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Oberbank AG

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Oberbank AG

SACP	a-

Anchor	a-	
Business Position	Adequate	0
Capital and Earnings	Strong	+1
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

+

Support	+1
ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating
A/Negative/A-1

Resolution Counterparty Rating
A+/--/A-1

Major Rating Factors

Strengths:	Weaknesses:
• Strong and stable corporate and retail franchise in Upper Austria and Salzburg. • Sound cost efficiency. • Strong capitalization and solid additional loss-absorbing capital (ALAC).	• Regional concentration in corporate business. • Concentration from sizable equity investments in Upper Austria. • More price-sensitive and less stable customer relationships in foreign markets, where the bank plays a niche role.

Outlook: Negative

The negative outlook reflects S&P Global Ratings' view of heightening economic risk for the Austrian banking sector in light of the COVID-19 pandemic. We could lower the ratings on Oberbank AG within the next two years if it does not sustain strong capitalization, robust asset quality, and ALAC above our 5% threshold.

Downside scenario

We might lower our long-term rating on Oberbank by one notch if we revise downward our anchor to 'bbb+' from 'a-'. We would also downgrade by one notch if we forecast Oberbank's ALAC buffer would drop below our 5% threshold for one notch of support. While a more remote scenario, we could also lower the rating if the bank were hit by tail events or if it pursued strong expansion that led to the deterioration of the capital buffer, with the risk-adjusted capital (RAC) ratio falling below 10%. Offering more risky products, expanding into regions with higher risks than Austria, or tail risk in its equity holdings may harm the bank's risk profile or materially increase its capital consumption, which could also lead to a downgrade.

Upside scenario

We could revise the outlook back to stable if we considered that economic risk trend for the Austrian banking sector had stabilized again.

Rationale

In our ratings on Oberbank, we reflect its strong regional franchise and sound cost efficiency, but also its high regional and business concentrations. Our view of Oberbank's capitalization as a rating strength rests on the expectation that our RAC ratio will remain at 12.0%-12.5% over the next two years. The bank's modest diversification through its regional concentration in the Austrian states of Upper Austria and Salzburg, amplified by material and concentrated equity investments in local Austrian corporations, is the main weaknesses to the rating. We expect Oberbank to retain a sound liquidity and funding profile, benefitting from its proximity to local customers that have longstanding relationships in its home regions. This results in the 'a-' stand-alone credit profile (SACP).

We add one notch of uplift to arrive at the long-term issuer credit rating (ICR) of 'A' to reflect its material and expanding ALAC buffer and our expectation that, despite its relatively modest size, Oberbank would be subject to a bail-in-led resolution if it were to fail under the EU's bank recovery and resolution directive (BRRD).

Although Oberbank's size and diversity are weaker than larger 'A' rated peers, we think that the low economic risks of its lending portfolio, relative stability in its core markets, good efficiency, and favorable track record of performance and risk metrics offset its higher geographic and business concentrations. Combined, these factors support our view that Oberbank's creditworthiness is equivalent to that of its 'A' rated peers in Europe.

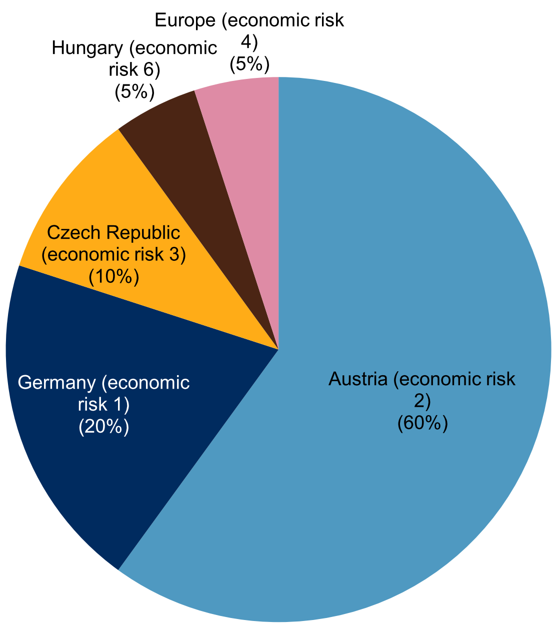
Anchor: 'a-' for banks mainly operating in Austria

The 'a-' anchor draws on our Banking Industry Country Risk Assessment (BICRA) and our view of the weighted-average economic risk across the countries in which Oberbank operates, based on the geographic distribution of its customer credit exposure.

