S&P Global
Ratings

RatingsDirect®

Raiffeisen Bank International AG

Primary Credit Analyst:
Harm Semder, Frankfurt + 49 693 399 9158; harm.semder@spglobal.com

Secondary Contact:
Anna Lozmann, Frankfurt + 49 693 399 9166; anna.lozmann@spglobal.com

Table Of Contents

Raiffeisen Bank International AG

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	Adequate	0
Risk position	Adequate	0
Funding	Strong	+1
Liquidity	Strong	
CRA adjustment		0

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

Issuer credit rating
A-/Negative/A-2

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

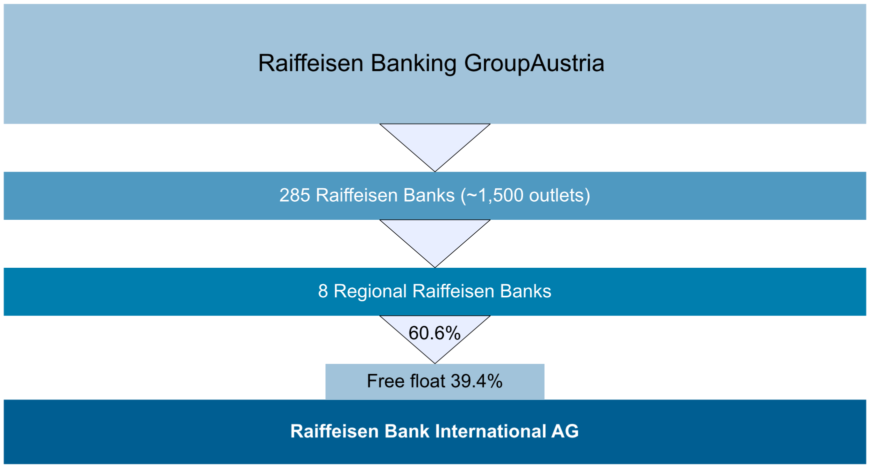
Credit Highlights

Overview

Key strengths	Key risks
Core member of the Raiffeisen Banking Group (RBG)and its institutional protection scheme.	Significant vulnerability to developments in the Russia-Ukraine war due to its large Russian subsidiary.
Solid retail and commercial banking market positions in Austria, Central and Eastern Europe (CEE), and Southeastern Europe (SEE).	RBG's financial transparency and adaptability to market changes appears weaker than many of its main peers due to its complex, decentralized structure.
Superior funding profile and liquidity management substantiated by strong retail deposit franchise in each of its major local markets.	Highly competitive Austrian market and less efficient domestic operations.

S&P Global Ratings expects Raiffeisen Bank International (RBI) will remain core to RBG's strategy and be supported under all foreseeable circumstances. Our rating on RBI reflects not only the creditworthiness of RBI itself but also the benefits to RBI of being part of a stronger, broader banking group. Our ratings are based on RBG's aggregate creditworthiness (group credit profile; GCP), including its cohesiveness, expectation of support from member banks if required, and our expectation that RBI (as RBG's central unit) will remain a core strategic member of the wider group for the foreseeable future.

Raiffeisen Banking Group--Group structure



RBG's solid profits and improved capital headroom provide a comfortable cushion against the initial commercial, economic, and franchise impacts from high RBI risk in Russia. RBG and RBI have markedly improved their cushion against difficult markets under inflationary pressure as well as risks from the Russian-Ukraine war, including a potential need to exit RBI's Russian subsidiary. RBG posted a much improved 16.8% return on average common equity (ROE) for 2022, after 12% for 2021. It benefited from interest margin increases across all regions but also from unsustainably high windfall profits from RBI's Russian operations (which are locked in the Russian subsidiary). RBG comfortably improved its risk adjusted capital (RAC) ratio by 43 basis points (bps) to 9.7% by year-end 2022. Modelling RBI's potential full divestment of its Russian subsidiary, we estimate that RBG's RAC ratio would fall to a still satisfactory level of about 8.9% by year-end 2022, after deducting a €4.0 billion full write-down of the capital investment and deconsolidating €13 billion of associated regulatory risk-weighted assets (RWAs), which was RBI's announced Russian deconsolidation scenario exposure in third quarter (Q3) 2023. Accordingly, we estimate that RBG's RAC ratio (after the write-down from its Russian subsidiary) will recover to 9.3%-9.9% between 2023-2025 based on much increased interest margins from domestic and foreign operations from higher interest rate tailwinds.

