MOODY'S

Rating Action: Moody's affirms Raiffeisen Bank SA's Baa1 senior unsecured debt and deposit ratings

02 May 2023

Junior senior unsecured ratings upgraded to Baa2 from Baa3

Frankfurt am Main, May 02, 2023 -- Moody's Investors Service (Moody's) has today affirmed Raiffeisen Bank SA's (RBRO) long-term domestic currency senior unsecured debt rating at Baa1, the long-term domestic and foreign currency senior unsecured MTN program ratings at (P)Baa1, the long-term and short-term domestic and foreign currency deposit ratings at Baa1/P-2, as well as RBRO's Baseline Credit Assessment (BCA) at ba1, and the bank's Adjusted BCA at baa3.

At the same time Moody's has upgraded the long-term domestic junior senior unsecured debt rating to Baa2 from Baa3 and the long-term domestic and foreign currency junior senior unsecured MTN program ratings to (P)Baa2 from (P)Baa3. Moreover, the rating agency has affirmed the long-term and short-term domestic and foreign currency Counterparty Risk Ratings (CRR) at Baa1/P-2 and the long-term and short-term Counterparty Risk Assessment (CR Assessment) at Baa2(cr)/P-2(cr).

The outlook on the long-term deposit and senior unsecured debt ratings remains stable.

RATINGS RATIONALE

-- AFFIRMATION OF BCA AND ADJUSTED BCA

The affirmation of RBRO's BCA at ba1 reflects the bank's overall resilient financial performance, amidst a challenging operating environment. The BCA also takes into consideration pronounced asset risks, which include sector concentrations in unsecured consumer lending and to the manufacturing sector as well as the high share of foreign currency lending.

While the steep increase in interest rates burdens the value of its securities portfolio, the rating agency views this as manageable given the level of reported capitalization, the relatively short tenor of the bond portfolio and the tailwind of the changed rate environment for the bank's profitability. The ba1 BCA is further supported by the bank's deposit-based funding profile, which is primarily retail-based, granular, and domestically sourced.

The affirmation of the Adjusted BCA at baa3 reflects Moody's unchanged assumption of a high probability of support from RBRO's parent, Raiffeisen Bank International AG (RBI, deposits A2 stable/senior unsecured debt A2 stable, BCA baa3), given its 100% ownership and common brand, and despite the group operating under a multiple point of entry resolution approach.

-- AFFIRMATION OF DEPOSIT, SENIOR UNSECURED AND COUNTERPARTY RISK RATINGS

The affirmation of RBRO's Baa1 long-term senior unsecured debt rating, the Baa1/P-2 deposit ratings and CRRs reflect its baa3 Adjusted BCA, as well as the application of Moody's Advanced Loss Given Failure (LGF) analysis, which incorporates both the relative loss severity of a liability and the constraint at two notches above the Government of Romania's debt rating (Baa3 stable). Similarly, the rating agency has affirmed the CR Assessment at Baa2(cr)/P-2(cr), constrained at one notch above the government rating.

The results from Moody's Advanced LGF analysis are based on the rating agency's forward view and includes expected issuances required for RBRO to comply with its minimum requirement for own funds and eligible liabilities (MREL) of 26.37% [1] of risk-weighted assets plus the combined buffer requirement by 1 January 2024.

- UPGRADE OF JUNIOR SENIOR RATINGS

The upgrade of RBRO's junior senior unsecured debt ratings to Baa2 from Baa3 reflects the bank's baa3 Adjusted BCA; and the result of Moody's Advanced LGF analysis, which leads to one notch of rating uplift from the Adjusted BCA; and a low probability of government support and is in line with Moody's general approach to assessing government support for instruments designed to absorb losses in bank resolution, which does not result in further rating uplift.

The one notch rating uplift, which is also based on the rating agency's forward looking view, reflects an improved, but still more limited protection for this instrument class compared to senior unsecured debt because of its more junior ranking in insolvency, which results in a less ample layer of subordinated instruments as well as the overall volume of instruments absorbing losses, in case of need.

-- RATING OUTLOOK

The stable outlook on the long-term deposit and senior unsecured debt ratings reflects Moody's expectation that RBRO's financial performance will remain resilient despite macro-economic headwinds and that the bank will issue loss-absorbing instruments at least in line with regulatory requirement. Moreover, the outlook is aligned with the stable outlook on Romania's rating.

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

RBRO's Baa1 deposit, senior unsecured debt ratings and CRRs and Baa2(cr) CR Assessment are constrained by the government bond rating and can be upgraded only following an upgrade of the government bond rating. An upgrade of the Baa2 junior senior unsecured debt ratings would require an upgrade of the bank's Adjusted BCA or a massive increase in issuance volumes such that it reduces the loss severity to a level at present assumed for the senior unsecured instrument class.

RBRO's BCA could be upgraded following a sustainably improved asset quality and an increase in capital while maintaining its liquidity buffers as well as its strong core profitability on a sustained basis. An upgrade of the Adjusted BCA would also require a higher standalone assessment for RBI, as this would be reflected by an upgrade of its BCA.

RBRO's ratings and CR Assessments would face downward pressure in case of a deterioration in the creditworthiness of Romania. The ratings could also be downgraded if the bank fails to issue bail-in instruments in line with regulatory requirements and its funding plan. Further, RBRO's junior senior unsecured debt ratings would be downgraded in case of a downgrade of the BCA, a downgrade of the bank's Adjusted BCA as result of a downgrade of the BCA of its parent RBI or a reduced assumption of parental support.

RBRO's BCA could be downgraded following a significant weakening of its profitability and capitalisation which would erode the bank's capital buffers, or a material weakening of its funding profile and liquidity buffers.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/api/rmc-documents/71997. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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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The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

REFERENCES/CITATIONS

[1] Raiffeisen Bank International AG, full year results investor presentation 01-Feb-2023

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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