



ECONOMIC



FOOTPRINT®



IMPACT ANALYSIS 2018
OF RAIFFEISEN BANK INTERNATIONAL

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1. Introduction and objective

As the country's largest financial services group, Raiffeisen Bankengruppe is one of the leading companies in the Austrian economy and has a unique structure. Raiffeisen Bankengruppe previously commissioned the economic research institute Economica to conduct a study to document its economic relevance for both 2013 and 2017. This means that the Economic Footprint® (a registered trademark of the Economica/Cognion research association) of Raiffeisen Bankengruppe in Austria is well documented both nationally and regionally.

Raiffeisen Bank International (RBI) – a member of Austria's Raiffeisen Bankengruppe – is a similarly important player on the European banking market, particularly in Central, Southeastern and Eastern Europe. There have been numerous changes in the environmental conditions in the banking sector in recent years such as regulatory measures to safeguard financial market stability, restructuring in both Austria and Central and Eastern Europe, a sustained low interest rate environment, and adjustments to reflect the advance of digitalization (e.g. enhancements to Internet banking offerings), as well as changes in consumer behavior. For this reason, the aim of this study is to determine the value-added and employment contributions of Raiffeisen Bank International for 2018 for all CEE countries (incl. Austria) in which it is active. In addition to Austria, this specifically includes the following regions (and countries): Central Europe (Poland, Slovakia, Czech Republic, Hungary), Southeastern Europe (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Romania, Serbia) and Eastern Europe (Belarus, Russia, Ukraine). In April 2018, RBI signed a contract to sell the core banking operations of Raiffeisen Bank Polska S.A. by way of demerger to Bank BGZ BNP Paribas S.A., a subsidiary of BNP Paribas S.A. (BNP). Following receipt of the regulatory approvals in particular, and eventual demerger, the transaction closed on 31 October 2018.

The economic contribution calculated in this study describes the total economic impact made by the operating performance of Raiffeisen Bank International in the CEE countries (incl. Austria). In other words, the aim of the investigation was to quantify not only the direct economic contribution resulting from RBI's economic activities, but also the effects throughout the upstream value-added chain (indirect effects) triggered by intermediate inputs in other sectors in the CEE countries (incl. Austria).

2. Methodology

RBI's economic footprint encompasses the quantification of the economic effects in terms of gross value added and employment.

The presentation of the economic footprint® begins with an investigation of the economic contribution in terms of the direct- and indirect value-added and employment contribution and the production value. RBI's value-added shares in the respective CEE countries (incl. Austria), the differences between the value-added factors and the sector distribution are also taken into account.

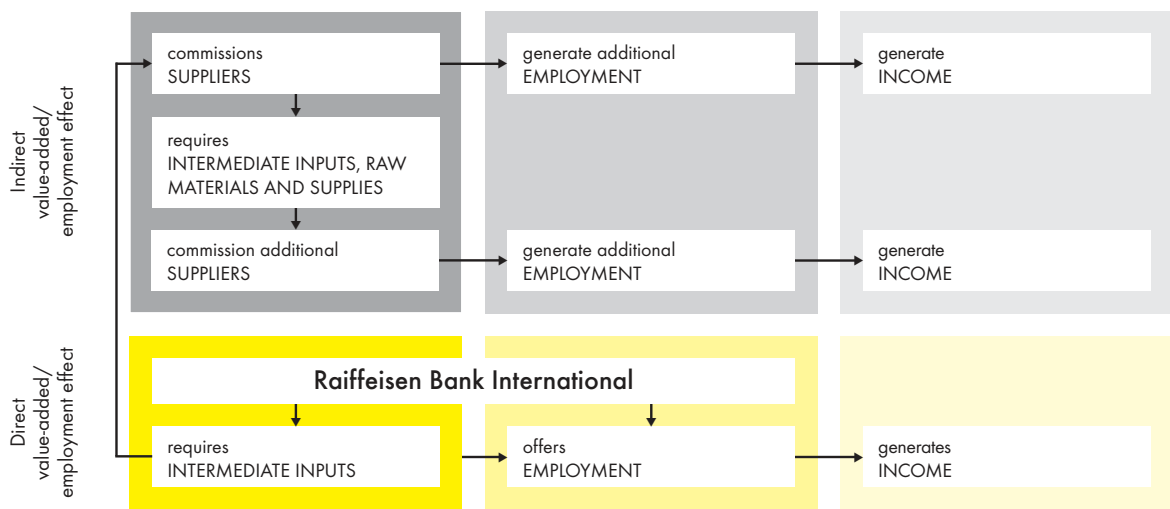
For the purposes of this study, a distinction is made between two different types of effect using a multinational input-output model:

- The **direct value-added/employment effect**: This encompasses the gross value added, as well as or employment generated directly within RBI in the CEE countries (incl. Austria).
- The **indirect value-added/employment effect**: This is derived from supplier relationships (intermediate inputs) along the entire value-added chain (e.g. a bank needs electricity, office supplies, cleaning, etc. – this serves to stimulate final demand in the electricity, retail, and business services sectors; these companies require intermediate inputs in turn, etc.).

Due to the lack of the necessary data at the level of individual CEE countries (e.g. including information on the proportions of foreign consumption by private households, national savings ratios or information on the principles and amount of supplementary income, such as unemployment benefit or emergency assistance in the event of unemployment), the induced effects resulting from the application of income are not quantified in this study. In other words, the overall effect does not include the downstream effects triggered by increased consumer spending and investment. This means the effects reported in this study are not directly comparable with the results of previous value added reports.

An overview of the value-added chain and the economic effects generated can be found in Figure 1.

Figure 1: RBI's value-added chain



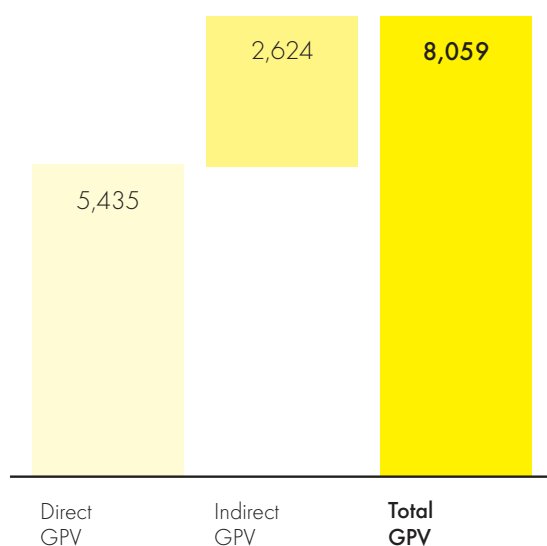
Quantifying the macroeconomic relevance of RBI as part of impact analysis firstly requires RBI to be presented in an international context as realistically as possible and aligned to the national accounts. This uses company satellite accounts, which allow RBI to be presented at national level in terms of both its production and its application of income. The presentation of the entire value-added chain serves to prevent the possibility of double counting and hence overestimating the total effect, which is a typical issue when it comes to internal service and performance inputs. The multinational structure of the satellite account (which reflects not only the inputs in each individual country, but also the international flows between the countries in question) ensures that all feedback effects from RBI's activities between the CEE countries (incl. Austria) are presented and recorded correctly.

