MOODY'S INVESTORS SERVICE

CREDIT OPINION
3 December 2021

Update

Rate this Research

RATINGS

Bank Vontobel AG

Domicile	Zurich, Switzerland
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
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 following rating affirmation

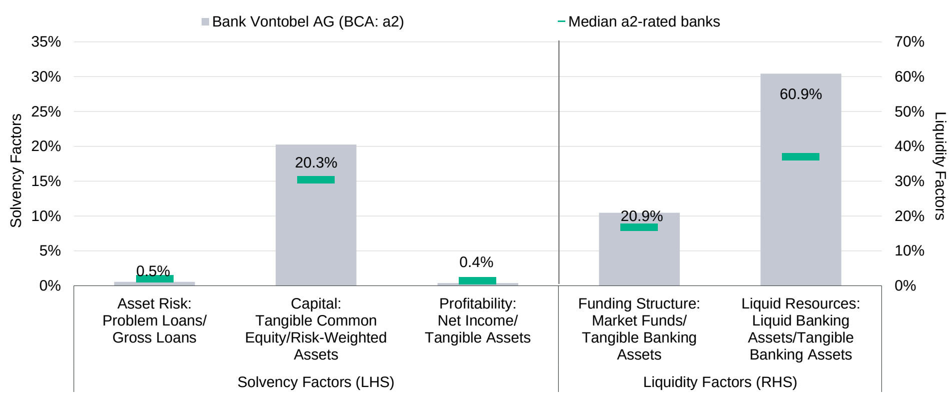
Summary

On 29 November, we affirmed Bank Vontobel AG's (Bank Vontobel) Aa3(stable)/P-1 deposit ratings and its a2 Baseline Credit Assessment (BCA) and Adjusted BCA. Further, we affirmed the bank's A2/P-1 Counterparty Risk Ratings, as well as Vontobel Holding AG's (Vontobel Holding or the group) A2(stable) issuer ratings and its Baa2(hyb) preferred stock ratings.

Bank Vontobel AG is the main operating entity of Vontobel Holding AG. Bank Vontobel's Aa3 deposit ratings reflect its a2 Baseline Credit Assessment (BCA) and the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities. We do not incorporate rating uplift from government support for Vontobel Holding and Bank Vontobel due to their small domestic market share and low importance to the Swiss banking system.

Bank Vontobel's a2 BCA reflects the bank's very high capitalisation as well as its sound funding and liquidity profile, displaying a high proportion of customer deposits and liquid resources. The BCA also incorporates Bank Vontobel's limited credit risks, but also considers its high exposure to market, operational and litigation risks. Our assessment also considers that Bank Vontobel's and Vontobel Holding's revenue and earnings are highly dependent on capital market developments, further adding to the risk management challenges of running a relatively large structured products franchise.

Exhibit 1
Rating Scorecard - Bank Vontobel AG - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Diversified wealth management franchise, including private banking and asset management, complemented by retail-focused investment offerings - mainly structured products in Switzerland and other European markets - through proprietary electronic trading platforms

» Strengthened private banking activities are complemented by very low credit risks from Lombard lending and mortgage loans in Switzerland

» Strong risk-weighted capitalisation for both Bank Vontobel and Vontobel Holding, providing substantial loss-absorption capacity

Credit challenges

» Managing and hedging of position and fair value risks arising from the issuance of structured products

» Vontobel is further exposed to typical risks applicable to private banks, such as reputational, legal and operational risks, and market-driven fluctuations in assets under management (AUM)

» Maintain recently improved profitability, which is highly dependent on client trading activity and the level of managed client assets

» Sustain a highly liquid balance sheet and contain sizeable asset encumbrance associated with the issuance of structured products

Outlook

» The stable outlook reflects our expectation of a stable financial profile at bank and group level, with broadly unchanged key financial ratios and an unchanged liability structure.

Factors that could lead to an upgrade

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

» Bank Vontobel's BCA could be upgraded if it achieves material and simultaneous improvements of its solvency and liquidity profiles.

» Bank Vontobel's Adjusted BCA could be upgraded if Vontobel Holding materially reduces its market funding dependency resulting from the issuance of structured products.

» Our Advanced LGF analysis could result in higher notches of rating uplift for the bank's ratings if the volume of senior unsecured debt or subordinated instruments that could be bailed in prior or at the bank's or the group's failure increases. This could also result in an upgrade of the issuer ratings of Vontobel Holdings.

Factors that could lead to a downgrade

» A downgrade of Bank Vontobel's deposit ratings is likely to follow a downgrade of the bank's BCA or Adjusted BCA, or a reduction in the rating uplift resulting from our Advanced LGF analysis.

» A downgrade of Bank Vontobel's BCA or Adjusted BCA could follow (1) unexpectedly high and meaningful charges as a result of undue operational risks, specifically if caused by litigation charges in connection with typical private banking lawsuits (e.g. tax cases or reputational cases) or IT security issues that are severe enough to threaten the bank's or the group's reputation; (2) any substantial and persistent outflow of client funds, causing sustained and significant strain on profitability; and (3) substantial capital reductions or unprecedented capital outflow, for example because of unduly aggressive acquisitions from a financial or operational risk viewpoint.

» A downgrade of Vontobel Holding's issuer ratings is likely to follow a downgrade of Bank Vontobel's BCA or Adjusted BCA.

