

CREDIT OPINION

15 July 2024

Update

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RATINGS

Liechtensteinische Landesbank AG

Domicile	Liechtenstein
Long Term CRR	Aa1
Type	LT Counterparty Risk Rating - Dom Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Aa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Liechtensteinische Landesbank AG

Update following ratings affirmation

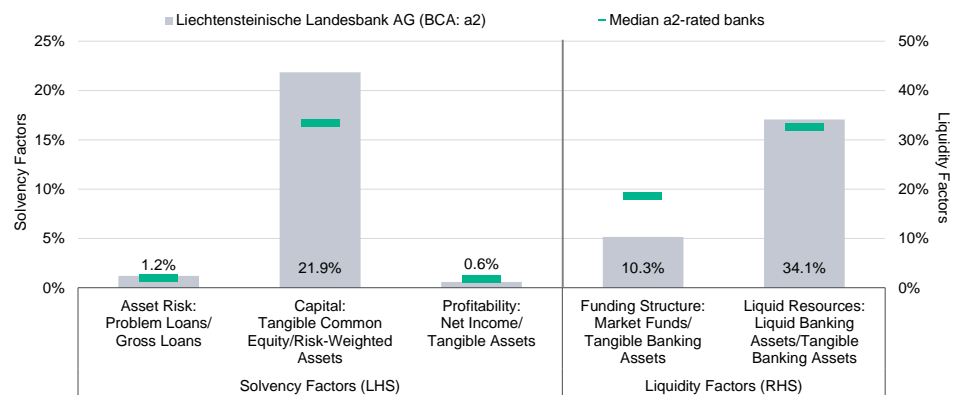
Summary

[Liechtensteinische Landesbank AG](#) (LLB)'s Aa2 deposit ratings reflect the bank's a2 BCA and the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities, indicating a very low loss given failure and resulting in two notches of rating uplift. The ratings incorporate one notch of additional rating uplift from government support by the Principality of Liechtenstein due to the Vaduz-based bank's ownership structure and high importance to the Liechtenstein banking system.

LLB's a2 BCA reflects the bank's solid capitalisation providing a strong mitigant to potential losses, as well as its sound liquidity and funding profile. We also do not foresee a meaningful or sustained reduction in its capital buffers. In assessing LLB's funding mix and liquidity profile, we have taken into account some concentration towards more confidence-sensitive deposits within the bank's private banking activities. These risks are to a large extent mitigated through high cash balances and the strength and proven stability of the bank's deposit franchise in domestic retail and corporate banking. LLB's asset quality risks are limited, despite high sector concentrations in the Swiss and Liechtenstein real estate markets. The BCA further considers LLB's adequate and very stable profitability which we expect to remain supported by solid fee income and disciplined cost management.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Ratings

Credit strengths

- » Diversified business model with growing wealth management activities
- » Strong capitalisation, including sizeable buffers above regulatory minimum requirements
- » Limited reliance on wholesale funding sources and sound liquidity

Credit challenges

- » Geographically concentrated mortgage loan book and high exposure to local companies
- » Further improvement in the bank's moderate profitability will require continued successful execution of its 'ACT-26' strategy

Rating outlook

- » The stable outlook on the long-term bank deposit and issuer ratings reflects our expectation of a continued stable development of LLB's key financial factors and a largely unchanged liability structure.

Factors that could lead to an upgrade

- » LLB's long-term deposit and issuer ratings could be upgraded in case of an upgrade of the bank's a2 BCA or following a sizable increase in the stock of bail-in-able liabilities.
- » A BCA upgrade could principally follow a shift towards a more diversified asset mix with significantly lower concentration risks to real estate markets in Liechtenstein and Switzerland, accompanied by an even stronger capitalisation.

Factors that could lead to a downgrade

- » LLB's long-term deposit and issuer ratings could be downgraded in case of a downgrade of the bank's a2 BCA or following a significant decline in the stock of loss-absorbing liabilities, in particular if the stock of the bank's junior deposits and lower-ranking liabilities accounted for a significantly lower share of the bank's tangible banking assets than we currently assume.
- » A BCA downgrade could result from a weakening of LLB's combined solvency profile, in particular following a more material deterioration in its asset quality potentially resulting from a marked slowdown in the real-estate markets of Liechtenstein or Switzerland; a significant and persistent decline in the bank's capitalisation; or additional acquisitions that are unduly aggressive from a commercial, financial or operational risk viewpoint.