A company satellite account for RBI therefore offers a uniform, reliable and current basis of empirical data, enabling the precise presentation of direct and indirect value-added and employment effects both within RBI as a whole and at country level.

3. Operating income and gross production value

RBI's **operating income** amounted to **€ 5,298 million** in 2018. The economic counterpart to it and the basis of all further calculations is gross production value, which expresses the value of all of the goods and services generated.

Figure 2: RBI's gross production value (GPV) in the CEE countries (incl. Austria), in € million, 2018



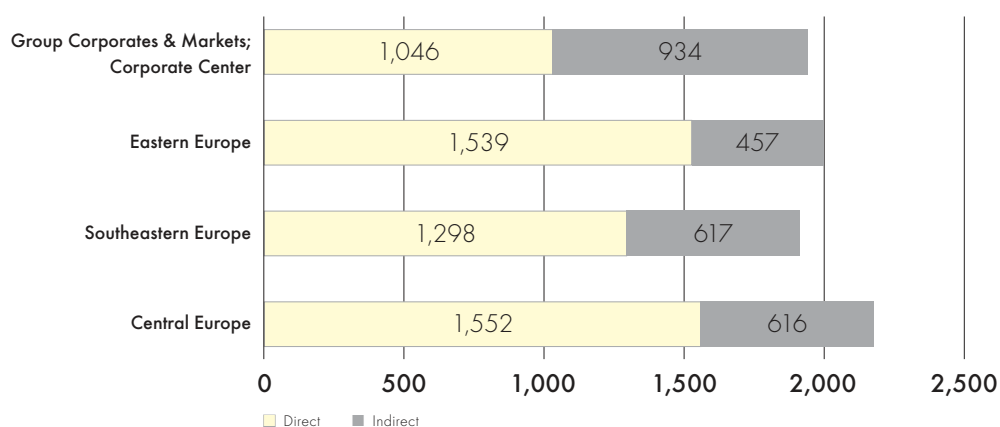
The direct **gross production value** generated within RBI across all CEE countries and Austria is **€ 5,435 million**. Intermediate inputs in the upstream value chain result in indirect effects of € 2,624 million, meaning the total gross production value in the countries included in the study¹ is € 8,059 million (see Figure 2).

The factor is calculated by dividing the total effect by the direct effect. The gross production value **factor is 1.48**, meaning that every euro of gross production value generated within RBI triggers 48 cents in indirect effects in other economic sectors of the CEE countries (incl. Austria).

The picture in terms of the individual markets is extremely balanced, with a total of € 1,996 million attributable to Eastern Europe, € 1,916 million to Southern Europe and € 2,167 million to Central Europe. A presentation of the RBI effects by segment, broken down into direct and indirect effects, can be found in Figure 3.²

Source: RBI, Economica

Figure 3: RBI's gross production value by market, in € million, 2018



Source: RBI, Economica

¹ In addition to Austria, these countries are Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Kosovo, Poland, Romania, Russia, Serbia, Slovakia and Ukraine.

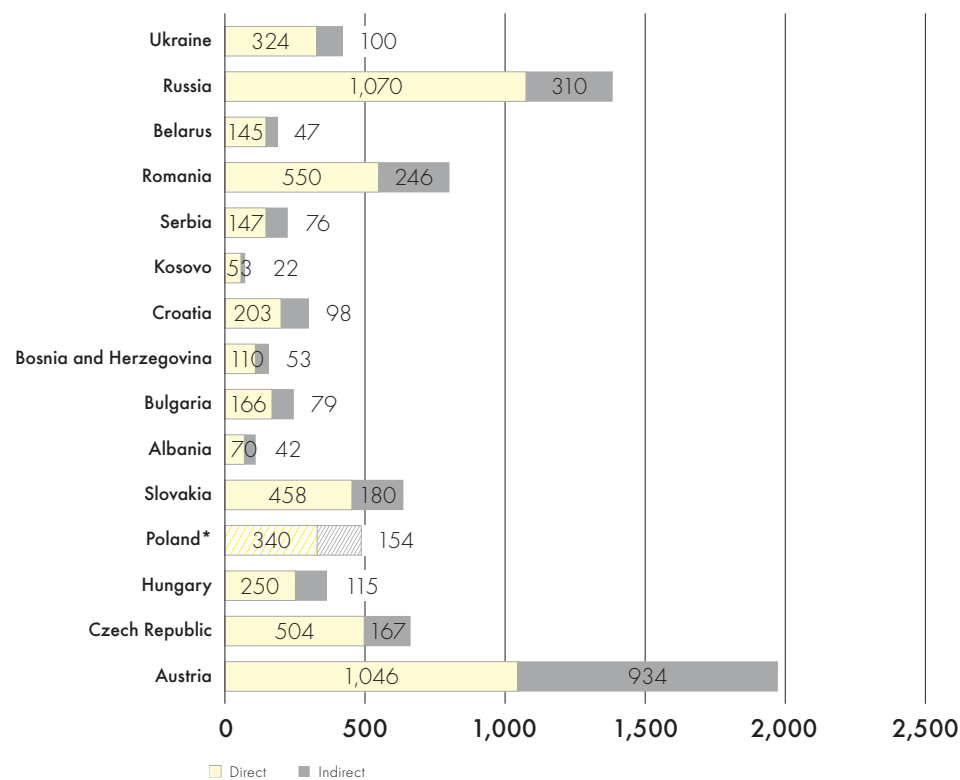
² The markets in the segment are combined to form regional segments containing countries with similar economic characteristics and long-term growth prospects. Business posted in Austria is bundled in the "Group Corporates & Markets" segment. The "Corporate Center" segment contains the central Group management functions at RBI AG and other Group units and minority interests.

The production value factor, as a measure for the economic lever, is the highest in the „Group Corporates & Markets“ and „Corporate Center“ segments at 1.89, followed by Southeastern Europe at 1.47 and Central Europe at 1.40. The lowest figure is recorded by Eastern Europe at 1.30.

The differences between the factors are attributable not only to the different cost structures (see section 4) in the individual markets (disregarding import inputs, a high proportion of non-personnel expenses would imply a higher factor), but also result in particular from differences in inputs and imports involving markets abroad. A high proportion of imports in the intermediate inputs subsequently leads to outflows of value added and thus a lower level of indirect effects in the respective country. At the same time, however, the value added abroad is positively influenced, so that those countries which export a lot, also have a high level of indirect effects on the gross production value, employment and value added.

The breakdown at country level is even more detailed: With its headquarters function, Austria leads the way with a gross production value of € 1,980 million, followed by Russia at € 1,380 million and Romania at € 796 million. An overview of the individual countries can be found in Figure 4.

