

Rating Action: Moody's affirms Raiffeisen Schweiz's Aa3 deposit ratings and A3 senior unsecured debt rating

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Outlook changed to stable from negative

Frankfurt am Main, March 02, 2020 -- Moody's Investors Service, (Moody's) has today affirmed the Aa3 long-term deposit ratings and the A3 long-term senior unsecured debt rating of Raiffeisen Schweiz and changed the outlook to stable from negative. The rating agency concurrently affirmed the bank's P-1 short term deposit ratings. Furthermore, Moody's affirmed the a3 Baseline Credit Assessment (BCA) and Adjusted BCA, the Baa1 subordinated debt rating and the Baa3(hyb) High-Trigger Additional Tier 1 (AT1) instrument rating of Raiffeisen Schweiz.

For a full list of all affected ratings, please refer to the end of this press release.

RATINGS RATIONALE

-- AFFIRMATION OF BASELINE CREDIT ASSESSMENT

The affirmation of Raiffeisen Schweiz's a3 BCA and Adjusted BCA foremost reflects the fact that past corporate governance shortfalls did not adversely affect the group's strong credit fundamentals, in particular that the extremely low level of nonperforming loans remained unchanged over the past years.

Further, the affirmation reflects Raiffeisen Schweiz's improving capitalization, which the rating agency expects to continue. Capital provides a sufficient buffer to meaningful concentration risks in the group's loan book, which almost exclusively focuses on property lending. In its assessment of Raiffeisen Schweiz's creditworthiness the rating agency also considers the bank's new initiatives, which are targeted to diversify its revenues away from mortgage lending.

The sale of participations in 2018, which included private wealth management operations, led to a reduced diversification of the group and increased its susceptibility to downward shocks in the Swiss housing market. The group's strategy will focus to broaden the bank's revenue base again, with Moody's expecting first visible impacts within the next 12 to 18 months.

While Raiffeisen Schweiz has implemented measures to improve its corporate governance and strengthened processes to appropriately manage conflicts of interest ahead of targets set by the regulators, the rating agency expects Raiffeisen Schweiz to build a track record of good conduct before it would consider removing the one-notch negative corporate behavior adjustment for past governance failures.

Raiffeisen Schweiz's ratings reflect the banking group's fundamentals. When assessing Raiffeisen Schweiz's credit profile and because of its importance to the Raiffeisen Group in combination with the group's strong cohesion with a statutory mutualist support framework, Moody's considers consolidated group numbers for Raiffeisen Schweiz.

-- AFFIRMATION OF RATINGS

The affirmation of Raiffeisen Schweiz's ratings and its Counterpart Risk Assessments reflects the affirmation of its BCA and unchanged results from Moody's Advanced Loss Given Failure (LGF) analysis.

For deposits, the Advanced LGF analysis continues to provide two notches of rating uplift, while senior unsecured liabilities and subordinated bonds remain positioned one notch below the Adjusted BCA, prior to government support.

Raiffeisen Schweiz's long-term senior unsecured debt and deposit ratings benefit from one notch of government support uplift, taking into account Raiffeisen Group's status as a domestic systemically important financial institution and its significant market shares in mortgage lending and deposit taking.

-- AFFIRMATION OF HIGH-TRIGGER AT1 INSTRUMENT

The affirmation of Raiffeisen Schweiz's High-Trigger AT1 instrument at Baa3(hyb) reflects the affirmation of the BCA and the banking group's capitalization, measured by its Common Equity Tier 1 (CET1).

Moody's applies a model to assess the probability of Raiffeisen Group's CET1 ratio reaching the write-down trigger. The model is based on Raiffeisen Schweiz's Adjusted BCA of a3 and the group's CET1 capital ratio of 17.2% as of year-end 2019. The model provides an outcome of Baa3(hyb). According to Moody's methodology for rating high-trigger AT1 securities, the rating agency rates to the lower of a model-based outcome and a non-viability security rating.

-- RATIONALE FOR THE STABLE OUTLOOK

The outlook change to stable from negative for Raiffeisen Schweiz's long-term deposit and senior unsecured debt ratings reflects Moody's evaluation that the shortfalls in proper management of conflicts of interest has not resulted in negative implications for the bank's credit quality and that the bank's strengthened capital and liquidity buffers improved the resilience of its overall credit profile. Further, the stable outlook reflects the rating agency's expectation of a successful implementation of the group's strategic plans to broaden its business profile and revenue base again, thereby balancing material mortgage-lending related concentrations risk.

WHAT COULD CHANGE THE RATINGS UP/DOWN

An upgrade of Raiffeisen Schweiz's ratings is likely in the case of an upgrade of its BCA. The ratings could also be upgraded because of a higher rating uplift resulting from our LGF analysis.

Upward pressure on the bank's a3 BCA could develop from a re-established track record regarding strong corporate governance, accompanied by a successful diversification of its currently mortgage-centric business profile.

Moody's Advanced LGF analysis could result in additional notches of rating uplift if Raiffeisen Schweiz issues a significant volume of senior unsecured or subordinated debt instruments, which increase the respective instrument tranches, resulting in a reduced expected loss.

A downgrade of Raiffeisen Schweiz's ratings could be triggered if there is a downgrade of the bank's BCA. The bank's BCA could be downgraded if the group's strategy to diversify its business profile proves to be unsuccessful. Additionally, a deterioration in any of the core financial factors could result in downward pressure on the BCA.

The bank's deposit ratings could also be downgraded if the bank's share in non-bail-inable instruments, such as covered bonds, increases materially, thereby increasing the expected loss for deposits.

LIST OF AFFECTED RATINGS

Issuer: Raiffeisen Schweiz

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed A3

....Short-term Counterparty Risk Ratings, affirmed P-2

....Long-term Bank Deposits, affirmed Aa3, outlook changed to Stable from Negative

....Short-term Bank Deposits, affirmed P-1

....Long-term Counterparty Risk Assessment, affirmed A2(cr)

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Baseline Credit Assessment, affirmed a3

....Adjusted Baseline Credit Assessment, affirmed a3

....Senior Unsecured Regular Bond/Debenture, affirmed A3, outlook changed to Stable from Negative

....Subordinate Regular Bond/Debenture, affirmed Baa1

...Preferred Stock Non-cumulative, affirmed Baa3(hyb)

..Outlook Action:

...Outlook changed to Stable from Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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