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Ratings

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Research Update:

VP Bank AG Outlook Revised To Negative; 'A-/A-2' Ratings Affirmed

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Overview

- The CEO of Liechtenstein-based VP Bank AG unexpectedly stepped down on May 8, 2024, leaving strategic uncertainty. This follows several management changes in recent years.
- The bank is falling behind competitors in terms of strategic stability and business development and could struggle to improve operational efficiency amid weak new asset generation and low profitability.
- We therefore revised the outlook on the rating on VP Bank to negative from stable. At the same time, we affirmed our 'A-/A-2' long- and short-term issuer credit ratings on the bank.
- The negative outlook reflects the strategic uncertainty following frequent management changes and the risk of further underperformance, compared with peers.

Rating Action

On May 17, 2024, S&P Global Ratings revised the outlook on the rating on VP Bank to negative from stable and affirmed its 'A-/A-2' long- and short-term issuer credit ratings. At the same time, we affirmed the resolution counterparty ratings at 'A/A-1'.

Rationale

VP Bank's CEO stepped down, which increases the risk of material setbacks in the bank's strategy implementation. VP Bank's CEO, Paul Arni, stepped down on May 8, 2024. We think this could be the result of strategic differences with the supervisory board and weak financial performance at the beginning of 2024. The bank is halfway through its strategy implementation, which began in 2021 and will end in 2026. We note that the departures of the head of intermediaries in 2023 and the head of client solutions in 2022 indicate operational hurdles and strategic differences at the bank. The resignation of Mr. Arni comes after the head of the supervisory board stepped down in April 2024. These personnel changes impair the bank's operational continuity as the search for a new CEO and the creation of a new strategic agenda will take time. Yet we view positively that the interim CEO is familiar with the position and committed to the current strategic agenda.

VP Bank's financial performance remains muted. The strategy implementation over the past few years included material investments in VP Bank's IT platform to enable more efficient processes, digital self-services, and enhancements in the bank's digital value proposition. This resulted in material cost increases, with annual non-interest expenses increasing by 56% since 2020, driven by non-personnel costs. Additional cost drivers comprised the review of the Russian clients portfolio and compliance with international sanction regimes. At the same time, the improved interest rate environment and the moderate expansion of VP Bank's net interest margin to 1.4% in 2023, from 1.2% in 2022, supported the bank's operating profitability in 2023.

However, this tailwind is quickly subsiding, as indicated in today's profit warning, and requires significant adjustments to the bank's cost base. Despite some expected improvement in fee income as assets under management increases, we forecast a cost-to-income ratio of above 80% in coming years.

VP Bank's new money generation lags that of peers. The bank reported a weak net new money generation over 2023 of close to 0% and the trend continued in the first four months of 2024. Annualized growth for this period of only about 1% was also depressed by the outflow of assets from Russian clients. This followed the already relatively weak net new money inflows of about 2% in 2022 and about 0.6% in 2021, compared with the strategic target of 4% on average over the strategic cycle. Improving the value proposition and attracting new clients and assets will be key to improve operating efficiency and providing the necessary scale to absorb further investments in people and IT.

Our 'A-' long-term issuer credit rating on VP Bank continues to benefit from the bank's sustainable and very strong capitalization. VP Bank's risk-adjusted capital (RAC) ratio, our main capital indicator, increased to 20.3% at year-end 2023, from 18.0% in 2022. The increase mainly resulted from the bank's low lending activity and the related drop in exposures and risk-weighted assets. The tier 1 capital ratio increased to 24.7% as of end-April 2024 (24.9% in 2023), from 21.7% in 2022. Depending on the demand for Lombard loans, we expect capital ratios will normalize to a lower level but remain consistent with the bank's very strong capitalization.

Outlook

The negative outlook on the rating on VP Bank reflects our expectations that the bank will struggle to implement its 2026 strategy over the next 12-24 months and that revisions to its strategic plan and targets could be necessary. This strategic uncertainty could prolong the bank's subpar financial performance, compared with peers, and could lead us to revise our view on the stability of the bank's business model.

Downside scenario

We could lower the ratings on VP Bank if the bank's:

- Strategy implementation experiences material setbacks, resulting in a less stable business model or lower profitability, compared with peers. This could result from a decline in clients and net outflows in assets under management, or a further weakening operating efficiency; or

- Risk appetite increases. A sizable acquisition could also constrain the rating if it materially erodes the bank's capital buffer and reduces the RAC ratio below 15%.

Upside scenario

We could revise the outlook to stable if the management's actions stabilize the organization, strategy execution, and financial performance. We would also have to see new net asset inflows and an increase in fee income that underpin the stability of the bank's business model.

We could consider a positive rating action if VP Bank's buffer of bail-inable subordinated capacity exceeds our S&P Global Ratings-adjusted threshold of 350 basis points and if the bank is committed to maintain the buffer at this level.

Ratings Score Snapshot

	To	From
Issuer credit rating	**A-/Negative/A-2**	**A-/Stable/A-2**
SACP	a-	a-
Anchor	a-	a-
Business position	Constrained (-2)	Constrained (-2)
Capital and earnings	Very strong (+2)	Very strong (+2)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	0	0
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

ALAC--Additional loss-absorbing capacity. SACP--Stand-alone credit profile.

Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Governance structure

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9,

2021

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Liechtenstein-Based LGT Bank AG And VP Bank AG Ratings Affirmed On Resolution Strategy Evolution, Jan. 24, 2024
- VP Bank AG, Oct. 9, 2023
- Liechtenstein-Based VP Bank Downgraded To 'A-/A-2' On Weaker Expected Financial Performance; Outlook Stable, July 19, 2023

Ratings List

Ratings Affirmed		
VP Bank AG		
Resolution Counterparty Rating	A/--/A-1	
VP Bank AG		
Senior Unsecured	A-	
Senior Subordinated	BBB+	
Ratings Affirmed; Outlook Action		
	To	**From**
VP Bank AG		
Issuer Credit Rating	A-/Negative/A-2	A-/Stable/A-2