S&P Global Ratings

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Research Update:

Raiffeisen Bank International Outlook Revised To Stable From Negative On Lower Nonfinancial Risks; Ratings Affirmed

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Overview

- Raiffeisen Bank International (RBI) has notably scaled back its operations in Russia and withdrew from Belarus in November 2024. This strategic shift has mitigated nonfinancial risks and reduces the likelihood of significant impacts from reputational risk, in our view, despite significant ongoing sanctions from the global community against Russia.
- We also assess the bank's risk organization as positive, with a sound compliance framework, effective IT monitoring, and adequate resources to provide effective support for the bank's sanctions compliance, anti-money-laundering, and counter-terrorism financing (AML/CTF) regulations.
- At the same time, the wider Raiffeisen Banking Group (RBG) maintained good financial performance and strong capitalization in 2024 despite a deterioration in asset quality.
- We therefore revised our outlook on the bank to stable from negative and affirmed our 'A-/A-2' long-term and short-term issuer credit ratings on the bank.
- The stable outlook reflects our view that RBI will either run down or divest its stake in Russian subsidiary AO Raiffeisenbank in the next 12-24 months.

Rating Action

On March 27, 2025, S&P Global Ratings revised its outlook on Austria-based Raiffeisen Bank International (RBI) to stable from negative, and affirmed its 'A-' long-term and 'A-2' short-term issuer credit ratings on the bank.

We also affirmed our 'A-' senior unsecured, 'BBB' subordinated and 'BB' junior subordinated issue ratings on RBI.

Rationale

We believe that nonfinancial risks have lessened since our previous outlook revision on RBI to negative in April 2022, following Russia's invasion of Ukraine. In our base-case scenario, we exclude the Russian operations from RBI's and RBG's financial projections for 2025 and 2026, considering the full write-down of local equity of approximately €4.5 billion and regulatory risk-weighted assets of about €17.3 billion as of December 2024. What's more, we see the risk of further financial losses as materially lower following management's progress in winding down operations at its Russian subsidiary and exiting Belarus. This contains the risk of potential violation of international sanctions and failure to comply with AML/CFT laws. These risks are higher for RBI than other rated European banks, but we expect available financial buffers will cover these risks adequately in our base-case scenario. We also think the likelihood and materiality of potential reputational damage from event risks linked to its operations in Russia have diminished. These factors contributed to our outlook revision on the bank. Our ratings on RBI benefit from being a core member of the stronger, broader banking group, RBG, which we assess through consolidated data.

RBI left Belarus in November 2024 and is focused on de-risking in Russia. Following the sale of its Belarusian subsidiary, Priorbank JSC, we anticipate a similar divestment of a controlling stake, or write-down, of Russian subsidiary AO Raiffeisenbank within the next 12-24 months. Currently, RBI's shares in the subsidiary are under a transfer ban due to a Russian court ruling from September 2024. However, we expect this ban could be lifted in the coming months following another court decision in Russia on Jan. 20, 2025, related to a legal matter we think is resolved from the perspective of Russian authorities (see "Raiffeisen Bank International's 2024 Profits Hit By Russian Court Decision, But Group Capitalization Remains A Strength," published Jan. 21, 2025, on RatingsDirect). We believe RBI will continue to comply with the European Central Bank's request to accelerate its wind-down efforts in Russia. Since second-quarter 2022, the bank has reduced its customer loans and deposits at AO Raiffeisenbank by nearly 70%. It has also stopped local deposit-taking and restricted financial services for most clients, except for whitelisted clients who are usually multinational companies.

We observe that the group has scaled up its controls to comply with stringent sanctions and AML/CTF requirements amid geopolitical uncertainty. We think this speaks to RBI's overall conservative risk appetite and commitment to maintain a robust risk organization across member banks in Austria and Central and Eastern Europe. It has enhanced its compliance staffing in recent years and invested in IT infrastructure to strengthen risk controls. These efforts began before the start of the Russia-Ukraine war in 2022, which in our view demonstrates RBI's commitment to proper risk controls and proactive risk management across the group. We understand RBI has been in regular talks with U.S. and European authorities regarding sanction compliance and regulatory audits. While we remain mindful of sanction and compliance risks as long as exposures to Russia remains high, and that regulatory enforcement for deficiencies come with a time lag, we think the likelihood of breaches has sufficiently decreased over the past two years.