The geographic distribution (see chart 1) results in a weighted-average economic risk score of '2.2', which is slightly higher than the '2' score of a solely domestically focused Austrian bank but not to the extent that it negatively affects the anchor. If the weighted average score were to deteriorate toward '3', it could affect the anchor. This could most likely triggered by a revision of economic risk in Austria to '3' after we revised the trend to negative in April 2020. The industry risk score of '3' for Oberbank is based solely on its home market of Austria.

Chart 1

Oberbank's Weighted-Average Economic Risk Benefits From High Exposure To Lower Risk Countries
Breakdown by retail and corporate exposures



Source: S&P Global Ratings.

Our economic risk assessment is based on Austria's highly competitive and diverse economy, with strong economic fundamentals, high integration in Western European economies, and strong ties to Eastern and Southeastern Europe. In our base case, we expect a sharp recession due to the COVID-19 pandemic this year, but we anticipate a relatively strong rebound in 2021. However, we view the economic risk trend as negative, reflecting the significant downside risk to our current baseline scenario due to the economic effects of COVID-19, which could result in a deterioration of household and corporate sector health, particularly given Austria's economy is focused on service industries, with some additional sensitivity due to large tourism sector exposure.

With regard to industry risk, Austrian banks face similar challenges to their global peers including business model optimization, ensuring sufficient and sustainable profitability, leveraging the benefits of the digital era, and introducing measures to avoid disruption and franchise damage from cyber-attacks and customer data mismanagement. We view the trend on banking industry risk in Austria as stable. We expect that overall COVID-19 damage to the banking system will remain contained. In our view, despite the one-off deterioration of the sector's performance, overall sector stability is unlikely to deteriorate, given banks comfortable capital and provisions, as well as massive government programs, large-scale short-term work contracts, and the social benefits system, which are likely to absorb or prevent adverse effects on the banking system. Looking beyond the COVID-19 pandemic, we believe enhanced focus on efficiency and profitability and recent de-risking will contribute to system stability over the cycle.

Table 1

Oberbank AG Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	22,827.4	22,211.7	20,829.7	19,157.5	18,242.1
Customer loans (gross)	16,772.2	15,883.0	14,760.3	13,777.9	12,839.9
Adjusted common equity	2,299.7	2,184.1	1,928.4	1,797.7	1,502.9
Operating revenues	577.4	579.7	533.5	495.9	481.8
Noninterest expenses	288.9	283.6	266.2	251.8	243.3
Core earnings	216.1	225.6	200.5	181.3	166.4

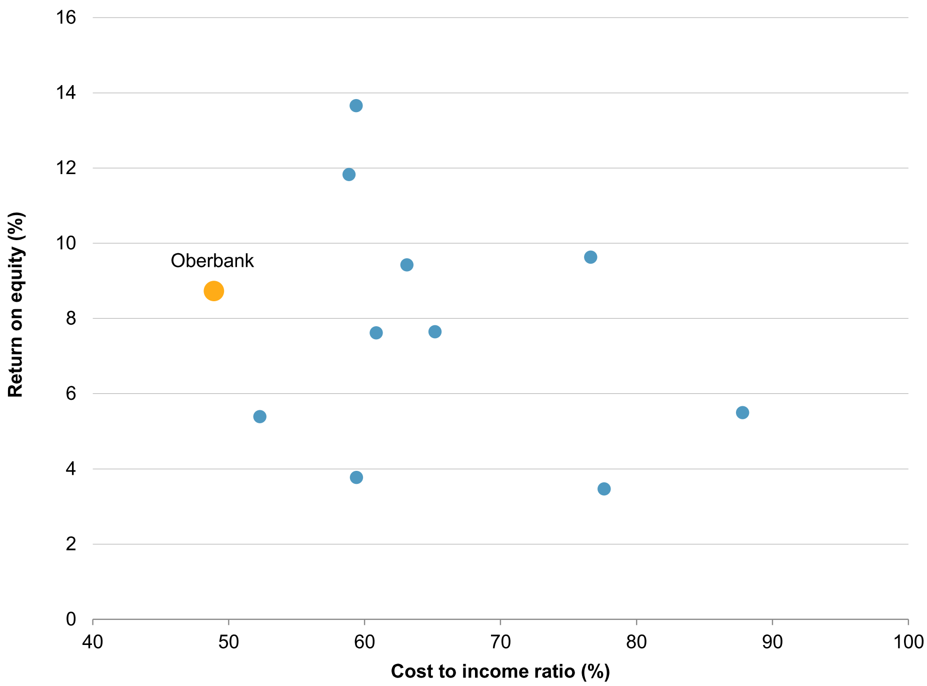
Business position: Midsize universal bank with a strong regional franchise under cost-efficient structures

