

# RAIFFEISEN BANK INTERNATIONAL AG

## ANNUAL FINANCIAL STATEMENTS 2018

# Content

|  |           |
|--|-----------|
| <b>Annual financial statements .....</b>   | <b>3</b>  |
| Statement of financial position .....  | 3         |
| Income statement .....   | 5         |
| Items off the statement of financial position .....  | 6         |
| <b>Notes .....</b>   | <b>7</b>  |
| General disclosures .....  | 7         |
| Recognition and measurement principles .....   | 8         |
| Notes on the statement of financial position .....   | 14        |
| Notes to the income statement .....  | 32        |
| Other .....  | 35        |
| Events after the reporting date .....  | 39        |
| <b>Management report .....</b>   | <b>40</b> |
| Market development .....   | 40        |
| Business performance at Raiffeisen Bank International AG .....   | 44        |
| Branches and representative offices .....  | 47        |
| Financial Performance Indicators .....   | 48        |
| Capital, share, voting, and control rights .....   | 52        |
| Non-financial Performance Indicators .....   | 54        |
| Corporate Governance .....   | 54        |
| Risk report .....  | 54        |
| Internal control and risk management system with regard to the accounting process .....                  | 77        |
| Outlook .....  | 79        |
| <b>Auditor's Report .....</b>  | <b>81</b> |
| <b>Statement of the board of Management pursuant to Art. 82 (4) Z3 Austrian Stock Exchange Act .....</b> | <b>86</b> |

In this report, Raiffeisen Bank International (RBI AG) refers to the Raiffeisen Bank International AG.

This report is a translation of the original report in German, which is solely valid.

# Annual financial statements

## Statement of financial position

| ASSETS  | 31/12/2018<br>in €       | 31/12/2017<br>in € thousand |
|---|--------------------------|-----------------------------|
| 1. Cash in hand and balances with central banks                               | 10,521,347,322.23        | 4,780,629                   |
| 2. Treasury bills and other bills eligible for refinancing with central banks | 5,317,410,267.94         | 5,510,399                   |
| 3. Loans and advances to credit institutions                                  | 6,551,413,546.43         | 9,013,053                   |
| a) Repayable on demand  | 988,321,618.12           | 1,911,732                   |
| b) Other loans and advances   | 5,563,091,928.31         | 7,101,321                   |
| 4. Loans and advances to customers  | 25,068,841,659.31        | 18,276,411                  |
| 5. Debt securities and other fixed-income securities                          | 2,936,977,719.84         | 2,432,873                   |
| a) issued by public bodies  | 338,694,091.31           | 500,806                     |
| b) issued by other borrowers  | 2,598,283,628.53         | 1,932,068                   |
| Hereof: own debt securities   | 751,988,570.53           | 15,721                      |
| 6. Shares and other variable-yield securities                                 | 291,146,631.15           | 196,404                     |
| 7. Participating interests  | 73,951,693.31            | 60,432                      |
| Hereof: in credit institutions  | 37,755,785.21            | 24,223                      |
| 8. Shares in affiliated undertakings  | 10,632,209,984.36        | 11,298,110                  |
| Hereof: in credit institutions  | 1,916,464,218.30         | 2,679,199                   |
| 9. Intangible assets  | 37,306,929.62            | 33,829                      |
| 10. Tangible assets   | 10,599,557.68            | 9,075                       |
| 11. Other assets  | 2,824,958,936.95         | 2,980,498                   |
| 12. Accruals and deferred income  | 157,178,827.94           | 148,775                     |
| 13. Deferred tax assets   | 26,109,560.01            | 828                         |
| <b>Total</b>  | <b>64,449,452,636.77</b> | <b>54,741,316</b>           |

| <b>LIABILITIES</b> |   | <b>31/12/2018</b>        | <b>31/12/2017</b>    |
|--------------------|---|--------------------------|----------------------|
|                    |   | <b>in €</b>              | <b>in € thousand</b> |
| 1.                 | Liabilities to credit institutions  | 26,598,260,661.52        | 23,863,179           |
|                    | a) Repayable on demand  | 3,457,347,331.21         | 2,819,417            |
|                    | b) With agreed maturity dates or periods of notice  | 23,140,913,330.31        | 21,043,761           |
| 2.                 | Liabilities to customers (non-banks)  | 17,612,098,405.88        | 13,165,962           |
|                    | a) Savings deposits   | 0.00                     | 0                    |
|                    | b) Other liabilities  | 17,612,098,405.88        | 13,165,962           |
|                    | aa) Repayable on demand   | 6,172,537,812.98         | 4,782,363            |
|                    | bb) With agreed maturity dates or periods of notice   | 11,439,560,592.90        | 8,383,599            |
| 3.                 | Securitised liabilities   | 5,122,475,129.81         | 3,149,687            |
|                    | a) Debt securities issued   | 4,037,849,163.18         | 1,919,406            |
|                    | b) Other securitised liabilities  | 1,084,625,966.63         | 1,230,281            |
| 4.                 | Other liabilities   | 2,363,196,252.75         | 2,552,739            |
| 5.                 | Accruals and deferred income  | 82,154,900.23            | 101,903              |
| 6.                 | Provisions  | 309,394,415.02           | 327,368              |
|                    | a) Provisions for severance payments  | 65,720,314.64            | 57,449               |
|                    | b) Provisions for pensions  | 71,548,128.18            | 69,280               |
|                    | c) Provisions for taxation  | 296,767.31               | 5,688                |
|                    | d) Other  | 171,829,204.89           | 194,951              |
| 7.                 | Supplementary capital pursuant to chapter 4 of title I of part 2 of regulation (EU) no 575/2013     | 2,737,493,617.74         | 3,277,149            |
| 8.                 | Additional Tier 1 capital pursuant to chapter 3 of title I of Part 2 of regulation (EU) no 575/2013 | 1,152,660,822.30         | 651,859              |
| 9.                 | Subscribed capital  | 1,002,283,121.85         | 1,002,061            |
|                    | a) Share capital  | 1,003,265,844.05         | 1,003,266            |
|                    | b) Nominal value of own shares  | (982,722.20)             | (1,205)              |
| 10.                | Capital reserves  | 4,431,352,336.41         | 4,431,574            |
|                    | a) Committed  | 4,334,285,937.61         | 4,334,508            |
|                    | b) Uncommitted  | 97,066,398.80            | 97,066               |
| 11.                | Retained earnings   | 2,170,639,897.54         | 1,477,480            |
|                    | a) Legal reserve  | 5,500,000.00             | 5,500                |
|                    | b) Other reserves   | 2,165,139,897.54         | 1,471,980            |
| 12.                | Liability reserve pursuant to Article 57 (5)  | 535,097,489.59           | 535,097              |
| 13.                | Net profit for the year   | 332,345,586.13           | 205,256              |
| <b>Total</b>       |   | <b>64,449,452,636.77</b> | <b>54,741,316</b>    |

# Income statement

|  | 2018<br>in €            | 2017<br>in € thousand |
|--|-------------------------|-----------------------|
| 1. Interest receivable and similar income  | 896,283,014.51          | 810,734               |
| Hereof: from fixed-income securities   | 90,236,107.06           | 82,433                |
| 2. Interest payable and similar expenses   | (585,371,253.05)        | (565,935)             |
| <b>I. NET INTEREST INCOME</b>  | <b>310,911,761.46</b>   | <b>244,799</b>        |
| 3. Income from securities and participating interests  | 636,251,727.98          | 1,379,785             |
| a) Income from shares and other variable-yield securities  | 10,431,961.04           | 7,731                 |
| b) Income from participating interests   | 6,759,012.83            | 8,813                 |
| c) Income from shares in affiliated undertakings   | 619,060,754.11          | 1,363,241             |
| 4. Commissions receivable  | 333,617,795.53          | 293,227               |
| 5. Commissions payable   | (131,494,785.85)        | (123,470)             |
| 6. Net profit or net loss on financial operations  | 39,885,282.51           | 12,216                |
| 7. Other operating income  | 181,132,644.68          | 147,207               |
| <b>II. OPERATING INCOME</b>  | <b>1,370,304,426.31</b> | <b>1,953,763</b>      |
| 8. General administrative expenses   | (736,597,399.88)        | (666,202)             |
| a) Staff costs   | (378,714,478.41)        | (333,203)             |
| aa) Wages and salaries   | (271,269,295.45)        | (257,276)             |
| bb) Expenses for statutory social contributions and compulsory contributions related to wages and salaries   | (55,792,364.55)         | (52,592)              |
| cc) Other social expenses  | (7,676,437.56)          | (7,065)               |
| dd) Expenses for pensions and assistance   | (9,811,703.27)          | (10,993)              |
| ee) Allocation/Release of provision for pensions   | (16,745,875.87)         | 3,046                 |
| ff) Expenses for severance payments and contributions to severance funds   | (17,418,801.71)         | (8,322)               |
| b) Other administrative expenses   | (357,882,921.47)        | (332,999)             |
| 9. Value adjustments in respect of asset items 9 and 10  | (9,159,254.01)          | (9,668)               |
| 10. Other operating expenses   | (104,888,299.37)        | (38,799)              |
| <b>III. OPERATING EXPENSES</b>   | <b>(850,644,953.26)</b> | <b>(714,668)</b>      |
| <b>IV. OPERATING RESULT</b>  | <b>519,659,473.05</b>   | <b>1,239,094</b>      |
| 11./12. Net income/expenses from the disposal and valuation of loans and advances and securities classified as current assets  | (31,566,329.64)         | (156,614)             |
| 13./14. Net income/expenses from the disposal and valuation of securities evaluated as financial investments and of shares in affiliated companies and participating interests | 143,316,104.28          | (47,885)              |
| <b>V. PROFIT ON ORDINARY ACTIVITIES</b>  | <b>631,409,247.69</b>   | <b>1,034,595</b>      |
| 15. Tax on profit or loss  | 4,853,418.35            | (18,173)              |
| 16. Other taxes not reported under item 15   | (53,413,869.63)         | (56,612)              |
| 17. Merger gain  | 442,359,241.80          | 0                     |
| <b>VI. PROFIT FOR THE YEAR AFTER TAX</b>   | <b>1,025,208,038.21</b> | <b>959,811</b>        |
| 18. Changes in reserves  | (694,375,858.99)        | (187,979)             |
| Hereof: allocation to liability reserve  | 0.00                    | 0                     |
| <b>VII. NET INCOME FOR THE YEAR</b>  | <b>330,832,179.22</b>   | <b>771,831</b>        |
| 19. Profit/Loss brought forward  | 1,513,406.91            | (566,575)             |
| <b>VIII. Net profit for the year</b>   | <b>332,345,586.13</b>   | <b>205,256</b>        |

# Items off the statement of financial position

| <b>ASSETS</b>      |  | <b>31/12/2018</b> | <b>31/12/2017</b>    |
|--------------------|--|-------------------|----------------------|
|                    |  | <b>in €</b>       | <b>in € thousand</b> |
| 1.                 | Foreign assets   | 40,161,912,956.14 | 37,124,281           |
| <b>LIABILITIES</b> |  | <b>31/12/2018</b> | <b>31/12/2017</b>    |
|                    |  | <b>in €</b>       | <b>in € thousand</b> |
| 1.                 | Contingent liabilities   | 5,213,077,852.84  | 5,936,929            |
|                    | Guarantees and assets pledged as collateral security   | 5,213,077,852.84  | 5,936,929            |
| 2.                 | Commitments  | 13,206,744,167.08 | 13,003,003           |
|                    | Hereof: liabilities from repurchase agreements   | 0.00              | 0                    |
| 3.                 | Commitments arising from agency services   | 231,259,294.81    | 218,297              |
| 4.                 | Eligible own funds according to part 2 of regulation (EU) no 575/2013                                  | 11,221,043,874.10 | 10,734,435           |
|                    | Hereof: supplementary capital pursuant to chapter 4 of title I of part 2 of regulation EU) No 575/2013 | 2,304,718,087.99  | 2,978,860            |
| 5.                 | Capital requirements pursuant to article 92 of regulation (EU) No 575/2013                             | 39,299,297,278.17 | 33,329,885           |
|                    | Hereof: capital requirements pursuant to article 92 (1) (a) to (c) of regulation (EU) No 575/2013      |                   |                      |
|                    | a) Hereof: capital requirements pursuant to article 92 (a)   | 19.8%             | 21.4%                |
|                    | b) Hereof: capital requirements pursuant to article 92 (b)   | 22.7%             | 23.3%                |
|                    | c) Hereof: capital requirements pursuant to article 92 (c)   | 28.6%             | 32.2%                |
| 6.                 | Foreign liabilities  | 13,052,534,941.63 | 12,569,917           |

# Notes

## General disclosures

Raiffeisen Bank International AG (RBI AG) is registered in the company register at the Commercial Court of Vienna under FN 122.119m. Its registered office is at Am Stadtpark 9, 1030 Vienna. The annual financial statements are deposited at the company register court and published in the official journal of the Wiener Zeitung in accordance with the Austrian disclosure regulations.

The annual financial statements for the year ending 31 December 2018 were prepared by the Management Board in accordance with the Austrian Commercial Code (UGB) as amended by the 2014 Austrian Financial Reporting Amendment Act (RAG), taking into account the special provisions of the Austrian Banking Act (BWG) that apply to credit institutions, including the CRR Regulation 575/2013/EU and the Austrian Stock Corporation Act (AktG).

According to Section 221 (Size categories) of the Austrian Commercial Code (UGB), RBI AG qualifies as a large corporation. It is also a public interest entity pursuant to Section 43 (1a) of the Austrian Banking Act (BWG) in conjunction with Section 189a of the Austrian Commercial Code.

The Raiffeisen Bank International Group (RBI) is a corporate and investment bank for the top 1,000 companies in Austria and for large corporate customers in Western Europe. Through its equity participations, RBI has one of the largest networks held by Western banking groups in Central and Eastern Europe (CEE). It transacts business in this region through a closely-knit network of subsidiary banks, leasing companies and numerous specialized financial service providers with more than 2,100 branches. In Austria, RBI holds stakes in companies specializing in housing finance, leasing, asset management, equities and certificates, pension funds, factoring and private banking. RBI's 16.1 million clients include commercial clients, small and medium-sized entities, private individuals, financial institutions and government entities. In addition, RBI is the lead institution of the Raiffeisen Banking Group Austria (RBG) and serves as the central institution of the Raiffeisen regional banks as defined by the Austrian Banking Act (BWG).

RBI AG also has branch offices in Frankfurt, London, Beijing, Singapore and, since November 2018, Warsaw.

As shares in the company are traded on a regulated market within the meaning of Section 1 (2) BörseG (prime market of the Vienna Stock Exchange) and numerous securities issued by Raiffeisen Bank International (RBI AG) are admitted to a regulated market in the Eil, RBI AG has to publish annual consolidated financial statements in accordance with Section 59a of the Austrian Banking Act (BWG) in compliance with International Financial Reporting Standards. These consolidated financial statements are published on the Internet ([www.rbinternational.com/ir](http://www.rbinternational.com/ir)).

As a credit institution within the meaning of Section 1 of the Austrian Banking Act (BWG), RBI AG is subject to the regulatory oversight of the Financial Market Authority, Otto-Wagner-Platz 5, A-1090 Vienna ([www.fma.gv.at](http://www.fma.gv.at)) and the European Central Bank, Sonnemannstrasse 22 D-60314 Frankfurt am Main ([www.bankingsupervision.europa.eu](http://www.bankingsupervision.europa.eu)).

The disclosure requirements set out in Part 8 of the EU Regulation 575/2013 on prudential requirements for credit institutions (Capital Requirements Regulation, CRR) are published online on the banks website at [investor.rbinternational.com](http://investor.rbinternational.com).

## Sale of core Polish banking business and merger of Raiffeisen Bank Polska S.A. with RBI AG

In April 2018, an agreement was signed for the divestiture of the core banking business of Raiffeisen Bank Polska S.A. by means of a demerger to Bank BGZ BNP Paribas S.A., a subsidiary of BNP Paribas S.A. (BNP). Once the regulatory approvals have been obtained, this transaction was completed with the demerger on 31 October 2018. Pursuant to the agreement with the buyer, total assets of € 9.5 billion and risk-weighted assets of € 4.9 billion were allocated to the core banking business.

RBI AG transferred the remaining operations of Raiffeisen Bank Polska S.A., which after the demerger consisted primarily of the portfolio of retail foreign currency mortgage loans, to a newly established Polish branch office of RBI AG by means of a merger with continuation of carrying values. The merger became effective with the entry in the commercial register on 3 November 2018. 31 March 2018 was agreed as the merger date pursuant to Section 5 (2) number 6 of the EU Merger Act in combination with Section 220 (2) number 5 of the Austrian Stock Corporation Act (AktG) as well as Section 2 (5) of the Austrian Restructuring Act (UmgrStG), since which the actions of Raiffeisen Bank Polska S.A. - under accounting law and in the internal relationship between the latter and RBI AG as the acquirer - are deemed to have been performed for the account of RBI AG. After fulfillment of the contractual conditions of the disposal as of 31 October 2018 and the economic contribution of the remaining operations to

the branch office of RBI AG, the branch office's expenses and income were recognized in the income statement from 3 November 2018. For financial accounting reasons, it was not possible to present the net gain/loss generated between 1 April 2018 and 31 October 2019, although it did increase the amount of repatriated equity and thereby the reported merger gain. The branch office had total assets of € 3.2 billion at the reporting date. Of this amount, the retail credit portfolio accounted for € 3.1 billion and the corporate credit portfolio € 0.1 billion. As of the reporting date, the branch office had 196 staff organizing the reduction of the portfolio. New business is not planned. The branch offices are refinanced entirely by the head office in Vienna.

## Federal IPS

Institutional protection schemes (IPS) approved by the Financial Market Authority have been established within the RBG since the end of 2014. Contractual or statutory liability arrangements were concluded as well. The schemes and liability arrangements protect the participating institutes and, in particular, ensure their liquidity and solvency where required. The IPS is based on uniform, joint risk monitoring pursuant to Article 49 CRR (Capital Requirements Regulation). The IPS was designed with two levels (federal and provincial IPS) to reflect RBG's organizational structure.

As the central institute of RBI, RBI AG is a member of the federal IPS, whose members include, in addition to the Henry regional banks, Raiffeisen-Holding Niederösterreich-Wien, Posojilnica Bank, Raiffeisen Wohnbaubank and Raiffeisen Bausparkasse. The federal IPS is subject to regulatory supervision. Consequently, the capital adequacy requirements of the CRR must also be complied with at the level of the federal IPS. Consequently, no deductions are made for the members of the federal IPS for their participation in RBI AG. Moreover, internal receivables within the IPS can be weighted at zero per cent.

The federal IPS relies on uniform, joint risk monitoring as part of the early warning system of the Österreichische Raiffeisen-Einlagensicherung (ORE). The IPS hence supplements the RBG system of mutual assistance that comes into effect when members experience economic difficulties.

# Recognition and measurement principles

## General principles

The annual financial statements are prepared in accordance with the principles of proper accounting, and taking into account standard practice as described in Section 222 (2) of the Austrian Commercial Code (UGB), to give a true and fair view of the company's net assets, financial position and earnings.

