S&P Global Ratings

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Raiffeisen Schweiz Genossenschaft

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Raiffeisen Schweiz Genossenschaft

SACP	a+	
Anchor	a-	
Business Position	Adequate	0
Capital and Earnings	Very Strong	+2
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating

A+/Stable/A-1

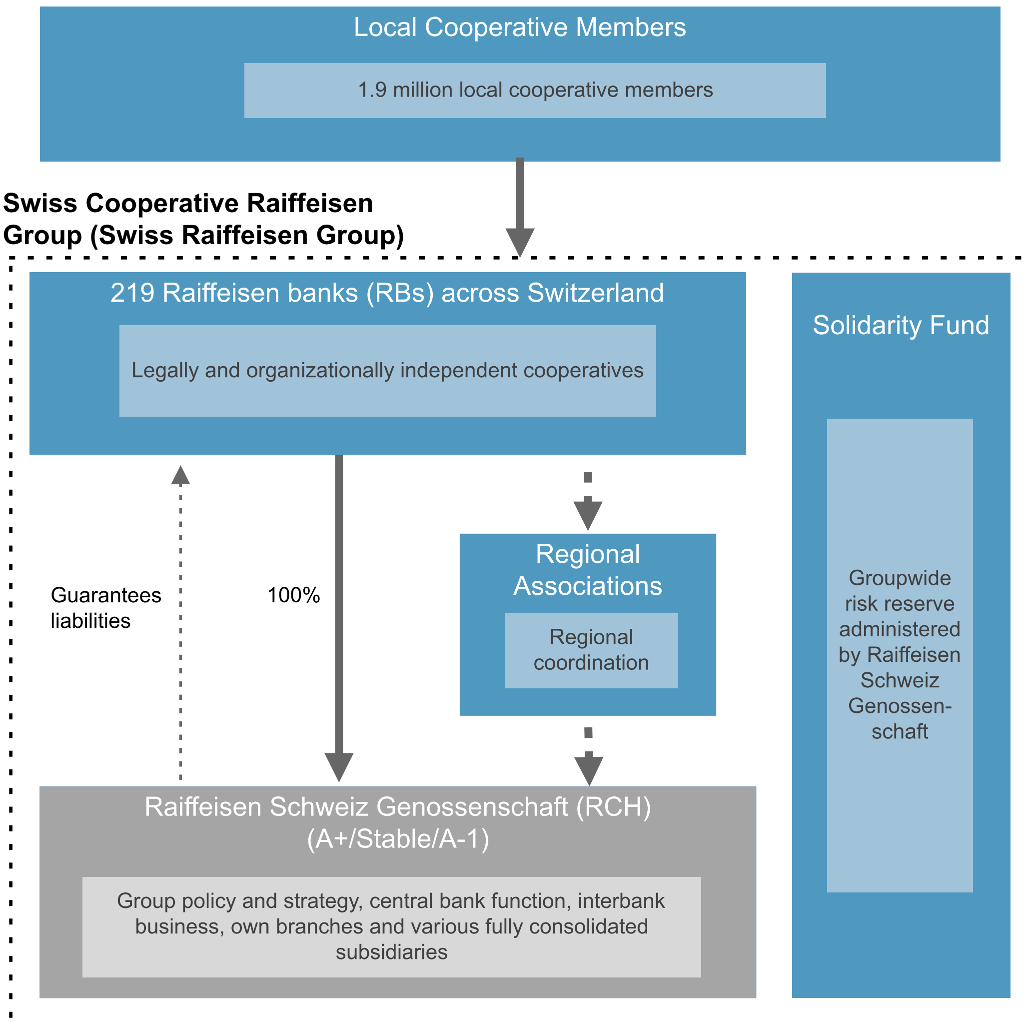
Credit Highlights

Overview

Key strengths	Key risks
The group's mutual solidarity support and joint risk management.	Subpar returns on equity (ROE) by international standards, exacerbated by COVID-19 and a lower-for-longer interest rate environment.
Solid No. 3 position in Swiss retail markets, with focus on residential mortgages.	High cost base, partially attributable to a decentralized network, and additional investment needs for digitalization.
Sound financial profile, underpinned by high collateralization and prudent underwriting standards.	Concentration risks from exposures in domestic residential real estate.
Superior capitalization from high and stable earnings retention.	

