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VP Bank Verwaltungs- und Privat-Bank AG

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VP Bank Verwaltungs- und Privat-Bank AG

Major Rating Factors

Counterparty Credit Rating
A-/Stable/A-2

Strengths:

- Favorable risk profile with strong asset quality and very comfortable liquidity position.
- Stable shareholder structure.
- Good niche market position with financial intermediaries.
- Satisfactory capitalization.

Weaknesses:

- Operating performance highly dependent on global capital market trends.
- Still relatively modest international private banking franchise.
- Ongoing pressures on favorable banking secrecy legislation in offshore banking financial centers such as Liechtenstein.
- Sizable operational risks in line with private bank peers.

Rationale

The counterparty credit ratings on VP Bank Verwaltungs- und Privat-Bank AG (VP), based in the Principality of Liechtenstein (AAA/Stable/A-1+; Liechtenstein), reflect the bank's solid risk profile. This is characterized by strong asset quality, its very comfortable liquidity position, and satisfactory capital strength. These factors, inherent in the private banking business model, mitigate the considerable sensitivity of VP's operating performance to capital market trends. The current unfavorable environment, together with VP's material investments to expand its international onshore private banking business in target markets such as Germany and the Far and Middle East, continue to significantly weigh on its profitability. Backed by its major shareholders, VP's strategy is to strengthen its still-modest international wealth management franchise and maintain its good niche market position with financial intermediaries in Liechtenstein and Switzerland, while also aiming to become less reliant on the still-dominant home market, offshore financial center Liechtenstein. Despite recent considerable modifications, Liechtenstein's still-favorable banking secrecy laws remain under external pressure.

Net client money outflows of Swiss franc (CHF) 1 billion or almost 4% of assets under management (AuM) at mid-year 2009 demonstrate that VP has not yet achieved the same strong brand awareness as its mainly Swiss-based peers, which can compensate for weaker new business in offshore markets with inflows from their onshore activities. The significant decline in profitability and revenues, particularly commission income, due to significantly reduced levels of AuM and client transactions is exacerbated by VP's limited scope for cost-saving measures beyond the 10% target set for 2009, as a cut in strategically important investment projects could significantly constrain the bank's future growth potential.

Despite the comparatively low level of discretionary wealth management mandates, VP has maintained solid margins on AuM volumes, however. In its base scenario, Standard & Poor's Ratings Services expects VP to stabilize its operating performance in 2009 and 2010 at the level seen in 2008 and first-half 2009. We regard the negative net result in 2008--a CHF83 million tax loss--as nonrecurring to a large degree. We believe this result reflects VP's somewhat too-high risk appetite for unhedged equity and credit spread risks on marked-to market financial investments of a generally high quality. In the medium term, profitability and new business capabilities should gradually improve due to growing contributions from its onshore operations abroad.

Although VP's Liechtenstein-based operations might continue to see money outflows, potential medium-term improvement of the Principality's relatively weak reputation due to its recent shift in strategy might increasingly offer compensation. Liechtenstein's greater openness regarding the exchange of client data with foreign authorities in cases of tax evasion is reflected in innovative deal structures. For example, its recent agreement with the British government provides incentives for customers to reveal untaxed wealth to the U.K. tax authorities via Liechtenstein-based banks. In previous months all main international offshore financial centers have accepted the minimum standards set by the Organization for Economic Cooperation and Development (OECD). This creates a level playing field with less room for regulatory arbitrage, where VP should profit from its substantial investments in the quality of its wealth management services over the past few years.

Credit risks from its small, mainly domestic lending activities remain low, since they are mostly highly collateralized exposures, such as residential mortgages. We regard VP's capital strength as satisfactory, but strong regulatory capital ratios insufficiently cover its considerable operational risk.

Outlook

The stable outlook reflects our opinion that the intrinsic higher stability of the private banking business model (due to the long-term nature of client relationships and the significantly lower level of credit, liquidity, and market risk) compensates for the considerably lower profitability level that we expect during the current capital market disruptions.

We would consider a negative rating action if VP failed to show that it can strengthen its business profile by broadening its international onshore customer base and franchise, with negative new business over a longer time period. We would also see as negative any further significant weakening in its operating performance--excluding results from financial investments--due to an inadequate capacity to respond to lower revenues with cost savings. An unfavorable outcome of negotiations regarding tax agreements with foreign countries, which could constrain Liechtenstein-based banks in attracting new business flows, might also have negative implications.

Although we consider a positive rating action as remote for the time being, it would require higher profitability levels resulting from improvements in VP's market position and from better cost efficiency.