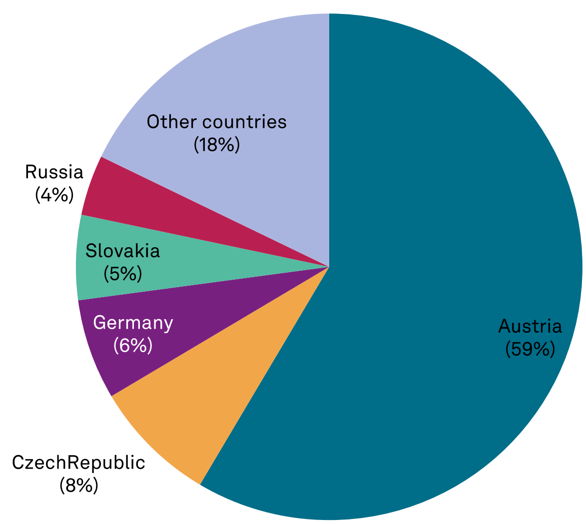
RBI's own financial resilience improved against risks and secondary effects from the Russia-Ukraine war. RBI continues to post strong profitability with a 17.4% annualized consolidated ROE for the first nine months of 2023, or more significantly, a solid 10.9% ROE excluding its operations in Russia and Belarus. We expect this level of profitability to wane as the Russia-Ukraine conflict continues and the global economy further slows through 2023. However, thanks to this temporary boost in profitability, RBI materially improved its consolidated regulatory common equity tier 1 (CET1) ratio to 16.5% by Sept. 30, 2023, from 14.6% a year earlier. More importantly, RBI reported that it would be able to maintain a 14.4% CET1 ratio after Sept. 30, 2023, under a deconsolidation scenario of its Russian subsidiary. RBI states that any decision on dividend payments will be based on whatever remains above its 13.5% target for 2023. We estimate RBI's stand-alone RAC ratio at 9.0% as of year-end 2022, which we believe would fall to a pro forma 7.5% after the deconsolidation of its Russian subsidiary with its Q3 2023 Russian deconsolidation scenario exposure. We consider this an adequate capitalization level also in the context of RBI's sound risk management, and geographic diversification against the backdrop of difficult economic conditions in its main markets.

We believe RBG's high market share and strong customer franchise are partly offset by the complexity of its group structure. With assets of €400 billion as of year ended Dec. 31, 2022, RBG is the largest banking group in Austria. It serves around 17.8 million customers in 13 countries, and continues to have a dominant market share of 34% in domestic customer deposits. RBG's comprehensive and extensive banking network is organized into three tiers (see Chart 1a). Through RBI, RBG also holds top-five market positions in 10 of 13 CEE markets, where its focus is standard retail and corporate banking activities. The cooperative Raiffeisen banks focus on retail banking. The regional Raiffeisen banks, which focus on retail and corporate banking, provide liquidity balancing and other central services for the Raiffeisen banks in their area of activity.

Chart 1

Austria remains RBG's dominant market

Raiffeisen Banking Group--Geographic breakdown of exposures at default



Data as of December 31, 2022. Source: S&P Global Ratings.

