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Austria-Based Oberbank AG's Senior Nonpreferred Notes Rated 'BBB+'

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- Oberbank AG plans to issue senior nonpreferred notes, which will contractually rank below its senior unsecured debt, but above its subordinated debt and junior instruments.
- We understand the proposed notes would be subject to conversion or write-down in a resolution after junior instruments, but before more senior obligations including senior preferred notes.
- We are assigning our 'BBB+' issue rating to the proposed notes.
- The rating is one notch lower than our assessment of Oberbank's stand-alone credit profile (SACP), owing to our view that the proposed notes are subordinated to more senior obligations and do not carry additional default risk.

FRANKFURT (S&P Global Ratings) Oct. 22, 2020--S&P Global Ratings today assigned its 'BBB+' issue rating to the senior nonpreferred notes that Austria-based Oberbank AG (A/Negative/A-1) may issue under its existing debt issuance program, according to the current terms and conditions. The rating is subject to our review of the notes' final documentation.

The rating is one notch below the bank's 'a-' SACP. This follows our standard notching for investment-grade (higher than 'BB+') entities issuing an instrument contractually or statutorily subordinated to preferred senior unsecured debt.

In our view, holders of senior nonpreferred notes face a higher default risk than holders of senior preferred notes and other senior liabilities, since the former would be bailed in before more senior debt in the event of a resolution.

The rating on the notes reflects our view that:

- They will convert into equity or be written off only in a resolution scenario and not before the bank reaches the point of nonviability.
- The resolution authority will have the power to convert or write down the proposed notes only after subordinated liabilities and shareholders' equity have absorbed losses in full.
- Unlike regulatory capital instruments, the proposed notes would be excluded from burden-sharing under EU state-aid rules.
- The write-down or conversion of the notes in resolution would not cause the default of the bank or more senior instruments.

Therefore, we have not applied further notching from the SACP because we believe that the senior nonpreferred notes do not carry any additional default risk relative to that represented by our

SACP assessment.

We consider extraordinary government support for the Austrian banking sector to be uncertain following the country's full implementation of the EU Bank Recovery and Resolution Directive, including bail-in powers, in January 2015. We consider the country's bank resolution framework to be effective, which generally allows us to include uplift for additional loss-absorbing capacity (ALAC) in our ratings on individual systemically important banks. If Oberbank failed, we think it would be subject to a bail-in-led resolution aimed at preserving the bank's operations and avoiding a default of senior creditors. This reflects Oberbank's strong regional franchise, with large regional market shares and strong interconnections with the economy in Upper Austria.

We will likely consider this new instrument to represent ALAC, provided the relevant authorities also regard it as eligible for inclusion in Oberbank's minimum requirement for own funds and eligible liabilities (MREL).

Our 'A' long-term issuer credit rating on Oberbank already benefits from one notch of uplift above the SACP because we forecast the bank will further increase its ALAC over the coming years. We project that the bank's ALAC buffer will exceed our threshold for a one-notch uplift at 5.0% of S&P Global Ratings' risk-weighted assets by year-end 2021, compared with about 4.0% as of year-end 2019. This mainly reflects our expectation of ongoing gradual net issuance of ALAC-eligible instruments of €100 million-€250 million per year until 2022.

Related Criteria

- General 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: 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

Related Research

- Oberbank AG, May 5, 2020
- Outlook Revisions On Several Austrian Banks On Deepening COVID-19 Downside Risks, April 29, 2020