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CREDIT OPINION
22 May 2018

Update

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RATINGS

Bank Vontobel AG

Domicile	Zurich, Switzerland
Long Term Debt	Not Assigned
Long Term Deposit	Aa3
Type	LT Bank Deposits - Fgn Curr
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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Bank Vontobel AG

Update to credit analysis

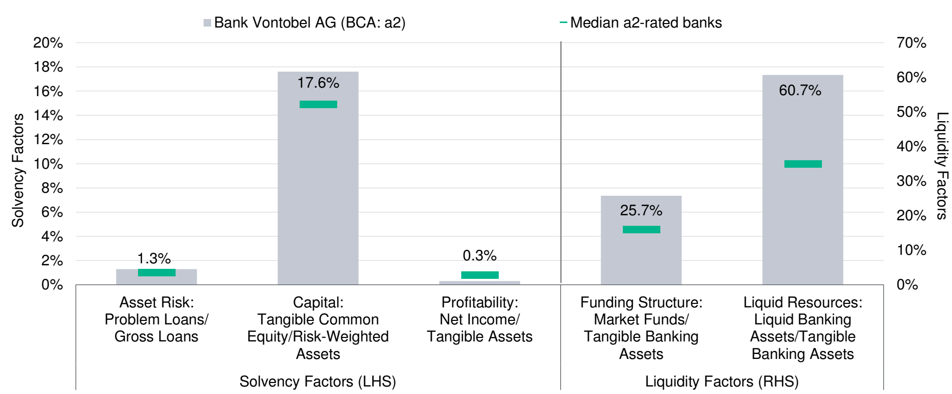
Summary

We assign Aa3/P-1 deposit ratings with a stable outlook to Bank Vontobel AG (Bank Vontobel). We further assign A2(cr)/P-1(cr) Counterparty Risk Assessments, as well as an a2 Baseline Credit Assessment (BCA) and an a2 Adjusted BCA. We also rate Vontobel Holding AG's (Vontobel Holding, or „the group") A3 issuer ratings with a stable outlook.

Bank Vontobel's ratings reflect (1) the bank's BCA and Adjusted BCA of a2; and (2) the results of our Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by the different debt classes in resolution, and which results in two notches of rating uplift for Bank Vontobel's deposit ratings. Our LGF analysis further indicates a high loss given failure for Vontobel Holding's issuer rating, leading to a positioning of the group's issuer rating at A3, one notch below the bank's a2 Adjusted BCA.

Bank Vontobel's a2 BCA reflects the bank's (1) limited on-balance-sheet business risks, (2) strong capitalisation, and (3) sound liquidity profile. The BCA also takes into account the group's well-established franchise in the Swiss and international cross-border private banking markets, as well as its prominent position in the Swiss capital market, including structured investment products and security custody. Furthermore, the BCA reflects a degree of earnings dependence on capital market developments, as well as typical risks that apply to private banks, such as high sensitivity to reputational and operational risks.

Exhibit 1
Rating Scorecard Bank Vontobel AG - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» High-quality and strong capital adequacy metrics

» Highly liquid balance sheet

» Limited on-balance-sheet lending risks

Credit challenges

» Albeit conducted at group level, the asset management unit has to continue withstanding pressure from market developments and key personnel changes not to exert pressure on the bank's private banking/wealth management business

» High sensitivity to market risks inherent in the bank's business model

Outlook

» The stable outlook on Bank Vontobel reflects our expectation that challenges surrounding the bank's franchise and operating performance will be compensated for by organic growth and growing earnings in its other banking and capital market activities.

Factors that could lead to an upgrade

» Ratings of Bank Vontobel could be upgraded following an upgrade of the bank's BCA or Adjusted BCA, or higher rating uplift resulting from our LGF analysis.

» The bank's BCA could be upgraded if it achieves a sustainable and significant improvement in its profitability, coupled with meaningfully lower earnings volatility while not otherwise encountering a weakening of key scorecard ratios.

» 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.

» LGF analysis-related upward pressure on the bank's ratings could result from higher notches of rating uplift, driven by continued and sustainable growth in the volume of bail-inable senior unsecured debt or subordinated instruments.

