MOODY'S
INVESTORS SERVICE

CREDIT OPINION
5 July 2022

Update

Send Your Feedback

Raiffeisen Bank SA

Update to credit analysis

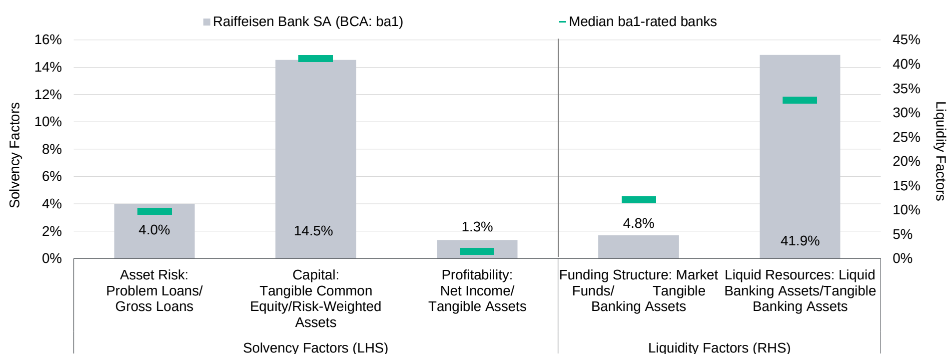
Summary

We assign Baa1/Prime-2 deposit and senior unsecured ratings to Raiffeisen Bank SA (RBRO), as well as a Baa3 rating to its junior senior unsecured bonds. The ratings have a stable outlook.

RBRO's ratings reflect the bank's ba1 standalone Baseline Credit Assessment (BCA); our assumption of a high likelihood of support from its parent, Raiffeisen Bank International AG (RBI, A2 stable, baa3[1]), leading to a one-notch rating uplift resulting in an Adjusted BCA of baa3; and the result of the application of our Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by the different liability classes in the event of a resolution, leading to two notches of rating uplift for RBRO's deposit and senior unsecured ratings and no uplift for the junior senior unsecured rating.

RBRO's ba1 BCA reflects its sound capitalisation and profitability, strong liquidity and very low dependency on market funding, balanced against our assessment of high asset risks resulting from a still-difficult operating environment, concentration risks and significant foreign-currency (FC) lending. Tail risks relating to RBRO's high reliance on FC deposits that are also captured in its BCA.

Exhibit 1
Rating scorecard - Key financial ratios



The problem loan and profitability ratios are the weaker of the latest reported ratio or the average of the latest three year-end ratios and the latest reported ratio. The capital ratio is the latest reported figure. The funding structure and liquid asset ratios are the latest year-end figures.
Source: Moody's Financial Metrics

RATINGS

Raiffeisen Bank SA

Domicile	Bucharest, Romania
Long Term CRR	Baa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Baa1
Type	Senior Unsecured - Dom Curr
Outlook	Stable
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn 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.

Contacts

Christina Holthaus +49.69.70730.721
Analyst
christina.holthaus@moodys.com

Constantinos Kypreos +357.2569.3009
Senior Vice President
constantinos.kypreos@moodys.com

Alexander Hendricks, CFA +49.69.70730.779
Associate Managing Director
alexander.hendricks@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077

Credit strengths

» Strong earnings generation capacity supported by interest rate increase

» Strong liquid resources to balance funding risks

» Sound capital metrics and loss-absorbing buffers

Credit challenges

» Increased asset risk from FC-denominated loans and sector concentrations in a still-difficult environment

» High proportion of FC deposits, which entails funding risks in a sovereign-related adverse-case scenario

Outlook

» RBRO's long-term deposit ratings have a stable outlook, aligned with the stable outlook on Romania's sovereign rating.

Factors that could lead to an upgrade

» An upgrade of RBRO's Baa1 deposit ratings is subject to an upgrade of the sovereign rating in combination with either an upgrade of the bank's BCA and Adjusted BCA, or changes in RBRO's liability structure that result in a larger loss-absorbing buffer for depositors and a higher notching uplift under our LGF analysis.