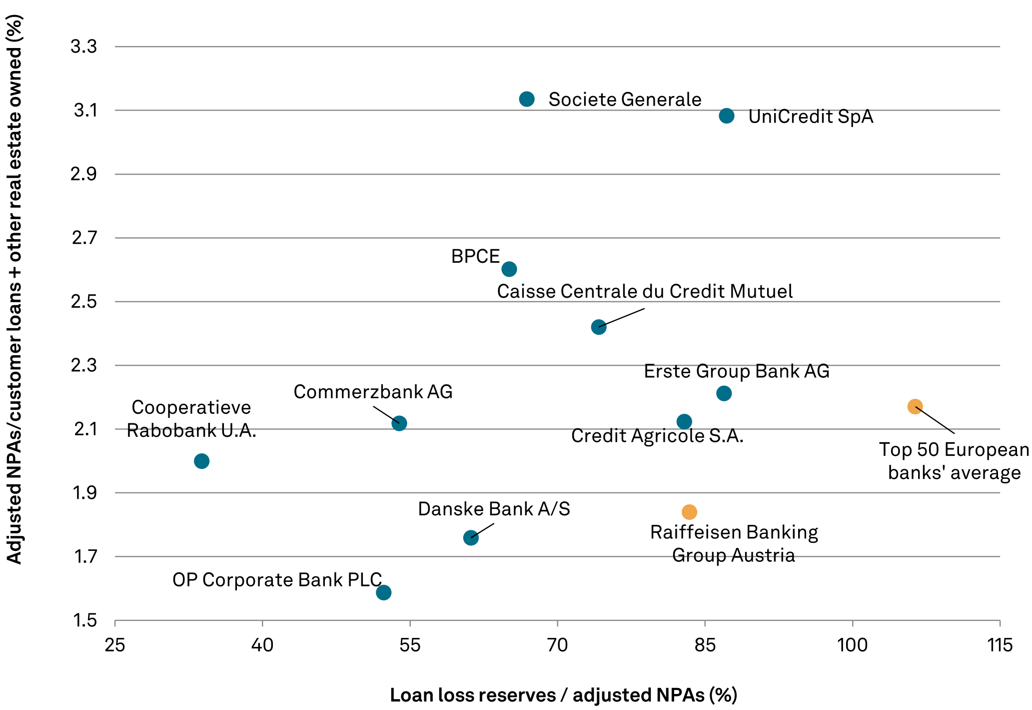
The complexity of RBG's group structure continues to limit economy-of-scale benefits and hinder group transparency. The group's complex structure results in less financial transparency and could mean slower reactions to changes in the operating environment, compared to peers. It also prevents the group from fully realizing scale efficiencies, particularly in its domestic operations. We expect no material changes to RBG's operational efficiency in the near future, as indicated by a forecast stable 51% cost-to-income ratio by year-end 2025, because inflationary cost pressures dampen the effects from anticipated revenue improvements. In our view, the group would also require a deep organizational restructuring to realize the higher-than-market-average returns that often characterize banking groups with leading national market positions.

We believe RBG's stronger focus on operations in higher risk countries is balanced by a materially lower domestic credit risk profile (after exiting its Russian operations). RBG has a system of risk principles and procedures in place for measuring and monitoring risk, which is aimed at controlling and managing material risks in the group. The bank has a Risk Appetite Framework, which limits overall risk in accordance with its strategic business objectives and allocates the risk capital calculated to the different risk categories and business areas. However, considering RBI also finances larger ticket corporate and commercial real estate (CRE) deals, we are mindful that single, but meaningful defaults may occur, hitting its financial performance. RBG's consolidated CRE exposure amounts to €24 billion (or 8.2% of its year-end 2022 customer loans) including RBI's €14 billion (or 13.4% of RBI's Q3 2023 customer loans), and we believe it is well-managed, diversified, and highly collateralized. RBI reported a 1.5% nonperforming exposure (NPE)-to-total loans ratio on Sept. 30, 2023, as it saw improvements in all regions except Eastern Europe where its NPE ratio remained at a similar level to the previous year (2.1% as of Sept. 30, 2023; 2.2% on Sept. 30, 2022).

Chart 2a

RBG's asset quality is favourable to many peers

Asset quality comparison with peers and top 50 European peers' as of year ended December 31, 2022



