VTM INTERNATIONAL FUNDMANAGEMENT AG
Liechtenstein

Vaduz, 14.03.2024

Investment Case VP Bank Group (VP Bank)

Critical assessment of the 2023 result

According to the annual report published on 12 March 2024, VP Bank's net profit rose by 10.1% from CHF 40.2 million in 2022 to CHF 44.2 million in 2023, which is far below the 2021 net profit of CHF 50.6 million and only slightly above the 2020 net profit of CHF 41.6 million. The reported 2023 net profit cannot even meet VP Bank's minimum cost of equity requirements and thus once again falls short of analysts' expectations. The higher net income in 2023 is almost exclusively the result of improved net interest income (2021 CHF 110.0 million, 2022 CHF 121.5 million, 2023 CHF 133.6 million), to which neither the Board of Directors nor the Executive Board of VP Bank made a major contribution. The pronounced cost growth in recent years (CHF 272.1 million in 2021, CHF 291.2 million in 2022, CHF 313.5 million in 2023), for which the Board of Directors and the Executive Board of VP Bank are responsible, has not yet yielded any significant results for the shareholder. The 2HY 2023 result of CHF 18.9 million indicates a pronounced weakening of the earnings situation compared to 2HY 2022 with CHF 21.3 million and 1HY 2023 of CHF 25.5 million.

The Board of Directors and Executive Board of VP Bank have set themselves the following goals in 2021 to be realized until 2026:

Net New Money	+ 4% p.a.
Earnings growth	+ 4% bis + 6% p.a.
Profitability: Cost/income ratio (CIR)	< 75%
Stability: Core capital ratio (Tier 1 ratio)	> 20%

The commission business and services, which has been promoted by the Board of Directors and Executive Board at great expense in recent years, deteriorated further from CHF 156.5 million in 2021 to CHF 139.6 million in 2022 and CHF 137.9 million in 2023.

Not surprisingly, client assets under management also remained at CHF 46.4 million and the Executive Board of VP Bank expects further outflows in the order of CHF 0.6 billion. The figures for net new money inflows achieved since the new management took over in October 2019 are sobering and do not even come close to achieving the target of +4% p.a. (2021 +0.5%, 2022 +2.0%, 2023 0%).

VP Bank's growth and annual income have fluctuated wildly in recent years (2021 +22%, 2022 -21%, 2023 +10%). Despite the tailwind from the interest-earning business, the cumulative result is merely treading water (2020 CHF 41.6 million, 2021 CHF 50.6 million, 2022 CHF 40.2 million, 2023 CHF 44.2 million) and falls well short of the set target of annual income growth of + 4% to + 6%.

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The cost/income ratio remained at 86.0% in 2023 (86.6% in 2022), which indicates a further deterioration in 2HY 2023 compared to 1HY 2023 with 84.0% and is well above the 82.5% CIR achieved in 2021. Here, too, VP Bank is clearly moving away from the target of less than 75% in 2026.

Although the target of a core capital ratio of > 20% is achieved at 24.9%, it makes little sense without a limit and can be achieved, for example, by VP Bank holding a high level of liquidity at the Swiss National Bank with negative consequences for the shareholders with no effort and no risks to the Board of Directors and Executive Board.

With a return on equity of 4.1% in 2023 (PY 3.7%), VP Bank does not even cover the cost of equity, which we estimate at 7% to 10%. According to the KPMG study "Average Cost of Equity 2022", the average cost of equity for banks is 8.6% for Germany, Austria and Switzerland. VP Bank is thus continuously destroying shareholder value, which is reflected in the discount of VP Bank's market capitalization to its book value of CHF 179.63 per registered share A. Using the same valuation parameters as used currently by shareholders investing into shares of VP Bank und applying a sustainable return on equity of 4.1% and a cost of equity of 7.0% would result in a fair value per registered share A of CHF 105.2 which is not surprisingly close to the current market price of a registered share A. In essence, market participants do not believe that the goals of the Board of Directors and Executive Board of VP Bank set in 2021 and to be realized until 2026 will realized which should give the Board of Directors and Executive Board of VP Bank pause for thought.

