

**CREDIT OPINION**

5 December 2024

Update

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**RATINGS**

**VZ Depotbank AG**

Domicile	Zug, Switzerland
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Aa3
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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Japan 81-3-5408-4100  
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**VZ Depotbank AG**

Update following rating affirmation

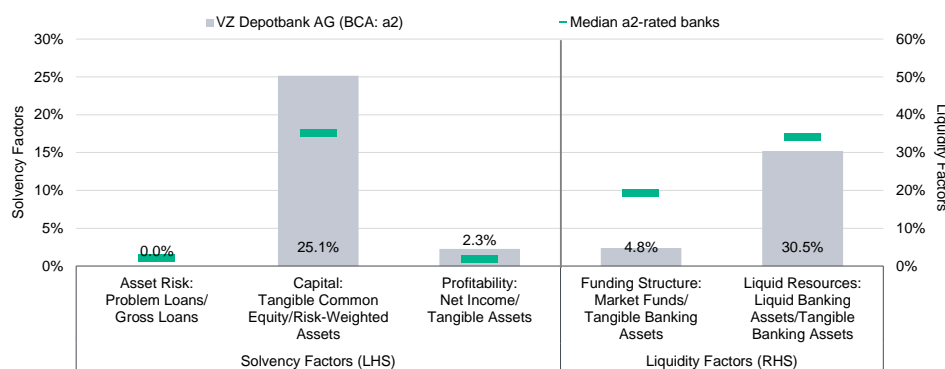
**Summary**

We assign Aa3 (stable) deposit and A3 (stable) issuer ratings to [VZ Depotbank AG](#) (VZDB). VZDB's ratings reflect the bank's a2 Baseline Credit Assessment (BCA) and Adjusted BCA and the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities resulting in two notches of rating uplift for deposit ratings. We do not incorporate any rating uplift from government support because of the bank's small market share and low importance to the Swiss banking system.

VZDB's a2 BCA reflects the bank's very strong capitalization and loan book credit quality, as well as the high profitability it derives from its well-positioned niche banking services in Switzerland. VZDB's assets mainly consist of conservatively underwritten residential mortgages, which the bank funds mostly through granular client deposits. VZDB's BCA is constrained by a one-notch negative adjustment to reflect our considerations on group structure and ownership, including key-person risk considerations related to the group's founder and Chairman of the Board of Directors. The a2 BCA further incorporates the bank's exposure to non-credit risks resulting from the customer-centric advisory business of VZ Holding AG (VZH), in which VZDB is embedded as its core banking institution. We consider reputational and operational risks of high relevance for the stability of the group's business.

Exhibit 1

**Rating scorecard - Key financial ratios**



Sources: Company reports and Moody's Ratings

## Credit strengths

- » Very strong capitalisation
- » Low credit risks arising from lending to mass-affluent clients and strong track record of zero problem loans over many years
- » Highly efficient and profitable operations
- » Funding principally based on deposits provided by the bank's affluent retail clients

## Credit challenges

- » Very small amount of loss-absorbing liabilities beyond capital limits additional protection for senior creditors
- » Key-person risk is a constraining factor for the bank's standalone credit profile
- » VZDB is exposed to typical non-credit risks applicable to private banks, such as reputational, operational and market risks, which are to some extent mitigated by its clear focus on domestic onshore banking
- » Increasing competition from domestic banks could lead to an extension of the decline in margins and compress VZDB's very strong profitability

## Outlook

- » The stable rating outlook on the long-term deposit and issuer ratings reflects our expectation that VZDB's key financials and credit profile will remain broadly unchanged over the next 12-18 months.

## Factors that could lead to an upgrade

- » An upgrade of VZDB's ratings could result from a higher BCA and Adjusted BCA, or from a change in VZDB's liability structure, which could prompt a higher rating uplift as a result of our Advanced LGF analysis, for example, through the issuance of loss-absorbing debt instruments.
- » Albeit unlikely given the high level, an upgrade of VZDB's a2 BCA could result from improved geographic diversification of VZDB's highly specialized niche banking services. We may also upgrade VZDB's BCA if the bank and group displayed a growing independence from its founder and majority owner, without compromising its track record of well-controlled risk taking.

## Factors that could lead to a downgrade

- » A downgrade of VZDB's ratings could be prompted by a downgrade of the bank's BCA and Adjusted BCA or, in the case of VZDB's deposit ratings, by a weaker outcome of our Advanced LGF analysis.
- » A downgrade of VZDB's a2 BCA could result if competitors gained more significant market share in VZDB's niche market, leading to a reduction in profits or potentially provoking more aggressive risk-taking by VZDB. Similarly, a change in the bank's capital, liquidity and funding strategies towards lower excess capital holding, or towards a more tightly managed liquidity profile with a greater dependence on market funding could prompt a BCA downgrade.