Key indicators

Exhibit 2

Bank Vontobel AG (Consolidated Financials) [1]

	12-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (CHF Billion)	21.9	15.5	19.2	15.4	13.4	13.0[4]
Total Assets (USD Billion)	24.8	16.0	19.5	15.8	13.2	17.1[4]
Tangible Common Equity (CHF Billion)	1.2	1.1	1.1	0.6	0.6	17.0[4]
Tangible Common Equity (USD Billion)	1.3	1.2	1.1	0.7	0.6	21.2[4]
Problem Loans / Gross Loans (%)	0.5	0.5	0.7	1.2	1.3	0.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	20.3	24.2	23.6	17.6	18.7	20.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	2.7	2.3	3.4	6.2	6.1	4.1[5]
Net Interest Margin (%)	0.7	0.8	0.8	0.9	0.8	0.8[5]
PPI / Average RWA (%)	2.5	2.0	1.0	1.4	0.3	1.5[6]
Net Income / Tangible Assets (%)	0.5	0.5	0.2	0.3	0.1	0.3[5]
Cost / Income Ratio (%)	83.1	87.9	94.1	91.2	98.2	90.9[5]
Market Funds / Tangible Banking Assets (%)	20.9	17.1	22.3	25.7	19.7	21.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	60.9	56.0	63.7	70.7	71.0	64.5[5]
Gross Loans / Due to Customers (%)	46.6	51.4	40.4	35.0	30.9	40.9[5]

[-] Further to the publication of our revised methodology in July 2021, only ratios from annual 2020 onwards included in this report reflect the change in analytical treatment of the "high-trigger" Additional Tier 1 instruments. [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 because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Exhibit 3

Vontobel Holding AG (Consolidated Financials) [1]

	06-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (CHF Billion)	33.1	30.5	25.8	24.9	22.5	11.6[4]
Total Assets (USD Billion)	35.8	34.5	26.6	25.2	23.1	13.3[4]
Tangible Common Equity (CHF Billion)	1.4	1.3	1.6	1.5	1.3	1.1[4]
Tangible Common Equity (USD Billion)	1.5	1.5	1.7	1.5	1.4	2.7[4]
Problem Loans / Gross Loans (%)	--	0.4	0.5	0.8	1.2	0.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	18.7	17.8	23.3	22.4	22.5	21.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	--	2.1	1.6	2.4	3.0	2.3[5]
Net Interest Margin (%)	0.2	0.3	0.3	0.3	0.3	0.3[5]
PPI / Average RWA (%)	6.6	4.8	4.7	4.5	4.6	5.0[6]
Net Income / Tangible Assets (%)	1.2	0.9	1.5	0.9	1.1	1.1[5]
Cost / Income Ratio (%)	68.3	73.1	73.9	75.5	75.5	73.3[5]
Market Funds / Tangible Banking Assets (%)	43.1	41.7	47.1	37.0	46.3	43.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	58.4	60.2	56.1	63.4	66.2	60.9[5]
Gross Loans / Due to Customers (%)	--	43.7	48.3	39.0	34.1	41.3[5]

[-] Further to the publication of our revised methodology in July 2021, for issuers that have "high trigger" additional Tier 1 instruments outstanding, not all ratios included in this report reflect the change in treatment of these instruments. [1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

Bank Vontobel AG is a Switzerland-based provider of wealth and asset management services and is Vontobel Holding's main operating entity and accounted for around 70% of the group's consolidated assets in 2020 (2019: 59%).

Vontobel Holding, which holds 100% of Bank Vontobel AG, is listed on the Swiss stock market, with the Vontobel family and associated parties holding 50.9% of all shares as of year-end 2020. Compared with pure-play private banking peers, Vontobel Holding consolidates asset management entities and its Dubai-based subsidiary Vontobel Financial Products Ltd., which issues structured products.

In 2020, Vontobel Holding executed on the proposed organizational changes announced in December 2019. These changes are intended to foster revenue growth and growth in advised client assets, and also include Vontobel's exit from sell-side activities and capital markets businesses. The group provides its products and services through four client-oriented units (1) Asset Management, (2) Wealth Management, (3) Platforms & Services for external asset managers and other intermediaries, and (4) Digital Investing, a segment where Vontobel bundles all its digital approaches to address clients directly.

Vontobel's diversified business model is reflected in its balanced revenue mix by segments. In H1 2021, Vontobel's Asset Management contributed around 37% of the group's total revenue (2020: 41%), followed by Wealth Management which caters to private clients and business owners, accounting for 30% of the total (2020: 33%). Vontobel's Digital Investing unit, which also comprises its structured products activities, added 21% (2020: 14%) and Platforms & Services the remaining 12% (2020: 12%) to group-wide revenue.

As of 30 June 2021, Vontobel Holding reported advised client assets (i.e. excluding structured products and assets under custody) of CHF274 billion, compared with CHF248 billion at the end of 2020 (2019: CHF226 billion). Vontobel benefited from strong net new money (NNM) inflows of CHF6.6 billion during the period January to June (2020: CHF14.8 billion), equivalent to 6.0% (annualized; 2020: 7.4%) of its year-end 2020 assets under management (AUM) and ahead of the group's growth target of 4-6% AUM growth. The significant driver behind the increase in Vontobel Holdings's advised client assets is the positive contribution of its asset management activities across asset classes, including multi-asset, equity and fixed income. As of 30 June 2021, around CHF2.9 billion or 44% of the group's total net new money of CHF6.6 billion related to this segment. In 2020, around 64% of its total NNM inflow of CHF14.8 billion was generated by its asset management segment. NNM inflows from wealth management accounted for around one third of the total in H1 2021 and around 26% in 2020.

