

## CREDIT OPINION

4 March 2024

Update

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### RATINGS

#### Raiffeisen Bank d.d. Bosna i Hercegovina

Domicile	Sarajevo, Bosnia and Herzegovina
Long Term CRR	B3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	(P)B3
Type	Senior Unsecured MTN - Fgn Curr
Outlook	Not Assigned
Long Term Deposit	B3 / B1
Type	LT Bank Deposits - Fgn Curr / Dom Curr
Outlook	Stable

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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# Raiffeisen Bank d.d. Bosna i Hercegovina

## Update following ratings affirmation

### Summary

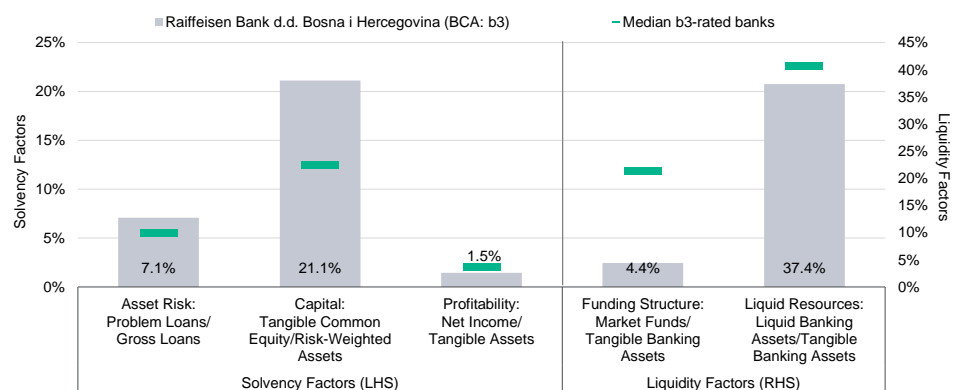
On 28 February 2024, we affirmed [Raiffeisen Bank d.d. Bosna i Hercegovina's](#) (RBBiH) B1 local-currency and B3 foreign-currency deposit ratings.

RBBiH's B1 local-currency deposit rating reflect the bank's b3 Baseline Credit Assessment (BCA) and two notches of rating uplift from our assessment of a high probability of affiliate support from [Raiffeisen Bank International AG](#) (RBI, A1/A1 stable, baa3<sup>-</sup>), resulting in a b1 Adjusted BCA. The B3 foreign-currency deposit rating is constrained by [Bosnia and Herzegovina's](#) (BiH, B3 stable) foreign-currency country ceiling.

RBBiH's b3 standalone BCA reflects its (1) robust capital, that provides capacity to absorb losses; (2) granular deposit-based funding structure; and (3) adequate liquidity. These strengths are balanced by (1) high asset risks from a challenging operating environment and linkages with BiH sovereign credit risk; and (2) the lack of lender of last resort, which complicates liquidity management.

Exhibit 1

### Rating Scorecard - Key financial ratios



These are our [Banks Methodology](#) scorecard ratios. Asset Risk and Profitability reflect the weaker of either the latest figure or the three-year and latest figure average. 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

- » Capital is robust and significantly above requirements
- » A granular deposit-based funding structure and adequate liquidity
- » Our assessment of a high probability of parental support in case of need

## Credit challenges

- » High asset risks driven by a challenging operating environment
- » Indirect exposure to sovereign event risk at the B3 rating level, although direct exposure to government and public sector debt is low
- » Lack of a 'lender of last resort' complicates liquidity management

## Outlook

The stable outlook on the bank's ratings reflects our expectation that its financial performance will remain broadly stable and its capital significantly above regulatory requirements, despite operating environment pressures. The outlook is also aligned with the stable outlook on the sovereign rating.

## Factors that could lead to an upgrade

- » RBBiH's b3 BCA is at the same level as the sovereign rating, and its local-currency ratings are at the level of the local-currency country ceiling, hence an upgrade is unlikely in the absence of a sovereign rating upgrade and a lifting of the local-currency country ceiling.
- » Similarly, the bank's foreign-currency ratings are constrained by the respective country ceiling, hence these ratings could be upgraded if the foreign-currency country ceiling is raised.