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

### VZ Depotbank AG (Consolidated Financials) [1]

	12-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (CHF Billion)	6.1	5.7	5.5	4.7	3.8	12.4 <sup>4</sup>
Total Assets (USD Billion)	7.3	6.1	6.0	5.4	4.0	16.4 <sup>4</sup>
Tangible Common Equity (CHF Billion)	0.6	0.5	0.5	0.5	0.4	9.1 <sup>4</sup>
Tangible Common Equity (USD Billion)	0.7	0.6	0.5	0.5	0.4	13.0 <sup>4</sup>
Tangible Common Equity / Risk Weighted Assets (%)	25.1	24.8	27.0	28.7	30.8	27.3 <sup>6</sup>
Net Interest Margin (%)	1.1	0.5	0.4	0.3	0.2	0.5 <sup>5</sup>
PPI / Average RWA (%)	7.5	7.2	7.8	7.6	8.3	7.7 <sup>6</sup>
Net Income / Tangible Assets (%)	2.4	2.2	2.1	2.1	2.2	2.2 <sup>5</sup>
Cost / Income Ratio (%)	29.0	28.7	31.2	31.6	30.4	30.2 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	4.8	6.9	15.0	15.1	7.8	9.9 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	30.5	30.6	39.7	42.8	42.2	37.1 <sup>5</sup>
Gross Loans / Due to Customers (%)	85.3	86.6	83.9	80.7	76.1	82.5 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [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

VZ Depotbank AG (VZDB) was founded in 2006 as the depository bank of VZH, a listed Swiss financial services provider that is majority owned by the current chairman of the supervisory board who co-founded VZH in 1993. VZDB is deeply embedded in the value chain of the group's consulting and asset management services, enabling it to operate highly efficiently and profitably in a niche of the domestic Swiss banking and asset management market. VZH mainly focuses on pension and estate planning, and asset management for mass-affluent Swiss residents and is also offering services in Germany and England.

Through VZ Vermoegenszentrum, VZH provides independent consulting services to customers and is able to convert these customers to asset management and banking services offered through VZDB.

As of year-end 2023, VZDB reported CHF6.1 billion in total assets, representing close to 95% of VZH's total assets. The bank had CHF38.3 billion in customer AUM (including double-counting), out of CHF44.9 billion of groupwide AUM<sup>1</sup>.

In 2023, VZH's founder and previous CEO Mr. Reinhart was appointed the chairman of VZH's Board of Directors. Mr. Reinhart's successor as CEO of VZH is VZH's Executive Board member Mr. Vitarelli, who managed the domestic consulting services between 2012 and 2022.

## Weighted Macro Profile of Strong +

VZDB's Weighted Macro Profile of Strong + reflects the bank's strong focus on the Swiss domestic market and hence equals the Strong + [Macro Profile of Switzerland](#).

## Detailed credit considerations

### VZDB's assets have shown strong credit performance, reflecting its lending to mass-affluent clients and displaying limited non-credit risks

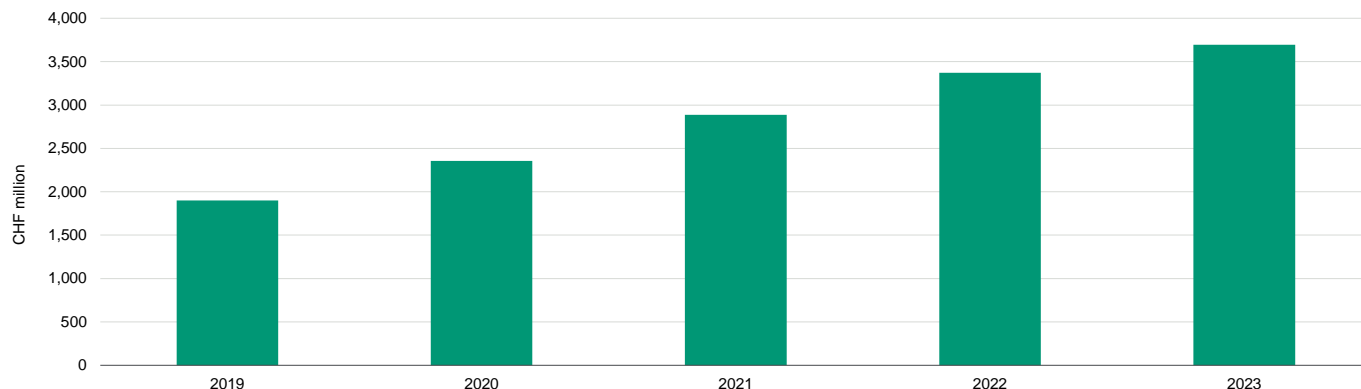
We assign an a1 Asset Risk score to VZDB, three notches below the aa1 initial score. Our assessment reflects the absence of problem loans in the bank's customer loan book since the bank's foundation in 2006, which has been supported by the solid creditworthiness of VZDB's Swiss mass-affluent customers. At the same time, the a1 score reflects VZDB's exposure to non-credit risks inherent to its business model, which involves trust-sensitive wealth management operations. The score also takes account of the strong growth in the bank's lending book over the past few years, thereby lacking a broader seasoning through economic cycles.