With about €23 billion in assets, Oberbank is a midsize universal bank in Austria with a strong regional focus, mainly in Upper Austria and Salzburg, and to a lesser extent in Lower Austria and Vienna. This is complemented by supplementary business in neighboring countries. In our assessment, we balance Oberbank's strong and stable franchise in its core regions and its sound cost-efficiency against its limited size, corporate focus, and high regional and business concentrations.

We view positively the bank's sound market presence in the economically strong Upper Austria and Salzburg regions, in particular in the corporate and small and midsize enterprise (SME) segment, which will continue to provide a stable source of income. We expect Oberbank will maintain its competitive advantage in efficiency, highlighted by a cost-to-income ratio of about 49%, according to our measures. This is materially lower than the 64% average we calculate for Austrian banks but also slightly distorted by sound earnings contributions from its equity participations in recent years. Oberbank already has an established presence in neighboring countries such as Germany, the Czech Republic, and Hungary. However, it plays a niche role in these markets and we consider its customer relationships to be more price sensitive and less stable.

Chart 2

Cost Efficiency Remains Oberbank's Competitive Advantage



Data relates to 2018. Return on equity is defined as return on average common equity. Cost-to-income ratio is defined as noninterest expenses as a % of total operating revenue. Source: S&P Global Ratings.

We consider Oberbank's geographic and business concentration material, partially offsetting the bank's strengths. Given its limited size, we consider its diversity as significantly weaker than larger domestic peers such as Erste Bank Group and UniCredit Bank Austria, as well as other banks active in European markets with similar industry risk profiles, such as Germany, Belgium, and France. We believe its concentrated business profile makes its prospects particularly sensitive to a rapid deterioration of economic conditions in light of the COVID-19 pandemic. In that context, we consider notably at risk its material exposure to SMEs and corporates, also stemming from the COVID-19-related shutdowns across multiple industries.

Domestic activities still account for more than 80% of net profits and we continue to regard the benefits in terms of geographic diversification as limited. However, we expect the recent opening of branches, in particular in Germany, will help the share of nondomestic business to slightly increase over the coming years. In our view, its lean structure and efficiency will help Oberbank to generate additional business in its second-largest market, Germany, where we observe cost-to-income ratios of domestic banks exceeding 80%.

We consider that Oberbank's stable, longstanding, and well-regarded management team will continue to execute the bank's strategy in foreign markets in a prudent way. We also view as positive Oberbank's strong track record in delivering sound and stable risk-adjusted profits over the past few decades. We believe Oberbank will be less affected by technological disruption than many of its domestic peers over the short term thanks to its corporate and SME-focused business model and its efficient setup. At the same time, we expect larger technological disruptions to corporate banking to come, but we do not see Oberbank becoming a frontrunner in the development of digital innovations. Instead, we think it will follow a more resource preserving second mover approach.

Oberbank is part of The 3 Banken Group, an exclusive partnership-based cooperation together with two other regional banks in Austria (BKS Bank AG and Bank für Tirol und Vorarlberg AG). We consider the key benefits of membership in the group the possibility to exploit cost synergies in information technology (IT), sharing single-name concentrations, and stabilizing each bank's ownership structure by cross-shareholdings of 30%-40%.

