



## Rating Action: Moody's assigns first-time A3 long-term deposit and issuer ratings to Raiffeisen Landesbank Kaernten

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Frankfurt am Main, August 16, 2023 – Moody's Investors Service (Moody's) has today assigned A3/P-2 long and short-term deposit and issuer ratings to Raiffeisen Landesbank Kaernten (RLB Kaernten), as well as A1/P-1 long and short-term Counterparty Risk Ratings (CRR). Concurrently, the rating agency assigned a baa2 Baseline Credit Assessment (BCA) and a baa2 Adjusted BCA as well as A1(cr)/P-1(cr) Counterparty Risk Assessments (CR Assessments) to RLB Kaernten. The outlook on the long-term issuer ratings is stable and the outlook on the long-term deposit ratings is positive.

### RATINGS RATIONALE

#### –ASSIGNMENT OF BASELINE CREDIT ASSESSMENT AND ADJUSTED BASELINE CREDIT ASSESSMENT

With total assets of EUR 4.4 billion as of year-end 2022, RLB Kaernten is one of the smaller of the eight Raiffeisenlandesbanken (RLB) in Austria, with operations mainly in the State of Carinthia (issuer rating Aa2 stable) and Slovenia (Government of Slovenia issuer rating A3 stable). RLB Kaernten is fully owned by local primary co-operative (credit co-operatives or Raiffeisenbanken (RB), storage and agricultural co-operatives) in the region, for which it is the central institution. RLB Kaernten's business activities are strongly focused on corporate customers, mainly small and medium-sized enterprises (SMEs) in Carinthia and Slovenia. As of year-end 2022, RLB Kaernten had seven branches and employed 401 people on average. RLB Kaernten is a member bank of the Austrian Raiffeisen Banking Group (RBG) and its institutional protection scheme (IPS) and holds a 2.92% stake in Raiffeisen Bank International AG (RBI, deposits A1 stable/senior unsecured A1 stable, BCA baa3).

RLB Kaernten's baa2 BCA reflects the bank's generally sound solvency profile, which is similar to that of most Austrian RLBs. Asset risks mainly stem from equity investments in the sector's central institution RBI and geographical concentration due to the business focus on the region of Carinthia, while the bank's asset quality has been improving in the past years and is now close to its RLB peers. Issues from an elevated non-performing loan ratio resulted from previous engagements in Croatia (now exited) and from the merger with Raiffeisen-Bezirksbank Klagenfurt in 2019 have been addressed and sorted.

RLB Kaernten reports strong capitalization, which however includes the benefits of the external appraisal of its stake in RBI significantly above the current market value. In its assessment of the bank's capitalization, Moody's uses both a multi-year average market value of as well as a significantly stressed valuation for RLB Kaernten's stake in RBI, which still results in a comforting level to absorb unexpected credit losses.

The bank's profitability was weak during the past years, suffering from the low interest rate environment and volatile dividend payments from RBI. While the rating agency expects net income to increase going forward due to the tailwinds from a more normal interest environment, given the structural disadvantages due to the small size of the bank and limited economies of scale, it will remain below the level of larger competitors.

RLB Kaernten's solid solvency profile is accompanied by an adequate liquidity and funding profile with a good access to the regional Austrian RB' sector funds and the resulting low reliance on confidence-sensitive market funding as well as a satisfying liquidity cushion. RLB Kaernten serves as a central institution for the RBs in the region and benefits from their excess deposits, which get upstreamed from the primary banks towards RLB Kaernten. As these deposits are retail and highly granular in nature, they are a very stable source of funding at the RB level. At the same time, the

RBs act as an investor and a distribution channel to the sector's customers for RLB Kaemten's own issuances.

The assigned ratings also incorporate RLB Kaemten's environmental, social and governance (ESG) considerations, as per Moody's General Principles for Assessing Environmental, Social and Governance Risks Methodology. RLB Kaemten's governance risks are moderate, reflected in a Governance Issuer Profile score (IPS) of G-3. This assessment considers the bank's financial strategy that exposes the bank to high concentration risks inherent to its equity investment in RBI and results in earnings volatility, RLB Kaemten's ownership structure as a mutualist bank within the Austrian RBG implies a very specific governance set-up with limited independent representation, but this does not result in incremental governance risks because of Austria's developed institutional framework. Overall, RLB Kaemten's Credit Impact Score of CIS-2 indicates that ESG considerations have no material impact on the rating and reflects the mitigating rating impact of the affiliate support from RBG over RLB Kaemten's ESG risk profile.

