

**CREDIT OPINION**

20 December 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**

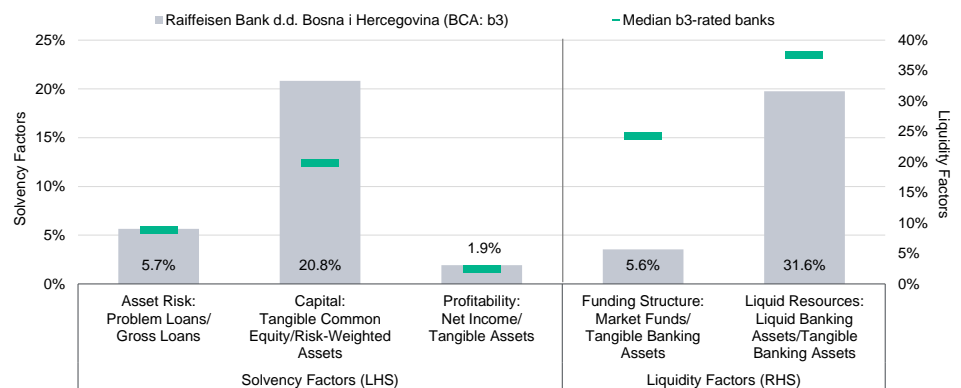
[Raiffeisen Bank d.d. Bosna i Hercegovina's](#) (RBBiH) B1 local-currency deposit rating captures the bank's b3 Baseline Credit Assessment (BCA) and two notches of rating uplift from our assessment of a high probability of affiliate support from [Raiffeisen Bank International AG](#) (RBI, A1/A1 stable, 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) B3 foreign-currency country ceiling.

RBBiH's b3 standalone BCA reflects its robust capital, that provides capacity to absorb losses; strengthened profitability; and granular deposit-based funding structure. These strengths are balanced by high asset risks amid a challenging operating environment; and the lack of lender of last resort that complicates liquidity management, although the bank maintains substantial liquid assets of high quality.

While RBBiH's exposure to the domestic government and public sector is low, the bank is indirectly exposed to sovereign event risk at the B3 sovereign rating level, as sovereign crises can transmit shocks across the economy and the banking system. In fact, RBBiH's BCA is constrained at this level by the sovereign rating, despite the improvement in the bank's financial performance, which is commensurate with a b2 financial profile.

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 Ratings

## Credit strengths

- » Capital is robust and significantly above requirements, while strengthened profitability has improved internal capital generation
- » A granular deposit-based funding structure and high quality liquid assets
- » 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 securities is low
- » Lack of a 'lender of last resort' complicates liquidity management

## Outlook

The stable outlook on the bank's long-term deposit ratings is aligned with the stable outlook on the sovereign. It reflects both the fact that RBBiH's BCA is constrained by the sovereign rating, and our expectation that its financial performance will remain solid, including capital levels significantly above regulatory requirements, mitigating operating environment pressures.

## Factors that could lead to an upgrade

- » Because RBBiH's ratings are at the respective domestic and foreign -currency ceiling caused by the B3 sovereign ratings, rating could only be upgraded upon an upgrade of the sovereign rating. RBBiH's BCA is constrained by the sovereign rating and an upgrade would be contingent on an upgrade of the sovereign rating.

## Factors that could lead to a downgrade

- » RBBiH's ratings could be downgraded if the sovereign rating is downgraded. Reduced willingness by RBI to provide support to RBBiH could also result in a ratings downgrade. Ratings could also be downgraded if the BCA is downgraded, which may be due to a significant deterioration in the operating environment that would adversely impact RBBiH's asset quality, profitability and capital.

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 (Consolidated Financials) [1]

	12-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (BAM Million)	5,306.7	5,120.6	4,967.8	4,982.2	2.1 <sup>4</sup>
Total Assets (USD Million)	2,997.2	2,794.2	2,888.5	3,127.5	(1.4) <sup>4</sup>
Tangible Common Equity (BAM Million)	649.1	606.5	564.6	566.3	4.7 <sup>4</sup>
Tangible Common Equity (USD Million)	366.6	330.9	328.3	355.5	1.0 <sup>4</sup>
Problem Loans / Gross Loans (%)	4.0	5.1	7.8	7.7	6.2 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	20.8	21.4	20.4	21.0	20.9 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.3	18.0	27.3	27.1	21.9 <sup>5</sup>
Net Interest Margin (%)	3.5	2.7	2.5	2.8	2.9 <sup>5</sup>
PPI / Average RWA (%)	4.6	4.1	3.9	3.6	4.0 <sup>6</sup>
Net Income / Tangible Assets (%)	2.4	1.8	1.5	0.9	1.7 <sup>5</sup>
Cost / Income Ratio (%)	52.7	54.9	54.1	56.4	54.5 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	5.6	6.2	6.8	6.2	6.2 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	31.6	36.7	37.1	36.4	35.4 <sup>5</sup>
Gross Loans / Due to Customers (%)	72.9	69.1	68.0	67.7	69.4 <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 Ratings and company filings