» Junior senior unsecured ratings may also be upgraded following the raising of additional junior senior unsecured or subordinated debt.

» RBRO's BCA could be upgraded following a combination of a sustainably improved asset quality and profitability while maintaining strong capital and liquidity buffers.

Factors that could lead to a downgrade

» RBRO's deposit and senior unsecured ratings could face downward pressure if there is any deterioration in the creditworthiness of Romania. The ratings could also be downgraded if RBRO's or RBI's BCAs are downgraded, or the bank's liability structure changes significantly, thus, reducing the loss-absorption buffer for depositors and resulting in a lower uplift following the application of our Advanced LGF. Additionally, both of RBRO's debt ratings could be downgraded if the bank issues lower-than-expected volumes of securities.

» RBRO's BCA could be downgraded following a significant weakening of its profitability and its asset quality, which would erode the bank's capital buffers and weaken its liquidity.

Key indicators

Exhibit 2

Raiffeisen Bank SA (Consolidated Financials) [1]

	12-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (RON Million)	59,833.5	52,053.2	43,856.2	40,794.5	36,806.4	12.9[4]
Total Assets (USD Million)	13,697.8	13,084.8	10,285.6	10,018.1	9,466.7	9.7[4]
Tangible Common Equity (RON Million)	4,871.3	4,906.5	4,320.6	3,982.3	3,436.5	9.1[4]
Tangible Common Equity (USD Million)	1,115.2	1,233.4	1,013.3	977.9	883.9	6.0[4]
Problem Loans / Gross Loans (%)	3.8	3.9	4.2	4.2	6.4	4.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.5	16.3	15.4	15.2	14.2	15.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	21.1	19.0	22.2	22.8	33.2	23.7[5]
Net Interest Margin (%)	3.2	3.7	4.2	3.9	3.3	3.6[5]
PPI / Average RWA (%)	3.6	3.9	4.5	5.0	3.7	4.1[6]
Net Income / Tangible Assets (%)	1.3	1.2	1.9	2.2	1.4	1.6[5]
Cost / Income Ratio (%)	58.3	57.4	55.7	51.6	60.4	56.7[5]
Market Funds / Tangible Banking Assets (%)	4.8	2.5	3.1	4.6	5.5	4.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	41.9	41.4	33.3	33.2	37.3	37.4[5]
Gross Loans / Due to Customers (%)	69.1	69.1	79.5	82.1	78.2	75.6[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 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

Raiffeisen Bank SA (RBRO) is a Romanian universal bank, a subsidiary of Austria's RBI. The bank provides financial services to individuals, small and medium-sized enterprises (SMEs) and corporate clients. As of December 2021, RBRO was the third-largest bank in Romania by loans[2], with a market share of 9.2% in terms of assets (€12.1 billion) and a countrywide network of 300 branches.

Recent developments

In October 2021, the National Bank of Romania (NBR) raised interest rates following a stepwise decrease from 2.5% as of May 2018 to 1.25% in January 2021 in response to the pandemic. The rate cuts during the pandemic have eased the debt repayment burden of the private sector but also strained the profitability of Romanian banks. Since February 2022, the policy interest rate is back at 2.5% and was even increased to 3.75% on 11 May in response to a stronger-than-expected increase in inflation because of the military conflict in Ukraine.

Detailed credit considerations

Increased asset risk from FC-denominated loans and sector concentrations in a still-difficult environment

We assign a ba2 Asset Risk score to RBRO, one notch below the initial score of ba1, reflecting the large share of FC loans and a high proportion of Stage 2 loans and strong loan growth, but also the continued improvement in the bank's loan quality, which will help partially absorb any new problem loans. Moreover, we consider tail risks resulting from the bank's concentration in unsecured consumer finance.