The consolidated financial statements were prepared in compliance with the consistency principle. Due to the contribution of the Polish credit portfolio to RBI AG, comparison of the annual financial statements with the previous year is possible to only a limited extent.

Assets and liabilities are valued on the principle of individual valuation and on the assumption that the company will continue to exist as a going concern. The principle of prudence is applied, taking into account the special characteristics of the banking business. In the year under review, the methodology for determining impairment losses was modified. The IFRS 9 calculation model was also applied on the basis of corporation law from 1 January 2018.

Stock market prices are used to determine the fair value of listed products. If stock market prices are not available, prices for original financial instruments and forward transactions are determined based on the calculated present value. The prices for options are determined based on suitable option price models. The calculation of present value is based on a yield curve composed of money-market, futures and swap rates and does not include a credit spread. Option pricing formulas as described by Black-Scholes 1972, Black 1976 and Garman-Kohlhagen are used together with other common models for the valuation of structured options.



## Amounts in foreign currencies

Assets and liabilities in foreign currencies are converted at the ECB's reference exchange rates as at 31 December 2018 pursuant to Section 58 (1) of the Austrian Banking Act (BWG).

## Financial instruments in the banking book

Securities intended to serve business purposes on a permanent basis (investment portfolio) are valued as fixed assets. The difference between the purchase cost and repayment amount is written off or recognized pro rata over the residual term.

Securities held as current assets have been valued strictly according to the lower of cost or market value principle, with any reversals of impairment losses up to amortized cost.

Derivatives on interest rates (interest rate swaps, interest rate options and forward rate agreements) and on exchange rates (cross currency interest rate swaps and forward exchange transactions) are accounted for according to the accrued interest method, in which interest amounts are accrued for each period.

In designating derivatives as part of effective micro hedging transactions, compensatory valuation of the underlying transaction and hedging derivative takes place.

RBI AG uses interest rate swaps to hedge the interest rate risk from assets (bonds and loans) and liabilities (own issues, promissory notes and custodian business) on the statement of financial position. Fixed cash flows are exchanged for variable cash flows to minimize the interest rate risk.

These derivatives form part of a valuation unit. Their market value is therefore not reported in the annual financial statements, as they are offset by cash flows from the underlying transactions recognized through profit and loss.

The hedging relationships are determined on the basis of micro fair value hedges in accordance with IAS 39 and documented according to applicable regulations. On designation, the effectiveness of the hedging relationship is reviewed by a prospective effectiveness test with 100 basis point shifts in the yield curve.

The effectiveness is measured retrospectively on the basis of a monthly regression analysis. Here, a set of 20 data points is used to determine the required calculation parameters used for the retrospective effectiveness test. A hedge is deemed to be effective if changes in the fair value of the underlying and hedging transaction are in a range of 80-125 per cent.

The banking book also includes derivatives which do not meet the criteria of a trading book and are not part of a micro hedge relationship. The focus is not on short-term gains but on management of income and interest rate risk through positioning based on medium- to long-term market opinion.

These derivatives were administrated in defined portfolios in order to guarantee a documented mapping to functional units. Within these functional units an imparity-based valuation takes place. For a negative accounting balance per functional unit a provision for impending loss will be allocated, while a positive accounting balance will be unrecognized.

Derivatives of the bank book, which are not reflected in functional units, are valued according to the imparity principle. In the case of negative market values a provision for impending loss will be allocated. The disclosure is shown in the income statement under position 11./12. net income/expenses from the disposal and valuation of loans and advances and securities held as current assets.

Credit default swaps have the following effect on the income statement: The margins received or paid (including accruals) are reported under commissions; the valuation results are recorded against income based on the imparity principle.

## Financial instruments in the trading book

The securities in the trading portfolio are valued on a mark-to-market basis. All derivatives transactions in the trading book are also recognized at fair value.

The capital-guaranteed products (guarantee funds and pension provisions) are reported as put options sold on the respective funds to be guaranteed. Valuation is based on a Monte Carlo simulation and is in accordance with the framework conditions stipulated by law.

## Derivative financial instruments

The price definition of OTC derivatives is subject to valuation adjustments to reflect the counterparty default risk (credit value adjustment - CVA) and adjustments for the Bank's own credit risk (debit value adjustment - DVA).

The CVA involves, first, the determination of the expected positive exposure and, second, the counterparty's probability of default. The DVA is determined by the expected negative exposure and RBI's credit quality.

To determine the expected positive exposure, a large number of scenarios for future points in time are simulated, reflecting all available risk factors (e.g. currency and yield curves). Having regard to these scenarios, the OTC derivatives are measured at market value and aggregated at counterparty level to finally determine the positive exposure for all the dates.

As a further component for the CVA, a probability of default has to be determined for each counterparty. If direct CDS (credit default swap) quotes are available, RBI derives the market-based probability of default for the respective counterparty and implicitly the loss-given default (LGD). To determine the probability of default of counterparties that are not actively traded in the market, the counterparty's internal rating is assigned to a sector- and rating-specific CDS curve.

The DVA is determined by the expected negative exposure and RBI's credit quality and represents the value adjustment with regard to RBI's own probability of default. The method applied to calculate the negative exposure is similar to that used for the CVA; the expected negative market value is applied instead of the expected positive market value. From the simulated future aggregated counterparty market values, negative, rather than positive, exposures are determined. These represent the expected liability to the counterparty at the respective future dates.

To determine the own probability of default values implied by the market are also used. If direct CDS quotes are available, these are applied. If no CDS quotes are available, the own rating is assigned to a sector- and rating-specific CDS curve to determine own probability of default.

## Loans and advances

Loans and advances are generally recognized at amortized cost. Any difference between the amount paid out and the nominal amount is deferred on a straight-line basis and reported in net interest income, provided the difference is similar in nature to interest. Impairments are accounted for in the calculation of amortized cost. If the reasons for an impairment no longer apply, the impairment is reversed up to a maximum of no more than the cost of acquisition after reversing the difference (premium/discount).

## Net provisioning for impairment losses

At the end of every reporting period, an assessment is conducted to determine whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered impaired and impairment losses are incurred if:

- there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the asset and before the reporting date (loss event);
- the loss event had an impact on the estimated future cash flows of the financial asset or group of financial assets; and
- the amount can be reliably estimated.

Objective evidence of impairment includes the counterparty experiencing significant financial difficulties, a breach of contract (e.g. default or delinquency in interest or principal payments), or a high probability that the borrower will enter bankruptcy or another form of financial reorganization.

Risks in the credit business are accounted for by recognizing individual loan loss provisions and portfolio-based loan loss provisions. The individual loan loss provisions and portfolio-based loan loss provisions are set off against corresponding loans in the statement of financial position.

### Individual loan loss provisions

As part of implementing individual loan loss provisions, provisions are recognized using standardized company-wide criteria to cover the expected default associated with the credit risks attributable to loans and advances to customers and banks. Loans are assumed to be at risk of default if the discounted projected repayment amounts and interest payments are less than the carrying amount of the loans, taking collateral into account.

### Portfolio-based loan loss provisions

The application of IFRS 9 to portfolio-based loan loss provisions led to a change in the calculation methodology in the past financial year. After the application of IFRS 9 exerted a significant impact on corporate management and strategy, and the amended method led to an improvement in data quality in the calculation of expected credit losses, RBI AG took the opportunity to apply the provisions of IFRS 9 to calculate portfolio-based loan loss provisions under corporation law (see a joint position paper of the AFRAC and the FMA on issues relating to subsequent measurement of credit exposures banks).

The portfolio loan loss provision pursuant to IFRS 9 is implemented based on a two-stage procedure. If the credit default risk for current assets has not increased significantly since initial recognition, the impairment loss for each asset is measured at the present value of an expected twelve-month loss as at the reporting date. The expected twelve-month loss is the portion of the expected credit loss over the asset's life that is equal to the expected credit loss on the default of an asset within twelve months of the reporting date. In the case of assets whose credit risk has risen significantly since initial recognition and which are not classified as transactions with a low credit risk at the reporting date, the expected credit loss is calculated over the asset's entire remaining term. The expected losses for both stages are calculated on an individual transaction basis applying statistical risk parameters derived from the Basel IRB approach and adjusted to the requirements of IFRS 9. The following are the most important inputs for calculating expected credit losses at RBI:

- Probability of default (PD): At RBI AG, the probability of default (PD) is the probability with which a borrower will be unable to meet its payment obligations either within the next twelve months or over the entire remaining term.
- Exposure at default (EAD): Exposure at default (EAD) corresponds to the amount at the time of default owed to RBI AG over the next twelve months or over the entire term. Contractual and statutory termination rights are also taken into consideration.
- Loss given default (LGD): Loss given default (LCD) corresponds to the expectation at RBI AG relating to the loss amount in the event of default.

The estimation of risk parameters includes not only historical default information but also the current economic environment (point-in-time orientation) and forward-looking information. In particular, the bank's macroeconomic forecasts are reviewed regularly in relation to their impact on the level of expected credit losses, and such forecasts are integrated into the related calculations. For this purpose, a baseline scenario is applied based on current RBI Research forecasts relating to key macroeconomic parameters, supplemented by other model-relevant macroeconomic parameters. Other risks that cannot be modeled in the standard model and the resultant expected losses are also taken into consideration.

Prior to this, the historical Group default rates per rating level and risk model as well as other parameters based on statistical assumptions and empirical values were calculated applying centrally calculated historical Group default rates.

For guarantees, uniform provisions are calculated applying the same methodology, and reported under provisions for liabilities and charges.

The change in the calculation method for portfolio-based loan loss provisions in accordance with IFRS 9 resulted in a one-off adjustment effect of € 5.8 million, which was expensed immediately in the financial year under review.

As a matter of principle, deferred tax is taken into consideration when determining portfolio-based loan loss provisions.

## Investments and shares in affiliated companies

Equity participations and interests in affiliated companies are carried at cost unless sustained losses or reduced equity require them to be written down to their fair value. They are written up to no more than their cost of acquisition if the reasons for the long-term impairment no longer apply.

Equity participations and affiliated companies are valued at the end of each financial year by means of an impairment test. Their fair value is determined during the test.

Fair value is calculated using a dividend discount model. The dividend discount model properly also accounts for the specific characteristics of the banking business, including the need to comply with capital adequacy regulations. The recoverable amount is considered to be the present value of the expected future dividends that may be distributed to the shareholders after meeting all appropriate capital adequacy regulations.

The recoverable amount is calculated based on a five-year detailed planning period. The sustainable future (permanent dividend phase) is based on a going concern assumption (perpetuity). In most cases, the income used for the valuation is assumed to grow at a country-specific nominal rate based on the projected long-term inflation rate. If companies are significantly overcapitalized, an interim phase of five years is defined without extending the detailed planning phase. During this period, these companies can distribute full dividends without violating capital adequacy regulations. In the permanent dividend phase, earnings must be retained as the company grows in order to continue to comply with capital adequacy regulations. Earnings retention is not required if no growth is expected in the permanent dividend phase.

In the permanent dividend phase, the model assumes a normalized, economically sustainable earnings situation in which the return on equity and the costs of equity capital converge.

## Tangible and intangible fixed assets

Intangible fixed assets and tangible fixed assets are valued at acquisition or production cost less scheduled depreciation. Scheduled depreciation is on a straight-line basis (pro rata temporis). An impairment loss is recognized if an asset is permanently impaired.

Scheduled depreciation is based on the following periods of use (in years):

| Useful life                  | Years   | Useful life        | Years   |
|------------------------------|---------|--------------------|---------|
| Buildings                    | 50      | Software           | 4 to 10 |
| Office equipment             | 3 to 5  | Hardware           | 3       |
| Office fixtures and fittings | 5 to 10 | Business equipment | 5 to 10 |
| Vehicles                     | 5       | Tenancy rights     | 10      |

Low-value fixed assets are written off in full in the year of acquisition.

## Deferred taxes

Deferred tax assets are recognized based on asset-side temporary differences or tax loss carryforwards wherever it appears likely that they will be used within a reasonable time period. There were no liability-side temporary differences that could have been set off against the asset-side temporary differences in the financial year.

## Issuance expenses

Issuance and management fees and premiums or discounts for bonds issued are distributed over the given term of the obligation. Other issuance expenses are expensed immediately.

## Pension and severance payment obligations

The provisions for pension and severance payment obligations are determined in accordance with IAS 19 – Employee Benefits – based on the projected unit credit method.

The actuarial calculation of pension obligations for active employees is based on an interest rate, as recommended by Mercer, of 1.9 per cent (31/12/2017: 1.7 per cent) p.a. and an effective salary increase of 3.5 per cent (31/12/2017: 2.7 per cent). The parameters for retired employees are calculated using a capitalization rate of 1.9 per cent (31/12/2017: 1.7 per cent) and an expected increase in retirement benefits of 2.0 per cent (31/12/2017: 1.2 per cent), and in the case of pension commitments with existing reinsurance policies of 0.5 per cent (31/12/2017: 0.5 per cent). The calculations are based on an assumed retirement age of 60 for women and 65 for men, subject to transitional statutory requirements and special arrangements contained in individual contracts.

The basis for the calculation of provisions for pensions is provided by the new AVÖ 2018-P Rechnungsgrundlagen für die Pensionsversicherung (Computational Framework for Pension Insurance) by Pagler & Pagler, using the variant for salaried employees. The resultant allocation amount was expensed immediately.

The actuarial calculation of severance payment and long-service bonus obligations is based on an interest rate of 1.8 per cent (31/12/2017: 1.5 per cent) and an average salary increase of 3.5 per cent (31/12/2017: 2.7 per cent).

## Other provisions

Other provisions are recorded at the level at which they are likely to be required. They take into account all identifiable risks and liabilities, the level of which is not yet known. Long-term provisions were discounted at prevailing market interest rates in the reporting period. The interest rate applied for discounting is 0.9 per cent (31/12/2017: 1.33-1.43 per cent) due to the uniform residual term of the individual provisions for liabilities and charges. The rates used were the discount rates published by Deutsche Bundesbank pursuant to Section 253 (2) of the German Commercial Code (HGB).

Other provisions include provisions for bonuses for identified staff (pursuant to European Banking Authority CP 42, 46). RBI AG fulfills the obligations set forth in the Annex to Section 39b of the Austrian Banking Act (BWG) as follows: 60 per cent of the annual bonus is paid out 50 per cent as an upfront cash payment and 50 per cent by way of a phantom share plan with a retention period of one year per cent of the annual bonus is subject to a five-year deferral period and likewise paid out 50 per cent in cash and 50 per cent by way of the phantom share plan. The phantom shares are converted on allocation and payment each using the average price of the preceding financial year.

## Liabilities

These are recognized at the higher of the nominal value or the repayment amount. Zero-coupon bonds, on the other hand, are recognized at their pro rata annual values.

# Notes on the statement of financial position

## Assets

### Loans and advances

#### Breakdown of maturities

Loans and advances to credit institutions, loans and advances to customers and other assets break down by their residual terms as follows:

| in € million                                     | 31/12/2018      | 31/12/2017      |
|--|-----------------|-----------------|
| <b>Loans and advances to credit institutions</b> | <b>6,551.4</b>  | <b>9,013.1</b>  |
| Repayable on demand                              | 988.3           | 1,911.7         |
| Up to 3 months                                   | 2,652.5         | 2,919.5         |
| More than 3 months, up to 1 year                 | 580.2           | 1,098.5         |
| More than 1 year, up to 5 years                  | 1,039.3         | 1,595.9         |
| More than 5 years                                | 1,291.1         | 1,487.3         |
| <b>Loans and advances to customers</b>           | <b>25,068.8</b> | <b>18,276.4</b> |
| Repayable on demand                              | 2,496.7         | 2,160.1         |
| Up to 3 months                                   | 2,947.9         | 3,912.0         |
| More than 3 months, up to 1 year                 | 4,066.1         | 2,248.3         |
| More than 1 year, up to 5 years                  | 9,581.1         | 7,179.3         |
| More than 5 years                                | 5,977.0         | 2,776.7         |
| <b>Other assets</b>                              | <b>2,825.0</b>  | <b>2,980.5</b>  |
| Up to 3 months                                   | 2,621.0         | 2,816.6         |
| More than 3 months, up to 1 year                 | 0.0             | 0.0             |
| More than 1 year, up to 5 years                  | 0.0             | 0.0             |
| More than 5 years                                | 204.0           | 163.9           |

As part of the takeover of the Polish credit portfolio, loans and advances to customers of € 3,110 million were taken over, predominantly with terms of more than 5 years.

The risk section of the management report includes more details about the distribution of loans and advances on a regional basis.

## Derivative financial instruments

### Hedging relationships

Economic hedges with hedging periods up to 2048 existed as at 31 December 2018. On the basis of clean prices, the positive market values of the hedging derivatives amounted to € 376.4 million at the reporting date (31/12/2017: € 400.0 million). The negative market values of the derivatives amounted to € 11.7 million (31/12/2017: € 24.0 million) as at 31 December 2018.

### Interest rate management derivatives

As at 31 December 2018, a provision for impending losses of € 44.2 million (31/12/2017: € 28.5 million) was recognized for derivatives in connection with functional units. In the 2018 financial year, in this context € 18.6 million (2017: € 2.1 million) was allocated to the provision and € 2.9 million (2017: € 11.1 million) was released due to changes in market value of the functional units.

The portfolio-based management of functional units is summarized according to the strategy applied to manage interest risk for the currencies contained therein, with the positive and negative fair values shown below:

| in € thousand | 31/12/2018      |                 | 31/12/2017      |                 | Valuation effect |
|---------------|-----------------|-----------------|-----------------|-----------------|------------------|
|               | Positive values | Negative values | Positive values | Negative values | 31/12/2018       |
| CHF           | 0               | 0               | 2               | 0               | (2)              |
| CZK           | 3,121           | (141)           | 3,217           | (110)           | (127)            |
| EUR           | 63,967          | (44,047)        | 71,533          | (28,397)        | (23,216)         |
| GBP           | 7               | 0               | 0               | 0               | 7                |
| HUF           | 693             | 0               | 504             | 0               | 189              |
| PLN           | 3               | 0               | 10              | 0               | (7)              |
| RON           | 24              | 0               | 0               | 0               | 24               |
| RUB           | 22              | 0               | 116             | 0               | (94)             |
| USD           | 793             | (43)            | 2,991           | (4)             | (2,237)          |
| <b>Total</b>  | <b>68,630</b>   | <b>(44,231)</b> | <b>78,373</b>   | <b>(28,511)</b> | <b>(25,463)</b>  |

The main factors driving the valuation result were the change in market value due to the change in the euro interest rate market, expanded netting volume as well as a reduction in business volume in USD.