Despite recurring challenges such as the Russia-Ukraine military conflict or the coronavirus pandemic, VZDB has a long track record of very contained operating losses and the bank's loan book, in which variable-rate mortgage loans dominate, has historically remained

free from problem loans. The bank's mortgage book has grown strongly over the past several years (see Exhibit 3), mainly reflecting the bank's greater take-up of mortgages the group originates centrally through HypothekenZentrum AG.

Exhibit 3

### VZDB's volume of mortgage loans has increased significantly



Sources: Company reports and Moody's Ratings

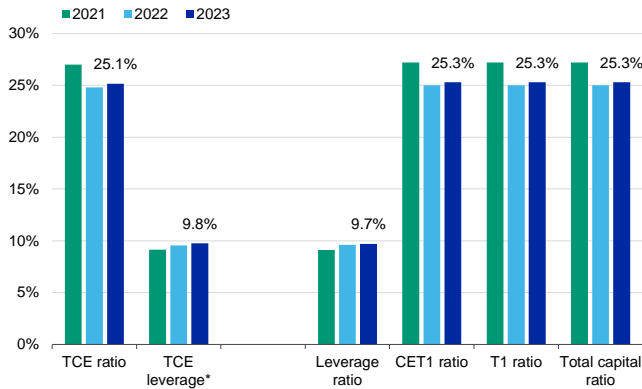
VZDB's growth could face setbacks in an adverse scenario of reputational, operational or legal risks materialising unexpectedly. In the case of VZDB, these business-model-inherent risks are mitigated by the bank's clear focus on domestic customers, which limits the bank's susceptibility to know-your-customer (KYC) requirement violations. Furthermore, VZDB's value proposition as an independent consultant to its customers requires a particularly strong focus on minimising the risk of reputational damage to its client relationships, making larger damaging events less likely. At the same time, a significant decline in equity market valuations would lead to a decline in the valuation of customer assets and, thereby, fee-generating AUM, which could weaken the bank's currently very strong profitability metrics.

### VZDB benefits from a very strong risk-weighted capitalisation and leverage

We assign a aa1 Capital score to VZDB, at the level of the initial score. The aa1 score reflects the bank's very strong capitalisation, as reflected in its year-end 2023 tangible common equity (TCE) capital ratio of 25.1% (2022: 24.8%). The bank's risk-weighted assets (RWA) are conservatively calculated under the standardised approach, with the bank maintaining a leverage ratio at a defensive level of close to 10% as of year-end 2023. VZDB will maintain its capitalisation at very strong levels, and any interim dips that could occur as a result of smaller bolt-on acquisitions would not result in a lasting or significant decline in its capital ratios.

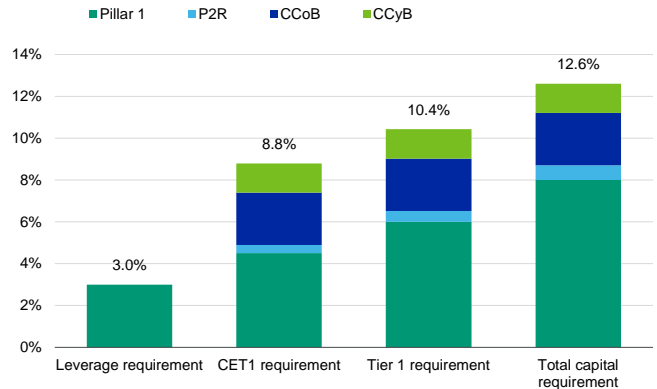
VZDB's growth in business volumes has led to notable increases in its RWA, which VZDB largely covered through earnings retention. Accordingly, the bank's very high TCE and regulatory capital ratios (see Exhibit 5) stagnated at very strong levels.