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

Key indicators

Exhibit 2

Liechtensteinische Landesbank AG (Consolidated Financials) [1]

	12-23 ²	12-22 ²	12-21 ²	12-20 ²	12-19 ²	CAGR/Avg. ³
Total Assets (CHF Billion)	25.4	25.2	25.1	23.6	22.6	3.0 ⁴
Total Assets (USD Billion)	30.2	27.2	27.5	26.7	23.4	6.6 ⁴
Tangible Common Equity (CHF Billion)	1.9	1.9	1.8	1.8	1.7	3.4 ⁴
Tangible Common Equity (USD Billion)	2.3	2.1	2.0	2.0	1.8	7.1 ⁴
Problem Loans / Gross Loans (%)	1.1	1.4	1.2	1.4	1.8	1.4 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	21.9	22.6	20.4	22.2	20.4	21.5 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	8.2	10.0	8.7	10.3	13.3	10.1 ⁵
Net Interest Margin (%)	0.7	0.6	0.6	0.7	0.7	0.7 ⁵
PPI / Average RWA (%)	2.2	2.0	1.9	1.7	1.6	1.9 ⁶
Net Income / Tangible Assets (%)	0.7	0.3	0.7	0.5	0.7	0.6 ⁵
Cost / Income Ratio (%)	64.0	64.6	65.7	69.6	70.1	66.8 ⁵
Market Funds / Tangible Banking Assets (%)	10.3	12.7	14.8	11.1	11.2	12.0 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	34.1	37.0	41.7	39.9	37.9	38.1 ⁵
Gross Loans / Due to Customers (%)	78.4	76.4	76.2	74.2	75.9	76.2 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

Liechtensteinische Landesbank AG (LLB¹) is majority owned by the Principality of Liechtenstein. It operates as a universal bank in Liechtenstein and Switzerland, and offers private banking and asset management services, including in Austria through Liechtensteinische Landesbank (Oesterreich) AG (LLB Austria).

In 2022, LLB completed its acquisition of Bank Linth LLB AG (Bank Linth). As a result, the share of the Principality of Liechtenstein in LLB was moderately diluted to 56.3% as of year-end 2022 from 57.5% previously. By law, the Government of Liechtenstein must hold a minimum share of 51%.

Following the acquisition, LLB delisted Bank Linth from SIX, and the bank introduced a one-brand strategy unifying Liechtensteinische Landesbank AG, Bank Linth (now LLB (Schweiz) AG) and LLB Austria under the common LLB brand. In line with its ACT-26 strategy, LLB closed ten branches in smaller Swiss cities close to Liechtenstein, but opened a new branch in Zurich and plans the opening of a further branch in St. Gallen to support its private banking and corporate clients on-site. Also, the bank opened three additional business locations in Germany in 2024. This expansion aims to facilitate organic growth following the group's entry into the German market through its digital asset management brand "wiLLBe".

As of year-end 2023, LLB reported CHF25.7 billion in total assets and CHF86.9 billion in client assets under management. LLB Austria reported €3.3 billion in total assets and €32 billion in customer assets under management and the group's other key foreign subsidiary LLB (Schweiz) AG had CHF8.5 billion in total assets.

Detailed credit considerations

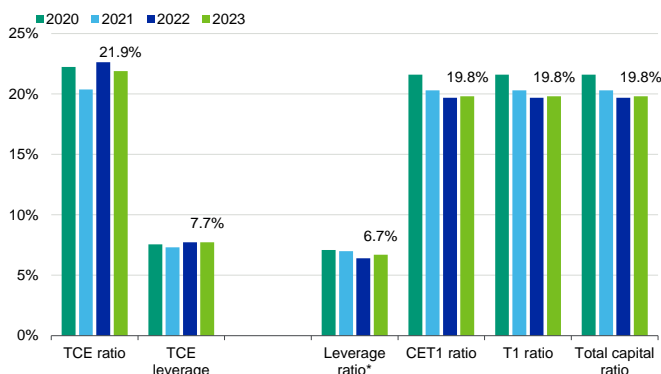
Very strong capital reflects the bank's preference for prudent buffers

The aa2 Capital score assigned to LLB is one notch below its initial score and strongly supports the bank's credit profile. Our assessment reflects the bank's very high capital buffers against regulatory minima, but also our expectation that the bank will broadly maintain its regulatory capitalisation ratios at around 20%, which is below our current tangible common equity (TCE) ratio of 21.9% as of year-end 2023. The gap between LLB's TCE and CET1 capital ratios as of year-end typically reflects the deduction of planned dividends from the regulatory capital ratio and our only partial recognition of capital components shown as "other comprehensive income" in LLB's equity.