## Profile

RBBiH is a commercial bank operating almost exclusively in BiH and headquartered in Sarajevo. As of end-June 2024, RBBiH was the second-largest bank in the country with a 13.4% market share in terms of assets. The bank's total assets according to RBI disclosures were equivalent to €2.9 billion as of September 2024. 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 Bosnia and Herzegovina (CBBH), the Banking Agency of the Federation of BiH (FBA) and the Banking Agency of Republika Srpska. Bank-specific year-end figures originate from the bank's annual reports, while quarterly figures from the parent RBI's quarterly disclosures. All 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 8 April 2024.

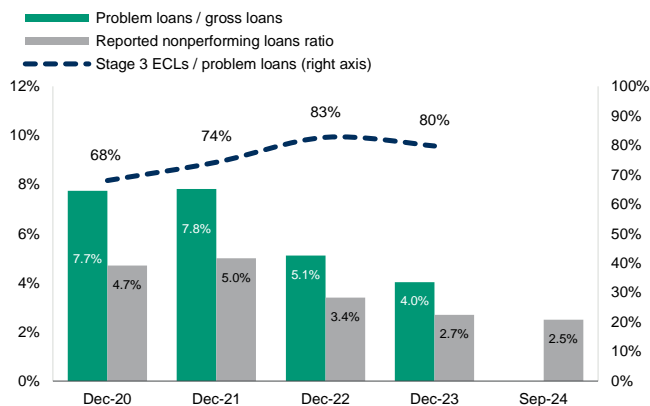
## Detailed credit considerations

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

RBBiH's high asset risks are driven by BiH's challenging operating environment, captured by our 'Very Weak' Macro Profile for the country. While RBBiH's exposure to domestic government securities and public sector entities is low, the bank is indirectly exposed to sovereign event risk as sovereign crises can transmit shocks across the economy and the banking system. That said, the bank's asset quality has gradually improved and problem loans are well provisioned. Additionally, underwriting standards are broadly conservative and borrower concentration levels are moderate.

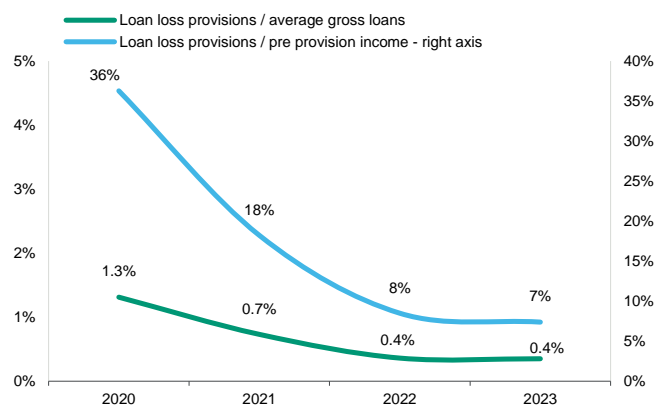
Problem loans (defined as IFRS 9 Stage 3 loans and purchased or originated credit impaired loans that are nonperforming) were 4.0% of gross loans as of the end of 2023, down from 5.1% a year earlier (see Exhibit 3). We estimate that problem loans declined further during 2024. RBBiH reported nonperforming loans at 2.5% of loans to both customers and banks as of September 2024, slightly lower than 2.7% at year-end 2023. Improvements reflect low problem loan migration, the resolution of a few large problematic exposures, and improvements in the bank's collection process. Coverage of problem loans by Stage 3 expected credit losses (ECLs) was strong at 80%. Riskier Stage 2 loans made up a further 10.0% of total loans at end-2023 and coverage with Stage 2 ECLs was also high at 10.3%, supported by a conservative domestic regulatory framework.<sup>2</sup>

Exhibit 3  
**Problem loans are declining and are well-provisioned**



Reported NPL ratio as disclosed by RBI that includes exposure to banks, which is a different definition from our problem loans ratio  
 Sources: Moody's Ratings, RBI Q3 2024 results presentation

