

Report of the Supervisory Board

Review and performance

The 2018 financial year was extremely successful for RBI. Buoyed by positive economic developments in Austria and strong economic momentum in some core markets, RBI achieved or surpassed its targets for 2018. This success was reflected in the key figures. In addition to a pleasing € 1,270 million result, RBI significantly increased its common equity tier 1 and additional tier 1 (AT1) capitalization while also reducing the non-performing loan ratio from 5.7 per cent to 3.8 per cent. At the same time, RBI improved its operating result by 4 per cent with a comparatively moderate increase of 1.2 per cent in general administrative expenses. This result once again demonstrates RBI's leading role as a universal bank in CEE and as a corporate and investment bank in Austria.

The sale of Raiffeisen Bank Polska's core banking operations was completed during the year, marking the conclusion of the transformation program adopted in 2015. Although the sale reduced the net profit for the year, it increased the CET 1 ratio by around 85 basis points. The sale is strategically important for RBI, enabling it to place greater future focus on growth in selected core markets and to expand market positions. RBI commenced this growth process in 2018, which is reflected in increased customer loan volumes. The Management Board and Supervisory Board place strong emphasis in this respect on sustainable and steady growth combined with prudent and proactive risk management.

However, 2018 was again shaped by challenging geopolitical developments and the resulting market concerns. In particular, the tightening of US sanctions against Russia triggered uncertainty among many investors, which had a negative impact on RBI's share price despite the good consolidated profit. In addition, shortly before the end of 2018, a collection of fiscal measures were passed by decree in expedited proceedings in Romania, which included inter alia a new banking tax. These political developments are constantly monitored by the Management Board and the Supervisory Board and on the basis of joint consultation, factored into the Group's business and risk steering.

In addition to its good financial results in 2018, RBI also made significant progress in the areas forming the basis for the bank's successful development over the coming years. This included in particular the swift and focused implementation of the Group-wide digitalization program. The IT infrastructure was expanded, work progressed on developing new technologies, and digital expertise was strengthened within RBI overall. The developments in digitalization are already very advanced in some network banks. In 2018, emphasis was also placed on areas within innovation management essential for an advanced, future-oriented bank. Particular examples included the successful second round of the Elevator Lab (RBI's accelerator program), the establishment of Elevator Ventures GmbH (RBI's venture capital vehicle), and the holding of an internal innovation competition, the Innovation Garden, for the first time. A further focal point was the expansion of IT and cyber security. The Supervisory Board will continue to place particular emphasis on these topics in the years ahead.

Changes in the Management Board and Supervisory Board

Bettina Selden resigned from the Supervisory Board with effect from the end of the Annual General Meeting on 21 June 2018 on health grounds. In August, we were deeply saddened to receive the tragic news of her death. The Supervisory Board is extremely grateful for her longstanding personal commitment and valuable contribution to RBI.

The Annual General Meeting elected Andrea Gaal to the Supervisory Board on 21 June 2018. She brings extensive professional experience – including in Central and Eastern Europe – and also specialist knowledge of IT and digitalization and the corresponding regulatory environment to the Supervisory Board. Her appointment reflects the current transformation trends within the financial sector and complements the expertise of the overall Supervisory Board to optimum effect.

The new Management Board members Andrii Stepanenko (Retail Banking) and Lukasz Januszewski (Markets and Investment Banking) commenced their activities with great dedication in the first quarter of 2018, bringing new ideas and thereby making an important contribution to the further business development of RBI.

Meetings of the Supervisory Board and its Committees

In the 2018 financial year, the members of the Supervisory Board and its Committees held meetings as detailed in the below table. This demonstrates a high level of attendance for both the Supervisory Board members and the Committees.

Decision-making body	Number of meetings	Level of attendance
Supervisory Board	7	86%
Working Committee	8	96%
Nomination Committee	4	89%
Audit Committee	3	96%
Personnel Committee	2	92%
Risk Committee	4	94%
Remuneration Committee	3	96%

As part of its responsibilities, the Supervisory Board regularly and comprehensively monitored the business performance and risk developments at RBI and its principal subsidiaries. Based on the reports on risks arising from banking business, the Supervisory Board held discussions with the Management Board on the adequacy of capital and liquidity and also on the direction of the Group's business and risk strategies. The Supervisory Board attached great importance to the aforementioned implementation of the Group-wide digitalization program, including in particular robust and effective IT risk management. In addition, the Management Board provided the Supervisory Board with regular and detailed reports on relevant matters concerning performance in the respective business areas.

