

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Raiffeisen-Landesbank Steiermark AG's A2 long-term deposit and issuer ratings, outlook stable

01 Oct 2024

Frankfurt am Main, October 01, 2024 -- Moody's Ratings (Moody's) has today affirmed Raiffeisen-Landesbank Steiermark AG's (RLB Steiermark) A2 long-term deposit and long-term issuer ratings, the bank's A1/P-1 long- and short-term Counterparty Risk Ratings (CRR) and its P-1 short-term deposit ratings. The outlook on the bank's long-term deposit and long-term issuer ratings remains stable.

At the same time, we affirmed RLB Steiermark's A1(cr)/P-1(cr) long- and short-term Counterparty Risk (CR) Assessments and its baa3 Baseline Credit Assessment (BCA) and baa2 Adjusted BCA.

RATINGS RATIONALE

AFFIRMATION OF RLB STEIERMARK'S BASELINE CREDIT ASSESSMENT

RLB Steiermark's baa3 BCA reflects the bank's strong capitalization that provides a robust buffer in light of the deterioration of asset quality since 2022 as well as against market risks that emanate from the bank's stake in Raiffeisen Bank International AG (RBI, deposits A1 stable/senior unsecured A1 stable, BCA baa3). The BCA further considers RLB Steiermark's balanced liquidity profile where good access to sector funds and development bank funding, together with a sound liquidity buffer, largely mitigate the bank's market funding dependence.

A relative weakness in RLB Steiermark's financial profile is its underlying profitability, that provides only a limited cushion relative to the already mentioned market risks but also in light of rising risk from its loan-book. We expect the bank's asset quality to continue to deteriorate from an already elevated level of problem loans with a ratio of 5.4% of gross customer loans as of June 2024, having more than doubled compared to year-end 2021 (2.6%), and mainly reflecting the banks concentrations in commercial real estate.

AFFIRMATION OF RLB STEIERMARK'S ADJUSTED BCA

The affirmation of RLB Steiermark's baa2 Adjusted BCA reflects the affirmation of the bank's baa3 BCA and our unchanged assessment of affiliate support from Raiffeisen Banking Group (RBG), which results in one notch of ratings uplift. RLB Steiermark is a member of RBG's institutional protection scheme (IPS) which is designed to provide capital and liquidity assistance to its member banks prior to the initiation of resolution measures.

AFFIRMATION OF RLB STEIERMARK'S RATINGS

The affirmation of RLB Steiermark's ratings reflects the affirmation of the Adjusted BCA and the unchanged results of our Advanced Loss Given Failure (LGF) analysis which takes into account the severity of loss in resolution and yields two notches of rating uplift for the bank's long-term deposit and issuer ratings and three notches for the long-term CRR.

Furthermore, we continue to assume a moderate probability of support from the Government of Austria (Aa1 stable) for RLB Steiermark's senior unsecured and higher-ranking liabilities, reflecting the systemic relevance of RBG. This continues to yield one notch of additional rating uplift from government support.

OUTLOOK

The stable outlook on the long-term deposit and issuer ratings reflects our expectation that the bank's solvency and liquidity profile as well as the creditworthiness of the Raiffeisen sector in Austria will remain stable over the next 12-18 months. Further, we do not expect changes in the bank's liability structure that may change the applied rating uplift from our Advanced LGF analysis.

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

RLB Steiermark's long-term ratings could be upgraded if RBG's financial strength improves, such that it results in further rating uplift from affiliate support. In addition, the bank's ratings may benefit from an additional rating uplift from our Advanced LGF analysis, provided it issues significant additional volumes of bail-in-able debt instruments.

RLB Steiermark's BCA could be upgraded if the bank improves its solvency profile via sustainably higher profits from its core banking business, combined with reduced market risks and strong asset quality while maintaining its very strong capitalisation. Alternatively, a stronger recourse to deposits while maintaining its liquid resources on a sustained basis could lead to upwards pressure on the BCA. However, a BCA upgrade would not result in a rating upgrade unless RBG's financial strength improves.

RLB Steiermark's ratings could be downgraded if the Raiffeisen sector's fundamentals

were to weaken. In addition, a downgrade could result from a significant decrease in the volume of senior unsecured liabilities relative to the bank's tangible banking assets such that it increases the severity of loss in our Advanced LGF analysis.

RLB Steiermark's BCA could be downgraded as result of a severe further weakening of its asset quality or an unexpected drop in its capitalization.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moody.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

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