LLB conservatively measures its risk-weighted assets (RWA) entirely under the standardised approach (for credit and a moderate share of market risks) and under the basic indicator approach for operational risk. Applying this approach, LLB has consistently maintained very strong regulatory capital ratios, consisting entirely of high-quality Common Equity Tier 1 (CET1) capital. These levels far exceed the bank's capital requirements (see Exhibits 3 and 4), constituting a strong positive signaling effect for the bank's private banking customers and its outside investors. We deem this critical to in light of strong competition from the bank's Swiss and local competitors as well as the huge size of the domestic banking sector compared with the country's gross domestic product.

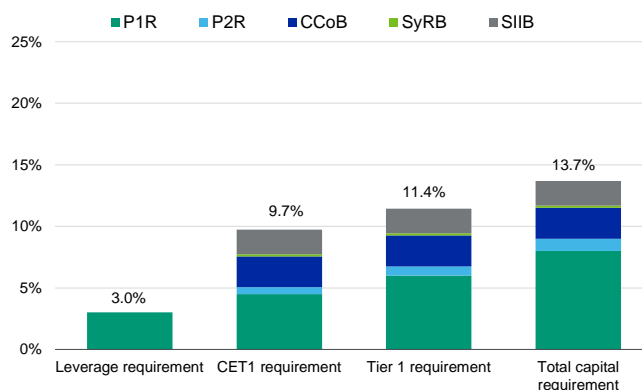
Following the bank's expected one percentage point decline in its regulatory Common Equity Tier 1 capital ratio (from 19.8% as of year-end 2023) as a result of its acquisition of Zuercher Kantonalbank Oesterreich AG from Zuercher Kantonalbank (ZKB; Aaa stable, a1²), we expect the bank to aim for a swift recovery in its capital ratios as demonstrated following the purchase of remaining minority shares in Bank Linth in 2022.

Exhibit 3
LLB maintains solid and high-quality capital and leverage ratios
 Data as a percentage of risk-weighted assets; TCE leverage as a percentage of tangible assets



*The regulatory leverage ratio compares LLB's Tier 1 capital, which is equivalent to CET1 capital, with the bank's exposure at default (EAD).
 Source: Moody's Ratings

Exhibit 4
LLB's regulatory capital and leverage requirements for 2023
 Data as a percentage of risk-weighted assets; leverage ratio as a percentage of EAD

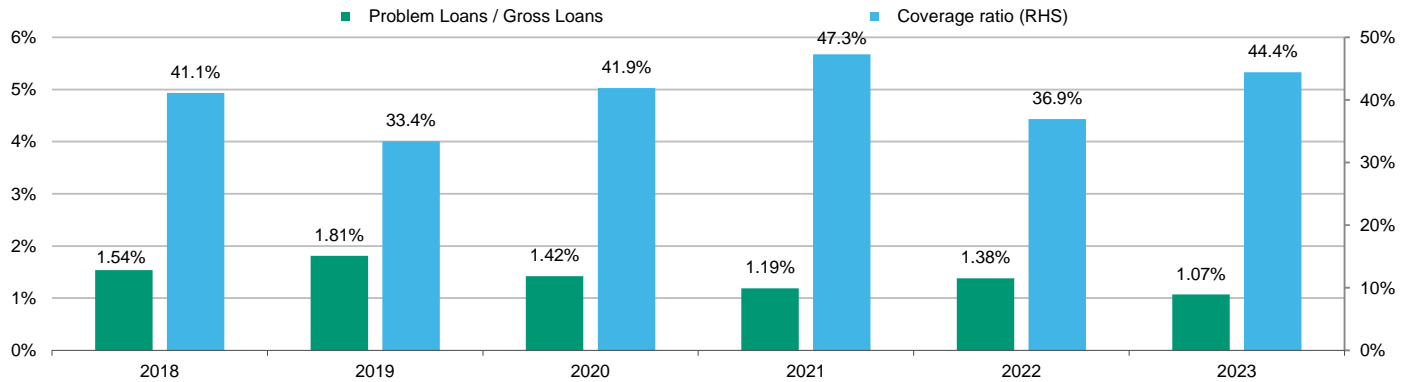


CCoB = Capital conservation buffer; SIIB = Systemically important institutions buffer; P2R = Pillar 2; SyRB = Systemic risk buffer.
 Source: Moody's Ratings

