

Raiffeisen Schweiz Genossenschaft's Proposed High-Trigger Tier 1 Capital Notes Assigned 'BBB' Rating

September 30, 2020

S&PGR Rates Raiffeisen Schweiz Proposed Tier 1 Cap Notes 'BBB'

FRANKFURT (S&P Global Ratings) Sept. 30, 2020--S&P Global Ratings today said it assigned its 'BBB' long-term issue rating to the proposed high-trigger additional Tier 1 (AT1) perpetual capital notes to be issued by Raiffeisen Schweiz Genossenschaft (RCH; A+/Stable/A-1), a core group member of Swiss Cooperative Raiffeisen Group. We understand the issuance will be Basel III-compliant AT1 notes. The rating is subject to our review of the notes' final documentation.

In accordance with our criteria for hybrid capital instruments (see "Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions," published Jan. 29, 2015), the 'BBB' issue rating reflects our analysis of the proposed instrument and our 'a+' assessment of the unsupported group credit profile (uGCP) of Swiss Raiffeisen Group, equivalent to the issuer credit rating (ICR) on RCH.

The issue rating stands four notches below the uGCP due to the following:

- One notch because the notes are contractually subordinated;
- Two notches to reflect the notes' discretionary coupon payments and regulatory Tier 1 capital status; and
- One notch because the notes contain a contractual write-down clause.

Although the principal is subject to write-down if the bank's common equity Tier 1 (CET1) ratio falls below 7%, we don't consider this an additional default risk because the group is 920 bps above its posted 16.2% CET1 ratio as of June 30, 2020, and we expect improvements in line with the group's targeted CET1/total loss-absorbing capacity (TLAC) optimization. The group's required TLAC thresholds at June 30, 2020, are CET1 of 9.42%, regulatory Tier 1 capital of 12.92%, and total capital of 13.72%, against which the bank reported 16.2%, 17.2%, and 18.1%, respectively.

Once RCH has issued the securities and confirmed them as part of the bank's regulatory Tier 1 capital base, we would expect them to qualify as having intermediate equity content under our criteria. This reflects our understanding that the notes are perpetual, regulatory Tier 1 capital instruments that have no step-up. The notes can absorb losses on a going-concern basis through the nonpayment of coupons, which are fully discretionary.

The hybrid instruments' issuance has no impact on our ICR on RCH, because it's in line with our

PRIMARY CREDIT ANALYST

Harm Semder
Frankfurt
(49) 69-33-999-158
harm.semder
@spglobal.com

SECONDARY CONTACT

Anna Lozmann
Frankfurt
(49) 69-33-999-166
anna.lozmann
@spglobal.com

ADDITIONAL CONTACT

Claudio Hantzsche
Frankfurt
+ 49 693 399 9188
claudio.hantzsche
@spglobal.com

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anticipation of the group's hybrid capital plans. Once regulatory authorities consider Swiss Raiffeisen Group's resolution plan-effective, and if we conclude that the group has sufficient amounts of bail-inable instruments, such as Tier 1, Tier 2, and subordinated instruments, the group could qualify for additional loss absorbing capital (ALAC) uplift. At the same time, we believe a higher ICR due to ALAC uplift is unlikely (for more information, see, " published Sept. 21, 2020, on RatingsDirect).

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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