MOODY'S
INVESTORS SERVICE

CREDIT OPINION
31 October 2019

New Issue

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RATINGS

Raiffeisenbank Austria d.d.

Domicile	Croatia
Long Term CRR	Baa3
Type	LT Counterparty Risk Rating - Fgn Curr
Long Term Debt	Not Assigned
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Raiffeisenbank Austria d.d.

New issuer

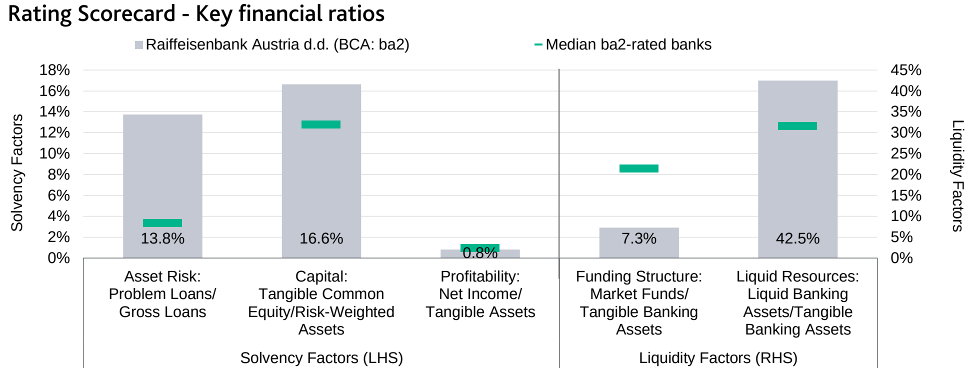
Summary

Raiffeisenbank Austria d.d.'s (RBA) Baa3/P-3 local-currency deposit ratings incorporate (1) the bank's standalone Baseline Credit Assessment (BCA) of ba2; (2) our assumption of a high probability of parental support from Raiffeisen Bank International AG (RBI, A3 stable, baa3), resulting in a one-notch rating uplift for RBA's ba1 Adjusted BCA; and (3) an additional one notch of rating uplift to the bank's long-term deposit rating following the application of our Advanced Loss Given Failure (LGF) analysis. In fact, our Advanced LGF analysis suggests a two-notch uplift, but we limit this to one notch, in line with our methodology that constrains deposit ratings at two notches above Croatia's sovereign rating (Ba2 positive).

The BCA of ba2 also reflects RBA's stable deposit-based funding structure and good liquidity buffers that exceed 40% of total assets; strong capitalisation — with an equity-to-assets ratio of 12.8% as of December 2018 — which provides a buffer to absorb unexpected credit losses; and moderate earnings-generating capacity, with a return on tangible banking assets of 0.8% in 2018. RBA's BCA also reflects high asset risks, with nonperforming loans (NPLs) at 8.4% of gross loans as of December 2018, although on a declining trend; and high legal risks, as a recent Croatian Supreme Court decision allows consumers who borrowed in Swiss francs (CHF) and suffered losses as a result of the currency depreciation to sue banks for compensation.

Exhibit 1

Rating Scorecard - Key financial ratios



These are our Banks methodology scorecard ratios. Asset risk and profitability reflect the weaker of either the three-year average or the latest annual figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year-end figures.
Source: Moody's Investors Service

Credit strengths

» RBA's stable deposit-based funding and high liquidity buffers

» High capital buffers

» Our assessment of a high probability of parental support in case of need

» Our very low LGF assessment for deposits

Credit challenges

» Still-high NPLs, despite their declining trend

» High legal risks and related litigation costs, following a Supreme Court decision that allows borrowers of CHF loans to sue banks

Outlook

RBA's rating outlook is positive, in line with the Croatian sovereign rating outlook, and reflects the fact that the bank's ratings are currently constrained by the government rating.

Factors that could lead to an upgrade

» RBA's deposit rating of Baa3 is currently constrained at two notches above the government rating. As such, an upgrade of RBA's deposit ratings could be prompted by an upgrade of the sovereign rating.

