Research Update:

Liechtenstein-Based VP Bank AG Ratings Affirmed At 'A-/A-2' On Continuing Restructuring; Outlook Negative

March 27, 2025

Overview

- VP Bank's profitability remains weak and we expect it will remain weaker than peers' in the medium term.
- At the same time, VP Bank is progressing on its 2026 strategy implementation and we see first signs of stabilization of the franchise.
- Ultimately we expect VP Bank's restructuring efforts will bring VP Bank's risk-return sustainably closer to that of peers, but execution risks remain material.
- We affirmed our 'A-/A-2' ratings on VP Bank.
- The negative outlook reflects the strategic uncertainty that, despite restructuring, the bank might continue facing subpar financial performance compared with peers.

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Rating Action

On March 27, 2025, S&P Global Ratings affirmed its 'A-/A-2' long- and short-term issuer credit ratings. The outlook on the long-term rating remains negative.

At the same time, we affirmed the issue rating on the senior subordinated notes at 'BBB+' and the resolution counterparty ratings at 'A/A-1'.

Rationale

Our negative outlook continues to reflect uncertainty that VP Bank's business model recalibration will translate into improved financial metrics. VP Bank's management still needs to prove that its restructuring plan and growth initiatives can improve the bank's franchise and profitability sustainably, bringing it closer to that of peers. 2025 will be a further transformational year when VP Bank must demonstrate its ability to lower costs while increasing its client base and top-line revenue. Such indicators as new business inflow and turnover of employees in line with the peer average would support the sustainability of VP Bank's business model. At the same time, we would expect VP Bank not to compromise on its risk standards, while keeping its strong capitalization.

Turnover in senior management in the past several years increases the risk of setbacks in the bank's strategy implementation. Former COO Urs Monstein took over in November 2024 as CEO after Paul Arni resigned in May. CFO Roger Barmettler and Mara Harvey, Head of VP Bank Switzerland and Head of Region Europe, left the bank in the second half of 2024. Although we understand that there are different backgrounds to the specific individual managers' decisions, we note that recent high turnover in senior management increases the risks to successful strategy implementation, as demonstrated in the group's slow progress in recent years. The pace of restructuring has been and will remain slower than what we generally see for banks undergoing restructuring.

The affirmation reflects VP Bank's continued strategy implementation and first signs of the stabilization of the franchise. Ultimately we expect VP Bank's restructuring efforts could improve profitability, bringing VP Bank's risk-return sustainably closer to that of peers, but execution risks remain material. VP Bank's management expects most of the optimization measures will be cost effective over 2025-2026. More specifically, the restructuring package entails the exit of the bank's Hong Kong subsidiary and cost-optimization measures related to its subsidiaries and its middle office function. In 2024, total costs savings reached Swiss franc (CHF)21.6 million compared with the targeted CHF20 million. At the same time, management plans to continue its growth path and gain in competitiveness with a strong focus on its intermediary business and targeted service offering for its clients.

VP Bank's net new money (NMM) generation reached CHF 1.7 billion (excluding exit clients) in 2024, which is broadly in the range of peers. The bank reported solid NNM generation in 2024 of CHF500 million compared with a weak CHF27 million in 2023. We note that NNM was weighed down by the outflow and write-down of Russian client-related assets, reflecting management's decision to exit relationships with Russian customers, and other forced outflows. NNM without the forced outflows would have reached CHF1.7 billion in 2024 which compares well with peers. We project NNM to improve and reach the 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 provide the necessary scale to absorb further investments in people and IT.

VP Bank's very strong capitalization gives a comfortable buffer for the bank through the restructuring process, until the restructuring brings material and sustainable improvement in profitability. We consider VP Bank's capital as a key rating strength. We estimate a risk-adjusted capital (RAC) ratio of around 19% by year-end 2027, compared with 20.3% at year-end 2023. In case of attractive acquisition opportunities in the private banking sector, we do not expect that VP Bank would put its strong capitalization at risk. We also expect VP Bank's quality of capital, consisting solely of core capital, to remain high.

Outlook

The negative outlook reflects our view that, over the next 12-18 months, the bank will struggle to implement its 2026 strategy, potentially requiring additional revisions to its strategic plan and targets. This strategic uncertainty might lead to a continuing subpar risk-return profile compared with those of peers.

Downside scenario

We could lower the rating if we concluded that VP Bank will remain a negative outlier in terms or risk-return compared with peers or if we did not see its business model becoming more stable. We would, in particular, look for:

- NNM development;
- Risk-return and efficiency; and
- Employee and management turnover.

We could also lower the rating if there was a material erosion of the bank's capital buffer, reflected in our RAC ratio dropping below 15% or if we see the bank compromising on its risk standards in pursuit of growth.

Upside scenario

We could consider a positive rating action if VP Bank's management actions stabilized the bank's business model, translating into stronger financial performance over the cycle and improving its business prospects to the level of peers rated 'A-'.

We could also consider a positive rating action if we think VP Bank has prospects of building a material buffer of bail-in-able subordinated capacity above our adjusted threshold of 350 basis points, with a strong commitment to maintain this. However, a positive rating action would hinge on our confidence in the likely effectiveness of the associated resolution strategy and our comprehensive view of VP Bank was comparable with that of peers at the similar rating level, which is currently only a small cohort of banks globally.

Ratings Score Snapshot

VP Bank AG--Rating score snapshot

Issuer Credit Rating	A-/Negative/A-2
SACP	a-
Anchor	a-
Business position	Constrained
Capital and earnings	Very strong
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0

VP Bank AG--Rating score snapshot (cont.)

Issuer Credit Rating	A-/Negative/A-2
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, 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, Nov. 25, 2024
- Banking Industry Country Risk Assessment: Liechtenstein, Sept. 16, 2024
- Bulletin: VP Bank's Announced Restructuring Is A Positive Step, But The Execution Is Key, Aug. 20, 2024
- VP Bank AG Outlook Revised To Negative; 'A-/A-2' Ratings Affirmed, May 17, 2024
- Liechtenstein-Based LGT Bank AG And VP Bank AG Ratings Affirmed On Resolution Strategy Evolution, Jan. 24, 2024

Ratings List

Ratings Affirmed	
VP Bank AG	
Issuer Credit Rating	A-/Negative/A-2
Resolution Counterparty Rating	A/--/A-1

Ratings Affirmed	
Senior Subordinated	BBB+