Table 2

Oberbank AG Business Position					
	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (currency in millions)	577.4	579.7	533.5	495.9	481.8
Commercial banking/total revenues from business line	61.7	55.9	54.1	58.5	66.7
Retail banking/total revenues from business line	24.9	24.1	23.7	22.6	25.3
Commercial & retail banking/total revenues from business line	86.6	80.0	77.9	81.1	92.0
Trading and sales income/total revenues from business line	14.7	20.9	23.3	21.6	12.2
Other revenues/total revenues from business line	(1.2)	(0.9)	(1.2)	(2.7)	(4.2)
Investment banking/total revenues from business line	14.7	20.9	23.3	21.6	12.2
Return on average common equity	7.6	8.7	8.6	8.8	9.8

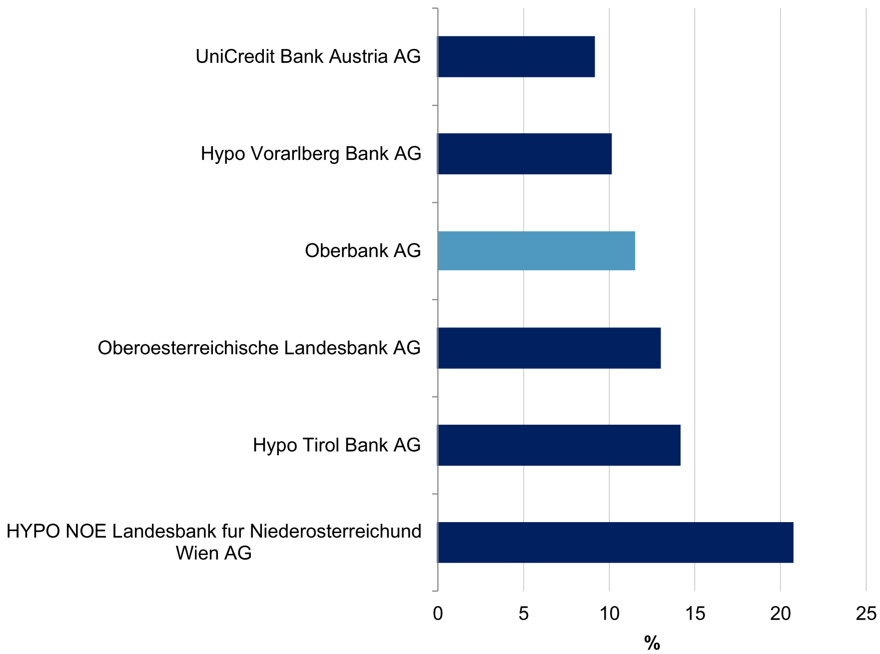
Capital and earnings: Strong capitalization remains a rating strength

Oberbank shows strong capital ratios. Its RAC ratio of 11.5% as of year-end 2018 is higher than several international peers, and we expect this strength to persist. We estimate its RAC ratio was about 12% at year-end 2019 and it should slightly improve to 12.5% by 2021. We note, that the capital calculation remains very sensitive to market risk resulting from fluctuations in the stock price of Voestalpine AG, Oberbank's largest equity participation. Impairments on this participation have contributed significantly to Oberbank's anticipated first-quarter loss in 2020 related to the COVID-19 pandemic.

The bank's 17.6% regulatory risk-weighted common equity tier 1 (CET1) ratio as of Dec. 2019 was well above regulatory going-concern capital requirements.

Chart 3

Oberbank's Capitalization Is A Strength, In Line With Peers
Risk-adjusted capital ratio before diversification



Capitalization as measured by S&P Global Rating's risk-adjusted capital ratio before diversification at year-end 2018.
Source: S&P Global Ratings.

The quality of Oberbank's capital and earnings adds to our capital assessment, reflecting that total adjusted capital (TAC) almost fully consists of high-quality capital. Hybrid capital instruments only represent 2% of TAC and refer to two additional tier 1 (AT1) issuances amounting to €50 million.