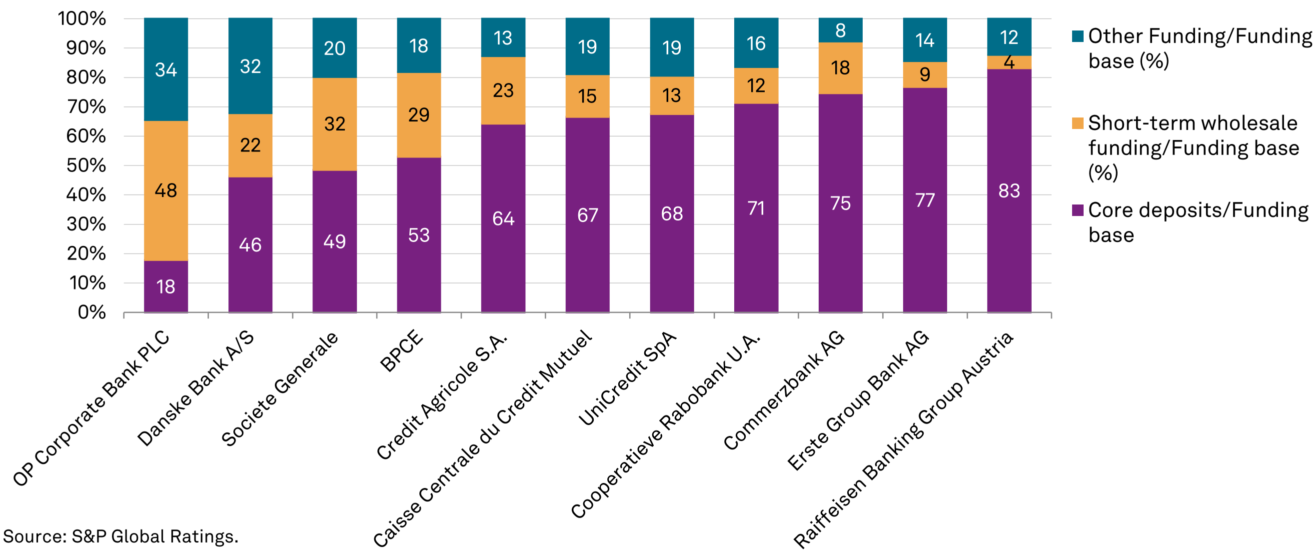
NPA--Non-performing assets. Source: S&P Global Ratings.

We continue to view RBG's funding and liquidity profile as favorable to many European peers, and a rating strength. We expect the group's large retail branch network in Austria and CEE, along with its strong franchise with domestic corporate clients, will continue providing it with a stable and granular core deposit base (83% of the funding base at Dec. 31, 2022), and with low single-name concentrations. We expect that RBG's mutual support mechanism and strong reputation will continue to foster customer confidence and stability of deposits in adverse conditions. This is underpinned by the sizable surplus funding of the majority of local Raiffeisen banks, which comes chiefly from the deposits of retail and smaller corporations.

Chart 3a

RBG is heavily reliant on customer deposits

Funding Mix of RBG as compared to peers as of year ended December 31, 2022



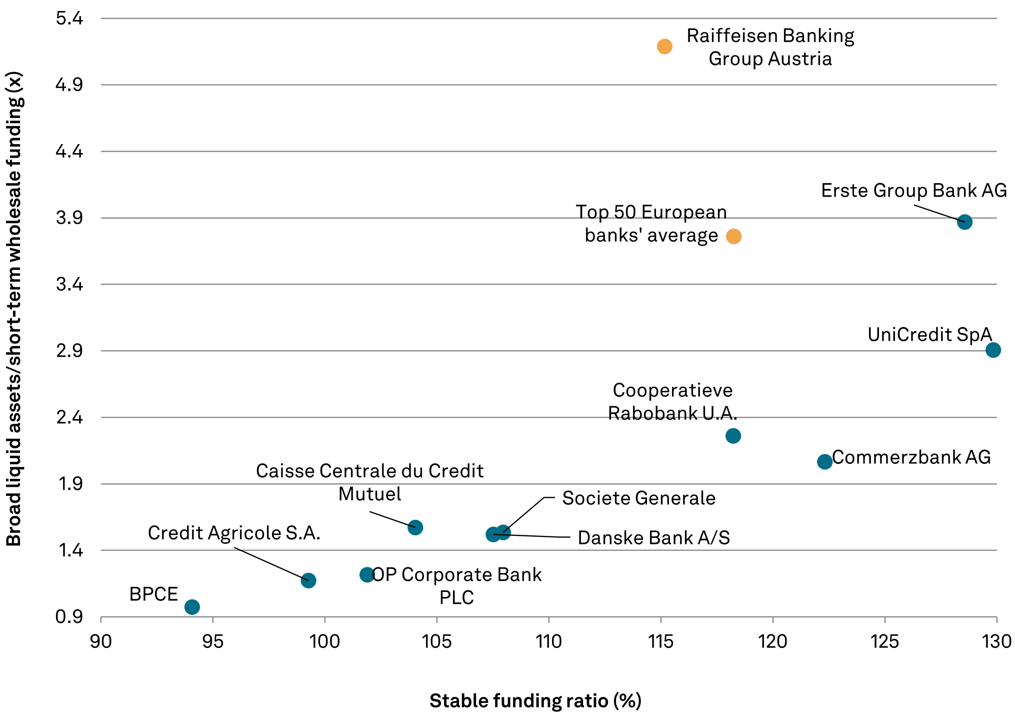
Source: S&P Global Ratings.