Profile: VP Making Efforts To Diversify Private Banking Business Internationally

VP acts as a universal bank in the principality, where it is the third-largest bank, and in some Eastern areas of neighboring Switzerland. In VP's private banking division, activities are predominantly focused on Liechtenstein-centered offshore business. To strengthen the onshore business, VP has built up local presences in Germany (with a subsidiary established in 2004), Russia (with a representative office in Moscow since 2005), and Hong Kong (with an office since June 2006). Its latest new openings were in Dubai (2008), and in Singapore (2008) where VP also has received a banking license. VP's intermediary client division, covering business with asset managers, fiduciaries, and attorneys in Liechtenstein and in Switzerland, occupies a profitable niche.

In mid-year 2008, strong external pressures caused Liechtenstein--along with all other main offshore financial centers--to comply with OECD standards and to extend collaboration with foreign tax authorities beyond tax fraud issues by sharing customer data to use as evidence of tax evasion. Essentially, banking secrecy legislation remains favorable, as current negotiations regarding revisions to double-taxation treaties do not involve automated sharing of tax-relevant information. Liechtenstein also offers other advantages due to its liberal tax legislation and special company legal structures (foundations).

Its membership in the European Economic Area (EEA) differentiates the principality from neighboring Switzerland and provides an "EU passport" for VP's services, such as investment funds. EEA membership also requires adhering to certain single-market rules; current legislation concerning insider trading, money laundering, and legal assistance in criminal matters is in line with international best practices. The principality's banks must perform extensive due diligence checks on all their business relationships, including identification of beneficial owners of assets deposited with them.

After years of restrictive interpretation of banking secrecy issues in relationships with foreign authorities, Liechtenstein (previously labeled as "uncooperative tax haven" by the OECD) has made a U-turn. By trying to actively influence future developments and setting new standards it aims to improve its comparatively weak reputation. The agreement with the U.K. government is one of the most far-reaching globally, as it requires Liechtenstein-based banks to become actively involved in identifying customers with untaxed wealth. By 2015, they must ensure that all British clients with accounts in Liechtenstein comply with U.K. tax rules. As compensation, customers, who declare their assets via a Liechtenstein-based bank, can benefit from reduced tax penalties. Although increasing declarations of untaxed assets will result in sizable outflows due to payment of taxes and penalties, we regard the current development as basically positive. In our view, offshore financial center Liechtenstein can avoid longer-lasting reputation damage to the detriment of its banks. In addition, the application of relatively even banking secrecy standards opens a level playing field, with expertise and the quality of services becoming the main differentiating feature among private banks.

Support And Ownership: Longstanding And Stable Shareholder Structure

We consider VP to be a systemically important bank in Liechtenstein. However, given the comprehensive regulatory framework, allowing the government to rely on prudent policies to maintain a sound banking sector, we do not factor the probability of government support into the ratings. This means that our ratings on VP represent its stand-alone creditworthiness.

Founded in Vaduz in 1956, VP has been quoted on the Swiss stock exchange since 1983. Two foundations are longstanding shareholders. The bank's founder set up the first, committing the foundation (which holds 48.4% of voting rights) to maintain a material interest and to guarantee a stable shareholder structure. The Liechtenstein-based Hilti family controls the second foundation (holding 10.1% of voting rights). Bearer shares account for 90% of capital subscribed yet comprise the minority of voting rights (47%).

Liechtenstein's banking law regulates VP's organization and business activities, and aims to protect the rights of bank creditors. The Financial Market Authority (FMA), a centralized independent supervision and regulatory authority monitors the conduct of banks operating in Liechtenstein. Given the principality's monetary union with neighboring Switzerland, central bank functions lie with the Swiss National Bank (SNB).

Strategy: Strengthening International Onshore Operations Remains VP's Top Priority Despite The Effect Of High Costs On Profitability

We regard VP's strategy as sensible but basically without an alternative. It aims to address its still relatively weak international wealth management franchise and brand recognition compared with its peer group of mainly Switzerland-based midsized private banks. Building on the stable business with retail and corporate customers in its home market, the bank has extended the geographic reach of its private banking business in recent years, aiming to diversify its wealthy client base, currently concentrated in Europe. As new client relationships in the highly competitive private banking business increasingly require a local presence due to the diminishing attraction offshore sites, VP is targeting onshore markets in Asia, the Middle East and CEE, and Germany. In its business with intermediaries, where VP has a lucrative niche position, Switzerland is an additional home market. Backed by its shareholders, VP continued its investment phase during the capital market disruptions, but had to partly move away from its principle of tight cost control efficiency--the cost-to-income ratio (CIR) has soared to about 70% currently from its strong level of close to 50% in recent years. Therefore, the 10% cost-cutting target for 2009 poses a challenge for VP to reign in significant expense growth without jeopardizing its long-term strategic objectives.

