

Rating Action: Moody's affirms Raiffeisen Schweiz's long-term ratings, changes outlook to negative

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Negative outlook follows evaluation of regulatory investigation into corporate governance practices

Frankfurt am Main, April 19, 2018 -- Moody's Investors Service has today affirmed the Aa2 deposit ratings and A2 senior unsecured debt ratings assigned to Raiffeisen Schweiz and changed the outlook to negative from stable; the rating agency concurrently affirmed the bank's P-1 short term deposit ratings. Furthermore, Moody's affirmed the A1(cr)/P-1(cr) Counterparty Risk Assessment and the a2 Baseline Credit Assessment (BCA) and Adjusted BCA. At the same time, Moody's affirmed Raiffeisen Schweiz's A3 subordinated debt rating and its Baa3(hyb) High-Trigger Additional Tier 1 instrument rating.

Today's action follows Moody's evaluation of the credit implications of an investigation into the bank's corporate governance practices by the Swiss Financial Market Supervisory Authority (FINMA), relating solely to possible corporate governance shortfalls by Raiffeisen Schweiz, the group's central institution and not affecting the local Raiffeisen banks. These include considerations about potential direct credit implications, but also the overall reaction by the bank's governing bodies, including the supervisory board, to the challenges. The negative outlook reflects a potential negative reputational impact for the banking group, as well as possible broader future challenges around its credit profile, including some pressures on profitability that may follow a potential fine imposed on the bank by the regulator but also considerations around asset risks.

Please refer to the end of this press release for a list of all affected ratings.

RATINGS RATIONALE

NEGATIVE OUTLOOK BASED ON MOODY'S VIEW OF INVESTIGATION INTO CORPORATE GOVERNANCE PRACTICES

The negative outlook assigned to Raiffeisen Schweiz's long-term deposit and senior unsecured ratings reflects Moody's view with regards to the ongoing investigation into the bank's corporate governance practices by FINMA. FINMA currently investigates potential conflicts of interest of a former CEO in the context of acquisitions by Raiffeisen Schweiz, as well as the group's overall corporate governance practices. In February 2018, the former CEO was remanded in custody, facing potential criminal charges.

While the rating agency expect a potential fine to have only limited impact on the overall credit profile, it remains unclear if broader negative implications for asset risk will crystallize over the next 12-18 months. Apart from regulatory measures that could result from the ongoing investigation Moody's will observe and evaluate additional risks that might stem from a lack of prudential compliance processes. Also, the rating agency will consider the determination and responsiveness of the bank's management and board in implementing policies and procedures that eliminate any corporate governance shortfalls.

AFFIRMATION OF BASELINE CREDIT ASSESSMENT

Raiffeisen Schweiz's a2 BCA is negatively impacted by the mentioned challenges and risk around corporate governance. The BCA was nevertheless affirmed at an unchanged a2 level, despite the current uncertainties, revealing Moody's expectation of a limited impact of the banking group's overall credit profile.

The affirmation of Raiffeisen Schweiz's a2 BCA and Adjusted BCA also reflects the banking group's adequate and improving capitalisation; moderate and manageable asset risk and sound liquidity metrics in the context of its more limited market funding reliance. Challenges include above-average mortgage-loan growth over recent years, leading to an increased susceptibility to downward shocks in the Swiss housing market; and net interest margin compression in a low interest rate environment, constraining the group's profitability.

Raiffeisen Schweiz's ratings reflects the banking groups' 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 consider consolidated group numbers for

Raiffeisen Schweiz.

AFFIRMATION OF RATINGS REFLECTS AFFIRMATION OF BCA, UNCHANGED RESULTS FROM OUR LIABILITY ANALYSIS AND STABLE GOVERNMENT SUPPORT ASSUMPTIONS

The affirmation of Raiffeisen Schweiz's ratings and its CR Assessments reflects the affirmation of its BCA and unchanged results from Moody's Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of losses faced by different liability classes in resolution. For deposits, the analysis results in a very low loss-given-failure and two notches of rating uplift and takes into account a flexible resolution framework in Switzerland, which only excludes privileged deposits and covered bonds explicitly from bail-in, a cash-rich corporate sector and the bank's deposit structure. For Raiffeisen Schweiz's senior unsecured liabilities, the LGF analysis results in a high loss-given-failure and a positioning one notch below the BCA, prior to government support. Raiffeisen Schweiz's long-term senior 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.

The affirmation of Raiffeisen Schweiz's High-Trigger AT1 instrument at Baa3(hyb) reflects the identified potential pressures on the BCA. While the banking group's increased capitalization, measured by its Common Equity Tier 1 (CET1) ratio has moderately lifted buffers versus the trigger levels, the rating agency views the increased cushion for investors to balance the downside pressure on the BCA.

WHAT COULD CHANGE THE RATING UP/DOWN

An upgrade of Raiffeisen Schweiz's long-term ratings is currently unlikely, as reflected in the negative outlook. However, Raiffeisen Schweiz's ratings could be upgraded if improved corporate governance practices in combination with stronger credit fundamentals justify an upgrade of the BCA, and/or the volume of senior unsecured debt or further subordinated instruments increases significantly, which could lead to additional rating uplift (as assessed in Moody's Advanced LGF analysis), provided that Moody's government support assumptions remain unchanged.

A higher BCA could develop following an assessment by the rating agency that the corporate governance risk have receded, combined with a slowdown in the group's mortgage-loan book growth to below the market average over the coming years, and/or a sustainable improvement in its risk-adjusted levels of recurring profitability and efficiency, and/or significantly stronger capitalisation levels at the consolidated group level, and increased liquid-asset volumes.

A downgrade of Raiffeisen Schweiz's ratings could be triggered following a downgrade of the bank's BCA. Challenges for the bank's BCA could arise from risks crystallizing around the current corporate governance challenges; a meaningful deterioration in its asset quality, especially if following a marked slowdown in the Swiss real estate market; and declining capital ratios.

Alternatively a decline in the group's cohesion could impose downward rating pressure, which, however, is considered highly unlikely. Raiffeisen Schweiz's hybrid ratings for the high-trigger AT1 instruments may further be downgraded in case the CET1 ratio falls below 12.8% on a sustainable basis.

LIST OF AFFECTED RATINGS

Issuer: Raiffeisen Schweiz

..Affirmations:

....Long-term Counterparty Risk Assessment, affirmed A1(cr)

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

....Long-term Bank Deposits, affirmed Aa2, outlook changed to Negative from Stable

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

....Senior Unsecured Regular Bond/Debenture, affirmed A2, outlook changed to Negative from Stable

....Subordinate Regular Bond/Debenture, affirmed A3

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

...Adjusted Baseline Credit Assessment, affirmed a2

...Baseline Credit Assessment, affirmed a2

..Outlook Action:

...Outlook changed to Negative from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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