MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Raiffeisen Bank International AG's A3 debt and deposit ratings

04 Jun 2018

Rating agency upgrades RBI's Baseline Credit Assessment to baa3 from ba1

Frankfurt am Main, June 04, 2018 -- Moody's Investors Service has today affirmed Raiffeisen Bank International AG's (RBI) A3 long-term debt and deposit ratings. As part of today's action, Moody's upgraded RBI's Baseline Credit Assessment (BCA) to baa3 from ba1 and affirmed the bank's Adjusted BCA at baa3. Concurrently, Moody's affirmed the (P)P-2 short-term programme and P-2 deposit ratings, as well as the A3(cr)/P-2(cr) Counterparty Risk Assessments (CR Assessment). Further, the rating agency affirmed RBI's Baa3 subordinate debt as well as the Ba3(hyb) ratings. The outlook on the long-term debt and deposit ratings remains stable.

The rating action was prompted by Moody's assessment of RBI's improved financial strength, including the financial performance up to the first quarter 2018 and its expected trajectory as well as the expected financial implications of an announcement by RBI earlier this year, to sell large parts of its business operations in Poland.

For a list of all affected ratings, please refer to the end of this press release.

RATINGS RATIONALE

RBI's BCA UPGRADE REFLECTS IMPROVED SOLVENCY PROFILE

The upgrade of RBI's BCA to baa3 from ba1 reflects Moody's view that RBI has made further progress in de-risking the bank more recently and that it can sustain this trend going forward, including, but not entirely depending on the announced sale of the majority of its activities in Poland.

RBI's problem loans as a percentage of gross loans have improved to 5.4% as of 30 March 2018, from 5.7% at year- end 2017 and 8.7% at end of 2016 (pro forma), with a further stabilization expected by year end 2018. The disposal of problem loans, as well as the ongoing economic recovery in many CEE countries were key drivers for the improvement.

After several years of subdued profitability RBI has benefitted from its improving credit quality and generally supportive economic activity in key regions in which the bank operates, thereby reinstating its profit potential and earnings retention capacity. While the rating agency does not consider the reported profits for the period January to March 2018 of 1.3% net profit to tangible assets as sustainable in an environment of more normal loan loss provisions in combination with potential pressures on the profits contributed by its Russian subsidiary, the achieved level provides nevertheless increased creditor protection.

Including interim profits of the first quarter 2018 RBI's Common Equity Tier 1 (CET1) capital ratio increased to 12.8% from 12.7% at year-end 2017. Moody's expects the planned sale of RBI's Polish subsidiary Raiffeisen Polbank to increase the capitalization by about 90 basis points. The rating agency views the disposal to strengthen RBI's credit profile and does expect the sale to go ahead as planned, with limited execution risks associated.

Moody's affirmed RBI's Adjusted BCA at baa3. The rating agency assesses the likelihood of support provided by RGB unchanged as 'very high'. The support assumption continues to be based on very close inter-linkages between RBI and the other member banks of the sector's federal Institutional Protection Scheme (IPS), given RBI's central treasury function for the sector, and the majority ownership of RBI by the Raiffeisenlandesbanks, holding a stake of 58.8% in RBI. The assumed strong cohesion within Raiffeisen Banking Group (RBG) also results in a close alignment of member banks' Adjusted BCAs, by allowing more rating uplift for intrinsically weaker banks, but also limiting the ratings of intrinsically stronger banks. As a consequence, RBI's higher BCA has resulted in an offsetting - and therefore neutralizing - effect on its Adjusted BCA.

RATIONALE FOR RATING AFFIRMATIONS

The affirmation of RBI's ratings (and CR Assessments) follows the affirmation of the bank's Adjusted BCA at baa3 in combination with otherwise unchanged rating inputs and assumptions, specifically the result of Moody's Advanced Loss Given Failure (LGF) analysis for individual instrument classes and the rating agency's assessment of a low probability for the bank receiving government support.

OUTLOOKS REMAINS STABLE

The stable outlook on RBI's ratings reflects Moody's expectation that the bank will be able to maintain and protect its stronger creditworthiness while at the same time further improvement is unlikely over the outlook horizon. It also reflects the rating agency's assessment that the financial performance of RBG remains largely unchanged.

WHAT COULD CHANGE THE RATINGS UP/DOWN

RBI's ratings could be upgraded following a combination of (1) an upgrade of its BCA, and/or (2) a more favourable assessment of the financial strengths of the Austrian Raiffeisen sector as a whole, which could result in rating uplift for RBI.

Upward pressure on RBI's BCA appears unlikely but could be triggered by a combination of a (1) a further meaningful improvement in the bank's asset quality; (2) further significant strengthening of its capitalization beyond the bank's announced medium term targets; and (3) a material improvement in the bank's profitability beyond our current expectations without an increase in its risk profile.

RBI's ratings could be downgraded following (1) a downgrade of the bank's BCA or the creditworthiness of RGB; (2) a reduction in the affiliate support assumption from the Austrian Raiffeisen sector; or (3) a significant decrease in RBI's bail-inable debt buffer, leading to fewer notches of rating uplift under the Advanced LGF analysis.

Downward pressure on RBI's BCA could be triggered by (1) a higher recourse to confidence sensitive market funding; (2) a meaningful decline in liquid resources, (2) a setback in the bank's efforts to contain asset risks, for instance following a deterioration in Russia; (3) an extended period of declining earnings and internal capital generation; or (4) a decline in capitalisation and regulatory capital buffers.

LIST OF AFFECTED RATINGS

Issuer: Raiffeisen Bank International AG

..Upgrade:

....Baseline Credit Assessment, upgraded to baa3 from ba1

..Affirmations:

....Adjusted Baseline Credit Assessment, affirmed baa3

....Long-term Counterparty Risk Assessment, affirmed A3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-2(cr)

....Long-term Bank Deposits, affirmed A3 Stable

....Short-term Bank Deposits, affirmed P-2

....Senior Unsecured Regular Bond/Debenture, affirmed A3 Stable

....Senior Unsecured Medium-Term Note Program, affirmed (P)A3

....Subordinate Regular Bond/Debenture, affirmed Baa3

....Subordinate Medium-Term Note Program, affirmed (P)Baa3

....Preferred Stock Non-cumulative, affirmed Ba3(hyb)

....Short-term Deposit Note/CD Program, affirmed P-2

....Other Short Term, affirmed (P)P-2

..Outlook Action:

....Outlook remains Stable

Issuer: Raiffeisen Zentralbank Oesterreich AG (debts assumed by Raiffeisen Bank International AG)

..Affirmations:

....Subordinate Regular Bond/Debenture, affirmed Baa3

....Senior Subordinated Regular Bond/Debenture, affirmed Baa3

....Senior Unsecured Regular Bond/Debenture, affirmed A3 Stable

..No Outlook assigned

Issuer: RZB Finance (Jersey) III Limited (debt assumed by Raiffeisen Bank International AG)

..Affirmation:

....Preferred Stock Non-cumulative, affirmed Ba3(hyb)

..No Outlook assigned

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in April 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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