VP has made good progress in enhancing its product expertise and broadening its range of sophisticated services, which are prerequisites to differentiating it in terms of the quality of its services. However, we believe it still needs a sustainable track record of superior performance to narrow the gap with its peers in terms of the franchise value of its wealth management activities. Besides the private banking business where VP has direct control of client relationships, intermediaries represent an important clientele. VP has a separate division that provides a dedicated range of services along the value chain, including white label products such as investment funds, allowing intermediaries to satisfy their clients' needs. Due to weaker-than-expected new business in the private banking division in recent years, the intermediary business' AuM still represents around 50% of total AuM.

Risk Profile And Management: Overall Sound Risk Profile But Temporarily Too-High Risk Appetite

We basically regard VP's risk profile as sound, with effectively controlled credit and trading risks, while liquidity risk benefits from its high excess of deposits over the relatively small lending business. Nevertheless, underestimated market volatility regarding equities and the credit spread risk on bonds of overall high quality has resulted in sizable markdowns in VP's financial investment portfolio. In addition, costly measures to support the poor performance of money market funds that VP manages demonstrate the considerable operational risks private banks are exposed to, because reputation damage could severely and permanently harm the franchise.

Enterprise risk management: Still regarded as adequate due to implemented improvements

We continue to consider VP's enterprise risk management (ERM) capabilities as adequate. A better articulation of the bank's risk appetite and risk-bearing capacity, together with stricter limits and monitoring of exposure, should more effectively control unexpected tail risk to avoid further valuation hits on its banking book assets in future. VP applies a range of risk-measurement systems, including value-at-risk (VaR), and regularly analyzes the effect of stress scenarios to take into account the impact of unexpected events.

Credit risk: Quality of the lending portfolio expected to remain strong

The quality of VP's highly collateralized lending activities should remain high in the future despite the current economic weakness and the portfolio's local concentration. The credit business is less growth-oriented, but--without compromising strict credit standards--increasingly opportunistically driven to attract new private banking mandates. Credit quality indicators have somewhat deteriorated, but risk provisioning needs on still-very-low nonperforming loans (NPLs) continue to be insignificant compared with VP's revenue base.

Loans to banks accounted for 62% of the asset base at year-end 2008. Within the retail and adequately diversified corporate credit portfolio, residential mortgages and Lombard loans dominate: Both are conservatively secured and less sensitive to the economic cycle.

Market risk: Stricter controls regarding management of market risks in the banking book

In 2008, adverse spread development in VP's generally high quality financial investment portfolio substantially affected the bank. Together with mostly unhedged equity and foreign exchange exposures, value adjustments exceeding CHF100 million severely negatively affected both the income statement and the revaluation reserve. To better align market risk in the banking book with the bank's risk-bearing capacity, VP almost halved the proportion of equities in the banking book to 12% in 2009, implemented a stricter hedging policy, and might partly recover some of the losses due to narrowing credit spreads.

Due to the excess of deposits over the customer lending volume, VP generally achieves significant revenues from maturity transformation. Interest rate risk in the banking book continues to be subject to prudent limits, however, reflecting relatively modest interest rate sensitivity as most of the bank's assets are short-dated. In addition, VP regularly performs a series of stress tests to analyze sensitivities to unexpected events.

Funding and liquidity risk: Strong liquidity position

We regard VP's liquidity position as very strong, as it funds a high share of its assets with highly stable customer deposits. VP mainly invests its excess deposits due to its moderate credit business in short-term interbank lending, while its securities portfolio largely comprises generally highly rated and liquid assets. VP has diversified its funding through wholesale products, placing a CHF250 million five-year senior unsecured bond in 2007. VP's intention to achieve full repo eligibility for the bond portfolio will further strengthen its funding abilities.

Operational risk: Significant sensitivity typical for private banks

VP is very sensitive to operational risks. Events such as money laundering, internal fraud, or doing business with politically exposed personalities with dubious backgrounds might have a significant and longlasting negative impact on business operations. Therefore, VP felt obliged to safeguard its reputation by transferring underperforming assets from VP-labeled money market funds onto its own books in 2008. The resulting CHF68 million value adjustment severely hit profitability that year. The group applies rigorous procedures and continuously benchmarks internal processes to mitigate this risk, while performing self-assessments to identify further areas for improvements. VP aims to certify its operational risk processes with an external partner, underlining its attempt to achieve state-of-the-art processes.