We expect Swiss Raiffeisen Group to maintain its leading retail market position. Our ratings on Raiffeisen Schweiz Genossenschaft (RCH) are based on its core status to the Swiss Cooperative Raiffeisen Group (Swiss Raiffeisen Group). We expect the latter to hold and defend its leading retail market position with market shares of 17.5% in the Swiss residential real estate financing sector and its derived business opportunities as the third-largest Swiss banking group, attracting 14% of Swiss domestic deposits. We regard the group as a cohesive economic entity and expect solidarity support among member banks, if needed. We consider the regulator's group-based oversight, a groupwide mutual guarantee scheme, as well as a strong track record of more than a century of support for group members (chart 1).

Swiss Raiffeisen Group Structure



Throughout the pandemic, a stable macroeconomic environment and the group's strong asset quality upheld Swiss Raiffeisen Group's credit quality. The Swiss economy in general felt only limited impacts from the COVID-19-related recession. Swiss Raiffeisen Group is coming through the pandemic in similar position, reporting stable core business performance, improving risk metrics, and increasing retail deposits over the past year and a half.

The group's profitability and efficiency are weaker than many international peers' and represent a persisting long-term challenge. At 5.5% at end-June 2021, the group's return on average common equity (RoACE) is relatively low by international standards. This is partly attributable to Swiss Raiffeisen Group's superior capitalization, indicated by our 22.3% risk-adjusted capital (RAC) ratio at year-end 2020. This is well above many international banks' and partially mitigates the risks stemming from weak profitability.

Outlook: Stable

The stable outlook on the core group members of Swiss Cooperative Raiffeisen Group (Swiss Raiffeisen Group), including RCH, reflect that over a 24-month horizon, Swiss Raiffeisen Group will retain its robust financial position, supported by continued resilience of the Swiss economy following the COVID-19-induced recession. We forecast that Swiss Raiffeisen Group will remain sufficiently profitable, bolstering its superior capitalization as indicated by the ongoing improvement in the S&P Global Ratings' RAC ratio to 23.75%-24.25% through 2023.

Downside scenario

We could lower our rating on RCH within the next 12-24 months if we saw increasing risks in its main markets, particularly the Swiss housing market. Although unlikely, rating pressure could also stem from the emergence of significant setbacks to economic recovery from the COVID-19-related recession that adversely affect Swiss Raiffeisen Group's profitability and asset quality.

Moreover, we will continue to monitor further progress on Swiss Raiffeisen Group's targeted efficiency and digitalization improvements amid pressure from low interest rates and escalating competition.

Upside scenario

An upgrade is unlikely, reflecting the already strong credit quality and the bank's material concentration in the housing market.

An upgrade would require sustainable and substantial improvements in addressing Swiss Raiffeisen Group's structural weaknesses, such as cost efficiency and earnings diversification compared with similarly rated Swiss or international peers.

We could review our assessment once regulatory authorities consider Swiss Raiffeisen Group's resolution plan effective. If we were to conclude that Swiss Raiffeisen Group had sufficient amounts of bail-in-able 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 would most likely offset such an uplift with a negative rating adjustment factor, given the stronger rating fundamentals of higher-rated peers.

Key Metrics

Swiss Raiffeisen Group--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2019a**	**2020a**	**2021f**	**2022f**	**2023f**
Growth in operating revenue	(3.4)	1.3	(0.3)-(0.4)	3.1-3.8	1.7-2.1
Growth in customer loans	3.1	3.6	2.7-3.3	2.7-3.3	2.7-3.3
Growth in total assets	10.2	4.6	2.1-2.5	2.1-2.5	2.1-2.6
Net interest income/average earning assets (NIM)	1.1	1.1	1.0-1.1	1.0-1.1	1.0-1.1
Cost to income ratio	68.6	67.2	67.7-71.2	66.4-69.8	65.4-68.8
Return on average common equity	4.9	4.8	3.7-4.1	3.9-4.3	3.9-4.3
Gross nonperforming assets/customer loans	0.5	0.4	0.5-0.5	0.4-0.5	0.4-0.5
Risk-adjusted capital ratio	20.6	22.3	23.2-24.4	23.4-24.6	23.6-24.8

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'a-' For Swiss Banks With Largely Domestic Operations

Our anchor for a bank operating mainly in Switzerland is 'a-'. We consider the trend for economic and industry risk in Switzerland as stable.