The following tables show the open forward transactions for the reporting year and the previous year:

| 31/12/2018<br>in € thousand               | Nominal amount by maturity |                                       |                      |                    | Total              | Hereof<br>trading book | Market value       |          |
|---|----------------------------|---------------------------------------|----------------------|--------------------|--------------------|------------------------|--------------------|----------|
|   | Up to<br>1 year            | More than 1<br>year, up to<br>5 years | More than<br>5 years |                    |                    |                        | positive           | negative |
| <b>Total</b>                              | <b>78,098,769</b>          | <b>90,546,910</b>                     | <b>54,510,306</b>    | <b>223,155,985</b> | <b>165,812,108</b> | <b>2,321,824</b>       | <b>(1,925,226)</b> |          |
| <b>a) Interest rate contracts</b>         | <b>38,999,727</b>          | <b>80,613,828</b>                     | <b>53,193,495</b>    | <b>172,807,050</b> | <b>122,097,721</b> | <b>1,680,804</b>       | <b>(1,222,817)</b> |          |
| <b>OTC products</b>                       |                            |                                       |                      |                    |                    |                        |                    |          |
| Interest rate swaps                       | 28,845,631                 | 71,602,599                            | 49,733,387           | 150,181,617        | 101,231,320        | 1,525,329              | (1,120,568)        |          |
| Floating Interest rate swaps              | 0                          | 0                                     | 0                    | 0                  | 0                  | 0                      | 0                  |          |
| Interest rate futures                     | 6,626,648                  | 466,490                               | 0                    | 7,093,138          | 7,093,138          | 1,289                  | (1,264)            |          |
| Interest rate options - buy               | 1,591,842                  | 4,231,252                             | 1,813,821            | 7,636,915          | 7,027,883          | 154,186                | 0                  |          |
| Interest rate options - sell              | 1,881,225                  | 4,155,528                             | 1,590,298            | 7,627,051          | 6,477,051          | 0                      | (100,907)          |          |
| Other similar interest rate contracts     | 0                          | 0                                     | 0                    | 0                  | 0                  | 0                      | 0                  |          |
| <b>Exchange-traded products</b>           |                            |                                       |                      | <b>0</b>           |                    |                        |                    |          |
| Interest rate futures                     | 10,500                     | 142,799                               | 36,607               | 189,906            | 189,906            | 0                      | 0                  |          |
| Interest rate options                     | 43,881                     | 15,160                                | 19,382               | 78,423             | 78,423             | 0                      | (78)               |          |
| <b>b) Foreign exchange rate contracts</b> | <b>39,008,615</b>          | <b>9,623,221</b>                      | <b>1,210,811</b>     | <b>49,842,647</b>  | <b>43,561,010</b>  | <b>638,672</b>         | <b>(698,704)</b>   |          |
| <b>OTC products</b>                       |                            |                                       |                      |                    |                    |                        |                    |          |
| Cross-currency interest rate swaps        | 4,883,508                  | 8,550,781                             | 1,210,811            | 14,645,100         | 10,256,781         | 310,264                | (363,875)          |          |
| Forward foreign exchange contracts        | 30,593,247                 | 920,497                               | 0                    | 31,513,744         | 29,705,426         | 312,246                | (319,809)          |          |
| Currency options - purchased              | 1,757,344                  | 73,910                                | 0                    | 1,831,254          | 1,746,254          | 16,162                 | 0                  |          |
| Currency options - sold                   | 1,774,516                  | 78,033                                | 0                    | 1,852,549          | 1,852,549          | 0                      | (15,020)           |          |
| Other similar interest rate contracts     | 0                          | 0                                     | 0                    | 0                  | 0                  | 0                      | 0                  |          |
| <b>Exchange-traded products</b>           |                            |                                       |                      |                    |                    |                        |                    |          |
| Currency contracts (futures)              | 0                          | 0                                     | 0                    | 0                  | 0                  | 0                      | 0                  |          |
| Currency options                          | 0                          | 0                                     | 0                    | 0                  | 0                  | 0                      | 0                  |          |
| <b>c) Securities-related transactions</b> | <b>90,427</b>              | <b>178,660</b>                        | <b>22,200</b>        | <b>291,287</b>     | <b>22,176</b>      | <b>830</b>             | <b>(748)</b>       |          |
| <b>OTC products</b>                       |                            |                                       |                      |                    |                    |                        |                    |          |
| Securities-related forward transactions   | 0                          | 0                                     | 0                    | 0                  | 0                  | 0                      | 0                  |          |
| Equity/Index options -buy                 | 82,339                     | 175,660                               | 22,200               | 280,199            | 11,088             | 830                    | 0                  |          |
| Equity/Index options -sell                | 8,088                      | 3,000                                 | 0                    | 11,088             | 11,088             | 0                      | (748)              |          |
| <b>Exchange-traded products</b>           |                            |                                       |                      |                    |                    |                        |                    |          |
| Equity/Index futures                      | 0                          | 0                                     | 0                    | 0                  | 0                  | 0                      | 0                  |          |
| Equity/Index options                      | 0                          | 0                                     | 0                    | 0                  | 0                  | 0                      | 0                  |          |
| <b>d) Commodity contracts</b>             | <b>0</b>                   | <b>0</b>                              | <b>0</b>             | <b>0</b>           | <b>0</b>           | <b>0</b>               | <b>0</b>           |          |
| <b>e) Credit derivative contracts</b>     | <b>0</b>                   | <b>131,201</b>                        | <b>83,800</b>        | <b>215,001</b>     | <b>131,201</b>     | <b>1,518</b>           | <b>(2,957)</b>     |          |
| <b>OTC products</b>                       |                            |                                       |                      |                    |                    |                        |                    |          |
| Credit default swaps                      | 0                          | 131,201                               | 83,800               | 215,001            | 131,201            | 1,518                  | (2,957)            |          |



| 31/12/2017                                | Nominal amount by maturity |                   |                                       |                      | Market value       |                        |                    |
|---|----------------------------|-------------------|---------------------------------------|----------------------|--------------------|------------------------|--------------------|
|   | in € thousand              | Up to<br>1 year   | More than 1<br>year, up to<br>5 years | More than<br>5 years | Total              | hereof<br>trading book | positive           |
| <b>Total</b>                              | <b>74,883,238</b>          | <b>85,000,153</b> | <b>53,723,508</b>                     | <b>213,606,899</b>   | <b>163,373,010</b> | <b>2,799,371</b>       | <b>(2,207,672)</b> |
| <b>a) Interest rate contracts</b>         | <b>28,594,476</b>          | <b>74,504,908</b> | <b>51,952,246</b>                     | <b>155,051,629</b>   | <b>113,815,739</b> | <b>1,998,639</b>       | <b>(1,401,924)</b> |
| <b>OTC products</b>                       |                            |                   |                                       |                      |                    |                        |                    |
| Interest rate swaps                       | 22,583,828                 | 64,245,731        | 48,088,759                            | 134,918,317          | 95,775,222         | 1,834,182              | (1,301,143)        |
| Floating Interest rate swaps              | 0                          | 0                 | 0                                     | 0                    | 0                  | 0                      | 0                  |
| Interest rate futures                     | 2,538,623                  | 0                 | 0                                     | 2,538,623            | 1,671,859          | 246                    | (297)              |
| Interest rate options - buy               | 1,253,343                  | 5,092,370         | 1,981,872                             | 8,327,585            | 7,851,554          | 163,644                | 0                  |
| Interest rate options - sell              | 1,077,782                  | 4,963,647         | 1,766,609                             | 7,808,039            | 7,058,039          | 0                      | (100,296)          |
| Other similar interest rate contracts     | 0                          | 0                 | 0                                     | 0                    | 0                  | 0                      | 0                  |
| <b>Exchange-traded products</b>           |                            |                   |                                       |                      |                    |                        |                    |
| Interest rate futures                     | 129,276                    | 161,990           | 87,537                                | 378,802              | 378,802            | 79                     | 0                  |
| Interest rate options                     | 1,011,624                  | 41,170            | 27,469                                | 1,080,263            | 1,080,263          | 488                    | (188)              |
| <b>b) Foreign exchange rate contracts</b> | <b>46,237,573</b>          | <b>10,142,566</b> | <b>1,619,062</b>                      | <b>57,999,202</b>    | <b>49,436,463</b>  | <b>798,910</b>         | <b>(800,193)</b>   |
| <b>OTC products</b>                       |                            |                   |                                       |                      |                    |                        |                    |
| Cross-currency interest rate swaps        | 4,567,734                  | 9,310,972         | 1,560,643                             | 15,439,350           | 7,547,156          | 450,594                | (439,595)          |
| Forward foreign exchange contracts        | 39,172,187                 | 723,747           | 58,419                                | 39,954,352           | 39,283,807         | 322,187                | (332,113)          |
| Currency options - purchased              | 1,272,537                  | 69,677            | 0                                     | 1,342,215            | 1,342,215          | 26,129                 | 0                  |
| Currency options - sold                   | 1,225,115                  | 38,170            | 0                                     | 1,263,285            | 1,263,285          | 0                      | (28,485)           |
| Other similar interest rate contracts     | 0                          | 0                 | 0                                     | 0                    | 0                  | 0                      | 0                  |
| <b>Exchange-traded products</b>           |                            |                   |                                       |                      |                    |                        |                    |
| Currency contracts (futures)              | 0                          | 0                 | 0                                     | 0                    | 0                  | 0                      | 0                  |
| Currency options                          | 0                          | 0                 | 0                                     | 0                    | 0                  | 0                      | 0                  |
| <b>c) Securities-related transactions</b> | <b>47,020</b>              | <b>208,510</b>    | <b>68,400</b>                         | <b>323,930</b>       | <b>22,470</b>      | <b>1,714</b>           | <b>(640)</b>       |
| <b>OTC products</b>                       |                            |                   |                                       |                      |                    |                        |                    |
| Securities-related forward transactions   | 0                          | 0                 | 0                                     | 0                    | 0                  | 0                      | 0                  |
| Equity/Index options -buy                 | 38,785                     | 205,510           | 68,400                                | 312,695              | 11,235             | 1,714                  | 0                  |
| Equity/Index options -sell                | 8,235                      | 3,000             | 0                                     | 11,235               | 11,235             | 0                      | (640)              |
| <b>Exchange-traded products</b>           |                            |                   |                                       |                      |                    |                        |                    |
| Equity/Index futures                      | 0                          | 0                 | 0                                     | 0                    | 0                  | 0                      | 0                  |
| Equity/Index options                      | 0                          | 0                 | 0                                     | 0                    | 0                  | 0                      | 0                  |
| <b>d) Commodity contracts</b>             | <b>0</b>                   | <b>0</b>          | <b>0</b>                              | <b>0</b>             | <b>0</b>           | <b>0</b>               | <b>0</b>           |
| <b>e) Credit derivative contracts</b>     | <b>4,169</b>               | <b>144,169</b>    | <b>83,800</b>                         | <b>232,138</b>       | <b>98,338</b>      | <b>108</b>             | <b>(4,915)</b>     |
| <b>OTC products</b>                       |                            |                   |                                       |                      |                    |                        |                    |
| Credit default swaps                      | 4,169                      | 144,169           | 83,800                                | 232,138              | 98,338             | 108                    | (4,915)            |

The following derivatives shown in the list of open forward transactions are recognized at fair value in the statement of financial position:

| Derivatives<br>in € million            | Positive fair values |            | Negative fair values |            |
|--|----------------------|------------|----------------------|------------|
|  | 31/12/2018           | 31/12/2017 | 31/12/2018           | 31/12/2017 |
| <b>Derivatives in the trading book</b> |                      |            |                      |            |
| a) Interest rate contracts             | 1,125.9              | 1,369.9    | 886.9                | 1,000.8    |
| b) Foreign exchange rate contracts     | 585.1                | 554.5      | 620.9                | 591.6      |
| c) Share and index contracts           | 0.6                  | 0.6        | 0.7                  | 0.6        |
| d) Credit derivatives                  | 1.5                  | 0.1        | 0.2                  | 2.5        |

## Securities

Due to a change in investment strategies, securities with a carrying amount of €145.1 million were reclassified from current assets to fixed assets.

Debt securities and other fixed-income securities amounting to € 228.9 million (31/12/2017: € 489.6 million) will mature next financial year.

The table below lists the securities admitted to stock exchange trading (asset side), broken down into listed and unlisted securities (amounts incl. interest accrued):

| Securities<br>in € million                        | Listed     | Unlisted   | Listed     | Unlisted   |
|---|------------|------------|------------|------------|
|   | 31/12/2018 | 31/12/2018 | 31/12/2017 | 31/12/2017 |
| Debt securities and other fixed-income securities | 2,919.3    | 17.7       | 2,410.4    | 22.5       |
| Shares and other variable-yield securities        | 33.6       | 0.0        | 8.5        | 0.0        |

The table below lists securities admitted to stock exchange trading (asset side) measured as fixed assets or current assets (including trading portfolio):

| Securities<br>in € million                        | Fixed assets | Current assets | Fixed assets | Current assets |
|---|--------------|----------------|--------------|----------------|
|   | 31/12/2018   | 31/12/2018     | 31/12/2017   | 31/12/2017     |
| Debt securities and other fixed-income securities | 1,401.8      | 1,535.1        | 1,541.5      | 891.4          |
| Shares and other variable-yield securities        | 0.0          | 33.6           | 0.0          | 8.5            |

The table below shows the disposal of securities from fixed assets. Of this amount, € 1,600.4 million related to repayments (31/12/2017: € 1,089.2 million).

| Balance sheet item<br>in € million   | Nominal amount |             | Net gain       |            |
|--|----------------|-------------|----------------|------------|
|  | 31/12/2018     | 31/12/2018  | 31/12/2017     | 31/12/2017 |
| Treasury bills and other bills eligible for refinancing with central banks | 1,148.6        | 26.3        | 800.0          | 0.6        |
| Loans and advances to credit institutions                                  | 32.7           | 0.0         | 26.2           | 0.1        |
| Loans and advances to customers  | 369.8          | 0.0         | 75.0           | (0.4)      |
| Debt securities and other fixed-income securities                          | 498.8          | 2.5         | 298.3          | 0.4        |
| Shares and other variable-yield securities                                 | 20.0           | 0.0         | 0.0            | 0.0        |
| <b>Total</b>   | <b>2,049.9</b> | <b>28.8</b> | <b>1,199.5</b> | <b>0.6</b> |

Difference between the acquisition cost and the repayment amount for securities (except zero-coupon bonds) in the investment portfolio (banking book):

The difference between the amortized costs and the repayment amounts is comprised of € 62.5 million (31/12/2017: € 138.9 million) to be recognized in the future as expenditure, and € 11.5 million (31/12/2017: € 3.3 million) to be recognized as income.

In the case of securities admitted to stock exchange trading and recognized at fair value that do not have the characteristics of financial investments, the difference between the acquisition cost and the higher fair value is € 12.2 million (31/12/2017: € 2.9 million) pursuant to Section 56 (4) of the Austrian Banking Act (BWG) and € 1.4 million (31/12/2017: € 1.9 million) pursuant to Section 56 (5) of the Austrian Banking Act (BWG).

The item loans and advances to credit institutions contains own bonds that are not admitted for public trading in an amount of € 17.1 million (31/12/2017: € 7.4 million).

Securities amounting to € 264.4 million (31/12/2017: € 251.9 million) are the subject of genuine repurchase transactions on the reporting date, whereby RBI AG is the seller and the securities continue to be recognized on the statement of financial position.

The volume of RBI's trading book pursuant to Article 103 CRR is € 171,191.3 million (31/12/2017: € 164,326.8 million), with € 961.6 million (31/12/2017: € 944.7 million) accounted for by securities and € 170,229.7 million (31/12/2017: € 163,382.1 million) accounted for by other financial instruments.

The fair value is lower than the carrying amount for the following financial instruments that are reported as financial investments:

| Financial investments<br>in € million  | Carrying amount |              | Fair value   |              |
|--|-----------------|--------------|--------------|--------------|
|  | 31/12/2018      | 31/12/2018   | 31/12/2017   | 31/12/2017   |
| 1. Treasury bills and other bills eligible for refinancing with central bank | 117.9           | 117.3        | 266.7        | 265.9        |
| 2. Loans and advances to credit institutions                                 | 0.0             | 0.0          | 0.0          | 0.0          |
| 3. Loans and advances to customers   | 189.7           | 187.3        | 87.8         | 87.8         |
| 4. Debt securities and other fixed-income securities                         |                 |              |              |              |
| a) issued by public bodies   | 0.0             | 0.0          | 226.5        | 225.2        |
| b) issued by other borrowers   | 210.1           | 209.0        | 314.4        | 312.5        |
| 5. Shares and other variable-yield securities                                | 175.1           | 167.3        | 0.0          | 0.0          |
| <b>Total</b>   | <b>692.8</b>    | <b>681.0</b> | <b>895.5</b> | <b>891.4</b> |

An impairment (in accordance with Section 204 (2) of the Austrian Commercial Code (UGB)) is not accounted for as the assessment of the credit rating of the security borrower is such that scheduled interest payments and repayments are expected to be made.

## Investments and shares in affiliated companies

There are cross shareholdings with Raiffeisenlandesbank Karnten - Rechenzentrum und Revisionsverband, registrierte Genossenschaft mbH, UNIQA Insurance Group AG, Vienna, and Posojilnica Bank eGen, Klagenfurt. There are no profit and loss transfer agreements as at 31 December 2018.