In 2018 the Supervisory Board focused extensively on the sale of Raiffeisen Bank Polska's core banking operations. It discussed the strategic considerations at several meetings and in April 2018 resolved to sell the core banking operations, having considered the economic aspects and their consequences for RBI. Up until its successful completion, the Management Board subsequently provided regular reports on the sale process and on the transfer of Raiffeisen Bank Polska's remaining business to a Polish branch of RBI.

The Supervisory Board also dealt at length with further development in the area of corporate governance, commissioned corresponding policies and monitored their implementation.

In the course of its monitoring and advisory activities, the Supervisory Board maintained direct contact with the responsible Management Board members, the auditor and the heads of the internal control functions. It also maintained a continuous exchange of information and views with representatives of the banking supervisory authorities on topical issues.

Based on the reports, the Supervisory Board discussed the effectiveness of the methods and procedures for managing and preventing compliance risks. Particular emphasis was placed on adherence to the Group-wide compliance policies and on the results of the compliance monitoring program, including the measures taken. With regard to geopolitical developments, the Supervisory Board held critical, in-depth discussions on detailed country-specific reports. A focus of these discussions was on the US sanctions against selected Russian private individuals and companies. Together with the Management Board and employees responsible for risk and compliance, the Supervisory Board regularly addressed current developments and their consequences for RBI. The measures adopted by the Management Board to comply with the sanctions and to mitigate the risks which could arise as a result of the continuing tense political situation were discussed by the Supervisory Board and assessed accordingly. In addition, the Management Board provided the Supervisory Board with regular reports on the latest developments concerning the United Kingdom's departure from the European Union and the potential associated legal and economic implications. Furthermore, the Audit Committee provided the Supervisory Board with quarterly information on Internal Audit's audit results.

Finally, the Supervisory Board discussed on a well-informed and knowledgeable basis the proposals submitted by the Management Board relating to matters which require Supervisory Board approval in accordance with the Articles of Association and Rules of Procedure. The Supervisory Board made decisions after considering any potential risks. In particular, RBI's budget and medium-term planning as prepared by the Management Board was discussed in depth and approved by the Supervisory Board.

Between meetings, the Supervisory Board also maintained a regular exchange of information on current developments and business issues with the Management Board. In addition, the Management Board was available where required for bilateral or multilateral discussions with members of the Supervisory Board, where applicable with the involvement of experts on the matters addressed by the Supervisory Board.

The committees also carried out the following activities in relation to the duties assigned to them by law and the Articles of Association:

At its inaugural meeting on 21 June 2018, the Supervisory Board replaced Heinrich Schaller with Eva Eberhartinger, an established taxation and accounting expert, as Chairman of the Audit Committee. In addition to its work relating to the auditing of the annual and consolidated financial statements and of compliance with banking regulations, the Audit Committee also dealt at length with the switch to the IFRS 9 accounting standard, the reports prepared by Internal Audit and the effectiveness of the internal control system. The Audit Committee also concerned itself with the principles for the appointment of the auditor for the next audit period.

Matters discussed by the Personnel Committee included the remuneration of the members of the Management Board and their employment contracts, and the definition of Management Board members' objectives for 2018. The members of the Personnel Committee also passed a resolution concerning the final allotment of shares under the 2013 SIP tranches.

At its quarterly meetings, the Risk Committee monitored implementation of the risk strategy and discussed risk developments at RBI at length. In this context, portfolio performance was examined on the basis of credit, liquidity, refinancing, country, market and operational risks. The Risk Committee considered the development of non-performing loans and current risk issues in depth. Key matters included the US sanctions against Russia, Brexit, economic developments in individual countries, and current compliance and anti-money laundering issues. Taking the above into account, the Risk Committee advised the Management Board on current and future risk propensity and discussed the adequacy of capitalization and liquidity.

The Nomination Committee held four meetings in 2018. Following the resignation of Bettina Selden, the Nomination Committee identified candidates for the vacant position on the Supervisory Board, with Andrea Gaal proving to be a highly qualified candidate. The Nomination Committee established that she had the necessary knowledge, skills and experience required in relation to the type, scope and complexity of RBI's business and its risk structure. As a result, the Supervisory Board was recommended to propose to the Annual General Meeting on 21 June 2018 that Andrea Gaal be elected to the Supervisory Board in accordance with Section 108 of the Austrian Stock Corporation Act (AktG). The Nomination Committee also recommended that the Supervisory Board extend Andreas Gschwentner's Management Board appointment for a further five-year term, and the Supervisory Board followed this recommendation.