Following the material economic contraction due to the spread of COVID-19 in 2020, we expect Switzerland's economy to fully recover over the coming two years. Under this base case, we think the Swiss banking sector will remain resilient, supported by very high household income levels and a proven stress-resilient corporate sector. We think Swiss authorities' material support measures should cushion the short-term effect on Swiss banks' loan books. Additionally, we view positively banks' prudent loan underwriting standards and high collateralization of the residential mortgage loans, which dominate most banks customer portfolios. Considering these factors, we expect only a limited increase in credit losses, from historical low levels. We also expect that price growth in the owner-occupied segment to remain muted in the wake of the pandemic. However, a particular risk remains the investment property segment, where we already observed signs of a price correction before the COVID-19 pandemic.

Our view of industry risk in Switzerland encompasses the stability of the domestic banking sector and our expectation that damage from the COVID-19 pandemic will remain contained. We view positively the limited presence of foreign players, the banks' high capitalization levels in an international comparison, and their low reliance on capital markets for funding. In our view, the Swiss regulator remain ahead in terms of both regulatory oversight and innovations. We think FINMA's thorough investigations of past international large-scale money-laundry cases has improved market discipline. We particularly consider compliance with highest anti-money-laundering standards as crucial for the stability of the banking sector reflecting the importance of the wealth management industry.

We expect that banks' interest margins will further decline gradually in a permanent low-interest-rate environment However, we expect that repricing of lending products, additional fee income from investment advisory-related activities, and ongoing cost management can offset some of the pressure. We consider risk for Swiss banks from tech disruption as limited as of today given the small size of the market with high barriers of entry, and technologically well-equipped banks.

Business Position: Leading Retail Franchise With A Strong Position In The Domestic Retail Mortgage Market

We expect Swiss Raiffeisen Group to maintain its solid position as the third-largest financial institution in Switzerland--after UBS and Credit Suisse--with a strong position in the domestic retail mortgage market, complemented by nationwide corporate client activities.

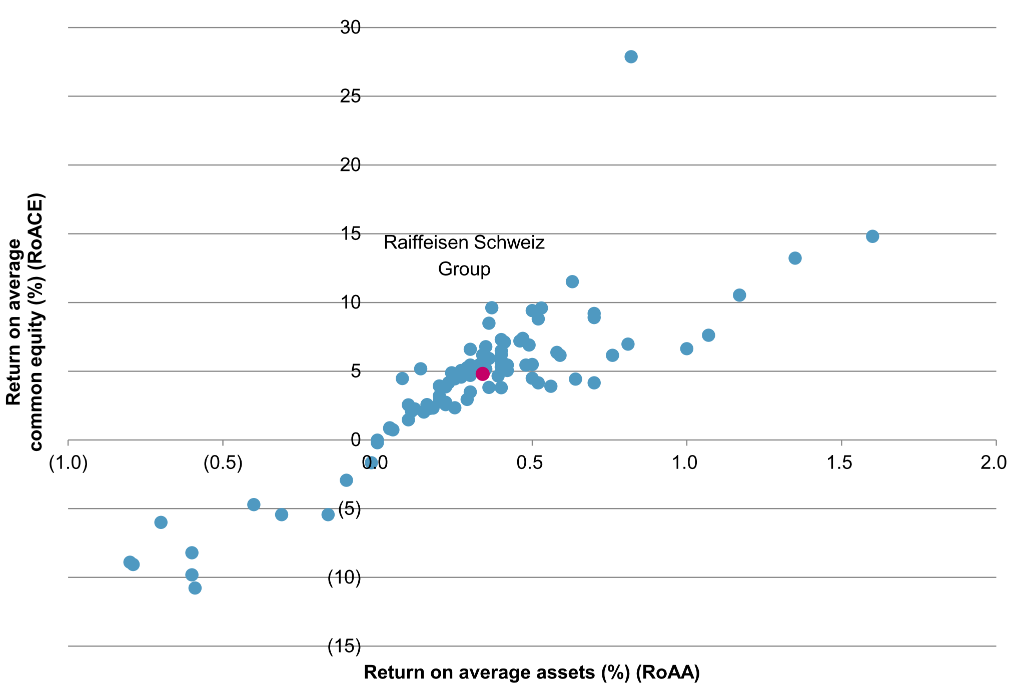
We anticipate the group's "Raiffeisen 2025" strategy leverages its franchise with stable and predictable revenue streams linked to its proximity to the customer and that it will continue to increase its capacity for fee-generating complementary services and products, improve efficiency, and increased groupwide digitalization efforts to meet changing customer demand, and avoid digital disruption.

