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Rating Actions Taken On Liechtenstein-Based LGT Bank And VP Bank On Stronger Business Positions

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OVERVIEW

- A holistic review of the Liechtenstein-based private banks LGT Bank and VP Bank has led us to positively reassess their business positions, reflecting the banks' sizable net asset inflows and sound financial performance.
- We are therefore upgrading VP Bank to 'A/A-1' from 'A-/A-2' and assigning a stable outlook.
- In addition, we are revising our outlook on LGT Bank to positive from stable, and affirming our ratings at 'A+/A-1'.

FRANKFURT (S&P Global Ratings) May 17, 2018--S&P Global Ratings today took the following rating actions on two systemically important Liechtenstein banks:

- VP Bank was upgraded to 'A/A-1' from 'A-/A-2', and assigned a stable outlook; and
- The outlook on LGT Bank was revised to positive from stable, and the ratings were affirmed at 'A+/A-1'.

Our recent review of VP Bank and LGT Bank showed that both banks demonstrated a strong business development over 2017, reflected in sizable net asset inflows and sound financial performance. We believe that both banks are well-positioned to cope with the increased global tax transparency and competition that currently characterizes the operating environment. Both VP Bank and LGT Bank have strengthened their franchise in their competitive segments and have sufficient capacity to further invest in additional IT, advisory infrastructure, and additional client advisors. Moreover, we expect both banks to be active players in the ongoing consolidation of Europe's private banking industry.

We observe that European private banks benefitted from rising global wealth, increased client trading activities, and strong investment performance. At the same time, the outflow of client assets, driven by the introduction of the automatic exchange of information, has materially slowed.

As a result, we reassessed the business position of VP Bank to moderate from weak, and that of LGT Bank to strong from adequate, reflecting bank-specific developments and their relative strengths and achievements compared with peers, as outlined below.

VP Bank AG

The upgrade reflects VP Bank's improved franchise and demonstrated business stability, prompting us to positively reassess its business position as moderate.

Over 2017, VP Bank recorded net assets inflows of Swiss france (CHF) 1.9 billion (approximately €1.6 billion), thus reversing the trend of net assets outflows over the previous five years. We assume most of these outflows are related to the increasing global tax transparency and Liechtenstein's commitment to international cooperation. We expect VP Bank will grow its assets under management (AUM) both organically and through acquisitions, while strengthening its position as a niche player in the global private banking sector. We expect organic net new money growth of CHF1 billion-CHF2 billion annually in 2018-2019.

At the same time, we expect VP Bank to maintain sound profitability metrics while continuing to invest in its IT infrastructure and additional client advisors. Despite net asset outflows and margin pressure, VP Bank has consistently grown its operating revenues over the past five years, mainly on the back of the higher AUM base thanks to mergers and acquisitions and the favorable market environment. Furthermore, interest income increased markedly through the expansion in Lombard lending and domestic retail lending. Successful efforts to contain operational costs improved its cost-to-income ratio to 67% in 2017 from a high of 79% in 2014.

With total assets of CHF12.8 billion on Dec. 31, 2017, VP Bank is the third-largest bank in Liechtenstein. We expect VP Bank will continue to focus on its core competencies in private banking and intermediaries business in its target markets in Liechtenstein, Switzerland, Germany, Luxembourg, Russia, Ukraine, and select Asian countries, as well as on retail and commercial banking in Liechtenstein. This will allow the bank to gradually improve efficiency and to strengthen its business stability, in our view. Although we expect the bank will attract new clients in its core markets, it will remain a niche player in a global context. This somewhat weighs on our assessment of its business position despite the recent improvements.

In our view, VP Bank successfully executed its strategic decisions, including the acquisitions of HSBC Luxembourg's private banking activities and related fund business in 2013 and Centrum Bank in Liechtenstein in 2015. This strengthened the bank's core operations and contributed positive synergy effects. Also, the focus on its defined client segments and its intermediary business, as well as specifying target markets, contributed to an improved operational performance.

We expect VP Bank to be in a position to continue its profitable growth, supported by a less favorable market environment as well as the bank's stable and long-standing customer base. However, similar to other private banks, VP Bank's business stability will remain sensitive to overall market environment and client activity.

We anticipate that it will be difficult for VP Bank to achieve a strong brand awareness similar to its mainly Liechtenstein- and Switzerland-based peers. Consequently, the absolute volume of managed assets and net new money generation will continue to lag that of larger private bank peers.

OUTLOOK

The stable outlook on VP Bank reflects our view that the bank will further invest in its current franchise, supporting net new money growth and sound financial performance.

We could consider a positive rating action if we believed that VP Bank had built a buffer of bail-in-able capital that protects senior unsecured creditors should the bank become nonviable. The size and sustainability of the future additional loss-absorbing capital (ALAC) buffer will depend on the introduction of local minimum requirement for own funds and eligible liabilities (MREL). We expect to have more clarity on the local MREL framework within the next 24 months.

A downgrade could occur if we noted that the bank's business position began to weaken, reflected, for example, in a lack of organic growth in AUM or in deteriorating profitability. Although remote, a sizable acquisition could constrain the rating should it result in the risk-adjusted capital (RAC) ratio dropping below 15%.

LGT Bank AG

The outlook revision to positive is based on our expectation of LGT Bank's improving risk-adjusted profitability supporting further capital build-up. We think that LGT Bank could achieve stronger capital and earnings and an improved risk position over the next 24 months.