We anticipate the RAC ratio will slightly improve thanks to ongoing earnings retention, despite an expected increase in loan-loss provisions in the wake of COVID-19, which continue to exceed the expected average annual increase of 3%-4% in our risk-weighted assets (RWA) metric for 2019-2021. Our capital ratio also benefits from Oberbank's decision to lower its dividend proposal for 2019 to €0.18 per share from €1.10 and to suspend the payment until later this year, in line with recommendations by the European Central Bank. For the following years, we expect that dividend payouts will return to a moderate 15%-20%.

We expect Oberbank will continue to deliver widely stable earnings despite the ongoing challenges from the negative interest-rate environment and the expected sharp economic contraction over 2020. This is supported by about 84% of revenue being generated through net interest income or fee income, which we consider to be more stable and supportive of earnings quality than market-sensitive income. As such, we remain cautious regarding the extent that income from its largest equity investments will support future revenue generation, taking into account higher volatility in performance observed over 2019 and 2020.

Oberbank is a publicly traded bank with about 36% of shares free float. With 17% and 15% stakes respectively, Bank für Tirol und Vorarlberg AG and BKS Bank AG, the other two members of The 3 Banken Group, remain important long-term shareholders that we expect to support high capital levels at Oberbank. The bank's largest shareholder remains its domestic peer UniCredit Bank Austria (about 26%; acting through 100% subsidiary CABO Beteiligungsgesellschaft m.b.H). However, UniCredit's recent shareholder action to verify the legal correctness of Oberbank's past capital increases casts doubt on its long-term commitment to the stake, in our view.

Table 3

Oberbank AG Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	17.9	17.8	17.0	16.3	14.2
S&P Global Ratings' RAC ratio before diversification	N/A	11.5	11.3	10.8	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	9.5	9.3	9.0	N/A
Adjusted common equity/total adjusted capital	97.9	97.8	97.5	97.3	96.8
Net interest income/operating revenues	59.9	59.6	59.1	62.2	62.2
Fee income/operating revenues	28.2	27.5	26.4	26.4	27.5
Market-sensitive income/operating revenues	5.5	(1.7)	5.0	6.9	(0.8)
Noninterest expenses/operating revenues	50.0	48.9	49.9	50.8	50.5
Preprovision operating income/average assets	1.3	1.4	1.3	1.3	1.3
Core earnings/average managed assets	1.0	1.0	1.0	1.0	0.9

N/A--Not applicable.

Table 4

Oberbank AG--Risk-Adjusted Capital Framework Data

(€)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government & central banks	3,692,773,442.0	65,506,209.8	1.8	89,465,293.8	2.4
Of which regional governments and local authorities	286,114,540.0	992,487.3	0.3	8,035,646.0	2.8
Institutions and CCPs	1,209,994,931.9	254,980,750.4	21.1	236,970,297.8	19.6
Corporate	10,819,737,654.3	8,108,383,074.8	74.9	7,028,822,323.5	65.0
Retail	5,313,278,521.0	2,346,041,502.8	44.2	2,211,116,087.1	41.6
Of which mortgage	2,975,265,710.0	1,010,600,298.4	34.0	743,529,492.1	25.0
Securitization§	--	--	--	--	--
Other assets†	1,409,098,312.5	874,714,750.5	62.1	1,485,747,470.7	105.4
Total credit risk	22,444,882,861.7	11,649,626,288.1	51.9	11,052,121,472.8	49.2
Credit valuation adjustment					
Total credit valuation adjustment	--	21,734,142.1	--	--	--
Market Risk					
Equity in the banking book	863,343,092.6	1,688,648,915.5	195.6	7,084,451,253.8	820.6

Table 4

Oberbank AG--Risk-Adjusted Capital Framework Data (cont.)					
Trading book market risk	--	5,816,466.6	--	8,724,699.9	--
Total market risk	--	1,694,465,382.1	--	7,093,175,953.7	--
Operational risk					
Total operational risk	--	1,055,407,604.1	--	1,217,139,308.5	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	14,421,233,416.5	--	19,362,436,735.0	100.0
Total Diversification/ Concentration Adjustments	--	--	--	4,085,955,125.6	21.1
RWA after diversification	--	14,421,233,416.5	--	23,448,391,860.6	121.1
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		2,563,106,934.7	17.8	2,234,082,567.6	11.5
Capital ratio after adjustments‡		2,563,106,934.7	17.8	2,234,082,567.6	9.5