Figure 4: RBI's gross production value by country, in € million, 2018



Source: RBI, Economica

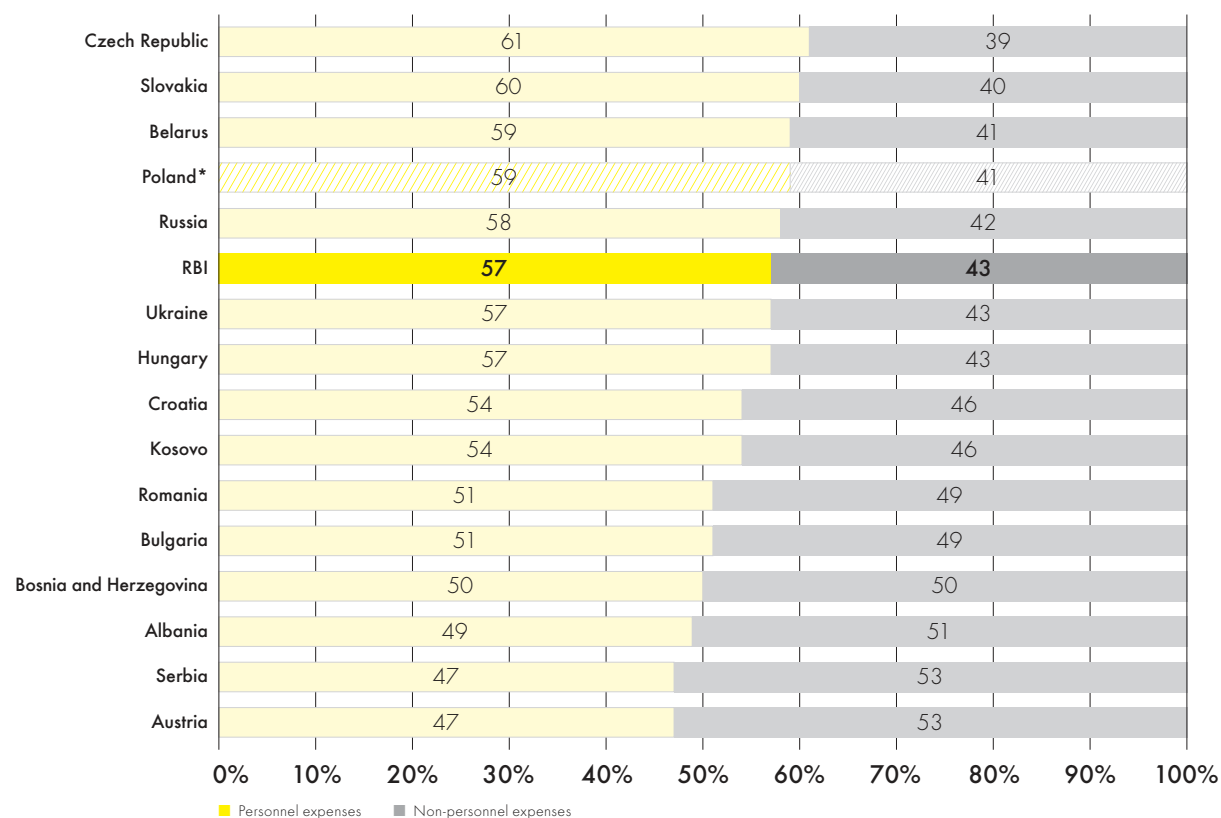
*Sale of core banking operations in October 2018 (see introduction, page 3)

4. Personnel and non-personnel expenses

Personnel and non-personnel expenses at RBI totaled € 2,758 million in 2018. The share of total expenses attributable to personnel expenses varies by country, from 47 percent in Austria up to 61 percent in the Czech Republic.

The average is 57 percent for personnel expenses and 43 percent for non-personnel expenses. A breakdown of RBI's costs in each country can be found in Figure 5.

Figure 5: RBI's personnel and non-personnel expenses by country, in percent, 2018



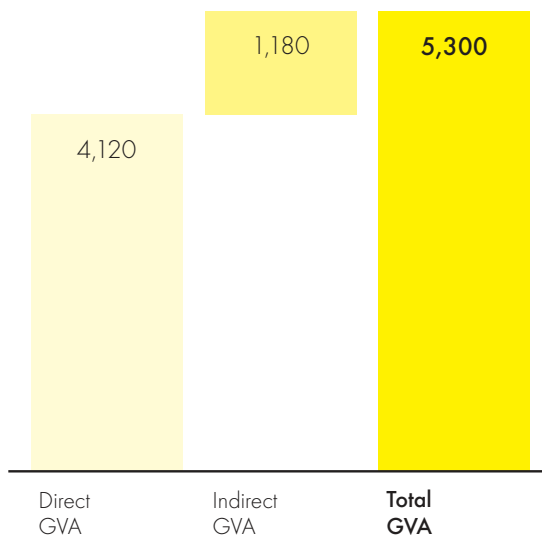
Source: RBI, Economica

* Sale of core banking operations in October 2018 [see introduction, page 3]

5. Value-added effects of Raiffeisen Bank International

When it comes to showing a company's economic value added, gross value added is a more informative figure than gross production value. Gross value added is derived from the gross production value less all intermediate inputs. This means it measures the amount available for remunerating the production factors of work (personnel expenses) and capital (profits, depreciation and amortization).

Figure 6: RBI's gross value added (GVA), in € million, 2018

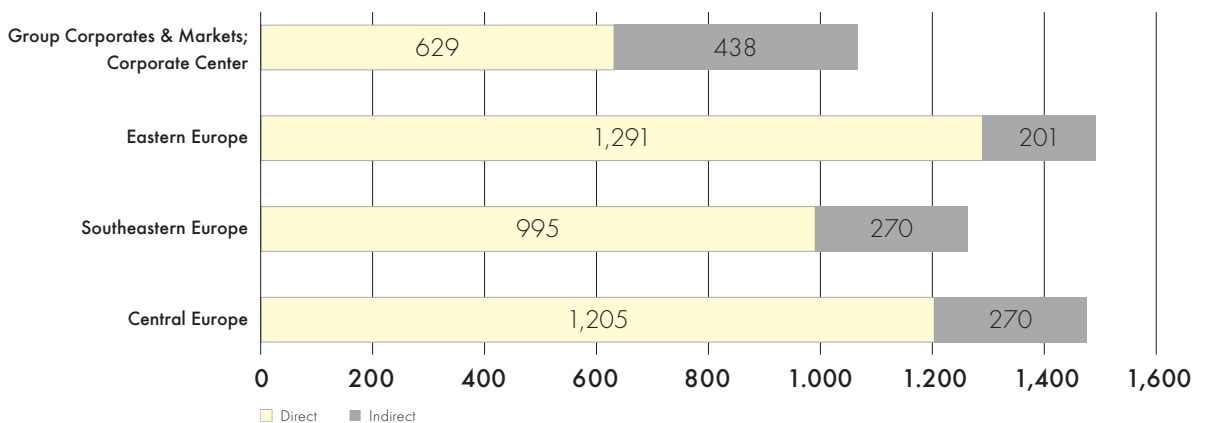


Source: RBI, Economica

RBI's total **gross value added** amounts to **€ 5.3 billion**. As financial services is a sector with high value added and relatively low intermediate inputs compared with manufacturing companies, the direct effect accounts for € 4,120 million or almost 78 percent of the total effect (Figure 6). Dividing the total effect by the direct effect for gross value added results in the **value-added factor**. This expresses RBI's economic lever, i.e. the extent to which RBI stimulates external economic sectors. A factor of **1.29** means that every euro generated by RBI triggers **29 cents of value added** in other sectors within the limits in which RBI is active.

