

Strategic orientation of VP Bank



Segment-oriented business model

The business model of VP Bank is based on two strategic pillars: private banking and the intermediaries business. The home market activities in Liechtenstein are supplemented by retail banking and the commercial business. VP Bank considers it a matter of course and a central task to fulfil all regulatory and crossborder requirements as well as to offer a comprehensive range of services that correspond to the business model of VP Bank Group.

From the various locations of VP Bank Group – namely Vaduz, Zurich, Luxembourg, Tortola, Singapore, Hong Kong and Moscow – clearly defined target markets are actively cultivated. The local offices bear responsibility for developing their own markets and receive coordinative assistance from the Group. The defined target markets for Europe comprise Liechtenstein, Switzerland, Germany, Luxembourg, Belgium, Italy and Russia; in Asia, the Group's focus is on Singapore, Hong Kong and the neighbouring countries.

One of VP Bank Group's key efforts in 2014 was to coordinate the Bank's market cultivation activities more efficiently. As a part of this, the segments and markets were clearly demarcated in order to avoid overlaps and the intermingling of direct and intermediary clients.

Medium-term goals

Until the end of 2014, the previously established medium-term goals remained unchanged: a tier 1 ratio of at least 16 per cent, a cost/income ratio of 65 per cent and net new money inflows averaging 5 per cent per year. A review of these goals revealed that they needed to be adjusted.

At the end of 2014, the legally prescribed core capital ratio stood at 8 per cent; the tier 1 ratio at VP Bank was at least twice that amount. As VP Bank is deemed to be system-relevant, the new

core capital requirement under the Basel III directive (CRD IV) has been raised to 13 per cent with effect as of February 2015. Therefore, a medium-term goal of at least 16 per cent represents no added value for investors and clients; at the same time, an increase of this current target would severely constrain the Bank's financial room for manoeuvre – for example, in terms of acquisitions.

Especially in light of the new regulatory requirements, the Board of Directors has decided to reassess VP Bank's medium-term goals. The findings of the assessment will be announced in connection with the publication of the 2015 semi-annual results in late August.

Lean organisational structure

The financial reporting of VP Bank Group addresses three distinct segments; the ultimate responsibility for each segment is assigned to a respective member of Group Executive Management (GEM). As a concrete response to the changed regulatory and market conditions, the Board of Directors has reinforced the client orientation of the entire organisation. At the outset of 2014, the units that deal directly with clients were combined to create a new organisational unit, "Client Business". The new structure thus now consists of three – instead of the previous four – organisational units.

With this streamlined set-up, the relevant processes and responsibilities are simplified and better coordinated, while reaction times are optimised. The elimination of existing redundancies is another significant dimension of this new organisational structure. Client focus will be intensified even more through greater Group-wide collaboration and the bundling of competencies.

Clearly defined management structure

Management structures must be flexible enough to enable a rapid response and adaptation to changing market conditions as well as to ensure effective implementation of the strategy. As a result of the recent organisational adjustments, VP Bank Group now has a lean, client- and sales-oriented management structure. A broadly based second-level management team of 19 individuals is available to support the GEM in its activities.

Independence and growth

VP Bank's primary strategic goal is to achieve profitable growth as a Group from its activities in the defined target markets and target segments, thereby preserving the Bank's independence. Cost consciousness remains an important topic. Through revenue and thus earnings growth, combined with a lower-than-average increase in costs, a sustainable increase in profits is being strived for. A significant role will be played in this regard by the satellite locations of VP Bank, which contribute to the growth of the Group.

In the financial services industry, a consolidation phase is still underway, and taking advantage of promising, well-suited opportunities remains a central element in VP Bank's quest to achieve its growth objectives. Various projects were therefore examined in 2014; however, these need to fit ideally with the strategy and culture of VP Bank Group. Through the merger with Centrum Bank in Liechtenstein, VP Bank demonstrated yet again its proactive, targeted approach to taking advantage of these attractive market opportunities as a means of generating growth. In consequence, VP Bank has gained a considerably stronger position in the Liechtenstein banking sector, and the capacity of its booking platform can be better utilised through the increased transaction volume. Moreover, this means that another reliable, long-term-oriented Liechtenstein family has become an anchor shareholder of VP Bank. Both banks cultivate the same target markets and client segments. Hence, considerable synergies are to be had, especially in the area of backoffice processing. In future, VP Bank will continue to consider suitable acquisition projects at its booking locations.