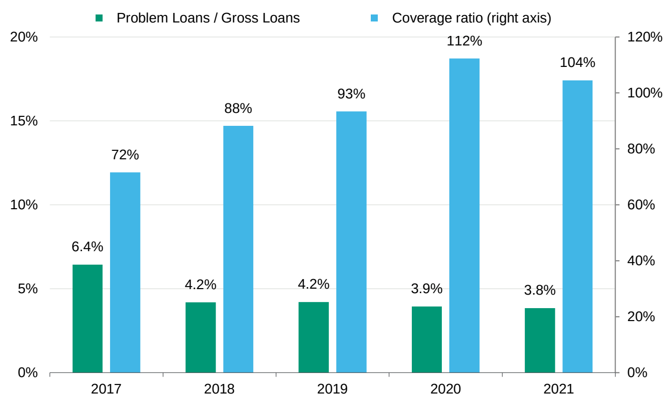
RBRO has reported a stable problem loan ratio of around 4% since 2018, while the coverage ratio (loan loss reserves/nonperforming loans [NPLs]) increased to more than 100% over the same period[3]. The bank's nonperforming exposure (NPE) ratio (based on the European Banking Authority's (EBA) broader definition, which includes bond investments) was 2.1%, in line with the EBA system average of 2.2% as of year-end 2021. The bank's success in cleaning up its balance sheet has been achieved through write-offs, recoveries and the sale of problem loans in the past.

Despite the stabilisation in NPLs, the high share of Stage 2 (underperforming) loans, which was at 13% of gross total as of year-end 2021, as well as the 27% FC-denominated loans of the total loan book, reflects the bank's still-high asset risks. In the past, a portion of the FC loans was dispersed to borrowers and households that do not have income in the currency of the loan; hence, their repayment ability will be compromised if the local currency (LC) depreciates significantly. While most of the FC loans are denominated in euro, there is also a small exposure to mortgages in Swiss francs (0.6% of 2021 loans). Furthermore, RBRO's loan book grew at a compound annual growth rate of 10% between 2017 and 2021, which entails unseasoned credit risks, while the risk of legacy FC-denominated loans to unhedged borrowers gradually declines with the amortization of those loans.

The bank's portfolio is generally fairly balanced, with exposure to retail customers forming 57% of gross loans and 26% to the corporate sector as of the end of December 2021. However, within the retail sector, unsecured financings to consumers (personal loans) accounted for 22% of the total loan book, and 1.6x the bank's tangible common equity (TCE), reflecting some concentration risks.

Exhibit 3

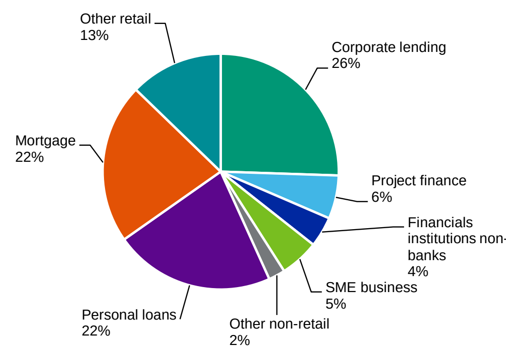
NPLs have stabilised and coverage constantly increased
In percentage terms



Sources: Company data and Moody's Investors Service

Exhibit 4

A large share of the bank's retail exposures is in unsecured consumer finance (personal loans)
Total gross loans of RON34.4 billion as of year-end 2021



Other retail consists of micro, credit cards, consumer loans guaranteed with mortgages and overdrafts
Source: Company data