A segment breakdown shows that the largest effects in absolute terms are attributable to Eastern Europe (€ 1,492 million, of which € 1,291 million directly) and Central Europe (€ 1,475 million, of which € 1,205 million directly). This is followed by Southeastern Europe at € 1,265 million (of which € 995 million directly) and the "Group Corporates & Markets" and "Corporate Center" segments at € 1,067 million (of which € 629 million directly). In terms of the factors, only the "Group Corporates & Markets" and "Corporate Center" segments are above-average with a factor of 1.70, whereas Southeastern Europe (1.27), Central Europe (1.22) and Eastern Europe (1.16) all come in at below the RBI-wide average of 1.29 (see Figure 7).

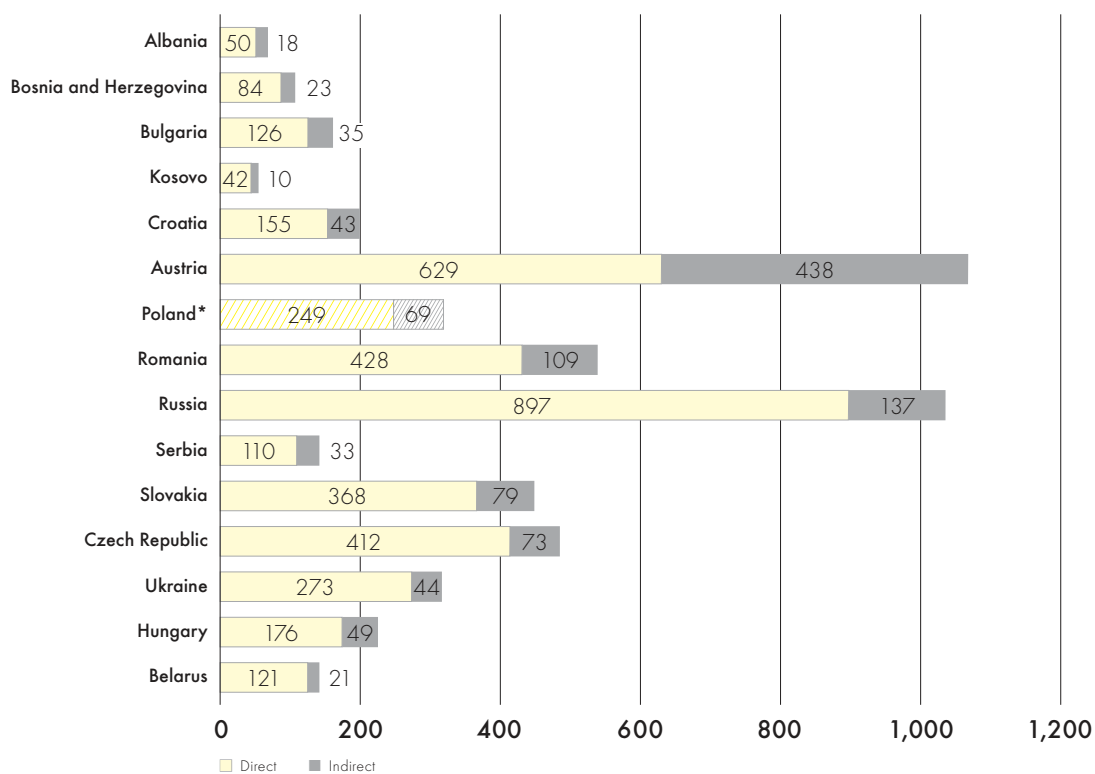
Figure 7: RBI's gross value added by market, in € million, 2018



Source: RBI, Economica

Broken down by country, the largest direct effect in absolute terms is attributable to Russia (€ 897 million), whereas Austria accounts for the largest total effect. A detailed list of the direct and indirect value-added effects at country level can be found in Figure 8.

Figure 8: RBI's gross value added by country, in € million, 2018



Source: RBI, Economica

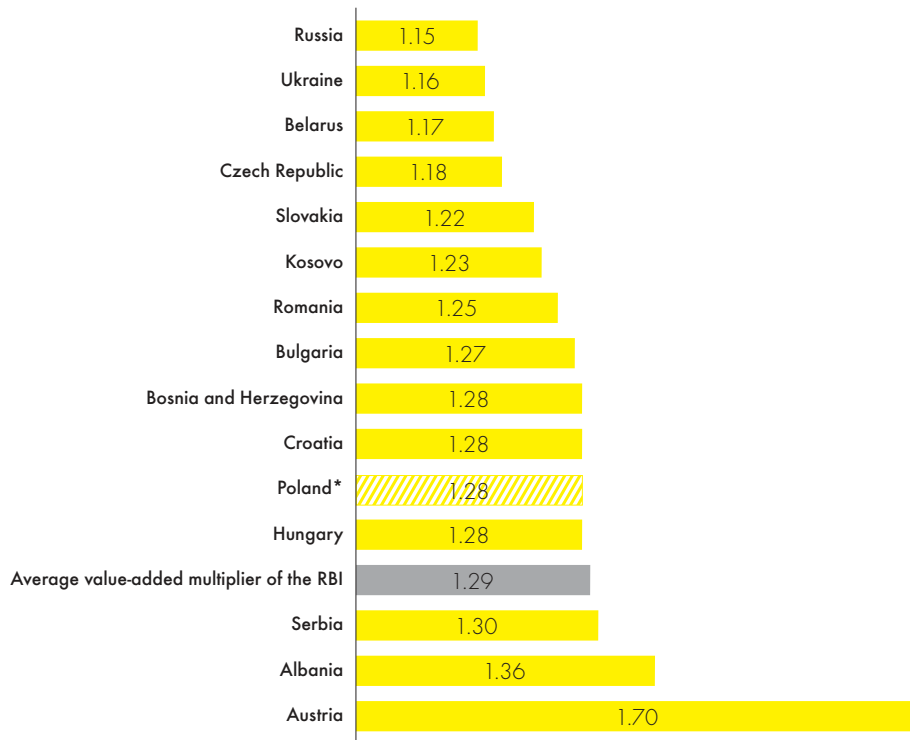
* Sale of core banking operations in October 2018 [see introduction, page 3]

There are also considerable differences at country level when it comes to the value-added factors. These range from 1.15 in Russia to 1.70 in Austria, which occupies a special position on account of its headquarters function.

Alongside Austria, above-average factors are recorded by Albania at 1.36 and Serbia at 1.30.

A detailed list of all value-added factors compared with the RBI-wide average of 1.29 can be found in Figure 9.