Factors that could lead to a downgrade

» There is currently limited downside pressure on the bank's ratings, which, however, could primarily be triggered by a significant deterioration in RBA's asset-quality and profitability or by larger-than-expected litigation costs.

Key indicators

Exhibit 2

Raiffeisenbank Austria d.d. (Consolidated Financials) [1]

	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (HRK Million)	35,165.0	34,178.0	35,364.0	35,058.0	0.1[4]
Total Assets (USD Million)	5,426.1	5,513.0	4,935.0	4,984.3	2.1[4]
Tangible Common Equity (HRK Million)	4,178.0	4,398.0	4,592.0	4,049.0	0.8[4]
Tangible Common Equity (USD Million)	644.7	709.4	640.8	575.7	2.9[4]
Problem Loans / Gross Loans (%)	8.4	13.1	19.8	16.3	14.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.6	17.4	17.4	14.7	16.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	29.2	40.5	57.7	53.8	45.3[5]
Net Interest Margin (%)	2.5	2.6	2.8	2.9	2.7[5]
PPI / Average RWA (%)	2.3	2.6	3.1	2.7	2.7[6]
Net Income / Tangible Assets (%)	0.8	0.6	1.5	-0.4	0.6[5]
Cost / Income Ratio (%)	64.1	60.7	56.1	61.4	60.6[5]
Market Funds / Tangible Banking Assets (%)	7.3	10.9	12.9	13.2	11.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	42.5	41.4	40.3	36.2	40.1[5]
Gross Loans / Due to Customers (%)	71.1	83.6	88.4	95.6	84.7[5]

[1]All figures and ratios are adjusted using Moody's standard adjustments. [2]Basel III - fully-loaded or transitional phase-in; IFRS. [3]May include rounding differences due to scale of reported amounts. [4]Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5]Simple average of periods presented for the latest accounting regime. [6]Simple average of Basel III periods presented.
Source: Moody's Investors Service; Company Filings

Profile

Raiffeisenbank Austria d.d. (RBA) is the fifth-largest bank in Croatia, with an estimated market share of 8% of total assets. As of December 2018, the bank reported consolidated total assets of HRK35.2 billion (€4.7 billion) and operated 66 branches with 1,885 employees. RBA provides banking and factoring services to corporates, small and medium-sized enterprises, and commercial and retail clients, and it also offers leasing and consulting services via subsidiary companies.

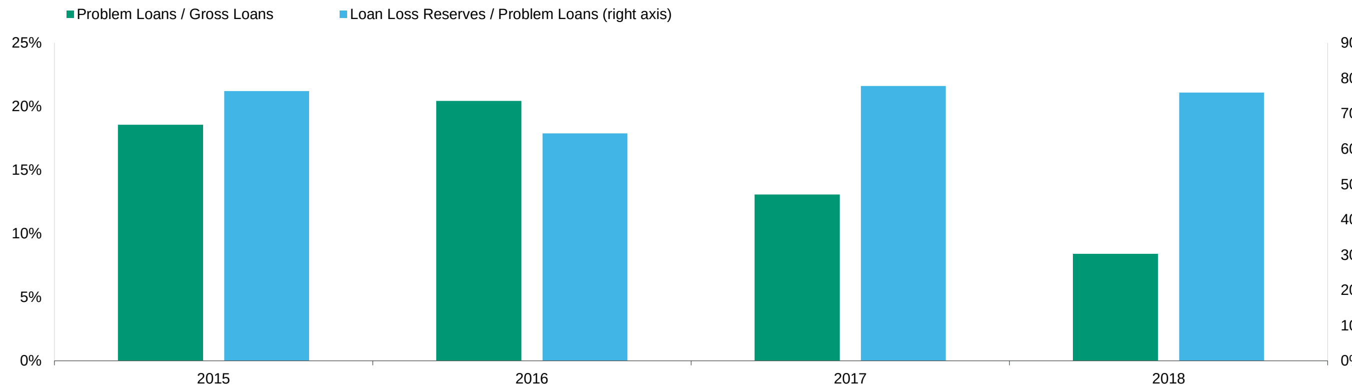
Detailed credit considerations

High asset risks remain a key challenge for the bank

High asset risks remain the bank's biggest credit challenge, with the NPLs-to-gross loans ratio at 8.4% in 2018. Some of the risks the bank is facing are systemic in nature and relate to the high corporate debt levels (63% of GDP), the systemic impact of the financial restructuring of the failed Agrokor Group, and the need to make bankruptcy proceedings more efficient and facilitate out-of-court settlements.