Sound capital metrics and loss-absorbing buffers

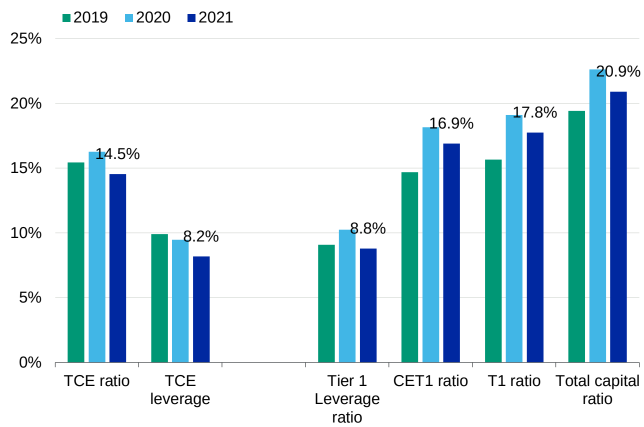
We assign a ba1 Capital score, adjusted one notch below the baa3 initial score, reflecting the continued growth in risk-weighted assets (RWA) because of loan book expansion, as well as the bank's FC lending, which exposes the bank to higher RWA in a stress scenario.

In 2021, the bank's Tier 1 and capital adequacy ratio (CAR) decreased to 17.8% and 20.9% from 19.1% and 22.6%, respectively, as of year-end 2020 following an increase in unadjusted RWA of RON2.0 billion as a consequence of the RON4.2 billion increase in gross loans year over year and the continuation of dividend payments after the suspension in 2020. Besides RBRO's core capital, the bank holds a RON239 million (€50 million) Additional Tier 1 bond subscribed by RBRO's parent RBI, and RON480 million of Tier 2 capital provided by the International Finance Corporation (Aaa stable) and the European Bank for Reconstruction and Development (EBRD, Aaa stable). RBRO's total capital requirements of 16.1%, as of December 2021, also include a 2.5% capital conservation buffer, a 2% buffer for its systemic importance.

The initial score of baa3 is derived from the bank's Moody's-adjusted TCE ratio, which is below the regulatory capital ratios, reflecting our adjustments for the bank's domestic sovereign bond holdings, which increase the RWA. As of year-end 2021, the TCE ratio was 14.5%, down from 16.3% a year earlier, given the bank's growth in RWA.

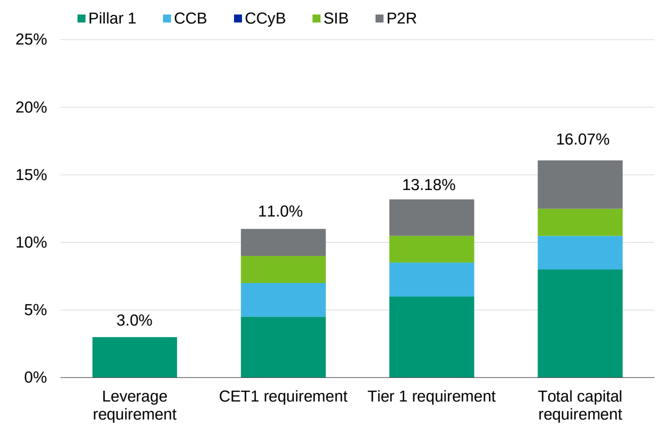
Following European Central Bank (ECB) and NBR recommendations, RBRO suspended dividend payments for 2020 but resumed them in 2021 resulting in a payout ratio of 50%. The bank made substantial dividend payments of 60%, 50% and 50% of its profit in 2019, 2018 and 2017, respectively.

Exhibit 5
RBRO's capital ratios are sound



TCE = Tangible common equity (Moody's-calculated); CET1 = Common Equity Tier 1 capital.
Sources: Company data and Moody's Investors Service

Exhibit 6
RBRO's regulatory capital requirements
As of year-end 2021



CCB = Capital conservation buffer, CCyB = Countercyclical buffer, SIB = Systemically important buffer, P2R = Pillar 2 Requirement.
Sources: Company and Moody's Investors Service