The group serves about 3.6 million private and investment clients. It captures more than 40% of the Swiss population through its network of 219 independent Raiffeisen banks (RBs), which are the owners of RCH (chart 1). The relatively conservative socio-demographic structure of its customer base gives the group time to address digitalization issues. RCH's management is committed to speed up groupwide digitalization efforts, its mobile banking app is already first by number of downloads in Switzerland and well perceived by customers. Furthermore, the bank is addressing related services such as digital client onboarding or open banking as part of its "Raiffeisen 2025" strategy.

At the same time, Swiss Raiffeisen Group still has to prove that it can leverage on its solid market position to sustainably improve profitability. The group's ROE is relatively low by international standards, only partially because the sector is better capitalized than many international banks. In the aftermath of the pandemic, we expect additional pressure from low interest rates to persist for an extended period until at least 2023. This is further exacerbated by the high share of net interest income relative to revenue, which accounted for around 73% at mid- 2021 and is more sensitive due to its low-margin, low-risk "bread and butter" residential real estate business with largely plain vanilla products. (See chart 2.) Accordingly, additional progress in Swiss Raiffeisen Group's efficiency programs is pivotal to bring its somewhat less favorable 63% cost to income ratio (CIR) as per mid-2021 closer to its domestic peers'.

Chart 2

Swiss Raiffeisen Group's Profitability Average Compared To International Peers…
…and only partly explained by high capitalization levels



Profitability metrics of European Top 100 Banks as far as available. Source: S&P Global Ratings.

Capital And Earnings: Superior Capitalization Compared With Global Peers' Comfortably Cushions Pandemic-Related Risks

We anticipate that Swiss Raiffeisen Group will maintain its superior capitalization, also supported by the resilience of the Swiss economy amid COVID-19 fallout. We anticipate relative earnings stability due to prudent underwriting standards and resilient Swiss real estate markets.

Capitalization benefits from a very high share of earnings retention into capital reserves. We expect that our main capital indicator, our RAC ratio, will increase further to levels around 23.75%-24.25% over the next 24 months, which puts Swiss Raiffeisen Group's capitalization among the world's strongest (chart 3), together with some cantonal bank peers.

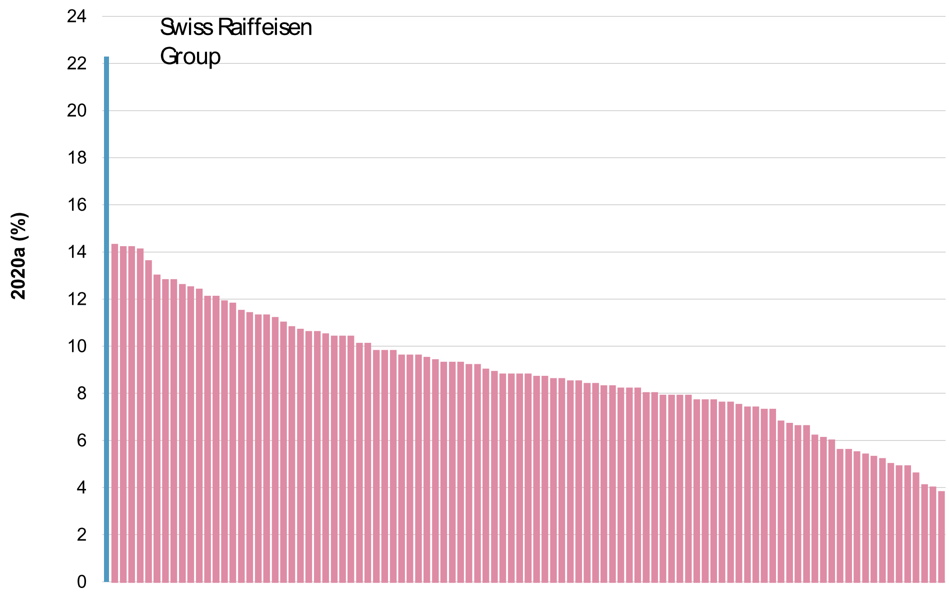
Our RAC ratio projection reflects our current base-case assumptions of only moderately lower earnings and contained increases in risk cost and nonperforming loans, also reflecting the group's very granular and well-collateralized loan portfolio. Additionally, we expect ongoing very low dividend payout ratios of about 7.5%-9.0%. Key elements of S&P Global Ratings' base-case RAC projection for 2021-2023 include the following expectations:

- Customer loan growth to 2%-3% following 3.6% expansion in 2020 as customers used the window of opportunity in 2020 to cover potential liquidity needs using government-support schemes; and
- Credit loss provisions to remain at elevated levels between Swiss franc (CHF) 60 million and CHF70 million over our forecasting horizon balancing the better-than-anticipated resilience of the Swiss economy in general and of Swiss Raiffeisen Group's credit portfolio but an expanding loan portfolio of the group.

We consider the quality of capital as high with adjusted common equity comprising more than 90% of S&P Global Ratings' total adjusted capital (TAC).

Chart 3

Amongst The Worlds' Largest Banking Groups, Swiss Raiffeisen Group Is The Best Capitalized
S&P Global RAC ratio before diversification of world's top 100 rated banks



Risk-adjusted capital. a--Actual. Source: S&P Global Ratings.

Risk Position: High Underwriting Standards And Relative Resilience Of Swiss Markets Keep Risk At Bay

We expect Swiss Raiffeisen Group's risk profile will remain a neutral rating factor because we consider it comparable with that of peers with a strong focus on Swiss retail banking, or on markets that have similar industry risk to the Swiss banking industry. Compared with most domestic cantonal banks, Swiss Raiffeisen Group benefits from better nationwide diversification in granular residential real estate business. With the Swiss economy having weathered the impact of the Covid-19 pandemic comparatively well, we expect current credit loss provisions to be sufficient to buffer against unexpected deteriorations in Swiss Raiffeisen Group's asset quality.

We expect Swiss Raiffeisen Group to remain relatively resilient, considering its very high collateralization in granular residential mortgage lending, as well as low initial levels of nonperforming loans. This view is backed by our forecast that Swiss residential real estate markets will perform relatively well through the pandemic.

We expect that Swiss Raiffeisen Group's risk management will remain prudent, and we take comfort from groupwide risk policies and monitoring, and a system of solidarity support and measures to contain potential performance issues at member banks. This also creates discipline and incentives to contain individual risk appetites, in our view.

Moreover, we recognize substantial improvements in corporate governance, joint risk management, and groupwide business initiatives in recent years.

Funding And Liquidity: Sound, Owing To A Dominant Share Of Granular Retail Deposits

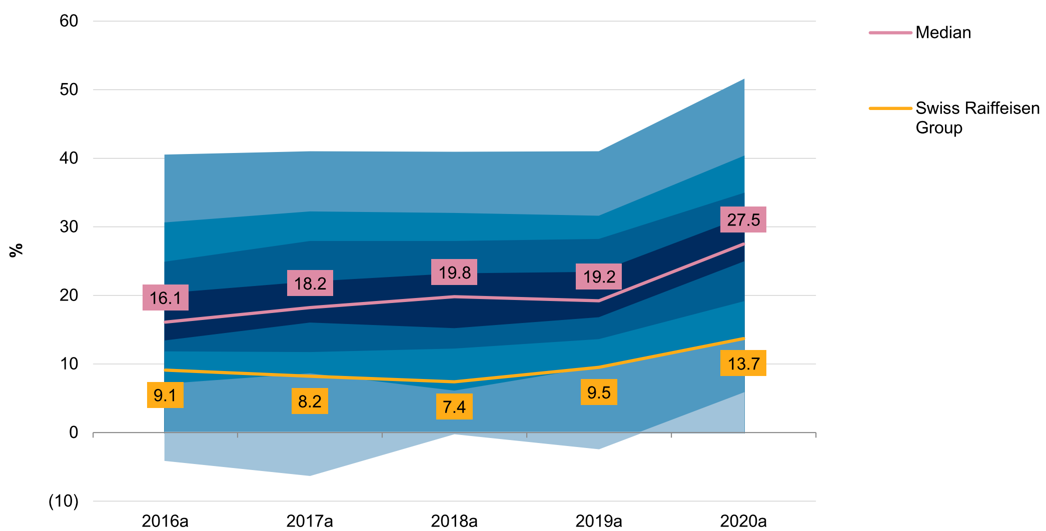
We expect Swiss Raiffeisen Group's funding and its liquidity profile will remain sound, materially benefitting from the RBs' dominant share of granular retail deposits generated under the group's robust, well-established franchise and network.