Exhibit 3

High asset risk, although NPL levels are declining



Sources: Moody's Financial Metrics and RBA's consolidated financial statements

We do, however, acknowledge that asset-quality pressures have been receding, with the NPL ratio actually following a declining trend from the 20.4% reported in 2016, primarily supported by NPL recoveries, write-offs and sales (NPL sales amounted to HRK690 million in 2018). We expect a further decline in NPL levels, supported by improving operating conditions that will support rehabilitation of troubled clients, ongoing write-offs and potential new NPL sales. RBA has already implemented IFRS9, with provisioning coverage at 76% as of December 2018.

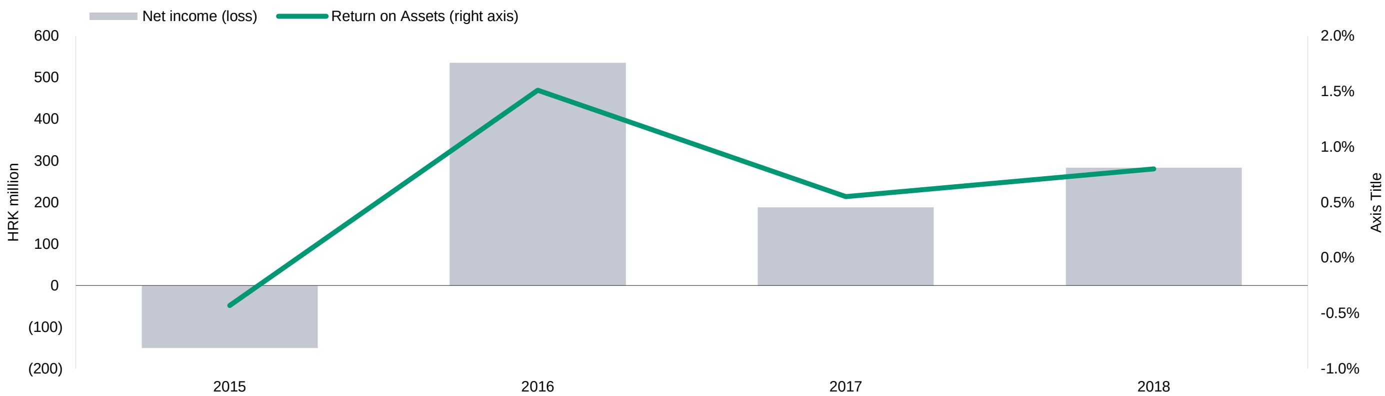
RBA also has high exposures to Croatian government bonds and T-bills, primarily as part of its liquid assets. These exposures — estimated at around 103% of the bank's Tier 1 capital — together with the fact that RBA's operations are almost exclusively conducted in Croatia, link RBA's BCA to the Ba2 government rating. At the same time, we do acknowledge that operating conditions are improving, with Croatia's Ba2 sovereign rating also carrying a positive outlook. Our Macro Profile score for Croatia currently is "Moderate-".

Moderate profitability

RBA maintains a modest earnings-generating capacity, reflecting its high cost base (with operating expenses at 2.92% of total assets and a cost-to-income ratio of 64.1% in 2018); modest business growth opportunities, with gross loans declining by 17% during 2015-18; still-high provisioning requirements (of 1.1% of gross loans in 2018 and 1.9% in 2017); and declining margins, partly the result of a low interest rate environment. For 2018, the bank reported bottom-line profit of HRK283 million, up 51%, mainly because of a drop in the effective tax rate (to around 14%, against a corporate tax rate of 18%), and translating into a return on tangible assets of 0.8%.