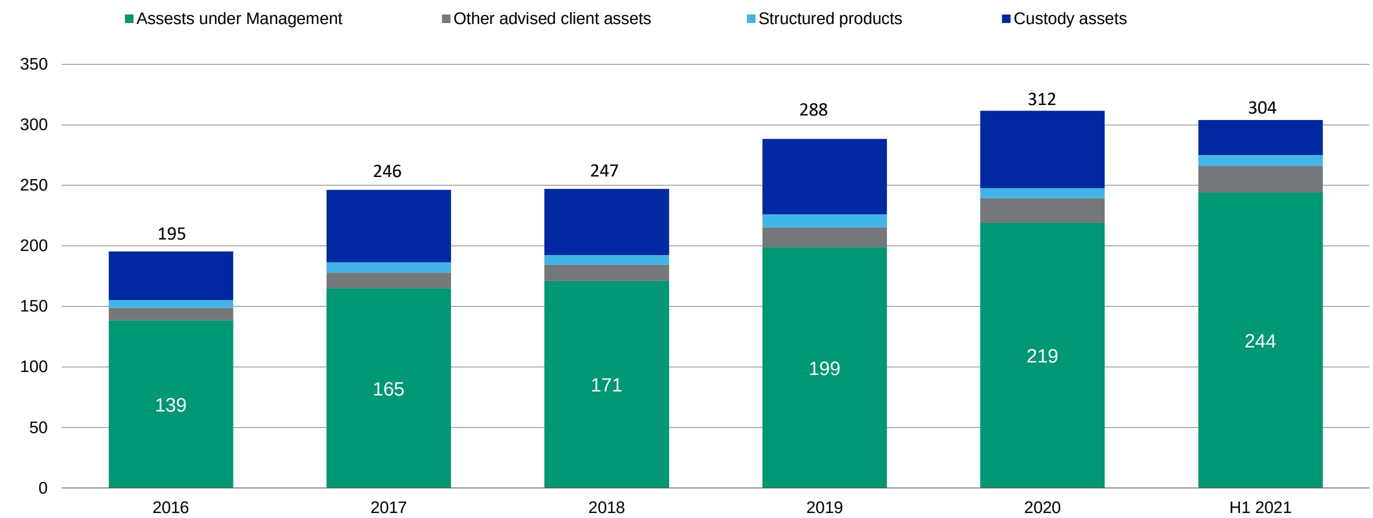
With the acquisition of Notenstein La Roche Privatbank AG in 2018, Vontobel Holding has significantly enhanced its private banking franchise, in particular in Switzerland. AUM from wealth management activities increased to CHF72 billion as of 30 June 2021 (2020: CHF64 billion), compared with around CHF54 billion in 2017, i.e. before the transaction announcement.

Including CHF29 billion of assets under custody, Vontobel Holding's total client assets stood at CHF304 billion as of the end of June 2021, compared with CHF312 billion in 2020. The moderate decline is owing to the derecognition of CHF35.3 billion of custody assets from customers of Switzerland's Raiffeisen Schweiz Genossenschaft (Raiffeisen Schweiz, Aa3 positive/A3 positive, a3)[1], reflecting the reorganization of the sector's global execution and custody services.

As of year-end 2020, Bank Vontobel reported balance sheet assets of CHF21.9 billion (2019: CHF15.5 billion), equivalent to around 70% of group consolidated assets (2019: 59%), as well as CHF89 billion of AUM (2019: CHF81 billion), benefitting from NNM inflows of CHF5.4 billion (compared with CHF0.6 billion the year prior).

Exhibit 4

Rising advised client assets at Vontobel Holding reflect the acquisition of Notenstein and organic growth in its Asset Management segment
Data in CHF billion



Source: Moody's Financial Metrics, company reports

Detailed credit considerations

Low credit risks, balanced by risk management challenges from hedging structured products as well as typical market and operational risks as applicable to all wealth managers

The a3 Asset Risk score for Bank Vontobel has been assigned four notches below its aa2 initial score. Asset risks for wealth managers typically do not arise from their lending activities but from the entity's overall reputation and franchise. The management of third-party wealth focuses on the trustful relationship between clients and advisers, as well as the integrity and reliability of the domestic legal system and the wealth managers' technological infrastructure. Because problem loans are not a meaningful driver of a private bank's credit strength, we apply a multi-notch negative adjustment to the asset risk score for all wealth managers, reflecting their considerable degree of reputational and operational risks.

The negative adjustment captures the bank's and the group's meaningful exposure to market risks as well as reputational, legal and operational risks inherent in its business model. Our assessment also takes into account the risk management challenges of running a large structured product franchise, which requires a consistent hedging and constant rebalancing of financial assets, including derivatives, to help closely match - and ideally mirror - the payout-out profiles of issued structured products. This includes the booking and risk management of pledged financial securities by the Zurich-based bank that are to a large extent related to structured products legally issued out of Vontobel Financial Products Ltd., Dubai. As of 31 December 2020, issued structured products accounted for 9.8% of the bank's total assets (latest available; 2019: 6.1%) and were much higher at group level (H1 2021: 34.9% of consolidated assets; 2020: 34.3%).