Since the new management took over in October 2019, VP Bank has been continuously selling its registered shares A held on treasury with a par value of CHF 10 and continuously buying its registered shares B with a par value of CHF 1. As a result, the number of registered shares A held on treasury fell from 598,065 as of 31.12.2019 to 416,615 as of 31.12.2023 and the number of registered shares B held on treasury increased from 327,419 to 344,369 over the same period. Obviously, there is a market for registered shares A and no market for registered shares B. We would be happy to offer VP Bank a market for registered shares B should be of interest to VP Bank what we believe it should be. Contrary to all logic, VP Bank has continuously carried out small capital increases by selling registered shares A into the market below the book value of the shares over the past four years, which are then either invested in activities that do not even cover the cost of capital or help cover probable liquidity needs of a few shareholders with shares with higher voting rights, i.e. the registered shares B. As long as the shares of VP Bank are traded massively below book value, we are of the opinion that in order to fulfill minimum corporate governance requirements for VP Bank, these registered shares A should first be offered to existing shareholders before registered shares A are offered to the anonymous market.

<u>Benchmarking</u>

In benchmarking, we look for comparable financial institutions in similar markets, similar revenue profile (business with use of the balance sheet vs. business without use of the financial institution's balance sheet) and total assets to VP Bank in order to derive an appropriate profitability with an appropriate risk profile based on the leverage ratio and the liquidity coverage ratio for VP Bank using the financial data for the 2022 and 2021 financial years of these comparable financial institutions. For us, comparable financial institutions are retail banks in Switzerland with a pronounced commission business and services (i.e. without using the balance sheet of the financial institution), the same or similar accounting standards, a similar risk profile and total assets of CHF 12 to CHF 25 billion (comparative banks).

In order to derive an appropriate profitability of VP Bank, we compare the key figures return on assets (ROA), CIR and interest margin of the comparative banks with VP Bank for the financial years 2022 and 2021, as the figures for 2023 of the comparative banks are not yet fully available to us.

ROA is the ratio of annual profit to total assets. The ROA shows how much surplus income can be generated with each CHF of the balance sheet. Some comparative banks do not have true and fair financial statements. For these comparative banks the annual profit is adjusted for the allocation to the reserves.

The CIR measures the ratio between operating expenses and operating income. Operating expenses includes personnel expenses. Extraordinary effects, such as value adjustments and write-downs, are not accounted for in calculating the CIR of the comparable banks. At VP Bank, the extraordinary effects are small, as these extraordinary items such as value adjustments on credit risks and provisions and losses have more or less canceled each other out in the 2021 and 2022 financial years. The CIR shows how much of each CHF received must be spent on providing the service.

The interest margin measures the ratio between the net interest income and the portion of the balance sheet total that is responsible for the net interest income. The balance sheet items include the sum of cash and cash equivalents, receivables from money market instruments, banks and customers as well as financial investments. The interest margin of all Swiss retail banks was taken as the interest margin of the comparative banks, as we do not have the interest margins of retail banks with a similar business profile and total assets of CHF 12 to CHF 15 million, which were stable at 1.15% in the 2021 and 2022 financial years.

	VP Bank		Comparative banks	
	2021	2022	2021	2022
ROA in %	0.38	0.31	0.44	0.53
CIR in %	82.5	86.6	56.0	50.8
Interest margin in %	0.86	0.98	1.15	1.15

The average ROA of the comparative banks was 0.53% in the 2022 financial year and 0.44% in 2021, while that of VP Bank was 0.31% in 2022 and 0.38% in 2021. Despite all the investments in the commission business and services, which should only have a minor impact on the balance sheet, VP Bank does not even achieve the earnings situation of the comparative banks, which are Swiss retail banks with businesses typically associated to high balance sheet needs.

