



Rating Action: Moody's affirms Bank Vontobel's Aa3 deposit ratings and Vontobel Holding's A2 issuer ratings; outlook changed to negative from stable

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Frankfurt am Main, December 01, 2023 – Moody's Investors Service (Moody's) has today affirmed the ratings of Vontobel Holding AG (Vontobel Holding) and of Bank Vontobel AG (Bank Vontobel), the group's main operating bank subsidiary. The ratings Moody's has affirmed include Bank Vontobel's Aa3/P-1 deposit ratings, the bank's A2/P-1 Counterparty Risk Ratings, its A1(cr)/P-1(cr) Counterparty Risk Assessment, as well as the bank's a2 Baseline Credit Assessment (BCA) and Adjusted BCA. Furthermore, Moody's has affirmed the A2 long-term issuer ratings of Vontobel Holding as well as the Baa2(hyb) rating of the group's non-cumulative preferred stock.

At the same time, the rating agency changed the outlook on the long-term deposit ratings of Bank Vontobel as well as on the long-term issuer ratings of Vontobel Holding to negative from stable.

RATINGS RATIONALE

AFFIRMATION OF BANK VONTOBEL'S BASELINE CREDIT ASSESSMENT AND ADJUSTED BCA

The affirmation of Bank Vontobel's a2 BCA reflects the bank's strong capitalization, limited exposure to problem loans through the bank's highly collateralized mortgage and Lombard loan book and its sound liquidity buffers. It further reflects Bank Vontobel's sound track record in wealth management and structured products issuance. The bank's a2 BCA further reflects Moody's expectation that Bank Vontobel's profitability will recover sustainably within a more supportive market environment and as a result of ongoing efficiency measures. The BCA also takes into account Bank Vontobel's defensive management of its liquid resources, largely sourced from its wealth management customers, which do not benefit from the same level of granularity and deposit insurance coverage as those of classical retail banks and which Moody's therefore considers less sticky.

Furthermore, Bank Vontobel's affirmed a2 Adjusted BCA takes into account the rating agency's assessment of the overall financial strength of the group based on the consolidated financials of Vontobel Holding which does not result in any uplift despite Moody's expectation that the holding company would support Bank Vontobel in case of need. The rating agency notes that since 2022, Vontobel Holding has experienced net money outflows in its asset management operations that the group has not managed to revert over the past several quarters. Moody's believes the group will only gradually be able to rebuild a track record of successful net new money generation and that the current franchise challenges relative to peers have the potential to subdue the group's profitability outlook.

AFFIRMATION OF BANK VONTOBEL'S AND VONTOBEL HOLDING'S RATINGS

The affirmation of Bank Vontobel's deposit ratings and of Vontobel Holding's issuer ratings reflects the affirmation of Bank Vontobel's a2 BCA and Adjusted BCA as well as unchanged results under Moody's Advanced Loss Given Failure (LGF) analysis.

This analysis results in two notches of uplift from the a2 Adjusted BCA for Bank Vontobel's deposit ratings. Moody's expects losses that exceed the loss-absorption capacity of Vontobel Holding's Additional Tier 1 (AT1) capital instruments to be first absorbed by the remaining layer of structured product liabilities before extending to junior deposits. In turn, Vontobel Holding's issuer rating reflects senior unsecured liabilities of the holding company which

Moody's considers structurally subordinated to Bank Vontobel's structured notes. Based on the subordination provided by Vontobel Holding's AT1 securities, Vontobel Holding's issuer rating does not benefit from rating uplift under the Advanced LGF analysis.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) CONSIDERATIONS

Moody's lowered Bank Vontobel's ESG credit impact score to CIS-3 from CIS-2, driven by the change in the governance issuer profile score to G-3 from G-2. Vontobel Holding has announced several departures and replacements in its top management ranks, including the group's CEO and COO. Moody's believes that the group will only gradually be able to rebuild a track record of successfully restoring profitable business development, particularly through net new money generation under the shared leadership of its incoming Co-CEO team.

OUTLOOK CHANGE TO NEGATIVE FROM STABLE

The negative outlook on the long-term bank deposit of Bank Vontobel and long-term issuer ratings of Vontobel Holding reflects Moody's assessment that Vontobel Holding's recent lack of traction and performance in its asset management operations, which its new management team confronts, could weigh on the group's profitability and franchise strength over the rating agency's 12 to 18 months outlook horizon.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Bank Vontobel's long-term deposit ratings and Vontobel Holding's long-term issuer ratings is currently unlikely, owing to the negative outlook.

Bank Vontobel's long-term deposit ratings and Vontobel Holding's long-term issuer ratings could be downgraded in case of a downgrade of the bank's a2 BCA and Adjusted BCA or following a strong decline in the stock of loss-absorbing liabilities beyond the rating agency's current expectations.

A BCA downgrade could result in case of a weakening of Bank Vontobel's financial profile or if the bank's BCA became capped at a lower level, owing to a weakening financial profile of Vontobel Holding.

Bank Vontobel's financial profile could weaken if the bank's solvency profile came under pressure, for instance if sector-specific private banking risks materialized, if the bank's profitability failed to recover sustainably, or if the bank's capitalization experienced a sustained and meaningful drop from current levels.

Moreover, failure to stabilize and re-attract net new money flows in the group's asset management operations or more meaningful adjustments to the group's medium-term strategy following recently announced management changes could lead to a weaker financial profile of the group, constraining the bank's Adjusted BCA.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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