Profitability: Strategic Investments In Markets And Infrastructure Expected To Continue To Affect Profitability

We expect market-related lower revenues, particularly commission income, together with ongoing investment in international expansion to materially constrain profitability in 2009 and 2010. The cost containment initiative, which aims to reduce expenses by 10% on average in 2009, should help to at least stabilize earnings at the first-half 2009 level. The short-term earnings outlook depends on VP's flexibility to reduce variable personal cost components, its ability to maintain relatively high and stable margins on AuM volumes, and the prospects of declining IT costs following the introduction of a new IT infrastructure in 2008. We regard VP's former very favorable cost efficiency of close to 50% as unachievable in the medium term, however. Due to the expected slow return on investments into VP's onshore market franchise, this measure is likely to remain in the 60%-70% range in coming years. Even more intense competition between private banks and financial centers as result of the capital dislocation and banking secrecy discussions will require staying power in coming years. VP will also need to permanently balance strategic objectives with its need to maintain sufficient profitability.

As a result, we do not expect a major improvement in VP's profitability before the bank has achieved a significantly higher revenue and earnings contribution from its growing international onshore activities. This is because in the short- to medium-term uncertainties about the prospects of its still dominant offshore operations might continue to result in asset outflows from Liechtenstein-based accounts. We expect provisioning requirements to rise in coming years in line with a more challenging credit environment, but good credit quality should generally remain a supporting factor for VP's profitability.

Capital: Sufficient Capital Strength To Cover Considerable Operational Risks

We consider VP's capitalization to be satisfactory. Given the nature of VP's operations (with a strong focus on commission-generating businesses and its clientele highly sensitive to reputation issues), we think operational risk is not sufficiently reflected in VP's very strong regulatory capital ratios under the Basel II basic indicator approach. Based on preliminary data, which we aim to further refine pending discussions with the bank, we assume that the risk-adjusted capital (RAC) ratio under our new RAC framework (see "Methodology And Assumptions: Risk-Adjusted Capital Framework For Financial Institutions," in "Related Research") will be significantly lower due to higher capital charges, including for major parts of the lending book, for market risk in the banking book, and for operational risk.

Given measures to curb unexpected market risk in the banking book, VP's earnings retention capacity should remain sufficient during the current market weakness and expansion-driven lower profitability, helping to maintain current capital strength. As VP's shareholders support the bank's strategy, the dividend policy allows some, albeit limited, flexibility. Although VP might also pursue investments in its private banking franchise via smaller acquisitions, we expect it to continue favoring organic growth and to actively manage the expansion of risk-weighted-assets.

Related Research

- Methodology And Assumptions: Risk-Adjusted Capital Framework For Financial Institutions, April 21, 2009