High concentration in the local real estate market and private banking risk profile drive our asset risk assessment

Our assigned a3 Asset Risk score is three notches below the bank's initial score and is based on LLB's low problem loan ratio with the downward adjustment mainly capturing the typical risks applicable to all private banking activities, such as a high sensitivity to reputational, legal and operational risks. The a3 assigned score also reflects LLB's high concentration in the Liechtenstein and eastern Swiss real estate markets (see Exhibit 5).

Exhibit 5
LLB's problem loans have remained within a tight range of 1%-2% over the last few years
 Data in percentage

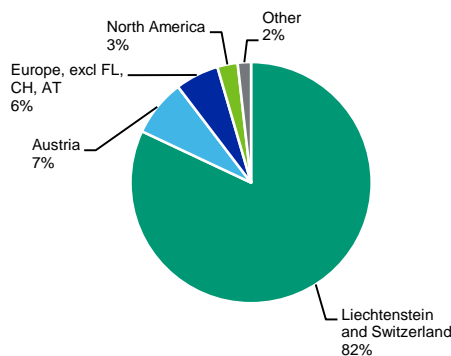


The coverage ratio compares loan loss reserves with problem loans (gross Stage 3 loans under IFRS).
 Source: Moody's Ratings

LLB aims to further expand its private banking operations, most recently through its expansion into the German market in 2024 and the acquisition of Zuercher Kantonalbank Oesterreich AG. These operations usually exhibit low credit risk, but expose banks to a greater degree to market, operational and reputational risks. LLB has established a track record of successfully navigating and managing these risks and has experienced no meaningful cases of litigation or similar proceedings over the past ten years.

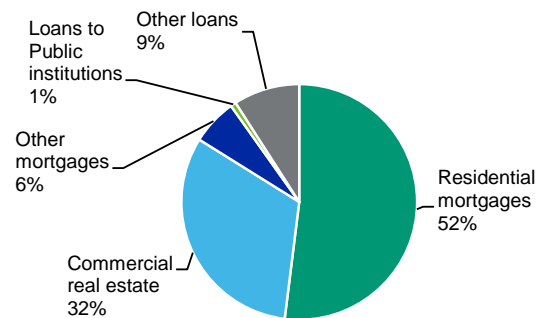
A large proportion of LLB's loan book is collateralised by real estate, in particular by properties located in Switzerland (with a focus on the northeastern areas close to Liechtenstein in the 'Linth' region) and Liechtenstein. This gives rise to concentration risks towards the property sector in a geographically small area, which is mitigated by a strong focus of the bank's real estate lending activities on loans with moderate loan-to-value ratios, typically well below 80%. Furthermore, around two-thirds of the value of LLB's mortgages is focused on residential mortgage lending. Compared with real estate exposures, LLB's corporate lending activities to sectors outside the real estate segment are very limited, and so are LLB's Lombard loans³ that it hands out within its private banking segment.

Exhibit 6
LLB's exposure at default by region
 Data in percentage as of year-end 2023



AT = Austria; CH = Switzerland; FL = Liechtenstein.
 Sources: Moody's Ratings and company reports

Exhibit 7
LLB's exposure at default by customer
 Data in percentage as of 31 December 2023



Sources: Moody's Ratings and company's disclosure report

Solid franchise and diversified revenue base support stable profit

Our assigned baa2 Profitability score for LLB is at the level of the initial score. Our assessment takes into account LLB's diversified revenue base, which combines capital market-related asset management and private banking activities with domestic corporate and retail banking activities. This will enable LLB to maintain its very stable level of profitability above 50 basis points of tangible assets.