RBG's loan-to-deposit ratio stood at 101% as of Dece. 31, 2022 and indicates that the strength of the deposit base is sufficient to fund daily lending business. RBG's funding and liquidity ratios have fared well compared with many peers. The stable funding ratio stood at 115.2% as of Dec. 31, 2022, supporting our view of the bank's funding strength. RBG member banks' solidarity provides additional stability to their funding profiles, while RBI's more volatile operations benefit from ongoing group support from RBG, which places excess liquidity from client deposits in RBI. We expect RBG will continue benefiting from the solid market position in its Austrian and foreign operations. The BLAST ratio stood at 5.2x as of Dec. 31, 2022, which is higher than the top 50 European banks' average of 3.8x.

Chart 4a

RBG ranks higher than many peers in terms of SFR and BLAST

RBG versus Peers - Funding & Liquidity performance as of year ended December 31, 2022



Source: S&P Global Ratings.

Outlook

The negative outlook reflects our view that RBG continues to face significant downside risks in the coming 12-24 months, mainly due to geopolitical and macroeconomic challenges faced by RBI's Russian subsidiary, as well as possible spill-over effects into its main markets. We also see potential heightened reputational, political, and financial tail risk arising from its outsized Russian operations persisting until it executes an orderly exit.

Downside scenario

We could lower our rating on RBI in the next 12-24 months if the operating environment proves worse than expected, resulting in setbacks to RBG's profitability, asset quality, or capitalization that are beyond our base-case expectations. This could happen, for example, if asset quality problems increased significantly in its main operating markets. Higher-than-expected loss of equity investments in these countries, particularly in Russia, could also lead us to lower the rating. A material weakening of RBI's capitalization due to pronounced credit losses and weaker earnings in higher-risk regions could also lead to a downgrade.

Upside scenario

We could revise the outlook to stable if RBG successfully navigates its exit from Russia, which would also need to be supported by expectations of RBG's robust asset quality, earnings, and capitalization. An outlook revision 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

	--Fiscal year ended Dec. 31 --				
(%)	**2021a**	**2022a**	**2023f**	**2024f**	**2025f**
Growth in operating revenue	5.3	41.5	5.9-7.2	0.9-1.1	1.4-1.7
Growth in customer loans	9.5	5.1	0.9-1.1	0.9-1.1	0.9-1.1
Growth in total assets	11.0	3.2	0.4-0.5	0.5-0.6	0.5-0.7
Net interest income/average earning assets (NIM)	2.0	2.6	2.9-3.2	2.9-3.2	2.9-3.2
Cost to income ratio	61.9	50.6	48.1-50.6	49.1-51.6	49.8-52.3
Return on average common equity	12.0	16.8	14.5-16.0	14.0-15.5	13.3-14.7
Return on assets	0.8	1.4	1.2-1.5	1.2-1.5	1.2-1.5
New loan loss provisions/average customer loans	0.1	0.4	0.3-0.4	0.2-0.2	0.2-0.2
Gross nonperforming assets/customer loans	1.9	0.0	2.4-2.6	2.2-2.4	2.0-2.2
Risk-adjusted capital ratio	9.3	9.7	9.2-9.7	9.4-9.9	9.7-10.2