Exhibit 4  
**Cost of risk has been low in recent years**

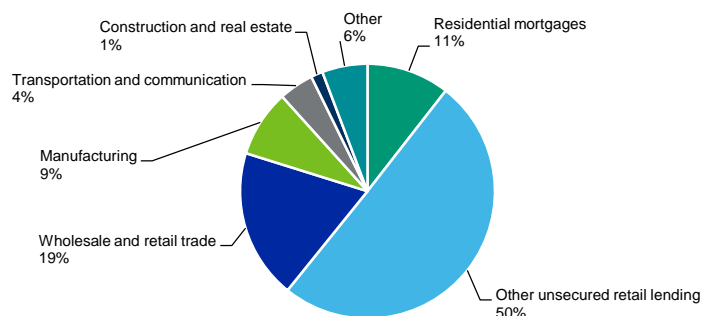


Source: Moody's Ratings

Cost of risk (loan loss provisions to average gross loss) averaged 0.7% between 2020 to 2023 and was generally well covered by pre-provision income. Provisions have declined since 2020 after the pandemic-driven economic downturn (see Exhibit 4), while according to RBI disclosures there was a material recovery of provisions during the first nine months of 2024 reflecting some model adjustments for households.

Credit growth picked to 11% in 2023 from 4% in 2022, while net loans increased by 7% during the first 9 months of 2024. Loans to individuals made up around 61% of gross loans (see Exhibit 5), of which 83% were unsecured loans and 17% 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 29% 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 5  
**Retail loans to individuals dominate RBBiH's loan book**  
**Loan breakdown by sector as of the end of 2023**



Sources: Bank's financial statements, Moody's Ratings

Looking ahead, an economic downturn in BiH or the country's large European trading partners, such as Germany, will drive higher problem loan formation. Mitigating risks, lending rates have risen modestly in BiH. 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 to households 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 given the limited availability of instruments to hedge this risk.

### Capital is robust and significantly above requirements

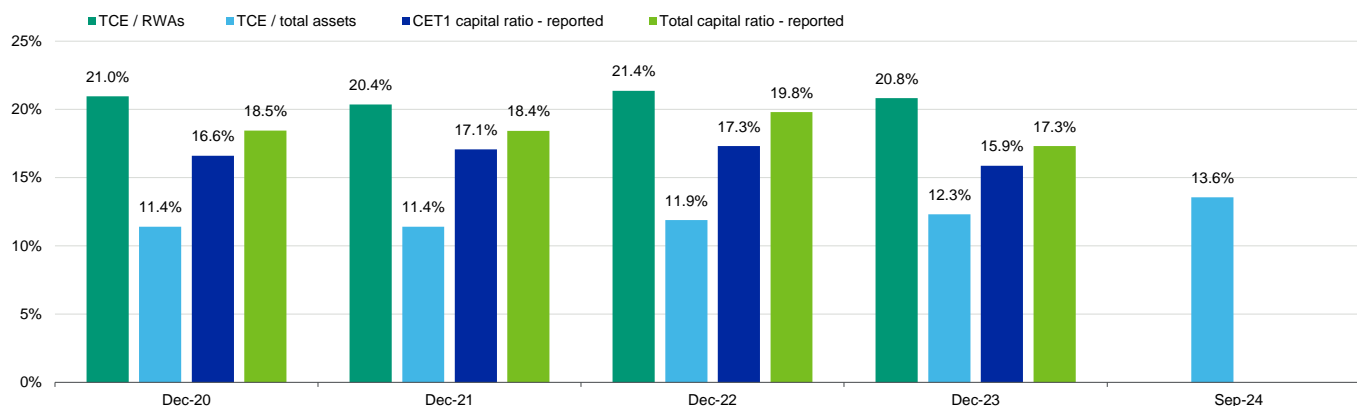
RBBiH's high capital levels are a credit strength, and coupled with adequate loan loss coverage provide capacity to absorb sizeable unexpected losses. We expect the bank's core capitalisation to remain broadly steady and sufficiently above regulatory requirements, balancing its improved internal capital generation from profitability against 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 20.8% and its TCE-to-total assets ratio was 12.3% as of the end of 2023 (see Exhibit 6).

RBBiH reported a regulatory Common Equity Tier 1 (CET1) capital ratio and total capital ratio of 16.6% and 18.0% respectively as of end June 2024.<sup>4</sup> Both metrics were substantially above the bank's requirements for that period. Regulatory requirements were 9.25% for the CET1 ratio and 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<sup>5</sup>. The bank also reported a Basel leverage ratio of 9.1%, which also incorporates off-balance sheet exposures, that is also well above the 6% requirement.