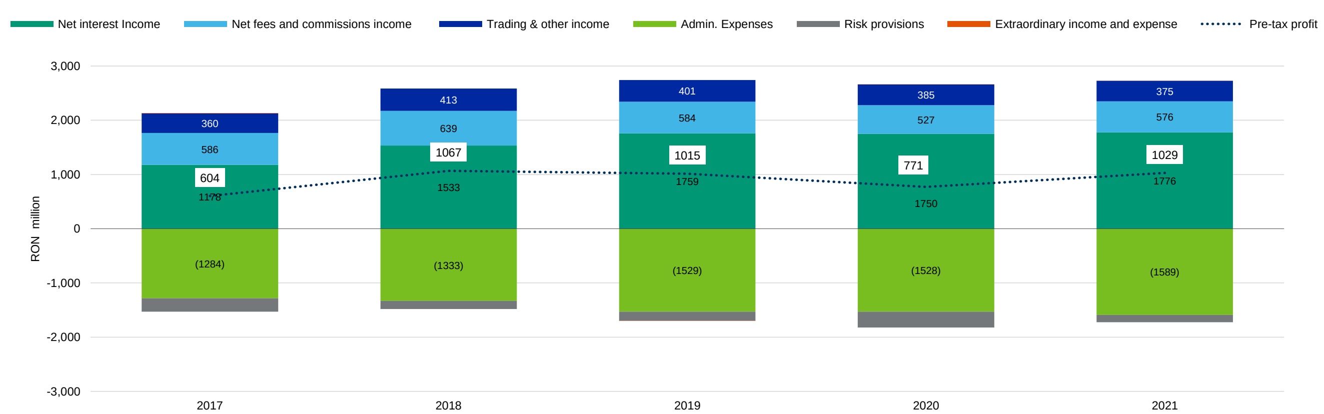
Strong earnings generation capacity supported by interest rate increase

We assign a Profitability score of baa3 in line with the initial score, reflecting net income/tangible assets of 1.3%. We expect profitability metrics to remain broadly stable, supported by good loan growth and improved margins — following the recent rate hike — which will help to absorb credit costs in a less benign operating environment.

In 2021, RBRO's performance was strong, with a 1.5% return on tangible assets, and bottom-line profit of RON0.8 billion, up 26% year over year. The improvement in the bank's profitability was mainly attributed to lower loan loss provisioning (down by 54% year over year), and strengthened revenue diversification (fee and commission income increased by 9% year over year to more than 21% of net revenue) that surpassed the 2% increase in net interest income to RON1.8 billion and the 4% other operating expenses to RON1.6 billion.

While RBRO's net interest margin (NIM) remained under pressure in 2021 when it decreased to 3.2% from 3.7% in 2020 and 4.2% in 2019 because of the low interest rates environment, we expect recent rate hikes to support the bank's net interest income, leading to stable net income/tangible assets over the next 12-18 months.

Exhibit 7
Raiffeisen Bank SA's profitability over time



Sources: Company and Moody's Investors Service

High proportion of FC deposits, which entails funding risks in a sovereign-related adverse-case scenario

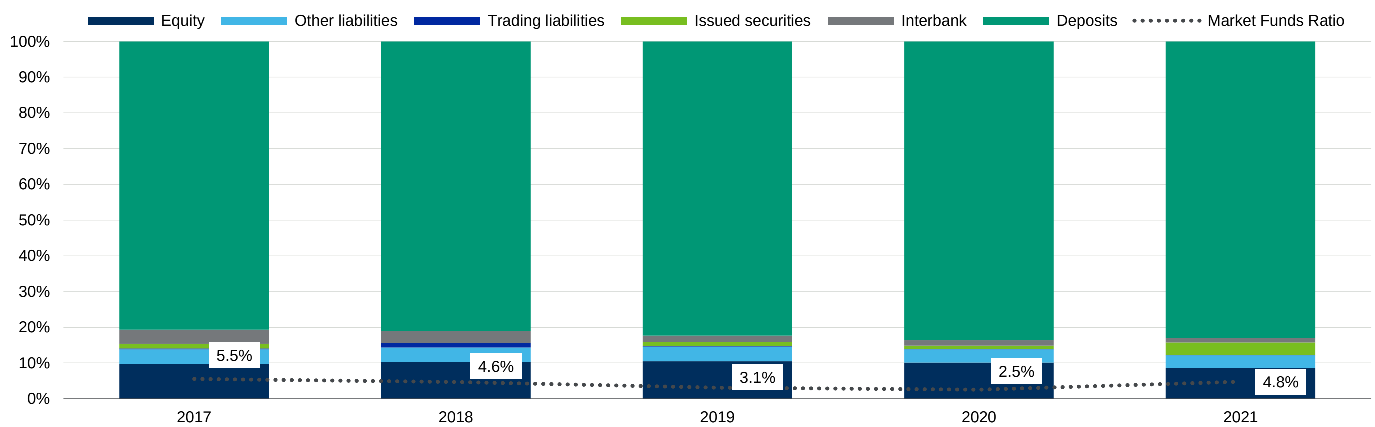
We assign a baa3 Funding Structure score to RBRO, two notches below the baa1 initial score. The adjustments capture the bank's reliance on more confidence-sensitive FC deposits, which increases funding tail risks despite its strong deposit franchise, as well as an expected increase in market funding reliance following the bank's minimum requirement for own funds and eligible liabilities (MREL) requirements.