We continue to regard as strong the stability of LGT Bank's private banking and asset management franchise. In addition, we take into account LGT Bank's record of organic growth in managed assets and the resulting robust financial performance. We expect LGT Bank will demonstrate superior risk-adjusted profitability and revenue stability compared with peers in the medium term.

This outperformance prompted us to revise LGT Bank's business position to strong, leading to a one-notch uplift in its stand-alone credit profile (SACP), which we now assess at 'a+'. At the same time, we removed the one-notch uplift we had previously included in the issuer credit rating.

LGT Bank's strong business position is based on the bank's standing as the leading financial institution in Liechtenstein, its well-established international franchise, and the resulting stronger-than-peers' operational and financial performances. We also consider LGT Bank's loyal client base. LGT Bank has generated strong net asset inflows, despite the reputational risks inherent to private banking.

LGT Group, with total assets of CHF41.9 billion as of end-2017, derives about 75% of its operating earnings from private banking and about 25% from asset management, a split we envisage the bank will maintain. In our view, LGT Bank continues to show a strong ability to attract new customers. The group has continuously increased asset gathering and reported assets under administration of CHF201.8 billion as of year-end 2017, versus CHF99.5 billion at year-end 2012. The strong growth over the past five years included CHF53 billion from organic growth in addition to the benefits from acquisitions and asset appreciation. This underpins LGT Bank's strong record of net new money generation and the smooth integration of acquisitions.

Furthermore, a key feature of LGT Bank's business proposition continues to be the co-investment product known as the "Princely Portfolio," which has been an important tool in creating customer loyalty and aligning the bank's interests with those of its clients.

We consider that LGT Bank has successfully adapted its business model to changes in the regulatory framework and heightened competition, especially in Europe. That said, LGT Bank is progressively expanding in markets outside Europe, with a presence in 20 locations in the Americas, Asia, and the Middle East, as well as Europe. We anticipate annual net new money generation of around CHF10 billion in 2018-2019, particularly reflecting growth in Asia, the Middle East, and Latin America.

While the ABN Asia acquisition squeezed the bank's capitalization, we expect capital ratios to recover in the coming 12 months. The bank's RAC ratio stood at 8.6% as of year-end 2017, versus 10.0% in 2016.

OUTLOOK

The positive outlook on LGT Bank reflects the potential for a stronger assessment of its combined capital and earnings and risk position over the next 24 months.

An upgrade could arise if increased earnings potential, following the strong growth of recent years, resulted in earnings retention that pushes our RAC ratio above 10%. This would also depend on the development of market risk from its on-balance Princely Portfolio.

While the size and sustainability of the bank's future ALAC buffer is not a main driver of a possible upgrade, we could consider a positive rating action if we anticipated LGT Bank had accumulated sufficient bail-in-able capital to protect senior unsecured creditors should the bank become nonviable. We expect to have more clarity on the local MREL framework and the implications for LGT Bank's ALAC buffer within the next 24 months.

We could revise the outlook to stable if developments in market risk from the Princely Portfolio, lower earnings, or higher distributions kept the RAC ratio from rising significantly above 10%. We could also revise the outlook to stable if the bank experienced major performance, risk, or integration setbacks from its ABN Asia acquisition.

POTENTIAL EFFECTS OF NEW CRITERIA

On April 19, 2018, we published new criteria for assigning resolution counterparty ratings (RCRs) to certain financial institutions. We consider that there is an effective resolution regime in Liechtenstein, and that an RCR may be relevant to LGT Bank and VP Bank under these criteria. In coming weeks, we will be reviewing our analysis of the resolution regime across 26 countries, including Liechtenstein. This review will identify liability categories, if any, that are protected from default risk by structural or operational features of a given resolution framework. Upon completion of this review, we may assign RCRs under our new criteria to banks located in Liechtenstein, including LGT Bank and VP Bank.

RATINGS SCORE SNAPSHOTS

	To	From
VP Bank AG		
Issuer Credit Rating	A/Stable/A-1	A-/Positive/A-2
SACP	a	a-
Anchor	a-	a-
Business Position	Moderate (-1)	Weak (-2)
Capital & Earnings	Very strong (+2)	Very strong (+2)
Risk position	Adequate (0)	Adequate (0)
Funding & Liquidity	Average & Adequate (0)	Average & Adequate (0)

Support		
ALAC Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

LGT Bank AG		
Issuer Credit Rating	A+/Positive/A-1	A+/Stable/A-1
SACP	a+	a
Anchor	a-	a-
Business Position	Strong (+1)	Adequate (0)
Capital & Earnings	Adequate (0)	Adequate (0)
Risk Position	Strong (+1)	Strong (+1)
Funding & Liquidity	Average & Adequate (0)	Average & Adequate (0)
Support		
ALAC Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	+1

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity.

RELATED CRITERIA

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

RELATED RESEARCH

- Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018

RATINGS LIST

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Upgraded

	To	From
VP Bank AG		
Issuer Credit Rating	A/Stable/A-1	A-/Positive/A-2
Senior Unsecured	A	A-

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Outlook Action; Ratings Affirmed

	To	From
LGT Bank AG		
Issuer Credit Rating	A+/Positive/A-1	A+/Stable/A-1
Senior Unsecured	A+	A+

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