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Ratings

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LGT Bank AG

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LGT Bank AG

SACP	a+
Anchor	a-
Business Position	Strong +1
Capital and Earnings	Adequate 0
Risk Position	Strong +1
Funding	Average 0
Liquidity	Adequate

+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating
A+/Positive/A-1

Resolution Counterparty Rating
AA-/--/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• Well-established international private banking business model. • Strong brand name and a stable ownership and management structure. • Sound liquidity position and stable customer deposit base.	• Intense competition and margin pressure in private banking. • Weak cost efficiency, although gradually improving. • Inherent legal and reputational risks due to private banking model.

Outlook: Positive

The positive outlook on LGT Bank AG reflects S&P Global Ratings' view that the bank's capitalization can improve and drive an improvement of the LGT Bank's creditworthiness over the next 24 months.

An upgrade could arise if increased earnings, following the strong growth of recent years, resulted in a material improvement in capitalization, as indicated by our risk-adjusted capital (RAC) ratio increasing sustainably above 10%.

Another, though more remote, trigger for an upgrade is the accumulation of sufficient bail-in-able capital to protect senior unsecured creditors should the bank become nonviable. We expect to have more clarity on the local minimum requirements for own funds and eligible liabilities (MREL) framework and the implications for LGT Bank's additional loss-absorbing capital (ALAC) buffer within the next 24 months.

An upgrade would hinge on our observation that risks stemming from the volatility and unpredictability of the results from the Princely Portfolio are adequately covered by the bank's capital buffer.

We could revise the outlook to stable if market risk from the Princely Portfolio, lower earnings, or higher distributions hindered the bank's accumulation of the stronger capital buffer. We could also revise the outlook to stable if the bank, contrary to our base-case expectation, experienced major performance, risk, or integration setbacks from its ABN Amro Asia acquisition.

Rationale

Our ratings on LGT Bank are based on the favorable economic and industry conditions for the Liechtenstein banking system. The bank is the largest financial institution in Liechtenstein and has a well-established international franchise in private banking, with assets under administration of Swiss franc (CHF) 201.7 billion (€172 billion) as of end-2017. Despite the negative effect of the ABN Asia acquisition on capital ratios, we see a potential of increasing capitalization through the higher earnings potential and capital generation. LGT Bank is not materially exposed to credit risk, since lending does not constitute a main activity for the bank and the loan portfolio is principally collateralized. This translates into an outstanding loan-loss track record, also in comparison with its private bank peers. LGT Bank's funding and liquidity profile is in line with peers', reflecting a strong deposit franchise.

Anchor: 'a-' for private Banks based in Liechtenstein

We use the economic risk and industry risk scores from our Banking Industry Country Risk Assessment (BICRA) to determine a bank's anchor, the starting point in assigning an issuer credit rating to a bank. The anchor for a commercial bank operating only in Liechtenstein is 'a-', based on an economic risk score of '2' and an industry risk score of '3'.

When we assess economic risk for private banks, we use the economic risk factor of the country of origin, which in the case of LGT Bank is Liechtenstein.

Economic risk for Liechtenstein's banks remains relatively low in a global comparison. Despite its small size, we view Liechtenstein as a very competitive and specialized economy. It has export-oriented industries holding niche positions worldwide and a specialized financial industry focused on wealth management. Liechtenstein's wealth levels are among the highest of any rated sovereign, and household debt remains average by European standards. Mirroring trends in neighboring countries such as Switzerland and Germany, house prices in Liechtenstein have risen moderately in recent years, but at present we see no credit-fueled asset-price bubbles. Owing to the predominance of private banking, lending is of minor importance. Furthermore, we expect credit losses in Liechtenstein's retail and corporate markets to remain low.

In our view, industry risk in Liechtenstein stems from business models focused on private banking and wealth management. While we consider that Liechtenstein banks' risk appetite are restrained and risk culture remains conservative, we think that the high confidence sensitivity of this business model exposes the financial industry to reputation risk. In our view, Liechtenstein's financial market has rapidly implemented international best practices and is at the forefront of international development in employing legitimate strategies. A strict regulatory framework supports Liechtenstein's overall aim of repositioning as a tax-compliant financial center. Systemwide funding benefits from sizable deposit bases, but remains vulnerable to the confidence sensitivity of wealth management activities.