Figure 9: RBI's value-added factors by country, 2018



Source: RBI, Economica

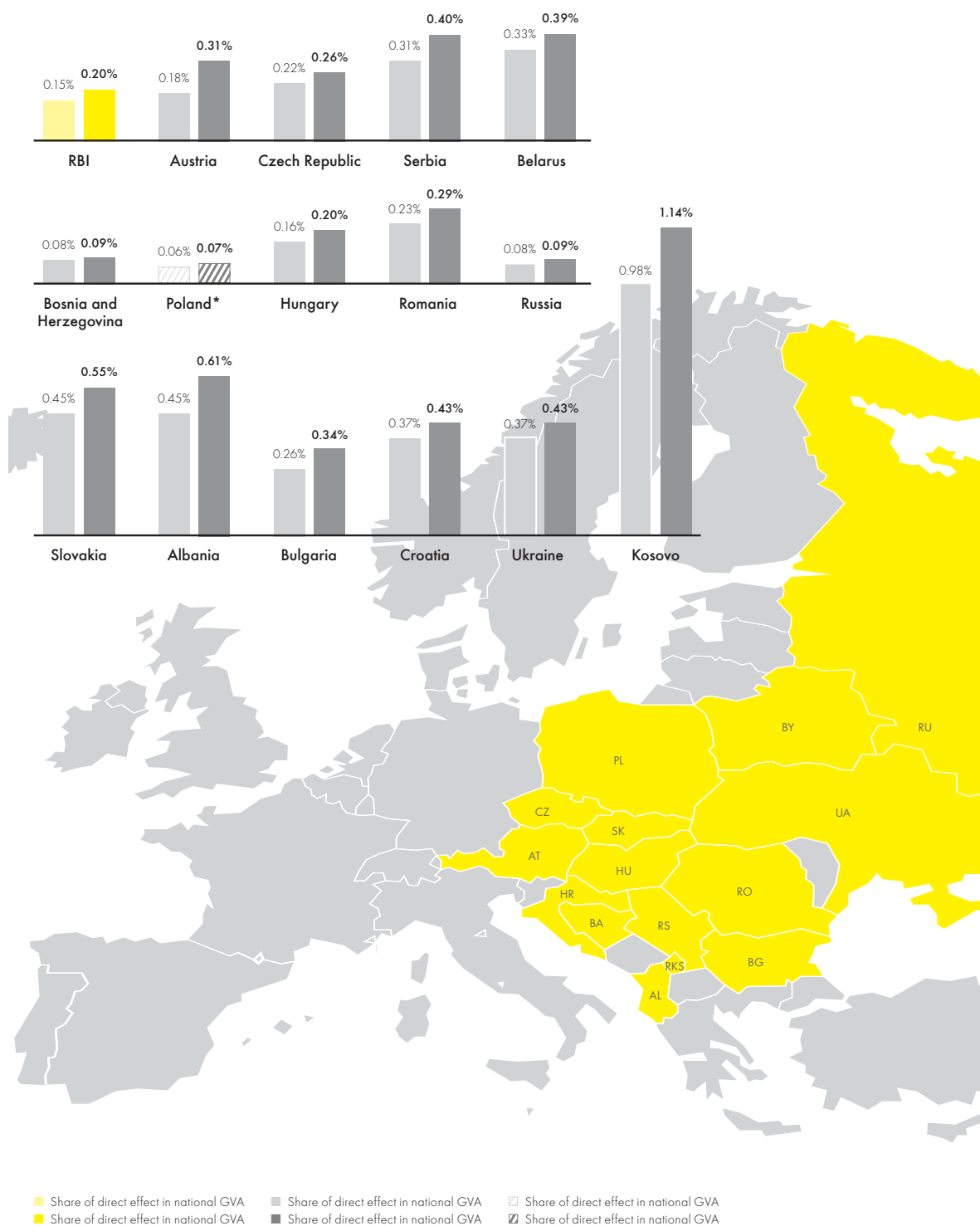
* Sale of core banking operations in October 2018 (see introduction, page 3)

In all of the countries concerned, the value-added contribution generated by RBI is of a macroeconomically relevant and verifiable magnitude compared with the respective total national gross value added. RBI accounts for a **direct value-added contribution of 0.15 percent** and a **total value-added contribution of 0.2 percent** in the countries in which it is active.

Despite their relatively low absolute volume, the value-added contributions attributable to Kosovo (0.98 percent directly and 1.14 percent in total), Albania (0.45 percent directly and 0.61 percent in total) and Slovakia (0.45 percent directly and 0.55 percent in total) are considerably above average.

The lowest shares are recorded in Poland (0.06 percent and 0.07 percent), Russia, and Bosnia and Herzegovina (each 0.08 percent and 0.09 percent). The respective shares of national gross value added in all of the countries in which RBI is active can be found in Figure 10.

Figure 10: Shares of national gross value added (GVA), in percent, 2018



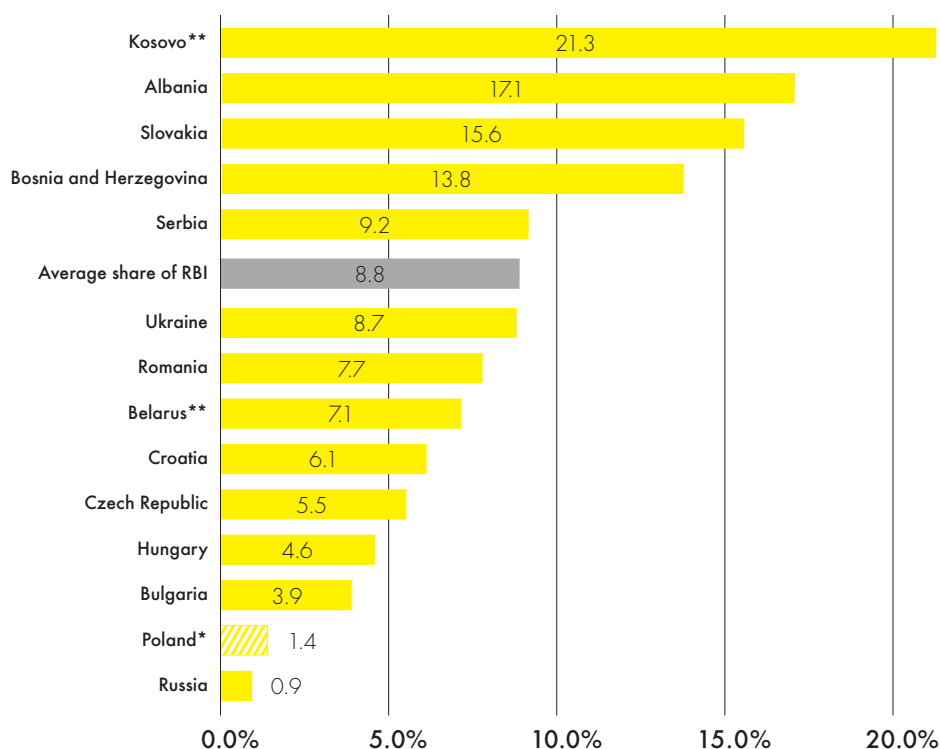
Source: RBI, Economica

* Sale of core banking operations in October 2018 (see introduction, page 3)

Dividing the direct share of gross value added generated by RBI in the individual countries by the gross value added reported in the “financial services and insurance” sector in the individual countries³ results in an impressive average of 8.8 percent, with above-average shares recorded in Kosovo (21.3 percent), Albania (17.1 percent), Slovakia (15.6 percent), Bosnia and Herzegovina (13.8 percent) and Serbia (9.2 percent). RBI’s lowest shares are recorded in Russia (0.9 percent), Poland (1.4 percent) and Bulgaria (3.9 percent).

