



Rating Action: Moody's upgrades long-term deposit ratings of 11 Austrian banks

11 Jul 2023

Frankfurt am Main, July 11, 2023 – Moody's Investors Service (Moody's) has today upgraded the long-term deposit, issuer, and senior unsecured ratings (where applicable) of 11 Austrian banks and banking groups, which it considers to be of domestic systemic relevance, closing the review for upgrade for these entities opened on 20 June 2023 (see "Moody's places ratings of 11 Austrian banks on review for upgrade, affirms ratings of one bank"; <https://ratings.moody's.com/ratings-news/404281>).

Those banks and banking groups include: Erste Group Bank AG (Erste), the rated member banks of Raiffeisen Bankengruppe Oesterreich, including Raiffeisen Bank International AG and the Raiffeisenlandesbanks, as well as UniCredit Bank Austria AG and BAWAG P.S.K. AG. The upgrade also pertains to the banks' respective long-term Counterparty Risk Ratings (CRR) and Counterparty Risk Assessments (CR Assessment).

The rating agency further upgraded the short-term deposit and issuer ratings – where applicable – for Raiffeisenlandesbank Oberoesterreich AG, Raiffeisenlandesbank Niederoesterreich-Wien, Raiffeisen Landesbank Vorarlberg, Raiffeisen-Landesbank Steiermark AG, Raiffeisen-Landesbank Tirol AG, Raiffeisenlandesbank Burgenland, Raiffeisenverband Salzburg, and UniCredit Bank Austria AG to P-1 from P-2.

The outlook on the long-term deposit, issuer, and senior unsecured ratings – where applicable – was changed to stable for Erste and the member banks of Raiffeisen Bankengruppe Oesterreich, to negative for UniCredit Bank Austria AG, and to positive for BAWAG P.S.K. AG from ratings under review.

The upgrade reflects a change in Moody's assessment of the likelihood of the Government of Austria (Aa1 stable) providing support to banks or banking groups, which Moody's identified to be of systemic relevance. The increased probability of government support to 'moderate' from 'low' is now in line with that of other banking systems in the European Union (EU) and provides one notch of ratings uplift to the liabilities ranking above junior senior unsecured debt of the aforementioned banks.

Concurrently, Moody's affirmed all other ratings and rating inputs of Erste, including its baa1 Baseline Credit Assessment (BCA), reflecting the stable fundamental credit profile and unchanged uplift from the rating agency's Advanced Loss Given Failure (LGF) analysis.

Please click on this link https://www.moody's.com/viewresearchdoc.aspx?docid=PBC_ARFTL478392 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

The other ratings of the above-mentioned banks are unaffected by today's action.

All other Austrian banks rated by Moody's are not affected by today's rating action.

RATINGS RATIONALE

RATIONALE FOR THE UPGRADE OF INSTRUMENT CLASSES RANKING ABOVE JUNIOR SENIOR UNSECURED DEBT

Moody's upgrade of the ratings of senior obligations (instrument classes and assessments ranking above junior senior unsecured debt) of the Austrian banks and banking groups that the rating agency considers to be of systemic relevance by one notch reflects the rating agency's change in its government support assumption for these obligations of these banks to 'moderate' from 'low'.

Moody's identified the banks and banking groups that benefit from government support uplift to their senior ratings as systemically relevant, considering amongst other factors their market share, their interconnectedness, and/or the complexity of their operations.

In aligning the government support assumption for the Austrian banking system with that of other EU banks subject to an operational resolution regime (ORR), where Moody's typically assumes 'moderate' government support for senior obligations of systemically relevant credit institutions, the rating agency no longer expects Austrian authorities to deal with systemic challenges for the banking system differently than in other EU countries.