Factors that could lead to a downgrade

» A downgrade of Bank Vontobel'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 scorecard ratios; 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 volumes of deposits.

Key indicators

Exhibit 2
Bank Vontobel AG (Consolidated Financials) [1]

	12-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[2]	CAGR/Avg.[3]
Total Assets (CHF billion)	15	13	12	12	13	5.0[4]
Total Assets (EUR billion)	13	13	11	10	10	6.3[4]
Total Assets (USD billion)	16	13	12	12	14	2.7[4]
Tangible Common Equity (CHF billion)	0.6	0.6	0.7	0.6	0.6	2.5[4]
Tangible Common Equity (EUR billion)	0.6	0.6	0.6	0.5	0.5	3.7[4]
Tangible Common Equity (USD billion)	0.7	0.6	0.7	0.6	0.7	0.2[4]
Problem Loans / Gross Loans (%)	1.2	1.3	1.5	1.1	0.9	1.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.6	18.7	22.8	18.9	18.3	19.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	6.2	6.1	5.6	4.5	4.9	5.5[5]
Net Interest Margin (%)	0.9	0.8	0.7	0.7	0.6	0.7[5]
PPI / Average RWA (%)	1.4	0.3	1.7	2.4	1.4	1.4[6]
Net Income / Tangible Assets (%)	0.3	0.1	0.5	0.5	0.3	0.3[5]
Cost / Income Ratio (%)	90.5	98.2	88.9	85.7	91.3	90.9[5]
Market Funds / Tangible Banking Assets (%)	25.7	19.7	16.6	15.2	16.7	18.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	60.7	58.4	57.7	62.9	62.1	60.4[5]
Gross Loans / Due to Customers (%)	35.0	30.9	30.1	26.9	35.2	31.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; LOCAL GAAP [3] May include rounding differences due to scale of reported amounts [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented
Source: Moody's Financial Metrics

Profile

Bank Vontobel AG is the main operating entity of Vontobel Holding AG, a Switzerland-based provider of individual private banking/ wealth management, institutional asset management and investment banking services. The group's regional focus is mainly on Switzerland, Germany, Italy, the UK, the US and emerging markets. As of year-end 2017, Vontobel Holding reported total consolidated assets of CHF22.9 billion and total client assets of CHF246.5 billion.

The group's investment banking activities principally comprise client-driven activities, such as structured products, brokerage (including research and sales), corporate finance, mainly for medium-sized companies in Switzerland, and services for external asset managers, as well as transaction banking.

Detailed credit considerations

High-quality and strong capital adequacy metrics provide meaningful loss-absorption capacity

Bank Vontobel and Vontobel Holding are strongly capitalised compared with other private banking peers. As of 31 December 2017, the group's fully phased-in Common Equity Tier 1 capital ratio (equivalent to the group's total capital ratio) fell slightly to 18.4% (2016: 19.0%), whilst the bank's CET1 ratio fell more significantly to 16.3% (2016: 18.1%) as a result of significant risk-weighted asset increases mainly attributable to the expansion of the business and the acquisition of Notenstein La Roche's Eastern European client business. Both ratios remained comfortably above Finma's minimum required total capital ratio of 12% for Category 3 banks.

The group's CET1 ratio remained close to the 20% level, demonstrating resilience to regulatory developments and withstanding several one-off charges burdening the bank's and the group's profit and loss accounts largely relating to the settlement of smaller litigation issues as well as the integration of recently acquired asset management and private banking entities.

The bank's regulatory leverage ratio stood at 3.6% (Group: 4.7%) as of 31 December 2017. Because of its private banking-oriented business model, Bank Vontobel's (and Vontobel Holding's) balance sheet size and, thus, its reported regulatory leverage ratio is a function of the volume of clients' non-invested assets. The leverage ratio further ignores the group's high volumes of cash assets effectively balancing any undue risks from potentially larger client asset and related deposit outflows.

To reflect relatively low earnings retention from its estimated capital level, we have assign Bank Vontobel's Capital score at aa2.

Highly liquid balance sheet is a key credit strength

Our view of Bank Vontobel's very balanced funding and sound liquidity profile is captured in its a1 Combined Liquidity score.