We do not expect any significant variation in RBA's recurring profitability metrics, although — following the Supreme Court decision — we expect increased one-off litigation losses relating to CHF loans. More specifically, consumers who borrowed in CHF and suffered losses as a result of the currency depreciation can sue for compensation based on the fact that they were not fully informed of the risks relating to the CHF currency clause. Based on the Supreme Court ruling, consumers have to individually sue banks to enforce their claims. The monetary impact on RBA is difficult to establish, as it will depend on a number of variables, including the number of consumers that will sue the bank, the vast majority of which have already repaid their loans. We expect the impact to be material, but manageable, given the bank's strong capital buffers.

Exhibit 4
Modest earnings-generating capacity

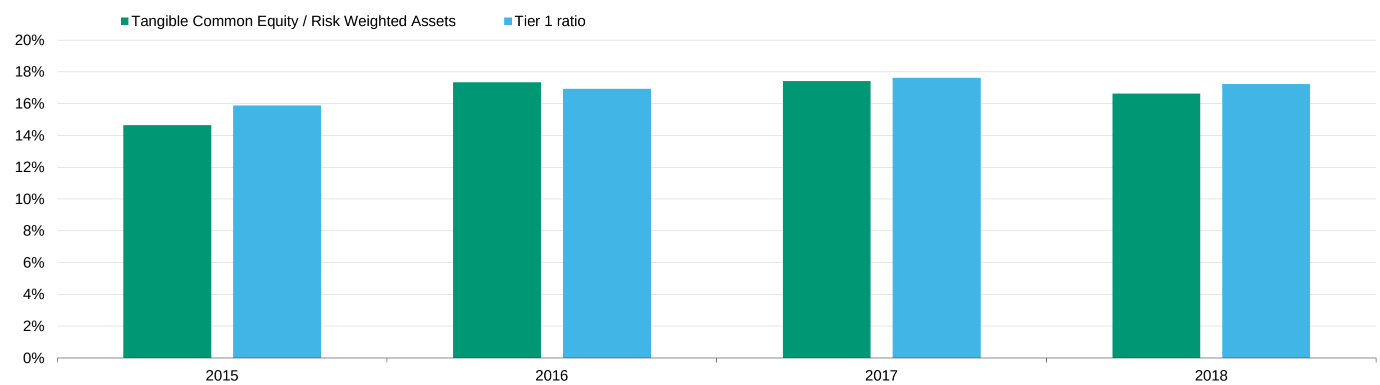


Sources: Moody's Financial Metrics and RBA's consolidated financial statements

Solid capital buffers with strong loss-absorbing capacity

With an equity-to-assets ratio of 12.8% and tangible common equity-to-adjusted risk-weighted assets ratio of 16.6% as of year-end 2018, the bank has a significant capacity to absorb unexpected losses, which is a credit strength. The reported Tier 1 ratio of 17.2% is also well above the minimum regulatory requirements that also include 2.5% capital conservation and 3% systemic risk buffers.

Exhibit 5
High capital buffers, a credit strength



Sources: Moody's Financial Metrics and RBA's consolidated financial statements

We expect RBA's capital buffers to remain strong but follow a slightly declining trend, as a result of the litigation losses that the bank will face relating to its CHF loans and ongoing dividend payouts. In 2017, the bank paid a dividend of HRK385 million against bottom-line profit of HRK188 million, and in 2018, it distributed HRK396 million against a profit of HRK283 million.