The Bank's medium-term planning envisages both organic growth and growth via acquisitions. The aim here is to achieve an average annual 5 per cent increase in net new money on the basis of client assets under management. VP Bank Group was unable to reach that target in 2014. The acquisition efforts have met with expectations, but the outflows in 2014, especially from European clients, remained at a relatively high level. This was attributable in particular to the many issues surrounding the tax transparency process which VP Bank Group is resolutely implementing.

For VP Bank, growth means winning new clients in its target markets and pressing further ahead with the qualitative growth of client assets under management. To this end, markets, client segments, as well as products and services are being subjected to close analysis at all of the Bank's locations.

In this regard, a prudent approach to dealing with risk is a core principle of VP Bank. The Bank's internal control system (ICS) helps to manage operational risks efficiently and is being continuously expanded. Further information in this regard can be found in the "Risk management of VP Bank Group" section of this annual report (see pages 100 f.).

The client groups at VP Bank

In connection with its reorientation towards clearly demarcated segments and markets, VP Bank has developed specific service models for each client group.

In the private banking area, the offer for existing clients is being successively broadened with an optimised range of products and services as well as innovative forms of communication; this, of course, in combination with VP Bank's decades of investment competence.

The intermediaries business offers promising growth opportunities. VP Bank is increasing the number of partnerships it has with this target group and making new models available for their use – for example, expanded platforms that provide banking services, training courses, research, crossborder and compliance know-how, as well as investment controlling, all of which are already available in-house and are now being offered to a broader circle of intermediaries. Efficient service models for fiduciaries and external asset managers, the personal nurturing of relationships and the establishment of strategic partnerships are evidence of VP Bank's intensified client orientation, optimal deployment of resources and heightened service quality. Through "Key Account Management", a new and more comprehensive advisory approach, mid- and large-sized fiduciary clients are offered these services in a tailored, suitable manner.

VP Bank's markets

Liechtenstein is home to VP Bank Group's main offices. Founded in 1956, the Bank offers – in Vaduz as well as at all other locations of VP Bank Group – a wide range of services to private banking and financial intermediary clients. In Liechtenstein and the neighbouring region, this offer is supplemented with retail banking activities, while institutional and regional corporate clients take advantage of VP Bank's investment and working capital finance facilities. All of the services rendered by the central staff offices as well as back-office operations are handled exclusively at the Bank's headquarters in Liechtenstein.

The Asia-Pacific region remains a market where tremendous growth opportunities lie for VP Bank. VP Bank has had local offices in Hong Kong and Singapore since 2006 and 2008, respectively. These branches are devoted to advancing the local Asian business. Here, VP Bank places special emphasis on the organic growth of the intermediaries business. In 2014, additional teams were hired and the redoubled marketing efforts have already resulted in initial successes.

VP Bank also views Central and Eastern Europe as a region where growth can be generated. In 2014, these markets were more aggressively cultivated by the Bank's representative office in Moscow (opened in 2005) as well as by competent specialist teams at the Zurich and Vaduz locations. Since mid-October 2014, a seasoned industry professional has been in charge of the Moscow Representative Office. Here, too, the intensified marketing activities have led to acquisition successes.

Luxembourg is a financial centre for international investors. The Grand Duchy has been specialised for years in the pan-European fund distribution business and is the world's second-largest fund centre behind the US. VP Bank has had offices there since 1988 and is the only Liechtenstein-based bank to be present in both the Luxembourg and Liechtenstein fund centres. The Bank has leveraged this strategic advantage through the previously reported asset deal with HSBC Trinkaus & Burkhardt (International) SA, a move aimed at growing the location's private banking business and broadening its competence in the investment fund area. 2014 was marked by the successful integration of the Trinkaus & Burkhardt team. 2015 will see a closer tie established between this Luxembourg subsidiary and the parent bank in Liechtenstein, with the objective of benefiting from synergy effects.