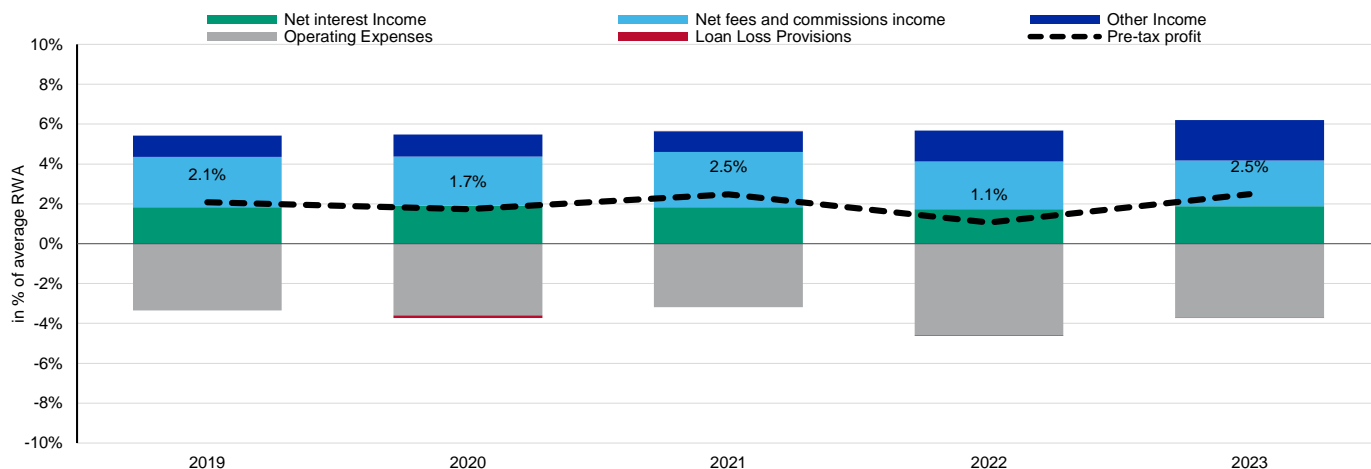
LLB has benefitted from the increase in interest rates, not only through an improved net interest income, but also through foreign-currency carry trades, mainly in US Dollar, that supported its trading result. Under its 'ACT-26' growth and transformation program, the bank aims to maintain its cost-to-income ratio of around 65%, a level it already achieved in 2023.

LLB aims for a net-new-money-driven growth of 3% of its Assets under Management under 'ACT-26'. The bank's shortfall against this target with only a 1.6% net new money growth contribution reflects industrywide challenges for active asset managers and fund services that also held back LLB's AuM growth, while new funds growth from private banking customers remained solid.

Exhibit 8

Higher US dollar interest rates have supported LLB's 2023 trading income from foreign-exchange transactions

Data in CHF million



Extraordinary income, mainly related to our adjustment for the actual return from pension plan assets (see endnote in text above), is not shown in the result components, but taken into consideration in the pretax profit.

Source: Moody's Ratings and company reports

Ample deposit funding base is supplemented by the moderate use of market funding

Our a3 assigned Funding Structure score has been assigned one notch below the bank's initial score. It reflects LLB's strong deposit market share in Liechtenstein and a constant inflow of granular deposits over the past few years, which mitigate the risk of unexpected outflows from the bank's concentrated and only partly insured deposit base.

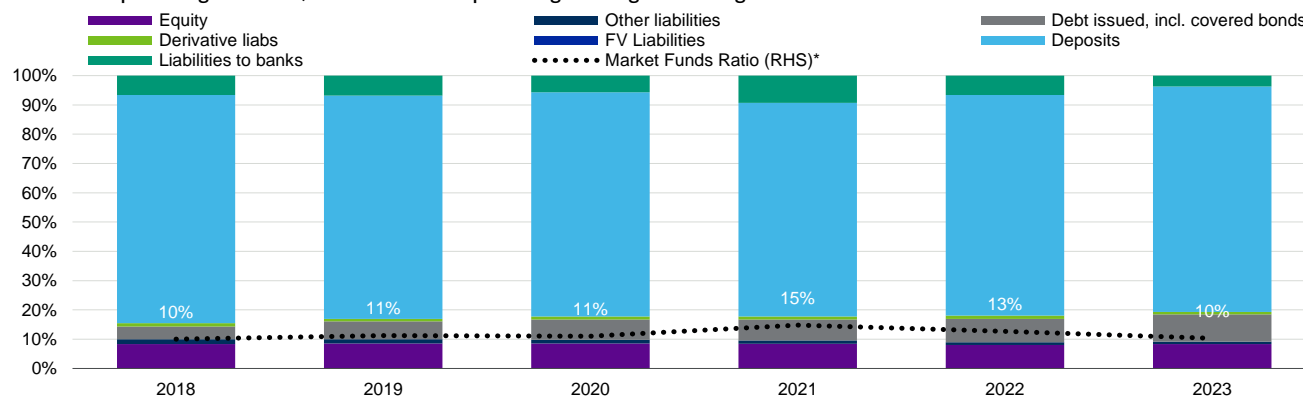
We expect LLB to maintain its sizeable excess of customer deposits over its customer loans, which has resulted in a moderate loan-to-deposit ratio that has historically remained below 80%. However, LLB will continue to complement its funding mix with debt market issuances, in part driven by subordination requirements assigned by Liechtenstein's Financial Market Authority (FMA) as part of its minimum requirements for own funds and eligible liabilities (MREL). LLB's [inaugural CHF150 million junior senior unsecured bond](#) issued in 2023 responds to these developments.