Table 1

VP Bank Verwaltungs- und Privat-Bank AG--Balance Sheet Statistics

	--Year ended Dec. 31--						-	Breakdown as a % of assets (adj.)					
(Mil. CHF)	**2009***	**2008**	**2007**	**2006**	**2005**	**2004**		**2009***	**2008**	**2007**	**2006**	**2005**	**2004**
Assets													
Cash and money market instruments	242	215	114	99	67	94		2.03	1.90	1.09	1.04	0.82	1.19
Securities	1,015	806	987	1,113	969	810		8.52	7.12	9.45	11.69	11.79	10.29
Trading securities (marked to market)	2	0	0	0	0	2		0.02	0.00	0.00	0.00	0.01	0.02
Nontrading securities	1,013	806	987	1,112	968	808		8.50	7.12	9.45	11.68	11.78	10.27
Loans to banks (net)	7,192	7,024	6,069	5,138	4,147	3,987		60.37	62.05	58.07	53.97	50.46	50.65
Customer loans (gross)	3,158	3,018	3,042	2,957	2,842	2,764		26.51	26.66	29.10	31.06	34.57	35.12
Total real estate loans	N.A.	2,020	1,824	1,724	1,634	1,629		N.A.	17.85	17.45	18.11	19.89	20.70
All other loans	3,158	997	1,218	1,233	1,207	1,135		26.51	8.81	11.65	12.95	14.69	14.42
Loan loss reserves	0	33	27	33	37	39		0.00	0.29	0.26	0.35	0.45	0.49
Customer loans (net)	3,158	2,985	3,015	2,924	2,805	2,726		26.51	26.37	28.84	30.71	34.13	34.63
Earning assets	11,403	10,854	10,103	9,211	7,962	7,580		95.71	95.88	96.65	96.74	96.87	96.30
Inv. in unconsolidated subsidiaries (financial co.)	2	3	N.A.	N.A.	N.A.	N.A.		0.02	0.02	N.A.	N.A.	N.A.	N.A.
Intangibles (nonservicing)	103	91	44	27	19	18		0.87	0.81	0.42	0.28	0.23	0.23
Fixed assets	152	157	153	174	166	173		1.27	1.38	1.47	1.83	2.02	2.20
Derivatives credit amount	70	59	28	17	21	46		0.58	0.52	0.27	0.18	0.25	0.58
Accrued receivables	48	43	43	36	28	23		0.41	0.38	0.41	0.37	0.34	0.29
All other assets	35	27	43	19	16	14		0.29	0.24	0.41	0.20	0.19	0.17
Total reported assets	12,017	11,411	10,497	9,548	8,238	7,889		100.87	100.81	100.42	100.28	100.23	100.23
Less nonservicing intangibles+ I/O strips	(103)	(91)	(44)	(27)	(19)	(18)		(0.87)	(0.81)	(0.42)	(0.28)	(0.23)	(0.23)
Adjusted assets	11,914	11,320	10,453	9,521	8,219	7,870		100.00	100.00	100.00	100.00	100.00	100.00
								Breakdown as a % of liabilities + equity					
	2009*	**2008**	**2007**	**2006**	**2005**	**2004**		**2009***	**2008**	**2007**	**2006**	**2005**	**2004**
Liabilities													
Total deposits	10,442	9,719	8,652	8,132	7,022	6,810		86.90	85.17	82.42	85.17	85.24	86.32
Noncore deposits	343	125	90	257	114	125		2.86	1.09	0.86	2.70	1.39	1.58
Core/customer deposits	10,099	9,594	8,561	7,875	6,907	6,685		84.04	84.08	81.56	82.48	83.85	84.74
Other borrowings	503	604	608	262	159	133		4.18	5.29	5.79	2.74	1.93	1.69
Other liabilities	193	242	163	197	186	177		1.60	2.12	1.55	2.06	2.26	2.25
Total liabilities	11,138	10,565	9,423	8,591	7,367	7,120		92.68	92.59	89.77	89.97	89.43	90.26
Total shareholders' equity	879	845	1,074	957	871	769		7.32	7.41	10.23	10.03	10.57	9.74
Minority interest-equity	19	17	17	16	18	13		0.16	0.15	0.16	0.17	0.22	0.17
Common shareholders' equity (reported)	861	828	1,057	941	853	755		7.16	7.26	10.07	9.86	10.35	9.57
Share capital and surplus	59	59	59	59	59	59		0.49	0.52	0.56	0.62	0.72	0.75
Revaluation reserve	(20)	(42)	13	42	22	(2)		(0.17)	(0.37)	0.12	0.44	0.27	(0.02)

Table 1

VP Bank Verwaltungs- und Privat-Bank AG--Balance Sheet Statistics (cont.)												
Reserves (incl. inflation revaluations)	822	811	985	840	772	698	6.84	7.11	9.38	8.79	9.37	8.85
Memo: Dividends (not yet distributed)	0	(15)	(65)	(64)	(55)	(35)						
Total liabilities and equity	12,017	11,411	10,497	9,548	8,238	7,889	100.00	100.00	100.00	100.00	100.00	100.00
Equity Reconciliation Table												
Common shareholders' equity (reported)	861	828	1,057	941	853	755						
+ Minority Interest (equity)	19	17	17	16	18	13						
- Dividends (not yet distributed)	0	(15)	(65)	(64)	(55)	(35)						
- Revaluation reserves	20	42	(13)	(42)	(22)	2						
- Nonservicing Intangibles	(103)	(91)	(44)	(27)	(19)	(18)						
Adjusted common equity	796	782	952	824	775	717						
- Equity in Unconsolidated Subsidiaries	(2)	(3)	N.A.	N.A.	N.A.	N.A.			N.A.	N.A.	N.A.	N.A.
Adjusted total equity	794	779	952	824	775	717						

*Data as of June 30, 2009. Ratios annualized where appropriate. CHF--Swiss franc. N.A.--Not available.