RBRO is primarily reliant on deposit funding, with deposits accounting for 83% of total assets and market funding accounting for a limited 4.8% of tangible banking assets as of December 2021. The bank's average net loans/deposits was at a favourable 69% as of December 2021, down from 71% in 2020. Similar to other rated Romanian banks, RBRO has a substantial dependence on FC funding, with FC liabilities accounting for about 37% of the total liabilities as of the end of December 2021. However, these liabilities are mainly in the form of domestic FC deposits, which are mitigated by significant FC liquidity buffers and a favourable FC loan-to-deposit ratio of 47% as of year-end 2021. Nevertheless, such FC deposits are less sticky than LC deposits in a sovereign-related adverse-case scenario.

Furthermore, as the bank issues securities to satisfy its requirement for MREL, we expect RBRO's reliance on market funding to grow above the current ratio over time, ranging between 5% and 10%. The RBI group is subject to a multiple point of entry approach, which will require its foreign subsidiaries to issue MREL to third parties. In April 2021, the bank launched its €1250 million euro medium-term notes programme, under which the bank started issuing MREL-eligble debt to external investors, including an LC senior green bond of RON401 million and a senior non-preferred green bond of RON1.2 billion in 2021. In June 2022, another senior non-preferred green bond of RON525 million was placed in the market.

Exhibit 8

RBRO has a strong deposit franchise with a slight increase in reliance on market-confidence sensitive funding



Sources: Company data and Moody's Investors Service

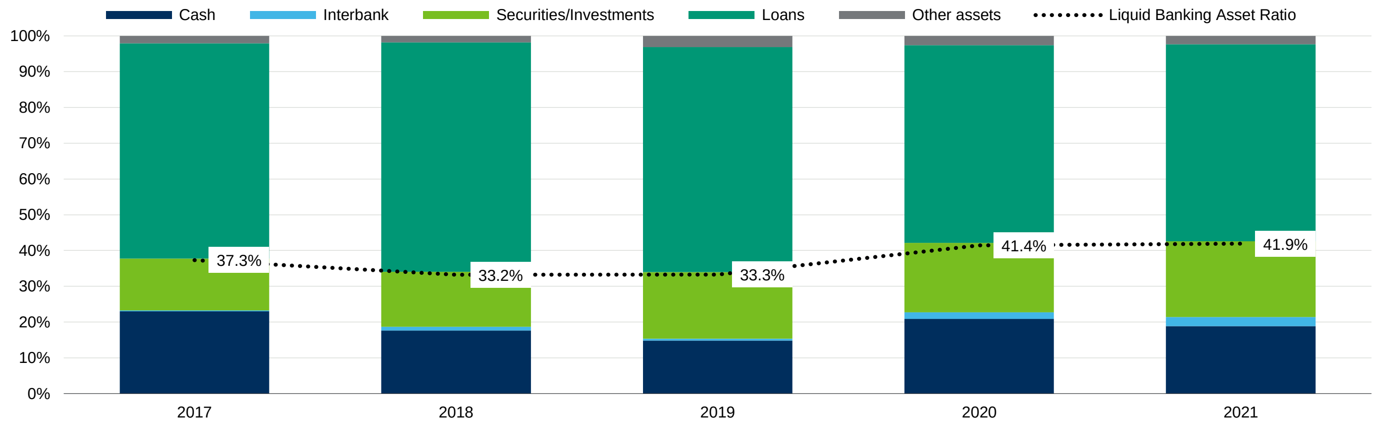
Strong liquid resources to balance funding risks