The fund business represents an especially attractive growth segment for VP Bank Group. With the arrival of a new general manager as of 1 January 2015, responsibility for the entire Luxembourg and Liechtenstein fund business will be centrally consolidated. Group-wide leadership of this strategically important business will now be handled out of Luxembourg.

In October 2014, VP Bank Group initiated a project aimed at simplifying the business processes at the Luxembourg location and bringing them in line with the Group standards. The goal of this effort is to optimise the resources and avoid trans-location redundancies.

VP Bank (Switzerland) Ltd also represents a long-term mainstay of the Group. VP Bank has been present in Zurich with a subsidiary ever since 1988. In 2014, a wide array of personnel and organisational measures were taken at the Zurich branch in order to enhance the efficiency of market cultivation activities and further develop the client base. The success of these measures is already becoming evident.

For years, Germany has been a target market for VP Bank. Of primary importance are long-term relationships with clients who attach the greatest value to capital preservation. In Switzerland, VP Bank takes advantage of the possibilities afforded by the "EU passport": after completing a minimum of formalities, the European Union permits the cross-border and simplified distribution of certain financial products throughout the EEA by Swiss-based banks. In 2014, Germany's Federal Financial Supervisory Authority (BaFin) approved a request for exemption by VP Bank (Switzerland) Ltd. This exemption enables VP Bank (Switzerland) Ltd, via referral from the Head Office in Liechtenstein, to actively acquire clients in Germany and subsequently service them on a crossborder basis.

During the course of 2014, the service team for German clients at the Zurich location was expanded significantly. Under its new market head, Zurich will now be in charge of coordinating the Group-wide selling activities in the German market. Among other things, this coordination will involve the development and implementation of the market-specific strategy, a market-consistent array of products and services, as well as the assurance and supervision of compliance with the applicable regulatory requirements in collaboration with all responsible organisational units of VP Bank Group.

In late 2013, VP Bank (Switzerland) Ltd decided as a precautionary measure to participate in Category 2 of the US programme aimed at settling the tax dispute between Swiss banks and the United States. Exhaustive internal clarifications and third-party expert opinions subsequently revealed that there was no rationale for further participation in the US programme. In consequence, VP Bank (Switzerland) Ltd withdrew from the US programme in mid-2014.

VP Bank has been present with a subsidiary company on the British Virgin Islands (BVI) since 1995. VP Bank (BVI) Ltd offers traditional banking services as well as credit and mortgage-based financing. 2014 was marked by VP Bank Group's complete takeover of VP Bank (BVI) Ltd from Allgemeines Treuunternehmen (ATU) and the cession of other jointly held financial participations to ATU as a means of structural rationalisation. In the autumn of 2014, a new Executive Board was installed and, in February 2015, VP Bank (BVI) Ltd celebrated its 20th anniversary and relocation to a new office building.

Group efficiency

The financial services industry has been confronted for years with the problem of higher cost structures and narrower margins. Increasing regulatory requirements have also resulted in additional costs. VP Bank is therefore highly cost-conscious.

Over the past three years, the process of identifying potential areas for cost savings was successfully conducted. The measures associated with various projects were largely implemented. The related findings have flowed into what is now a disciplined, ongoing cost-management process.

In addition to these measures, VP Bank initiated the "Apollo" project in 2014. Apart from the previously discussed clear positioning in private banking and the intermediaries business, the project is focused on identifying and exploiting potential areas for savings throughout the Group as well as optimising the product and service range. During the past year, employees of VP Bank Group worked at full speed on the various subprojects, all of the necessary internal switches were set, and the project itself has been successfully completed to the greatest extent. As of 2015, the changes will also become noticeable for the Group's external stakeholders.

In recent years, a focal point for the efficiency-enhancement measures has been the area of IT and Group Operations. With the "Avaloq" core banking software system, VP Bank Group has modern, stable and reliable IT infrastructure at all of its booking locations. It covers the entire spectrum of client needs. The task is now to gain the greatest possible efficiency and benefit for the entire Group from these investments and all IT-based services.

At the Luxembourg location, VP Bank initiated a project in October 2014 aimed at aligning the local business processes with the Group's standard as well as avoiding trans-location service redundancies. In this connection, it is necessary to introduce Group-wide standards that meet all regulatory requirements. With a solid, systematised foundation of processes and procedures that take into account country-specific rules and regulations, VP Bank is forming the basis for the full realisation of this project's goals and hence for sustainable growth.