In the past, transactions to hedge the currency risk arising from the local currency denominated equity of the following companies were concluded:

- Ukrainian Processing Center JSC, Kiev
- VAT Raiffeisen Bank Aval, Kiev

The following table lists the affiliated companies:

| Company, registered office (country)                                      | Total nominal value | Exchange | Direct share of RBI | Equity in € thousand | Result in € thousand <sup>1</sup> | From annual financial statements <sup>2</sup> |
|---|---------------------|----------|---------------------|----------------------|-----------------------------------|---|
| Angaga Handels- und Beteiligungs GmbH, Vienna                             | 35,000              | EUR      | 100%                | 32                   | (11)                              | 31/12/2018                                    |
| AO Raiffeisenbank, Moscow <sup>3</sup>                                    | 36,711,260,000      | RUB      | 100%                | 1,791,194            | 439,158                           | 31/12/2018                                    |
| BAILE Handels- und Beteiligungsgesellschaft m.b.H., Vienna <sup>2</sup>   | 40,000              | EUR      | 100%                | 249,159              | 18,133                            | 31/12/2018                                    |
| Centralised Raiffeisen International Services & Payments S.R.L., Bukarest | 2,820,000           | RON      | 100%                | 5,981                | 1,939                             | 31/12/2017                                    |
| Elevator Ventures Beteiligungs GmbH, Vienna                               | 100,000             | EUR      | 100%                | 204                  | (146)                             | 31/12/2018                                    |
| Extra Year Investments Limited, Tortola                                   | 50,000              | USD      | 100%                | 10                   | (13)                              | 31/12/2017                                    |
| FARIO Handels- und Beteiligungsgesellschaft m.b.H., Vienna                | 40,000              | EUR      | 100%                | 5,474                | (1,649)                           | 31/12/2018                                    |
| Golden Rainbow International Limited, Tortola                             | 1                   | USD      | 100%                | 5,546                | 1,101                             | 31/12/2017                                    |
| Kathrein Privatbank Aktiengesellschaft, Vienna <sup>2</sup>               | 20,000,000          | EUR      | 0%                  | 32,548               | 1,959                             | 31/12/2018                                    |
| KAURI Handels und Beteiligungs GmbH, Vienna <sup>2</sup>                  | 50,000              | EUR      | 88%                 | 7,002                | 911                               | 31/12/2018                                    |
| LOTA Handels- und Beteiligungs-GmbH, Vienna                               | 35,000              | EUR      | 100%                | 95                   | (20)                              | 31/12/2018                                    |
| NAURU Handels- und Beteiligungs GmbH, Vienna                              | 35,000              | EUR      | 100%                | 641                  | 533                               | 31/12/2017                                    |
| P & C Beteiligungs Gesellschaft m.b.H., Vienna                            | 36,336              | EUR      | 100%                | 9                    | (12)                              | 31/12/2017                                    |
| R.B.T. Beteiligungsges.m.b.H., Vienna                                     | 36,336              | EUR      | 100%                | 266                  | (14)                              | 31/12/2018                                    |
| R.L.H. Holding GmbH, Vienna   | 35,000              | EUR      | 100%                | 4,896                | 81                                | 31/12/2018                                    |
| R.P.I. Handels- und Beteiligungsges.m.b.H., Vienna <sup>2</sup>           | 36,336              | EUR      | 100%                | 234                  | (24)                              | 31/12/2018                                    |
| Radwinter sp.z o.o., Warsaw <sup>3</sup>                                  | 10,000              | PLN      | 100%                | -                    | -                                 | 31/12/2018                                    |
| Raiffeisen Bank Aval JSC, Kiev <sup>3</sup>                               | 6,154,516,258       | UAH      | 68%                 | 361,009              | 157,309                           | 31/12/2018                                    |
| Raiffeisen Investment Advisory GmbH, Vienna                               | 730,000             | EUR      | 100%                | 648                  | 60                                | 31/12/2018                                    |
| Raiffeisen RS Beteiligungs GmbH, Vienna <sup>2</sup>                      | 35,000              | EUR      | 100%                | 5,056,311            | 45,320                            | 31/12/2018                                    |
| RBI Group IT GmbH, Vienna   | 100,000             | EUR      | 100%                | 112                  | (1)                               | 31/12/2018                                    |

<sup>1</sup> The result (in part from the consolidated financial statements) in € thousand corresponds to the annual profit/loss; equity is reported in accordance with Section 224 (3) lit a UGB including untaxed reserves (lit b).

<sup>2</sup> Equity and result reported in accordance with IFRS (fully consolidated domestic entities)

<sup>3</sup> Equity and result reported in accordance with IFRS (fully consolidated foreign entities)

| Company, registered office (country)                                | Total nominal value | Exchange | Direct share of RBI | Equity in € thousand | Result in € thousand <sup>1</sup> | From annual financial statements <sup>2</sup> |
|---|---------------------|----------|---------------------|----------------------|-----------------------------------|---|
| RALT Raiffeisen Leasing Ges.m.b.H, Vienna <sup>2</sup>              | 218,500             | EUR      | 100%                | 43,135               | 1,489                             | 31/12/2018                                    |
| RALT Raiffeisen-Leasing GmbH & Co. KG, Vienna <sup>2</sup>          | 20,348,394          | EUR      | 97%                 | 373                  | 1,609                             | 31/12/2018                                    |
| RB International Finance (Hong Kong) Ltd., Hong Kong <sup>3</sup>   | 10,000,000          | HKD      | 100%                | 21,611               | 8,432                             | 31/12/2018                                    |
| RB International Investment Asia Limited, MY-Labuan <sup>3</sup>    | 1                   | EUR      | 100%                | 20                   | (486)                             | 31/12/2017                                    |
| RB International Markets (USA) LLC, New York <sup>3</sup>           | 8,000,000           | USD      | 100%                | 10,633               | 300                               | 31/12/2018                                    |
| RBI KI Beteiligungs GmbH, Vienna <sup>2</sup>                       | 48,000              | EUR      | 100%                | 208                  | (916)                             | 31/12/2018                                    |
| RBI LEA Beteiligungs GmbH, Vienna <sup>2</sup>                      | 70,000              | EUR      | 100%                | 61,148               | (70,175)                          | 31/12/2018                                    |
| RBI PE Handels- und Beteiligungs GmbH, Vienna <sup>2</sup>          | 150,000             | EUR      | 100%                | 12,504               | (286)                             | 31/12/2018                                    |
| REC Alpha LLC, Kiev <sup>3</sup>                                    | 1,726,843,204       | UAH      | 85%                 | 16,310               | (2,502)                           | 31/12/2018                                    |
| Regional Card Processing Center s.r.o., Bratislava <sup>3</sup>     | 539,465             | EUR      | 100%                | 10,771               | 946                               | 31/12/2018                                    |
| RL Leasing Gesellschaft m.b.H., Eschborn <sup>3</sup>               | 25,565              | EUR      | 25%                 | 2,430                | (2)                               | 31/12/2017                                    |
| RZB Finance (Jersey) III Ltd, JE-St. Helier <sup>3</sup>            | 1,000               | EUR      | 100%                | 115                  | (21)                              | 31/12/2018                                    |
| RBI IB Beteiligungs GmbH, Vienna <sup>2</sup>                       | 35,000              | EUR      | 100%                | 40,032               | 16,343                            | 31/12/2018                                    |
| RZB-BLS Holding GmbH, Vienna <sup>2</sup>                           | 500,000             | EUR      | 100%                | 430,325              | 27,870                            | 31/12/2018                                    |
| RZB-Invest Holding GmbH, Vienna <sup>2</sup>                        | 500,000             | EUR      | 100%                | 852,638              | 14,259                            | 31/12/2018                                    |
| Salvelinus Handels- und Beteiligungsges.m.b.H., Vienna <sup>2</sup> | 40,000              | EUR      | 100%                | 389,812              | 28,237                            | 31/12/2018                                    |
| Ukrainian Processing Center PJSC, Kiev <sup>3</sup>                 | 180,000             | UAH      | 100%                | 13,234               | 5,211                             | 31/12/2018                                    |
| ZHS Office- & Facilitymanagement GmbH, Vienna                       | 36,336              | EUR      | 1%                  | 320                  | 93                                | 31/12/2018                                    |

<sup>1</sup> The result (in part from the consolidated financial statements) in € thousand corresponds to the annual profit/loss; equity is reported in accordance with Section 224 (3) lit a UGB including untaxed reserves (lit b).

<sup>2</sup> Equity and result reported in accordance with IFRS (fully consolidated domestic entities)

<sup>3</sup> Equity and result reported in accordance with IFRS (fully consolidated foreign entities)

## Fixed assets

The land value of developed land amounts to € 0.0 million (31/12/2017: € 0.1 million).

RBI AG was not directly involved in the leasing business as a lessor in 2018.

Obligations from the use of tangible fixed assets not reported on the statement of financial position amount to € 32.3 million (31/12/2017: € 32.3 million) for the following financial year, of which € 30.6 million were owed to affiliated companies (31/12/2017: € 30.3 million). The total amount of obligations for the following five years amounts to € 167.9 million (31/12/2017: € 168.3 million), of which € 159.1 million are owed to affiliated companies (31/12/2017: € 157.5 million).

The intangible fixed assets item includes € 0.0 million (31/12/2017: € 0.0 million) of intangible fixed assets acquired from affiliated companies.

The following tables show the changes in fixed assets:

| in € thousand |  | Cost of acquisition or conversion |                               |                         |                  |                    |                       |                     |
|---------------|--|-----------------------------------|-------------------------------|-------------------------|------------------|--------------------|-----------------------|---------------------|
| Item          | Description of fixed assets  | As at<br>1/1/2018                 | Additions<br>due to<br>merger | Exchange<br>differences | Additions        | Disposals          | Reclassi-<br>fication | As at<br>31/12/2018 |
|               |  | 1                                 | 2                             | 3                       | 4                | 5                  | 6                     | 7                   |
| 1.            | Treasury bills and other bills eligible for refinancing with central banks | 5,210,083                         | 0                             | 2,588                   | 943,678          | (1,296,403)        | 0                     | 4,859,946           |
| 2.            | Loans and advances to credit institutions                                  | 30,282                            | 0                             | 0                       | 73,121           | (30,282)           | 0                     | 73,121              |
| 3.            | Loans and advances to customers  | 356,280                           | 0                             | 905                     | 273,952          | (181,774)          | 197,691               | 647,053             |
| 4.            | Debt securities and other fixed-income securities                          | 1,563,805                         | 0                             | 22,560                  | 540,094          | (507,335)          | (197,691)             | 1,421,433           |
| a)            | issued by public bodies  | 226,167                           | 0                             | 10,726                  | 8,704            | (47,906)           | (197,691)             | 0                   |
| b)            | issued by other borrowers  | 1,337,638                         | 0                             | 11,834                  | 531,391          | (459,430)          | 0                     | 1,421,433           |
| 5.            | Shares and other variable-yield securities                                 | 108,900                           | 0                             | 0                       | 100,000          | (20,000)           | 0                     | 188,900             |
| 6.            | Participating interests  | 98,709                            | 0                             | 0                       | 20,655           | (46)               | 0                     | 119,318             |
| 7.            | Shares in affiliated undertakings  | 14,189,626                        | 0                             | 0                       | 52,054           | (1,371,352)        | 0                     | 12,870,329          |
| 8.            | Intangible fixed assets  | 194,486                           | 3,040                         | 13                      | 7,795            | (3,090)            | 1,625                 | 203,868             |
| 9.            | Tangible assets  | 28,322                            | 2,423                         | 14                      | 1,848            | (3,034)            | (1,625)               | 27,948              |
| 10.           | Other assets   | 116                               | 0                             | 0                       | 0                | 0                  | 0                     | 116                 |
|               | <b>Total</b>   | <b>21,780,610</b>                 | <b>5,463</b>                  | <b>26,080</b>           | <b>2,013,196</b> | <b>(3,413,316)</b> | <b>0</b>              | <b>20,412,032</b>   |

| in € thousand |   | Writing up/depreciation/valuation |                         |   |                |                   |                       |   | Carrying amount   |                   |
|---------------|---|-----------------------------------|-------------------------|---|----------------|-------------------|-----------------------|---|-------------------|-------------------|
| Item          | Cumulative<br>depreciation<br>as of<br>1/1/2018 | Additions<br>due to<br>merger     | Exchange<br>differences | Cumulative<br>depreciation<br>and<br>amortization<br>disposal | Write-<br>ups  | Depre-<br>ciation | Reclassi-<br>fication | Cumulative<br>depreciation<br>as of<br>31/12/2018 | 31/12<br>2018     | 31/12<br>2017     |
|               | 8   | 9                                 | 10                      | 11  | 12             | 13                | 14                    | 15  | 16                | 17                |
| 1.            | (121,628)                                       | 0                                 | 2                       | 44,475  | 890            | (36,201)          | 0                     | (112,461)   | 4,747,485         | 5,088,456         |
| 2.            | 86  | 0                                 | 1                       | (98)  | 11             | (19)              | 0                     | (19)  | 73,101            | 30,368            |
| 3.            | (2,334)   | 0                                 | 1                       | 295   | 563            | (2,866)           | 287                   | (4,054)   | 642,999           | 353,946           |
| 4.            | (27,046)  | 0                                 | 14                      | 9,535   | 508            | (5,600)           | (287)                 | (22,877)  | 1,398,556         | 1,536,759         |
| a)            | 375   | 0                                 | 18                      | (122)   | 22             | (6)               | (287)                 | 0   | 0.00              | 226,542           |
| b)            | (27,421)  | 0                                 | (4)                     | 9,657   | 486            | (5,594)           | 0                     | (22,877)  | 1,398,556         | 1,310,217         |
| 5.            | 0   | 0                                 | 0                       | 0   | 0              | 0                 | 0                     | 0   | 188,900           | 108,900           |
| 6.            | (38,277)  | 0                                 | 0                       | 0   | 3,626          | (10,715)          | 0                     | (45,366)  | 73,952            | 60,432            |
| 7.            | (2,891,516)                                     | 0                                 | 0                       | 520,550   | 162,580        | (29,733)          | 0                     | (2,238,119)                                       | 10,632,210        | 11,298,110        |
| 8.            | (160,658)                                       | (161)                             | 11                      | 2,878   | 0              | (7,237)           | (1,395)               | (166,561)   | 37,307            | 33,829            |
| 9.            | (19,247)  | (120)                             | 7                       | 2,539   | 0              | (1,923)           | 1,395                 | (17,348)  | 10,600            | 9,075             |
| 10.           | 0   | 0                                 | 0                       | 0   | 0              | 0                 | 0                     | 0   | 116               | 116               |
|               | <b>(3,260,618)</b>                              | <b>(281)</b>                      | <b>36</b>               | <b>580,174</b>  | <b>168,179</b> | <b>(94,294)</b>   | <b>0</b>              | <b>(2,606,805)</b>                                | <b>17,805,227</b> | <b>18,519,991</b> |

## Other assets

As at 31 December 2018, other assets totaled € 2,825.0 million (31/12/2017: € 2,980.5 million). This item also contains loans and advances from treasury transactions (positive market values arising from derivatives in the trading book, as well as accrued interest from derivatives in the banking book - for details, refer to the table on open forward transactions) in the amount of € 1,857.5 million (31/12/2017: € 2,149.8 million) This item also includes loans and advances (special fund) to the Austrian Raiffeisen Deposit Guarantee scheme (ÖRE) relating to the Federal IPS contribution of € 204.0 million (31/12/2017: € 163.9 million), loans and advances to the tax administration in the amount of € 17.3 million (31/12/2017: € 128.1 million), holdings of precious metals in coin and other forms in the amount of € 102.0 million (31/12/2017: € 111.8 million), loans and advances to Group members arising from tax transfers in the amount of € 18.2 million (31/12/2017: € 41.3 million) and dividends receivable totaling € 460.5 million (31/12/2017: € 40.2 million).

The other assets also contain income of € 604.4 million (31/12/2017: € 265.1 million) which is not payable until after the reporting date.

## Deferred tax assets

The deferred tax assets of € 26.1 million (31/12/2017: € 0.8 million) shown in the statement of financial position result in the amount of € 25.0 million for temporary differences, which relate to impairment losses not recognized for tax purposes for the newly established branch of Poland, and in the amount of € 1.1 million (31/12/2017: € 0.8 million) from the assumption of deferred tax assets, resulting from tax loss carryforwards against American tax authorities, of the subsidiary RB International Finance (USA), LLC, New York, which was liquidated in the previous year, of the subsidiary RB International Finance (USA), New York, LLC, which was liquidated in the previous year. No deferred tax assets were recognized for temporary differences of € 285.0 million (31/12/2017: € 313.7 million) and EUR 1,801.5 million (31/12/2017: EUR 1,809.4 million) from domestic tax loss carry forwards as it does not appear that they can be realized within a reasonable time from today's perspective. There were no liability-side temporary differences that could have been set off against the asset-side temporary differences in the financial year.

## Subordinated assets

Subordinated assets contained under assets:

| in € million   | 31/12/2018     | 31/12/2017     |
|--|----------------|----------------|
| <b>Loans and advances to credit institutions</b>                   | <b>1,281.2</b> | <b>1,806.1</b> |
| Hereof to affiliated companies                                     | 1,275.6        | 1,757.4        |
| Hereof to companies linked by virtue of a participating interest   | 3.6            | 16.7           |
| <b>Loans and advances to customers</b>                             | <b>177.3</b>   | <b>134.1</b>   |
| Hereof to affiliated companies                                     | 56.6           | 26.1           |
| Hereof to companies linked by virtue of a participating interest   | 2.1            | 0.0            |
| <b>Debt securities and other fixed-income securities</b>           | <b>30.1</b>    | <b>11.8</b>    |
| Hereof from affiliated companies                                   | 0.0            | 1.8            |
| Hereof from companies linked by virtue of a participating interest | 0.0            | 0.0            |
| <b>Shares and other variable-yield securities</b>                  | <b>223.3</b>   | <b>148.7</b>   |
| Hereof from affiliated companies                                   | 197.3          | 126.1          |
| Hereof from companies linked by virtue of a participating interest | 1.3            | 0.0            |

## Restrictions related to asset availability

As at the reporting date, there were restrictions related to asset availability (in accordance with Section 64 (1) 8 BWG):

| in € million  | 31/12/2018     | 31/12/2017     |
|---|----------------|----------------|
| Indemnification for securities lending transactions       | 1,001.8        | 932.7          |
| Loans assigned to Oestereichische Kontrollbank (OeKB)     | 1,774.9        | 1,470.7        |
| Indemnification for OeNB tender                           | 1,000.0        | 1,000.0        |
| Loans assigned to European Investment Bank (EIB)          | 48.8           | 178.9          |
| Loans assigned to Kreditanstalt für Wiederaufbau (KfW)    | 41.1           | 14.7           |
| Loans assigned to Swedish Export Corporation (SEK)        | 0.0            | 34.9           |
| Loans assigned to Euler Hermes                            | 0.9            | 0.3            |
| Institutional Protection Scheme                           | 204.0          | 163.9          |
| Margin requirements                                       | 27.3           | 39.4           |
| Treasury call deposits for contractual netting agreements | 598.2          | 721.6          |
| <b>Total</b>  | <b>4,697.0</b> | <b>4,557.0</b> |

In addition, assets with usage restrictions in an amount of € 1,429.8 million (31/12/2017: € 1,472.5 million) exist for covered bonds which have been established but not yet issued.

## Asset items for affiliated companies and companies linked by virtue of a participating interest

Loans and advances as well as debt securities and other fixed-income securities to and from affiliated companies and companies linked by virtue of a participating interest:

| in € million  | 31/12/2018 | 31/12/2017 |
|---|------------|------------|
| <b>Loans and advances to credit institutions</b>            |            |            |
| To affiliated companies                                     | 2,044.7    | 4,009.6    |
| To companies linked by virtue of a participating interest   | 65.2       | 259.2      |
| <b>Loans and advances to customers</b>                      |            |            |
| To affiliated companies                                     | 2,295.0    | 1,879.4    |
| To companies linked by virtue of a participating interest   | 116.3      | 114.0      |
| <b>Debt securities and other fixed-income securities</b>    |            |            |
| From affiliated companies                                   | 120.5      | 0.0        |
| From companies linked by virtue of a participating interest | 44.0       | 0.0        |



## Equity and liabilities

### Liabilities

#### Breakdown of maturities

Liabilities to credit institutions, liabilities to customers, securitized liabilities and other liabilities break down by their residual terms as follows:

| in € million                              | 31/12/2018      | 31/12/2017      |
|---|-----------------|-----------------|
| <b>Liabilities to credit institutions</b> | <b>26,598.3</b> | <b>23,863.2</b> |
| Repayable on demand                       | 3,457.3         | 2,819.4         |
| Up to 3 months                            | 13,079.2        | 11,818.8        |
| More than 3 months, up to 1 year          | 2,207.7         | 1,199.5         |
| More than 1 year, up to 5 years           | 5,877.7         | 6,092.5         |
| More than 5 years                         | 1,976.3         | 1,933.1         |
| <b>Liabilities to customers</b>           | <b>17,612.1</b> | <b>13,166.0</b> |
| Repayable on demand                       | 6,172.5         | 4,782.4         |
| Up to 3 months                            | 6,172.7         | 2,581.0         |
| More than 3 months, up to 1 year          | 3,397.4         | 4,580.1         |
| More than 1 year, up to 5 years           | 956.0           | 308.1           |
| More than 5 years                         | 913.6           | 914.4           |
| <b>Securitized liabilities</b>            | <b>5,122.5</b>  | <b>3,149.7</b>  |
| Up to 3 months                            | 293.2           | 307.0           |
| More than 3 months, up to 1 year          | 502.6           | 986.2           |
| More than 1 year, up to 5 years           | 3,384.8         | 1,382.8         |
| More than 5 years                         | 941.8           | 473.7           |
| <b>Other liabilities</b>                  | <b>2,363.2</b>  | <b>2,552.7</b>  |
| Up to 3 months                            | 2,363.2         | 2,552.7         |
| More than 3 months, up to 1 year          | 0.0             | 0.0             |
| More than 1 year, up to 5 years           | 0.0             | 0.0             |
| More than 5 years                         | 0.0             | 0.0             |

Bonds and notes issued amounting to € 572.3 million (31/12/2017: € 1,056.3 million) will become due in next financial year.