Table 2

VP Bank Verwaltungs- und Privat-Bank AG--Profit And Loss Statement Statistics													
		--Year ended Dec. 31--						Adj. avg. assets (%)					
(Mil. CHF)	**2009***	**2008**	**2007**	**2006**	**2005**	**2004**	**-**	**2009***	**2008**	**2007**	**2006**	**2005**	**2004**
Profitability													
Interest income	119	357	393	297	210	156		2.05	3.28	3.93	3.35	2.61	1.95
Interest expense	53	208	251	167	96	59		0.91	1.91	2.51	1.89	1.19	0.74
Net interest income	67	149	142	130	115	97		1.15	1.36	1.42	1.46	1.43	1.21
Operating noninterest income	77	75	237	193	178	150		1.33	0.69	2.38	2.17	2.22	1.87
Fees and commissions	60	152	175	155	144	122		1.04	1.39	1.75	1.75	1.79	1.53
Equity in earnings of unconsolidated subsidiaries	(0)	0	0	0	0	0		0.00	0.00	0.00	0.00	0.00	0.00
Trading gains	7	30	25	21	21	19		0.11	0.28	0.25	0.24	0.26	0.24
Gains/ (losses) on liquidity portfolio securities	N.A.	(63)	N.A.	N.A.	N.A.	N.A.		N.A.	(0.58)	N.A.	N.A.	N.A.	N.A.
Other market-sensitive income	6	(54)	29	8	4	2		0.10	(0.49)	0.29	0.09	0.05	0.02
Other noninterest income	5	9	8	8	9	7		0.08	0.08	0.08	0.09	0.11	0.09
Operating revenues	144	223	379	323	293	247		2.47	2.05	3.80	3.64	3.64	3.09
Noninterest expenses	100	220	200	168	151	141		1.72	2.02	2.00	1.89	1.88	1.76
Personnel expenses	61	132	123	102	92	85		1.06	1.21	1.23	1.15	1.15	1.06
Other general and administrative expense	32	74	56	55	47	43		0.55	0.68	0.56	0.62	0.58	0.54
Depreciation	7	14	22	11	12	13		0.12	0.13	0.22	0.12	0.15	0.16
Net operating income before loss provisions	44	3	179	155	142	107		0.75	0.03	1.79	1.75	1.76	1.33
Credit loss provisions (net new)	4	13	4	3	(1)	(4)		0.07	0.12	0.04	0.03	(0.01)	(0.05)

Table 2

VP Bank Verwaltungs- und Privat-Bank AG--Profit And Loss Statement Statistics (cont.)												
Net operating income after loss provisions	40	(10)	175	152	143	111	0.68	(0.09)	1.76	1.72	1.77	1.38
Nonrecurring/special income	1	4	0	0	0	0	0.02	0.04	0.00	0.00	0.00	0.00
Nonrecurring/special expense	0	68	0	0	0	0	0.00	0.63	0.00	0.00	0.00	0.00
Amortization of goodwill and intangibles	12	14	0	6	7	10	0.21	0.13	0.00	0.06	0.08	0.13
Pretax profit	29	(88)	175	146	136	100	0.50	(0.81)	1.76	1.65	1.69	1.25
Tax expense/credit	2	(8)	14	12	14	9	0.04	(0.07)	0.14	0.13	0.17	0.11
Net income before minority interest	27	(80)	161	135	122	92	0.46	(0.74)	1.62	1.52	1.51	1.15
Minority interest in consolidated subsidiaries	2	3	4	3	2	2	0.03	0.03	0.04	0.03	0.03	0.02
Net income before extraordinaries	25	(83)	158	132	119	90	0.43	(0.76)	1.58	1.49	1.48	1.12
Net income after extraordinaries	25	(83)	158	132	119	90	0.43	(0.76)	1.58	1.49	1.48	1.12
Core Earnings Reconciliation												
Net Income (before Minority Interest)	27	(80)	161	135	122	92						
- Nonrecurring/Special Income	(1)	(4)	0	0	0	0						
+ Nonrecurring/Special Expense	0	68	0	0	0	0						
+/- Tax Impact of Adjustments	0	(6)	0	0	0	0						
+ Amortization/ Impairment of Goodwill/ Intangibles	12	14	0	6	7	10						
Core earnings	38	(8)	161	141	128	102	0.65	(0.07)	1.62	1.59	1.60	1.28
	2009*	**2008**	**2007**	**2006**	**2005**	**2004**						
Asset Quality												
Nonperforming assets	0	30	18	20	37	36						
Nonaccrual loans	N.A.	30	18	20	37	36	N.A.					
Classified loans (substandard, doubtful, loss)	N.A.	73	30	35	46	51	N.A.					
Net charge-offs	N.A.	2	N.A.	6	1	4	N.A.		N.A.			
Average balance sheet												
Average customer loans	3,072	3,000	2,969	2,864	2,765	2,663						
Average earning assets	11,128	10,478	9,657	8,586	7,771	7,721						
Average assets	11,714	10,954	10,022	8,893	8,063	8,030						
Average total deposits	10,080	9,185	8,392	7,577	6,916	6,949						
Average interest-bearing liabilities	10,634	9,791	8,827	7,787	7,062	7,104						
Average common equity	844	943	999	897	804	750						
Average adjusted assets	11,617	10,886	9,987	8,870	8,045	8,009						
Other data												
Commitments and contingencies	152,334	289,869	157,256	N.A.	N.A.	N.A.				N.A.	N.A.	N.A.
Number of employees (end of period, actual)	770	776	681	611	566	549						
Number of branches	N.A.	N.A.	N.A.	5	5	5	N.A.	N.A.	N.A.			
Assets under administration	39,899	35,101	41,919	35,461	30,119	26,100						
Off-balance-sheet credit equivalents	152	290	157	153	145	143						