As stated above, Bank Vontobel and Vontobel Holding operate with very limited on-balance-sheet lending risks, marked by the near absence of problem loans. In 2020, Bank Vontobel's CHF7.2 billion gross loans (2019: CHF5.7 billion) accounted for around one third of assets (2019: 36%), and included CHF1.5 billion of Swiss-domiciled mortgage loans (2019: CHF1.2 billion), with the remainder of the loan book being comprised of highly securitized Lombard loans. We expect that the volume of impaired loans will continue to fluctuate around historically very low levels, while the cost of credit risk for the bank and the group will remain negligible.

Limited on-balance-sheet lending risks also prevail at Vontobel Holding, as reflected in its small share of gross loans accounting for only 21% of total assets as of 30 June 2021 (2020: 20%) and, again, mainly reflecting Lombard loans.

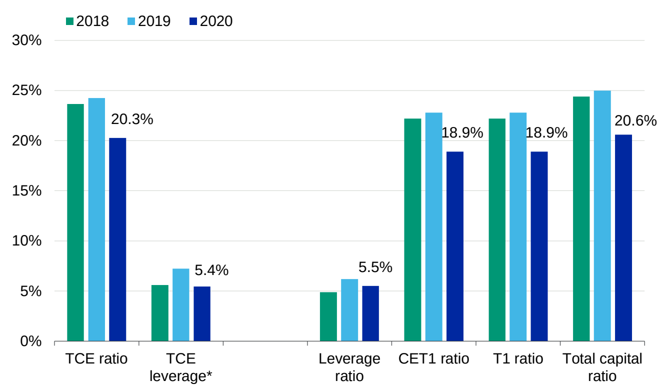
Strong risk-weighted capitalisation mitigates asset risks

Bank Vontobel and Vontobel Holding are strongly capitalised, which compares favourably with their peers, and strongly underpins our assessment for both entities' credit strength. Bank Vontobel's aa2 Capital score is assigned one notch below its initial score to reflect moderate earnings retention at the bank level and our expectation of rising loan growth, mainly as a result of increased Lombard lending balances as Vontobel deepens its relationship with private banking clientele. Our capital assessment also considers that Vontobel targets to maintain a consolidated total capital ratio of above 16.0% and a minimum consolidated CET1 ratio of 12.0%, even including the effects from potential acquisitions.

We believe that wealth managers' solvency is rather challenged by their high balance-sheet leverage, which is largely driven by clients' risk appetite. To illustrate, rising financial investments trigger declining total assets or leverage exposure because of clients investing cash and deposits held with their wealth manager into off-balance-sheet AUM, thereby yielding a higher, i.e. improving, leverage ratio and vice versa.

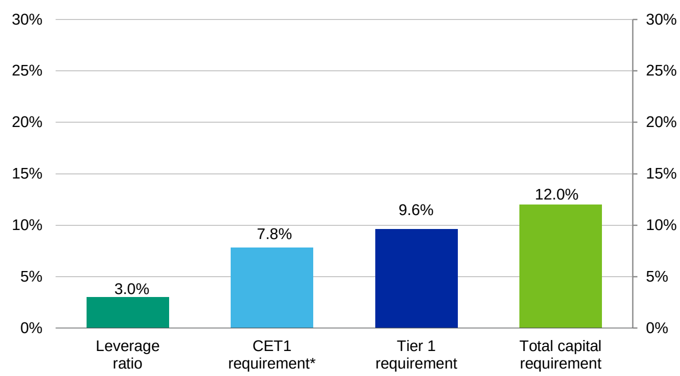
As of the end of 2020, Bank Vontobel's regulatory leverage ratio[2] decreased to 5.5%, compared with 6.2% in 2019, largely reflecting total asset growth owing to significant deposit inflows of around 39% that the bank invested into interbank and financial securities. This trend was also visible in the bank's Common Equity Tier 1 (CET1) ratio, which decreased to 18.9% from 22.8% over the same period, driven by around 27% higher risk-weighted assets (RWA) in 2020. The increase in RWA mainly resulted from higher financial securities, including the hedging portfolio for issued structured products. At the end of 2020, Bank Vontobel's tangible common equity (TCE) ratio declined to 20.3% compared with 24.2% in 2019.

Exhibit 5
Bank Vontobel's capital ratios, grouped by Moody's versus regulatory view
Data in % of risk-weighted assets, except for leverage ratios



Note: TCE = Tangible Common Equity (Moody's calculation); CET1 = Common Equity Tier 1 capital. *The TCE leverage ratio compares TCE to tangible banking assets.
Source: Moody's Financial Metrics, company reports

Exhibit 6
Bank Vontobel comfortably exceeds its regulatory minimum requirements*
Data in % of risk-weighted assets



Note: *Capital requirements for a Category 3 financial institution in Switzerland according to FINMA classification.
Source: Moody's Financial Metrics, company reports

Similar to other wealth managers, Bank Vontobel's regulatory capital ratios reflect low on-balance-sheet lending risks, as demonstrated by RWA accounting for only 27% of assets as of the end of 2020 (2019: 30%). This moderate level of risk density is a key driver why wealth managers typically report high regulatory capital ratios and sizeable buffers above regulatory minima.

Bank Vontobel and Vontobel Holding are designated as Category 3 financial institutions according to the Swiss Financial Market Authority's (FINMA) definition. At year-end 2020, both entities continued to comfortably exceed FINMA's minimum capital requirements, for example, a minimum CET1 ratio of 7.8%, a minimum Tier 1 capital requirement of 9.6%, and a minimum Total capital requirement of 12.0% (Exhibit 5).

