

ISSUER COMMENT

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Analyst Contacts

Bernhard Held, CFA +49.69.70730.973
VP-Sr Credit Officer
 bernhard.held@moodys.com

Mark C Jenkinson +44.20.7772.5432
Associate Analyst
 mark.jenkinson@moodys.com

Alexander Hendricks, +49.69.70730.779
 CFA
Associate Managing Director
 alexander.hendricks@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

LGT Bank AG

Group reorganisation has limited influence on LGT Bank's credit profile

On 5 May, LGT Group announced a comprehensive reorganization of its corporate and leadership structure to take effect from January 2021. It reduces organisational, but not business ties between the rated entity [LGT Bank AG](#) (LGT Bank, Aa2/Aa3 stable, a2)¹ and its sister companies LGT Capital Partners and LGT Lightstone Europe LLP, and it will not materially change the credit profile of the bank. The reorganisation is embedded within the context of family succession at the helm of the ultimate parent holding, LGT Group Foundation, and whereas it reduces the Princely House of Liechtenstein's direct involvement in the bank's operating business, it does not in itself reduce its strong control over the bank.

Organisationally, a formal separation between LGT Group's private banking operations and the asset management and impact investment activities of the group will be established. Even so, we expect the product suite offered to LGT Bank's clients to remain focused on LGT-branded asset management products, not least on the "Princely Portfolio", the group's flagship product, which allows clients to replicate the investment strategies of the Princely House of Liechtenstein, a unique offering amongst private banks in Switzerland and Liechtenstein.

When assessing the credit profile of LGT Bank, we factor in the strong linkage of the bank's value proposition to its clients with its owner family's business. Under the new structure, we would continue to positively recognise LGT Group's commitment as an investor and investment advisor striving to ensure that capital is invested sustainably from both an environmental and social perspective.

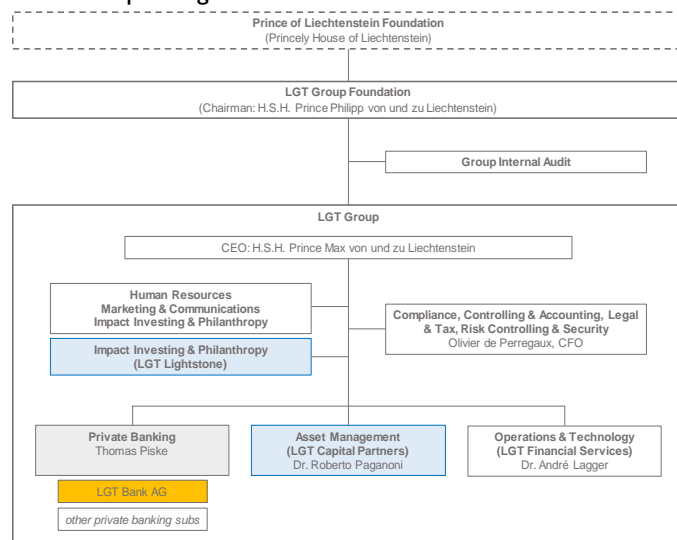
At the same time, the unchanged strong family linkage continues to bear a potential for the bank's owners to change their business priorities in the future, making the credit strength of the bank less of a priority. LGT Bank remains indirectly but fully owned by the Prince of Liechtenstein Foundation. While this setup provides stability to the bank and the group, and thus far we have not identified or expect cases of material divergence, conflicting business interests between LGT Bank and the Princely House of Liechtenstein may have negative effects on the bank's credit profile, most notably on profitability and/or capital.

LGT Group currently consolidates two main operating entities: LGT Bank, its Liechtenstein-based private banking subsidiary, and LGT Capital Partners, its asset management company. These are complemented by other separate private banking subsidiaries, and by LGT Financial Services, the internal operations and technology provider as well as by the

group's impact investing activities (see exhibit 1). The role of the latter will be further strengthened going forward through the establishment of an independent impact investing company (see exhibit 2).

Exhibit 1

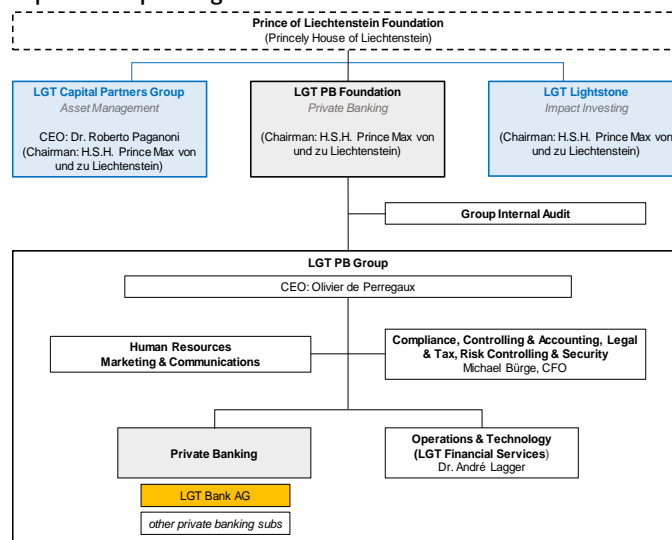
Current corporate governance structure



Source: Company website

Exhibit 2

Expected corporate governance structure



Source: Reorganisation announcement

In 2019, LGT Group expanded its assets under administration to CHF228 billion², up 15% (year-on-year) as a result of both net client money inflow (+ CHF 14 billion) and asset performance. Of these, CHF168 billion are held within the private banking segment, within which LGT Bank is the largest single-entity (see exhibit 3).

Exhibit 3

Key reported metrics of LGT Group as of year-end 2019

in CHF million	Private Banking	- thereof LGT Bank	Asset Management	Operations & Technology	Corporate Center	LGT Group
Total operating income	1,384	720	487	215	(269)	1,818
Total operating expenses	(1,129)	(544)	(347)	(206)	219	(1,464)
Segment result before taxes	255	145	140	9	(50)	354
Cost-to-income ratio	82%	76%	71%	96%	81%	81%
Net profit		131				308
Assets under administration (CHF billion)	168	97	58	-	2	228
Segment assets (CHF billion)	49	39	1	-	(1)	49
Headcount	2,454	1,050	503	411	294	3,662

Source: Company reports

In 2020, we expect the group's results to be weighed down by the economic effects of the coronavirus pandemic, which is likely to reduce fee and trading income, whereas loan loss provisions may increase from a very low basis. At this stage, we expect LGT Bank's capitalisation to remain sustainably at high levels, which will be an important supporting factor for its solvency profile.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Endnotes

- [1](#) The ratings shown are LGT Bank's deposit rating, senior unsecured debt rating and outlook, and its baseline credit assessment.
- [2](#) This total amount includes CHF 17 billion of asset double counting, related to investment fund units from own-managed funds as well as to certain assets that are included in assets under management.

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