Liabilities to affiliated companies and companies linked by virtue of a participating interest:

| in € million  | 31/12/2018 | 31/12/2017 |
|---|------------|------------|
| <b>Liabilities to credit institutions</b>                   |            |            |
| from affiliated companies                                   | 4,346.8    | 3,735.2    |
| from companies linked by virtue of a participating interest | 3,905.0    | 3,287.4    |
| <b>Liabilities to customers</b>                             |            |            |
| from affiliated companies                                   | 3,771.5    | 2,781.5    |
| from companies linked by virtue of a participating interest | 106.9      | 101.0      |

## Other liabilities

As at 31 December 2018, other liabilities amounted to € 2,363.2 million (31/12/2017: € 2,552.7 million). This item also contains liabilities from treasury transactions (primarily negative market values arising from derivatives in the trading book, as well as accrued interest from derivatives in the banking book - for details, refer to the table on open forward transactions) in the amount of € 1,580.5 million (31/12/2017: € 1,692.9 million) and liabilities of € 158.1 million (31/12/2017: € 49.1 million) from short positions in bonds. The fair market value of the hedges for capital guarantees for funds is € 91.5 million (31/12/2017: € 97.6 million). The item also includes accrued interest for additional capital of € 273.7 million (31/12/2017: € 279.7 million), liabilities from tax transfers (corporate income tax) and liabilities from creditable capital yields and withholding tax toward Group members totaling € 21.4 million (31/12/2017: € 37.6 million).

The other liabilities also contain expenses in the amount of € 345.4 million (2017: € 385.1 million), for which payment is to be made after the reporting date.

## Provisions

Provisions amount to € 65.7 million (31/12/2017: € 57.4 million) for severance payments, € 71.5 million (31/12/2017: € 69.3 million) for pensions, € 0.3 million (31/12/2017: € 5.7 million) for tax provisions, and € 171.8 million (31/12/2017: € 195.0 million) for other provisions. Reinsurance policies for pension provisions are in place in the amount of € 12.5 million (31/12/2017: € 14.4 million). Due to changes in statutory regulations, in the financial year under review these were offset with claims of the same amount on other assets reported in the past under other assets.

Tax provisions of € 0.3 million relate in their entirety to provisions for income taxes at the Frankfurt and Singapore branches. The reduction in other provisions reflected mainly the almost complete reversal of provisions for litigation risks as well as lower provisions for guarantee credits.

| Other provisions in € million                               | 31/12/2018   | 31/12/2017   |
|---|--------------|--------------|
| Provisions for bonus payments                               | 44.3         | 39.3         |
| Provisions for losses on bankbook interest rate derivatives | 44.2         | 28.5         |
| Provisions for participations and affiliated enterprises    | 0.0          | 0.0          |
| Provisions for process risks                                | 0.2          | 31.8         |
| Provisions for audit costs                                  | 0.4          | 0.7          |
| Provisions for anniversary payments                         | 23.8         | 18.8         |
| Provisions for overdue vacation                             | 20.2         | 17.7         |
| Provisions for guarantee loans                              | 18.5         | 49.2         |
| Provisions for Supervisory Board fees                       | 1.1          | 0.6          |
| Provisions for other expenses/outstanding invoices          | 16.6         | 5.0          |
| Provisions for restructuring costs                          | 1.4          | 2.0          |
| Provisions for operational risk/losses/other                | 1.2          | 1.4          |
| <b>Total</b>  | <b>171.8</b> | <b>195.0</b> |

## Tier 2 capital according to part two, title I, chapter 4 of regulation (EU) no. 575/2013

As at 31 December 2018, tier 2 capital amounts to € 2,737,493,617.74 (31/12/2017: € 3,277,149 thousand).

Company tier 2 capital according to CRR:

| in € million  | 31/12/2018 | 31/12/2017 |
|---|------------|------------|
| 6,625 per cent RBI bonds 2011-2021                  | 9.4        | 1.4        |
| 5.875 per cent RBI debt securities issued 2023-2023 | 0.0        | 3.6        |
| 6 per cent RBI debt securities issued 2013-2023     | 2.4        | 2.4        |
| RBI bonds 2014-2025                                 | 0.4        | 1.8        |
| RBI bonds 2013-2024                                 | 6.5        | 0.1        |

In the reporting year issuances in the amount of € 5.1 million (2017: € 5.7 million) were redeemed. A loss of € 0.0 million (2017: € 1.4 million) including the release of the corresponding hedging transaction was booked.

### Subordinated liabilities

List of subordinated loans (including tier 2 capital) that exceed 10 per cent of the total subordinated liabilities of € 2,737.5 million (i.e. that exceed € 273.8 million):

| Name                             | Nominal value in € million | Maturity date | Interest rate |
|----------------------------------|----------------------------|---------------|---------------|
| Subordinated Notes 2025 Serie 56 | 500                        | 21/2/2015     | 4,500%        |
| Subordinated Notes 2023 Serie 45 | 500                        | 16/10/2023    | 6,000%        |
| Subordinated Notes 2021 Serie 4  | 500                        | 18/5/2021     | 6,625%        |

No regulations exist in relation to the aforementioned liabilities concerning any conversion.

### Expenses for subordinated liabilities

The expenses for subordinated liabilities in the financial year amount to € 164.3 million (2017: € 180.8 million).

## Additional tier 1 capital according to part two, title I, chapter 3 of regulation (EU) no 575/2013

RBI AG placed another issue of perpetual additional tier 1 capital (AT1) with a volume of € 500 million on 24 January 2018. The discretionary coupon on this issue is 4.5 per cent p.a. until June 2025, after which it will be reset. Together with the € 650 million AT1 issue in July 2017, RBI thus completed its planned AT1 issuance program. As of 31 December 2018, the additional tier 1 capital, plus accrued interest, amounts to € 1,152,660,822.30 (31/12/2017: € 651,859 thousand). The discount of € 5.7 million is carried as a deferred expense until the first call date on 15 December 2022 and by 15 June 2025 respectively.

## Total amount of assets and liabilities in foreign currency

| in € million                    | 31/12/2018 | 31/12/2017 |
|---------------------------------|------------|------------|
| Assets in foreign currency      | 9,703.4    | 11,768.7   |
| Liabilities in foreign currency | 6,424.5    | 9,483.6    |

## Equity

### Subscribed capital

As of 31 December 2018, the capital stock of RBI AG pursuant to its articles of association was unchanged at € 1,003,266 thousand. The nominal capital consists of 328,939,621 no-par-value shares (bearer shares). After deduction of 322,204 own shares, the stated subscribed capital totaled € 1,002,283 thousand (31/12/2017: € 1,002,061 thousand).

### Own shares

The Annual General Meeting held on 21 June 2018 authorized the Management Board pursuant to Section 65 (1) (8), Section 65 (1a) and Section 65 (1b) of the AktG to purchase own shares and to retire them if appropriate without requiring any further resolutions to be passed by the General Meeting. Own shares, whether already purchased or to be purchased, may not collectively exceed 10 per cent of the company's share capital. The authorization to purchase own shares expires 30 months after the date of the General Meeting resolution, i.e. as of 20 December 2020. The acquisition price for repurchasing the shares may be no lower than € 1.00 per share and no higher than 10 per cent above the average unweighted closing price over the ten trading days prior to exercising this authorization.

The Management Board was further authorized, pursuant to Section 65 (1b) of the AktG, to decide, with the approval of the Supervisory Board, on the sale of own shares by means other than the stock exchange or a public tender, to the full or partial exclusion of shareholders' subscription rights, and to stipulate the terms of sale. Shareholders' subscription rights may only be excluded if the own shares are used to pay for a contribution in kind, to acquire enterprises, businesses, branches of activity or shares in one or several companies in Austria or abroad. This authorization may be exercised in whole, in part or in several partial amounts for one or more purposes by the company, a subsidiary pursuant to Section 189a (7) UGB or by third parties for the account of the company or a subsidiary and remains in force for five years from the date of this resolution, i.e. until 20 June 2023.

The Annual General Meeting of 21 June 2018 also authorized the Management Board, under the provisions of Section 65 (1) 7 of the AktG, to purchase own shares for the purpose of securities trading, which may also be conducted off-market, during a period of 30 months from the date of the resolution (i.e. until 20 December 2020), provided that the trading portfolio of shares purchased for this purpose does not exceed 5 per cent of the company's respective share capital at the end of any given day. The consideration for each share to be acquired must not be less than half the closing price at the Vienna Stock Exchange on the last day of trading preceding the acquisition and must not exceed twice the closing price at the Vienna Stock Exchange on the last day of trading preceding the acquisition.

### Authorized capital

Pursuant to Section 169 of the Austrian Stock Corporation Act (AktG), the Management Board has been authorized since the Annual General Meeting of 4 June 2014 to increase the capital stock - in one or more tranches - by up to € 446,793,032.95 subject to the approval of the Supervisory Board by issuing up to 146,489,519 new common bearer shares with voting rights against contributions in cash and/or in kind (including by way of the right of indirect subscription by a bank pursuant to Section 153 (6) of the Austrian Stock Corporation Act (AktG)) by 25 August 2019 at the latest and to fix the offering price and terms of the issue with the approval of the Supervisory Board. The Management Board is further authorized to exclude shareholders' subscription rights, with the approval of the Supervisory Board, (i) if the capital increase is carried out by contributions in kind or (ii) if the capital increase is carried out by contributions in cash and the shares issued under the exclusion of subscription rights do not exceed 10 per cent of the company's capital stock (exclusion of subscription rights).

### Capital reserves

The committed capital reserves of € 4,334,285,937.61 (31/12/2017: € 4,334,508 thousand) and the uncommitted capital reserves of € 97,066,398.80 (31/12/2017: € 97,066 thousand) remained essentially unchanged over the entire financial year. The year-on-year change is the result of reducing committed capital reserves by € 221,850.90 due to the allocation of own shares in the SIP program.

### Retained earnings

Retained earnings consist of legal reserves of € 5,500,000.00 (31/12/2017: € 5,500 thousand) and other free reserves amounting to € 2,165,139,897.54 (31/12/2017: € 1,471,980 thousand). Of the three reserves, an amount of EUR 217,135,678.09 (31/12/2017: € 170,760 thousand) is allocated to the federal IPS. An amount of € 46,375,858.99 (31/12/2017: € 40,979 thousand) was allocated to other reserves in the 2018 financial year as a reserve for the federal institutional protection scheme (Federal IPS) based on the agreement to establish an institutional protection scheme and a corre

sponding resolution by the Federal IPS Risk Council. The Federal IPS reserve is not eligible for inclusion in the calculation of own funds pursuant to CRR. An additional € 648,000,000.00 (31/12/2017: € 147,000 thousand) was allocated to other free reserves from the profit for the year after tax. The remaining change in other free reserves of € 1,216,398.64 is fully attributable to changes relating to the Share Incentive Program (SIP).

## Liability reserves

As at 31 December 2018, liability reserves stood at € 535,097,489.59 (31/12/2017: € 535,097 thousand).

## Additional notes

### Notes on liability arrangements:

In the government-promoted, subsidized forward private planning scheme, RBI AG has issued capital guarantee obligations in accordance with Section 108h (1) 3 of the Income Tax Act (EStG). In this context, the bank guarantees that in the event of transferring the capital into a perpetual annuity the payment amount available for this annuity is not less than the sum of the contributions made by the taxpayer plus the premiums credited to this taxpayer pursuant to Section 108g EStG. As at 31 December 2018, the volume of these guarantees was € 1,029 million (31/12/2017: € 1,273 million).

RBI AG is a member of the Raiffeisen-Kundengarantiegemeinschaft Österreich (Deposit Guarantee Association of Austria). Members of the Association assume contractual liability under which they jointly guarantee the timely honoring of all customer deposits and securities issues of an insolvent member of the Association up to an amount equaling the sum of the individual financial strength of the other member institutions. The individual financial strength of a member institution is determined based on its available reserves, taking into account the relevant provisions of the Austrian Banking Act (BWG).

The liability was met by inserting a noted item of one euro off the statement of financial position, as it is not possible to determine the exact amount of RBI's potential liability in connection with the cross-guarantee system.

Like the other members of the Federal IPS, RBI AG signed a guarantee agreement with Posojilnica Bank regarding a loan portfolio (RBI's portion: around € 6.3 million). The cut-off date for this guarantee was 30 June 2018. In the previous year, a provision was formed for the full level of this guarantee, which was reversed in the financial year under review due to the subscription of new shares in Posojilnica Bank.

As at 31 December 2018, soft letters of comfort in the amount of € 382.8 million (31/12/2017: € 418.7 million) had been issued.

The volume of liabilities to affiliated companies amounted to € 130.6 million as at 31 December 2018 (31/12/2017: per cent € 101.9 million).

Open capital commitments on share capital in the amount of € 5.6 million (31/12/2017: € 5.6 million) exist vis-a-vis European Investment Fund S.A., Luxembourg.

Contingent liabilities off the statement of financial position of RBI AG of € 5,213.1 million were reported as at 31 December 2018 (31/12/2017: € 5,936.9 million). Of that amount, € 4,263.3 million (31/12/2017: € 5,153.7 million) was attributable to guarantees and € 949.8 million (31/12/2017: € 783.2 million) to letters of credit.

As at 31 December 2018, € 13,206.7 million (31/12/2017: € 13,003.0 million) in credit risk was reported under liabilities off the statement of financial position. In the reporting year, this credit risk was fully attributable to unused, irrevocable credit lines.

There are no other transactions with material risks or benefits that are not reported on or off the statement of financial position.

## Total capital according to CCR

| in € million   | 31/12/2018    | 31/12/2017    |
|--|---------------|---------------|
| Paid-in capital  | 1,002         | 1,002         |
| Less obligation to purchase own shares                       | (19)          | (19)          |
| Capital reserves and premium to CET1 instruments             | 4,431         | 4,432         |
| Retained earnings and other reserves <sup>1</sup>            | 2,515         | 1,842         |
| <b>Common equity tier 1 (before deductions)</b>              | <b>7,929</b>  | <b>7,257</b>  |
| Net loss for the year  | 0             | 0             |
| Adjustment for Prudent Valuation                             | (29)          |               |
| Intangible fixed assets/goodwill                             | (37)          | (34)          |
| Provision shortage for IRB positions                         | (70)          | (103)         |
| Deduction deferred tax assets                                | (1)           | 0             |
| Deduction securitizations                                    | 0             | 0             |
| Transitional adaptations for common equity tier 1            | 0             | 27            |
| <b>Common equity tier 1 (after deductions)</b>               | <b>7,792</b>  | <b>7,147</b>  |
| Additional tier 1  | 1,144         | 646           |
| Less own AT1 capital   | (14)          | 0             |
| Less obligation to purchase own AT1                          | (6)           | (20)          |
| Transitional adaptations for common equity tier 1            | 0             | (17)          |
| <b>Tier 1</b>  | <b>8,916</b>  | <b>7,756</b>  |
| Supplementary capital  | 2,210         | 2,971         |
| Less own supplementary capital                               | (18)          | (9)           |
| Less obligation to purchase own supplementary capital        | (22)          | (31)          |
| Less own supplementary capital of substantial participations | (2)           | 0             |
| Provision excess of internal rating approach positions       | 137           | 57            |
| Transitional adaptations for Supplementary Capital           | 0             | (10)          |
| <b>Tier 2 (after deductions)</b>                             | <b>2,305</b>  | <b>2,978</b>  |
| <b>Total capital</b>   | <b>11,221</b> | <b>10,734</b> |
| <b>Risk-weighted assets, total (assessment basis)</b>        | <b>39,299</b> | <b>33,330</b> |
| Common equity tier 1 capital ratio                           | 19.8%         | 21.4%         |
| Tier 1 capital ratio   | 22.7%         | 23.3%         |
| Total capital ratio (transitional)                           | 28.6%         | 32.2%         |
| Common equity tier 1 capital ratio (fully loaded)            | 28.6%         | 21.4%         |
| Total capital ratio (fully loaded)                           | 19.8%         | 32.2%         |

<sup>1</sup> Minus Federal IPS reserve of € 217.1 million (31/12/2017: € 170.8 million)

| in € million  | 31/12/2018    | 31/12/2017    |
|---|---------------|---------------|
| <b>Risk-weighted assets, total (assessment basis)</b>   | <b>39,299</b> | <b>33,330</b> |
| Total capital requirement for credit risk   | 2,709         | 2,291         |
| Internal rating approach  | 2,339         | 1,512         |
| Standardized approach   | 355           | 737           |
| CVA risk  | 15            | 17            |
| Basel I - Floor   | 0             | 25            |
| Total capital requirement for position risk in bonds, equities, commodities and open currency positions | 195           | 120           |
| Total capital requirement for operational risk  | 240           | 255           |
| <b>Total capital requirement</b>  | <b>3,144</b>  | <b>2,666</b>  |

### Capital requirements

| in € million   | 31/12/2018   | 31/12/2017   |
|--|--------------|--------------|
| <b>Capital requirement according to standardized approach</b>    | <b>355</b>   | <b>737</b>   |
| Banks  | 1            | 0            |
| Corporate customers  | 1            | 2            |
| Retail exposures   | 11           | 0            |
| Receivables secured by real estate                               | 285          | 0            |
| Defaulted positions  | 10           | 0            |
| Equity exposures   | 14           | 695          |
| Other positions  | 33           | 40           |
| <b>Capital requirement according to internal rating approach</b> | <b>2,339</b> | <b>1,512</b> |
| Central governments and central banks                            | 3            | 2            |
| Banks  | 170          | 247          |
| Corporate customers  | 1,004        | 922          |
| Equity exposures   | 1,135        | 334          |
| Securitization position  | 27           | 7            |
| <b>CVA risk</b>  | <b>15</b>    | <b>17</b>    |
| <b>Basel I - Floor</b>   | <b>0</b>     | <b>25</b>    |
| <b>Total capital requirement for credit risk</b>                 | <b>2,709</b> | <b>2,291</b> |

|                                      | 31/12/2018 | 31/12/2017 |
|--------------------------------------|------------|------------|
| Leverage ratio (fully loaded)        | 13.0%      | 10.2%      |
| Risk weighted assets of total assets | 61.0%      | 60.9%      |

# Notes to the income statement

## Income by geographic market in accordance with section 64 (1) 9 BWG

A regional allocation to segments according to the business outlets' registered offices results in the following distribution:

| 2018<br>in € million                                     | Total | Austria | Europe | Asia  |
|--|-------|---------|--------|-------|
| Interest receivable and similar income                   | 896.3 | 887.7   | 6.9    | 1.7   |
| Hereof: from fixed-income securities                     | 90.2  | 90.1    | 0.0    | 0.1   |
| Income from variable-yield securities and participations | 636.3 | 636.3   | 0.0    | 0.0   |
| Commissions receivable                                   | 333.6 | 332.2   | 1.3    | 0.1   |
| Net profit or net loss on financial operations           | 39.9  | 41.6    | 0.1    | (1.8) |
| Other operating income                                   | 181.1 | 180.8   | 0.3    | 0.0   |

| 2017<br>in € million                                     | Total   | Austria | Europe | Asia |
|--|---------|---------|--------|------|
| Interest receivable and similar income                   | 810.7   | 803.9   | 0.0    | 6.8  |
| Hereof: from fixed-income securities                     | 82.4    | 82.3    | 0.0    | 0.1  |
| Income from variable-yield securities and participations | 1,379.8 | 1,379.8 | 0.0    | 0.0  |
| Commissions receivable                                   | 293.2   | 292.3   | 0.7    | 0.2  |
| Net profit or net loss on financial operations           | 12.2    | (1.2)   | 0.0    | 13.4 |
| Other operating income                                   | 147.2   | 147.0   | 0.1    | 0.1  |

## Negative interest rates

Due to the low interest rate situation prevailing in the financial year 2018 as well, an expense, resulting from negative interest for loans and advances, was shown in an amount of € 45.1 million (2017: € 38.4 million) in the item interest receivable and similar income. This contrasted with income of € 57.2 million (2017: € 40.7 million) resulting from negative interest for liabilities which was shown in the item interest payable and similar expenses. The larger volume is responsible for the increase in expense and income resulting from negative interest.

