, the Bank is interested in further acquisitions (after merging with Centrum Bank in 2015) to promote its growth.

We assess VP Bank's risk profile as adequate. Despite the increase of non-performing and value-impaired loans, the NPL ratio is still considerably lower compared to its European peers. Furthermore, market price risks are hedged by means of derivatives whereas customer loans are mostly backed by collaterals. Given the available information, the risk management is evaluated as appropriate and consistent with the business model and risk structure.

Due to the strong financial profile in conjunction with the stable shareholder structure, VP Bank possesses a good self-contained capital generation capacity.

Summary:

	Rating
Financial profile	strong
- Long-term earnings position	adequate
- Sustained 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}	positive	May 16, 2018
A _{-u}	stable	May 10, 2017
BBB _{+u}	stable	Jul 14, 2016

Rating Scale:

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

Rating drivers

One of the main drivers which could lead to a rating upgrade exists in maintaining the course of organic growth in Switzerland and Asia and further approximating the strategic target figures for 2019. In order to do so, additional mergers or acquisitions would play a supporting role.

On the contrary, VP Bank's profitability and thus also the rating result could be adversely affected by rising administration costs as a consequence of the growth strategy, a turmoil on the financial markets or a further tightening of regulatory requirements.

Regulatory disclosure requirements

Name and function of the analysts:

- Samy Peters, Lead Rating Analyst, GBB-Rating, Cologne
- Angelika Komenda, Rating Analyst, GBB-Rating, Cologne

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Members of the Rating Committee:

- Sebastian Podporowski, Certified Public Accountant
- Manfred Kühnle, Certified Public Accountant
- Bernd Bretschneider, Managing Director GBB-Rating, Cologne
- Oliver Mohr, Managing Director GBB-Rating, Cologne

Date	Rating Committee	Notification	Issue
▪ First rating	July 14, 2016	July 15, 2016	July 29, 2016
▪ Current rating	May 16, 2018	May 17, 2018	June 4, 2018

Validity:

- Rating: 12 months
- Outlook: 24 months

Subsequent rating changes after notification to client:

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Major sources of information for the rating:

- Annual report 2017
- Publicly available information

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

- The quality and extent of information 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 without participation of the rated company
- Methodology for Rating Banks and Building Societies (Version 3.0.03) – Cluster operational risks/market price risks (OR/MPR)
- www.gbb-rating.eu/en/presse/eu-veroeffentlichungen/Pages/default.aspx

Meaning of the rating category:

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

Business relationship:

- 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 publicly available information and possibly the information provided by the rated company. 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.