A chart of these figures can be found in Figure 11.

Figure 11: Share of RBI’s direct gross value added in the financial services and insurance sector by country, in percent, 2018



Source: RBI, Economica, Eurostat, national statistical offices

* Sale of core banking operations in October 2018 (see introduction, page 3)

** The figures for Kosovo and Belarus are extrapolated from the 2017 figures, as the value added data at sector level for 2018 is not yet available.

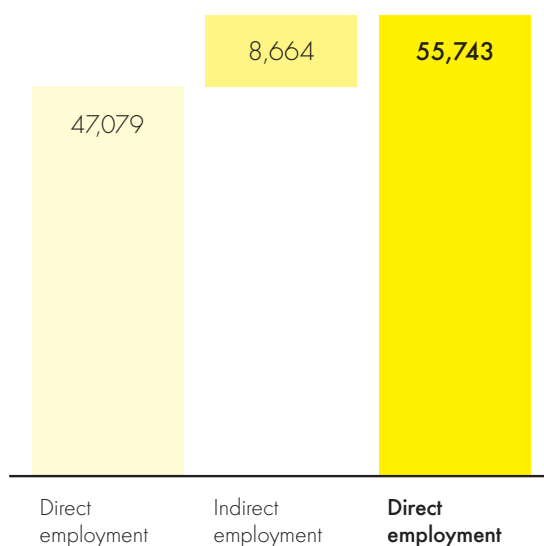
In terms of the distribution of RBI’s value-added effects across the individual economic sectors, almost two-thirds of the total effect is attributable to the financial services sector at 63.9 percent. RBI’s pronounced integration with the rest of the economy is underlined by the fact that all of the other 55 economic sectors are positively stimulated with value-added contributions of up to one percent (e.g. legal and tax consulting and corporate management).

³ RBI’s headquarters function is not included here, as it is largely allocated to the “corporate management” segment rather than to “financial services”.

6. Employment effects of Raiffeisen Bank International

In addition to gross value added, employment is an important indicator when it comes to presenting a company's economic footprint. In 2018, **RBI created or secured a total of 55,743 jobs**. The financial industry is extremely labor-intensive compared with other industries. Almost 85 percent of the employment effect is attributable to RBI itself (direct effect of 47,079 jobs). Indirect effects result in an additional 8,664 jobs (see Figure 12). The resulting employment factor is 1.18, meaning that one additional job is secured or created in another economic sector for approximately every five jobs at RBI. This relatively low factor, which is not atypical for service sectors, is due in particular to the high direct employment effect and the low proportion of intermediate inputs.

Figure 12: RBI's employment, in the CEE Countries (incl. Austria), in workplaces, 2018



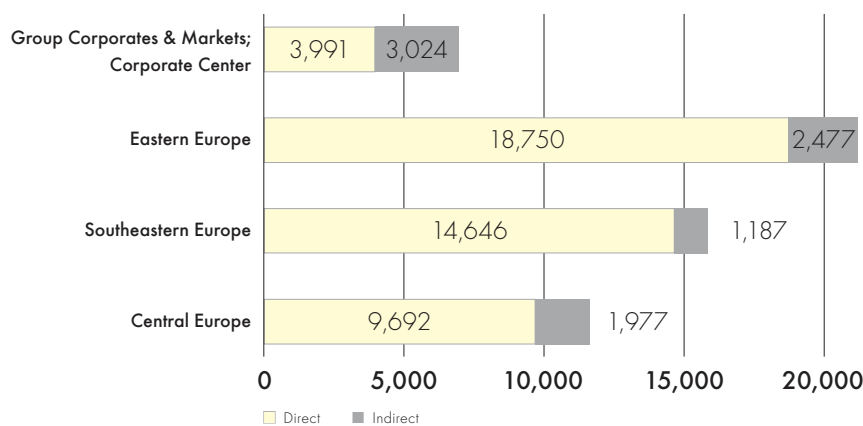
The employment effects for the individual markets and countries follow different patterns to gross value added, depending on varying national wage levels and differences in labor productivity.

The largest effect is recorded in **Eastern Europe** with a total of **21,227 jobs** (18,750 directly, 2,477 indirectly), followed by Southeastern Europe with 15,833 employees (14,646 directly, 1,187 indirectly) and Central Europe with 11,669 employees (9,692 directly, 1,977 indirectly).

"Group Corporates & Markets" and "Corporate Center" are responsible for an employment effect of 3,991 jobs directly and 3,024 jobs indirectly (see Figure 13).⁴

Source: RBI, Economica

Figure 13: RBI's employment in workplaces, by market, 2018



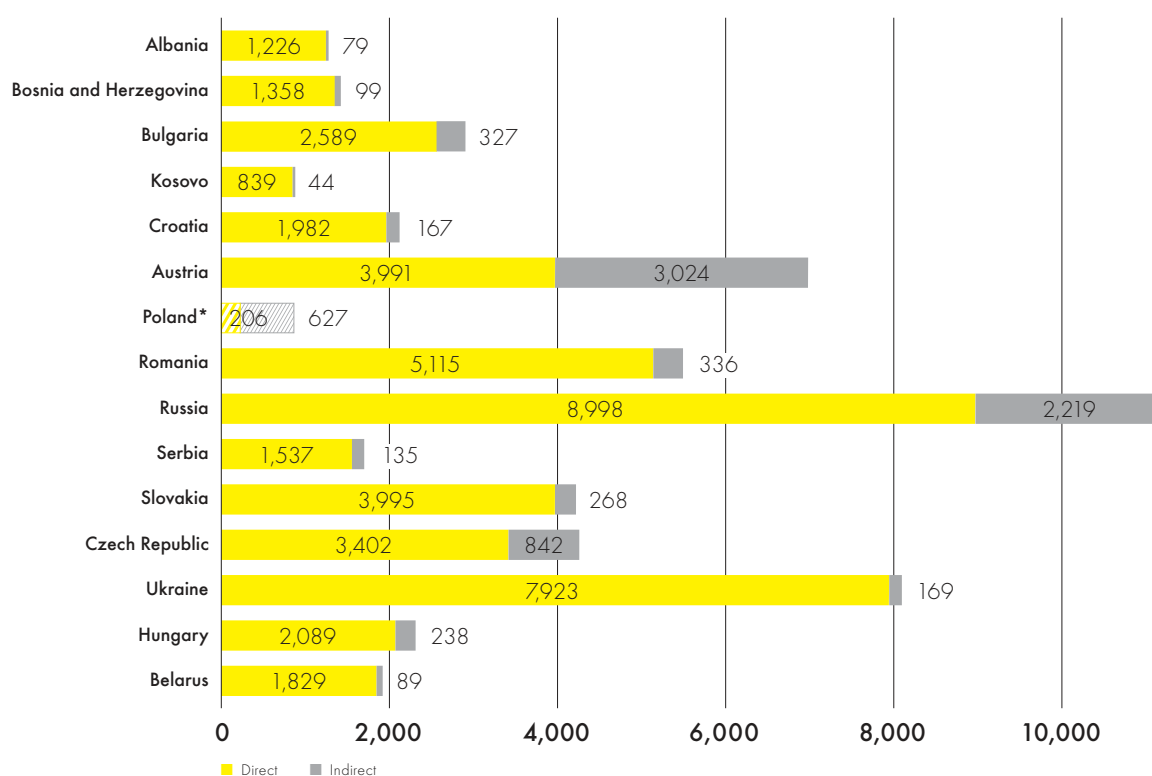
Source: RBI, Economica

⁴ The markets in the segment are combined to form regional segments containing countries with similar economic characteristics and long-term growth prospects. Business posted in Austria is bundled in the "Group Corporates & Markets" segment. The "Corporate Center" segment contains the central Group management functions at RBI AG and other Group units and minority interests.

