

## Tear Sheet: Raiffeisen Bank International AG

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# Tear Sheet: Raiffeisen Bank International AG

**What's new:** Raiffeisen Bank International AG (RBI) demonstrated robust profitability and cost efficiency in the first nine months of 2024, despite facing moderate challenges to its asset quality. Based on S&P Global Ratings definitions, the bank had a return on average common equity (ROAE) of 15.8% as of Sept. 30, 2024, alongside a sound cost-to-income ratio of 43.1%. However, the non-performing asset (NPA) ratio rose to 3.6% in third-quarter 2024, primarily due to adverse developments affecting clients in Austria's commercial real estate (CRE) sector and the impact of tighter financial conditions, which have led to increased debt servicing costs for clients across RBI's operating regions.

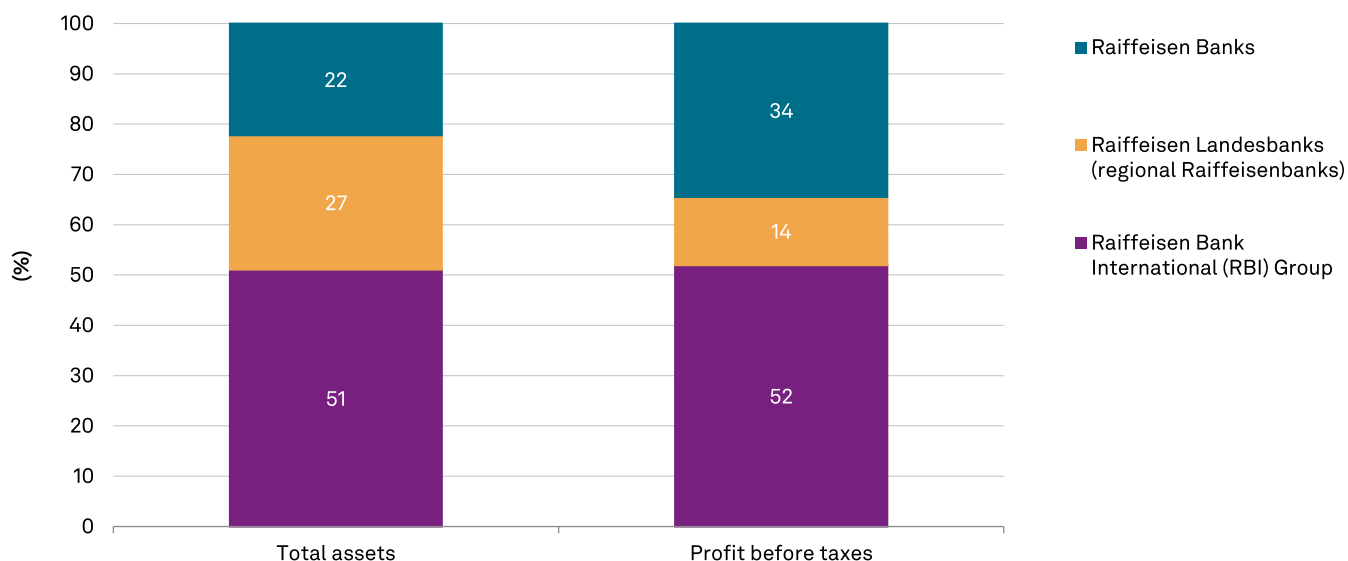
Although credit losses have remained relatively low, we anticipate that new litigation provisions related to RBI's foreign currency (euro and Swiss franc) mortgage portfolio in Poland will exert pressure on its bottom line over the next 12 to 24 months. The coverage ratio for this portfolio is high at about 94% as of third-quarter 2024, thanks to RBI's forward-looking creation of litigation provisions. This limits risks from this part of the loan portfolio, in our view. Midyear 2024 figures for the broader Raiffeisen Banking Group (RBG), also show a highly profitable, strongly capitalized group with solid liquidity buffers and a resilient funding base, although the NPA ratio has deteriorated moderately.

The divestment of RBI's Russian business is encountering new challenges following a Russian court ruling in August 2024 that imposed a transfer ban on RBI's full ownership stake in AO Raiffeisenbank. RBI is legally contesting this decision. However, the ruling reduces the chances of successfully selling a controlling stake in its Russian subsidiary within the next 12 to 24 months, in our view. This delay also heightens the risk of regulatory intervention, particularly from the European Central Bank (ECB), which expects a significant reduction of the Russian business operations by 2026. We understand the next court hearing is set for December 2024.