## Factors that could lead to a downgrade

- » RBBiH's ratings could be downgraded if its BCA or the sovereign rating is downgraded; or if the country's ceilings are lowered.
- » The bank's BCA could be downgraded if its core capital buffers decline significantly, problem loans increase whilst coverage declines, or if profitability is sustainably lowered. A significant deterioration in the bank's funding profile or liquidity may also put pressure on the BCA.
- » Significantly reduced willingness by RBI to provide support to RBBiH could also result in a ratings downgrade.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key Indicators

Exhibit 2

### Raiffeisen Bank d.d. Bosna i Hercegovina (Unconsolidated Financials) [1]

	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (BAM Million)	5,025.0	4,882.7	4,889.6	4,729.3	4,396.2	3.4 <sup>4</sup>
Total Assets (USD Million)	2,742.1	2,839.0	3,069.4	2,715.4	2,573.1	1.6 <sup>4</sup>
Tangible Common Equity (BAM Million)	600.1	551.5	555.8	545.5	554.0	2.0 <sup>4</sup>
Tangible Common Equity (USD Million)	327.4	320.7	348.9	313.2	324.2	0.2 <sup>4</sup>
Problem Loans / Gross Loans (%)	5.2	8.0	8.0	7.4	7.2	7.1 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	21.1	19.9	20.6	18.9	19.7	20.0 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	18.0	27.4	27.5	26.8	25.2	25.0 <sup>5</sup>
Net Interest Margin (%)	2.6	2.5	2.8	3.1	3.3	2.9 <sup>5</sup>
PPI / Average RWA (%)	4.3	3.8	3.4	3.6	3.4	3.7 <sup>6</sup>
Net Income / Tangible Assets (%)	2.0	1.4	0.9	1.2	1.9	1.5 <sup>5</sup>
Cost / Income Ratio (%)	52.4	53.7	55.0	53.0	52.4	53.3 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	4.4	5.1	4.3	7.2	4.0	5.0 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	37.4	37.7	37.1	34.0	29.5	35.1 <sup>5</sup>
Gross Loans / Due to Customers (%)	66.6	65.4	65.1	72.9	73.7	68.7 <sup>5</sup>

[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 because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

## Profile

RBBiH is a commercial bank operating in BiH and headquartered in Sarajevo. As of end-September 2023, RBBiH was the second-largest bank in the country with a 13% market share in terms of assets. The bank's total assets according to RBI disclosures were equivalent to €2.7 billion as of the end of 2023.

RBBiH is a 100%-owned subsidiary of RBI, through Raiffeisen SEE Region Holding GmbH. The bank has been operating in BiH since 1992 as Market banka d.d. Sarajevo. Market banka was acquired in 2000 by the Raiffeisen Group and was renamed RBBiH.

### Source of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank of BiH, the FBA and the Banking Agency of Republika Srpska. Bank-specific figures originate from the banks' reports and all figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document [Financial Statement Adjustments in the Analysis of Financial Institutions](#) published on 1 February 2024.

The bank has started to publish consolidated financials since 2021 (including year-end 2020 results). We use RBBiH's unconsolidated financials statements for our analysis of the bank's past performance and as a proxy for the bank's consolidated financial profile because the contribution from its subsidiaries was relatively immaterial in terms of total assets, or profit and loss.

## Detailed credit considerations

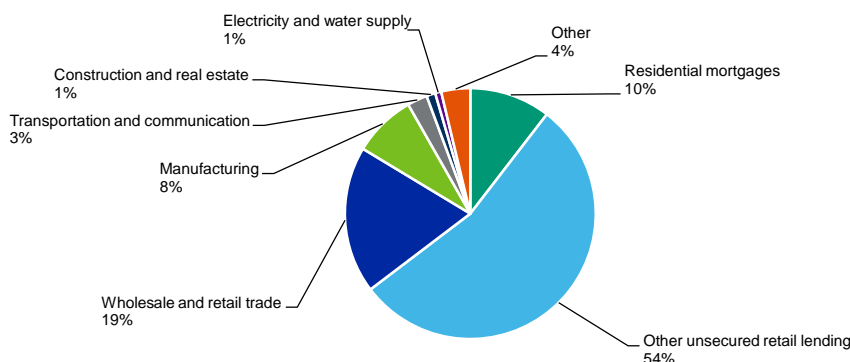
### High asset risk driven by a challenging operating environment

RBBiH's asset risk is high, mainly driven by a challenging operating environment. The macro profile we assign to BiH is 'Very Weak'. While RBBiH's exposure to domestic government securities and public sector entities is low, the bank operates exclusively within BiH and is exposed to sovereign event risk at the B3-rating level given that sovereign crises can transmit shocks across the economy and the banking system. Reported problem loans had been higher compared to similarly-rated global peers, however asset quality has improved and problem loans are well provisioned. Additionally, underwriting standards are broadly conservative and borrower concentration levels are moderate. An economic downturn in BiH or the country's large European trading partners, however, will drive new problem loan formation.