Table 1

LGT Bank AG Key Figures

	--Year-ended Dec. 31--				
(Mil. CHF)	**2017**	**2016**	**2015**	**2014**	**2013**
Adjusted assets	41,068.8	35,241.0	33,861.8	35,118.6	28,064.6
Customer loans (gross)	20,010.6	12,821.1	11,873.5	10,525.8	7,584.0
Adjusted common equity	1,671.1	1,755.9	1,727.1	1,542.3	1,647.8
Operating revenues	1,529.2	1,206.2	1,150.2	986.3	893.7
Noninterest expenses	1,171.5	911.1	878.7	796.8	717.5
Core earnings	328.4	261.6	240.7	165.0	167.7

CHF--Swiss franc.

Business position: Well-established international private banking business

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 over recent years, despite the push to tax compliance in international 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," a long-term investment strategy that includes a high share of alternative investments. We see this product as 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 of Europe, including Americas, Asia, and the Middle East. 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.

Table 2

LGT Bank AG Business Position					
	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (mil. CHF)	1,529.2	1,206.2	1,150.2	1,009.8	894.8
Retail banking/total revenues from business line	76.3	77.4	74.3	70.7	70.4
Commercial & retail banking/total revenues from business line	76.3	77.4	74.3	70.7	70.4
Asset management/total revenues from business line	25.3	26.7	26.5	26.7	24.6
Other revenues/total revenues from business line	(1.6)	(4.0)	(0.8)	2.6	4.9
Return on average equity	7.3	6.6	6.3	5.0	4.3

CHF--Swiss franc.

Capital and earnings: Capital ratios fueled by market risks in the Princely Portfolio

We assess LGT Bank's capital and earnings as adequate. We base our assessment mainly on our RAC ratio on LGT Group, which we expect will rise to 9%-10% over the coming 18-24 months, based on a solid revenue-generating capacity and its profit-retention. The bank's RAC ratio was 8.7% as of year-end 2017, compared with 10% one year earlier, reflecting the capital impact of the ABN Amro Asia acquisition.

In our calculation of the total adjusted capital (TAC) position, we make a material deduction for the CHF1.4 billion of unrealized gains on the Princely Portfolio, which we do not treat as capital. However, we fully acknowledge these unrealized gains in our calculation of the bank's risk-weighted assets (RWAs), that materially reduce the risk-weights in the Princely Portfolio. Overall, our lower TAC in the numerator and higher risk-weights for the equity exposures in the denominator result in a substantial difference between our RAC ratio and the group's regulatory common equity tier 1 ratio of 18.8%, calculated under the standardized approach.

We view the group's capital position as adequate but below that of its rated European private bank peers, due to the lower RAC ratio. We expect that LGT Group's RAC ratio will remain sensitive to developments in the size of the Princely Portfolio. A reduction or increase in this portfolio could substantially affect capitalization, as measured by S&P Global Ratings. However, we don't envisage this happening over our two-year outlook horizon.

In our view, LGT Bank continues to deliver very good financial performance, despite challenging operating conditions due to intense competition in private banking. We anticipate LGT Bank will be able to generate stable earnings in 2018-2020 on the back of its increased asset management business, continued net asset inflows, stable recurring fee income underpinned by amended pricing structure in private banking, and increased trading income. We expect this will translate into a further gradual improvement of LGT Bank's net income to CHF350 million-CHF400 million and return on equity of 7%-8% over the coming two years.

Table 3

LGT Bank AG Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Tier 1 capital ratio	18.8	20.2	20.1	18.4	21.3
S&P RAC ratio before diversification	8.7	10.0	8.6	7.1	8.0
S&P RAC ratio after diversification	8.1	9.4	8.8	7.2	7.9
Net interest income/operating revenues	14.7	14.1	10.0	9.2	8.8
Fee income/operating revenues	65.7	68.3	68.1	71.2	72.6
Market-sensitive income/operating revenues	17.7	16.3	15.9	18.2	16.4
Noninterest expenses/operating revenues	76.6	75.5	76.4	80.8	80.3
Preprovision operating income/average assets	0.9	0.8	0.8	0.6	0.6
Core earnings/average managed assets	0.8	0.7	0.7	0.5	0.6

RAC--Risk-adjusted capital.