We anticipate Swiss Raiffeisen Group will maintain its robust funding metrics, as indicated by its 101% net loan-to-deposit ratio mid-2021, slightly below Swiss banks' median of 110%, or its sound 114% stable funding ratio at mid-2021. Over the past year, amid elevated investors' uncertainty, increasing core customer deposits supported our expectation of customer base stability in times of downturns.

Similarly, we expect Swiss Raiffeisen Group to maintain its prudent liquidity management, represented by its 2.1x ratio of broad liquid assets to short-term wholesale funding (BLAST) as per mid-2021, which has been robust for years (see chart 4). We also expect that the group's mortgage loan book in particular should offer substantial secured liquidity from the Swiss National Bank if needed. Although such a strong liquidity ratio can be indicative of superior strength, however, we think the group's low diversification of funding sources with very high reliance on customer deposits, most of which are short term, prevents a better assessment of liquidity for the group. Solid improvements over recent years in the group's ability to cover potential liquidity outflows from deposits with short-dated assets mirroring market developments provide comfort additionally to already high buffers (see chart 4).

Chart 4

Swiss Raiffeisen Group's Improved Capacity To Cover For Potential Deposit Outflows With Liquid Assets Follows Marketwide Developments And Remains Subpar
Net broad liquid assets/short-term customer deposits (%) compared to the distribution of European Top 100



Every colored band represents 20% of the distribution of European Top 100 Banks. a--Actual. Source: S&P Global Ratings.

Support: Group Support Drives The Ratings On RCH

RCH is the group's central institution. We view its role as core for the group's strategy, under which in all foreseeable circumstances RCH will benefit from the group's joint support mechanisms. The robust group relationship underpins our approach of equalizing our ratings on RCH with our 'a+' group credit profile (GCP) on Swiss Raiffeisen Group. We anticipate that this approach will continue to lead to a higher rating outcome than our stand-alone assessment of RCH.

Our ratings on RCH are based on the group's aggregate creditworthiness, since we consider member banks to be a group of integrated institutions, although they are legally independent. Our view primarily reflects the groupwide solidarity support scheme in line with group-based regulatory oversight.

We believe that the prospect for extraordinary support by the Swiss government for commercial banks, such as Swiss Raiffeisen Group is uncertain in view of the country's enhanced and effective resolution regime. For that reason, Swiss Raiffeisen Group might be eligible for ratings uplift from the unsupported GCP under our criteria for ALAC. We will monitor whether an uplift to the issuer credit rating and related preferred senior obligations is merited, provided regulatory authorities consider Swiss Raiffeisen Group's resolution plan effective and we believe Swiss Raiffeisen

Group generates sustainably high amounts of bail-in instruments, such as Tier 1, Tier 2, and subordinated instruments, beyond our minimum threshold for ALAC. At the same time, this uplift would most likely not result in an upgrade.

Environmental, Social, And Governance

We believe ESG credit factors influence Swiss Raiffeisen Group's credit quality the same way they influence the wider industry and Swiss peers. Regarding social and environmental factors, we view positively the decentralized organization, local entrenchment, and continued application of the cooperative principles. This, in our view, supports stronger alignment of interests of local communities, customers, employees and owners and thus reduces the incentives for myopic business behavior at the expense of any stakeholder. At the same time, however, we consider that governance and speed of related actions is hampered by complexities from the decentralized group structure, albeit soundly managed.