Loans accounted for 49% of the bank's assets at the end of 2022 and gross loans grew by 3% in 2022 after a relatively flat growth in previous years. According to RBI disclosures, credit growth has picked up and net loans increased by 12% in 2023. Loans to individuals

made up around 65% of total gross loans (see Exhibit 3), of which 84% were unsecured loans and 16% housing loans. Higher credit risk for unsecured retail loans, mainly general purpose consumer loans, is mitigated by salary-assignment, while local requirements cap the maturity and the total amount of the loan, and provide for a maximum loan repayment per income bracket. Currency risk for borrowers, given 40% of the bank's loans have a euro currency clause, is mitigated by the long-standing currency board arrangement that pegs the convertible mark to the euro.

Exhibit 3  
**Retail loans to individuals dominate RBBiH's loan book**  
 Loan breakdown by sector as of the end of 2022

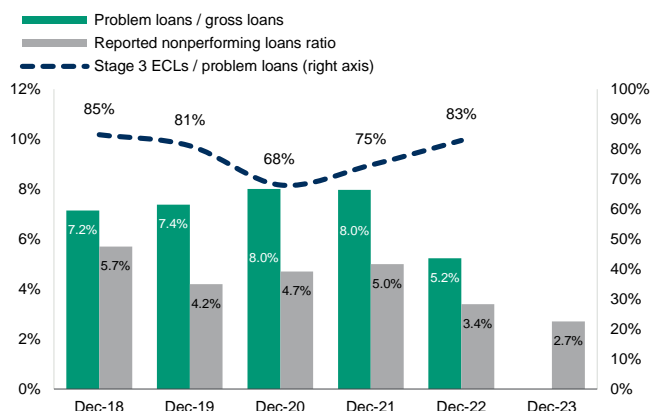


Sources: Bank's financial statements, Moody's Investors Service

Problem loans (defined as IFRS 9 Stage 3 loans and purchased or originated credit impaired loans that are nonperforming) were 5.2% of gross loans as of the end of 2022 down from 8.0% a year earlier (see Exhibit 4). According to RBI disclosures, RBBiH reported a nonperforming loan ratio of 2.7% as of the end of 2023, also slightly lower than year-end 2022. Coverage of problem loans by Stage 3 expected credit losses (ECLs) was strong at 83%. Riskier Stage 2 loans made up a further 12.0% of total loans at end-2022 and coverage with Stage 2 ECLs was also relatively high at 11.5%. Conservative provisioning is supported by a domestic regulatory framework that mandates minimum ECLs by IFRS 9 stage.<sup>2</sup>

Cost of risk (loan loss provisions to average gross loss) averaged 0.7% during 2018 to 2022 (see Exhibit 5) and was generally well covered by pre-provision income. Provisions have declined since 2020 after the pandemic-driven economic downturn, consuming 8% of pre-provision income during 2022.

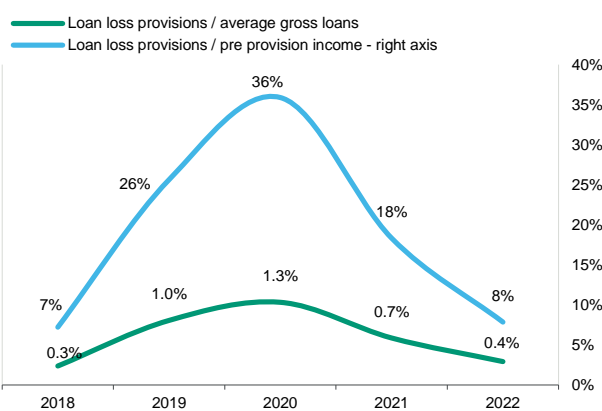
Exhibit 4  
**Problem loans were relatively high, but are well-provisioned**



Reported nonperforming loans as disclosed by RBI, which is a different definition from our problem loans

Sources: Moody's Investors Service, RBI results presentations

Exhibit 5  
**Cost of risk has been declining in recent years**



Source: Moody's Investors Service

An economic slowdown will challenge borrower's capacity to service loans and drive new problem loan formation. Specifically we see risks to domestic corporates from a potential significant slowdown in BiH's main EU trading partner countries. Somewhat mitigating these challenges, interest rates have been rising only gradually in BiH given limited transmission of tighter euro area monetary policy. This is in part because of measures from the authorities to mitigate the impact on credit risk from rising interest rates<sup>3</sup> and high liquidity in the banking sector, and despite a significant proportion of loans having been at variable rates and predominantly linked to Euribor.