Owing to its private banking-oriented business model, Bank Vontobel's market funding dependence is low as displayed by its Market Funding ratio of 25.7% as of 31 December 2017. The ratio includes intra-group liabilities sourced from other entities within the group, which we regard as somewhat less confidence-sensitive market funding compared with placements with institutional investors. Bank Vontobel mainly funds itself through significant volumes of client deposits (CHF10.1 billion), accounting for 69% of the bank's liabilities as of 31 December 2017. If arising at all, additional funding requirements are limited and are mainly sourced through the interbank and repo markets. In addition, we have not observed any significant concentration risks in the bank's liability structure.

Furthermore, the bank manages a very liquid balance sheet, displaying a Liquid Assets ratio of 60.7% as of 31 December 2017. In addition, cash and due from banks accounted for 29% of Bank Vontobel's total assets as of year-end 2017, effectively limiting the bank's susceptibility to risks potentially emanating from larger-than-anticipated outflows in its private banking/wealth management franchise.

Earnings generation capacity displays some market-related volatility

Our ba1 Profitability score reflects Bank Vontobel's higher dependence on capital market developments and trading income elements, adding to earnings volatility. It also captures the risk that bank-level earnings disappear faster than currently anticipated or may not be compensated for by other earnings streams, exerting pressure on Bank Vontobel's earnings generation capacity. Despite the bank's earnings being dependent on and, thus, sensitive to activities in and the performance of international capital markets, however, we expect its profitability to continuously benefit from stable fee and commission income from the bank's off-balance-sheet asset and wealth management businesses, stabilising its net income ratio.

In 2017, Bank Vontobel's net income more than doubled to CHF49 million (2016: CHF18.0 million) due to (1) a 11.5% year-over-year increase in net fee and commission income; (2) a 14.9% increase in net interest income; and (3) a +4.7% improvement of its trading income, 2016 reflected sharply reduced client trading activity in the year (2016 vs. 2015: -32.3%); which more than offset (4) higher operating expenses.

In March 2016, Vontobel Holding announced the departure of Rajiv Jain, the former leader of the group's Quality Growth investment process and a key person behind shaping the firm’s Quality Growth boutique culture and related business growth. His departure triggered asset outflows of CHF15.7 billion in 2016. Outflows have meanwhile been stopped. Vontobel Holding's asset management subsidiaries are consolidated under the holding company and, thus, there were no visible effects on the bank's profitability. The group's profitability also did not meaningfully suffered from the AuM losses in 2016.

Integrated business model with three core competencies and limited on-balance-sheet lending risks drive the Asset Risk score

Our overall a2 Asset Risk score captures includes a three-notch negative adjustment, taking account of Bank Vontobel's susceptibility to reputational and operational risks inherent in the bank's private banking/wealth management business model, as well as market risks that could, for example, hamper the volume of fee-generating client business in an adverse scenario. The score also reflects very limited on-balance-sheet lending risks at the bank and group level, largely relating to the bank's and the group's highly securitised Lombard lending operations that experienced negligible realised losses in previous years.

Bank Vontobel is Vontobel Holding's main operating entity, accounting for around half of the group's total client assets and a significant portion of its balance sheet. In addition, the Zurich-based bank performs the majority of the group's private banking/wealth management business. As of December 2017, total private banking AuM amounted to CHF44 billion (group-level segment reporting), contributing around 27% of the group's AuM (2016: 28%). Adjusted for the Corporate Centre, the private banking/wealth management business line contributed 18% to the group's pre-tax profits (excluding Corporate Centre) in 2017.

At the same time, Vontobel's asset management and investment banking subsidiaries — the latter including the Dubai-based structured product business — consolidated under the holding company, contributed a combined 82% to the group's pre-tax profits in 2017.

The largest pre-tax contribution arises from Vontobel Holding's asset management business, with total client assets (including double counting and other advised client assets) of CHF121 billion, equivalent to 49% of total client assets and making up 49% of the group's pre-tax profits (excluding Corporate Centre) in 2017.

Vontobel Holding's investment banking segment accounted for 33% of its 2017 pre-tax profits. The segment continued focusing its activities on structured products, brokerage, corporate finance (mainly for medium-sized companies in Switzerland), as well as services for external asset managers and transaction banking.

