GBB-Rating

A-$_u$ stable

Rating Committee: 05/16/2019

VP Bank Group

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-, the outlook is stable.

Given the unfavorable capital market environment in late 2018 and the expanding cost base as a result of the growth strategy, Group net income decreased by nearly 17 % to CHF 54.7 million. However, the bank achieved a substantial inflow of net new money in particular through further acquisitions and additional hiring of relationship managers, thus laying the foundation for future income growth.

As a locally system-relevant institution, VP Bank has to maintain a total capital ratio of at least 13.0 %. With a reported CET1 ratio of 20.9 % 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. In Liechtenstein, it additionally operates as a commercial and retail bank. In recent years, the Bank has increased its presence in Asia. With regard to the earnings situation, however, the European market remains of overriding importance. In line with the Bank's growth strategy, VP Bank attempts to hire 75 new client advisor by the end of 2019, primarily in Switzerland and Asia. At the end of 2018, 48 of them have already been recruited. Following the acquisition of Centrum Bank in 2015, VP Bank took over the investment funds of Carnegie Group and announced the acquisition of the Luxembourg private banking business of Catella Bank in 2018.

GBB-Rating assesses VP Bank's risk profile as adequate. The NPL ratio further decreased in 2018 from low levels. Market risks are largely hedged by derivatives whereas customer loans are mostly backed by collateral. Based on the information available, the risk management is evaluated as appropriate and consistent with the business model and risk structure.

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:

- Intensive competition within the private banking sector in Liechtenstein and Switzerland
- High margin pressure due to growing regulatory requirements, low interest rates and digitalization
- 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)	2018	2017
Adjusted gross profit	291,542	288,470
Earnings before tax	58,531	70,342
Net income/Net loss	54,717	65,770
Total assets	12,428,180	12,778,070
CET1 capital ratio	20.9 %	25.7 %
Leverage Ratio	7.3 %	7.5 %
LCR	143 %	161 %

Analysts:

Samy Peters
+ 49 221 912 897 266
s.peters@gbb-rating.eu

Angelika Komenda
+ 49 221 912 897 248
a.komenda@gbb-rating.eu

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**	**05/16/2019**
A-u	positive	05/16/2018
A-u	stable	05/10/2017

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

Rating drivers

VP Bank has increased its sustainable earnings base by consequently pursuing a growth path. Going forward, the increase in income sources and a simultaneous cost normalization may result in an upgrade to the rating.

At the same time, a further slowdown in the global economy and falling stock markets could have a negative impact on the Bank's earnings situation, as seen in 2018. Moreover, the increase in growth-related costs puts additional pressure on key earnings figures and could ultimately lead to a rating downgrade.

Appendix

Assets – selected data (CHF 1,000)	**12/31/2018**	**12/31/2017**	**12/31/2016**
Cash and cash equivalents	2,521,276	3,614,578	3,524,512
Due from banks[1]	838,514	912,899	676,008
Due from customers	6,196,326	5,647,578	5,248,717
Trading portfolios	123	135	100
Derivative financial instruments	42,164	29,457	43,699
Financial instruments at fair value	232,263	200,808	280,143
Financial instruments measured at amortized cost	2,389,521	2,171,837	1,823,882
Associated companies	30	33	66
Property and equipment	87,819	79,132	82,738
Goodwill	10,810	10,810	10,810
Other intangible assets	40,644	43,704	40,659
Tax assets	16,988	20,704	23,400
Other assets	51,702	46,395	38,992
Total Assets	**12,428,180**	**12,778,070**	**11,793,726**

Liabilities and shareholders' equity (CHF 1,000)	**12/31/2018**	**12/31/2017**	**12/31/2016**
Liabilities due to banks	433,793	547,687	357,771
Liabilities due to customers	10,334,883	10,559,449	9,838,947
Derivative financial instruments	59,374	47,184	57,178
Medium-term notes	240,616	256,155	219,823
Debentures issued	200,474	200,597	200,720
Provisions	1,209	16,987	8,755
Tax liabilities[2]	7,041	12,514	12,096
Other liabilities	169,210	147,366	161,498
Equity	981,580	990,131	936,938
Share capital and share premium[3]	347	18,265	13,688
Capital reserve	28,419	24,181	21,857
Retained earnings[2]	994,582	983,502	929,428
Revaluation reserve	-41,768	-35,817	-28,035
Total liabilities and equity	**12,428,180**	**12,778,070**	**11,793,726**