New loans are now predominantly issued at fully fixed interest rates, which protect borrowers from potential future rises in interest rates. However, this exposes the bank to higher interest rate risk over time given the limited availability of instruments to hedge this risk.

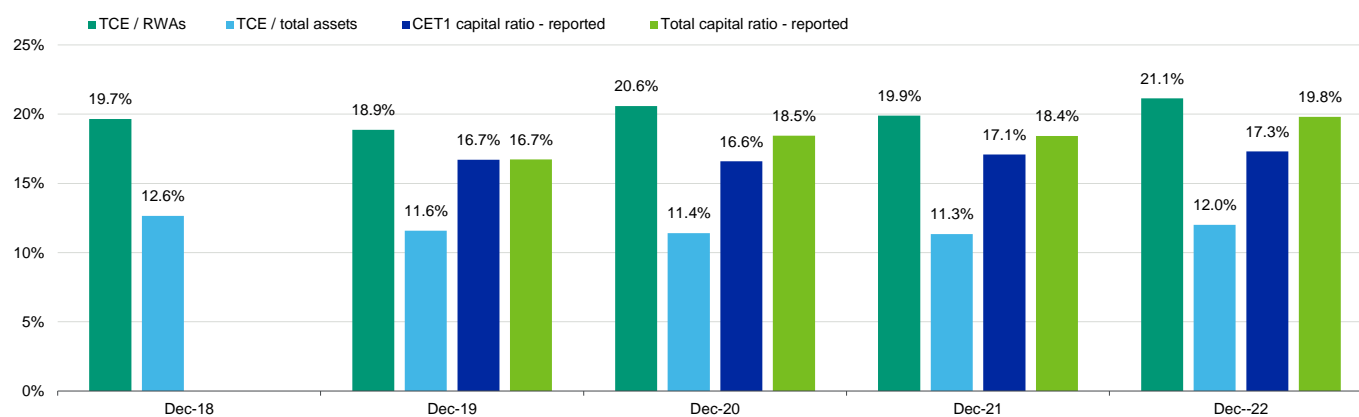
### Capital is robust and significantly above requirements

RBBiH's high capital levels are a credit strength, and coupled with adequate loan loss coverage provide capacity to absorb sizeable unexpected losses. We expect the bank's core capitalisation to remain broadly steady and sufficiently above regulatory requirements, balancing earnings retention with loan growth.

RBBiH's adjusted tangible common equity (TCE)-to-risk-weighted assets (RWAs) ratio, where we risk-weight government exposures according to BiH's sovereign rating and that includes all current period profits, was 21.1% and its TCE-to-total assets ratio was 12.0% as of the end of 2022 (see Exhibit 6).

Exhibit 6

#### Capital is robust and well above requirements



In 2019, the bank transitioned to calculating capital under Basel III from Basel II  
Source: Moody's Investors Service

RBBiH reported a regulatory Common Equity Tier 1 (CET1) capital ratio and total capital ratio of 17.1% and 18.6% respectively as of June 2023. Both metrics were substantially above the bank's requirements for that period. These were 9.25% for the CET1 ratio 14.5% for the total capital ratio, which include the 2.5% capital conservation buffer but not the undisclosed Pillar 2 capital charge that is specific to RBBiH. The bank also reported a Basel leverage ratio of 9.5%, which also incorporates off-balance sheet exposures, that is also well above the 6% requirement.

RBBiH applies the standardised approach to calculate credit-related risk-weighted assets and therefore the bank's capital metrics are less sensitive to potential amendments in regulatory methods to calculating risk-weighted assets, including floor requirements, or to macroeconomic shocks that could increase risk-weights of more risk-sensitive models.