Exhibit 4  
VZDB's capitalisation over recent years



TCE = Tangible common equity (Moody's calculation); CET1 = Common Equity Tier 1 capital; T1 = Tier 1 capital. \*The leverage ratio compares TCE with tangible banking assets. Sources: Company reports and Moody's Ratings

Exhibit 5  
VZDB's regulatory capital requirements as year-end 2023

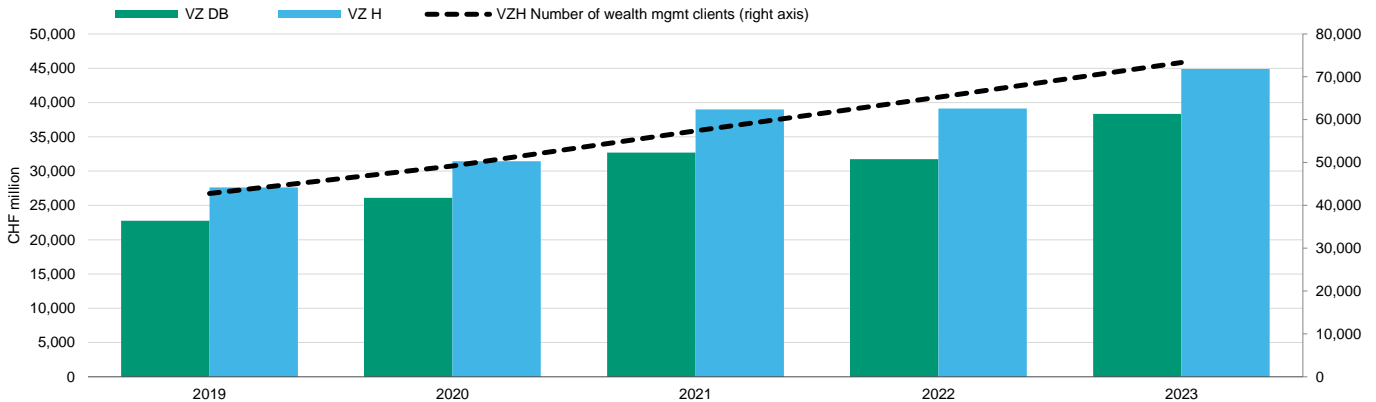


CCoB = Capital conservation buffer, CCyB= Countercyclical buffer. Source: Company reports

### Despite margin pressure, strong profitability benefits from net new money growth

We assign an a1 Profitability score to VZDB, two notches below the aa2 initial score. The assigned score reflects VZDB's strong profitability, mainly derived from recurring fee income based on growing AUM (see Exhibit 6). The negative adjustment incorporates our expectation that continued mild pressure on margins will lead to a slightly less favourable return on assets during the next two to three years.

Exhibit 6  
VZDB and VZH AUM have grown steadily over the years

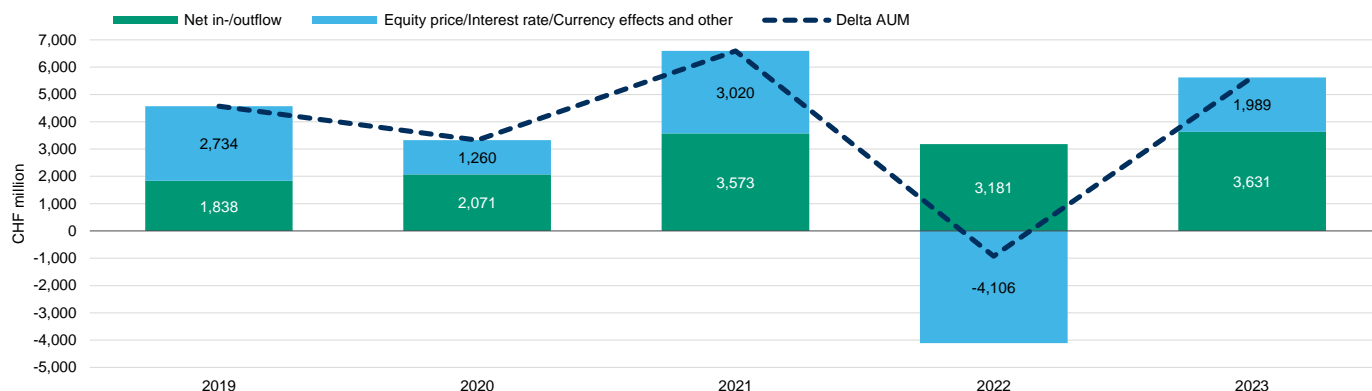


Sources: Company reports and Moody's Ratings

For VZDB and VZH, customer attrition is very low and customers tend to repeatedly add net new money as their relationship with VZH deepens, which means that customer growth in recent years should translate into further AUM increases, all else equal.

