Liechtenstein-Based LGT Bank AG And VP Bank AG Ratings Affirmed On Resolution Strategy Evolution

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- As resolution scenarios and the regulatory MREL framework for banks in Liechtenstein evolved over 2023, we looked at the impact on our ratings, accounting for specific complexities pertaining to Liechtenstein's private banks.
- We don't expect to add an ALAC uplift to our ratings on LGT Bank AG and VP Bank AG, the two rated systemic banks in Liechtenstein, over the next two years.
- We therefore affirmed our 'A+/A-1' ratings on LGT Bank and 'A-/A-2' ratings on VP Bank.
- The outlooks on both banks remain stable because we don't expect material changes to the banks' financial profiles over the next two years.

FRANKFURT (S&P Global Ratings) Jan. 24, 2024--S&P Global Ratings today said it affirmed its long- and short-term issuer credit ratings of 'A+/A-1' ratings on LGT Bank AG and 'A-/A-2' ratings on VP Bank AG, both based in Liechtenstein. The outlook on both banks is stable.

Rationale

We consider the country's bank resolution framework effective, which generally allows us to include uplift for ALAC in our ratings on individual systemically important banks. In 2023, the Resolution Authority in Liechtenstein finalized the resolution plans for systemically important banks that we rate in Liechtenstein: LGT Bank and VP Bank. We also expect the two banks will take the necessary steps to ensure their resolvability from an operational standpoint.

Following our discussions with resolution authorities and Liechtenstein banks, we gained clarity about the resolution perimeter and associated regulatory requirements. We understand that the Liechtenstein resolution authority does not consider these banking groups' foreign operations systemically relevant and excludes them from the resolution perimeter. As a result, these groups are likely to fragment in a resolution scenario.

In assessing the rating implications for LGT and VP Bank, we looked into the banks' respective resolution strategy and issuance plans for subordinated instruments that represent a potential buffer for senior bondholders. We understand that these banks have to meet the full minimum requirement for own funds and eligible liabilities (MREL) by 2026, but both are already above the regulatory requirement given their high capital ratios.

Generally, we could consider an uplift to a rating if a bank accumulated material and sustainable bail-inable capital, resulting in an additional loss-absorbing capacity (ALAC) buffer above certain threshold. For LGT, our adjusted threshold is 4.0% of S&P Global Ratings risk-weighted assets

(RWA); for VP Bank, it is 3.5%. In the unlikely scenario of either bank failing, this buffer could protect the bank's senior unsecured creditors should it become nonviable. However, given the banks' high capital levels (LGT's common equity tier 1 [CET1] ratio was 19.5% and VP Bank's, 23.4% at June 30, 2023), the need to maintain subordinated debt instruments is low, so we don't expect the banks to significantly increase their subordinated debt enough to support ALAC uplift.

LGT Bank AG

We consider LGT systemically important and subject to a resolution process. We forecast an ALAC buffer of about 3.2% of S&P Global Ratings RWA in the next two years, compared with 3.5% at end-2022. It is below our adjusted 4.0% threshold, so we don't apply a ratings uplift for ALAC. We are also mindful on uncertainty to our analyses due to the resolution approach's specifics. The resolution scenario for the LGT Group assumes recapitalization of its operations in Liechtenstein only, leaving aside the foreign group's subsidiaries and the princely portfolio investments.

We adjust our ALAC threshold on LGT for a potential rating uplift by 100 basis points (bps) to 4% due to potential maturity concentrations, given that there are only three senior nonpreferred instruments outstanding. This approach is in line with what we apply to peers with similar ALAC instrument concentrations.

Outlook

The stable outlook reflects our view that LGT's revenue streams over the coming 12-24 months will be broadly solid despite current asset-price volatility.

Downside scenario: We could take a negative rating action on LGT if a plunge in asset prices triggered a strong reduction in the value of the princely portfolio and assets under management, weakening LGT's earnings capacity and risk-adjusted capitalization. While it is a more remote prospect, we could consider a downgrade if lower earnings retention or larger acquisitions prevented the bank from maintaining strong capitalization, or if the ongoing reorganization has unexpected negative implications for the business.