### Moderate profitability

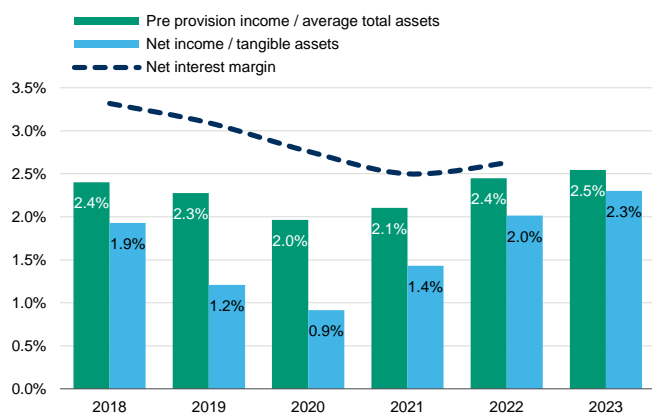
The bank's profitability has been moderate. Pre-provision profits sufficiently cover cost of risk and bottom-line profitability generates adequate internal capital. Return on equity was 16% in 2022. Looking ahead, we expect profitability to remain broadly steady given some upside on net interest income, although cost of risk will also increase and price inflation will increase operating costs, particularly staff expenses.

Net income rose to 2.0% of tangible assets in 2022, from 1.4% in 2021 (see Exhibit 7), and according to RBI disclosures it increased further to 2.3% during 2023. For 2023, the bank's profitability was supported by growing net interest income given credit growth and a wider net interest margin, while provisioning expenses were low. According to our definitions the net interest margin was 2.6% during 2022. The net interest margin remained well below the 2018 level of 3.3% following a period of intense competition and high liquidity that eroded the banking sector's lending and asset yields.

The bank benefits from an established franchise, as the second-largest bank in the country and some economies of scale. Therefore, pre-provision profitability has been broadly stable. Operating efficiency remains adequate with a cost-to-income ratio of 52% in 2022 (see Exhibit 8). While the bank maintains a tight focus on cost control, its operating expenses increased to 2.7% of total assets in 2022 following wage increases and cost inflation.

Exhibit 7

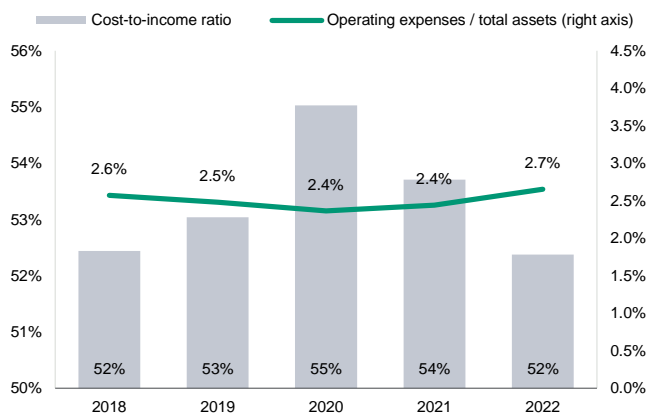
### Profitability is moderate, challenged by declining margins



Sources: Moody's Investors Service; 2023 data sourced from RBI's YE2023 results presentation

Exhibit 8

### Operating efficiency is adequate, benefiting from a focus on cost control



Source: Moody's Investors Service

Over the coming quarters we expect the net interest margin will continue to be supported by some repricing of loans and the higher remuneration on reserve placements with the central bank, while deposit interest rates stay low.<sup>4</sup> However, provisions will also rise and upward pressure on operating expenses will remain given a tight labour market, but ongoing efforts to digitalise branches, to increase process automation and to move transactions to alternative channels will support efficiency, despite high IT investments.

### Granular deposit-based funding structure and adequate liquidity, but lack of a 'lender of last resort' complicates liquidity management in a crisis

RBBiH's reliance on potentially more confidence sensitive market funding has been very low at 4% of tangible banking assets as of year end 2022, because its funding structure is mainly driven by a granular deposit base. Going forward we expect some increase in market funding reliance because of issuances to meet a minimum requirement for own funds and eligible liabilities (MREL) starting from 2023 with a four year phase-in period, which will also increase funding costs. This is reflected in our assigned score for the bank.

Customer deposits made up 90% of the bank's non-equity funding as of the end of 2022. Additionally, the deposit base is relatively granular whereby 59% of deposits were from private individuals. However, around 37% of deposits were denominated in foreign currency, mostly in euro. The rest of the liabilities were predominantly funds from developmental and international financial institutions that are generally less confidence sensitive.