Stable deposit funding and high liquidity

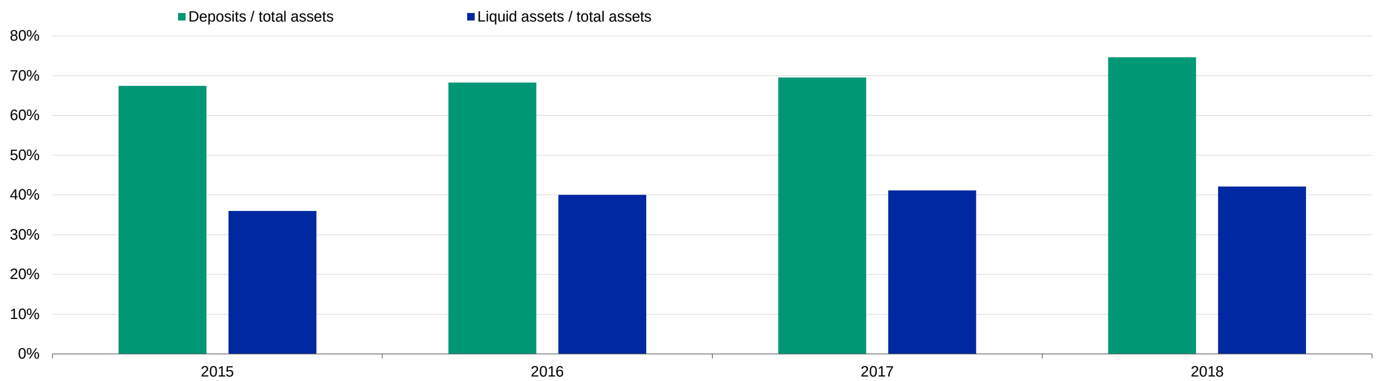
RBA maintains a solid and stable deposit franchise. It sources related funding from retail, corporate, small and medium-sized enterprise and institutional clients, and recorded a 10% deposit growth in 2018. The bank has limited reliance on market funding, with borrowings of HRK1,914 million as of December 2018, which account for 5.4% of total assets, down from 20% in 2012. These borrowings include mainly parent-bank exposures, interbank exposures and an HBOR loan.

RBA also maintains high liquidity buffers, with cash and interbank balances accounting for 24.9% of total assets, while an additional 21% of total assets is invested in securities, mainly government bonds. The liquidity coverage ratio was 148% as of December 2018. The bank's good liquidity buffers are partly driven by the high obligatory reserves — of 12% of deposits and borrowing — imposed by the regulator, and act as a mitigant to the risks relating to the high level of eurorisation in deposits (76%).

We understand that the regulators are currently working on establishing banks' minimum requirements for own funds and eligible liabilities (MREL). RBA, as a subsidiary of RBI that is likely to be subject to a resolution approach of multiple point of entry (MPE), will have to issue its yet-to-be-determined own MREL liabilities. Raising new debt instruments in a country where the debt capital market remains shallow can be a challenge; we will, therefore, continue to monitor this issue as more information becomes available.

Exhibit 6

Stable deposit funding and high liquidity



Sources: Moody's Financial Metrics and RBA's consolidated financial statements

Environmental, social and governance considerations

In line with our general view for the banking sector, RBA has a low exposure to environmental risks. See our Environmental risk heat maps for further information.

We believe banks face moderate social risks; however, Croatian banks, including RBA, face rising legal risks relating to populist legislative propositions, such as challenging banks' decisions to disperse CHF loans to their clients. In fact, a recent Supreme Court decision ruled that related CHF foreign-exchange clauses were "null and void" as consumers were unfairly treated — they were not fully informed of the risks — which led to significant losses following the currency depreciation. This is leading to both reputational and monetary damages for affected banks. In the case of RBA, we capture the near-term crystallization of these risks by applying a two-notches downward adjustment to the capital score and one notch downward adjustment to the Profitability score.

Governance is highly relevant for RBA, as it is to all participants in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for RBA, we do not highlight any particular governance issues, given its appropriate risk management framework. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Affiliate support

We believe that there is a high probability of support from the bank's parent bank, RBI. Our assessment is based on RBI's 100% stake in RBA, its strong operational support and supervision, and the subsidiary's use of the Raiffeisen logo and name. RBA has a high strategic fit in RBI and the Raiffeisen group; hence, the risk of the parent disposing of its subsidiary is low. We consider both RBA and the Croatian market important to RBI's operations, and we believe RBI is highly likely to support its Croatian subsidiary, if necessary. This assessment results in one notch of rating uplift: from a BCA of ba2 to an Adjusted BCA of ba1.

