

**Rating Action: Moody's affirms BIL's A2 senior unsecured rating and changes outlook to stable**

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07 May 2018

London, 07 May 2018 -- Moody's Investors Service, ("Moody's") today affirmed the long-term issuer, deposit and senior unsecured debt ratings of Banque Internationale a Luxembourg (BIL) at A2 and changed the outlook to stable from positive. The agency affirmed the bank's standalone Baseline Credit Assessment (BCA) at baa2, reflecting its sound credit fundamentals, but also the fact that it will take time before BIL's strategic plan fully delivers its results, especially in the context of shareholder change. Moody's also affirmed BIL's senior subordinated, junior subordinated and non-cumulative preferred stock ratings at Baa3, Ba1(hyb) and Ba2(hyb), respectively. The rating agency finally affirmed the bank's short-term rating at Prime-1 and its long-term and short-term Counterparty Risk (CR) Assessment at A1(cr) and Prime-1(cr), respectively.

A full list of ratings is provided towards the end of this press release.

**RATINGS RATIONALE**

The affirmation of BIL's BCA at baa2 reflects the fact that BIL's strategy, which consists of a refocus of its activity towards retail and commercial banking in Luxembourg, as well as private banking in Europe, has delivered satisfactory results. Benefitting from benign macroeconomic conditions in Luxembourg, BIL's asset risk has progressively decreased over the recent years: its problem loan ratio stood at 2.4% of gross loans in December 2017, from 2.9% in 2016, and 3% in 2015. The bank's capital buffer is commensurate with its risk profile, with a tangible common equity amounting to 16.8% of risk-weighted assets as of end 2017. In addition, BIL's funding is well balanced as the bank finances its growing activity through its well-established retail and private banking franchises in Luxembourg.

Moody's nevertheless considers that thus far BIL has not yet fully met its commercial and profitability targets. The bank's international private banking and wealth management activities have not reached a sufficient size to generate the bank's expected returns on assets. BIL seeks to further expand its wealth management franchise in its non-domestic markets, like Switzerland, to offset the negative pressure of operating and regulatory expenses by higher amounts of assets under management. Although credit positive if implemented successfully, such a development exposes the bank to operational and execution risks in the short run.

BIL's share transfer from Precision Capital to Legend Holdings is contingent upon regulatory approval. If the transaction is confirmed, the rating agency considers that BIL's future shareholder, will be supportive of the bank's strategic development. The acquisition of BIL fits with Legend Holdings' aim to increase its financial services portfolio, through a new strategic asset, and to diversify it outside mainland China. As a well-recognized Hong Kong-listed investment group, Legend Holdings may be able to provide BIL with new business opportunities with Asian customers, especially in private banking and wealth management. However, provided that they materialize, Moody's expects that it will take some time before these new business opportunities can bear fruit in terms of profitability.

BIL's A2 long-term deposit, issuer and senior unsecured debt ratings reflect (1) the bank's baa2 BCA; (2) a two-notch uplift under our Advanced Loss Given Failure (LGF) analysis, resulting from the large volume of deposits and senior long-term debt; and (3) government support uplift of one notch, due to a moderate probability of support from the Luxembourg government (Aaa, Stable), reflecting Moody's view that the bank is systemically important to Luxembourg.

**RATING OUTLOOK**

The outlook on BIL's long-term issuer, deposit and debt ratings is stable, reflecting Moody's view that the bank's commercial development, even supported by its new shareholder, will take time before delivering higher profits. The rating agency expects BIL's asset risk to remain low in the current benign macroeconomic environment, while its profitability will continue to be constrained by low interest rates and high operating expenses.

**WHAT COULD CHANGE THE RATING UP/DOWN**

BIL's BCA could be upgraded if the bank's commercial development, especially in private banking and wealth management, improved its profitability faster than expected, while maintaining a low asset risk profile. An upgrade of BIL's BCA and Adjusted BCA would likely result in an upgrade of all the ratings of the bank.

BIL's BCA could be downgraded as a result of (1) a deterioration in its profitability that may result from difficulties in implementing its commercial strategy; or (2) material losses stemming from the bank's investment portfolio and loan book in a less benign macroeconomic environment.

BIL's senior unsecured debt rating could also be downgraded as a result of an increase in loss-given-failure should senior unsecured debt account for a smaller share of the bank's overall liability structure.

#### LIST OF AFFECTED RATINGS

Issuer: Banque Internationale a Luxembourg

..Affirmations:

- ....Adjusted Baseline Credit Assessment, affirmed baa2
- ....Baseline Credit Assessment, affirmed baa2
- ....Long-term Counterparty Risk Assessment, affirmed A1(cr)
- ....Short-term Counterparty Risk Assessment, affirmed P-1(cr)
- ....Long-term Bank Deposits, affirmed A2, outlook changed to Stable from Positive
- ....Short-term Bank Deposits, affirmed P-1
- ....Long-term Issuer Rating, affirmed A2, outlook changed to Stable from Positive
- ....Senior Unsecured Regular Bond/Debenture, affirmed A2, outlook changed to Stable from Positive
- ....Senior Unsecured Medium-Term Note Program, affirmed (P)A2
- ....Senior Subordinated Regular Bond/Debenture, affirmed Baa3
- ....Subordinate Medium-Term Note Program, affirmed (P)Baa3
- ....Junior Subordinated Regular Bond/Debenture, affirmed Ba1(hyb)
- ....Preferred Stock Non-cumulative, affirmed Ba2(hyb)
- ....Other Short Term, affirmed (P)P-1

..Outlook Action:

- ....Outlook changed to Stable from Positive

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in April 2018. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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