The group's regulatory disclosures show a strong and virtually unchanged net stable funding ratio (NSFR) of 162% as of 31 December 2023, significantly above the 100% requirement. Year-end 2023 data for the liquidity coverage ratio (LCR) further shows that only a small share of the bank's deposit funding qualifies as the stable type of retail deposits that is subject to a 5% run-off assumption, which underscores the more concentrated and uninsured nature of LLB's deposits, particularly those derived from the bank's private banking business.

Exhibit 9

LLB's funding benefits from a sizeable deposit base

Liabilities as a percentage of assets; market funds as a percentage of tangible banking assets



Source: Moody's Ratings

Sizeable liquidity strongly supports LLB's credit profile

We assign an a1 Liquid Resources score to LLB, in line with the initial score. Our assessment takes into account the bank's highly liquid balance sheet and the high-quality of its liquid assets, most of which are held in cash, as well as the bank's strong degree of compliance with regulatory liquidity requirements.

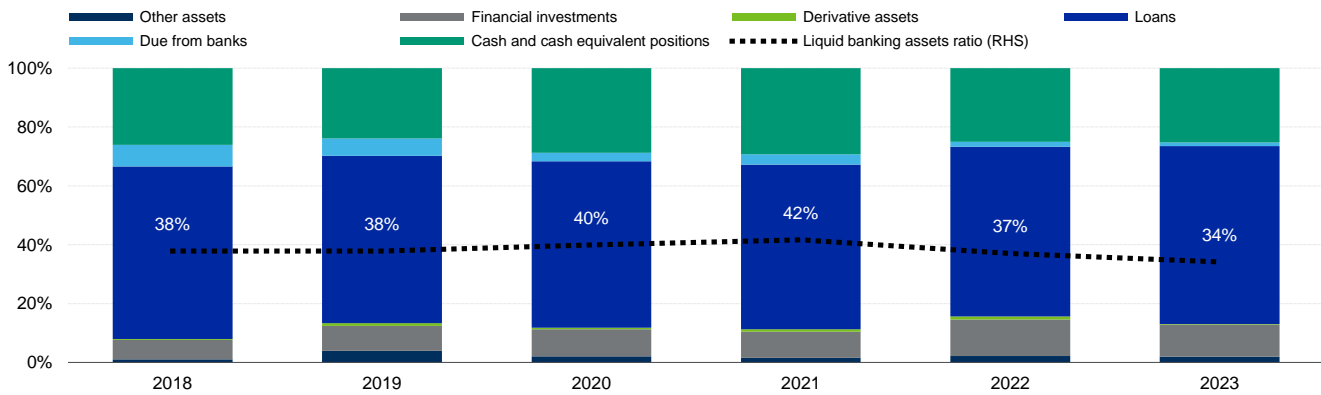
LLB holds a high proportion of its liquid resources in cash but it also has large and high-quality interbank and financial investment portfolios, mainly consisting of government and other highly rated bonds to mitigate any unexpected client deposit outflows. LLB's government bond holdings have relatively short maturities, which limits the risk of securities valuation losses.

The high stock of liquid assets limits the bank's susceptibility to risks potentially emanating from larger-than-expected outflows in its private banking deposit franchise.