RBG's good financial performance and strong capitalization contribute to the group's creditworthiness, despite a decline in asset quality throughout 2024 and one-offs related to RBI's operations in Belarus and Russia. We anticipate that RBG will report a solid fiscal year for 2024, with projected net profits of approximately €3.8 billion, albeit down from €4.5 billion in 2023.

The anticipated approximately 16% decline in profits is primarily attributable to one-time impacts from RBI's divestiture of Priorbank JSC in Belarus (€830 million) and an €840 million legal provision related to a recent Russian court ruling. We anticipate some positive offsetting factors from other RBG positions. Excluding AO Raiffeisenbank we project RBG's return on equity to remain at 9.0%-10.0% in 2025 and 2026, after an estimated 9.9% in 2024. The deterioration of RBG's asset quality, reflected in a nonperforming asset (NPA) ratio of 3.1% in 2023 and an estimated 3.6% in 2024, is largely due to challenges in Austria, particularly defaults within the commercial real estate sector. Also, RBI's litigation provisions related to its foreign currency mortgage portfolio in Poland adversely affected the group's financial results in 2024, but we expect a decreased impact in 2025. We forecast RBG's NPA ratio to remain near 3.5% through year-end 2026, and its cost of risk to be stable at approximately 30 basis points, following an estimated 33 basis points in 2024.

Outlook

The stable outlook reflects our expectation that RBG will maintain a resilient balance sheet and robust earnings performance despite economic and geopolitical risks over the next 12-24 months. In our base-case scenario, we anticipate that RBI will de-risk from Russia by either selling a majority stake AO Raiffeisenbank or managing it down effectively.

Downside scenario

We could take a negative rating if the group's operating environment deteriorates beyond our base-case expectations, resulting in setbacks to RBG's profitability, asset quality, or capitalization. This could happen, for example, if asset quality problems increased materially in key operating markets. We could also take a negative rating action if RBI faces material sanction allegations or regulatory intervention related to its operations in Russia.

Upside scenario

While unlikely in the next 12-24 months, we could take a positive rating action if RBG improves its asset quality and demonstrates consistent and improving earnings performance while maintaining strong capitalization. This could align RBG's creditworthiness more closely with peers that have a group credit profile of 'a'. A precondition for an upgrade would be a successful divestment from Russia.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	**A-/Stable/A-2**	**A-/Negative/A-2**
SACP	a-	a-
Anchor	bbb+	bbb+
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Strong (+1)	Strong (+1)
Risk position	Moderate (-1)	Moderate (-1)

	To	From
Issuer Credit Rating	**A-/Stable/A-2**	**A-/Negative/A-2**
Funding and liquidity	Strong and Strong (+1)	Strong and Strong (+1)
Comparable ratings analysis	0	0
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, 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

Related Research

- Credit Conditions Europe Q2 2025: Europe Plots A New Course, March 26, 2025
- Raiffeisen Bank International's 2024 Profits Hit By Russian Court Decision, But Group Capitalization Remains A Strength, Jan. 21, 2025
- Banking Brief: CEE Banks Can Stomach Headwinds In The Auto Industry, Jan. 14, 2024
- Tear Sheet: Raiffeisen Bank International AG, Dec. 13, 2024
- Central And Eastern Europe Banking Outlook 2025: Economic Recovery Supports Banks' Solid Performance, Dec. 11, 2024
- Banking Industry Country Risk Assessment: Austria, Aug. 27, 2024

Ratings List

Ratings Affirmed		
Raiffeisen Bank International AG		
Senior Unsecured	A-	
Junior Subordinated	BB	
Ratings Affirmed; Outlook Action		
	To	**From**
Raiffeisen Bank International AG		
Issuer Credit Rating	A-/Stable/A-2	A-/Negative/A-2

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