

Research Update:

# Raiffeisen Schweiz Genossenschaft Upgraded To 'AA-/A-1+' On Effective Resolution Strategy; Outlook Stable

April 4, 2023

## Overview

- We expect that the resolution plan of Raiffeisen Schweiz Genossenschaft (RCH), a core member of Swiss Raiffeisen Group, will be considered effective by the Swiss regulator due to the group's substantial build-up of sufficient loss-absorbing capital as of year-end 2022.
- The higher buffer of additional loss-absorbing capacity (ALAC) will provide protection to senior creditors in a resolution scenario.
- We anticipate that Swiss Raiffeisen Group will maintain robust asset quality and high capitalization, supported by a resilient Swiss residential mortgage market.
- Therefore, we raised our issuer credit ratings on RCH to 'AA-/A-1+' from 'A+/A-1' and affirmed our issue ratings on its hybrid instruments. We also assigned 'AA-/A-1+' resolution counterparty ratings to the bank.
- The stable outlook reflects our expectation that, over a 24-month horizon, Swiss Raiffeisen Group will retain its robust financial position, substantiated by high ALAC buffers.

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## Rating Action

On April 4, 2023, S&P Global Ratings raised its long-term issuer credit rating on RCH to 'AA-' from 'A+' and the short-term issuer credit rating to 'A-1+' from 'A-1'. The outlook is stable. We also affirmed our issue ratings on the bank's hybrid instruments.

In addition, we assigned resolution counterparty ratings (RCRs) of 'AA-/A-1+' to RCH.

## Rationale

**The rating action reflects our expectation that Swiss Raiffeisen Group will maintain sizable bail-in-able buffers and would be well prepared for a bail-in-led resolution, if it failed.**

We anticipate Swiss Raiffeisen Group's senior debtholders will be better protected in the event of a resolution, with RCH becoming probably the first domestic systemically relevant bank to fulfil the Swiss emergency plan and the final total loss absorbing capacity (TLAC) requirements applicable from Jan. 1, 2026. We forecast a sizeable 5%-7% additional loss absorbing capacity (ALAC) buffer for the group relative to S&P Global Ratings' risk-weighted assets (RWAs) between 2023 and 2026, after an estimated 6.5% at year-end 2022. This is comfortably above our 3% threshold and a result of the group having significantly increased its bail-in-able instruments by reclassifying Swiss franc (CHF) 3.1 billion of common equity Tier 1 (CET1) and CHF1.1 billion of additional Tier 1 (AT1) instruments from going-concern to gone concern capital as of Dec. 31, 2022. Consequently, we believe the Swiss Financial Market Supervisory Authority (FINMA) will consider RCH resolution-ready, with the bank the single point of entry for the Swiss Raiffeisen Group. Therefore, we assigned one notch of ALAC uplift to our long-term issuer credit rating (ICR) on RCH, the maximum uplift available given the group stand-alone credit profile (SACP) of 'a'.

**We anticipate that Swiss Raiffeisen Group will maintain robust asset quality, bolstered by high capitalization and a solid 18% market share in resilient Swiss mortgage business.**

We anticipate that the group's asset quality will remain robust and a potential rise in risk costs will be contained considering the group's domicile and lending focus in Switzerland, and our forecast that the country and its residential real estate market will remain resilient. Management's decision to shift some Tier 1 capital to the gone concern buffer resulted in 18.8% Tier 1 regulatory capital and 19.5% risk-adjusted capital (RAC) ratios at year-end 2022, versus 23.2% and 24.4% respectively without this move. Nevertheless, we expect that the group will maintain a RAC ratio of 19%-21% through 2025, which means its capitalization remains among Europe's strongest. Similarly, despite this reduction in measured going concern capital, our assessment of the group's SACP is unchanged at 'a+' because we do not view its intrinsic creditworthiness to have meaningfully weakened.

**We assigned RCRs to RCH since the group qualifies for ALAC support.** The RCRs are at the same level as the ICRs because RCR uplift does not apply to financial institutions in the 'AA' or 'AAA' ICR categories. We also affirmed the ratings on RCH's hybrids because ALAC buffers only provide protection for senior preferred creditors in a resolution scenario.

## Outlook

The stable outlook on the core group members of Swiss Raiffeisen Group, including RCH, reflects our expectation that over a two-year horizon, Swiss Raiffeisen Group will retain its robust business, financial, and capital positions substantiated by high ALAC buffers. This is also supported by our expectation for the continued resilience of the Swiss economy, weathering volatile and difficult operating environments, higher inflation, and a weaker global economy. We forecast that Swiss Raiffeisen Group will remain sufficiently profitable, bolstering its superior capitalization.

## Downside scenario

We could lower our rating on RCH if we saw unexpectedly increasing risks in its main markets, particularly the Swiss housing market. Although unlikely, rating pressure could stem from

unexpected economic shocks that adversely affect Swiss Raiffeisen Group's profitability and asset quality. We will also continue to monitor progress on Swiss Raiffeisen Group's targeted efficiency and digitalization improvements.

## Upside scenario

An upgrade is unlikely, reflecting the already strong credit quality and the bank's material concentration in the housing market.

## Ratings Score Snapshot

	To	From
<b>Issuer Credit Rating</b>	<b>AA-/Stable/A-1+</b>	<b>A+/Stable/A-1</b>
SACP	a+	a+
Anchor	a-	a-
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Very strong (+2)	Very strong (+2)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	0	0
Support	+1	0
ALAC support	+1	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile. ALAC--Additional loss absorbing capacity. GRE--Government-related entity.

## ESG credit indicators: E-2, S-2, G-2

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions , March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology , July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

## Related Research

- How The Composition Of Swiss Banks' Gone-Concern Buffers Affects Our Rating Metrics, April 4, 2023
- Global Macro Update: Post-Davos, We Reaffirm Our View, Jan. 26, 2023
- Raiffeisen Schweiz Genossenschaft, Nov. 21, 2022

## Ratings List

### New Rating

#### Raiffeisen Schweiz Genossenschaft

Resolution Counterparty Rating AA--/A-1+

### Ratings Affirmed

#### Raiffeisen Schweiz Genossenschaft

Subordinated A

Junior Subordinated BBB

### Upgraded

	To	From
<b>Raiffeisen Schweiz Genossenschaft</b>		
Issuer Credit Rating	AA-/Stable/A-1+	A+/Stable/A-1
<b>Raiffeisen Schweiz Genossenschaft</b>		
Senior Unsecured	AA-	A+

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