Exhibit 10

LLB holds sizeable cash with the Swiss National Bank

Asset breakdown as a percentage of total assets; liquid banking assets as a percentage of tangible banking assets



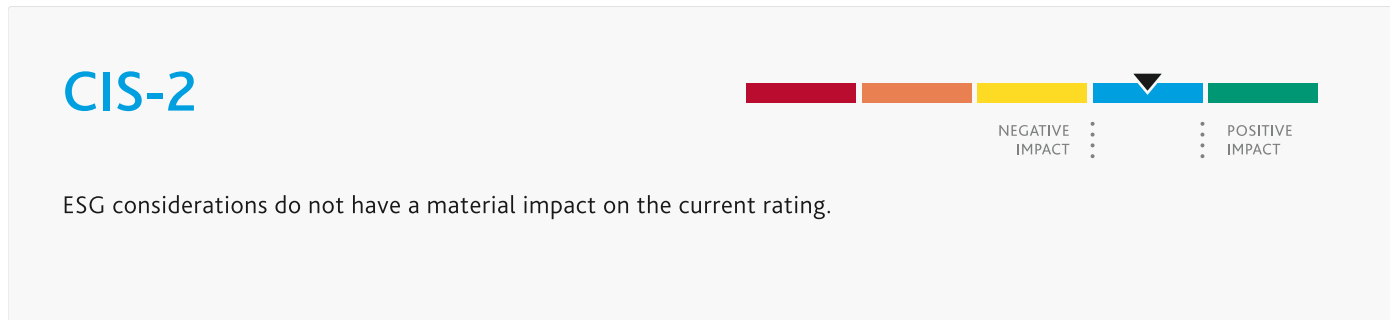
Source: Moody's Ratings

ESG considerations

Liechtensteinische Landesbank AG's ESG credit impact score is CIS-2

Exhibit 11

ESG credit impact score



Source: Moody's Ratings

Liechtensteinische Landesbank's (LLB) **CIS-2** reflects the limited credit impact of environmental and social factors on the rating to date and low governance risks. The bank's concentrated ownership by the Principality of Liechtenstein supports strong corporate governance practices and focuses on the evolution of the bank's long-standing financial strategy, supporting the bank's credit profile.

Exhibit 12

ESG issuer profile scores



Source: Moody's Ratings

Environmental

LLB faces moderate exposure to environmental risks primarily because of its loan portfolio exposure to carbon transition risks as a regional banking group. These risks mostly relate to the bank's moderate corporate loan book representing about 15% of the bank's lending portfolio, with the remainder of its loan exposures comprising residential real estate. In line with its peers, LLB is facing business risks and stakeholder pressure to meet broader carbon transition goals and has initiated measures to align its product offerings with the transition to a low-carbon economy.

Social

LLB faces moderate social risks related to customer relations and associated regulatory risks and exposure to litigation and it is required to meet high compliance standards. The bank's strong conduct track record demonstrates the effective management of conduct risks by developed policies and procedures as well as its focus on simple financial products and services for its domestic clientele. Further, the bank's long track record of handling sensitive customer data as well as technology solutions and organizational measures to prevent data breaches and business disruption help to manage high cyber and personal data risks.

Governance

LLB faces low governance risks, and its risk management, policies and procedures are in line with industry practices. Commensurate with its diversified banking model and multi-country operations, the bank provides high-quality and frequent external reporting. Concentrated ownership resulting from the 56.3% stake of the Principality of Liechtenstein poses governance risks, which is mitigated by the presence of independent directors and the country's developed institutional framework.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis

LLB is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider an Operational Resolution Regime. Therefore, we apply our Advanced LGF analysis, using our standard assumptions.

We apply our Advanced LGF analysis to LLB and its EU-based Austrian subsidiary, but not to its Swiss non-EU bank, considering the risks faced by the different debt and deposit classes across the liability structure at failure.

Our LGF analysis indicates that LLB's deposit ratings are likely to face very low loss-given-failure, resulting in a two-notch uplift from the bank's Adjusted BCA.

Our LGF analysis also indicates that LLB's issuer ratings⁴ are likely to face low loss-given-failure, resulting in a one-notch uplift from the bank's Adjusted BCA.