Table 2

VP Bank Verwaltungs- und Privat-Bank AG--Profit And Loss Statement Statistics (cont.)

*Data as of June 30, 2009. Ratios annualized where appropriate. CHF--Swiss franc. N.A.--Not available.

Table 3

VP Bank Verwaltungs- und Privat-Bank AG--Ratio Analysis

		--Year ended Dec. 31--				
	2009*	**2008**	**2007**	**2006**	**2005**	**2004**
ANNUAL GROWTH (%)						
Customer loans (gross)	9.29	(0.78)	2.87	4.05	2.80	4.45
Loss reserves	(200.00)	20.29	(17.54)	(10.14)	(5.24)	(17.02)
Adjusted assets	10.50	8.29	9.78	15.84	4.43	(3.40)
Customer deposits	10.53	12.06	8.72	14.01	3.32	(4.27)
Total equity	7.98	(21.28)	12.20	9.93	13.28	1.54
Operating revenues	28.76	(41.12)	17.53	10.16	18.44	(5.64)
Noninterest expense	(9.14)	10.01	19.18	11.11	7.31	0.31
Net operating income before provisions	2604.45	(98.19)	15.75	9.14	33.15	(12.49)
Loan loss provisions	(38.76)	243.73	46.96	N.M.	N.M.	(186.37)
Net operating income after provisions	N.M.	(105.78)	15.20	6.77	28.59	(5.06)
Pretax profit	N.M.	(150.33)	19.74	7.83	35.15	1.18
Net income	N.M.	(149.72)	19.74	10.79	32.70	(6.13)
	2009*	**2008**	**2007**	**2006**	**2005**	**2004**
PROFITABILITY (%)						
Interest Margin Analysis						
Net interest income (taxable equiv.)/avg. earning assets	1.20	1.42	1.47	1.51	1.48	1.26
Net interest spread	1.16	1.28	1.23	1.31	1.35	1.19
Interest income (taxable equiv.)/avg. earning assets	2.14	3.40	4.06	3.46	2.71	2.03
Interest income on loans/avg. total loans	2.08	3.48	4.21	3.55	2.66	1.95
Interest expense/avg. interest-bearing liabilities	0.99	2.13	2.84	2.15	1.35	0.83
Revenue Analysis						
Net interest income/revenues	46.45	66.52	37.44	40.22	39.14	39.33
Fee income/revenues	42.04	68.00	46.19	48.16	49.27	49.49
Market-sensitive income/revenues	8.49	(38.59)	14.23	9.02	8.47	8.41
Noninterest income/revenues	53.55	33.48	62.56	59.78	60.86	60.67
Personnel expense/revenues	42.71	59.02	32.42	31.49	31.47	34.34
Noninterest expense/revenues	69.54	98.55	52.75	52.02	51.57	56.92
Noninterest expense/revenues less investment gains	72.40	64.76	57.10	53.30	52.27	57.32
Net operating income before provision/revenues	30.46	1.45	47.25	47.98	48.43	43.08
Net operating income after provisions/revenues	27.61	(4.54)	46.23	47.16	48.66	44.82
New loan loss provisions/revenues	2.85	5.99	1.03	0.82	(0.23)	(1.74)
Net nonrecurring/abnormal income/revenues	0.92	(28.61)	0.00	0.00	0.00	0.00
Pretax profit/revenues	20.13	(39.51)	46.23	45.37	46.35	40.62
Tax/pretax profit	7.06	8.97	7.87	7.87	10.33	8.68
Core Earnings/Revenues	26.25	(3.56)	42.59	43.59	43.87	41.30