Table 4

LGT Bank AG Risk-Adjusted Capital Framework Data

(CHF 000s)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk					
Government and central banks	7,788,930	247,375	3	171,576	2
Of which regional governments and local authorities	1,125,666	163,363	15	94,436	8
Institutions and CCPs	6,552,344	1,447,950	22	1,244,386	19
Corporate	5,481,739	2,231,125	41	3,213,936	59
Retail	17,222,238	5,554,638	32	5,079,241	29
Of which mortgage	4,569,274	1,791,850	39	1,131,193	25
Securitization§	648,248	64,825	10	131,087	20
Other assets†	895,112	626,038	70	898,163	100
Total credit risk	39,714,276	10,171,950	26	10,738,388	27
Credit valuation adjustment					
Total credit valuation adjustment	--	208,525	--	0	--
Market risk					
Equity in the banking book	3,152,974	4,132,475	131	4,074,397	129
Trading book market risk	--	969,250	--	1,453,875	--
Total market risk	--	5,101,725	--	5,528,272	--
Operational risk					
Total operational risk	--	2,427,987	--	2,898,631	--
(CHF 000s)		**Basel III RWA**		**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	--	17,910,187	--	19,165,292	100

Table 4

LGT Bank AG Risk-Adjusted Capital Framework Data (cont.)					
Total Diversification/Concentration Adjustments	--	--	--	1,494,441	8
RWA after diversification	--	17,910,187	--	20,659,733	108
(CHF 000s)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments	--	3,373,963	18.8	1,671,128	8.7
Capital ratio after adjustments‡	--	3,373,963	18.8	1,671,128	8.1

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. CHF--Swiss franc. Sources: Company data as of Dec. 31, 2017, S&P Global Ratings.

Risk position: Low-credit risk profile with conservative approach to managing operational risks in private banking

We assess LGT Bank's risk position as strong. We view LGT Bank's credit risk as very low, since lending does not constitute a main activity for the bank, the loan portfolio is principally collateralized, and the bank demonstrates an outstanding loan-loss record in comparison with its private bank peers. However, the bank remains exposed to potential reputational risks due to its focus on confidence-sensitive private banking.

LGT Bank's loan portfolio amounted to CHF20 billion as of year-end 2017, consisting primarily of Lombard lending and to a lesser extent of mortgage-backed loans. LGT Bank conducts the Lombard lending as part of its private banking offering, and we expect volumes to grow further in line with new customer generation. The bank monitors the portfolio daily in accordance with prudent criteria, and the collateral portfolio shows high quality. The mortgage loan portfolio of CHF4.8 billion is mainly concentrated in Liechtenstein and Switzerland, and shows very conservative loan-to-value ratios. We don't expect any changes in LGT Bank's conservative underwriting standards. LGT Bank's cost of risk was only 5bps on average over the past five years and it continues to compare favorably with that of private bank peers in Liechtenstein and Switzerland.

As a private bank, LGT Bank remains sensitive to operational and reputational risks, including those related to money laundering. With regard to reputational risks, we reflect the risk in our starting point for the rating (the anchor, derived from our BICRA). We make a negative adjustment in our BICRA on Liechtenstein to reflect the threat to this small financial center and its banks. We think that LGT Bank's wider presence will require greater management and control resources, but expect LGT Bank will continue to prepare itself via material investments in managing legal, operational, and reputational risks in international operations. We understand that any issues with undeclared assets by U.S. clients have been settled and, as such, we don't expect LGT Bank will face any significant legal or reputational risks in this context.

Overall, we believe that our RAC framework conservatively captures LGT Bank's market and operational risk, as seen in the elevated market risks and operational risks charges, which constitute as much as 44% of our total RWAs.

Table 5

LGT Bank AG Risk Position					
	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	56.1	8.0	12.8	38.8	4.4
Total diversification adjustment / S&P RWA before diversification	7.8	6.5	(2.7)	(1.3)	0.5
Total managed assets/adjusted common equity (x)	25.1	20.4	19.8	23.0	17.2
New loan loss provisions/average customer loans	(0.0)	0.1	0.2	0.0	0.0
Net charge-offs/average customer loans	(0.1)	(0.0)	0.0	(0.0)	(0.0)
Gross nonperforming assets/customer loans + other real estate owned	0.1	0.4	0.3	0.2	0.4
Loan loss reserves/gross nonperforming assets	89.8	72.5	71.0	100.3	75.7

RWA--Risk-weighted assets.

Funding and liquidity: Funding profile based on customer deposits and ample liquidity

We assess LGT Bank's funding as average and its liquidity as adequate. The balance sheet is largely driven by its deposit base and the use of Lombard loans by clients, with excess deposits invested in money market and fixed income instruments. Wholesale funding is mainly used to manage the bank's liquidity needs over the short to medium term and provide a buffer to varying client activity.

LGT Bank's strong deposit base (90% of the funding base) and limited loan activity will, in our view, continue to support a favorable stable funding and loan-to-deposit ratios in the future. Respectively, these were 139% and 62% at end-2017. The bank's funding profile continues to compare favorably with that of most financial institutions, reflecting LGT Bank's business profile.