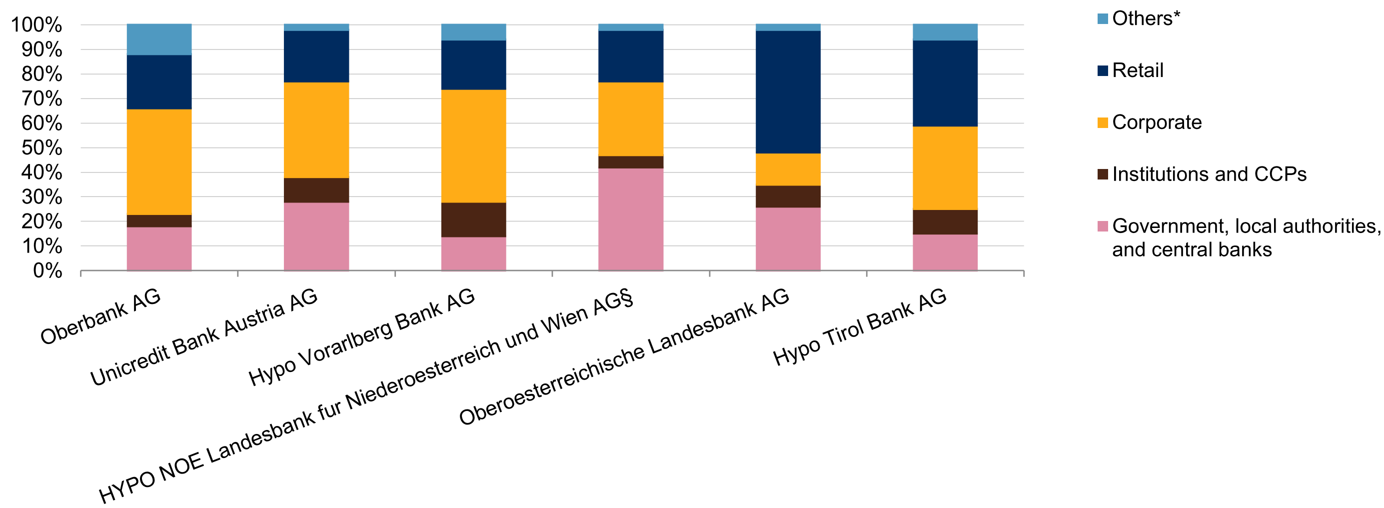
*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31 2018 and S&P Global Ratings.

Risk position: Regional concentration poses the biggest risk

In our view, the bank's regional concentration is the main weakness for our rating compared with more diversified international and domestic peers. We believe high exposure to the regional corporate business and through material equity participations in local Austrian corporations makes Oberbank significantly more susceptible to adverse economic developments, in particular, in its main region of Upper Austria.

Chart 4

Oberbank Remains More Corporate- Than Retail-Lending Oriented Compared With Peers
Credit risk exposure by segment of selected Austrian peers



*Others includes securitization and other assets. Exposure refers to exposure at default. The selected peer group only includes rated Austrian banks which are focused predominantly on the Austrian market. Data as of Dec. 31, 2018. Source: S&P Global Ratings.

In our RAC framework, we capture the bank's material corporate equity investments by assigning capital charges that are materially higher than on its corporate credit risk exposure and deduct its equity investments in financial institutions--in particular in BKS Bank (19%) and Bank für Tirol und Vorarlberg (14%)--from our measure of capital. However, we believe that the specific tail risk in this case might not fully be covered by our capital framework. Considering Oberbank's risk concentrations, both in corporate lending and industry holding in Upper Austria, potential economic deterioration could have a greater negative effect on the bank if compared with larger, diversified universal peer banks. In our view, however, that risk is somewhat mitigated by Oberbank's prudent risk management and strategy.