Table 3

VP Bank Verwaltungs- und Privat-Bank AG--Ratio Analysis (cont.)						
	2009*	**2008**	**2007**	**2006**	**2005**	**2004**
Other Returns						
Pretax profit/avg. risk assets (%)	0.00	0.00	3.05	2.78	2.92	2.28
Revenues/avg. risk assets (%)	N.A.	N.A.	6.61	6.14	6.29	5.62
Net operating income before LLP/LLP	1069.49	24.22	4606.07	5848.13	(21012.89)	(2472.06)
Net operating income before loss provisions/avg. risk assets (%)	N.A.	N.A.	3.12	2.94	3.05	2.42
Net operating income after loss provisions/avg. risk assets (%)	N.A.	N.A.	3.05	2.89	3.06	2.52
Net income before minority interest/avg. adjusted assets	0.46	(0.74)	1.62	1.52	1.51	1.15
Net income/employee (currency unit)	69,598	(110,218)	249,985	229,351	218,480	168,030
Non-interest expenses/average adjusted assets	1.72	2.02	2.00	1.89	1.88	1.76
Personnel expense/employee (currency unit)	158,903	180,870	190,294	172,766	165,395	155,542
Core earnings/average risk-weighted assets	N.A.	N.A.	2.81	2.67	2.76	2.32
Core earnings/average adjusted assets	0.65	(0.07)	1.62	1.59	1.60	1.28
Core earnings/ Average ACE (ROE)	9.57	(0.92)	18.19	17.59	17.23	14.33
	2009*	**2008**	**2007**	**2006**	**2005**	**2004**
FUNDING AND LIQUIDITY (%)						
Customer deposits/funding base	92.27	92.94	92.46	93.81	96.19	96.29
Total loans/customer deposits	102.49	104.73	106.46	102.84	101.23	101.03
Total loans/customer deposits + long-term funds	90.15	90.98	88.98	89.05	88.10	89.02
Customer loans (net)/assets (adj.)	26.51	26.37	28.84	30.71	34.13	34.63
Parent Only Analysis						
	2009*	**2008**	**2007**	**2006**	**2005**	**2004**
CAPITALIZATION (%)						
Adjusted common equity/risk assets	N.A.	N.A.	16.27	14.63	15.86	16.20
Internal capital generation/prior year's equity	6.04	(9.27)	9.86	8.55	9.14	7.30
Tier 1 capital ratio	14.70	13.60	16.00	15.50	15.30	15.40
Adjusted total equity/adjusted assets	6.66	6.88	9.10	8.66	9.43	9.10
Adjusted total equity/adjusted assets + securitizations	6.66	6.88	9.10	8.66	9.43	9.10
Adjusted total equity/risk assets	N.A.	N.A.	16.27	14.63	15.86	16.20
Adjusted total equity plus LLR (specific)/customer loans (gross)	25.14	26.90	32.18	28.99	28.56	27.32
Common dividend payout ratio	0.00	(17.76)	41.20	44.79	42.13	39.51
	2009*	**2008**	**2007**	**2006**	**2005**	**2004**
ASSET QUALITY (%)						
New loan loss provisions/avg. customer loans (net)	0.27	0.45	0.13	0.09	(0.02)	(0.16)
Net charge-offs/avg. customer loans (net)	N.A.	0.06	N.A.	0.22	0.03	0.14
Loan loss reserves/customer loans (gross)	0.00	1.08	0.89	1.11	1.29	1.40
Credit-loss reserves/risk assets	N.A.	N.A.	0.53	0.64	0.82	0.93
Nonperforming assets (NPA)/customer loans + ORE	0.00	1.00	0.59	0.68	1.29	1.29
NPA (excl. delinquencies)/customer loans + ORE	0.00	1.00	0.59	0.68	1.29	1.29
Net NPA/customer loans (net) + ORE	0.00	(0.09)	(0.30)	(0.44)	0.00	(0.11)
NPA (net specifics)/customer loans (net specifics)	0.00	(0.09)	(0.30)	(0.44)	0.00	(0.11)

Table 3

VP Bank Verwaltungs- und Privat-Bank AG--Ratio Analysis (cont.)						
Loan loss reserves/NPA (gross)	N.M.	108.79	151.08	162.99	100.00	108.37

*Data as of June 30, 2009. Ratios annualized where appropriate. N.A.--Not available. N.M.--Not meaningful.

Ratings Detail (As Of September 25, 2009)*	
VP Bank Verwaltungs- und Privat-Bank AG	
Counterparty Credit Rating	A-/Stable/A-2
Certificate Of Deposit	A-/A-2
Senior Unsecured (1 Issue)	A-
Counterparty Credit Ratings History	
24-Feb-2009	A-/Stable/A-2
19-Sep-2008	A/Negative/A-1
30-Aug-2005	A/Stable/A-1
Sovereign Rating	
Liechtenstein (Principality of)	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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