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

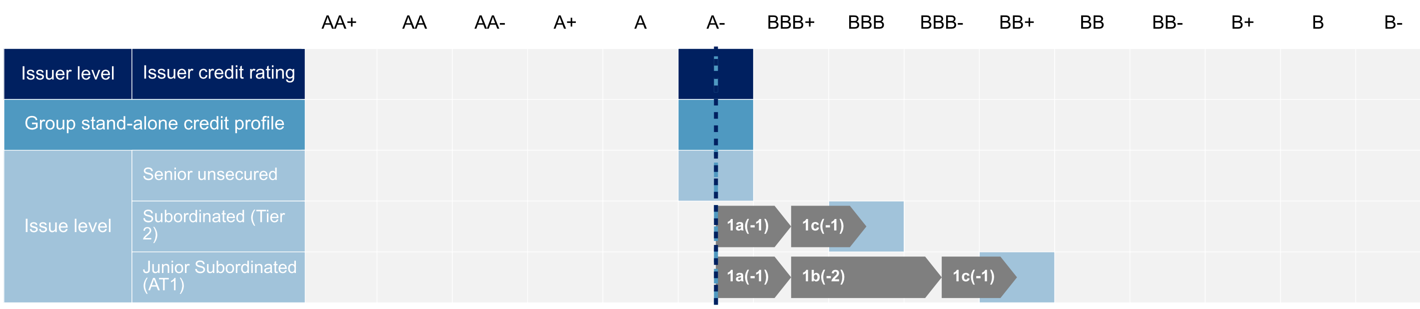
Environmental, Social, And Governance

We consider RBG's environmental, social, and governance to be broadly in line with those of its industry and Austrian peers.

Group Structure, Rated Subsidiaries, And Hybrids

The ratings on the subordinated and hybrid issues reflect our analysis of the instruments and our 'A-' issuer credit rating on RBI (see chart).

Raiffeisen Bank International AG: Notching



Key to notching

- Group stand-alone credit profile (dashed light blue line)
- Issuer credit rating (dashed dark blue line)
- 1a Contractual subordination
- 1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
- 1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on March 2, 2022.
AT1--Additional Tier.

In most cases, when rating subordinated and hybrid instruments, we notch down from the issuer stand-alone credit profile, because we believe that this approach better reflects the instruments' risks. However, for RBI, we use our issuer credit rating as the starting point for the notching, because we believe that RBG's group support will extend to RBI's subordinated and hybrid issues.

Key Statistics

Table 1

Raiffeisen Banking Group Austria--Key figures					
	--Fiscal year-ended Dec. 31--				
(Mil. €)	2022	2021	2020	2019	2018
Adjusted assets	399,071.5	386,905.1	348,564.3	318,865.4	298,860.0

Table 1

Raiffeisen Banking Group Austria--Key figures (cont.)

	--Fiscal year-ended Dec. 31--				
(Mil. €)	**2022**	**2021**	**2020**	**2019**	**2018**
Customer loans (gross)	294,202.9	280,805.8	256,520.7	222,199.0	190,566.4
Adjusted common equity	33,436.7	28,762.8	25,950.7	25,115.3	22,657.8
Operating revenues	14,538.2	10,271.3	9,751.3	9,887.4	9,197.0
Noninterest expenses	7,350.2	6,355.6	6,215.6	6,396.4	6,080.0
Core earnings	4,958.7	2,972.8	2,036.9	2,581.9	2,299.0

Table 2

Raiffeisen Banking Group Austria--Business position

	--Fiscal year-ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Return on average common equity	16.7	12.0	9.8	13.3	13.5

Table 3

Raiffeisen Banking Group Austria--Capital and earnings

	--Fiscal year-ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Tier 1 capital ratio	15.9	14.7	13.6	12.6	12.0
S&P Global Ratings' RAC ratio before diversification	9.8	9.3	9.5	9.5	N/A
S&P Global Ratings' RAC ratio after diversification	9.9	9.5	9.9	9.4	N/A
Adjusted common equity/total adjusted capital	95.1	94.3	93.7	95.7	95.2
Net interest income/operating revenues	57.3	58.3	60.3	60.0	63.3
Fee income/operating revenues	35.1	30.8	28.5	28.2	29.8
Market-sensitive income/operating revenues	6.4	3.6	3.9	4.0	3.6
Cost to income ratio	50.6	61.9	63.7	64.7	66.1
Preprovision operating income/average assets	1.8	1.1	1.1	1.1	1.1
Core earnings/average managed assets	1.3	0.8	0.6	0.8	0.8

N/A--Not applicable.