Exhibit 6

### Capital is robust and well above requirements



For September 2024 the ratio tangible common equity/total assets reflects equity/total assets  
Sources: Moody's Ratings, September 2024 data sourced from RBI's Q3 2024 results presentation

RWAs increased in June 2024 because of a local regulation that mandates higher risk weights increased on consumer loans with a remaining maturity of over five years to 100%, from 75% previously and on housing loans with a remaining maturity of over 20 years to 75%, from 50% previously.

### Strengthened profitability

The bank's profitability has strengthened and we expect it will remain solid over the coming quarters. Pre-provision profits sufficiently cover cost of risk and bottom-line profitability generates adequate internal capital. Return on equity was 19% in 2023. Looking ahead, we expect profitability will decline from record levels in 2024, but remain close to those in 2023, because of some margin pressure, a more normalised cost of risk and ongoing investments in IT and staffing.

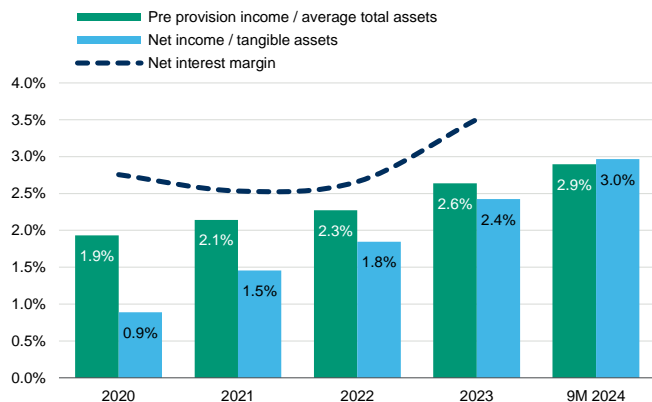
Net income rose to 2.4% of tangible assets in 2023, from 1.8% in 2022 (see Exhibit 7), and increased further to 3.0% during the first nine months of 2024. Stronger profitability was supported by growing net interest income given close to double-digit credit growth and a wider net interest margin (NIM), while the bank posted a recovery in provisions in 2024; we estimate that NIMs increased to over 4% during 2024 (2023: 3.5%). Margins benefited from gradually higher lending and asset rates<sup>6</sup>, while deposit costs remain close to zero. We expect NIMs to normalise around the 2023 levels as deposit costs catch up, but lending rates will be slow to decline with lower interest rates given a now higher share of fixed rate loans.

The bank benefits from an established franchise, as the second-largest bank in the country and some economies of scale. Non-interest income is high at 43% of revenue during 2023, driven by payments (both transactions and credit cards) and account maintenance fees.

Operating efficiency remains adequate with a cost-to-income ratio of 53% in 2023 (see Exhibit 8). While the bank maintains a tight focus on cost control, its operating expenses increased to 2.9% of total assets in 2023 following wage increases and cost inflation. We expect 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.

Exhibit 7

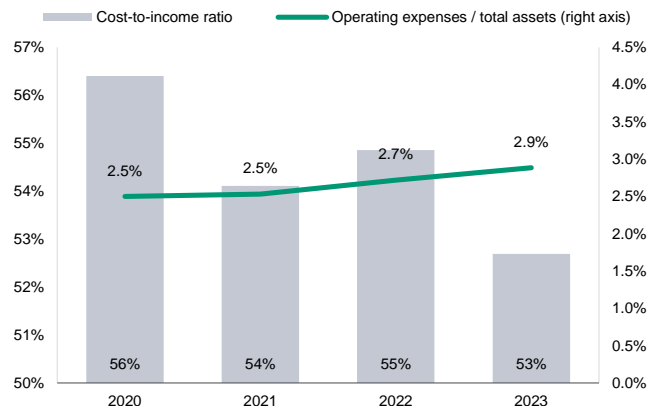
#### Profitability has been strengthening, supported by expanding margins and a recovery in provisions during 2024



Sources: Moody's Ratings, September 2024 data sourced from RBI's Q3 2024 results presentation

Exhibit 8

#### Operating efficiency is adequate, although operating expenses have been increasing as a % of assets



Source: Moody's Ratings

### 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 6% of tangible banking assets as of year end 2023, 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) which started in 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 2023. Additionally, the deposit base is relatively granular whereby 58% of deposits were from private individuals. However, around 33% 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 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 sufficient level of liquid assets, that made up 32% of tangible banking assets at the end of 2023. The bulk of these liquid assets were cash and money market placements. RBBiH also reported a liquidity coverage ratio of 289% as of June 2024, significantly above the 100% requirement. The bank's net stable funding ratio was 167% as of end June 2024, also well above 100%.

