

Rating Action: Moody's assigns Counterparty Risk Ratings to 14 Austrian banks

08 Jun 2018

Ratings are assigned following 6 June 2018 update to Moody's Banks rating methodology

Frankfurt am Main, June 08, 2018 -- Moody's Investors Service has today assigned Counterparty Risk Ratings to 14 Austrian banks: BAWAG P.S.K., card complete Service Bank AG, Erste Group Bank AG, Hypo Tirol Bank AG, Hypo Vorarlberg Bank AG, Raiffeisen Bank International AG (RBI), Raiffeisenlandesbank Niederoesterreich-Wien, Raiffeisenlandesbank Oberoesterreich AG, Raiffeisen-Landesbank Steiermark AG, Raiffeisen-Landesbank Tirol AG, Raiffeisenlandesbank Vorarlberg, Raiffeisenverband Salzburg, UniCredit Bank Austria AG, and Volksbank Wien AG.

Moody's Counterparty Risk Ratings (CRR) are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

For a full list of assigned CRRs, please refer to the end of this press release.

RATINGS RATIONALE

In assigning CRRs to the banks and branches subject to this rating action, Moody's starts with the banks' Adjusted Baseline Credit Assessment (Adjusted BCA) and uses the agency's existing Advanced Loss-Given-Failure (LGF) approach that takes into account the level of subordination to CRR liabilities in the bank's balance sheet and assumes a nominal volume of such liabilities.

For rated Austrian banks, Moody's considers the likelihood of government support for CRR liabilities to be low, resulting in no additional rating uplift from their respective Adjusted BCAs. The rating agency's assumption reflects the wider scope of the Bank Recovery and Resolution Directive (BRRD) implementation in Austria and its application, illustrating the Austrian government's willingness to apply burden-sharing to bondholders.

As a result, the CRRs assigned to Austrian banks are three notches higher than their respective Adjusted BCAs, the maximum amount of uplift allowed under Moody's rating methodology.

Except for RBI, the CRRs assigned to Austrian banks are higher than the rated banks' senior unsecured debt ratings, where applicable. This reflects Moody's view that secured counterparties to banks typically benefit from greater protections under insolvency laws and bank resolution regimes than do senior unsecured creditors, and that this benefit is likely to extend to the unsecured portion of such secured transactions in most bank resolution regimes. Moody's believes that in many cases regulators will use their discretion to allow a bank in resolution to continue to honor its CRR liabilities or to transfer those liabilities to another party who will honor them, in part because of the greater complexity of bailing in obligations that fluctuate with market prices, and also because the regulator will typically seek to preserve much of the bank's operations as a going concern in order to maximize the value of the bank in resolution, stabilize the bank quickly, and avoid contagion within the banking system. CRR liabilities at these banking groups therefore benefit from the subordination provided by more junior liabilities, with the extent of the uplift of the CRR from the adjusted BCA depending on the amount of subordination.

What Could Change the Rating Up

As the banks' CRRs are linked to the adjusted BCA as well as the results of Moody's LGF analysis, any upward change to the adjusted BCA and rating uplift under the LGF analysis would likely also affect these ratings.

The banks' adjusted BCAs could be upgraded as a consequence of a strengthening of their standalone financial fundamentals and overall credit profile.

The banks' CRRs could also experience upward pressure from movements in the loss-given-failure faced by these liabilities. Changes in the banks' liability structure which would indicate a lower loss severity for senior creditors could result in higher ratings uplift, unless the CRR already benefits from the maximum amount of three notches of uplift allowed under Moody's rating methodology.

What Could Change the Rating Down

Likewise, as the banks' CRRs are linked to the adjusted BCA and the results of Moody's LGF analysis, any deterioration of the adjusted BCA and lower rating uplift under the LGF analysis would likely also affect these ratings.

Downward pressure on the banks' adjusted BCAs could develop as a result of a weakening of their standalone financial fundamentals and overall credit profile.

The banks' CRRs could also experience downward pressure from movements in the loss-given-failure faced by these liabilities. Sustained lower volumes of subordinated, senior debt instruments or junior deposits could result in fewer notches of rating uplift for CRR under the Advanced LGF analysis.

LIST OF AFFECTED RATINGS

Issuer: BAWAG P.S.K.

..Assignments:

...Long-term (Local Currency) Counterparty Risk Rating, assigned A1

...Short-term (Local Currency) Counterparty Risk Rating, assigned P-1

Issuer: card complete Service Bank AG

..Assignments:

...Long-term (Local Currency) Counterparty Risk Rating, assigned A3

...Short-term (Local Currency) Counterparty Risk Rating, assigned P-2

Issuer: Erste Group Bank AG

..Assignments:

...Long-term (Local and Foreign Currency) Counterparty Risk Ratings, assigned A1

...Short-term (Local and Foreign Currency) Counterparty Risk Ratings, assigned P-1

Issuer: Erste Bank, New York

..Assignments:

...Long-term (Local and Foreign Currency) Counterparty Risk Ratings, assigned A1

...Short-term (Local and Foreign Currency) Counterparty Risk Ratings, assigned P-1

Issuer: Hypo Tirol Bank AG

..Assignments:

...Long-term (Local Currency) Counterparty Risk Rating, assigned Baa1

...Short-term (Local Currency) Counterparty Risk Rating, assigned P-2

Issuer: Hypo Vorarlberg Bank AG

..Assignments:

...Long-term (Local Currency) Counterparty Risk Rating, assigned A2

...Short-term (Local Currency) Counterparty Risk Rating, assigned P-1

Issuer: Raiffeisen Bank International AG

..Assignments:

...Long-term (Local and Foreign Currency) Counterparty Risk Ratings, assigned A3

...Short-term (Local and Foreign Currency) Counterparty Risk Ratings, assigned P-2

Issuer: Raiffeisenlandesbank Niederoesterreich-Wien

..Assignments:

...Long-term (Local Currency) Counterparty Risk Rating, assigned A3

...Short-term (Local Currency) Counterparty Risk Rating, assigned P-2

Issuer: Raiffeisenlandesbank Oberoesterreich AG

..Assignments:

...Long-term (Local Currency) Counterparty Risk Rating, assigned A3

...Short-term (Local Currency) Counterparty Risk Rating, assigned P-2

Issuer: Raiffeisen-Landesbank Steiermark AG

..Assignments:

...Long-term (Local Currency) Counterparty Risk Rating, assigned A3

...Short-term (Local Currency) Counterparty Risk Rating, assigned P-2

Issuer: Raiffeisen-Landesbank Tirol AG

..Assignments:

...Long-term (Local Currency) Counterparty Risk Rating, assigned A3

...Short-term (Local Currency) Counterparty Risk Rating, assigned P-2

Issuer: Raiffeisenlandesbank Vorarlberg

..Assignments:

...Long-term (Local Currency) Counterparty Risk Rating, assigned A3

...Short-term (Local Currency) Counterparty Risk Rating, assigned P-2

Issuer: Raiffeisenverband Salzburg

..Assignments:

...Long-term (Local Currency) Counterparty Risk Rating, assigned A3

...Short-term (Local Currency) Counterparty Risk Rating, assigned P-2

Issuer: UniCredit Bank Austria AG

..Assignments:

...Long-term (Local Currency) Counterparty Risk Rating, assigned A3

...Short-term (Local Currency) Counterparty Risk Rating, assigned P-2

Issuer: Volksbank Wien AG

..Assignments:

...Long-term (Local Currency) Counterparty Risk Rating, assigned A2

...Short-term (Local Currency) Counterparty Risk Rating, assigned P-1

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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