Exhibit 7

**VZDB's consistent AUM growth resumed in 2023, reflecting a recovery in valuations and strong new money inflow**



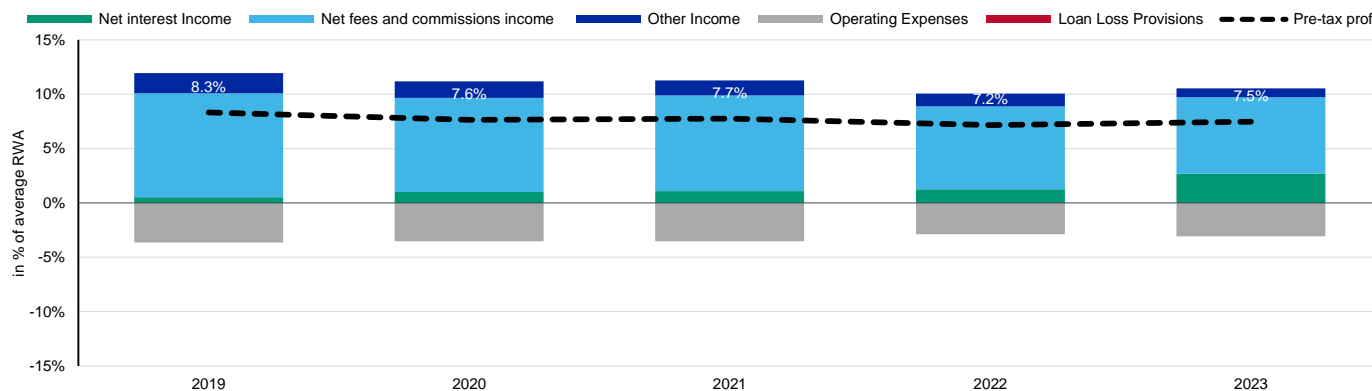
Sources: Company and Moody's Ratings

Growing net fee income remains VZDB's key revenue source, but increasingly, the bank's results have benefitted from improved net interest income which we expect to remain fairly stable in 2024 and potentially beyond, despite interest rate levels having peaked. This will help the bank maintain positive operating leverage, despite increasing staff and other operating expenses as part of its ongoing growth.

VZDB's fee income will follow the bank's customer growth closely because the bank has been agreeing on all-in trading and transaction fee schedules with its new customers for several years, which limits future margin pressure from negative mix effects away from more lucrative legacy arrangements.

Exhibit 8

**VZDB's profitability structure: Strong profitability is supported by net fee income and the contribution from net interest income has shifted to a higher level**



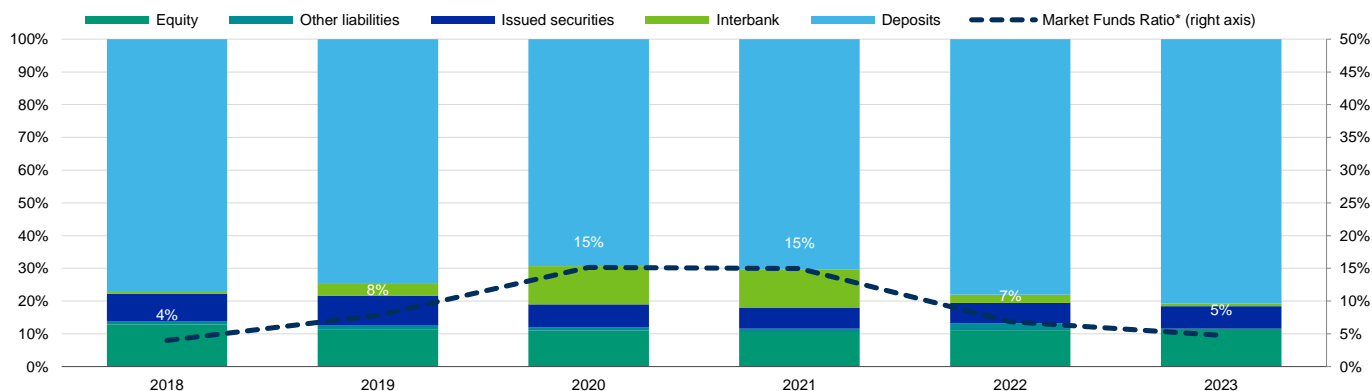
Sources: Company reports and Moody's Ratings

### Retail deposit funding covers VZDB's lending activities and is complemented by secured loans

We assign an a2 Funding score to VZDB, two notches below the initial score. The a2 assigned score reflects the bank's limited use of funding components other than customer deposits (see Exhibit 9), even as these deposits often exceed the statutory deposit guarantee coverage threshold.