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

Income statement (CHF 1,000)	**2018**	**2017**	**2016**
Net interest income	110,910	104,364	102,209
Net fee and commission income	124,272	123,876	118,789
Income from financial instruments and trading activities	53,402	70,255	52,315
Other net operating income	2,958	-10,025	-630
Adjusted gross profit	**291,542**	**288,470**	**272,683**
Administration costs	-220,553	-192,588	-187,004
Depreciation	-25,117	-23,564	-22,411
Provisions for credit risks	12,659	-1,976	-2,219
Gross result at year-end	**58,531**	**70,342**	**61,049**
Income tax	-3,814	-4,572	-3,063
Net income	**54,717**	**65,770**	**57,986**

Operational/market price risk cluster	**2018**	**2017**	**2016**
Gross profitability Adjusted gross profit / Average total risk exposure amount	7.0 %	7.9 %	7.6 %
Net profitability 1 Operating result after provisions for cr and val. adjustments / Average total risk exposure amount	1.4 %	1.9 %	1.7 %
Net profitability 2 Operating result after provisions for credit risks and valuation adjustments / Average total assets	0.5 %	0.6 %	0.5 %
Return on equity 1 Operating result after provisions for cr and val. adjustments / Average adjusted equity	5.7 %	7.1 %	6.2 %
Return on equity 2 Gross annual profit / Average adjusted equity	5.7 %	7.1 %	6.2 %
Cost income ratio 1 Administration costs and provisions for credit risks / Gross profit	78.9 %	77.2 %	78.7 %
Cost income ratio 2 Administration costs / Adjusted gross profit	84.3 %	74.9 %	76.8 %

Indicators of sustained capital position	**12/31/2018**	**12/31/2017**	**12/31/2016**
Total capital ratio Own funds / Total risk exposure amount	20.9 %	25.7 %	27.1 %
Tier 1 capital ratio Tier 1 capital / Total risk exposure amount	20.9 %	25.7 %	27.1 %
Common equity Tier 1 ratio Common equity tier 1 capital / Total risk exposure amount	20.9 %	25.7 %	27.1 %

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Financial data (CHF 1,000)	**12/31/2018**	**12/31/2017**	**12/31/2016**
Gross profit	295,175	282,521	268,993
Adjusted gross profit	291,542	288,470	272,683
Administration costs (including depreciation)	-245,670	-216,152	-209,415
Administration costs, depreciation, provisions for credit risks	-233,011	-218,128	-211,634
Operating result after provisions for credit risks and valuation adjustments	58,531	70,342	61,049
Gross result at year-end	58,531	70,342	61,049
Average total risk exposure amount	4,154,867	3,631,710	3,597,574
Average total assets	12,603,125	12,285,898	12,077,571
Average adjusted equity	1,024,648	997,476	984,656
Own funds	942,783	976,553	938,537
Tier 1 capital	942,783	976,553	938,537
Common equity Tier 1 capital	942,783	976,553	938,537
Total risk exposure amount	4,510,319	3,799,413	3,464,005

Regulatory disclosure requirements

Name and function of the analysts:

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

Company address:

- GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH, Kattenbug 1, 50667 Cologne

Members of the Rating Committee:

- Volker Jindra, Head of Analysis Team, GBB-Rating Köln
- Alexander Gouverneur, Head of Analysis Team, GBB-Rating Köln
- Andreas Höffgen, Head of Analysis Team, GBB-Rating Köln
- Stefan Koll, Manager GBB-Rating Köln

Date	Rating Commitee	Notification	Issue
▪ First rating	07/14/2016	07/15/2016	07/29/2016
▪ Current rating	05/16/2019	05/20/2019	

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 as at 12/31/2018
- 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 3.0.03 Banks – operational/market price risk (OR/MPR)
- GBB-Rating, Policy on Performing and Issuing Unsolicited Credit Ratings, 08-2017
- www.gbb-rating.eu/de/presse/eu-veroeffentlichungen/Seiten/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 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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