MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Valiant Bank's A1 deposit ratings, outlook stable

08 Jan 2019

Rating agency also affirms Valiant Bank's a3 Baseline Credit Assessment

Frankfurt am Main, January 08, 2019 -- Moody's Investors Service (Moody's) has today affirmed Valiant Bank AG's (Valiant) A1 deposit ratings and its Baa1 Counterparty Risk Ratings (CRRs). At the same time, Moody's affirmed Valiant's a3 Baseline Credit Assessment (BCA) and Adjusted BCA. Concurrently, the rating agency affirmed Valiant's P-1 short-term deposit rating, its P-2 short-term CRRs, its A3(cr) Counterparty Risk assessment (CR Assessment) and its P-2(cr) short-term CR Assessment. The outlook on Valiant's long-term deposit ratings was maintained at stable.

Moody's says that the affirmation of Valiant's ratings reflects the bank's overall stable financial profile, with all key solvency and liquidity metrics remaining largely unchanged over the past years and the rating agency's expectation that this stability will be enduring, including a broadly unchanged structure of the bank's funding profile.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

--AFFIRMATION OF VALIANT'S BCA

The affirmation of Valiant's a3 BCA takes into account both the very high focus of the bank on residential mortgage lending in Switzerland, which results in tail risks from potential shocks in the Swiss real estate market but also prudent mitigating factors, such as a high collateralisation, a granular lending portfolio outside of regional hotspots in Switzerland and generally conservative lending criteria in combination with an overall sound capitalization. While the total regulatory capital decreased following the call of the bank's Tier 2 bond early 2018, the Common Equity Tier 1 ratio continued to improve during the last years to a level above 15%.

The a3 BCA further considers Valiant's shift in funding profile with the bank diversifying its funding base, in part through issuing covered bonds, which slightly increases the bank's reliance on confidence-sensitive market funding. The higher dependence on capital markets is largely mitigated by its strong deposit franchise. The increase in covered bonds issuances will benefit the bank's margins and help offset pressures that Moody's expects for Valiant's profitability.

--AFFIRMATION OF VALIANT'S DEPOSIT AND COUNTERPARTY RISK RATINGS

The affirmation of Valiant's A1 deposit ratings (and its Baa1 Counterparty Risk Ratings) follows the affirmation of the a3 BCA and adjusted BCA.

For Valiant's deposits, Moody's Advanced Loss Given Failure (LGF) analysis indicates a very low loss given failure, resulting in two notches of rating uplift from the bank's a3 Adjusted BCA. This is owing to the substantial volume of deposits limiting expecting losses for deposit holders in the unlikely event of failure or resolution. While the protection from outstanding volumes of senior unsecured debt, which provides a cushion for deposits reflecting the depositor preference by law in Switzerland, has shrunk, it remains still sufficient to maintain the existing rating uplift of two notches for now.

Because of full depositor preference in Switzerland, CRRs are distinct from deposit ratings, reflecting that, in a resolution, counterparty risk liabilities imply higher risks compared with deposit ratings that benefit from preferential treatment. The higher expected loss for counterparty risk is reflected in the Baa1 CRRs Moody's assigns to Valiant.

Owing to Valiant's marginal systemic importance to the domestic deposit-taking market and the Swiss payment system, Moody's considers the probability of government support to be 'Low' and does not assign any rating uplift for Valiant from government support.

OUTLOOK ON VALIANT'S DEPOSIT RATINGS REMAINS STABLE

The stable outlook on Valiant's long-term deposit ratings reflects Moody's expectation that Valiant will maintain its stable financial profile represented by its sound asset risk and capital metrics. A somewhat higher recourse to covered bond funding should help the bank to offset pressures from the low interest environment on its revenue and profits.

The stable outlook also incorporates Moody's expectation that over the course of the 12 to 18 months outlook horizon the results of Moody's advanced LGF analysis remains unchanged for Valiant's deposits, despite scheduled senior unsecured debt maturities leading to a further decrease in the cushion available.

WHAT COULD CHANGE THE RATINGS UP/DOWN

An upgrade of Valiant's ratings is likely to follow (1) an upgrade of the bank's BCA; or (2) an increase in rating uplift resulting from Moody's Advanced LGF analysis.

Valiant's BCA could be upgraded if Valiant: (1) sustainably increases its capitalization in combination with (2) a significant increase its liquidity buffers to counterbalance risks from confidence-market sensitive funding, and/or (2) a meaningful reduction in its reliance on wholesale funding.

Moody's Advanced LGF analysis could in principle result in higher notches of rating uplift for Valiant's deposit ratings if the bank were to issue massive volumes of bail-inable senior unsecured debt or subordinated debt instruments, to an extent that it equals a multiple of its peak volume outstanding in 2018, thereby substantially increasing the cushion available for deposits.

A downgrade of Valiant's ratings is likely to follow (1) a downgrade of the bank's BCA; or (2) a reduction in the rating uplift resulting from Moody's Advanced LGF analysis.

A downgrade of Valiant's BCA could result from an increase in the concentration risk towards residential mortgage lending to an extent that would warrant a negative adjustment for lack of business diversification and that would not be compensated by offsetting effects in the solvency profile. Additionally, a downgrade of Valiant's BCA could result from a further increase in market funding dependence or a reduction in the bank's liquid resources.

Moody's Advanced LGF analysis could result in fewer notches of rating uplift for Valiant's deposit ratings if the bank's deposit volumes or senior unsecured debt volumes were to decrease compared to its tangible banking assets, for example because of higher than expected balance sheet growth. Moreover, the rating uplift for Valiant's deposit ratings could contract if the proportion of deposits benefiting from preference were to decrease from the currently assumed 26% of Valiant's total deposits and lead to a lower volume of junior deposits than previously anticipated.

LIST OF AFFECTED RATINGS

Issuer: Valiant Bank AG

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Baa1

....Short-term Counterparty Risk Ratings, affirmed P-2

....Long-term Bank Deposit Ratings, affirmed A1 Stable

....Short-term Bank Deposit Ratings, affirmed P-1

....Long-term Counterparty Risk Assessment, affirmed A3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-2(cr)

....Baseline Credit Assessment, affirmed a3

....Adjusted Baseline Credit Assessment, affirmed a3

..Outlook Action:

....Outlook remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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