Loss Given Failure (LGF) analysis

RBA operates in Croatia, an EU member country. As such, Croatian banks are subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider to be an operational resolution regime. In accordance with our methodology for rating banks globally, we apply our Advanced LGF analysis, which takes into account the risks faced by the different debt and deposit classes across the liability structure if the bank enters resolution. We assume a residual tangible common equity of 3%, post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits. We assign a 25% probability to deposits being preferred to senior unsecured debt and assume 26% (EU average) of junior deposits over total deposits. These are in line with our standard assumptions.

Our LGF analysis indicates a very low loss given failure for deposits, reflecting the likely reduction in expected loss because of the loss absorption provided by the substantial volume of deposits. Such a scenario would normally translate into two notches of uplift from the bank's Adjusted BCA of ba1; however, in the case of RBA, the Preliminary Rating Assessment is set at baa3, one notch above its Adjusted BCA of ba1, in line with our methodology that constrains deposit ratings at two notches above the government bond rating.

Government support considerations

The implementation of BRRD in the EU, which was also transposed into the local Croatian law, has led us to assign a low likelihood of government support for RBA. This assumption, combined with the Croatian government's limited capacity to provide support beyond its Ba2 rating, does not result in further rating uplift above the Preliminary Rating Assessment. RBA's local-currency deposit rating is therefore set at Baa3.

The bank's foreign-currency deposit ratings of Ba3/NP are constrained by the relevant country ceiling and reflect foreign-currency transfer and convertibility risks.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

RBA's CRR is positioned at Baa3/P-3, one notch above its ba1 Adjusted BCA, constrained at two notches above the government rating, as per our Banks rating methodology. RBA's Counterparty Risk (CR) Assessment is also positioned at Baa3(cr)/P-3(cr), as the approach to reaching this assessment is similar to that for CRRs.

Rating methodology and scorecard factors

Exhibit 7

Raiffeisenbank Austria d.d.

Macro Factors							
Weighted Macro Profile	**Moderate -**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	13.8%	b3	↑	b2	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	16.6%	baa1	↓↓	baa3	Expected trend	Stress capital resilience
Profitability						
Net Income / Tangible Assets	0.8%	ba2	←→	ba3	Return on assets	Expected trend
Combined Solvency Score		ba2		ba3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	7.3%	baa2	←→	baa3	Expected trend	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	42.5%	baa2	↓	baa3		
Combined Liquidity Score		baa2		baa3		
Financial Profile				ba2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Ba2		
Scorecard Calculated BCA range				ba1 - ba3		
Assigned BCA				ba2		
Affiliate Support notching				1		
Adjusted BCA				ba1		

Balance Sheet	**in-scope (HRK Million)**	**% in-scope**	**at-failure (HRK Million)**	**% at-failure**
Other liabilities	6,805	19.5%	9,480	27.2%
Deposits	26,233	75.1%	23,557	67.5%
Preferred deposits	19,412	55.6%	18,442	52.8%
Junior deposits	6,821	19.5%	5,115	14.7%
Equity	1,047	3.0%	1,047	3.0%
Total Tangible Banking Assets	34,085	100.0%	34,909	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	20.0%	20.0%	20.0%	20.0%	3	3	3	1	0	baa3
Counterparty Risk Assessment	20.0%	20.0%	20.0%	20.0%	3	3	3	1	0	baa3 (cr)
Deposits	20.0%	3.0%	20.0%	5.4%	2	2	2	1	0	baa3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	baa3	0	Baa3	Baa3
Counterparty Risk Assessment	1	0	baa3 (cr)	0	Baa3(cr)	
Deposits	1	0	baa3	0	Baa3	Ba3

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
RAIFFEISENBANK AUSTRIA D.D.	
Outlook	Positive
Counterparty Risk Rating	Baa3/P-3
Bank Deposits -Fgn Curr	Ba3/NP
Bank Deposits -Dom Curr	Baa3/P-3
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
PARENT: RAIFFEISEN BANK INTERNATIONAL AG	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured	A3
Subordinate	Baa3
Pref. Stock Non-cumulative -Dom Curr	Ba3 (hyb)

Source: Moody's Investors Service

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