Efficiency is also being driven forward at the top management level: "online boardrooms" have been the order of the day at VP Bank since 2014. A new tool underpins the concept that confidential documents no longer need to be dispatched physically by post or electronically via e-mail, but instead made available to all authorised parties by means of secure Internet access to a centralised virtual room. The official bodies of VP Bank Group (Board of Directors, GEM and various committees) can use iPads to obtain all relevant documents electronically and regardless of the local time. Meetings can therefore be conducted on a paper-free and location-independent basis, while participants have access to the latest versions at all times. The means of document management also contributes to ensuring compliance with requirements relating to internal directives on document administration and compliance.

Partnerships

Via partnerships, VP Bank also strives to exploit intercompany synergies. Especially in the Liechtenstein financial centre, cooperative ventures afford a way of countering increasing costs. They allow for the establishment of alliance-based business models. To that end, VP Bank maintains a policy of best-practice sharing with other banks in order to jointly utilise and optimise available resources. In the age of globalisation, a reciprocal transfer of know-how is advantageous for all parties involved.

Strategic partnerships are therefore an important element of VP Bank Group's business model. VP Bank cooperates with Liechtensteinische Landesbank (LLB) in the area of printing and shipment as well as via a joint procurement company. VP Bank also leases one floor of the new LLB data processing centre, where it took up occupancy in 2013. The building was conceived and constructed specifically as an energy-efficient data processing centre. In this collaboration, the latest IT solutions and efficient data management are the main motivation for both partners.

In the years ahead, VP Bank will continue to examine the viability of partnerships and joint undertakings. As part of the merger with Centrum Bank, the Marxer group will work together with VP Bank as a "preferred partner".

Business Process Management

The centralisation of routine tasks and the automation of certain procedures lead to enhanced quality and facilitate the precise analysis of all of the company's processes.

For that reason, VP Bank is building a Business Process Management (BPM) platform with which processes can be conducted electronically. Many existing processes are paper-based, i.e. forms are filled out and distributed to the various recipients by means of internal post. The BPM platform is a strategic tool for simplifying these Group-wide processes and reducing the manual work.

Processes that are highly standardised and/or require considerable automation are replicated on the BPM platform. The platform is also intended to become a tool for use by client advisors as they attend to their many tasks. At the end of 2014, VP Bank introduced a new, comprehensive software solution that enables seamless integration with the existing Avaloq banking application. It forms the basis for savings and makes it possible for the advisors to conduct uniform processes for each client. This way, best practices can be applied comprehensively to the benefit of the entire VP Bank Group.

Thanks to its automated business processes, VP Bank can enhance its efficiency throughout the entire client life cycle, whilst reliably fulfilling the applicable compliance requirements and achiev-

ing the complete digitisation of client records. Clients benefit from the shorter throughput times afforded by these automated processes. The account-opening process is just the first in a series of processes that will become noticeable for clients in 2015. And with this, VP Bank is also setting the stage for the implementation of the OECD directive on the automatic exchange of information (AEI), which Liechtenstein committed to in 2014 and will take effect as of 2016.

Competent advisors and teams

The private banking industry is still in a state of flux. The rendering of financial advice is different today than it was just several years ago. Clients are better informed, more mobile and more demanding. Additional challenges are posed by the stricter regulations and an increasing need for transparency. And due to those client demands, the requirements profile for client advisors has also changed. For excellent, comprehensive client care, a greater level of competence is required. Asset management expertise must be combined with insight into crossborder tax law and international finance.

In this environment, VP Bank is in the process of expanding its client base. More and more, the tax transparency and conformity issue is taking centre stage. In order to advise clients even more competently, the Bank is redoubling its efforts in the area of professional training.

As a result of these vast changes, the question is also being asked internally within VP Bank as to which culture is best suited to meeting the new requirements. At a team workshop for first- and second-level managers in late 2014, Group Executive Management introduced guidelines requiring that each manager assume greater self-responsibility and also take decisions on their own. In an effort to foster a results-oriented performance culture, various methodical approaches and work priorities were defined in a presentation entitled "Culture and leadership". In 2015, special attention will be paid to the organisational development and cultural change in Luxembourg as well as to the integration of Centrum Bank.