## Other operating income

Other operating income includes staff and administrative expenses passed on for services in the amount of € 89.0 million (2017: € 80.6 million), income from releases of provisions for impending losses from derivatives in the amount of € 2.9 million (2017: € 11.1 million), income from close-out fees for derivatives on the banking book in an amount of € 25.8 million (2017: € 27.2 million), as well as other income from the release of other provisions in the amount of € 43.5 million (2017: € 8.8 million).



## Staff expenses

Expenses for severance payments and benefits for occupational employee pension funds include € 14.5 million (2017: € 5.6 million) in expenses for severance payments.

## Other administrative expenses

The auditor expenses for the financial year, broken down by service, are presented in the consolidated financial statements.

## Sundry operating expenses

The sundry operating expenses increased € 66.1 million to € 104.9 million in 2018. This includes allocations for provisions for pending losses for banking book derivatives in an amount of € 19.8 million (2017: € 2.1 million), allocations for other provisions for liabilities and charges of € 22.1 million (2017: € 6.1 million), expenses relating to the foreign branches in an amount of € 13.7 million (2017: € 16.3 million) as well as expenses deriving from close-out fees for banking book derivatives in an amount of € 46.2 million (2017: € 17.0 million).

## Disposal and valuation of loans and advances as well as securities held as current assets

Net income/expenses from the disposal and valuation of loans and advances and securities classed as current assets recorded a net expense - as in the previous year - of € 31.6 million in 2017 (2017: minus € 156.6 million). This change derived, firstly, from an improvement in the net gain/loss on the valuation and disposal of marketable securities and banking book derivatives in the amount of € 4.8 million (2017: minus € 23.0 million) and, secondly, from an improvement on the net gain/loss on the valuation of loans and advances as well as guarantees to an amount of minus € 36.4 million (2017: minus € 133.6 million). The year-on-year lower requirement for loan loss provisions derived mainly from an improvement in the macroeconomic environment.

In the financial year under review, losses were realized on shares in investment funds in an amount of € 0.4 million (2017: € 0.0 million). As in the previous year, no income was generated from dividends.

## Disposal and valuation of securities valued as financial investments and from shares in affiliated companies and equity participations

The item net income/expenses from the disposal and valuation of securities valued as financial investments and from shares in affiliated companies and equity participations included a write-up for Raiffeisen Bank Aval JSC, Kiev, in an amount of € 88.1 million, RBI IB Beteiligungs GmbH, Vienna, in an amount of € 29.4 million as well as BAILE Handels- und Beteiligungsges. m.b.H.Vienna, in an amount of € 21.0 million. In addition, the carrying amount of the investment in ALPHA LLC, Kiev, was written down by € 23.1 million. In total, losses of € 125.8 million (2017: losses of € 56.0 million) on the valuation of shares in affiliated companies and equity participations were reported.

The sale of the core banking business of Raiffeisen Bank Polska S.A., Warsaw, lead to a loss on disposal of € 7.0 million. The pro rata disposal of the carrying amount of € 750.9 million, less the purchase price reductions booked, which will be subject to final negotiations in the subsequent year, is offset by disposal proceeds of € 743.9 million. Overall, the disposal of shares in affiliated companies and participations led to a loss of minus € 6.5 million (2017: gain of € 2.5 million).

## Group taxation

Since the 2017 financial year, RBI AG has been the group parent of a corporate group pursuant to Section 9 of the Corporation Tax Act (KStG). As at 31 December 2018, 50 companies were members of the group of companies (31/12/2017: 53 companies) in accordance with Section 9 of the Corporation Tax Act (KStG).

## Merger gain

The entire merger gain relates to the net gain/loss on the contribution of the remaining business of Raiffeisen Bank Polska S.A. following the sale of the banking business to Bank BGZ Paribas S.A. The pro rata carrying amount deduction of € 99.9 million (based on a current valuation survey) is offset by € 542.3 million of repatriated equity. This results in a merger gain a € 442.4 million.

## Overall return on assets

The overall return on assets (net loss or profit after tax divided by the average total assets) in 2018 was 1.7 per cent (2017: 1.9 per cent).

## Recommendation for the Appropriation of Profits

The Management Board of RBI AG will propose to the Annual General Meeting to pay a dividend of € 0.93 per share from the net profit shown in the 2018 annual financial statements. Based on the shares issued, this would result in a maximum amount of € 305,914 thousand.

# Other

The company did not conclude any significant transactions with related companies or persons at unfair market conditions.

In the 2018 financial year the company had an average of 2,533 employees (2017: 2,341).

Expenses for severance payments and pensions broke down as follows:

| in € thousand                                  | Pension expenditure |              | Severance payments |              |
|--|---------------------|--------------|--------------------|--------------|
|  | 2018                | 2017         | 2018               | 2017         |
| Members of the managing board and senior staff | 3,340               | (85)         | 1,738              | 2,154        |
| Employees                                      | 22,563              | 7,853        | 15,680             | 6,165        |
| <b>Total</b>                                   | <b>25,903</b>       | <b>7,768</b> | <b>17,418</b>      | <b>8,319</b> |

The increase in severance payments expense was due to an increase in salaries. The increase in pension expenditure was the result of changes to the mortality tables.

## Management Board

The Management Board as at 31 December 2018 was as follows:

| Members of the Management Board | First assignment               | End of period    |
|---------------------------------|--------------------------------|------------------|
| Johann Strobl, Deputy Chairman  | 22 September 2010 <sup>1</sup> | 28 February 2022 |
| Martin Grill                    | 3 January 2005                 | 28 February 2020 |
| Andreas Gschwenter              | 1 July 2015                    | 30 June 2018     |
| Lukasz Januszewski              | 1 March 2018                   | 28 February 2021 |
| Peter Lennkh                    | 1 October 2004                 | 31 December 2020 |
| Hannes Mösenbacher              | 18 March 2017                  | 28 February 2020 |
| Andrii Stepanenko               | 1 March 2018                   | 28 Februar 2021  |

<sup>1</sup> Effective as of 10 October 2010

## Supervisory Board

The Supervisory Board as at 31 December 2018 was as follows:

| Members of the Supervisory Board       | First assignment         | End of period        |
|--|--------------------------|----------------------|
| Erwin Hameseder, Chairman              | 8 July 2010 <sup>1</sup> | AGM 2020             |
| Martin Schaller, 1st Deputy Chairman   | 4 June 2014              | AGM 2019             |
| Heinrich Schaller, 2nd Deputy Chairman | 20 June 2012             | AGM 2022             |
| Klaus Buchleitner                      | 26 June 2013             | AGM 2020             |
| Peter Gauper                           | 22 June 2017             | AGM 2022             |
| Wilfried Hopfner                       | 22 June 2007             | AGM 2022             |
| Rudolf Könighofer                      | 22 June 2017             | AGM 2022             |
| Johannes Ortner                        | 22 June 2017             | AGM 2022             |
| Günther Reibersdorfer                  | 20 June 2012             | AGM 2022             |
| Eva Eberhartinger                      | 22 June 2017             | AGM 2022             |
| Birgit Noggler                         | 22 June 2017             | AGM 2022             |
| Andrea Gaal                            | 21 June 2018             | AGM 2023             |
| Rudolf Kortenhof <sup>2</sup>          | 10 October 2010          | Until further notice |
| Peter Anzeletti-Reikl <sup>2</sup>     | 10 October 2010          | Until further notice |
| Suanne Unger <sup>2</sup>              | 16 February 2012         | Until further notice |
| Gebhard Muster <sup>2</sup>            | 22 June 2017             | Until further notice |
| Natalie Egger-Grunicke <sup>2</sup>    | 18 February 2016         | Until further notice |
| Helge Rechberger <sup>2</sup>          | 10 October 2010          | Until further notice |

<sup>1</sup> Effective as of 10 October 2010.

<sup>2</sup> Delegated by the Staff Council

Bettina Selden (member of the Supervisory Board) resigned from the Supervisory Board with effect from 21 June 2018.

Andrea Gaal was appointed as a member of the Supervisory Board with effect from the end of the Annual General Meeting on 21 June 2018.

### State Commissioners

- Alfred Lejsek, State Commissioner (since 1 January 2011)
- Anton Matzinger, Deputy State Commissioner (since 1 April 2011)

## Remuneration of the Management Board

The following remuneration was paid to the Management Board:

| in € thousand                                      | 2018          | 2017         |
|--|---------------|--------------|
| Fixed remunerations                                | 5,154         | 4,571        |
| Bonus (performance-based)                          | 2,493         | 1,882        |
| Share-based remuneration (performance-based)       | 399           | 694          |
| Payments to pension funds and reinsurance policies | 355           | 301          |
| Other remunerations                                | 2,345         | 2,438        |
| <b>Total</b>                                       | <b>10,746</b> | <b>9,885</b> |
| Hereof remuneration of affiliated companies        | 1,813         | 2,309        |

The fixed remuneration shown in the table contains salaries and benefits in kind.

The performance-based components of the Management Board's remuneration cover bonus payments and share-based compensation under the Share Incentive Program (SIP) – payment of the 2013 tranche. The bonuses reported above are immediately payable bonus amounts for 2017 and deferred bonus amounts for previous years.

Bonus calculation is linked to the achievement of annually agreed objectives. These cover four or five categories and in addition to specific objectives, include financial objectives which are specifically adjusted to the respective function, such as profit after tax in a segment, return on risk adjusted capital (RORAC), total costs, risk-weighted assets, customer, employee and process/efficiency and infrastructure objectives, plus other objectives where applicable. The amount of the bonus depends on the consolidated profit and on the cost/income ratio, and the objectives are derived from the Group's target medium-term ROE. Payment is made according to the applicable regulations of the Austrian Banking Act (BWG) implemented in the internal regulations (see employee compensation plans in the section recognition and measurement principles).

Other remuneration covers remuneration for functions in the boards of affiliated subsidiaries, payments to pension funds, insurance policies and grants.

An amount of € 1,142 thousand (2017: € 1,277 thousand) was paid in pension benefits to former members of the Management Board and to their surviving dependents. In addition to these amounts, short-term benefits, deferred bonus components and pro-rata payments from a matured SIP tranche totaling € 3,258 thousand (2017: € 3,892 thousand) were paid to former members of the Management Board.

### Share-based remuneration

In 2014, the share incentive program (SIP) was terminated due to regulatory complexities. The last tranches of the SIP were issued in 2011, in 2012 and in 2013. The respective duration periods were five years. Therefore, the 2013 tranche matured in 2018. In accordance with the terms and conditions of the program (published by euro adhoc on 27 June 2013), the number of shares actually transferred was as follows:

| Share incentive program (SIP) 2013   | Number of shares due | Value as at stock price € 27.12 on allocation day (9 April 2018) | Number of shares actually transferred |
|--|----------------------|--|---------------------------------------|
| Group of persons   |                      |  |                                       |
| Members of the management board of the RBI AG                                    | 29.170               | 791.090  | 24.233                                |
| Members of the management boards of bank subsidiaries affiliated with the RBI AG | 43.470               | 1.178.906  | 34.005                                |
| Executives of the company and other affiliated companies                         | 21.640               | 586.877  | 14.500                                |

To avoid legal uncertainties, eligible employees in three countries were given a cash settlement instead of an allocation of shares as permitted by the program terms and conditions. In Austria, eligible parties were granted the option of accepting a cash settlement in lieu of half of the shares due in order to offset the income tax payable at the time of transfer. Therefore, fewer shares were

actually transferred than the number that was due. The portfolio of own shares was subsequently reduced by the lower number of shares actually transferred.

On the reporting date, no more contingent shares were allocated.

#### Remuneration of members of the Supervisory Board

| in € thousand                  | 2018 | 2017 |
|--------------------------------|------|------|
| Remuneration Supervisory Board | 956  | 550  |

The Annual General Meeting held on 21 June 2018 approved a new fee model for the Supervisory Board, beginning in the 2017 financial year. It was decided to distribute the remuneration as follows: Chairman € 120 thousand, Deputy Chairman € 90 thousand, members of the Supervisory Board € 60 thousand, plus attendance fees. As a result, remuneration of € 956 thousand was paid to the Supervisory Board for the 2017 financial year. A provision of € 1,060 thousand was recognized for the 2018 financial year.

In the 2018 financial year, no contracts subject to approval within the meaning of Section 95 (5) 12 of the Austrian Stock Corporation Act (AktG) were concluded with members of the Supervisory Board.

#### Remuneration of members of the Advisory Council

| in € thousand                 | 2018 | 2017 |
|-------------------------------|------|------|
| Remuneration Advisory Council | 104  | 160  |

The Annual General Meeting held on 21 June 2018 passed a resolution to grant remuneration to the Advisory Council members for their work. It was decided to distribute the remuneration as follows: Chairman € 25 thousand, Deputy Chairman € 20 thousand, each additional member € 15 thousand, plus attendance fees.

# Events after the reporting date

There were no significant events after the reporting date.

Wien, am 27. Februar 2019

The Management Board



Johann Strobl



Martin Grill



Andreas Gschwentner



Łukasz Januszewski



Peter Lennkh



Hannes Mösenbacher

Andrii Stepanenko

# Management report

## Market development

### Euro area economy feeling effects of global headwind, interest rates still low

GDP growth in the euro area came in at 1.8 per cent for 2018, which was lower than in 2017, mainly due to weaker support from net exports. In contrast, the inflation rate rose significantly up until mid-2018 and for the most part slightly exceeded the European Central Bank's (ECB) target in the second half of the year. It was only towards the end of the year that inflation started to retreat below the 2 per cent level again. This up-and-down pattern was mainly due to the energy price trend, in turn driven by volatile oil prices.

The ECB left key rates unchanged in 2018 and incrementally scaled back its bond purchase program: Its net monthly purchases averaged € 30 billion from January to September 2018, with its net monthly volume reduced to € 1.5 billion from October to end-December 2018, at which time the program was completely halted. Money market rates remained largely flat across all maturities throughout the year. The yield on 10-year German government bonds, however, strongly fluctuated with rates of between 0.8 per cent in February to under 0.2 per cent in May being observed. Overall, it was a light downward trend (start of year: 0.4 per cent, end of year: 0.2 per cent).

Austria's economy put in a very robust performance once again in 2018, although it lost some growth momentum over the year. Thanks to the very strong 2017/2018 winter months, real GDP growth reached 2.7 per cent overall, following growth of 2.6 per cent in 2017. The overall positive development was broad based: exports withstood mounting global headwinds while private consumption continued to rise at a stable rate. Likewise, the strong equipment investment cycle continued in 2018 – albeit at a somewhat slower pace. Employment growth hit its peak in early 2018, posting its strongest growth rate in full-year 2018 since the beginning of the 90s. Mirroring this trend, the unemployment rate dropped below 5 per cent to come in at 4.9 per cent (2017: 5.5 per cent).

The US economy got off to a strong start in 2018 with quarter-on-quarter growth of 2.2 per cent (annualized) in the first quarter. It continued to expand at a significantly faster pace thereafter, averaging nearly 4 per cent per quarter (annualized) thanks to sizable tax cuts and a very large government spending package in the summer months. This positive development was thus primarily driven by consumer spending. In contrast, growth in investments weakened noticeably throughout the year. On balance, US economic output increased 2.9 per cent for full-year 2018.

In China, economic growth momentum slackened in 2018: Real GDP growth came to 6.6 per cent for the full year, around 0.3 percentage points below the previous year's rate. This was mainly attributable to the Chinese government's restructuring measures. Credit growth – notably on the part of shadow banks – slowed considerably while investment and production momentum temporarily dropped to the lowest level since 2015. In contrast, the simmering trade conflict with the US was initially reflected only in sentiment surveys while exports held up well for the time being thanks to pull-forward effects.

### Solid economic growth in CE and SEE despite slowdown, growth in Russia benefits from one-off effects

Inflation in the CE region fluctuated around the 2 per cent level since the beginning of 2018, whereas in SEE it continuously climbed to a peak of just over 4 per cent before beginning to ease back slightly. Stronger inflation momentum in Southeastern Europe was largely driven by Romania, where it recently began to moderate again. Inflation rates in the CE region averaged 2.0 per cent and 3.4 per cent in the SEE region. The Czech central bank was the first in Europe to begin the interest rate normalization process, which commenced in August 2017 against the backdrop of a renewed pickup in inflation and a relatively weak Czech koruna / euro exchange rate. While Romania soon followed with liquidity tightening measures, subsequently hiking rates in early 2018, Hungary waited until the third quarter of 2018 to raise the prospect of a similar exit procedure, which it expects to implement in 2019. In contrast, Poland's monetary policy remained neutral given the country's muted pace of reflation.