Key Statistics

Table 1

Swiss Raiffeisen Group--Key Figures

	--Year-ended Dec. 31--				
(Mil. CHF)	**2021***	**2020**	**2019**	**2018**	**2017**
Adjusted assets	281,159.7	259,646.5	248,335.1	225,279.1	227,356.1
Customer loans (gross)	203,613.3	200,619.7	193,685.9	187,952.2	180,745.3
Adjusted common equity	18,484.6	18,301.7	17,343.4	16,366.0	15,276.2
Operating revenues	1,634.2	3,114.6	3,074.9	3,183.5	3,322.8
Noninterest expenses	1,030.3	2,092.4	2,108.1	2,297.9	2,212.5
Core earnings	511.6	848.6	818.6	646.7	898.6

*Data as of June 30. CHF--Swiss Franc.

Table 2

Swiss Raiffeisen Group--Business Position

	--Year-ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Loan market share in country of domicile	17.5	17.6	15.7	15.8	15.7
Deposit market share in country of domicile	13.9	13.8	13.4	13.0	13.1
Return on average common equity	5.5	4.8	4.9	3.4	6.1

*Data as of June 30.

Table 3

Swiss Raiffeisen Group--Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	N/A	19.6	17.9	17.5	17.0
S&P Global Ratings' RAC ratio before diversification	N/A	22.3	20.6	N/A	N/A

Table 3

Swiss Raiffeisen Group--Capital And Earnings (cont.)					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
S&P Global Ratings' RAC ratio after diversification	N/A	18.8	17.4	N/A	N/A
Adjusted common equity/total adjusted capital	95.4	95.4	94.7	94.4	93.1
Net interest income/operating revenues	73.0	75.4	73.7	72.0	67.7
Fee income/operating revenues	15.7	14.5	13.5	14.2	14.9
Market-sensitive income/operating revenues	9.8	8.0	8.6	7.4	8.4
Cost to income ratio	63.1	67.2	68.6	72.2	66.6
Preprovision operating income/average assets	0.4	0.4	0.4	0.4	0.5
Core earnings/average managed assets	0.4	0.3	0.3	0.3	0.4

*Data as of June 30. N/A--Not applicable.

Table 4

Swiss Raiffeisen Group--Risk Position					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Growth in customer loans	3.0	3.6	3.1	4.0	4.1
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	18.6	18.5	N/A	N/A
Total managed assets/adjusted common equity (x)	15.2	14.2	14.3	13.8	14.9
New loan loss provisions/average customer loans	(0.0)	0.0	0.0	0.0	0.0
Net charge-offs/average customer loans	N.M.	0.0	0.0	0.1	0.0
Gross nonperforming assets/customer loans + other real estate owned	0.4	0.4	0.5	0.5	0.4
Loan loss reserves/gross nonperforming assets	28.0	29.0	26.6	29.9	25.8

*Data as of June 30. N/A--Not applicable.

Table 5

Swiss Raiffeisen Group--Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Core deposits/funding base	77.6	80.6	78.1	81.2	79.2
Customer loans (net)/customer deposits	101.4	105.2	109.8	113.3	110.0
Long-term funding ratio	89.0	92.2	89.7	94.0	90.9
Stable funding ratio	114.0	110.3	106.3	104.3	105.3
Short-term wholesale funding/funding base	11.8	8.4	11.2	6.5	9.8
Broad liquid assets/short-term wholesale funding (x)	2.1	2.3	1.6	1.9	1.6
Net broad liquid assets/short-term customer deposits	17.2	13.7	9.5	7.4	8.2
Short-term wholesale funding/total wholesale funding	51.9	42.5	49.9	33.8	46.1
Narrow liquid assets/3-month wholesale funding (x)	3.4	2.6	2.1	2.8	2.0

*Data as of June 30.

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
- Principles of Credit Ratings, Feb. 16, 2011

Related Research

- Top 100 Banks: Capital Ratios Show Resilience To The Pandemic, Sept. 28, 2021
- Banking Industry Country Risk Assessment: Switzerland, Jan. 6, 2021

Anchor Matrix

Industry Risk	Economic Risk									
	1	**2**	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	**a-**	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of October 20, 2021)*	
Raiffeisen Schweiz Genossenschaft	
Issuer Credit Rating	A+/Stable/A-1

Ratings Detail (As Of October 20, 2021)*(cont.)	
Junior Subordinated	BBB
Senior Unsecured	A+
Subordinated	A
Issuer Credit Ratings History	
21-Sep-2020	A+/Stable/A-1
Sovereign Rating	
Switzerland	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.