Upside scenario: We could consider a positive rating action if LGT accumulated subordinated loss absorbing capacity beyond our expectations, resulting in ALAC sustainably above our adjusted threshold of 4% of S&P Global Ratings RWAs. However, we would then consider an upgrade only if we were confident in the likely effectiveness of the associated resolution strategy and our comprehensive view of LGT was comparable with that of peers at the 'AA-' level--currently only a small cohort of banks globally.

VP Bank AG

We consider VP Bank systemically important and subject to a resolution process, in which we expect the bank would likely be sold. However, we expect the Financial Market Authority to only protect domestic operations, which account for about 90% of group RWAs, while subsidiaries in Switzerland, Luxembourg, or the British Virgin Islands would be liquidated or sold. As such, parts of the banking group might not be recapitalized.

VP Bank's existing Swiss franc 155 million senior subordinated bond is MREL- and ALAC-eligible. However, we understand the bank already meets its subordinated MREL requirement with its very high CET1 ratio of 23.4% as of first-half 2023, so it might not be required to replace the MREL bond when it matures in 2029.

We adjust our ALAC threshold for rating uplift by 50 bps (net) to 350 bps of S&P Global Ratings RWAs, balancing VP Bank's maturity concentration and equity investments that would likely not be recapitalized. For the maturity concentration, with only one bond maturing in 2029, we increase our threshold 100 bps, but for the adjustment for equity in the banking book, we reduce our adjusted threshold 50 bps.

The existing senior subordinated bond results in an ALAC buffer, based on the resolution perimeters' RWAs, of only about 300 bps over the next few years, significantly below our threshold for rating uplift.

Outlook

The stable outlook on VP Bank reflects our view that, over the next 12-24 months, the bank's very strong capitalization will support its multiyear strategy implementation, even if profitability improves only gradually.

Downside scenario: We could lower the ratings if the bank's strategy implementation experiences material setbacks, for example leading to a loss of clients and net outflows in assets under management, as this would question the stability of its business franchise.

We could also downgrade VP Bank if there are indications of an increasing risk appetite. A sizable acquisition could also constrain the rating should it materially erode the bank's capital buffer, reflected in our risk-adjusted capital ratio dropping below 15%.

Upside scenario: We could consider raising the ratings if we think VP Bank has built a material buffer of bail-inable subordinated capacity above our adjusted threshold of 350 bps, with a strong commitment to maintain this.

While much less likely, we could also consider an upgrade if the bank's Strategy 2026 plan results in sustainable new asset inflows and an increase in fee income. A higher rating would then be supported by improving cost efficiency and profitability compared with that of peers.

Ratings Score Snapshot

	LGT Bank AG	VP Bank AG
Issuer Credit Rating	**A+/Stable/A-1**	**A-/Stable/A-2**
SACP	a+	a-
Anchor	a-	a-
Business Position	Strong (+1)	Constrained (-2)
Capital and earnings	Strong (+1)	Very strong (+2)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Adequate and adequate(0)	Adequate and adequate (0)
CRA adjustment	0	0
Support	0	0
ALAC support	0	0
GRE Support	0	0

	LGT Bank AG	VP Bank AG
Issuer Credit Rating	**A+/Stable/A-1**	**A-/Stable/A-2**
Group support	0	0
Sovereign support	0	0

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- VP Bank AG, Oct. 9, 2023
- LGT Bank AG, Sept. 13, 2023

Ratings List

*************** LGT Bank AG ***************	
Ratings Affirmed	
LGT Bank AG	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
LGT Bank AG	
Senior Unsecured	A+
Senior Subordinated	A

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Ratings Affirmed	
VP Bank AG	
Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-1
VP Bank AG	
Senior Unsecured	A-
Senior Subordinated	BBB+