**Why it matters:** A stand-alone analysis of RBI is not relevant for our ratings. Our ratings on RBI depend on the broader RBG sector and on our view on its strategic importance to the group. The group's aggregate creditworthiness, including its cohesiveness; expectation of support from member banks; and our view that RBI (as the RBG's central unit) will remain a core strategic member of the wider group for the foreseeable future are key for our rating assessment. At the same time, developments at RBI matter for the wider group, since RBI constitutes a large share of the group, both by assets and by profits (see chart 1). As of Sept. 30, 2024, RBI's subsidiary in Russia accounted for approximately 50% of its pretax profits; its contribution to RBG's consolidated profits is smaller, but still material at about 25% as of midyear 2024.

**Chart 1****RBI and Austria-based Raiffeisen banks drive RBG's profitability**

Breakdown of assets and profits before taxes as of June 30, 2024



Sources: RBG Reports, S&amp;P Global Ratings.

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In our base case, we expect that RBI will either divest a controlling stake of, or write down, its operations in Russia. We take comfort from RBI's ongoing success in reducing its Russian operations, as demonstrated through the nearly 70% decline of its Russian customer loan book from second-quarter 2022 to third-quarter 2024, influenced by significant currency fluctuations in the Russian ruble. Additionally, local deposit offerings and financial services like foreign currency payments have been restricted or halted entirely. The bank has implemented measures to curtail its business in Russia, such as offering zero remuneration on client deposits, which have contributed to a significant reduction in deposits.

The recent sale of its subsidiary in Belarus is also a positive sign. On Nov. 29, 2024, RBI sold its subsidiary in Belarus, Priorbank JSC, divesting 87.74% of its stake to United Arab Emirates-based Soven 1 Holding. RBI estimates that this transaction will have a negative impact of about €830 million on consolidated profits in fourth-quarter 2024, with about €480 million being neutral for regulatory capital ratios, resulting in a minimal impact of negative 5 basis points on RBI's common equity tier 1 ratio.

Although we view the developments in RBI's Russian and Belarusian portfolios as positive, we anticipate that RBI will continue to face intense scrutiny from U.S. and European authorities due to its operations in Russia. Event risks therefore remain high, in our view, due to significant political uncertainties related to Russia, which pose elevated sanctions and reputational risks for RBI's core operations. The group has adopted a centralized risk governance

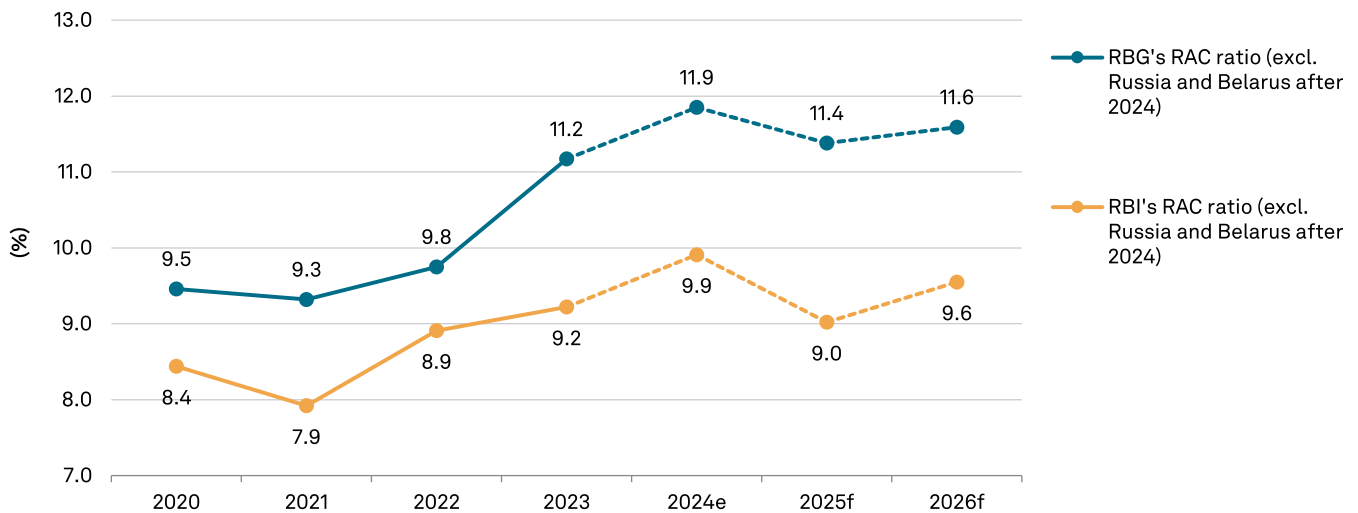
approach and has significantly increased staffing in its risk departments in recent years. Nevertheless, we believe that non-financial risks persist.