Exhibit 9

#### VZDB's funding structure



\*Market funds ratio = Market funds/tangible banking assets.

Sources: Company reports and Moody's Ratings

The vast majority of VZDB's funding was provided by the bank's retail customers, who deposited CHF4.9 billion as of year-end 2023 (2022: CHF4.4 billion), comfortably covering outstanding receivables from customers of CHF4.1 billion (2022: CHF3.8 billion).

As of year-end 2023, VZDB had pledged CHF592 million of mortgage loans (2022: CHF478 million) to secure CHF455 million of secured (covered) loans (2022: CHF403 million) that complemented customer-provided funding. VZDB tactically complements these funding sources through secured repo borrowing that had represented a sizable share of its liabilities particularly in 2020 and 2021, when the bank made use of increased Swiss National Bank (SNB) deposit allowances at zero interest rates rather than negative interest rates.

At a net stable funding ratio (NSFR) of 164% (2022: 155%), VZDB's available stable funding sources were well above requirements.

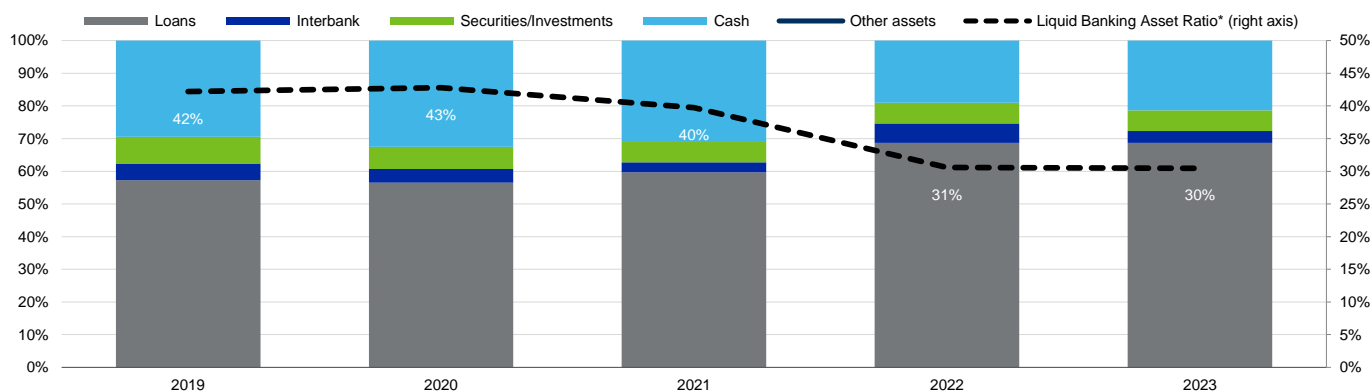
To model its interest rate risk in the banking book, which is very contained under the regulatory scenarios, VZDB assumes an average duration of its transactional retail deposits at 1.7 years, which is broadly in line with the approach of Swiss cantonal and other regional banks and a reasonable reflection of the expected behaviour of VZDB's mass-affluent customer base, but longer than what Swiss private banks assume for their investment-driven customer deposit bases. Based on VZDB's customer structure, we expect the share of insured deposits within its liability structure to be lower than the [Swiss average of 50%](#), but higher than that of typical Swiss private banks.

### Strong liquidity buffers support VZDB's continued growth

We assign an a3 Liquidity score to VZDB, which is one notch below the initial score. The a3 assigned score reflects a high level of unencumbered liquid resources held by the bank, as expressed by a high degree of over-compliance with regulatory minimum requirements. The positioning also reflects our expectation that VZDB will continue to grow its loan book faster than its liquidity buffer, leading to a further slight decline in its liquid banking assets ratio.

Exhibit 10

#### VZDB's liquid resources



\*Liquid banking asset ratio = Liquid banking assets/tangible banking assets.

Source: Moody's Ratings

VZDB's liquid resources as of year-end 2023 mainly consisted of CHF1.3 billion (2022: CHF1.1 billion) of cash balances, complemented by CHF0.3 billion (2022: CHF0.3 billion) of repo-eligible securities and CHF0.2 billion (2022: CHF0.3 billion) of interbank receivables.

VZDB's reported high-quality liquid assets, the numerator of the regulatory liquidity coverage ratio (LCR), are only moderately lower than our liquid banking assets, which points to a low degree of liquid resources encumbrance. to CHF1.2 billion as of year-end 2022 from CHF1.6 billion a year earlier. VZDB has maintained its LCR at strong levels (233.4% as of year-end 2023, up from 167.6% a year before).

