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CREDIT OPINION
7 June 2018

New Issue

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RATINGS

Vontobel Holding AG

Domicile	Zurich, Switzerland
Long Term Issuer Rating	A3
Type	LT Issuer Rating - Fgn Currency
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Vontobel Holding AG

Moody's rates Vontobel Holding's proposed Additional Tier 1 securities at (P)Baa3(hyb)

Summary

» We assign a provisional (P)Baa3(hyb) rating to the 'high trigger' undated deeply subordinated Additional Tier 1 (AT1) notes to be issued by Vontobel Holding (Vontobel or "the group", A3 stable).[1] If successfully placed, this issuance will improve Vontobel's overall capital because it increases its loss-absorbing going-concern capital and somewhat mitigates the negative effect on the group's capital following its intention to acquire Notenstein La Roche Privatbank AG (Notenstein), as announced on 24 May 2018.

» Vontobel's AT1 securities are perpetual non-cumulative and rank junior to Tier 2 capital, pari passu with other deeply subordinated debt securities and senior only to the issuer's capital instruments qualifying as Common Equity Tier 1 (CET1). Coupons may be canceled in full or in part on a non-cumulative basis at the issuer's discretion or mandatorily in case distributable reserves are not sufficient or if ordered by the regulator. The securities' principal is subject to a partial or full write-down on a contractual basis if (1) Vontobel's CET1 ratio falls below 7%; or (2) the issuer receives extraordinary public support to avoid insolvency; or (3) the Swiss Financial Market Authority (FINMA) determines that a write-down is necessary to avoid insolvency.

» The assigned rating reflects the likelihood of (1) Vontobel's regulatory CET1 ratio falling below the 7% write-down trigger; as well as (2) the probability of a bank-wide failure, if either or both events occur. We assess this likelihood using a model-based approach that incorporates the group's creditworthiness, its most recent regulatory CET1 level - adjusted for the expected impact of the planned Notenstein acquisition, and other qualitative considerations, including a forward-looking view on the development of the issuer's CET1 ratio as well as the risk of coupon suspension on a non-cumulative basis.

» We estimate the group's financial strength to largely match that of its main operating bank entity, Bank Vontobel AG (Aa3 stable, a2)[2], which accounts for around two thirds of Vontobel Holding's assets. Accordingly, we use Bank Vontobel's a2 Baseline Credit Assessment (BCA) as input to our model. Further, we expect a reduction of Vontobel's capitalisation following the acquisition of Notenstein from the last reported CET1 ratio of 18.4% at end-2017.

» Based on these input factors, the model provides an outcome of (P)Baa3(hyb). We ran a sensitivity analysis. The outcome of this sensitivity analysis confirms that the assigned (P)Baa3(hyb) rating remains largely resilient under the main plausible scenarios.

Exhibit 1
Overview of key features for Vontobel's high-trigger AT1 security

Instrument Features	
Issuer, domicile	Vontobel Holding AG, Zurich, Switzerland
Issue date	Expected issue date 29 June 2018
Rated junior security (nominal Issuance amount)	Swiss Franc, approximately CHF350-450 million expected
Rating of junior security	(P)Baa3(hyb)
Regulatory treatment	Additional Tier 1 (AT1) capital
Host security at issuance	Tier 1 security (Preferred Stock Non-cumulative)
Maturity / Call	Perpetual, first call 5.3 years after issuance (i.e., October 2023)
Coupon skip feature	Yes, optional, at issuer discretion, and mandatory, if there are insufficient available distributable items/reserves or if ordered by the regulator
Settlement	Non-cumulative
Main form of loss absorption	Partial or full principal write-down
Principal write-down trigger	Regulatory CET1 ratio of Vontobel Holding <7% or PONV
Ranking in liquidation	Ranking pari-passu with all other deeply subordinated obligations of the issuer qualifying as Additional Tier 1 and senior only to equity capital and other capital instruments qualifying as CET1. No claim in liquidation, if a write-down has occurred.
Subject to statutory resolution / bail-in regime	Yes - implemented
Variation/substitution language	Yes. The issuer can repay the securities in full without the holders' consent (but only with the regulator's consent) if the securities cease to qualify as AT1 (regulatory event) or if the Issuer is not, or will not be, able to any longer obtain a tax deduction for Swiss corporate income tax purposes for any interest payment of the AT 1 Bond (tax event). The issuer can also replace the obligor without the holders' consent but only with the regulator's consent, if the issuer undertakes to unconditionally and irrevocably guarantee all transferable liabilities under the AT1 securities and does not trigger an 'event' as per the terms and conditions.
Is the rating constrained by the non-viability rating cap?	No

Source: Vontobel; Moody's Investors Service

Detailed credit considerations

Moderate distance to trigger breach provides some protection to AT1-holders

Vontobel's proposed AT1 securities carry a high-trigger structure, and can be fully or partially written down upon the breach of this trigger, with a principal write down triggered by a fall of the group's regulatory CET1 ratio to below 7% or at the PONV. Our assessment takes into account Vontobel's strong 18.4% CET1 capital ratio at end-2017 and the likely negative effect on its capital, reflecting the Notenstein acquisition price of around CHF700 million. Our forward-looking view on Vontobel's CET1 ratio determines the distance to a potential trigger breach in our high-trigger AT1 model.