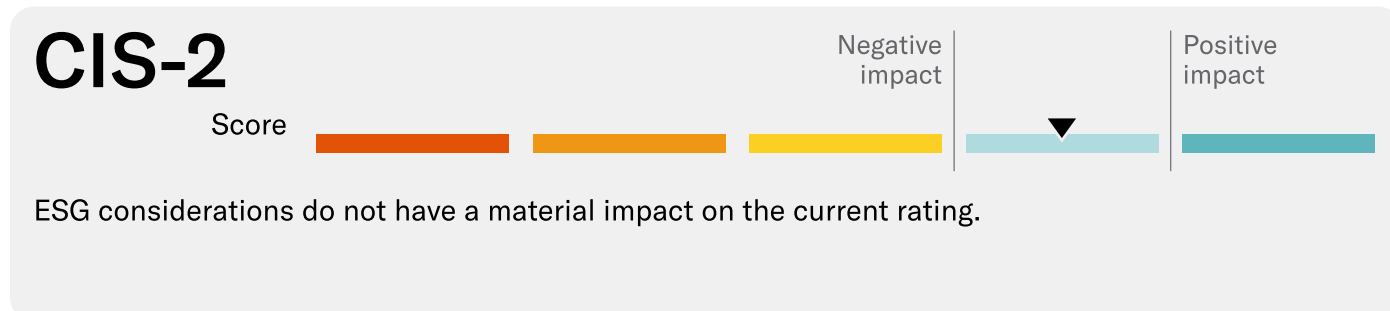
RBBiH's overall financial profile scorecard outcome is b2, although the BCA is constrained at the B3 sovereign level.

## ESG considerations

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

Exhibit 9

ESG credit impact score

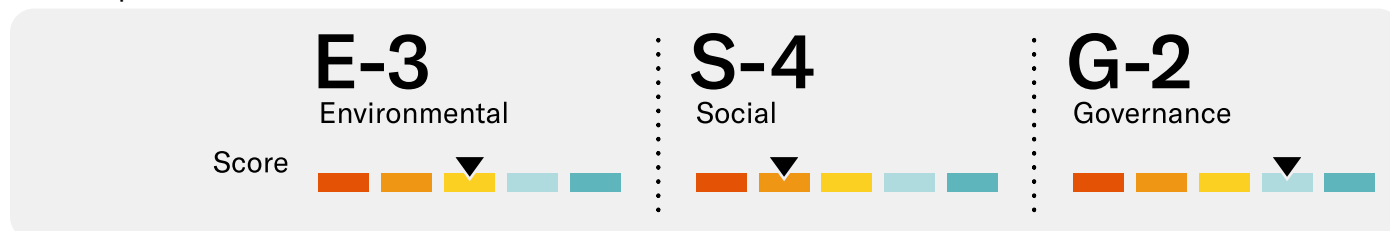


Source: Moody's Ratings

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 Ratings

### 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 the probability of affiliate support from RBI as high given the 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.

## 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

### Rating Factors

<b>Macro Factors</b>							
<b>Weighted Macro Profile</b>	<b>Very Weak</b>	<b>100%</b>					
<b>Factor</b>	<b>Historic Ratio</b>	<b>Initial Score</b>	<b>Expected Trend</b>	<b>Assigned Score</b>	<b>Key driver #1</b>	<b>Key driver #2</b>	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	5.7%	caa2	↑↑	caa1	Collateral and provisioning coverage	Expected trend	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	20.8%	ba3	↓	b1	Expected trend	Access to capital	
Profitability							
Net Income / Tangible Assets	1.9%	b3	↑	b2	Expected trend		
Combined Solvency Score		b3		b2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	5.6%	b3	↔	b3	Expected trend		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	31.6%	caa1	↔	b3	Quality of liquid assets		
Combined Liquidity Score		b3		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			
<b>Instrument Class</b>	<b>Loss Given Failure notching</b>	<b>Additional notching</b>	<b>Preliminary Rating Assessment</b>	<b>Government Support notching</b>	<b>Local Currency Rating</b>	<b>Foreign Currency Rating</b>	
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 Ratings

## 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 Ratings

## Endnotes

- The ratings shown here are RBI's deposit rating, senior unsecured debt rating and Baseline Credit Assessment.
- The regulatory framework mandates minimum ECLs by IFRS 9 stage. 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 December 2025. 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.
- There is a timing difference in the recognition of the bank's profits in regulatory capital ratios, hence these appear lower than our capital metrics, which include prior profits.
- 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
- Since July 2023, CBBH 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 be remunerated.

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