– The spoken word prevails –

Speech for AGM
Johann Strobl, CEO of RBI

Ladies and Gentlemen,
valued Shareholders,

Thank you for your interest. It is a pleasure to welcome you, for the first time in the role of CEO, to the annual general meeting of Raiffeisen Bank International AG. My colleagues and I would like to give you a report on 2016 – a year which was marked by some major developments in terms of setting the course for our bank. A year in which we made significant progress.

Let me commence by extending my thanks to you for your patience, your trust and your support. The swift and successful implementation of our transformation program and the merger with RZB would not have been possible without you.

I will now begin with the overview of last year, starting with the developments that took place in the past financial year – the period before the merger with RZB. I will come to the merger later.

Ladies and Gentlemen,

We can be satisfied overall with the last financial year. We generated a decent level of consolidated profit. The primary driver of this was the significant improvement in risk costs. It is especially welcome that this improvement was broad-based, across almost all our markets. It is also significant that the net interest margin stabilized last year, which is very important for us as a classic universal bank. We can be particularly satisfied with the performance in Eastern Europe and in Southeastern Europe.

What is key for the future of our bank is that we completed our transformation program ahead of schedule and significantly exceeded our capital targets. This puts us in the position to now switch focus, from strengthening capital ratios in recent years to increasing our profitability. As I have already mentioned, we produced a decent result last year. But we are not content with this. We want to generate good – and very good – results for our shareholders. And we want to do this on a sustained basis.

Let's take a more detailed look at the key financial data. Profit before tax came to 886 million euros, an increase of 25 per cent. Consolidated profit rose by 22 per cent and amounted to 463 million euros. Net interest income decreased to 2,935 million euros, which was a decline of 12 per cent compared to 2015. This was primarily due to the interest rate environment, under which all European banks, not to mention European savers, are suffering. Operating income declined by 5 per cent, to EUR 4,692 million euros. We were able to reduce general administrative expenses by 2 per cent, to 2,848 million euros. Net provisioning for impairment losses was down very significantly, by 40 per cent to 754 million euros.

The NPL ratio declined by 2.7 percentage points year-on-year, to 9.2 per cent. The NPL coverage ratio increased by 4.4 percentage points year-on-year, to 75.6 per cent. The volume of loans to customers was virtually unchanged compared to the prior year and stood at 70.5 billion euros. The transitional common equity tier 1 ratio rose by 1.8 percentage points, to 13.9 per cent, and the fully loaded CET1 ratio, incorporating all Basel 3 requirements, stood at 13.6 per cent.

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Finally, let's take a quick look at the income statement for the past financial year. I have already gone through most of these numbers on the previous slides.

As you can see from the table, the increase in our consolidated profit is due to the substantial improvement in our risk costs. We must and will work hard to also achieve a significant reduction in the general administrative expenses. This is a very challenging exercise, as the regulatory costs unfortunately increase very considerably on a regular basis and partly offset our progress on the cost saving front.

I would now like to provide you with a closing report on our transformation program.

As you undoubtedly know, we planned to withdraw from those markets which do not form part of our core business. This process is now as good as complete.

We have repositioned ourselves in markets where there is a high degree of political risk. In Russia, we have exited selected business areas and optimized our footprint. We are nevertheless continuing to generate excellent results there.

In Hungary, we have streamlined our branch network and improved profitability. Hungary was a problematic area for a long time. Today I can say to you wholeheartedly that we have turned the business around there.

Also in Ukraine, where the conditions were and are even more difficult than in Hungary, we were successful in achieving a turnaround. We generated profit after tax of 135 million euros there in the last financial year.

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We have succeeded in significantly improving our risk profile in recent years. This is reflected in substantially lower risk costs and in the increased quality of our credit portfolio.

The merger with RZB was an extremely important step in reducing the complexity of our group structure. This enabled us to remove future growth constraints for RBI. Before I elaborate on the merger in more detail, I would like to address the topic of capital.

As you know, recent years have been focused on the strengthening of our capitalization. We planned to bring the fully loaded common equity tier 1 ratio to 12 per cent by the end of 2017. We reached and exceeded this target significantly earlier than this. We also achieved this target for the combined bank at the end of 2016. Capital will of course remain an important topic for all European banks in the future. As a result of the progress made in recent years, we can now focus on increasing our profitability and grow again in selected markets.

Ladies and Gentlemen,

The most important project in the past year was undoubtedly the merger of RBI and RZB, on which we had an in-depth Q&A session at the extraordinary general meeting on 24 January. As this involves such a major project, I would like to reiterate the key objectives of the merger.

Through the merger, we improved the overall capitalization at the level of the ultimate group. We reduced the complexity of our organization and thereby increased transparency.

We made the organizational and governance structure of our group more efficient, and have made only limited adjustments to our proven business model.

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The shareholder structure changed somewhat as a result of the merger. The proportion of shares in the combined bank held in free float increased slightly and now stands at around 41.2 per cent. The proportion held by the Regional Raiffeisen Banks is around 58.8 per cent.

Ladies and Gentlemen,

The composition of the RBI management board also changed with the merger. Karl Sevelda has already presented this, at the extraordinary general meeting.