RLB Kaemten's baa2 Adjusted BCA incorporates the rating agency's expectation of affiliate support forthcoming in the case of need, stemming from the bank's direct membership in the IPS of the RBG. We assess RBG's financial capacity to provide support to its members based on the cooperative group's combined financial strength. Expected support from the IPS essentially converges the probability of default of individual member banks, resulting in a very close alignment of the member banks' Adjusted BCA. For RLB Kaemten, its Adjusted BCA is at the same level as its baa2 BCA.

#### –ASSIGNMENT OF RATINGS

RLB Kaemten's ratings reflect the bank's baa2 BCA, its membership in the institutional protection scheme of RBG, which, because of strong sector cohesion, results in a very close alignment of member banks' Adjusted BCAs and in a baa2 Adjusted BCA; one notch of rating uplift for deposit and issuer ratings from Moody's Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by different liability classes in resolution; and one notch of rating uplift for senior instrument classes from the agency's assumption of moderate government support given RLB Kaemten's membership in the systemically relevant RBG.

RLB Kaemten is subject to the EU Bank Recovery and Resolution Directive (BRRD), which Moody's considers to be an Operational Resolution Regime (ORR). For banks operating in ORRs the rating agency applies its Advanced LGF analysis, which takes into account the risks faced by the different instrument classes across the liability structure, should the bank enter resolution. The Advanced LGF analysis also incorporates future issuance plans of RLB Kaemten and the expected evolution of the bank's liability structure, which results in one notch of rating uplift for deposit and issuer ratings because of expected senior unsecured instruments outstanding by year end. The Advanced LGF analysis for the bank's CRR and CR Assessment results in three notches of uplift from the Advanced LGF as analysis as these instruments also benefit from a high volume of (junior) deposits, which are subordinated to counterparty risk liabilities in Moody's opinion.

The agency assumes a moderate probability that the Austrian government would provide support to banks or banking groups that Moody's considers to be of systemic relevance, provided these instrument classes rank above junior senior unsecured liabilities in resolution. As a member of the Austrian RBG, RLB Kaemten's senior unsecured debt, deposits, CRRs and CR Assessment benefit from one notch of government support uplift.

The short-term ratings are derived from the long-term ratings by Moody's typical standard mapping; the P-2 short-term deposit and issuer ratings are derived from the A3 long-term issuer and deposit ratings, while the P-1 short term CRRs are derived from the A1 long-term CRRs.

#### OUTLOOK

The stable outlook on the long-term issuer ratings reflects Moody's expectation that the bank's solvency and liquidity profile as well as the creditworthiness of the Raiffeisen sector in Austria will remain stable over the next 12-18 months.

The positive outlook on the long-term deposit ratings reflects a possible reduction in loss severity for this instruments

class, provided that RLB Kaertnen will increase the volume of senior unsecured instruments, as a higher volume of liabilities subordinated to the deposits would provide higher loss protection to the depositors.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

RLB Kaemten's ratings could be upgraded if the Raiffeisen sector's financial strength improves as a whole, such that it results in a higher affiliate support uplift. The bank's ratings could also be upgraded if RLB Kaemten issues significant additional volumes of bail-in-able debt instruments, such that it either reduces the loss severity for respective instrument classes or increases the volume of subordinated instruments for the deposit and senior unsecured debt classes and yields in more uplift from Moody's Advanced LGF analysis.

RLB Kaertnen's BCA could be upgraded if the bank was to strengthen its solvency and liquidity metrics, i.e. further sustainably improving its asset quality, profitability and liquidity. However, this would not result in a rating upgrade unless the Raiffeisen sector's financial strength improves as well.

Downward pressure could occur if RLB Kaemten's BCA is downgraded and, at the same time, the Raiffeisen sector's fundamentals weaken to such a level that the downgrade cannot be offset by affiliate support; or the sector's financial strength deteriorates, leading to constraints on the bank's Adjusted BCA. RLB Kaemten's ratings could be downgraded if the volume of senior unsecured liabilities declines, leading to an increase in the loss severity for more senior creditors. Declining senior unsecured liabilities could prompt a weaker result from our Advanced LGF analysis.

RLB Kaemten's BCA could be downgraded as a result of a weakening of the bank's solvency profile, as reflected in a deterioration in asset quality, capital or profitability beyond current expectations. However, a downgrade of the bank's BCA would likely be offset by the affiliate support uplift provided by the Raiffeisen sector.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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