Our assessment of the bank's funding and liquidity is neutral to the rating. Given the short maturities of large parts of its assets and liabilities, funding and liquidity metrics dilute some risks inherent to the business model. We see the bank's cautious funding and liquidity approach as a necessity given that private banking deposits are generally more confidence sensitive and potentially more volatile than those of retail banks. We envisage higher volatility in customer deposits of private banks, since we observe less granularity, volumes often in excess of deposits insurance limits, and that large parts are cash positions within the customers' asset allocations.

We consider LGT Bank's liquidity to be nominally stronger compared with that of many commercial banks, with net broad liquid assets covering 36% of its short-term customer deposits. Nevertheless, we consider liquidity as a neutral factor to the ratings on LGT Bank, in line with that of most other private banks.

Table 6

LGT Bank AG Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	90.1	89.5	89.0	87.9	86.6
Customer loans (net)/customer deposits	61.7	47.2	46.5	40.1	36.9
Long term funding ratio	95.2	97.5	97.4	96.7	95.3
Stable funding ratio	139.4	149.0	131.3	155.9	157.8
Short-term wholesale funding/funding base	5.3	2.8	2.8	3.6	5.3

Table 6

LGT Bank AG Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
Broad liquid assets/short-term wholesale funding (x)	7.2	15.0	11.9	12.4	9.0
Net broad liquid assets/short-term customer deposits	36.5	43.5	34.8	46.8	50.9
Short-term wholesale funding/total wholesale funding	53.1	26.6	25.9	29.9	39.2
Narrow liquid assets/3-month wholesale funding (x)	8.3	13.2	11.0	8.8	7.7

N/A--Not applicable.

External support: None

We asses that LGT Bank has a high systemic importance in Liechtenstein, owing to its strong brand reputation associated with the Liechtenstein financial center, its leading market position in Liechtenstein, and its ownership by the princely family of Liechtenstein.

However, since the beginning of 2017, we consider the likelihood of extraordinary government support for banks in Liechtenstein to be uncertain, and we therefore no longer include uplift for such support in our ratings on systemic banks. This is because Liechtenstein implemented the European Union Bank Recovery and Resolution Directive (BRRD) into national law effective on Jan. 1, 2017. The recovery and resolution act (Sanierungs- und Abwicklungsgesetz) provides the authorities with bail-in powers over domestic banks and leads us to believe that prospects for extraordinary government support before any burden-sharing by senior unsecured creditors now appear uncertain, even for systemically important banks such as LGT Bank.

We do not rule out the possibility that systemically important banks in Liechtenstein might receive extraordinary government support, but we now see the predictability of such support as materially reduced. That said, if such a bank experienced financial difficulties and we saw clear evidence that government support would be forthcoming, we could still reflect this "additional short-term support" in our ratings on individual banks.

We also consider the country's bank resolution framework to be effective, which generally allows us to include uplift for ALAC in our ratings on individual systemically important banks. However, in our base case, we don't expect LGT Bank to reach a meaningful buffer of going-concern loss-absorbing instruments anytime soon. We expect to have more clarity on the local framework and bank-specific buffers for MREL within the next two years.

Additional rating factors: None

No other factors affect this rating.

Resolution Counterparty Ratings (RCR)

We have assigned a Resolution Counterparty Rating (RCR) to LGT Bank since we assess the resolution regime in Liechtenstein to be effective and the bank as likely to be subject to a bail-in led resolution if it reaches nonviability. The RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution. We position the long-term RCR up to one notch above the long-term issuer credit rating (ICR) when the ICR ranges from 'BBB-' to 'A+'.

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Resolution Counterparty Ratings Jurisdiction Assessment For Liechtenstein Completed, June 29, 2018
- 24 European Banking Groups Assigned Resolution Counterparty Ratings, June 29, 2018
- Research Update: Liechtenstein 'AAA/A-1+' Ratings Affirmed; Outlook Stable, June 1, 2018
- Rating Actions Taken On Liechtenstein-Based LGT Bank And VP Bank On Stronger Business Positions, May 17, 2018
- Ask No Secrets: Europe's Private Banks Learn How To Live A New Normal, May 18, 2018
- Banking Industry Country Risk Assessment: Liechtenstein, Feb. 8, 2018

Anchor Matrix

Industry Risk	Economic Risk									
	1	**2**	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	**a-**	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of August 9, 2018)

LGT Bank AG	
Issuer Credit Rating	A+/Positive/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Senior Unsecured	A+
Issuer Credit Ratings History	
17-May-2018	A+/Positive/A-1
02-Mar-2017	A+/Stable/A-1
09-Dec-2016	A+/Watch Neg/A-1
29-Apr-2014	A+/Negative/A-1
Sovereign Rating	
Liechtenstein	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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