

Rating Action: Moody's upgrades ratings of Austrian Raiffeisen Banking Group member banks

29 Sep 2021

Frankfurt am Main, September 29, 2021 -- Moody's Investors Service (Moody's) has today upgraded the ratings of seven banks in Austria (Aa1 stable), all of which are member institutions of the Raiffeisen Banking Group (RBG or 'the Group').

Among the actions taken today by Moody's are the following:

--- Upgrade of the long-term senior unsecured debt and deposit ratings to A2 from A3 for Raiffeisen Bank International AG (RBI), upgrade of the subordinated debt ratings to Baa2 from Baa3, upgrade of the preferred stock non-cumulative ratings (low trigger Additional Tier 1 instruments) to Ba2 (hyb) from Ba3 (hyb), and upgrade of the short-term deposit ratings to P-1 from P-2,

--- Upgrade of the long-term senior unsecured debt and deposit ratings to A3 from Baa1 for Raiffeisenlandesbank Oberoesterreich AG (RLB OOE), affirm the short-term deposit ratings at P-2,

--- Upgrade of Raiffeisenlandesbank Niederoesterreich-Wien's (RLB NOE) long-term senior unsecured debt and deposit ratings to A3 from Baa1, upgrade of the subordinated debt ratings to Baa3 from Ba1, affirm the short-term issuer and deposit ratings at P-2,

--- Upgrade of the long-term deposit and issuer ratings of Raiffeisen-Landesbank Steiermark AG (RLB Steiermark), Raiffeisenverband Salzburg (RVS), for Raiffeisen-Landesbank Tirol AG (RLB Tirol), and Raiffeisenlandesbank Vorarlberg (RLB Vorarlberg) to A3 from Baa1, affirm the P-2 short-term deposit rating of RLB Steiermark and affirm the P-2 short-term deposit and issuer ratings for RVS, RLB Tirol and RLB Vorarlberg.

--- For all the seven banks the outlook on the long-term deposit, issuer and senior unsecured debt ratings -- where applicable - is stable.

--- Upgrade of the Adjusted Baseline Credit Assessments (BCAs) to baa2 from baa3 for all seven member banks of RBG,

--- Upgrade of the BCAs for RBI, RLB OOE and RLB Vorarlberg to baa2 from baa3, and affirm the BCA for RLB Steiermark, RVS and RLB Tirol at baa3. The rating agency further affirmed RLB NOE's BCA at ba2.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL455210 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

Today's rating actions predominantly reflects the rating agency's assessment that the joint financial strength of the Austrian RBG has improved, which is supported by an increased standalone resilience and strengthened solvency profile of some of its largest member banks, including RBI and RLB OOE. Despite material economic challenges caused by the pandemic most member banks managed to broadly maintain their credit quality and capitalization and largely protected their profitability while at the same time reducing the tail risks potentially being caused by adverse market developments.

In upgrading the ratings of all rated RBG's member banks Moody's further reflects the stronger cohesion and more directly available liquid resources within RBG following the simplification and extension of the sector's federal Institutional Protection Scheme (IPS) earlier this year, with the IPS now also offering a deposit guarantee scheme for its members. Moody's view that the contractual support scheme creates a very reliable framework, which overall resulted in a close alignment of banks' Adjusted BCAs, was underpinned by the implemented changes, providing more uplift for intrinsically weaker banks.

RATIONALE FOR INDIVIDUAL BANKS' BCA

- Raiffeisen Bank International AG (RBI)

Moody's upgrade of RBI's BCA to baa2 from baa3 reflects the rating agency's expectation of stable capitalisation and improving profitability because of a more benign risk environment and tight cost management, offsetting the challenges provided by the low rate environment. Further, Moody's expects a continued strong loan book performance, given the bank's pro-active risk management approach and established track record in managing risks in adverse economic and political situations.

The upgrade reflects the bank's solid and balanced liquidity and funding profile, where market funding reliance is balanced by access to sector funds and a significant liquidity cushion.

In particular, prospects of sustainably stronger profitability for RBI does not only indicate additional scope for capital generation and retention for RBI itself; the central institution's improved credit profile is a key driver for the overall financial health of the sector, given its size, accounting for almost half of the group's assets.

- Raiffeisenlandesbank Oberoesterreich AG (RLB OOE)

The upgrade of RLB OOE's BCA to baa2 from baa3 reflects improving capital metrics and a stronger profitability outlook. While RLB OOE's relatively large share of equity holdings, which include its stake in RBI and significant holdings in Austrian corporations, relative to the bank's capital, remain substantial, the downside risks to the bank's capital cushion, however, are now more contained, following downward re-evaluations of its holdings. RLB OOE's improved solvency profile is accomplished by a balanced liquidity profile where good access to sector funds and development bank funding together with a strong liquidity cushion mitigate the bank's market funding dependence.

- Raiffeisenlandesbank Niederoesterreich-Wien (RLB NOE)

The affirmation of RLB NOE's ba2 BCA reflects the bank's significant risks related to its particularly large stake in RBI, which remains higher than the bank's core capital and causes high volatilities in profits and meaningful risk to its capitalisation. However, the negative impact of market volatilities, including equity markets, on capital has remained more limited than in the past, while the bank's asset quality remained almost stable. Moody's expects the bank to bolster capital reserves going forward, providing a slowly improving cushion from low levels. RLB NOE's liquidity profile remains robust.