In our baseline projections for the next two years, we exclude the subsidiaries in Russia and Belarus from RBG's financial figures and capital forecasts. We anticipate that RBG's risk-adjusted capital ratio will range between 11.5% and 12.0% over the next 12 to 24 months, providing adequate buffers against potential credit losses, supported by consolidated preprovision income as the first line of defense (see chart 2). The bank's earnings generation capacity remains robust, especially when compared to European peers'. We estimate that RBG's ROAE will be a solid 12.5% at year-end 2024, down from 15.4% in 2023. We expect it will decline to 7.0%-9.0% following the anticipated exit from Russia within the next two years (see chart 3).

**Chart 2**

**We expect RBG's capitalization will remain strong in the next 12-24 months**

RAC ratio for RBG and RBI excl. subsidiaries in Russia and Belarus after 2024



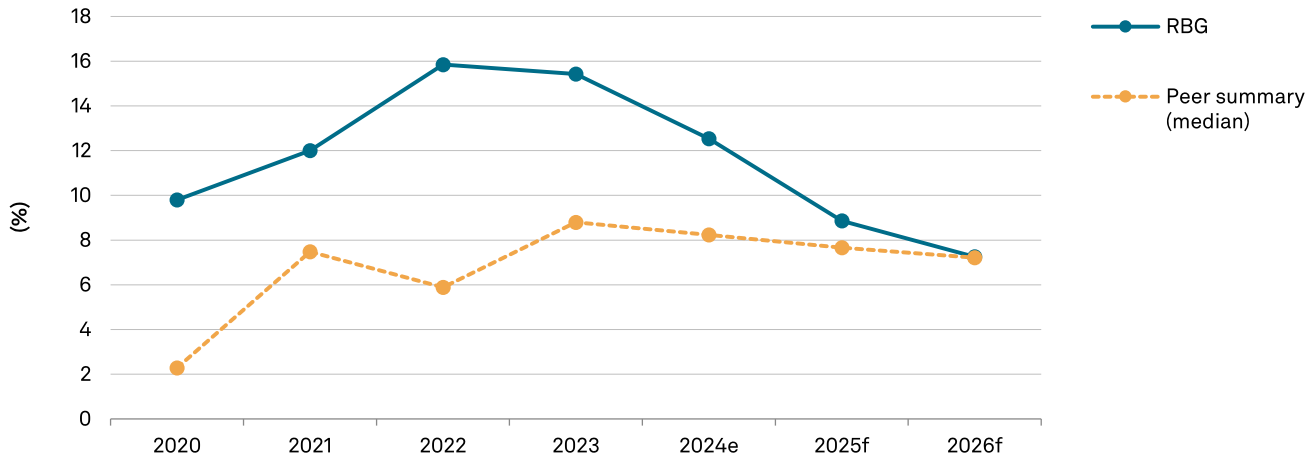
Note: RAC ratio is before diversification and concentration adjustments. RAC--Risk-adjusted capital. e--Estimate. f--Forecast. Source: S&P Global Ratings.

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**Chart 3**

**We expect RBG's profitability to converge back to the level of peers'**

Return on average common equity for RBG compared to peers (2020-2026f)



Note: We look at the following peers for the median: Erste Group Bank AG, UniCredit Bank Austria AG, Danske Bank A/S, Cooperatieve Rabobank U.A., BPCE, Credit Agricole S.A., Societe Generale, Commerzbank AG. e--Estimate. f--Forecast. Source: S&P Global Ratings.