### Key-person risks result in qualitative adjustment

The a2 BCA has been assigned one notch below the very strong a1 financial profile of VZDB and reflects a one-notch negative adjustment because of key-person risks resulting from the overlap of ownership and management control functions of VZH's chairman of the Board of Directors and former CEO. Mr. Reinhart owns more than 60% of the economic interest of the holding company. As the chairman of the Board of Directors and former CEO of the holding company, Mr. Reinhart is still highly influential in the strategic development of VZH.

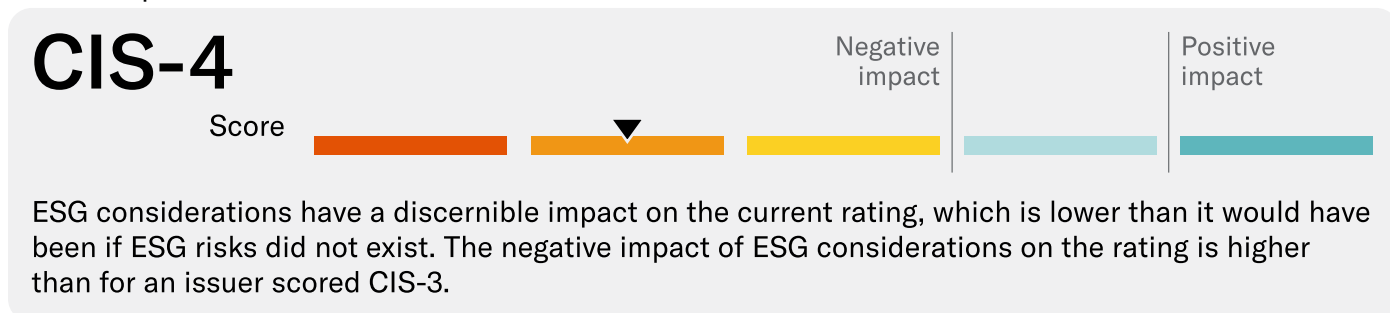


## ESG considerations

VZ Depotbank AG's ESG credit impact score is CIS-4

Exhibit 11

### ESG credit impact score



Source: Moody's Ratings

VZDB's **CIS-4** ESG Credit Impact Score indicates that the rating is lower than it would be if ESG risks did not exist, reflecting elevated governance risks. These governance risks mainly stem from the critical role of the group's co-founder in strategic and day-to-day operations, which exposes VZDB to strategic risks in particular around the time of and following the succession process. Environmental and social factors have a limited impact on the ratings to date.

Exhibit 12

### ESG issuer profile scores



Source: Moody's Ratings

### Environmental

VZDB faces low environmental risks. In line with most private wealth and asset managers, VZDB has low exposure to carbon transition risk from its residential mortgage lending book. In response to developing customer focus on environmental stewardship and wider ESG considerations, the bank increasingly takes steps to align its customer consulting services with the transition to a low-carbon economy.

### Social

VZDB faces moderate social risks related to customer relations, mostly arising from its role as the core banking institution of VZ Holding AG (VZH), a Swiss financial services provider focused on pension and estate planning as well as on asset management for mass-affluent Swiss residents. VZDB's customer relations risks include regulatory and litigation risk requiring it to meet high compliance standards. In the case of VZDB, we consider these risks less pronounced than in the case of banks embedded in groups that cater to foreign-domiciled customers and offer proprietary asset management products. VZDB's data security and customer privacy risks are mitigated by technology solutions and organizational measures to prevent data breaches. Social risks related to demographic trends are mitigated by the bank's focus on wealth management services, including services for the transfer of wealth to the next generation.

### Governance

VZDB faces high governance risks, reflecting key-person risk related to its parent's Chairman of the Board of Directors and majority owner Mr. Reinhart. The critical role of the group's co-founder in strategic and day-to-day operations exposes VZDB to strategic

risks, in particular following the CEO succession process. Otherwise, VZDB displays an appropriate risk management framework commensurate with its risk appetite.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.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

VZDB is subject to Swiss banking regulations, which we consider to be an operational resolution regime. In our Advanced LGF analysis, we take into account full depositor preference, whereby junior deposits are preferred over senior debt creditors in accordance with the local legislation. All the other assumptions are in line with our standard ones.

Our LGF analysis indicates that VZDB's deposits are likely to face very low loss-given-failure, which results in a two-notch uplift from the bank's Adjusted BCA.

Our LGF analysis indicates that VZDB's senior unsecured debt, represented by the bank's issuer ratings, is likely to face high loss-given-failure, which results in a one-notch adjustment below the Adjusted BCA.