As of 30 June 2021, Vontobel Holding's Tangible Common Equity (TCE) capital ratio was 18.7% (2020: 17.8%). Following the July 2021 revisions to our Banks methodology, our TCE capital ratio no longer considers high-trigger Additional Tier 1 (AT1) securities. The group had issued CHF450 million of such instruments as of 30 June 2021, equivalent to 6.0% of its RWA, in order to finance the Notenstein acquisition in 2018. These instruments have been included in the failure balance sheet as part of our Advanced LGF analysis.

The lower CET1 capital ratio for Vontobel Holding of 14.5% as of 1H21 (2020: 13.8%) compared with our TCE capital ratio mainly reflects the deduction of expected dividends in the regulatory ratio while these are still included in our capital concept which is based on shareholders' equity. As of 30 June 2021, Vontobel Holding's regulatory leverage ratio, defined as Tier 1 capital to exposure at default (EaD), moderately decreased by 30 basis points (bps) to 4.5%, compared with 4.6% in 2020, reflecting higher claims on banks and financial securities.

Ample and growing deposits support solid funding profile, mitigated by issued structured products which reflect client risk appetite

Our assigned a3 Funding Structure score for Bank Vontobel is one notch higher than the bank's initial score. The positive adjustment reflects our assessment that structured products, which are included in our Market Funding ratio, rather reflect clients' risk appetite and are, therefore, not directly comparable to more confidence-sensitive market funding. As of 31 December 2020, issued structured products accounted for 9.8% of the bank's total assets (latest available; 2019: 6.1%) and were much higher at group level (H1 2021: 34.9% of consolidated assets; 2020: 34.3%).

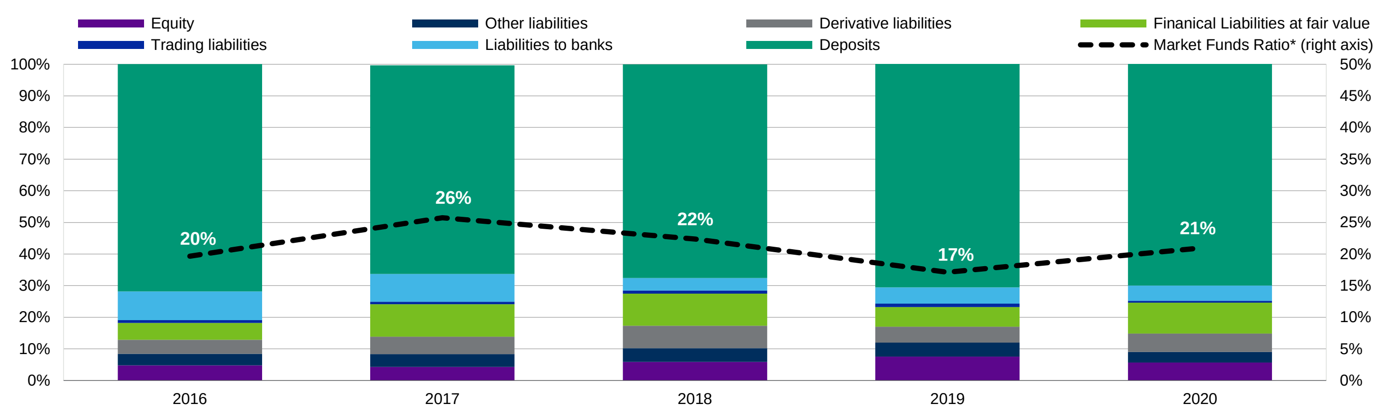
Bank Vontobel's and Vontobel Holding's wealth management activities generate sizeable deposits, reflecting the customers' objective to preserve and grow their private wealth. As a result, both entities' liability-driven balance sheets exhibit a low degree of market funding dependence. Because these deposits have a short-term maturity – mostly overnight – wealth managers must protect themselves against unexpected and potentially sizeable outflows, which drives the need for holding sizeable and unencumbered liquid asset buffers (see next section).

As of 31 December 2020, Bank Vontobel reported deposits of CHF15.4 billion, accounting for 70% of unconsolidated assets (2019: 71%), and its loan-to-deposit ratio was a low 46.4% (2019: 51.2%). Bank Vontobel's and the group's liability structure does not exhibit meaningful concentration risks. As of 31 December 2020, Bank Vontobel's Market Funding ratio increased slightly to 20.9% from 17.1% in 2019, reflecting the higher volume of issued structured products (2020: CHF2.1 billion; 2019: CHF1.0 billion).

Exhibit 7

Bank Vontobel's moderately rising Market Fund ratio reflects rising issued structured products, balanced by ample client deposits

Data in % of tangible banking assets



Note: *Market funding ratio = Market funds/tangible banking assets

Source: Moody's Financial Metrics, company reports

Compared with Bank Vontobel, the group displays a higher market funding dependence, reflecting additional structured products issued out of its Dubai-based entity. As of 30 June 2021, these accounted for 34.9% of Vontobel Holding's consolidated liabilities, compared with 34.3% in 2020. In an adverse scenario, this could leave the group exposed to sudden and pronounced outflows of short-term funding sources if not counterbalanced by high-quality liquid assets.

Ample liquidity supports Bank Vontobel's credit strength

We assign an a2 Liquid Resources score to Bank Vontobel, which is two notches below the initial score. Our modest liquidity assessment compared to Swiss private banking peers reflects sizeable asset encumbrance associated with the bank's and the group's issuance of structured products. As mentioned above, the encumbrance largely relates to the booking and risk management of pledged financial securities at the Zurich-based bank, including those that are legally issued out of Dubai. However, we believe this encumbrance to be partly offset by higher liquidity at group level owing to additional liquid assets held outside Switzerland, e.g., at Bank Vontobel Europe AG, its Munich-based bank.