Marketing excellence

Outstanding advisory services and tailored solutions are of tremendous importance to the marketing effort. As a part of this, issues relating to enhanced efficiency and quality, resources and processes, innovative services and products, as well as the qualifications of personnel are of central importance. In connection with the "Apollo" project, VP Bank initiated measures in 2014 aimed at enhancing the Bank's marketing excellence. Client discussions are now adapted to the given client segment and structured uniformly, while the overall contact frequency has also been increased.

For the newly defined segments and the associated client needs, VP Bank has developed specific client-care concepts which address, for example, the following topics:

- Segment-specific positioning
- A customised client-care model
- The palette of services

In pursuit of marketing excellence, VP Bank managers will in future invest more time in the coaching of their staff. Related workshops were held in 2014. Apart from fostering a shared understanding of leadership, the sessions defined and adopted binding management processes and instruments (acquisition/sales planning, sales meetings, etc.).

VP Bank considers this to be a suitable means of differentiating itself from other banks, and it intends to develop the marketing excellence concept further in a targeted manner.

Services and products

VP Bank's traditional range of offers is regularly examined for its suitability for the current environment and is supplemented, where required, with need-oriented services and products. In connection with the "Apollo" project, the service range was adapted to reflect the new segments and changing client requirements.

Since mid-2014, VP Bank has made available a free Wi-Fi network at its facilities in Liechtenstein and in Zurich that clients may use for business purposes.

Also in 2014, the ATMs in Liechtenstein were replaced by the latest generation of cash machines. Clients of VP Bank benefit from the enhanced user-friendliness afforded by a touch screen, a sense of security thanks to surveillance cameras and new functionalities for account deposits and withdrawals.

The product offer for existing clients is being broadened through the gradual introduction of innovative forms of communication. For instance, VP Bank has long had a state-of-the-art e-banking platform. A new version of "e-banking mobile" was already implemented back in 2013: it turns a smartphone into a mobile bank and enables the environmentally friendly transmission and receipt of e-Post. Clients have the possibility with a smartphone to query their account and safekeeping balances as well as to administer orders for securities and payment transactions. In addition, payment slips can be scanned in using the smartphone's inbuilt camera.

In the autumn of 2014, VP Bank successfully introduced a new means of client interaction: the "e-banking mobile push function". Clients can be notified when a message from their client advisor or the VP Bank hotline awaits them, when payment or securities orders require their authorisation or when a new e-Post confirmation has been received. Further enhancements are planned.

These new technologies have been warmly received by clients. The use of e-banking mobile increased in 2014 by 56 per cent compared to the previous year.

In December 2014, VP Bank modernised its www.vpbank.com website, bringing it in line with the latest technological standards. Thanks to "responsive design", the portal accommodates the characteristics of the specific user device on which it is displayed. While the basic design remains the same, the image adapts automatically to the size of the user's display. Thus the site can be navigated just as easily with a smartphone as it can with a large computer monitor.

VP Bank's new advertising campaign, which was launched in 2014, highlights the diversity of the Bank's wide array of products and services.

Outlook

The effects of VP Bank's realigned focus on target markets and client segments in today's tax-transparent environment, as well as the identification of trends, challenges and opportunities, marked the lift-off of the previously mentioned "Apollo" project, which was successfully completed at the end of 2014. This visionary project will continue to shape the development of VP Bank far beyond 2014.

For 2015, VP Bank has defined four key areas of action:

- The integration of Centrum Bank into VP Bank
- VP Bank (Luxembourg) SA – simplification and alignment of the business processes; optimisation of resources and avoidance of redundancies; and centralisation of undifferentiating back-office services at the Vaduz location
- The bundling and uniform coordination of VP Bank Group's investment fund expertise
- The continuation and broadening of the scope of the measures adopted in connection with the "Apollo" project and aimed at the exploitation of potential sources of savings and synergies throughout VP Bank Group

Yet again in 2015, VP Bank will resolutely pursue its growth strategy and expects a further increase in the significance of digitisation and regulatory measures in the financial industry.