Therefore, the group's diversified business model provides for a significant amount of additional group-level income as well as earnings diversification. However, we recognise that the importance of financial products and, thus, capital-markets driven revenue render Vontobel Holding's earnings more correlated with external market developments and, hence, more volatile. These business lines also add an additional layer of credit and market risks (that need to be managed carefully) compared with other private banking peers.

Support and structural considerations

Affiliate support

Based on our assessment of the intrinsic financial strength of Vontobel Holding, Bank Vontobel's 100%-owner, we believe there is only limited additional support available for the bank. As a result, Bank Vontobel does not receive any affiliate support uplift.

Loss Given Failure (LGF) analysis

Bank Vontobel and the group are subject to Swiss banking regulations, which we consider an operational resolution regime. We, therefore, apply our Advanced LGF analysis, considering the risks faced by the different debt and deposit classes across the liability structure at failure. We assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits, a 5% runoff in preferred deposits and assign a 100% probability to deposits being preferred to senior unsecured debt, thereby reflecting depositor preference by law in Switzerland.

For Bank Vontobel's deposits, our Advanced LGF analysis indicates a very low loss given failure, resulting in two notches of rating uplift from the bank's a2 Adjusted BCA. This is owing to the substantial volume of deposits protecting deposit holders in the unlikely event of failure or resolution.

For Vontobel Holding's issuer ratings, or its hypothetical senior unsecured debt, our Advanced LGF analysis indicates a high loss given failure, leading to a positioning one-notch below the bank's a2 Adjusted BCA, considering the preference of deposits in resolution, the limited volume of bail-inable debt outstanding and our assumption that holding company debt ranks junior to bank debt holders in resolution.

Government support considerations

We do not incorporate any rating uplift for Bank Vontobel or Vontobel Holding owing to government support, reflecting our assumption of a low probability of systemic support in the event of a stress scenario, given the bank's and the holding company's marginal importance to the domestic deposit-taking market and the Swiss payment system.

Counterparty Risk (CR) Assessment

Bank Vontobel's CR Assessment is positioned at A2(cr)/P-1(cr).

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss; and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessment is positioned at the level of the bank's a2 Adjusted BCA, based on the limited cushion against default provided to the senior counterparty obligations by more junior instruments. In a Swiss bank resolution, we expect that operational liabilities will rank above senior unsecured debt, but below junior deposits. Bank Vontobel's CR Assessment does not benefit from additional uplift from government support, as outlined above.

About Moody's bank scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by the raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 3

Bank Vontobel AG

Macro Factors		
Weighted Macro Profile	**Very Strong -**	**100%**

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.3%	aa2	←→	a2	Litigation risk	Market risk
Capital						
TCE / RWA	17.6%	aa2	←→	aa2	Capital retention	
Profitability						
Net Income / Tangible Assets	0.3%	ba2	←→	ba1	Earnings quality	Expected trend
Combined Solvency Score		a1		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	25.7%	baa2	←→	a2	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	60.7%	aa1	←→	aa2	Stock of liquid assets	
Combined Liquidity Score		a2		a1		
Financial Profile				a2		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aaa		
Scorecard Calculated BCA range				a1-a3		
Assigned BCA				a2		
Affiliate Support notching				--		
Adjusted BCA				a2		

Balance Sheet	**in-scope (CHF million)**	**% in-scope**	**at-failure (CHF million)**	**% at-failure**
Other liabilities	4,748	30.9%	5,692	37.1%
Deposits	10,134	66.1%	9,190	59.9%
Preferred deposits	7,499	48.9%	7,195	46.9%
Junior Deposits	2,635	17.2%	1,996	13.0%
Equity	460	3.0%	460	3.0%
Total Tangible Banking Assets	15,342	100%	15,342	100%

Debt class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Assessment	3.0%	3.0%	3.0%	3.0%	0	0	0	0	0	a2 (cr)
Deposits	16.0%	3.0%	16.0%	3.0%	2	2	2	2	0	aa3

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	0	0	a2 (cr)	0	A2 (cr)	--
Deposits	2	0	aa3	0	Aa3	Aa3

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
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)
PARENT: VONTOBEL HOLDING AG	
Outlook	Stable
Issuer Rating	A3

Source: Moody's Investors Service

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