We assign a ba1 Liquid Resources score, two notches below the baa2 initial score, reflecting the strong liquid banking assets ratio of 42% but also our expectation of declining liquidity buffers because of continued loan growth while customer deposit inflows normalise.

The bank's liquid banking assets made up 42% of tangible banking assets as of year-end 2021, almost unchanged from 41% in 2020. As of December 2021, RBRO held RON11 billion in cash, RON1.5 billion interbank and RON12 billion of liquid securities.

Exhibit 9

Large liquidity buffers help mitigate funding risks



Sources: Company data and Moody's Investors Service

ESG considerations

In line with our general view of the banking sector, RBRO has low exposure to environmental risks (see our environmental risk heat map for further information).[4] In June 2022, the RBRO continued to issue a third green bond to the market of RON525 million, after its initial issuances of green bonds backed by the mortgage loan portfolio in 2021.

For social risks, we also place RBRO in line with our general view of the banking sector, which indicates moderate exposure (see our social risk heat map[5]).

Corporate governance[6] is highly relevant for RBRO, as it is to all participants in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and, for RBRO we do not have any particular governance concern. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Affiliate support

We assess the probability of parental support to be high, based on RBRO's 99.9% ownership by RBI and association with RBI's brand. This assessment results in one notch of uplift to the Adjusted BCA of baa3 from the BCA of ba1.

Loss Given Failure (LGF) analysis

RBRO is subject to the EU Bank Recovery and Resolution Directive (BRRD), which is an operational resolution regime. We assume a residual TCE of 3%, post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits, a 5% runoff in preferred deposits and a proportion of 26% of deposits considered junior (in line with the EU average), and assign a 25% probability to deposits being preferred to senior unsecured debt, in line with our standard assumptions.

The results of our Advanced LGF analysis are as follows:

» For deposits, our LGF analysis indicates a very low loss given failure, leading to two notches of rating uplift from the bank's baa3 Adjusted BCA.

» For senior unsecured, our LGF analysis, in which we incorporate the bank's issuance plans up until year-end 2022 and 2023, indicates a very low loss given failure leading to a two-notch rating uplift from the bank's baa3 Adjusted BCA.

» For junior senior, our LGF analysis indicates a moderate loss severity in the event of the bank's failure, leading to a Preliminary Rating Assessment of baa3, in line with the bank's Adjusted BCA of baa3.

Government support considerations

We incorporate a low likelihood of support from the Romanian government for RBRO's deposits in the event of its failure. This reflects the operational resolution regime, which is likely to restrict the ability of the government to provide such support, even if it were willing to do so, requiring losses to be imposed on more senior creditors and large depositors under certain circumstances. Consequently, RBRO's deposit ratings do not benefit from any uplift from systemic support from the Romanian authorities.

Counterparty Risk Ratings (CRRs)

RBRO's LC and FC CRRs are Baa1/P-2

The CRRs are positioned two notches above the Adjusted BCA of baa3, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities. The bank's CRRs are constrained by the applicable rating cap, two notches higher than the Romanian government's debt rating. Without this restriction, RBRO's CRRs would have benefited from three notches of rating uplift.

Counterparty Risk (CR) Assessment

RBRO's CR Assessment is Baa2(cr)/P-2(cr)

The CR Assessment is one notch above the Adjusted BCA of baa3, based on the buffer against default provided to the senior obligations. CR Assessments are typically capped at the level of the government debt rating, plus one additional notch.