GDP growth in the Central European (CE) region reached 4.5 per cent in 2018, and again exceeded the 4 per cent level (2017: 4.5 per cent) despite a modest slowdown. At country level, Poland was the top performer with 5.1 per cent GDP growth. Domestic demand was again the main driver of economic growth in the CE region in 2018. Investment spending remained dynamic while private consumption also started to record solid growth rates again in 2018. This was supported by the continued decline in unemployment rates, which even hit all-time lows in some of the region's countries. The resulting manpower shortage was reflected in appreciably higher wages.

In Southeastern Europe (SEE), GDP growth slowed again to 3.7 per cent during the period under review, following the strong 5.1 per cent increase in 2017. In the region's smaller markets, however, economic indicators exhibited a positive trend, resulting in stable growth overall. Serbia took the market by complete surprise with its 10-year high of 4.0 per cent, which was mainly driven by private investments with state co-financing and an increase in private consumption. In contrast, Romania, the region's largest economy, failed to match its exceptional performance from 2017 (7 per cent growth) as both gross fixed capital formation and private consumption expanded at a slower rate than in the previous year. However, it was precisely these components that drove growth in the remaining SEE countries.

Economic conditions in Eastern Europe (EE) continued to improve in 2018. Russia benefited from the recovery in oil prices, though private household demand continued to weaken. Moscow's cautious monetary and fiscal policy also had a stabilizing effect, albeit without delivering additional growth and investment impetus. GDP growth in Russia benefited from one-off effects, expanding 2.3 per cent and well above the previous year's level. At the same time, the inflation rate also rose following a record low in the previous year. In addition, the Russian ruble suffered setbacks due to new US sanctions in April and September. The rate cut cycle in Russia already came to a standstill in the first quarter of 2018, as US sanctions prompted Russia's central bank to exercise greater caution. The second half of the year saw a token rate hike of 0.50 percentage points to 7.75 per cent as a result of uncertainties surrounding possible further sanctions. The Ukrainian economy continued its recovery path, growing 3.3 per cent, somewhat stronger than the previous year's level. Moreover, financial risks for 2019 have been reduced thanks to renewed cooperation with the International Monetary Fund following a lengthy hiatus towards the end of 2018. The Belarus economy grew 3.0 per cent in 2018, influenced positively by its dominant trading partner Russia.

## Annual real GDP growth in per cent compared to the previous year

| Region/country             | 2017       | 2018       | 2019f      | 2020f      |
|----------------------------|------------|------------|------------|------------|
| Czech Republic             | 4.5        | 3.0        | 2.7        | 2.5        |
| Hungary                    | 4.1        | 4.8        | 3.4        | 2.2        |
| Poland                     | 4.8        | 5.1        | 3.6        | 2.9        |
| Slovakia                   | 3.2        | 4.1        | 4.0        | 2.8        |
| Slovenia                   | 4.9        | 4.6        | 3.2        | 2.3        |
| <b>Central Europe</b>      | <b>4.5</b> | <b>4.5</b> | <b>3.4</b> | <b>2.7</b> |
| Albania                    | 3.8        | 4.0        | 3.8        | 2.5        |
| Bosnia and Herzegovina     | 3.2        | 2.8        | 2.7        | 2.5        |
| Bulgaria                   | 3.8        | 3.3        | 3.0        | 2.5        |
| Croatia                    | 2.9        | 2.6        | 2.5        | 2.0        |
| Kosovo                     | 4.2        | 4.2        | 4.0        | 3.0        |
| Romania                    | 7.0        | 4.1        | 2.5        | 2.5        |
| Serbia                     | 2.0        | 4.0        | 3.5        | 3.5        |
| <b>Southeastern Europe</b> | <b>5.1</b> | <b>3.7</b> | <b>2.8</b> | <b>2.6</b> |
| Belarus                    | 2.5        | 3.0        | 2.5        | 2.0        |
| Russia                     | 1.5        | 2.3        | 1.5        | 1.5        |
| Ukraine                    | 2.5        | 3.3        | 2.7        | 3.1        |
| <b>Eastern Europe</b>      | <b>1.6</b> | <b>2.4</b> | <b>1.6</b> | <b>1.6</b> |
| <b>Austria</b>             | <b>2.6</b> | <b>2.7</b> | <b>1.3</b> | <b>1.2</b> |
| <b>Germany</b>             | <b>2.5</b> | <b>1.5</b> | <b>1.3</b> | <b>1.0</b> |
| <b>Eurozone</b>            | <b>2.5</b> | <b>1.8</b> | <b>1.1</b> | <b>1.0</b> |

## Banking sector in Austria

In 2018 the Austrian banking sector continued its solid performance from the previous year, underpinned by the positive macroeconomic trend. The corporate customer business in particular put in a robust performance in 2018 – also for longer loan maturities. The sector likewise benefited from continued dynamic real estate lending although macro-prudential regulation has been tightened significantly in this area over the past two years. Supported by low loan loss provisioning in domestic and foreign business, the return on equity of the Austrian banks not only continued to maintain a robust level of nearly 11 per cent on a consolidated basis in 2018, but this was also well above the euro area average. This positive earnings performance was supported in large measure by favorable business developments in the CEE region, notably in the Czech Republic, Russia, Romania, Hungary, Croatia and Slovakia. Adjustments and efficiency enhancement programs of recent years are also having an impact. Given the positive overall market trend, the Austrian banking sector continued to improve its capitalization relative to other Western European banking sectors during the period under review, as also evidenced by the latest stress test results at the European level. However, capital requirements will continue to increase gradually as a result of the introduction both of the systemic risk buffer and of the buffer for Other Systemically Important Institutions, which the Financial Market Stability Board has recommended. The reduction in the bank tax implemented in 2017 should also have a positive impact on the profitability of Austria's (major) banks in the years ahead.

## Development of the banking sector in CEE

Multiple factors in 2018 underpinned the significant recovery of the CEE banking sector relative to the partly still subdued development of the previous years. New lending and asset growth both continued to accelerate in some CE and SEE countries (e.g. in the Czech Republic, Slovakia and Romania). Moreover, a greater number of banking markets (e.g. Hungary, Serbia and Croatia, as well as Bosnia and Herzegovina) participated in the overall positive trend, with significant asset growth recorded virtually across the board. In Russia, foreign banks with a sustainable business model benefited from the generally improving general market environment despite a further market shakeout driven by the central bank. In particular, the necessary nationalization of two of the larger banks in Russia in the fall of 2017 had no impact either on the overall market or on Western foreign banks operating as niche players, which even increased their market share slightly in Russia in 2018. Virtually all CEE banking markets now show a comfortable loan/deposit ratio (well below 100 per cent for the most part), which constitutes a solid foundation for future growth. In addition, significant progress was made in terms of reducing non-performing loans (NPLs). In CE and SEE in particular, the NPL ratio dropped to just under 5 per cent in 2018, its lowest level since 2008. Against the backdrop of the positive overall market development, return on equity in the CEE banking sector solidified at double-digit levels in 2018. In particular, banking markets in Southeastern Europe made a significant recovery. As a result, major Western European banks operating in the CEE region also posted a double-digit return on equity in 2018.

## Regulatory environment

### Changes in the regulatory environment

In the year under review, RBI continued to focus intensively on current and forthcoming regulatory developments.

### Changes to prudential requirements (CRD IV/CRR) and the recovery and resolution framework (BRRD, SRMR)

The European Commission's proposals to revise the Capital Requirements Directive IV/Capital Requirements Regulation and the Bank Recovery and Resolution Directive (BRRD) have been finalized by the European legislature. The regulations are expected to take effect in 2021 and 2022, respectively. As far as RBI is concerned, the deduction exemption for software is particularly important in creating a level playing field with the US. The legislation also harmonizes reporting requirements for credit institutions. Other key changes include parameters for reducing risk-weighted assets for SMEs and infrastructure projects.

### Basel IV

At the end of 2017, the Basel Committee on Banking Supervision finalized the new international rules for calculating capital requirements under Pillar 1 (Basel IV). The primary objective of the new rules is to make banks' risk calculations more comparable. To accomplish this, not only were large parts of the standard models changed, but the scope of application of internal models was also restricted and the requirements for these models were revised. In addition, an output floor will be phased in by 2027, which sets a floor for capital requirements calculated using internal models at 72.5 per cent of the values calculated using the standard models.

The Basel Committee is aiming for an implementation date of 1 January 2022. However, there is still no full legal implementation of the standards for the EU, which also means there are no detailed guidelines with respect to the expected implementation date.

## BCBS 239

In January 2013, the Basel Committee on Banking Supervision issued 14 generally formulated principles for risk data aggregation and risk reporting of credit institutions (BCBS 239). They reflect the Basel Committee's conclusions that data quality and governance play a fundamental role in bank management and efficiency of banking operations.

Due to its classification as a systemically important institution, RBI is required to comply with these principles. It has developed a comprehensive Group-wide action and implementation plan that ensures compliance with the BCBS 239 principles which is currently being implemented in consultation with the relevant supervisory authorities.

## Bank recovery and bank resolution

The BRRD was transposed into Austrian law by the Bank Recovery and Resolution Act (BaSAG). The review of the original BRRD was negotiated up until the end of 2018 as part of the trilogue process. It must be implemented within two years of its publication – which is expected in the second quarter 2019 – by an amendment to the BaSAG.

RBI has a Group recovery plan as required by law. It sets out measures for restoring financial stability in the event that this becomes necessary. The BaSAG also requires the resolution authority, in close collaboration with RBI, to draw up resolution plans based on the preferred resolution strategy, including analyzing which liabilities are eligible as MREL (minimum requirement for own funds and eligible liabilities). RBI has adopted a multiple point of entry (MPE) approach as the preferred resolution strategy. The resolution authorities define resolution groups, and for each resolution group an individual resolution plan has to be developed. The resolution plan has to describe the resolution strategy and its implementation, by the use of the resolution tools. The resolution authority decides which resolution tools (sale of business, bridge institution, asset separation and bail-in) should be used. Official MREL quotas are being set for each resolution group and are expected for the second half of 2019.

## Payment Services Directive 2

The new Payment Services Directive (PSD2), which came into force on 13 January 2018, is designed to better protect consumers by promoting service security and the use of new technologies as part of an open banking system. The directive opens up the payment services market to new participants – known as third-party providers (TPPs) – such as fintech companies. It also regulates TPPs' relationships with traditional banks, which are required to give the TPPs access to the accounts of customers who have given their consent. These rules governing TPP access to payment service user data will take effect on 14 September 2019. They were further elaborated on in the course of last year while work on their implementation had already begun.

## General Data Protection Regulation (GDPR)

The EU General Data Protection Regulation (GDPR) has been in effect since 25 May 2018. It applies to personal data (e.g. that of customers or employees) and strengthens the rights of control that individuals have with respect to their data. The GDPR affects all departments at RBI that handle individuals' personal data. RBI has adopted the new requirements as part of a wide-ranging project. Various processes were implemented, including those for complying with the data subjects' rights (e.g. right of access, right of erasure) and identifying personal data protection breaches; the required IT framework was created; relevant contracts were thoroughly reviewed and examined; and the requisite organizational structure was established. In addition to the project at the Group head office, other projects were conducted at the network units and the Austrian companies in which equity participations are held, with coordination and support provided by the Group head office.

## Capital markets and sustainable financing

The implementation of MiFID II began in 2018, which had a large-scale effect on RBI's market and customer divisions and required an extensive implementation project. PRIIPs (Packaged Retail and Insurance-based Investment Products) under which a 3-page standard customer information sheet is required for packaged (securities) products also came into effect in 2018. One new issue on European level is the regulation of covered bonds, which has not yet been implemented in Austria. The changeover of benchmark indices and related uncertainty – primarily Eonia and Euribor, scheduled for early 2020 – was postponed for two years in response to market participants' objections and concerns (implementation beginning in early 2022). Other important new

developments for all financial market participants include the Commission's action plan and regulatory proposals on sustainable financing and investments, which aim to reorient capital flows towards green and sustainable economic activities from 2022 onwards. The objective is to transition financial sector products, services and activities – including transparency measures and corporate governance – to a framework based on uniform definitions and standards.

### Regulatory compliance (§ 39 (6) of the Austrian Banking Act (BWG))

The EBA's Guidelines on Internal Governance were transposed into Austrian law in 2018. The process added new provisions to the Banking Act (§ 39 (6) BWG) which came into effect on 1 January 2019. There are now stronger regulatory compliance requirements for monitoring and ensuring RBI's adherence to applicable Austrian law. The implementation of these activities at RBI builds on existing methods and tools.

### Banking supervision

In 2018, the ECB's banking supervision activities focused on four areas: risks related to the business model, profitability, credit risk with emphasis on non-performing loans, and risk management in general. In relation to this fourth area, i.e. activities with multiple risk dimensions, RBI participated in the European Banking Authority's EU-wide stress test in 2018. The stress test results essentially depend on three factors: the capital ratio at the beginning of the stress test, losses caused by the simulated stress scenario, and the resulting capital ratio at the end of the stress test horizon. RBI's performance with respect to these factors was significantly better than in the previous stress test conducted in 2016 (participating institution: RLB Holding), although the 2018 test was more stringent. In an adverse scenario, RBI's hypothetical remaining common equity tier 1 ratio (CET1) was projected to stand at 9.7 per cent in 2020. The stress scenario simulated a sharp slump in economic growth and house prices as well as pessimistic assumptions about economic developments in most Central, Eastern and Southeastern European countries. RBI's better result reflects in particular the strengthening of its capital ratio following the merger of RZB and RBI and improved portfolio quality.

In 2018, the focus of the Joint Supervisory Team included interest rate risk in RBI's banking book and a review of the internal credit risk models.

# Business performance at Raiffeisen Bank International AG

## Business development

RBI AG is one of Austria's leading corporate and investment banks. The Corporates business looks after the top 1,000 companies in the country and numerous large international and multinational customers. These clients benefit from RBI AG's extensive know-how and service portfolio in the areas of export financing, trade financing, cash management, treasury and fixed-income.

Institutional Clients groups business with banks and institutional customers. It has developed out of Correspondent Banking in its original form and today stands for an integrated approach to doing business with banks, insurance companies and other institutional customers. An extensive product and service range includes, among others, transaction and clearing services, custody and deposit bank services, credit financing and capital market and securities transactions.

The Capital Markets business includes trading on own account and for third parties. Here, RBI AG offers its customers individually tailored solutions for liquidity and balance-sheet management, and for managing interest and currency risks. Its special strengths are interest rate, currency and credit products for the German-speaking countries (Austria, Germany and Switzerland) and CEE. Cash products, derivatives and structured products are also offered, as well as the issuance of debt capital via bonds and the securitization of loans and advances. A professional structuring team as well as sales strength and placement power ensure the successful implementation of projects.

The Treasury and Group Participations businesses are internal control areas for managing refinancing and the Bank's investment portfolio.

## Corporates

The Corporates business services Austrian and international corporate customers. In addition to Austria's largest companies, these include Western European corporate customers with business activities in CEE, large corporate customers from Central and Eastern Europe and internationally active commodities and trading companies.

In Austria, the strategic focus was on structured customer acquisition and further exploitation of Group-wide earnings potential using strategic management tools and targeted sales initiatives. A core element here was the Global Account Management System, which offers international clients advisory services and support coordinated across the entire Group and enables a comprehensive product portfolio throughout the whole network.

In addition, work continues to further increase the attractiveness of products. Since RBI AG's customers are used to integral solutions, cross-business collaboration between Retail and Corporates is extremely important, particularly for digital customer solutions. In this connection, RBI AG collaborated with five international fintech companies on pilot projects for innovative banking products as part of its Elevator Lab fintech accelerator program. First tests were conducted in Austria and four CEE markets and always placed the main focus on customer benefit. This and further optimization of service and support processes, as well as the continuing high degree of cost discipline made a positive contribution to the cost/income ratio in the last financial year.

Despite the low interest rate environment and the continuing challenging economic and geopolitical environment, the result in terms of income was good. In addition to traditional credit business, the bank's outstanding product expertise led to structured project and acquisition financing, real estate financing, export and trade finance business and transaction banking also making a significant contribution to the positive performance.

Additionally, the once again positive development in the Asset Based Finance and Factoring business should also be highlighted, where income further increased significantly as a result of a strong reputation and a high degree of solutions-oriented expertise. In the Debt Capital Markets business, RBI AG benefited considerably from the positive market development and consolidated its key position in promissory note and senior bond issuance.

The substantial reduction in the allocation to loan loss provisions in the financial year (both for Western European and Austrian as well as Central and Eastern European customers) reflected the high quality of the credit portfolio and made a significant contribution to the very good result.

## Institutional Clients

For the Institutional Clients business, the 2018 financial year was shaped by the continuing economic recovery in the core markets in Central and Eastern Europe. This was reflected in increasing transaction numbers and volumes, in the expansion of business relations with existing customers and in the securing of numerous new customers. 2018 was also shaped by extremely positive development in risk costs, resulting in the release of loan loss provisions. RBI again proved its key role for business in and from Central and Eastern Europe.

As in previous years, sales activities focused on equity and liquidity-preserving banking products; income from commission-based business reached a new record level. In addition to the traditionally good results from clearing, settlement and payment services, which again posted higher than average performance, the entire capital market business such as new bond issuances, the associated securities sales, customer currency trading and securities lending also increased significantly. Performance for investment fund business and securities services was also pleasing, adding to the positive picture.

Traditional credit business with banks was stable at a low level and mainly focused on longstanding customer relationships with high cross-selling potential. These endeavors were very well complemented by the aforementioned product offensives.

The deglobalization within the financial sector which set in following the financial crisis led to the emergence of regional specialists. This trend supports the RBI Group's positioning as a leading institute in Central and Eastern Europe with a bridging function between East and West. This was again confirmed by the successes achieved in recent years.

## Capital Markets

In 2018, the underlying macroeconomic conditions were characterized by asymmetric growth. The US economy grew significantly as a result of economic measures and tax breaks, while international tensions and trade disputes burdened the economy in Europe and Asia. This led to higher credit spreads for emerging markets. Spreads also widened in Europe fueled by Italy's budget dispute with the EU. German and Austrian government bonds proved a safe haven.

Despite this challenging environment, RBI AG succeeded in further expanding its bonds business thanks to increased customer demand for bonds in local currencies.

The trend towards digitalization continued in 2018: The entry into force of MiFID 2 at the start of the year resulted in increasing numbers of trading activities being transferred to electronic platforms. RBI AG implemented these regulatory requirements on time and became a systematic internaliser for bonds, enabling it to continue offering them to its international client base.

Despite a challenging capital market environment with a mixture of continuing low volatility for most G10 currency pairs and extremely high volatility in some EM currencies, currency trading again recorded a strong annual performance, notably due to an increase in electronic trading activity and strategic positions in the CEE/CIS markets.

In the bonds segment, Institutional Sales followed on from its successful previous year and again recorded pleasing results in both the primary and secondary markets in the 2018 financial year. Currency business posted a similarly strong result. An increased level of customer trading activity made a significant contribution to the pleasing annual performance.