However, we expect Oberbank's asset quality to suffer in the wake of COVID-19 and despite our economists' view that a severe economic contraction in the first two quarters in 2020 will be followed by a rebound starting in the third quarter (see "Europe Braces For A Deeper Recession In 2020," published April 20, 2020, on RatingsDirect). We now expect a 7.3% GDP contraction in the eurozone in 2020, with a recovery of about 4.3% in 2021. We are acutely mindful that this base case and consequently Oberbank's asset quality remains subject to significant downside risks. However, even under this base case, the effects of COVID-19 will worsen Oberbank's asset quality and be evident long after the crisis subsides.

However, we think Oberbank's risk appetite and exposure to unexpected losses generally compares favorably with peers. We consider the bank's risk management to be sound and think it enters this economic downturn with a widely clean balance sheet, supported by the bank's nonperforming loan (NPL; 90 days past due) ratio at 2.1% of gross customer loans as of Dec. 31, 2019. This is in line with the 2.3% NPL ratio we calculate for the consolidated Austrian banking sector as of June 2019.

We regard Oberbank's strategy to mitigate single-name concentration risks in its portfolio as prudent. Oberbank partly hedges credit risk through a jointly owned company that provides guarantees (Alpenländische Garantie Gesellschaft m.b.H) to each member of the 3 Banken Group.

The bank is well diversified across sectors. More granular SMEs constitute about one-fifth of the total customer lending exposure (excluding public sector and banks); retail lending constitutes about one-third of the total. We assess Oberbank's risk management and risk strategy as adequate, as demonstrated, for example, by generally low exposures in very complex products or high-risk structured credit investments and also marginal amounts of foreign-currency lending.

Expansion in Germany, and Austrian regions Lower Austria and Vienna, has contributed to annual customer loan growth of almost 8% since 2017, materially above the industry average in Austria. We expect this expansion will slow down, but Oberbank's growth will remain at the upper end of the Austrian bank average since its lean structure and efficiency give it some advantages over regional peers.

We believe that environmental, social, and governance (ESG) factors for Oberbank are broadly in line with its industry and domestic peers. The largest risk, in our opinion, stems from the bank's 8% participation in Voestalpine AG. The steel producer is among the largest greenhouse gas emitters in Austria, accounting for a significant amount of domestic carbon dioxide (CO_2) emissions, which makes the bank sensitive to future political developments--for instance in CO_2 pricing.

Table 5

Oberbank AG Risk Position

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	5.6	7.6	7.1	7.3	4.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	21.1	21.3	20.2	N/A
Total managed assets/adjusted common equity (x)	9.9	10.2	10.8	10.7	12.1
New loan loss provisions/average customer loans	0.1	0.2	0.2	0.2	0.4
Gross nonperforming assets/customer loans + other real estate owned	2.1	2.7	2.8	3.5	4.5
Loan loss reserves/gross nonperforming assets	56.8	59.6	94.7	92.9	84.8

N/A--Not applicable.

Funding and liquidity: Stability through proximity to local customers

We expect Oberbank's funding to remain in line with Austrian peers and other banking systems with the same industry risk, and liquidity to remain neutral for the rating. We also think the bank is well placed to withstand an extended period of market or idiosyncratic stress.

Our view is based on the bank's strong regional franchise and its proximity to local customers with long-standing relationships that continue to provide it with a stable and granular deposit base, also in times of stress.

Deposits account for about 88% of the funding base and customer loans represent 136% of core customer deposits (excluding bank deposits), as of Dec. 31, 2019. This remains weaker than for domestic peers with a greater retail focus, such as Erste Group, and Raiffeisen Bank, for example, but broadly in line with the wider Austrian market.

The remainder of the funding mix is made up of interbank funding, promotional loans, and capital market funding via secured and unsecured instruments with a strong focus on Austria and Germany. We expect Oberbank's stable funding ratio will remain at sound levels and above 100% over the medium term.

Liquidity is adequate, in our view, and we expect the bank's liquidity management will remain prudent. We also acknowledge that the bank's short-term wholesale funding needs remain covered by broad liquid assets (1.3x as of year-end 2019). We anticipate that Oberbank will follow its matched-funding strategy and think that it could operate for more than six months without access to market funding in an adverse scenario.