Methodology and scorecard

Rating methodology

The principal methodology we use in rating RBRO is Banks Methodology, published in July 2021.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement 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 10

Raiffeisen Bank SA

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	4.0%	ba1	↔	ba2	Quality of assets	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	14.5%	baa3	↔	ba1	Expected trend	Capital retention
Profitability						
Net Income / Tangible Assets	1.3%	baa3	↔	baa3	Expected trend	Return on assets
Combined Solvency Score		baa3		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	4.8%	baa1	↔	baa3	Expected trend	Deposit quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	41.9%	baa2	↔	ba1	Expected trend	Stock of liquid assets
Combined Liquidity Score		baa1		baa3		
Financial Profile				ba1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa3		
BCA Scorecard-indicated Outcome - Range				baa3 - ba2		
Assigned BCA				ba1		
Affiliate Support notching				1		
Adjusted BCA				baa3		

Balance Sheet	**in-scope (RON Million)**	**% in-scope**	**at-failure (RON Million)**	**% at-failure**
Other liabilities	10,188	15.8%	15,258	23.7%
Deposits	49,703	77.1%	44,633	69.2%
Preferred deposits	36,780	57.0%	34,941	54.2%
Junior deposits	12,923	20.0%	9,692	15.0%
Senior unsecured bank debt	401	0.6%	401	0.6%
Junior senior unsecured bank debt	1,208	1.9%	1,208	1.9%
Dated subordinated bank debt	803	1.2%	803	1.2%
Preference shares (bank)	247	0.4%	247	0.4%
Equity	1,935	3.0%	1,935	3.0%
Total Tangible Banking Assets	64,484	100.0%	64,484	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	22.2%	22.2%	22.2%	22.2%	3	3	3	3	0	baa1
Counterparty Risk Assessment	22.2%	22.2%	22.2%	22.2%	3	3	3	3	0	baa2 (cr)
Deposits	22.2%	6.5%	22.2%	7.1%	2	2	2	2	0	baa1
Senior unsecured bank debt	22.2%	6.5%	7.1%	6.5%	2	0	1	2	0	baa1
Junior senior unsecured bank debt	6.5%	4.6%	6.5%	4.6%	0	0	0	0	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	3	0	baa1	0	Baa1	Baa1
Counterparty Risk Assessment	3	0	baa2 (cr)	0	Baa2(cr)	
Deposits	2	0	baa1	0	Baa1	Baa1
Senior unsecured bank debt	2	0	baa1	0	Baa1	(P)Baa1
Junior senior unsecured bank debt	0	0	baa3	0	Baa3	(P)Baa3

[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 11

Category	Moody's Rating
RAIFFEISEN BANK SA	
Outlook	Stable
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Senior Unsecured -Dom Curr	Baa1
Junior Senior Unsecured -Dom Curr	Baa3
Junior Senior Unsecured MTN	(P)Baa3
PARENT: RAIFFEISEN BANK INTERNATIONAL AG	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Senior Unsecured -Dom Curr	A2
Subordinate	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)

Source: Moody's Investors Service

Endnotes

1 The bank ratings shown here are RBI's deposit rating and BCA.

2 Excluding reverse repos

3 Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Bank-specific figures originate from the bank's reports and Moody's Banking Financial Metrics, unless otherwise stated. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions (9 August 2018).

4 Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages, and natural and human-made hazards (physical risks). Additionally, regulatory or policy risks, such as the effect of carbon regulation or other regulatory restrictions,

including the related transition risks like policy, legal, technology and market shifts, which could impair the evaluation of assets, are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks

5 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety, and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are partially offset by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are further social risks. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology costs, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue bases.

6 Corporate governance is a well-established key driver for banks and the related risks are typically included in our evaluation of banks' financial profiles. Furthermore, factors such as specific corporate behaviour, key-person risk, insider and related-party risk, strategy and management risk factors, and dividend policy may be captured in individual adjustments to the BCA.

REPORT NUMBER 1325513

MOODY'S
INVESTORS SERVICE