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**Ratings Score Snapshot**

**Issuer Credit Rating**  
A-/Negative/A-2

**SACP: a-** → **Support: 0** → **Additional factors: 0**

Anchor	bbb+	
Business position	Adequate	0
Capital and earnings	Strong	+1
Risk position	Moderate	-1
Funding	Strong	+1
Liquidity	Strong	
CRA adjustment	0	

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
<b>A-/Negative/A-2</b>

Note: The scores relate to the group credit profile of Raiffeisen Banking Group. We do not assess the SACP of Raiffeisen Bank International AG. ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR

## Recent Research

- Raiffeisen Bank International's Risks From Russian Operations Remain Elevated After Russian Court Decision, Sept. 9, 2024
- Banking Industry Country Risk Assessment: Austria, Aug. 27, 2024
- Raiffeisen Bank International AG, June 12, 2024
- Raiffeisen Bank International Affirmed At 'A-'; Outlook Remains Negative On Elevated Risks With Russian Operations, May 24, 2024

## Outlook

The negative outlook reflects our view that RBI continues to face risks in the coming 12-24 months, due to geopolitical and macroeconomic challenges amid the war in Ukraine, as well as possible spillover effects into its main markets in Central and Eastern Europe and Southeastern Europe. We see heightened reputational, political, and financial tail risks arising from its sizeable Russian operations persisting until it sufficiently derisks its positions in Russia.

### Downside scenario

We could lower our rating on RBI in the next 12-24 months if the group experiences material damage to its franchise or faces significant sanction-related allegations and regulatory penalties amid its operations in Russia and Belarus. Although remote, higher-than-expected loss of equity investments in these countries, particularly in Russia, could also lead us to lower the rating.

A deterioration of the group's operating environment beyond our base-case expectations that results in setbacks to RBG's profitability, asset quality, or capitalization could also lead to a downgrade. This could happen, for example, if asset quality problems increased significantly in its main operating markets, leading to higher NPAs and credit losses.

### Upside scenario

We could revise the outlook to stable if RBI successfully derisks its positions in Russia, supported by expectations of robust asset quality, earnings, and capitalization for the group. An outlook revision to stable would also become more likely if, in addition, RBG improved its operational efficiency and profitability in Austria.

## Key Metrics

**Raiffeisen Banking Group Austria--Key ratios and forecasts**

	<b>--Fiscal year-ended Dec. 31--</b>				
(%)	<b>2022a</b>	<b>2023a</b>	<b>2024e</b>	<b>2025f</b>	<b>2026f</b>
Growth in operating revenue	42.5	7.1	(3.7)-(4.5)	(15.3)-(18.7)	(4.3)-(5.3)
Growth in customer loans	4.8	0.6	1.8-2.2	(2.7)-(3.3)	2.7-3.3
Growth in total assets	3.1	0.0	1.4-1.7	(2.5)-(3.1)	2.0-2.5
Net interest income/average earning assets (NIM)	2.6	3.4	3.0-3.3	2.7-2.9	2.5-2.7
Cost-to-income ratio	51.4	49.9	52.8-55.5	59.1-62.2	64.0-67.3
Return on average common equity	15.8	15.4	11.9-13.2	8.4-9.3	6.9-7.6
Return on assets	1.3	1.4	1.1-1.4	0.8-1.0	0.6-0.8
New loan loss provisions/average customer loans	0.4	0.3	0.2-0.2	0.2-0.2	0.2-0.2
Gross nonperforming assets/customer loans	2.3	3.1	3.3-3.7	3.2-3.5	3.0-3.3
Risk-adjusted capital ratio	9.8	11.2	11.6-12.1	11.1-11.7	11.3-11.9

All figures include S&P Global Ratings' adjustments. a--Actual. f--Forecast. NIM--Net interest margin.

**Key Statistics****Table 1****Raiffeisen Banking Group Austria--Key figures**

	<b>--Fiscal year-ended Dec. 31--</b>				
(Mil. €)	<b>2024*</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Total assets	410,134.0	399,874.0	400,033.0	387,902.0	349,375.0
Customer loans (gross)	301,817.0	295,828.0	294,203.0	280,806.0	256,521.0
Adjusted common equity	39,682.0	36,885.0	33,437.0	28,763.0	25,951.0
Operating revenues	7,966.0	15,667.0	14,635.0	10,271.0	9,751.0
Noninterest expenses	4,114.0	7,816.0	7,523.0	6,356.0	6,216.0
Core earnings	2,988.0	5,673.0	4,772.0	2,973.0	2,037.0

\*Data as of June 30.

**Table 2****Raiffeisen Banking Group Austria--Business position**

	<b>--Fiscal year-ended Dec. 31--</b>				
(%)	<b>2024*</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Growth in operating revenues	(0.3)	7.1	42.5	5.3	(1.4)
Growth in total deposits	5.4	(1.9)	3.0	11.9	10.3
Return on average common equity	15.3	15.4	15.9	12.0	9.8

\*Data as of June 30.