At country level, Russia has the largest direct and total effect in terms of the absolute number of workplaces at 11,217 (number of employees). It is followed by Ukraine with 8,092 employees (total) and Austria with 7,015 employees (total).

The lowest employment effect within RBI is recorded in Kosovo with 883 employees (total), followed by Poland with 833 employees (total). Details can be found in Figure 14 below.

Figure 14: RBI's employment by country in number of employees, 2018



Source: RBI, Economica

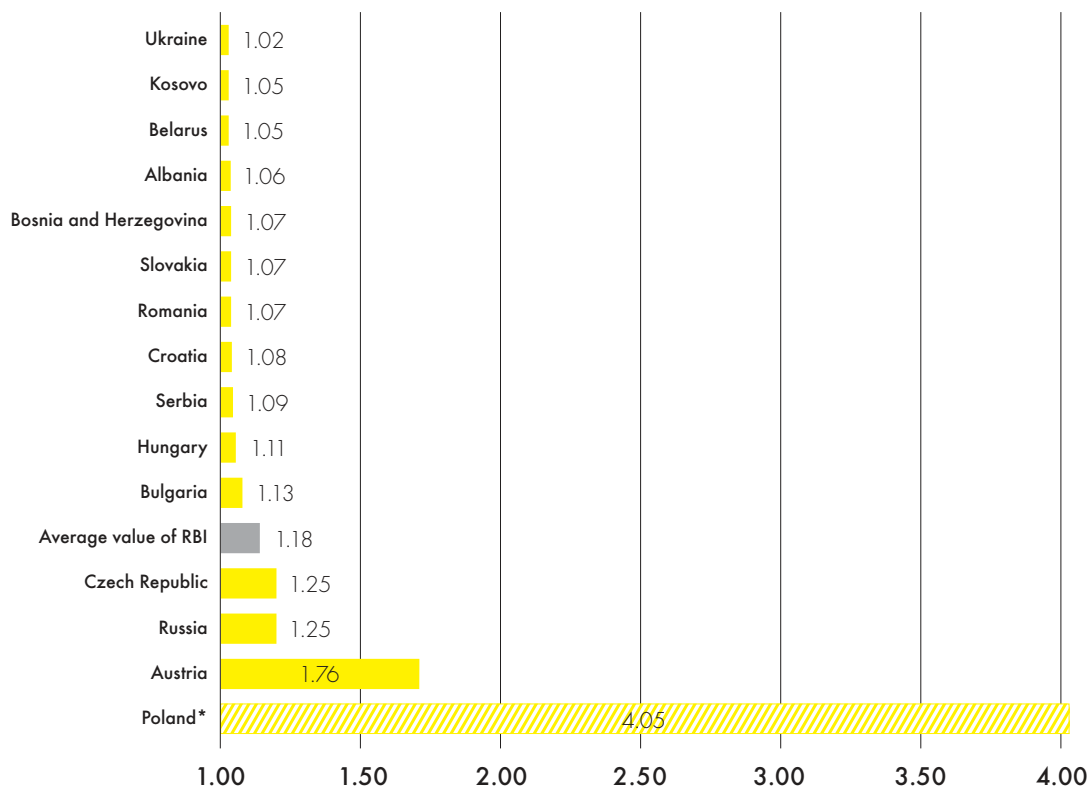
*Sale of core banking operations in October 2018 (see introduction, page 3)

Poland represents an outlier with an employment factor that is considerably above average at 4.05. This is due in particular to the extremely low direct employment effect (the divisor of the factor) and the high level of cross-border intermediate inputs.

Austria, the Czech Republic and Russia also have above-average employment factors. All of the other countries have below-average employment factors (due to the labor-intensive nature of RBI compared with other industries and substantial intermediate inputs abroad). At just over 1, the figures for Ukraine, Belarus and Albania are particularly low on account of the relatively high outflows of indirect effects abroad.

A detailed breakdown of the employment factors compared with RBI's average employment factor of 1.18 can be found in Figure 15.

Figure 15: RBI's employment factors by country, 2018



Source: RBI, Economica

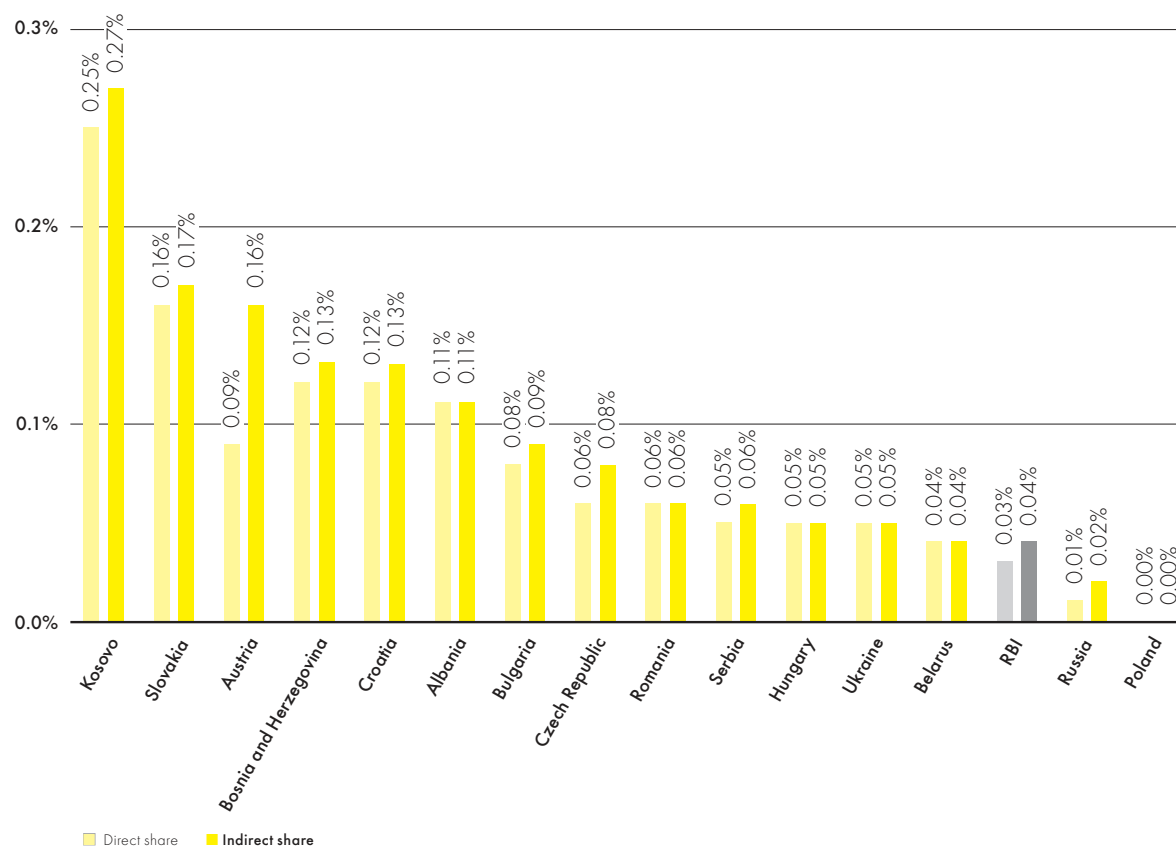
* Sale of core banking operations in October 2018 (see introduction, page 3)