The CIR also shows a similar picture. The average CIR of the comparative banks was 50.8% in 2022 and 56.0% in 2021. That of VP Bank was an absurdly high 86.6% in 2022 and 82.5% in 2021 and rose to around 88.0% in 2HY 2023. This is against the backdrop that VP Bank set itself the goal in 2021 of achieving a CIR of below 75% in 2026.

The slightly lower interest margin of VP Bank compared to the comparative banks explains this discrepancy in ROA and CIR only marginally. It is much more likely that the accelerated expansion of the commission business and services with locations in Luxembourg with 162 employees (PY 141 employees), Hong Kong with 19 employees (PY 17 employees) and Singapore with 85 employees (PY 79 employees) in addition to the horrendous Group costs in Liechtenstein of CHF 182.1 million (PY CHF 164.2 million) compared to VP Bank's total operating expenses of CHF 313.5 million (PY CHF 291.2 million) are not generating any relevant contribution to VP Bank or are even producing losses in certain businesses.

The internationalization strategy and group costs of VP Bank must be reviewed and corrections made if necessary.

Role of shareholders with voting rights and registered shares B

At the end of 2023, the following shareholders indicated that they held more than 10 per cent of the share capital of VP Bank or more than 5 per cent of the voting rights:

	Votes	Capital
Stiftung Fürstl. Kommerzienrat Guido Feger, Vaduz	46.6%	23.0%
U.M.M. Hilti-Stiftung, Schaan	10.3%	9.7%
Marxer Stiftung für Bank und Unternehmenswerte, Vaduz	6.3%	11.4%

The participation in the share capital and voting rights of the 3 most important shareholders has remained unchanged over the last few years. The Marxer Foundation holds only registered shares A with a par value of CHF 10 and the Guido Feger Foundation, together with the Hilti Foundation, holds 5,188,417 of the total 6,004,167 registered shares B with a par value of CHF 1. The regular sales of shareholders with registered shares B over the last 4 years have accordingly not been made by the 2 shareholders holding shares with higher voting rights, i.e. shares B.

The Articles of Incorporation of VP Bank contain no provisions on opting-out or opting-in in accordance with Swiss regulations. There are no change-of-control clauses in favor of members of the Board of Directors or Executive Board of VP Bank. Nevertheless, the co-determination rights of public shareholders at VP Bank are massively restricted. Amendments to the Articles of Incorporation regarding the shift in the ratio between registered shares A on the one hand and registered shares B on

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the other require the approval of at least two-thirds of all shares issued by VP Bank, an approval quota that in some cases was not even the quorum at an ordinary annual general meeting.

In fact, the three foundations control VP Bank with 43.7% of VP Bank's capital. However, it is quite conceivable that the Hilti Foundation and the Marxer Foundation in particular are looking at alternatives in view of VP Bank's inadequate and unimproving results.

Conclusion

The current market capitalization of just under CHF 600 million is probably less than the liquidation proceeds of VP Bank, which we estimate at approximately CHF 800 million before taxes. The extent to which the Board of Directors and Executive Board of VP Bank are aware of this fact and nevertheless continue to sell registered shares A may be and remain a mystery.

Obviously, the Board of Directors and the Executive Board of VP Bank do not represent the interests of the shareholders with registered shares A, who demand that the goals once set be concretized and lived up to. Obviously, the goal of an annual net new money inflow of + 4%, which is being pursued with all possible means, will not be achieved and will have to be dropped at the expense of other goals such as annual earnings growth of + 4 to + 6%. The internationalization strategy should also be questioned and group costs of VP Bank reduced so that a CIR of less than 75% can be achieved in 2026.

We hope that Stephan Zimmermann, the designated new Chairman of the Board of Directors at the 2024 Annual General Meeting, and the newly elected Board members Dr. Dirk Klee and Philipp Elkuch will support our concerns and wish them every success.

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