Upon a write-down due to a write-down trigger event, the write-down amount will be the amount required to restore the CET1 ratio back a level equal to, or if required by the regulator, higher than 7% CET1, taking into account other similar loss absorbing instruments.

Regardless of the distance to the trigger level, investors face multiple risks: (1) the risk of having a junior debt/preferred equity claim should the bank become non-viable, i.e., in resolution; (2) the risk of having losses imposed well in advance of the point-of non-viability; and (3) the risk of coupon suspension on a non-cumulative basis, likely before the trigger is breached.

Model-based (P)Baa3(hyb) rating; sensitivity analysis reveals some resilience of assigned AT1 rating

According to our methodology for rating 'high trigger' AT1 securities, we rate to the lower of a model-based outcome and a non-viability security rating. This method takes account of the credit risk associated with the distance-to-trigger breach and the credit risk of these securities' non-viability component, which also captures the risk of coupon suspension on a non-cumulative basis, before the trigger is reached.

We estimate the group's financial strength to largely correspond to the a2 BCA of its main operating entity, Bank Vontobel AG, which accounts for the majority of Vontobel Holding's assets. Further, we expect a reduction of Vontobel's CET1 ratio following the acquisition of Notenstein to around 12.2% at year-end 2018. At end-2017, the group's reported CET1 ratio was 18.4%. Bank Vontobel's BCA as well as our expectations around the likely development of the group's capital are two important input factors to our model, which we apply to derive our rating assessment for proposed high-trigger AT1 security. Based on these input factors, the model provides an outcome of (P)Baa3(hyb).

To position the 'high trigger' security rating, the model output was then compared to the issuer's hypothetical non-viability security rating. According to our Advanced Loss Given Failure (LGF) analysis, Vontobel Holding's non-viability security rating would be positioned at the same level compared to the model outcome. The assigned (P)Baa3(hyb) rating is therefore not constrained by the non-viability security rating cap.

Further, the outcome of our sensitivity analysis confirms that the assigned (P)Baa3(hyb) rating remains broadly resilient under the main plausible scenarios. Downward pressure on the rating of the AT1 instrument could materialise if Bank Vontobel's a2 BCA was downgraded or the group's CET1 ratio fell below 11.9% on an ongoing and sustained basis.

The AT1 securities will support Vontobel's ability to absorb losses

The successful issuance of AT1 securities will improve Vontobel's loss-absorbing going-concern capital and offer protection to senior bondholders. We expect the group's total capital ratio to improve by around 550 basis points upon the issuance of the high-trigger AT1 securities, compared with its latest reported total capital ratio at 18.4% at end-2017

What could change the rating up/down

Albeit unlikely at present, the rating of the AT1 instrument could be upgraded if Moody's raised Bank Vontobel's a2 BCA or if Vontobel's CET1 ratio sustainably exceeds the level reported as of end-2017. 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.

The rating could also be upgraded if the group materially reduces its market funding dependency, which results predominantly from its structured product business.

Conversely, downward pressure on the rating of the AT1 securities could materialise if Bank Vontobel's a2 BCA was downgraded or the group's CET1 ratio fell below 11.9% on an ongoing and sustained basis.

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.

In addition, Moody's would also reconsider the AT1 rating if the probability of a coupon suspension increased.

Moody's related publications

Credit Opinions

» Bank Vontobel AG

» Vontobel Holding AG

Special series

» Moody's CoCo Monitor: Issuance booms in 2017 as Chinese banks return to market

Banking System Outlook

» Switzerland: Solid economic activity and strong loan quality underpin our stable outlook

Rating Methodology

» Banks, 6 June 2018

Ratings

Exhibit 2

Category	Moody's Rating
VONTOBEL HOLDING AG	
Outlook	Stable
Issuer Rating	A3
BANK VONTOBEL AG	
Outlook	Stable
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	A2(cr)/P-1(cr)

Source: Moody's Investors Service

Endnotes

1 The rating shown is Vontobel Holding's long-term issuer rating and outlook.

2 The rating shown is Bank Vontobel's long-term deposit rating and outlook, as well as its Baseline Credit Assessment.

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