Nevertheless, the lack of a lender of last resort because of the country's strict currency board arrangement complicates liquidity management in a crisis. Further exacerbating this constraint is a lack of developed domestic interbank and capital markets, or a secondary market for government securities.

Mitigating this concern, the bank has some access to funding from its parent, while it also maintains a sufficient level of liquid assets on its balance sheet. Liquid assets made up 37% of tangible banking assets at the end of 2022. The bulk of these liquid assets were

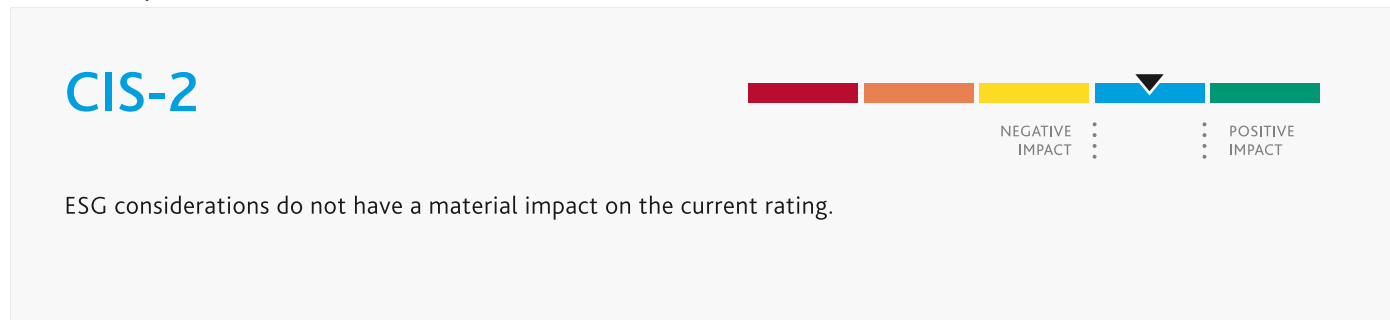
cash and money market placements. RBBiH also reported a liquidity coverage ratio of 305% as of June 2023 (256% for end-2022), significantly above the 100% requirement. The bank's net stable funding ratio was 168% as of June 2023, also well above 100%.

## ESG considerations

### Raiffeisen Bank d.d. Bosna i Hercegovina's ESG credit impact score is CIS-2

Exhibit 9

#### ESG credit impact score



Source: Moody's Investors Service

RBBiH's **CIS-2** indicates that ESG considerations have no material impact on the current ratings.

Exhibit 10

#### ESG issuer profile scores



Source: Moody's Investors Service

### Environmental

RBBiH faces moderate exposure to environmental risks, mainly because of its portfolio exposure to carbon transition risk as a diversified bank with significant corporate exposure. Like peers, RBBiH is facing growing business risks and stakeholder pressure to meet broader carbon transition goals. In response, RBBiH is engaging in further developing its climate risk and portfolio management capabilities.

### Social

RBBiH faces high social risks from country-specific demographic and societal trends. The complex institutional framework and lack of consensus in BiH undermine the political and economic reform process and the path toward EU accession, which directly affects banks. Additionally adverse demographics may also affect business opportunities for the bank over time. Industrywide risks from customer relations, related to regulatory risk and litigation exposure, are moderate.

### Governance

RBBiH faces low governance risks. Its risk management framework, policies and procedures are in line with industry practices. The bank also has a track record of prudent financial policies and strategies. Because RBBiH is effectively controlled by Raiffeisen Bank International through its full ownership, we have aligned the subsidiary's board structure, policies and procedures score with that of its parent, given the bank's public affiliation with the group, the parent's oversight of its subsidiary board and the regulated nature of both entities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Support and structural considerations

### Affiliate support

We assess that there is a high probability of support by RBI to RBBiH. Our assessment is based on RBI's 100% stake in RBBiH, the parent's ongoing operational support and oversight, and the subsidiary's use of the Raiffeisen logo and name. RBBiH is also a strategic fit to RBI's Western Balkans presence given its established and sustainable franchise as one of BiH's largest banks. This assessment results in two notches of rating uplift for RBBiH's Adjusted BCA to b1 (from the bank's standalone BCA of b3).