The sound liquidity management at Bank Vontobel and Vontobel Holding largely mitigates the risks from the short-term nature of deposits, their primary funding source, which clients can quickly withdraw or invest, depending on their risk appetite. The high risk of losing these more volatile and market-sensitive deposits require private banks to maintain high volumes of cash and high-quality financial securities, in order to accommodate unexpected withdrawals.

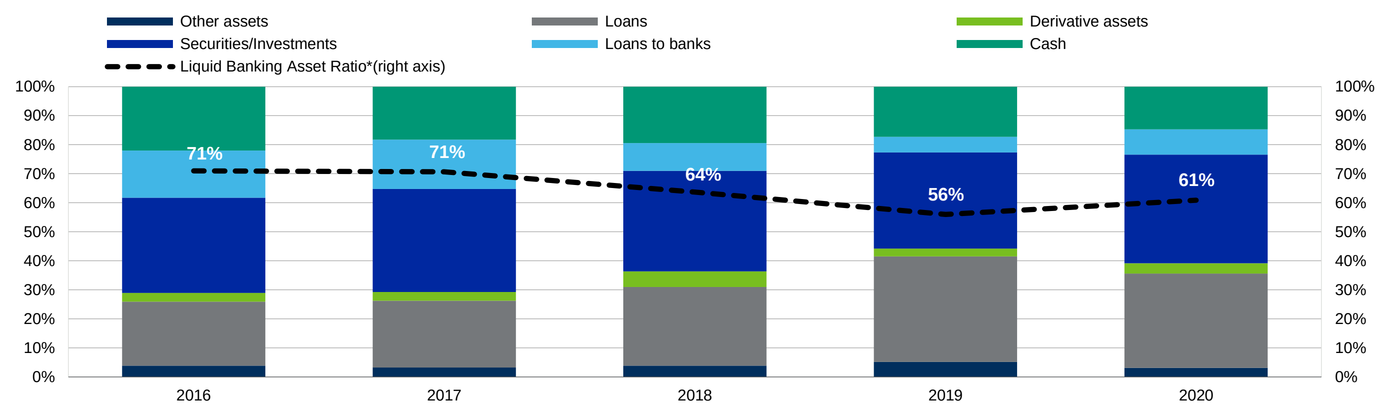
As of 31 December 2020, Bank Vontobel reported liquid banking assets of CHF11.4 billion, equivalent to around 61% of unconsolidated assets. Cash and cash equivalent positions, predominantly held at central banks, accounted for CHF3.2 billion (14.7% of the total), claims on banks for CHF1.9 billion (8.6%), and trading assets (excluding derivatives) for CHF6.3 billion (28.6%). However, we believe that the vast majority of the latter relates to structured products, and is therefore not freely available.

Our view is supported by a relative modest Liquidity Coverage Ratio, which stood at 152%[3] in 2020 (2019: 151%) and considers the bank's high-quality liquid assets (HQLA) of around CHF4.6 billion in 2020 (2019: CHF4.3 billion), equivalent to 21.1% of year-end 2020 assets (2019: 27.6%).

Exhibit 8

Bank Vontobel's liquidity benefits from cash and high-quality financial instruments but large parts are encumbered from the issuance of structured products

Data in %



Note: *Liquid Banking Assets (LBA) as % Tangible Banking Assets (TBA)

Source: Moody's Financial Metrics, company reports

We believe that Vontobel Holding and Bank Vontobel have ample liquid assets. Our view is supported by group's Liquidity Coverage Ratio (LCR) of 193% as of end-June 2021 (2020: 183%), which included high-quality liquid assets of CHF8.3 billion (2020: CHF7.8 billion), equivalent to around one quarter of consolidated assets, and comprising its consolidated cash as well as around CHF2.1 billion high-quality bonds held at Bank Vontobel Europe AG.

Moderate profitability at the bank level supported by AUM growth and high client trading activity; sound profitability at group level reflecting additional earnings from asset management

Bank Vontobel's assigned Profitability score is baa3, one notch above initial score. The positioning of the score reflects our expectation that Bank Vontobel will generate annual net profits equivalent to around 50 basis points of balance sheet assets, commensurate with the assigned score. Our assessment also captures the bank's and the group's generally high earnings dependence on developments of global capital markets.

We believe that Bank Vontobel's underlying profitability has further improved, reflecting higher AUM; the positive effects from the acquisition of Notenstein; as well as increased client trading and intra-group revenue sharing. While we consider the latter a rather stable and recurring revenue item, we believe the bank's and the group's half-year profits were temporarily elevated from higher than usual client trading activities.