The regulatory liquidity coverage ratio and the net stable funding ratio are also sound, at 170% and 119%, respectively, as of Dec. 31, 2019. This supports our view of adequate liquidity cushions.

Table 6

Oberbank AG Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	62.7	65.2	64.9	67.7	67.4
Customer loans (net)/customer deposits	138.3	128.7	126.1	121.8	117.4
Long-term funding ratio	88.3	90.5	88.9	89.9	89.3
Stable funding ratio	99.7	103.3	104.3	104.3	104.4
Short-term wholesale funding/funding base	13.5	11.0	12.6	11.5	12.0
Broad liquid assets/short-term wholesale funding (x)	1.3	1.8	1.7	1.8	1.7
Net broad liquid assets/short-term customer deposits	7.4	13.8	15.9	14.5	14.6
Short-term wholesale funding/total wholesale funding	35.8	31.2	35.8	35.2	36.6
Narrow liquid assets/3-month wholesale funding (x)	1.6	2.1	1.9	2.1	2.0

Support: One notch of uplift due to material buffers of subordinated capital in a bail-in resolution

Despite Oberbank's relatively modest size in the context of the wider banking system, as well as its corporate focus, we believe that it has moderate systemic importance in Austria. We base our assessment on Oberbank's strong regional franchise, with large regional market shares and strong interconnections with the economy in Upper Austria.

We believe that the prospect of extraordinary government support for the Austrian banking sector is uncertain following the full implementation of the BRRD, including bail-in powers, in Jan. 2015. We do not completely exclude the possibility of support. Nevertheless, we believe the Austrian government's ability and willingness to provide support is lower and less predictable under the enhanced resolution framework.

At the same time, we assess the Austrian resolution regime as effective under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process, under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

If Oberbank failed, we think it would be subject to a bail-in-led resolution aimed at preserving the bank's operations. We understand the Austrian regulator imposed a preliminary minimum requirement for own funds and eligible liabilities for the bank, which also supports our view of the bank's ALAC--our measure of the bail-in buffer available for protection of senior creditors in case of resolution.

Our rating on Oberbank benefits from one notch of uplift above the 'a-' SACP, reflecting our assumption that Oberbank will build a buffer of ALAC-eligible instruments by 2021 of 5.5%-6.0% of RWAs, and as such be comfortably above our 5% threshold. We expect market conditions for issuing subordinated debt could remain challenging over the coming months due to the COVID-19 pandemic. However, we think that Oberbank will be able to deliver on its targeted issuance volume once market conditions normalize later this year.

We lower the threshold by 100 basis points (bps) to compensate for its sizeable equity investments not being recapitalized in a resolution, but this is offset by a 100 bps addition to the threshold to reflect some concentrations in its ALAC issuances. In our assessment of ALAC, we include TAC that exceeds the 10% threshold and junior instruments. In our projection for the coming two years, we assume ongoing sound earnings retention, a slight buildup of subordinated buffers, and the replacement of maturing subordinated instruments.

Resolution counterparty ratings (RCRs)

The 'A+/A-1' RCRs reflect our RCR jurisdiction assessment on Austria, and our review of its relevance for Oberbank. We consider that there is an effective resolution regime in Austria and that if Oberbank were to reach a point of nonviability, it would be subject to a bail-in-led resolution that would seek to ensure the timely and full payment of senior liabilities. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution (see "Resolution Counterparty Ratings Jurisdiction Assessment For Austria Completed," published June 29, 2018).

Related Criteria

- Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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: Banks: Rating Methodology And Assumptions, Nov. 9, 2011

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- Outlook Revisions On Several Austrian Banks On Deepening COVID-19 Downside Risks, April 29, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
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- Tech Disruption In Retail Banking: Austrian Banks' Bricks And Clicks Model Still Does The Trick, Jan. 29, 2020

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 May 5, 2020)*

Oberbank AG	
Issuer Credit Rating	A/Negative/A-1
Resolution Counterparty Rating	A+/--/A-1
Senior Secured	AAA/Stable
Senior Unsecured	A
Issuer Credit Ratings History	
29-Apr-2020	A/Negative/A-1
09-Jan-2019	A/Stable/A-1
Sovereign Rating	
Austria	AA+/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.