

**Rating Action: Moody's upgrades Raiffeisen-Landesbank Steiermark's issuer and deposit ratings to Baa1; outlook stable**

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**Baseline credit assessment upgraded to baa3, reflecting sustained improvements in asset quality**

Frankfurt am Main, June 01, 2017 -- Moody's Investors Service (Moody's) has today upgraded Raiffeisen Landesbank Steiermark AG's (RLB Steiermark) long-term deposit and issuer ratings to Baa1 from Baa2. The outlook on these ratings were changed to stable from positive. At the same time, the rating agency upgraded RLB Steiermark's Baseline Credit Assessment (BCA) and adjusted BCA to baa3 from ba1, and its long-term Counterparty Risk Assessment (CR Assessment) to A3(cr) from Baa1(cr). The bank's short-term deposit rating as well as its short-term CR Assessment were affirmed at P-2 and P-2(cr) respectively.

The rating upgrade reflects the continued strengthening of the bank's financial fundamentals, in particular the improvement of its capitalisation and asset quality, and Moody's expectation that the bank's asset quality will continue to develop favourably during 2017-18.

A full list of affected ratings and rating inputs can be found at the end of this press release.

**RATINGS RATIONALE**

**-- UPGRADE OF RLB STEIERMARK'S BASELINE CREDIT ASSESSMENT**

The upgrade of the BCA to baa3 from ba1 follows the continued strengthening of RLB Steiermark's key credit metrics and reflects the bank's: (1) improved asset quality as illustrated by markedly reduced non-performing loans; and (2) improved capital ratios, despite limited profit retention in 2016. At the same time, RLB Steiermark's BCA continues to reflect several important rating constraints, in particular the concentration risk posed by its large ownership stake in Raiffeisen Bank International AG (RBI, deposits Baa1 stable, debt Baa1 stable, BCA ba2), and its volatile profits. In addition, Moody's considers that the comparatively low risk-weight of the bank's equity holdings expose it to a degree of regulatory risk.

At year-end 2016, RLB Steiermark's reported problem loans as a percentage of its gross credit exposure declined to 6.4% from 9.2% one year earlier. The reduction was supported by the overall benign domestic credit environment as well as the bank's continued efforts to work out legacy loans and structurally improve its loan book. Moody's expects that the quality of RLB Steiermark's lending exposure will continue to benefit from these efforts and therefore expects non-performing loans to decrease further during 2017.

The upgrade of RLB Steiermark's BCA is further supported by the increase in its fully phased-in Common Equity Tier 1 (CET1) capital ratio, which improved to 17.7% during 2016, from 15.8%. This improvement partly reflects a change of participation capital into common equity, directly held by 64 primary banks in the State of Styria.

**-- UPGRADE OF LONG-TERM RATINGS**

The upgrade of RLB Steiermark's long-term ratings by one notch follows the one-notch upgrade of its BCA. The bank's long-term ratings reflect: (1) its standalone baa3 BCA; 2) the baa3 Adjusted BCA, which incorporates "very high" affiliate support from Raiffeisen Bankengruppe Oesterreich (RBG, unrated), but results in no rating uplift from the baa3 BCA; and (3) the result of Moody's Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by the different liability classes in resolution, adding an unchanged two notches of rating uplift to RLB Steiermark's issuer and deposit ratings from the baa3 adjusted BCA.

**-- RATIONALE FOR THE STABLE OUTLOOK**

The stable outlook on RLB Steiermark's long-term ratings reflects Moody's expectation that the bank will be able to sustain its improved credit profile, which will be supported by the benign domestic operating environment over the next 12 to 18 months. The outlook is further based on Moody's expectation that the large

impairments on the stake in the former RZB during recent years will not be reiterated to the same extent on the bank's RBI stake holding during 2017-18.

#### WHAT WOULD MOVE THE RATING UP / DOWN

The long-term ratings could be upgraded if 1) stronger fundamentals justify an upgrade of the BCA, accompanied by an improvement in the financial strength of the Austrian Raiffeisen sector; 2) RBG's financial strength materially improves such that it results in affiliate support uplift; and/or 3) the bank increases the volume of subordinated instruments, which could lead to additional rating uplift, as assessed in Moody's Advanced LGF analysis.

Upward pressure on the BCA would arise if the bank demonstrates that it can 1) sustain the positive trend in its asset quality metrics; 2) improve its capital-generation capacity through higher and more stable profits; and 3) reduce the concentration risk posed by its total stake holdings.

A downgrade could be prompted if 1) the bank's BCA is downgraded; 2) the fundamentals of RBG deteriorate, because a weaker financial profile of RBG could constrain the maximum level of RLB Steiermark's BCA; and 3) the volume of senior unsecured liabilities materially declines, as this would raise the loss-given-failure for senior creditors which could lead to a weaker result from Moody's LGF assessment.

Negative pressure on the BCA could result from a material weakening of RLB Steiermark's capital ratios and/or a major set-back in the bank's efforts to reduce non-performing loans and concentration risks.

#### LIST OF AFFECTED RATINGS:

Issuer: Raiffeisen-Landesbank Steiermark AG

##### ..Upgrades:

....Long-term Counterparty Risk Assessment, upgraded to A3(cr) from Baa1(cr)

....Long-term Bank Deposits, upgraded to Baa1 Stable from Baa2 Positive

....Long-term Issuer Rating, upgraded to Baa1 Stable from Baa2 Positive

....Adjusted Baseline Credit Assessment, upgraded to baa3 from ba1

....Baseline Credit Assessment, upgraded to baa3 from ba1

##### ..Affirmations:

....Short-term Counterparty Risk Assessment, affirmed P-2(cr)

....Short-term Bank Deposits, affirmed P-2

##### ..Outlook Action:

....Outlook changed to Stable from Positive

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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