Cooperation between the Supervisory Board and Management Board

The Supervisory Board, especially the Chairman of the Supervisory Board, his Deputy Chairman, as well as the Chairmen of the Committees, also maintained constant contact with the Chairman of the Management Board and the Management Board members between meetings. The work undertaken together with the Management Board was based on a relationship of mutual trust and conducted in a spirit of efficient and constructive collaboration. The Chairman of the Supervisory Board, as well as the Chairmen of the Committees, ensure that discussions are open and critical and that opposing viewpoints are considered within the decision-making processes. Furthermore, the Chairman of the Supervisory Board safeguards an effective flow of information between the Management Board and Supervisory Board as well as within the Supervisory Board. Therewith ensuring that the decision-making body is making decisions on a sound and fact-based basis. If additional information was required in order to consider individual issues in more depth, this was provided to members of the Supervisory Board without delay and to their satisfaction.

Training and professional development measures

The members of the Supervisory Board undertook the training and professional development measures required for their Supervisory Board roles independently and received adequate support from RBI for this. In addition, the members of the Supervisory Board were able to undertake regular professional development training in the form of Fit & Proper courses, two of which were offered during the year. The course in March 2018 focused on cyber security, while the September course addressed blockchain and the crypto economy. Both courses included an extensive update on current regulatory developments.

Consolidated and annual financial statements

The annual financial statements and the management report of Raiffeisen Bank International AG for the 2018 financial year were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft Vienna (KPMG). According to the final results of the audit, the auditor had no reason for objections and issued an unqualified auditor's report.

The consolidated financial statements, prepared by the Management Board pursuant to Section 245a of the Austrian Commercial Code (UGB) in accordance with the provisions of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) mandatorily applicable on the reporting date, and the consolidated management report of RBI AG for the 2018 financial year were audited by KPMG and issued with an unqualified auditor's report.

The reports of the auditor of the financial statements and of the auditor of the consolidated financial statements were submitted to the Supervisory Board. The Audit Committee reviewed the 2018 annual financial statements including the management report and the 2018 consolidated financial statements and the consolidated management report and undertook preparations for the adoption of the annual financial statements by the Supervisory Board. The Supervisory Board reviewed all documents and also

the Audit Committee's report. The Supervisory Board concurred with the 2018 annual financial statements and consolidated financial statements and approved the 2018 financial statements, which were thus adopted in accordance with Section 96 (4) of the Austrian Stock Corporation Act (AktG).

Corporate Governance Report and non-financial report

The Supervisory Board also discussed the efficiency of its activities, its organization and work procedures in accordance with Rule 36 of the Austrian Corporate Governance Code, and a self-evaluation and efficiency assessment was conducted with support from KPMG.

The consistency check of the Corporate Governance Report according to Section 243c of the Austrian Commercial Code (UGB) was performed by KPMG. For RBI, an independent consolidated non-financial report pursuant to Section 267a UGB, which also contains the disclosures pursuant to Section 243b UGB for the parent company, was prepared and audited by KPMG. This report was reviewed by the Supervisory Board in accordance with Section 96 (1) of the Austrian Stock Corporation Act (AktG). There were no grounds for objections to either the Corporate Governance Report or the non-financial report.

Strategy for 2019

RBI has again set ambitious goals for 2019. On the basis of the successes gained over the last years, the path towards focussed growth will continue to be rigorously pursued. In a consolidating banking sector, RBI will evaluate options for organic and inorganic growth with a strengthened capital base and significantly improved risk profile. Decisions are grounded on a balanced risk-profit profile.

As a further strategic priority in 2019, RBI will continue its program for progressive digitalization and the associated transformation. Through a strengthened focus on innovation and continual improvement of the customer experience, RBI wants to develop into the most recommended financial institute in its region in the medium term. Besides the ongoing modernization of the IT infrastructure and the building up of open banking capabilities, key focal points of the transformation process will be on a Group-wide innovation process, building on data & analytics competencies as well as the intensification of agile and cross-functional working methods. Moreover, a central focus in 2019 will be on improving efficiency through the optimization of internal processes.

With these measures, RBI will strengthen its market position in its core markets, and with its strategic goals will secure a sound and sustainable value growth for RBI's shareholders.

The Supervisory Board extends thanks in particular to all employees of RBI, whose active commitment has made the bank's success possible. These employees are central to a strong and successful banking group.



On behalf of the Supervisory Board
Erwin Hameseder, Chairman