Table 4

Raiffeisen Banking Group Austria--Risk-adjusted capital framework data

	Exposure*	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	102,215.2	7,138.3	7.0	20,538.3	20.1
Of which regional governments and local authorities	11,338.2	489.4	4.3	689.9	6.1
Institutions and CCPs	91,466.3	4,712.7	5.2	23,334.6	25.5
Corporate	113,891.8	83,531.6	73.3	110,516.0	97.0
Retail	137,578.8	60,171.7	43.7	68,939.2	50.1
Of which mortgage	98,500.2	36,194.9	36.7	30,321.0	30.8
Securitization§	532.1	111.8	21.0	1,205.7	226.6

Table 4

Raiffeisen Banking Group Austria--Risk-adjusted capital framework data (cont.)					
Other assets†	29,719.5	14,958.0	50.3	31,932.6	107.4
Total credit risk	475,403.8	170,624.2	35.9	256,466.2	53.9
Credit valuation adjustment					
Total credit valuation adjustment	--	539.0	--	0.0	--
Market Risk					
Equity in the banking book	8,975.6	10,454.9	116.5	74,398.0	828.9
Trading book market risk	--	7,234.5	--	10,615.5	--
Total market risk	--	17,689.4	--	85,013.5	--
Operational risk					
Total operational risk	--	21,369.7	--	18,927.2	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	223,199.7	--	360,406.9	100.0
Total Diversification/ Concentration Adjustments	--	--	--	(3,801.9)	(1.1)
RWA after diversification	--	223,199.7	--	356,604.9	98.9
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		35,366.5	15.8	35,142.0	9.8
Capital ratio after adjustments‡		35,366.5	15.9	35,142.0	9.9

*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. CHF--Swiss franc. Sources: Company data as of Dec. 31 2021 and S&P Global Ratings.

Table 5

Raiffeisen Banking Group Austria--Risk position					
	--Fiscal year-ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Growth in customer loans	4.8	9.5	15.4	16.6	(0.8)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	(1.1)	(2.2)	(4.5)	0.4	N/A
Total managed assets/adjusted common equity (x)	12.0	13.5	13.5	12.7	13.2
New loan loss provisions/average customer loans	0.4	0.1	0.4	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.8	1.9	2.6	3.0	5.5
Loan loss reserves/gross nonperforming assets	83.4	83.4	68.5	66.9	44.4

N/A--Not applicable.

Table 6

Raiffeisen Banking Group Austria--Funding and liquidity

	--Fiscal year-ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Core deposits/funding base	83.2	82.7	82.8	86.6	89.9
Customer loans (net)/customer deposits	101.0	99.8	100.5	91.6	80.7
Long-term funding ratio	95.9	95.8	95.4	94.1	94.8
Stable funding ratio	115.2	113.4	112.6	113.5	114.4
Short-term wholesale funding/funding base	4.5	4.6	5.0	6.4	5.7
Regulatory net stable funding ratio	128.0	N/A	N/A	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	5.2	5.0	4.3	3.8	4.4
Broad liquid assets/total assets	20.0	19.8	18.9	21.0	21.7
Broad liquid assets/customer deposits	27.9	27.7	26.3	28.3	28.2
Net broad liquid assets/short-term customer deposits	48.0	47.1	39.1	38.9	27.3
Regulatory liquidity coverage ratio (LCR) (x)	216.0	N/A	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	25.9	25.9	28.2	46.6	54.7
Narrow liquid assets/3-month wholesale funding (x)	13.6	13.0	12.8	6.5	6.2

N/A--Not applicable.

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	Adequate
Risk position	Adequate
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

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of November 20, 2023)*	
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+/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.