Please allow me a few personal words at this point. It is a great honor for me to be entrusted with the management of this bank. I would like to express my thanks to my predecessor, Karl Sevelda, who has handed over an organization to me which is in good shape. I would like to thank our supervisory board for their trust and extend special thanks to our outgoing supervisory board chairman, Walter Rothensteiner, who with his experience, imperturbability and prudence through very good and through difficult times has been and is a great support for RBI.

And, of course, I would like to extend my thanks to you, and to those who have had faith in RBI for many years. Please be assured that my colleagues on the management board and I are working with a great deal of motivation and dedication to sustainably increase the value of RBI for our customers, our employees and our shareholders.

Ladies and Gentlemen,

The figures I presented previously all related to – as mentioned – the 2016 financial year and the "old" RBI. I believe it is also of interest to you to look at the combined bank. This slide shows the pro forma income statement for the combined bank for the 2016 financial year. You can also see here the significant increase in consolidated profit, which was due to the – likewise – substantial reduction in risk costs.

At the end of 2016, the combined bank had total assets of approximately 135 billion euros and equity of around 10 billion euros.

The ratio of non-performing loans declined during 2016. We expect this trend to also continue in 2017.

Ladies and Gentlemen,

While the review of the past is important, the present and the future are more relevant for you as shareholders. I would therefore like to provide you with an overview of how RBI began 2017. And here I can share good news. We had a good start to the year. In the first quarter, we were able to nearly double the level of consolidated profit compared to the prior year. We were able to increase operating income and reduce the risk costs. The good economic conditions in most of our markets gave us a tailwind, which we intend to use to the best degree possible.

The volume of loans to customers grew slightly compared to the end of 2016. The times in which we shrank are over. We plan to resume growth in selected markets.

Ladies and Gentlemen,

Before I come to the outlook for the 2017 financial year, I would like to touch on the performance of our shares. The 2016 opening price of RBI shares was 13.61 euros. When the plans for the merger of RBI and RZB began to take shape at the beginning of October, a significant rally in the RBI share price set in, and accelerated with the publication of the third quarter financial results. At the end of the year our shares were trading at 17.38 euros and were up 28 per cent over the course of the year. As a result, the RBI share price significantly outperformed the ATX and the Euro Stoxx Banks. In 2016, it was the best performing share in the Euro Stoxx Banks index by far.

I am of course aware that this welcome development in the share price started from a very low basis. And I am aware that we have asked a lot of you in recent years. We will again not pay a dividend for the 2016 financial year, in order to strengthen our capital position. The share price performance in recent months does, however, show that we have taken the right steps. The strengthening of our capital base was both important and necessary. We are now employing all our resources to sustainably increase the profitability of our bank. It is our goal to again put forward a dividend proposal to you at the next shareholders' meeting.

Ladies and Gentlemen,

I would now like to present the outlook for the 2017 financial year, and explain how we intend to meet our targets.

We target a CET1 ratio (fully loaded) of around 13 per cent in the medium term.

After stabilizing loan volumes, we look to resume growth with an average yearly percentage increase in the low single digit area.

We expect net provisioning for impairment losses for 2017 to be below the level of 2016 (758 million euros).

We expect an NPL ratio of around 8 per cent by the end of 2017, and over the medium term we expect this to reduce further.

We further aim to achieve a cost/income ratio of between 50 and 55 per cent in the medium term, unchanged from our previous target.

Our medium term return on equity before tax target is unchanged at approximately 14 per cent, with a consolidated return on equity of approximately 11per cent.

We have three main levers which we can use to achieve our goals:

Firstly, increasing our revenues. We plan to increase our loan volumes by an average yearly low single digit percentage amount. In doing this, we will increase the proportion of retail business and thereby the proportion of higher-margin products. For us as a classic customer-oriented bank, our earnings are very strongly influenced by interest rate developments. Our research team expects the first interest rate increases in 2018. These increases could cushion the effect of potential further rate reductions in Russia and Ukraine.

The second lever is risk costs. Here we expect a further reduction in the medium term. The favorable economic developments in Central and Eastern Europe are supportive here, and the more stringent underwriting criteria that we have had in place since the financial crisis are also now taking effect.

The third important lever is our general administrative expenses: From 2018 onwards, our general administrative expenses in Asia and the US will be negligible as a result of the deliberate reduction in business volumes. Also, the 2016 cost base still included our Polish leasing business and our Slovenian bank. These two units have in the meantime been sold.

In Poland, where our cost/income ratio is significantly above the group average, we plan to reduce costs by around 50 million euros by the end of 2019. As you are undoubtedly aware, we are currently preparing for the IPO of our Polish subsidiary. I am, unfortunately, not able to give you any detailed information about the current status of this project due to legal considerations. We will, however, not only achieve cost savings in Poland, but in the whole group. We are working constantly on the optimization and digitalization of the network of business outlets across the entire group. We are also centralizing procurement and standardizing our IT hardware.

Ladies and Gentlemen,

Using one of the levers will not be sufficient to reach our goals. We must utilize all three of them and I assure you that we will do this.

I would like to thank you for your attention, and ask you to continue to have faith in Raiffeisen Bank International.