**Table 3****Raiffeisen Banking Group Austria--Capital and earnings**

	<b>--Fiscal year-ended Dec. 31--</b>				
(%)	<b>2024*</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Tier 1 capital ratio	18.0	16.8	16.5	15.2	13.6

**Table 3**

<b>Raiffeisen Banking Group Austria--Capital and earnings (cont.)</b>					
	<b>--Fiscal year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2024*</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
S&P Global Ratings' RAC ratio before diversification	N/A	11.2	9.8	9.3	9.5
S&P Global Ratings' RAC ratio after diversification	N/A	11.1	9.9	9.5	9.9
Adjusted common equity/total adjusted capital	95.9	95.6	95.2	94.3	93.7
Net interest income/operating revenues	69.1	70.4	57.0	58.3	60.3
Fee income/operating revenues	25.2	27.4	35.2	30.8	28.5
Market-sensitive income/operating revenues	3.2	2.5	6.4	3.6	3.9
Cost to income ratio	51.6	49.9	51.4	61.9	63.7
Provision operating income/average assets	1.9	2.0	1.8	1.1	1.1
Core earnings/average managed assets	1.5	1.4	1.2	0.8	0.6

\*Data as of June 30. N/A--Not applicable. RAC--Risk-adjusted capital.

**Table 4**

<b>Raiffeisen Banking Group Austria--Risk position</b>					
	<b>--Fiscal year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2024*</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Growth in customer loans	4.1	0.6	4.8	9.5	15.5
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	0.4	(1.1)	(2.2)	(4.5)
Total managed assets/adjusted common equity (x)	10.3	10.8	12.0	13.5	13.5
New loan loss provisions/average customer loans	0.1	0.3	0.4	0.1	0.4
Gross nonperforming assets/customer loans + other real estate owned	3.4	3.1	2.3	2.3	2.6
Loan loss reserves/gross nonperforming assets	56.9	58.7	67.3	70.1	68.5

\*Data as of June 30. N/A--Not applicable. RWA--Risk-weighted asset(s).

**Table 5**

<b>Raiffeisen Banking Group Austria--Funding and liquidity</b>					
	<b>--Fiscal year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2024*</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Core deposits/funding base	82.3	82.6	85.5	82.7	82.8
Customer loans (net)/customer deposits	102.6	103.7	98.3	99.8	100.5
Long-term funding ratio	94.5	96.2	97.0	95.8	95.4
Stable funding ratio	116.5	117.3	122.1	116.7	116.0
Short-term wholesale funding/funding base	6.1	4.2	3.3	4.6	5.0
Regulatory net stable funding ratio	137.2	132.4	128.0	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	4.1	6.0	8.3	5.5	4.9
Broad liquid assets/total assets	21.6	21.4	23.7	22.0	21.2
Broad liquid assets/customer deposits	30.7	30.5	32.2	30.8	29.5
Net broad liquid assets/short-term customer deposits	26.3	28.7	33.1	53.8	45.2
Regulatory liquidity coverage ratio (LCR) (x)	230.4	215.0	216.0	N/A	N/A
Short-term wholesale funding/total wholesale funding	33.6	23.5	22.3	25.9	28.2



**Table 5**

Raiffeisen Banking Group Austria--Funding and liquidity (cont.)					
(%)	--Fiscal year-ended Dec. 31--				
	2024*	2023	2022	2021	2020
Narrow liquid assets/3-month wholesale funding (x)	7.5	9.9	14.4	14.1	14.0

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

## Rating Component Scores

Raiffeisen Bank International AG--Rating component scores	
Issuer credit rating	A-/Negative/A-2
SACP	a-
Anchor	bbb+
Economic risk	3
Industry risk	3
Business position	Adequate
Capital and earnings	Strong
Risk position	Moderate
Funding	Strong
Liquidity	Strong
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

## Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

**Ratings Detail (As Of December 13, 2024)\*****Raiffeisen Bank International AG**

Issuer Credit Rating	A-/Negative/A-2
Junior Subordinated	BB
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB

**Issuer Credit Ratings History**

29-Apr-2020	A-/Negative/A-2
03-Mar-2020	A-/Stable/A-2
30-May-2017	BBB+/Positive/A-2

**Sovereign Rating**

Austria	AA+/Positive/A-1+
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\*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.

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