### Government support considerations

RBBiH's ratings do not benefit from government support uplift given that the bank's Adjusted BCA and therefore the preliminary rating assessments (PRAs) for its ratings are already above the sovereign rating of BiH.

### Counterparty Risk Ratings (CRRs)

**RBBiH's local-currency CRRs are B1/NP and its foreign-currency CRRs are B3/NP**

In line with our methodology, for the CRRs, we constrain the PRA to two notches above the sovereign rating, reflecting our view that expected loss is likely to be higher under a sovereign default. The foreign-currency CRRs are constrained by the relevant ceiling at B3.

### Counterparty Risk (CR) Assessment

**RBBiH's CR Assessment is B1(cr)/NP(cr)**

According to our methodology, the CR Assessment typically does not exceed the sovereign's rating by more than two notches where the Adjusted BCA is already above the sovereign rating.

## Methodology and scorecard

### About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.



## Rating methodology and scorecard factors

Exhibit 11

Raiffeisen Bank d.d. Bosna i Hercegovina

Macro Factors							
Weighted Macro Profile	Very Weak	100%					
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	7.1%	caa2	↑	caa1	Collateral and provisioning coverage	Expected trend	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	21.1%	ba3	↓	b1	Expected trend	Access to capital	
Profitability							
Net Income / Tangible Assets	1.5%	caa1	↑	b3	Expected trend		
Combined Solvency Score		b3		b3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	4.4%	b2	↓	b3	Expected trend		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	37.4%	b3	↔	b3	Stock of liquid assets		
Combined Liquidity Score		b2		b3			
Financial Profile							
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				B3			
BCA Scorecard-indicated Outcome - Range				b2 - caa1			
Assigned BCA				b3			
Affiliate Support notching				2			
Adjusted BCA				b1			
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	b1	0	B1	B3	
Counterparty Risk Assessment	1	0	b1 (cr)	0	B1(cr)		
Deposits	0	0	b1	0	B1	B3	
Senior unsecured bank debt	0	0	b1	0	(P)B1	(P)B3	

[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 12

Category	Moody's Rating
<b>RAIFFEISEN BANK D.D. BOSNA I HERCEGOVINA</b>	
Outlook	Stable
Counterparty Risk Rating -Fgn Curr	B3/NP
Counterparty Risk Rating -Dom Curr	B1/NP
Bank Deposits -Fgn Curr	B3/NP
Bank Deposits -Dom Curr	B1/NP
Baseline Credit Assessment	b3
Adjusted Baseline Credit Assessment	b1
Counterparty Risk Assessment	B1(cr)/NP(cr)
Senior Unsecured MTN -Fgn Curr	(P)B3
Senior Unsecured MTN -Dom Curr	(P)B1
<b>PARENT: RAIFFEISEN BANK INTERNATIONAL AG</b>	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured	A1
Junior Senior Unsecured -Dom Curr	Baa2
Junior Senior Unsecured MTN -Dom Curr	(P)Baa2
Subordinate -Dom Curr	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)

Source: Moody's Investors Service

## Endnotes

- The ratings shown here are RBI's deposit rating, senior unsecured debt rating and Baseline Credit Assessment.
- Under local rules, the minimum ECL for Stage 1 exposures is 0.1% for low risk exposures, such as to the country's central bank and state and entity governments, and 0.5% for all other exposures, 5% for Stage 2 exposures and minimum ECLs start at 15% for Stage 3 exposures, rising gradually to 100% depending on days past due and whether the exposure is secured or unsecured.
- In September 2022, the banking agencies announced temporary measures to mitigate risk from rising interest rates, with the validity of the measures subsequently extended to June 2024. Banks are instructed to assess the impact of rising interest rates on their exposures before implementing the increase and to reflect the risk in expected credit losses (ECLs). For existing or new exposures with a significant increase in interest rates, defined as 200 basis points from the rate that would be applicable in June 2022, the minimum ECL for Stage 1 exposures is 2% and for Stage 2 exposures 12%. Banks should also determine whether the significant increase in interest rate represents also a significant increase in credit risk, and therefore assign those exposure to Stage 2.
- Since July 2023, the central bank of BiH [remunerates](#) commercial banks at 0.50% for required reserves on local currency funds and 0.30% on required reserves for foreign currency funds and those in local currency but with currency indexation. Placements at the central banks in excess of reserves are not remunerated.

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