Government support considerations

We assign one notch of additional rating uplift to LLB's long-term ratings resulting from government support from the Principality of Liechtenstein. This reflects our assumption of a moderate probability of such support in the event of a stress scenario, taking into account the majority ownership by the Principality of Liechtenstein (56.3%), as well as LLB's importance to the domestic deposit-taking market and sizeable national market shares as a domestic systemically relevant financial institution. We therefore consider government support will be extended to LLB.

We further recognise the importance of wealth management activities for the Liechtenstein economy and the detrimental impact that major financial problems, which we do not expect, at one of the country's larger banks and asset managers could have on the overall perception of the country, and subsequently for similar businesses, their employees and fiscal revenue.

Methodology and scorecard

Methodology

The principal methodology we used in rating LLB was [Banks Methodology](#), published in March 2024.

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by unadjusted accounting data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 13

Rating Factors

Macro Factors							
Weighted Macro Profile	Strong +	100%					
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	1.2%	aa3	↔	a3	Operational risk	Geographical concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	21.9%	aa1	↔	aa2	Risk-weighted capitalisation	Expected trend	
Profitability							
Net Income / Tangible Assets	0.6%	baa2	↔	baa2	Return on assets	Expected trend	
Combined Solvency Score		aa3		a2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	10.3%	a2	↔	a3	Extent of market funding reliance	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	34.1%	a2	↔	a1	Stock of liquid assets	Quality of liquid assets	
Combined Liquidity Score		a2		a2			
Financial Profile							
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				-			
BCA Scorecard-indicated Outcome - Range				a1 - a3			
Assigned BCA				a2			
Affiliate Support notching				0			
Adjusted BCA				a2			
Balance Sheet							
		in-scope (CHF Million)		% in-scope		at-failure (CHF Million)	% at-failure
Other liabilities		853		5.0%		2,103	12.3%
Deposits		15,058		88.1%		13,807	80.8%
Preferred deposits		11,143		65.2%		10,809	63.3%
Junior deposits		3,915		22.9%		2,998	17.5%
Senior unsecured bank debt		514		3.0%		514	3.0%
Junior senior unsecured bank debt		150		0.9%		150	0.9%
Equity		513		3.0%		513	3.0%
Total Tangible Banking Assets		17,087		100.0%		17,087	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	24.4%	24.4%	24.4%	24.4%	3	3	3	3	0	aa2
Counterparty Risk Assessment	24.4%	24.4%	24.4%	24.4%	3	3	3	3	0	aa2 (cr)
Deposits	24.4%	3.9%	24.4%	6.9%	2	2	2	2	0	aa3
Senior unsecured bank debt	24.4%	3.9%	6.9%	3.9%	2	-1	1	-	-	-
Junior senior unsecured bank debt	3.9%	3.0%	3.9%	3.0%	-1	-1	-1	-1	0	a3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	aa2	-	Aa1	
Counterparty Risk Assessment	3	0	aa2 (cr)	-	Aa1(cr)	
Deposits	2	0	aa3	-	Aa2	Aa2
Senior unsecured bank debt	-	-	-	-	Aa3	Aa3
Junior senior unsecured bank debt	-1	0	a3	-	A3	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

Ratings

Exhibit 14

Category	Moody's Rating
LIECHTENSTEINISCHE LANDESBANK AG	
Outlook	Stable
Counterparty Risk Rating -Dom Curr	Aa1/P-1
Bank Deposits	Aa2/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	Aa1(cr)/P-1(cr)
Issuer Rating	Aa3
Junior Senior Unsecured -Dom Curr	A3
ST Issuer Rating	P-1

Source: Moody's Ratings

Endnotes

- [1](#) LLB was established in 1861 as the National Interest and Credit Institution in the sovereign Principality of Liechtenstein. In 1923, the bank was granted a certain level of autonomy, along with an unlimited state guarantee and exemption from taxation. In 1955, the financial institution was renamed as Liechtensteinische Landesbank and transformed from a rural, locally rooted savings and mortgage bank into a universal bank with international clients. Since 1993, LLB has been listed on the SIX Swiss Exchange (SIX).
- [2](#) The rating shown here is ZKB's backed deposit rating together with its corresponding outlook and its Baseline Credit Assessment (BCA).
- [3](#) These loans are granted to private banking customers and secured by securities portfolios.
- [4](#) Issuer Ratings are opinions of the ability of entities to honour senior unsecured debt and debt-like obligations. Please refer to [Moody's Rating Symbols and Definitions](#) guide for further details.

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