### Government support considerations

We do not incorporate any rating uplift for VZDB from support by the [Government of Switzerland](#) (Aaa stable), reflecting our assumption of a low probability of systemic support in the event of stress, given the bank's marginal importance to the domestic deposit-taking market and the Swiss payment system.

## Methodology and scorecard

### Methodology

The principal methodology we use in rating VZDB is our Banks Methodology.

### 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

<b>Macro Factors</b>										
<b>Weighted Macro Profile</b>	<b>Strong +</b>	<b>100%</b>								
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2				
Solvency										
Asset Risk										
Problem Loans / Gross Loans	0.0%	aa1	↔	a1	Operational risk	Long-run loss performance				
Capital										
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	25.1%	aa1	↔	aa1	Risk-weighted capitalisation	Nominal leverage				
Profitability										
Net Income / Tangible Assets	2.3%	aa2	↔	a1	Expected trend	Return on assets				
Combined Solvency Score		aa1		aa3						
Liquidity										
Funding Structure										
Market Funds / Tangible Banking Assets	4.8%	aa2	↔	a2	Deposit quality	Extent of market funding reliance				
Liquid Resources										
Liquid Banking Assets / Tangible Banking Assets	30.5%	a2	↔	a3	Stock of liquid assets	Expected trend				
Combined Liquidity Score		aa3		a2						
Financial Profile										
Qualitative Adjustments				Adjustment						
Business Diversification				0						
Opacity and Complexity				0						
Corporate Behavior				-1						
Total Qualitative Adjustments				-1						
Sovereign or Affiliate constraint				Aaa						
BCA Scorecard-indicated Outcome - Range				a1 - a3						
Assigned BCA				a2						
Affiliate Support notching				0						
Adjusted BCA				a2						
<b>Balance Sheet</b>										
		<b>in-scope (CHF Million)</b>		<b>% in-scope</b>	<b>at-failure (CHF Million)</b>		<b>% at-failure</b>			
Other liabilities		1,074		17.5%	1,570		25.6%			
Deposits		4,863		79.5%	4,367		71.4%			
Preferred deposits		3,598		58.8%	3,419		55.9%			
Junior deposits		1,264		20.7%	948		15.5%			
Equity		184		3.0%	184		3.0%			
Total Tangible Banking Assets		6,120		100.0%	6,120		100.0%			
<b>Debt Class</b>										
	<b>De Jure waterfall</b>		<b>De Facto waterfall</b>		<b>Notching</b>		<b>LGF</b>	<b>Assigned</b>	<b>Additional</b>	<b>Preliminary</b>
	<b>Instrument</b>	<b>Sub-</b>	<b>Instrument</b>	<b>Sub-</b>	<b>De Jure</b>	<b>De Facto</b>	<b>Notching</b>	<b>LGF</b>	<b>Notching</b>	<b>Rating</b>
	<b>volume +</b>	<b>ordination</b>	<b>volume +</b>	<b>ordination</b>			<b>Guidance</b>	<b>notching</b>		<b>Assessment</b>
	<b>subordination</b>	<b>subordination</b>	<b>subordination</b>	<b>subordination</b>			<b>vs.</b>			
							<b>Adjusted</b>			
							<b>BCA</b>			
Counterparty Risk Rating	3.0%	3.0%	3.0%	3.0%	-1	-1	-1	-1	0	a3
Counterparty Risk Assessment	3.0%	3.0%	3.0%	3.0%	0	0	0	0	0	a2 (cr)
Deposits	18.5%	3.0%	18.5%	3.0%	2	2	2	2	0	aa3
Senior unsecured bank debt	3.0%	3.0%	3.0%	3.0%	-1	-1	-1	-	-	-
<b>Instrument Class</b>										
	<b>Loss Given</b>	<b>Additional</b>	<b>Preliminary</b>	<b>Government</b>	<b>Local Currency</b>	<b>Foreign</b>				
	<b>Failure notching</b>	<b>notching</b>	<b>Assessment</b>	<b>Support notching</b>	<b>Rating</b>	<b>Currency</b>				
						<b>Rating</b>				<b>Rating</b>

Counterparty Risk Rating	-1	0	a3	0	A3	A3
Counterparty Risk Assessment	0	0	a2 (cr)	0	A2(cr)	
Deposits	2	0	aa3	0	Aa3	Aa3
Senior unsecured bank debt	-	-	-	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
<b>VZ DEPOTBANK AG</b>	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3
ST Issuer Rating	P-2

Source: Moody's Ratings

## Endnotes

1 These also include mortgage loans managed by HypothekenZentrum Ltd.

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