- Raiffeisen-Landesbank Steiermark AG (RLB Steiermark)

The affirmation of RLB Steiermark's baa3 BCA incorporates the bank's improved capitalisation, the continued positive trend in its asset quality and solid liquidity profile. However, RLB Steiermark's risk profile remains constrained by its concentrated equity investments, including its stake in RBI, which results in volatility of the bank's profits and capitalisation. While growing capital provide a strong buffer to the downside, the bank's reliance on volatile income streams from its participation in RBI and other non-core banking activities combined with ongoing pressure on interest income from the low-interest income and high cost base limits its future earnings prospects.

- Raiffeisenverband Salzburg (RVS)

The affirmation of RVS' baa3 BCA reflects the bank's gradually improving asset risk metrics combined with its satisfactory and relatively resilient capital metrics and a stable liquidity profile. However, RVS's risk profile remains constrained by its sizeable equity investments in non-banking activities and its stake in RBI, causing high volatilities in profits. Even though the negative impact of market volatilities on capital has remained more limited than in the past, Moody's expects the bank only slowly bolstering its capital reserves cushion from moderate levels given the rather low profitability.

- Raiffeisen-Landesbank Tirol AG (RLB Tirol)

The affirmation of RLB Tirol's baa3 BCA reflects the bank's broadly stable fundamental performance, underpinned by a positive development in the bank's asset quality and capitalisation. RLB Tirol's BCA remains constrained by concentrated equity investments, in particular its stake in RBI. Even though growing capital buffers provide a sufficient buffer to the downside, the bank's low profitability remains under pressure from low-interest rate environment and from volatilities from its investment income.

- Raiffeisenlandesbank Vorarlberg (RLB Vorarlberg)

The upgrade of RLB Vorarlberg's BCA to baa2 from baa3 reflects the fact that its BCA is no longer constrained by the assessment of RBG's own credit profile, because of the group's enhanced creditworthiness. RLB Vorarlberg's BCA continues to reflect the bank's strong asset risk and capital metrics, leading to a resilient solvency profile, which balances sizeable equity investments, including the bank's stake in RBI, that are pressuring its already low profitability.

RATIONALE FOR UPGRADES OF ADJUSTED BCAs

As part of today's action, Moody's has reassessed the RBG's credit profile, based on the co-operative group's combined financial strength. This assessment resulted in a more positive view than previously held on RBG's combined strength and financial flexibility. Moody's more favorable assessment considers RBG's progress in bolstering capital and capital-equivalent reserves, accomplished by a solid and balanced liquidity profile. It further reflects the simplification of the sector's IPS, with membership extended to the complete Austrian Raiffeisen sector in Austria. More importantly, the IPS also offers a deposit guarantee scheme, with the necessary liquid reserves improving the readily available liquidity cushion further.

Despite the much more challenging operating environment due to the pandemic, which has only moderately weakened the member banks' asset quality and profitability in 2020, the rating agency expects profitability to rebound and asset quality to stabilize. Further, the improving fundamental credit profiles for some of the rated member banks, particularly, the largest like RBI and RLB OOE support the positive trajectory.

Moody's considerations of sector cohesion continue to result in a very close alignment of banks' Adjusted BCAs, by providing stronger rating uplift for intrinsically weaker banks. RBG's improved credit profile results in an enhanced capacity to support member banks in case of need, which translates in additional ratings uplift for the weakest entity or lifting BCA constraints for the strongest. The action reflects not only the overall improved credit profile of the sector and some of the member banks, but Moody's view of an ever stronger cohesion within the Austrian Raiffeisen sector, leading to a positioning of all sector bank's Adjusted BCAs at baa2, though the range between the sector bank's BCAs increased to three from two notches.

RATIONALE FOR THE RATINGS UPGRADES

The upgrade of the seven banks' ratings (and CR Assessments) follows the upgrade of their Adjusted BCAs to baa2 from baa3.

The rating action further incorporates the otherwise unchanged rating inputs and assumptions, specifically the expectations of unchanged ratings uplift from Moody's Advanced Loss Given Failure (LGF) analysis for individual instrument classes and the rating agency's assessment of a low probability for the bank receiving government support. For RLB Vorarlberg, Moody's further considers on a forward-looking Advanced LGF analysis the volumes of senior unsecured issuances to increase again in 2021 and continues to indicate a very low loss-given-failure for RLB Vorarlberg's issuer and deposit ratings, albeit the buffer to a lower outcome is expected to shrink.

STABLE OUTLOOK

The outlook on the long-term deposit and issuer ratings -- where applicable - of all member banks remains stable. It reflects Moody's expectation that RGB and its member banks will be able to maintain their achieved strengthening of solvency factors. Further, the stable outlooks capture the expectation of unchanged liability structures of the individual banks, and as a result unchanged results from Moody's Advanced LGF Analysis.

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

The banks' long-term ratings could be upgraded following a significant further strengthening of the RBG's solvency. Unless ratings already incorporate the maximum rating uplift from Moody's Advanced LGF analysis, rating could also be upgraded following a significant increase in the stock of bail-in-able liabilities, such that it reduces the expected loss for certain instrument classes.

Individual banks' BCAs could be upgraded following a material reduction in asset risk concentrations while at the same time significantly increasing the core banking profitability; however, an increase in an individual member bank's BCA is unlikely to result in rating upgrade.

The banks' long-term ratings could be downgraded following a weakening of RBG's solvency. Ratings could

also be downgraded following a reduction in the stock of bail-in-able liabilities such that it increases the expected loss for certain instrument classes.

The individual banks' BCAs could be downgraded due to material set-backs in the banks' effort to contain asset risks, particularly for those banks that display risk concentrations and/or a dependence on RBI's profits for internal capital generation; a failure to strengthen common equity levels, as applicable, in response to higher regulatory requirements; and a sustainable erosion of profits. Further, downwards pressure could develop in case of a weakening of the currently balanced liquidity profiles.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL455210 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

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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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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