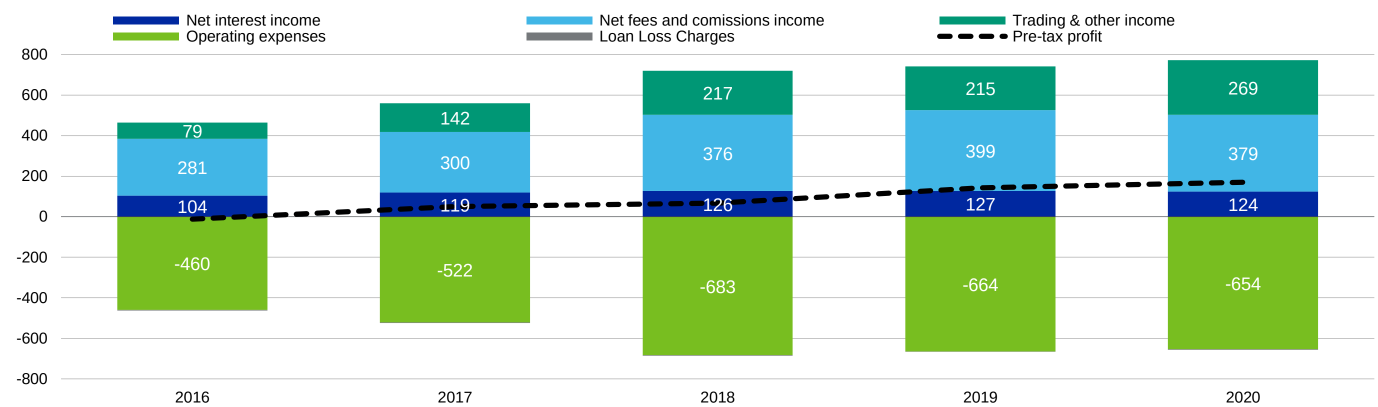
Bank Vontobel and Vontobel Holding generate revenues from the management and custody of their clients' wealth, as reflected by AUM. Unlike universal banks whose revenues are highly geared to net interest income, wealth managers mainly generate fee and commission income from providing investment advice or performing trading activities on behalf of their customers. While providing a predictable and generally stable source of recurring income, both entities' profitability may be impacted by volatility in capital markets affecting AUM and related fee income as well as foreign currencies because AUM (and client trades) are to a large extent denominated in USD, while operating expenses are largely booked in Swiss francs. Revenues that are highly correlated with the development of capital markets usually carry a higher element of variable costs allowing the bank and the group to adjust personnel costs, in particular bonuses or performance-driven payments.

Over the last five years, Bank Vontobel's revenues increased by around 68% to CHF786 million in 2020, compared with CHF469 million in 2016. The increase is largely driven by higher net fee income, which improved to CHF379 million from CHF281 million in 2016, as well as materially higher client-driven trading fees, which increased to CHF190 million from CHF78 million over the same period. Operating expenses, including personnel expenses and depreciation/amortisation, increased by around 42% to CHF654 million over the same period, supporting pretax profit growth to CHF170 million in 2020, compared with a pretax loss of CHF12 million in 2016. In 2020, Bank Vontobel's net income increased by 20% to CHF143 million, compared with CHF119 million in 2019. Excluding the positive effect from an extraordinary reserve release for general banking risks in the amount of CHF44 million, which were included in both years and are associated with the acquisition of Notenstein La Roche, Bank Vontobel reported an adjusted net income growth of 32% in 2020, compared with 2019.

Exhibit 9

Rising revenues and a moderate increase in operating expenses supports pretax profits

Data in CHF million



Note: Operating expenses include personnel and administrative expenses, as well as depreciation and amortization.
Source: Moody's Financial Metrics, company reports

Vontobel Holding's consolidated profitability is significantly higher than that of the bank and stands around 0.9% net income to total assets (our measure of return on assets or ROA). The main driver for this higher profitability are Vontobel's asset management activities, which generate additional fees and are included in the group's CHF836 million net fee and commission income in 2020, compared with CHF379 million for Bank Vontobel. Despite additional operating expenses, Vontobel Holding reported pretax profits of CHF321 million in 2020, compared with CHF170 million for Bank Vontobel.

During the first half of 2021, the positive earnings trajectory for Vontobel Holding continued, reflecting higher client assets and a continuation of elevated client trading activity. For this period, Vontobel Holding reported revenue of CHF780 million, an increase of 25% compared with the prior-year period (H1 2020: CHF623 million) and largely supported by higher client-driven trading income of CHF294 million, compared with CHF161 million in the same period the year before. Operating expenses, including depreciation, increased only by around 17% to CHF546 million during the first half of 2021 (H1 2020: CHF467 million), which contributed to the group's higher pretax profit of CHF233 million.

Environmental, social and governance considerations

Environmental considerations

Bank Vontobel and Vontobel Holding's exposure to Environmental risks is low, consistent with our general assessment for the global banking sector.[4] See our environmental heatmap for further information.

Social considerations

Overall, we consider banks and wealth managers to face moderate social risks.[5] See our social heatmap for further information. In 2020 Vontobel Holding received an above-average score from the Principles for Responsible Investment (PRI) for its sustainable investment strategies. The investment manager has been a signatory to the PRI since 2010.

Corporate governance considerations

Governance[6] is highly relevant for Bank Vontobel and Vontobel Holding, as it is to all institutions in the banking and wealth management industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit a bank's credit profile. Governance risks are largely internal rather than externally driven, and for Bank Vontobel and Vontobel Holding we do not have any particular governance concerns and their risk management frameworks are commensurate with its risk appetite. For Swiss private banks, we consider a high degree of reputational, legal (litigation) and operational risks, which is reflected in our Asset Risk score. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

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 Zurich-based bank from group-wide activities.

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 and 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.

Revision of our Banks Methodology benefits Vontobel Holding's issuer ratings as well as subordinated debt issuances

For Bank Vontobel's Aa3 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 because of the substantial volume of deposits protecting deposit holders and the moderate volume of subordinated debt protecting depositors in the unlikely event of failure or resolution.

