MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms ratings of Bank Vontobel and Vontobel Holding, outlook stable

28 May 2018

Affirmation follows the announcement to acquire Switzerland's Notenstein La Roche Privatbank AG

Frankfurt am Main, May 28, 2018 -- Moody's Investors Service today affirmed Bank Vontobel AG's (Bank Vontobel, or "the bank") deposit ratings at Aa3/P-1. Concurrently, Moody's affirmed Bank Vontobel's a2 Baseline Credit Assessment (BCA) and a2 Adjusted BCA, as well as its A2(cr)/P-1(cr) Counterparty Risk (CR) Assessments. The rating agency further affirmed Vontobel Holding AG's (Vontobel, or "the group") A3 issuer ratings.

The outlook on the long term ratings of both issuers remains stable.

The rating action follows Vontobel's announcement on 24 May 2018 of its intention to acquire Notenstein La Roche Privatbank AG (Notenstein) from Raiffeisen Schweiz (deposits Aa2 negative/senior unsecured A2 negative, BCA a2). The acquisition will strengthen Vontobel's wealth management, in particular in Switzerland where the majority of Notenstein's clients are domiciled. Vontobel expects the closing of the transaction in the third quarter of 2018 which is subject to regulatory approval.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

-- AFFIRMATION OF BANK VONTOBEL'S BCA AND ADJUSTED BCA

The affirmation of Bank Vontobel's BCA and Adjusted BCA reflects the franchise strengthening of its wealth management, balanced against moderate erosion of Vontobel Holdings's strong capitalization. The rating agency's assessment also takes into account both entity's broadly stable credit metrics, including continued good capitalization, and limited operational risks as a result of the planned transaction. Moody's expects that Vontobel Holding's capital ratio will decline moderately upon the acquisition of assets under management (AUM) and additional balance sheet assets, including mortgage loans. The rating agency's assessment is based on the group's strong 18.4% Common Equity Tier 1 (CET1) capital ratio at end-2017 and Vontobel's intention to issue a high-trigger Additional Tier 1 (AT1) bond, which somewhat mitigates the negative effect on the group's capital, reflecting the acquisition price of around CHF700 million.

Moody's recognizes the franchise-enhancing aspects of the proposed transaction which will see Vontobel to acquire around CHF16.8 billion in assets under management (AUM), increasing its total AUM from wealth management to around CHF72.6 billion, compared with CHF54.0 billion at end-2017. The transaction remains subject to regulatory approval, and is expected to close in Q3 2018. As a result of the transaction, Vontobel adds scale to its private banking platform, in particular to its domestic activities because around 70% of acquired AUM relate to clients domiciled in Switzerland. The transaction will also broaden Vontobel's international activities because around 20% of AUM relate to non-domestic markets where Vontobel is already present.

While a transaction of this size also increases Vontobel's susceptibility to typical risks applicable to private banks, such as reputational, legal and operational risks, Moody's believes that these risks and the economic impact are manageable given the group's track record from past acquisitions to successfully integrate new clients and employees. During 2017, Vontobel acquired a portfolio of Eastern European clients from Notenstein (around CHF2 billion of AUM), and successfully completed the integration by December 2017.

Further, Moody's believes that Bank Vontobel's and Vontobel Holding's earnings capacity will improve starting 2019, once Notenstein's wealth management activities are successfully integrated into the Zurich-based private bank and the transaction-related integration costs of around CHF50 million are fully digested.

-- AFFIRMATION OF LONG-TERM RATINGS

The affirmation of Bank Vontobel's Aa3 long-term deposit ratings and Vontobel Holding's A3 issuer ratings follows the affirmation of the bank's a2 BCA and Adjusted BCA. The notching applied to Bank Vontobel and Vontobel Holding's rated liabilities under Moody's Advanced Loss Given Failure (LGF) analysis remains unchanged and takes into account the rating agency's assessment of Bank Vontobel's and Notenstein's anticipated combined balance sheet.

Bank Vontobel's deposit ratings continue to benefit from a very low loss-given-failure reflecting the high volume of deposits protecting deposit holders in the unlikely event of failure or resolution, leading to two notches of rating uplift from its a2 Adjusted BCA.

Vontobel Holding's issuer ratings continue to indicate a high loss-given-failure for the group's senior unsecured debt instruments, which reflects the absence of senior unsecured debt outstanding and the resulting limited cushion through equity available at the holding company level. This leads to a positioning of Vontobel Holding's long-term issuer ratings one notch below the bank's a2 Adjusted BCA. This assessment reflects Moody's view that structured products issued out of the group's guaranteed Dubai-based entity would not form part of the bail-in volume under a Swiss resolution.

--RATIONALE FOR THE STABLE OUTLOOK

The affirmation of the stable outlook assigned to the bank's long-term deposit and the group's long-term issuer ratings reflects Moody's view of a sustained solid business performance at both Bank Vontobel and Vontobel Holding, supported by both entity's strong solvency and liquidity metrics.

The stable outlook also captures Moody's expectation of the absence of (1) additional integration risks and (2) a further, temporary reduction in the group's capital ratios, which may result from future acquisitions.

-- WHAT COULD MOVE THE RATINGS UP/DOWN

Ratings of Bank Vontobel and Vontobel Holding could be upgraded following an upgrade of the bank's BCA or Adjusted BCA, or higher rating uplift resulting from Moody's LGF analysis. Bank Vontobel's BCA could be upgraded if the bank achieves a sustainable and significant improvement in its profitability, coupled with meaningfully lower earnings volatility while not encountering a weakening of other key financial metrics, or if the bank further improves its liquidity profile. The bank's Adjusted BCA could be upgraded if the group materially reduces its market funding dependency, which results predominantly from its structured product business.

The bank's and the group's ratings could be upgraded if the volume of senior unsecured debt or subordinated debt rises substantially such that it provides a higher rating uplift under Moody's Advanced LGF framework.

A downgrade of Bank Vontobel's and Vontobel Holding's ratings is likely to follow a downgrade of the bank's BCA or Adjusted BCA, which might be caused by a sustained and substantial outflow of client funds, causing persistent profitability pressures; unexpected emergence of operational risks, specifically if caused by litigation charges in connection with typical private banking and wealth management lawsuits; IT security issues that are severe enough to threaten the bank's or the group's currently solid reputation; sizeable acquisitions that result in a material adverse development of key financial metrics; or a weakening in the Very Strong- Macro Profile for Switzerland.

A downgrade of Bank Vontobel's deposit ratings could also be triggered following a reduction in rating uplift as a result of Moody's Advanced LGF analysis, driven by substantially lower volume of deposits.

LIST OF AFFECTED RATINGS

Issuer: Bank Vontobel AG

..Affirmations:

....Adjusted Baseline Credit Assessment, affirmed a2

....Baseline Credit Assessment, affirmed a2

....Long-term Bank Deposits, affirmed Aa3 Stable

....Short-term Bank Deposits, affirmed P-1

....Long-term Counterparty Risk Assessment, affirmed A2(cr)

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

..Outlook Action:

....Outlook remains Stable

Issuer: Vontobel Holding AG

..Affirmations:

....Long-term Issuer Ratings, affirmed A3 Stable

..Outlook Action:

....Outlook remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in April 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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