Comparing the absolute number of RBI employees with the total number of employees in each country gives a different picture than the value-added contributions when it comes to the relative importance of RBI for the respective national employment markets. The lowest shares are attributable to Russia (0.01 directly, 0.02 in total), followed by Poland.

The average employment share is significantly lower than the value-added share, at just 0.03 percent directly and 0.04 in total. The largest proportions of the working population were attributable to Kosovo (0.25 percent directly, 0.27 in total), Slovakia (0.16 percent directly, 0.17 in total) and Austria (0.09 percent directly, 0.16 in total).

The share of the total number of employees attributable to RBI in each country can be seen in Figure 16.

Figure 16: National employment shares, in percent, 2018

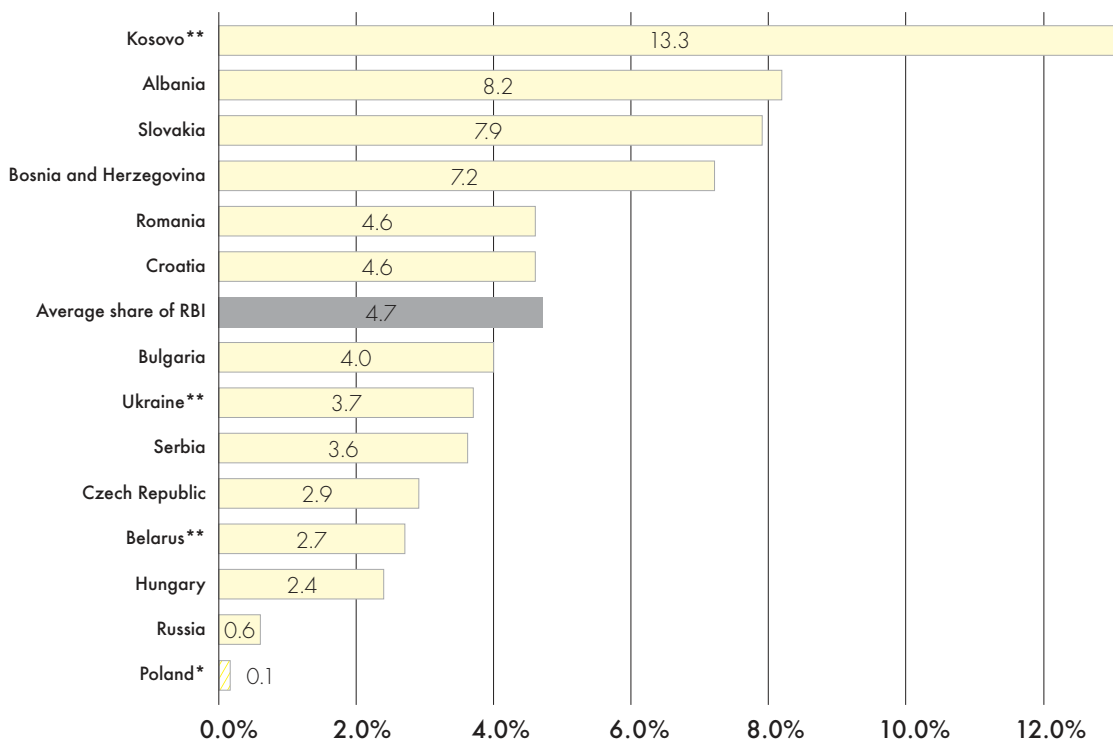


Source: RBI, Economica

Lower than for value added but still impressive is the share of employees attributable to RBI in the “financial services and insurance” sector (see Figure 17). The average share is 4.7 percent, with Kosovo (13.3 percent), Albania (8.2 percent), Slovakia (7.9 percent) and Bosnia and Herzegovina (7.2 percent) in particular outperforming the average.

The low share of 0.1 percent attributable to Poland is due to the fact that RBI sold its banking operations in Poland in 2018.

Figure 17: Share of RBI's direct employment effects in the number of employees in the financial services and insurance sector by country, in percent, 2018



Source: RBI, Economica, Eurostat, ILO, national statistical offices

* Sale of core banking operations in October 2018 (see introduction, page 3)

** The figures for Belarus, Kosovo and Ukraine are extrapolated from the 2017 figures, as the employment data at sector level for 2018 is not yet available.

In the same way as for value added, the employment effects generated by RBI can be broken down by economic sector.

It is notable that 93 percent of the total effect is attributable to ten sectors that RBI stimulates, with almost 86 percent accounted for by the financial services sector alone, 1.32 percent by other economic services, and 0.94 percent by retail and postal services.

7. Definitions

Employment in number of employees and in full-time equivalents (FTE)

If employment is expressed in the number of employees, the figure shows how many people are employed irrespective of the nature of their employment (full-time or part-time).

By contrast, the number of full-time equivalents expresses the total number of employees in relation to 100 percent employment.

Gross production value (GPV)

An indicator in the national accounts, this is defined as the total value of all of the goods and services generated in the production process.

Gross value added (GVA)

This is calculated as the gross production value less the value of the goods and services consumed, processed, or converted in the production process (intermediate inputs). In other words, gross value added measures the amount available for remunerating the production factors of work (wages and salaries) and capital (profits, interest, depreciation and amortization).

Direct value-added/employment effect

This encompasses the gross value added or employment generated directly within the company in question.

Indirect value-added/employment effect

The indirect value-added/employment effect is derived from supplier relationships (intermediate inputs) along the entire value chain (e.g. a bank needs electricity, office supplies, cleaning, etc. – this serves to stimulate final demand in the electricity, retail, and business services sectors; these companies require intermediate inputs in turn, etc.).

Value-added and employment factors

The value-added and employment factors express the extent to which the total effect exceeds the original direct effect. The higher the factor, the greater the national and regional economic “lever”. The factor is calculated as the quotient of the total gross value-added effect and the direct gross value-added effect.

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Publication details

Media owner and publisher:
Raiffeisen Bank International AG

Cover:
Photography club of the Raiffeisen companies in Vienna

Project management:
Andrea Sihn-Weber
nachhaltigkeitsmanagement@rbinternational.com

Graphics:
Elisabeth Windisch, Vienna

Scientific analysis and authors:
Economica GmbH, 1060 Wien, www.economica.at
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September 2019

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