For Vontobel Holding's A2 issuer ratings, our Advanced LGF analysis indicates a moderate Loss Given Failure, leading to a positioning in-line with bank's a2 Adjusted BCA, considering the preference of deposits in resolution, the low volume of bail-in-able debt outstanding and our assumption that holding company debt ranks junior to bank debt holders in resolution.

We further consider structured products issued by bank Vontobel in scope for our Advanced LGF analysis, since we believe that the Swiss regulator FINMA would have bail-in powers over these liabilities. The amount incorporated is the lower of the last reported or three-year average structured product volume and we assume a 50% run-off prior to failure.

High-trigger Additional Tier 1 (AT1) securities

We apply our Advanced LGF analysis to high-trigger and low-trigger AT1s. For more details, please refer to our updated Banks Methodology.

The Baa2(hyb) ratings assigned to Vontobel Holding's high-trigger, undated and deeply subordinated AT1 securities are positioned three notches below the bank's a2 Adjusted BCA. One notch reflects the high loss given failure that these securities are likely to face in a resolution scenario because of their deep subordination, small volume and limited protection from residual equity. Our rating for non-viability securities incorporates two additional notches to reflect the higher risk associated with the non-cumulative coupon skip mechanism, which could take effect before the issuer reaches the point of non-viability.

Government support considerations

We do not incorporate any rating uplift for Bank Vontobel or Vontobel Holding from support by the Government of Switzerland (Aaa stable), 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.

A2/P-1 Counterparty Risk Ratings (CRRs)

Bank Vontobel's CRRs are positioned in line with its a2 Adjusted BCA, reflecting the moderate loss-given-failure from the low volume of instruments that are subordinated to CRR liabilities in our Advanced LGF analysis.

Because of depositor preference in Switzerland, CRRs are distinct from deposit ratings and reflect that, in a resolution, counterparty risk liabilities imply a higher risk compared with deposits that benefit from preferential treatment. The higher expected loss for counterparty risk liabilities is reflected in the A2 CRRs which we assign to Bank Vontobel.

A1(cr)/P-1(cr) Counterparty Risk (CR) Assessment

Bank Vontobel's CR Assessment is positioned one notch above the bank's a2 Adjusted BCA, based on the buffer against default provided by more subordinated instruments, primarily senior unsecured debt, to the senior obligations represented by the CR Assessment.

Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

Methodology and scorecard

Methodology

The principal methodology we used in rating Bank Vontobel was Banks Methodology, published in July 2021.

About Moody's Bank Scorecard

Our Bank 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 10
Bank Vontobel AG

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.5%	aa2	↔	a3	Litigation risk	Market risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	20.3%	aa1	↔	aa2	Expected trend	
Profitability						
Net Income / Tangible Assets	0.4%	ba1	↔	baa3	Expected trend	Earnings quality
Combined Solvency Score		aa3		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	20.9%	baa1	↔	a3	Extent of market funding reliance	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	60.9%	aa2	↔	a2	Stock of liquid assets	
Combined Liquidity Score		a2		a3		
Financial Profile				a2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a1 - a3		
Assigned BCA				a2		
Affiliate Support notching				0		
Adjusted BCA				a2		

Balance Sheet	in-scope (CHF Million)	% in-scope	at-failure (CHF Million)	% at-failure
Other liabilities	5,500	23.5%	8,539	36.4%
Deposits	14,647	62.5%	13,153	56.1%
Preferred deposits	10,838	46.2%	10,296	43.9%
Junior deposits	3,808	16.2%	2,856	12.2%
Senior unsecured bank debt	2,138	9.1%	593	2.5%
Preference shares(holding company)	450	1.9%	450	1.9%
Equity	703	3.0%	703	3.0%
Total Tangible Banking Assets	23,437	100.0%	23,437	100.0%

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 Rating	7.4%	7.4%	7.4%	7.4%	0	0	0	0	0	a2
Counterparty Risk Assessment	7.4%	7.4%	7.4%	7.4%	1	1	1	1	0	a1 (cr)
Deposits	19.6%	7.4%	19.6%	7.4%	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 Rating	0	0	a2	0	A2	A2
Counterparty Risk Assessment	1	0	a1 (cr)	0	A1(cr)	
Deposits	2	0	aa3	0	Aa3	Aa3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 11

Category	Moody's Rating
BANK VONTOBEL AG	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
PARENT: VONTOBEL HOLDING AG	
Outlook	Stable
Issuer Rating	A2
Pref. Stock Non-cumulative -Dom Curr	Baa2 (hyb)

Source: Moody's Investors Service

Endnotes

1 The ratings shown are Raiffeisen Schweiz's long-term deposit rating and outlook, its senior unsecured debt rating and outlook and its Baseline Credit Assessment.

2 The regulatory leverage ratio compares Tier 1 capital to Exposure at Default (EaD).

3 This figure reflects a quarterly average.

4 Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages and natural and man-made hazards (physical risks). Additionally, regulatory or policy risks, like the impact of carbon regulation or other regulatory restrictions, including the related transition risks like policy, legal, technology and market shifts, that could impair the evaluation of assets are an important factor. In our Environmental risk heat map, we scored 84 sectors according to their overall exposure to environmental risks.

5 The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage due to product mis-selling or other types of misconduct is a further social risk. Social trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology cost, ageing population concerns in several countries impacting demand for financial services or socially driven policy agendas that may translate into regulation that affects banks' revenue base.

6 Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of banks' financial profiles. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Further, factors such as specific corporate behaviour, key person risk, insider and related-party risk, strategy and management risk factors, and dividend policy may be captured in individual adjustments to the BCA.

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