Previously, the government support assumption was 'low' and provided no rating uplift to any of the rated Austrian banks, irrespective of their systemic relevance. In 2014 and 2015, respectively, Moody's had reduced its government support assumption to 'low', following the transposition of the EU's Bank Recovery and Resolution Directive (BRRD) in Austria, which went beyond what EU peers included in national frameworks. The wider scope of resolution measures taken in Austria included the bail-in of bad banks, and in the case of Heta Asset Resolution AG (Heta) resulted in haircuts that were not fully reimbursed to holders of guaranteed bonds. The rating agency has subsequently not observed material adverse or controversial decisions affecting the banking industry or bondholders.

KEY DRIVERS FOR THE RATINGS AFFIRMATION OF ERSTE'S OTHER RATINGS AND RATINGS INPUTS

AFFIRMATION OF ERSTE'S BASELINE CREDIT ASSESSMENT (BCA) AND ADJUSTED BCA

The affirmation of the bank's baa1 BCA considers Erste's stable solvency and liquidity profile. It reflects Erste's good medium-term profitability, which will continue to provide the bank with a substantial buffer to absorb further significant loss provisions without impairing its capital position. Rising revenues, both supported by higher interest margins but also stronger fee and commission income, face challenges from inflationary cost pressures despite a culture of strong cost management, while higher costs for deposits and rising loan loss provisions because of the weaker economic environment will have a more medium-term impact.

The affirmation further incorporates Erste's limited dependence on confidence-sensitive wholesale market funding and its strong deposit franchise visible in leading market shares in most countries it operates in. It also reflects the bank's still good capital buffers, including additional available reserves such as portfolio provisions, though regulatory capital requirements are rising, pressuring the regulatory cushions. Asset quality remains strong and liquidity metrics remain solid. Erste's good cash position but also its perception as a safe haven and its leading deposit franchise are a key balancing factors for the unrealized losses in its securities portfolio, that are higher – though declining – than its European peers. In its assessment, the rating agency also reflects Erste's inherent exposure to more volatile markets in Central and Eastern Europe (CEE).

AFFIRMATION OF ERSTE'S RATINGS AND ASSESSMENTS

The affirmation of Erste's ratings – except those ratings that are affected by the ratings upgrade because of the change in government support – reflect the affirmation of the bank's BCA and Adjusted BCA combined with Moody's assessment of the forward-looking development of the bank's liability structure, which results in an unchanged rating uplift from the rating agency's Advanced LGF analysis.

In the case of Erste's P-1 short-term deposits, commercial paper rating, and CRRs, and of the bank's P-1(cr) short-term CR Assessment and (P)P-1 other short-term rating, the affirmation reflects normal mapping from the respective long-term ratings.

OUTLOOK

The outlooks on the long-term deposit, issuer, and senior unsecured ratings – where applicable – of the affected, systemically relevant banks were changed to stable for Erste and all Raiffeisen sector entities, to positive for BAWAG P.S.K. AG, and to negative for UniCredit Bank Austria AG from ratings under review. The new outlooks are in line with the outlooks prior to opening the ratings review and reflect Moody's expectation of the respective issuer's development of its creditworthiness.

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

The long-term ratings could be upgraded following a strengthening of the banks' stand-alone creditworthiness, as expressed by their BCAs, but also due to potentially higher ratings uplift from parental or sector support. Upward rating pressure could also materialise if the banks, on a sustained basis, increased the amount of instruments designated to absorb losses in resolution relative to their total balance sheet size, which could result in additional rating uplift from Moody's Advanced LGF analysis.

The banks' ratings could be downgraded following a weakening of their BCAs, but also due to potentially lower ratings uplift from parental or sector support, as well as due to lower government support or due to a significant decrease in bail-in-able debt volumes outstanding, possibly leading to fewer notches of rating uplift as a result of Moody's Advanced LGF analysis.

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

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>. 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_ARFTL478392 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:

- EU Endorsement Status
- UK Endorsement Status
- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
- Participation: Access to Internal Documents

- Lead Analyst
- Releasing Office

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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For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

The below contact information is provided for information purposes only. For disclosures on the lead rating analyst and the Moody's legal entity that issued the rating, please see the issuer/deal page on <https://ratings.moodys.com> for each of the ratings covered.

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