Despite more stringent regulatory framework conditions, Corporate Sales maintained its earnings level of the previous year and surpassed its budget. Ongoing weak demand for interest hedges attributable to the ECB's continuing low interest rate policy was offset by increased business activity by our customers in the core currency markets.

## Treasury

For medium to long-term financing, RBI AG used long-term deposits and issuances. Senior issues are mainly under RBI AG's EUR 25,000,000,000 Debt Issuance Program, which enables bonds to be issued in different currencies and with different structures.

In 2018, RBI AG increasingly used international large-volume bonds alongside long-term deposits in order to implement its funding plan. The successful issuance of € 500 million of additional core capital (additional tier 1) in January was followed by a € 500 million green first-ranking issuance in June and a further € 500 million first-ranking issuance in November. The green first-ranking issuance was the first benchmark issuance of this type by an Austrian bank (issue volume of at least € 500 million). The remaining requirement was covered by small unsecured private placements. The total volume of multi-year deposits and issuances taken up amounted to around € 5.3 billion and had a weighted maturity of approximately 5.2 years. At year-end 2018, the total volume of outstanding issued unsecured bonds excluding additional core capital amounted to approximately € 6.4 billion.

## Group Participations

In addition to 13 subsidiary banks in CEE, RBI AG's subsidiaries also include numerous additional Austrian and international subsidiaries in the strategic financial services sector. These companies are completed by a number of other banking-related ancillary services as well as other participations.

RBI AG's participation strategy aims to safeguard and expand the strategic interests of RBI AG and also to steadily increase the value of the overall portfolio.

Governance and administration of all participations is steered by RBI Group Participations.

In the financial year, the core banking business of Raiffeisen Bank Polska S.A., Warsaw, was sold by spin-off to Bank BGZ BNP Paribas S.A., a subsidiary of BNP Paribas S.A., for a purchase price of € 753 million. Immediately after the spin-off, the remaining operations of Raiffeisen Bank Polska, primarily comprising the portfolio of retail foreign currency mortgage loans, were transferred to a Polish branch of RBI AG.

Significant write-ups occurred at Raiffeisen Bank Aval JSC, Kiev (€ 89.1 million), RBI IB Beteiligungs GmbH, Vienna (€ 29.4 million), BAILE Handels- und Beteiligungsges.m.b.H., Vienna (€ 21.0 million) and RB International International Finance (Hong Kong) Ltd (€ 10.6 million).

At the end of June 2018, Raiffeisen-Leasing Bank AG surrendered its banking licenses and changed its name (to Raiffeisen-Leasing Finanzierungs AG) and business purpose. This enabled the successful completion of the process, commenced in the second half of 2017, to close a CRR bank regulated by the ECB.

In May 2018, Elevator Ventures Beteiligungs GmbH was established as RBI's corporate venture capital company, with € 25 million of available investment capital. It focuses on investments in young, technology-driven companies from the financial sector (fintechs) which have already obtained initial market experience with their products and services.

## Retail

The sale of the Polish core banking operations and the subsequent merger of the remaining operations of Raiffeisen Bank Polska S.A., Warsaw, into a newly established Polish branch of RBI AG on 3 November 2018 gave RBI AG a portfolio of retail foreign currency mortgage loans with a volume of around € 3.1 billion. The portfolio comprises € 2.3 billion in CHF loans and advances, € 0.7 billion in EUR loans and advances and € 0.1 billion in PLN loans and advances.

The branch offers neither deposit business nor new customer business and focuses on administering the foreign currency loans taken over until their final maturity, and on providing services for the borrowers. Beyond this, RBI AG has no further plans actively to expand retail business.

# Branches and representative offices

RBI AG operates a total of five branches - in Frankfurt, London, Warsaw, Singapore and Beijing. As service branches, these support the RBI head office in Vienna and RBI network banks with customer care and sales activities.

RBI AG has had a branch in Poland since the start of November 2018. The sale of the core banking operations of the former Raiffeisen Bank Polska S.A. to Bank BGZ BNP Paribas S.A. was completed at the end of October 2018. As part of this transaction, the remaining portfolio of the former Raiffeisen Bank Polska S.A. was incorporated into RBI AG's Warsaw branch, which had been established in October 2018. The portfolio's loan volume is around € 3.1 billion, mainly comprising retail customers' foreign-currency mortgage loans. The branch offers neither deposit business nor new customer business and focuses on administering the foreign currency loans taken over until their final maturity, and on providing services for borrowers. Additionally, the branch restructures and manages certain loans to corporate customers and serves a liquidator function for selected investment funds.

Through its extensive knowledge of the local markets in Southeast Asia and its contacts with companies, banks and authorities, the Singapore branch supports customers in sales activities, and also in establishing branches or partnerships with local companies. The free trade agreement negotiated between Singapore and the European Union in 2018 is expected to bolster trading activities.

Under the Belt-and-Road initiative, the Peking branch initiated cooperation agreements with major Chinese banks for cooperation in Central and Eastern Europe and provided the full range of RBI's banking services to support numerous large Chinese companies in their activities in Eastern European markets. The Peking branch secured success in export finance. As a result, RBI is now one of the few Western banks able to accept coverage of the Chinese export and credit insurance corporation Sinosure as China sovereign risk. RBI export financing covered by Sinosure can now be offered to companies that produce in China and export to third markets from there. The Peking branch also works closely with the Austrian Business Agency in advertising Austria as an investment location and as a gateway to CEE.

The Frankfurt branch office further expanded its consulting and structuring services in various forms of receivables financing, as well as its local sales-support activities for RBI in its business with subsidiaries of German corporate customers, especially in CEE. In 2018, additional receivables financing mandates were won and implemented for customers in RBI's numerous focus markets, and business was further developed. In

In addition to winning new customers, another key task in the corporate customer business involves providing sales support for RBI's network. The increasing demand from German SME corporate customers for contact points in Germany reflects customers' centralization of administration functions and decision-making authorities. Establishing contacts with decision makers at customers' head offices strengthens customer relationships in CEE and opens up cross-selling potential.

The branch office in London provides key support for the placement of RBI's capital market solutions. Many international investors are based in London. RBI AG's wealth of CEE expertise is of particular interest to these investors. In 2018, additional investor groups were won for RBI AG in the London market. Moreover, the branch has a dedicated corporate desk to support British and Irish corporate customers, notably with regard to their CEE investment. The corporate desk also facilitates contact with partner banks in Great Britain and their corporate customers with a CEE relationship. In the referendum of June 2016, the citizens of Great Britain voted to leave the European Union as of 29 March 2019. The London branch has made all necessary preparations under the regulatory requirements of the European (European Central Bank) and British (Prudential Regulation Authority, Financial Conduct Authority) financial market supervisory authorities and is seeking a third-country license in order to maintain its future business operations.

In addition to its branch offices, RBI AG also operates representative offices in Paris, Stockholm, Mumbai, Seoul, Ho Chi Minh City and Zhuhai (China).

# Financial Performance Indicators

## Statement of Financial Position

Raiffeisen Bank International AG's (RBI AG) total assets increased € 9.7 billion, or 17.7 per cent, to € 64.4 billion in the 2018 financial year. The growth in total assets resulted in particular from the increase of € 5.7 billion in cash and cash balances at central banks and the increase of € 6.8 billion in loans and advances to customers.

On the asset side, the cash reserve and balances at central banks increased € 5.7 billion to € 10.5 billion. This resulted mainly from short-term liquidity reserves at the European Central Bank. Loans and advances to banks decreased 27.3 per cent, or € 2.5 billion, to € 6.6 billion. This development mainly reflected a reduction of € 1.0 billion in lending, € 1.3 billion which originate from the refinancing of the former Polish subsidiary bank. In addition, long- and short-term money market business fell € 0.7 billion and giro and clearing business was down € 0.5 billion.

Loans and advances to customers increased 37.2 per cent, or € 6.8 billion, to € 25.1 billion. This included the € 3.1 billion portfolio of foreign currency mortgage loans acquired from Raiffeisen Polska S.A. Lending thus increased € 7.2 billion, while the share of loan loss provisions for the acquired retail portfolio amounted to € 0.2 billion.

Bonds, notes and other fixed-interest securities rose 20.7 per cent, or € 0.5 billion year-on-year, to € 2.9 billion. This increase was due mainly to the increase in repurchased own issues. The volume of shares and other variable-yield securities also rose 48.2 per cent or € 0.1 billion, to € 0.3 billion.

Shares in affiliated companies fell € 0.7 billion to € 10.6 billion. This development was largely attributable to the sale of parts of the core banking operations of Raiffeisen Bank Polska S.A. for € 0.8 billion and the latter's subsequent merger into RBI AG.



Other assets declined € 0.2 billion year-on-year, or 5.2 per cent, to € 2.8 billion. This was primarily attributable to the € 0.2 billion decline in positive fair values arising out of derivative financial instruments in the trading book.

On the liabilities side, liabilities to credit institutions rose € 2.7 billion, or 11.5 per cent, to € 26.6 billion due largely to a significant € 1.3 billion increase in money market transactions and a € 0.7 billion rise in short-term giro and clearing business. Liabilities to credit institutions continued to represent a significant source of funding for RBI AG at 41 per cent of total assets.

Liabilities to customers were up € 4.4 billion, or 33.8 per cent, to € 17.6 billion, largely due to a considerable € 3.4 billion increase in time deposits.

Debt securities issued and additional capital according to CRR increased 22.3 per cent, or € 1.4 billion year-on-year, to € 7.9 billion. Funds raised through new issues amounted to € 3.3 billion in 2018 (2017: € 0.2 billion). In contrast, debt securities issued fell € 1.9 billion in 2018 as a result of repayments and retirements (2017: € 2.2 billion).

Other liabilities decreased year-on-year € 0.2 billion, predominantly due to the decline in holdings of derivatives in the trading book.

The provisions include provisions of € 65.7 million for severance payments (31.12.2017: € 57.4 million) provisions of € 71.5 million for pensions (31.12.2017: € 69.3 million), provisions of € 0.3 million for taxes (31.12.2017: € 5.7 million), and other provisions of € 171.8 million (31.12.2017: € 195.0 million). The increase in provisions for severance payments reflected a higher salary base and an increase in the expected average salary rise. The increase in pension provisions due to the new AVÖ 2018-P legal basis for pension insurance was largely offset by changes in the law, according to which existing reinsurance policies are netted against claims of the same amount reported in the past under other assets. The decrease in other provisions was mainly due to the almost complete release of the provision for litigation risks and from lower provisions for guarantee loans.

Total risk exposure at year-end 2018 was € 39.3 billion (2017: € 33.3 billion). Of this amount, credit risk accounted for € 33.9 billion (2017: € 28.6 billion), operational risk for € 3.0 billion (2017: € 3.2 billion), and market risk for € 2.4 billion (2017: € 1.5 billion). Total risk exposure increased around € 6.0 billion year-on-year, which included € 4.0 billion at the branch in Poland. Common equity tier 1 (CET1) capital amounted to € 7.1 billion at year-end 2018 (2017: € 7.1 billion). In 2018 further additional tier 1 capital (AT1) was issued; the level of tier 1 capital therefore amounted to € 8.2 billion (2017: € 7.8 billion). Additional capital amounted to € 2.3.0 billion (2017: € 3.0 billion). All in all, total capital amounted to € 10.5 billion, a year-on-year rise of € 0.2 billion. Despite the increase in total capital, the higher total risk exposure resulted led to fall in all the ratios. While the CET1 ratio of 19.8 per cent was 2.0% lower than in the previous year (21.8 per cent), the tier 1 ratio of 22.7 per cent was also somewhat lower than at 31.12.2017 (23.3 per cent). The total capital ratio was 26.9 per cent (2017: 32.2 per cent). The total capital surplus was € 8.1 billion and thus remained more or less unchanged from the previous year.

The committed capital reserves of € 4.3 million (31.12.2017: € 4.3 million) and uncommitted capital reserves of € 97.1 million (31.12.2017: € 97.1 million) were mostly unchanged in the financial year. The change compared to the previous year reflected the reduction of € 0.2 million in committed capital reserves due to the allocation of own shares under the SIP program.

The number of own shares related to the share incentive program (SIP) for key personnel in the company (Management Board and senior executives) and members of the management boards of associated bank subsidiaries and acquired in the years 2005 to 2009 amounted to 322,204 shares at year-end 2018. With a nominal value of € 1.0 million, this represented 0.1 per cent of share capital. 72,738 of these own shares were allocated to the entitled individuals in the financial year 2018. The nominal value of these allocated shares was € 0.2 million, representing 0.0 per cent of share capital.

Retained earnings cover legal reserves of € 5.5 million (31.12.2017: € 5.5 million) and other free reserves of € 2.2 million (31.12.2017: € 1.5 million). Of the other free reserves, an amount of € 217.1 million (31.12.2017: € 170.8 million) was earmarked for the federal institutional protection scheme (Federal IPS). As a result of the agreement on the establishment of the institutional protection scheme and a corresponding decision of the Federal IPS Risk Council, a contribution of € 46.4 million (31.12.2017: € 41.0 million) was allocated to other reserves in 2018 as a reserve for the Federal IPS. The reserve for the Federal IPS is not eligible for inclusion in the calculation of own funds under the CRR. In addition, an amount of € 648.0 million

(31.12.2017: € 147.0 million) was transferred to other free reserves. The remaining change in other free reserves of € 1.2 million is fully attributable to changes relating to the Share Incentive Program (SIP).

As of 31.12.2018, the liability reserve amounted to € 535.1 million (31.12.2017: € 535.1 million).

## Earnings performance

In the 2018 financial year, Raiffeisen Bank International AG (RBI AG) reported an increase in net interest income of 27.0 per cent, or € 66.1 million, to € 310.9 million. This was driven mainly by a volume-related increase in loans and advances to customers, an increase in income from negative interest rates from deposits, the elimination of expenses in connection with synthetic securitization transactions and lower funding costs from customer business customers.

Income from securities and participating interests fell € 743.5 million to € 636.3 million mainly due to the € 744.2 decline in million in income from shares in affiliated companies resulting from lower dividend income from affiliated companies in 2018. Income from participating interests consisted mostly of € 460.0 million from RS Beteiligungs GmbH, € 90.6 million from Raiffeisen Bank Aval, and € 54.7 million from AO Raiffeisenbank.

The net amount of commissions payable and commissions receivable was up € 32.4 million to € 202.1 million. The largest contribution to net fee and commission income was provided by the payment transfer business (34.4 per cent, or € 69.6 million), followed by the securities business (24.7 per cent, or € 50.0 million) and the guarantee business (18.8 per cent, or € 38.1 million).

The net profit on financial operations increased 226.5 per cent, or € 27.7 million, to € 39.9 million. This mainly reflected the € 99.0 million improvement in net trading income from currency-based derivative transactions, which increased to € 95.6 million (2017: minus € 3.3 million). In contrast, the profit contribution of the predominantly interest-based derivative and securities transactions fell to minus € 55.1 million (2017: € 10.8 million).

Other operating income rose € 33.9 million to € 181.1 million. This item included income from services provided to network banks of € 89.0 million (2017: € 80.6 million), income from the release of other provisions amounting to € 43.5 million (2017: € 8.8 million), and income from the release of provisions for losses on bank book derivatives amounting to € 2.9 million (2017: € 11.3 million).

Operating income therefore amounted to € 1,370.3 million, a 29.9 per cent decline year-on-year.

Total operating expenses were up 19.0 per cent year-on-year, to € 850.6 million.

Staff costs increased, year-on-year, by € 45.5 million to € 378.7 million. This was due in part to increased staffing levels and partly to an adjustment to mortality tables and an associated increase in pension provisions. Other administrative expenses increased € 24.9 million, or 7.5 per cent, to € 357.9 million. Other administrative expenses consisted mainly of IT expenses amounting to € 151.3 million (2017: € 125.8 million), rent amounting to € 30.0 million (2017: € 29.8 million), and consulting fees and audit fees amounting to € 43.9 million (2017: € 44.4 million). They also included the annual contribution to the bank resolution fund of € 16.5 million (2017: € 21.2 million). Depreciation of tangible assets and intangible fixed assets declined € 0.5 million to € 9.2 million.

Other operating expenses of RBI AG increased € 66.1 million to € 104.9 million in 2018, mainly as a result of an increase of € 17.7 million in provisions for derivatives, an increase of € 29.7 million in close-out fees and an increase € 16.0 million in other provisions.

After deducting operating expenses from operating income, RBI AG generated an operating result of € 519.7 million for the 2018 financial year. This represents a year-on-year decline of 58.1 per cent, or € 719.4 million.

As a consequence, the cost/income ratio (operating expenses divided by operating income) was 62.1 per cent (2017: 36.6 per cent).

Net income/expenses from the disposal and valuation of loans and advances and securities classed as current assets recorded a net expense – as in the previous year – of minus € 31.6 million (2017: minus € 156.6 million). This development was due firstly to

an improvement in the result from the valuation sale of securities held as current assets and the derivatives bank book to € 4.8 million (2017: minus € 23.0 million), and secondly to an improvement in gains/loss on the valuation of loans and guarantees to minus € 36.4 million (2017: minus € 133.6 million). The lower requirement for loan loss provisions compared to the previous year resulted mainly from an improved macroeconomic environment. With regard to individual loan loss provisions, this led to a net release of provisions in the amount of € 6.7 million, an improvement of € 146.7 million compared to the previous year. In the case of portfolio-based loan loss provisions, there was a net allocation of € 38.5 million, which represented an increase of € 44.5 million from the previous year. The increase was partly due to a change in the method used to determine portfolio loan loss provisions after the IFRS 9 calculation model was also applied under company law from 1 January 2018. This non-recurring effect of € 5.8 million was immediately recognized in the income statement. The remaining increase of € 38.7 million resulted from the refinement of IFRS 9 models and provision for expected credit losses that cannot be captured in the model due to exceptional circumstances (primarily potential sanctions against Russia).

Net income/expenses from the disposal and valuation of financial investments changed from a net expense of € 52.9 million in 2017 to net income of € 143.3 million in 2018, mainly due to an increase of € 23.5 million in write-ups and a decrease of € 158.2 million in unscheduled write-downs of affiliated companies. Net gains/losses on sale were up € 19.1 million, reflecting gains on the sale of securities held as fixed assets.

As a result, the profit on ordinary activities for the year under review amounted to € 631.4 million (2017: € 1,034.6 million).

The return on equity before tax (profit before tax divided by average equity in 2018) was 8.0 per cent (2017: 14.7 per cent).

Taxes on profit or loss showed a gain of € 4.9 million in 2018 (2017: expense € 18.2 million), which was due to lower expenses for withholding taxes. Expenses for other taxes amounted to € 53.4 million (2017: € 56.6 million), mainly reflecting € 56.2 million for the stability contribution for banks (2017: € 55.0 million).

The merger gain related entirely to the result from the contribution of the operations of Raiffeisen Bank Polska S.A., Warsaw remaining after the sale of the core bank operations to Bank BGZ BNP Paribas S.A. The pro rata carrying value of the operations of € 99.9 million (on the basis of a current valuation report) stood against repaid equity of € 542.3 million. This resulted in a merger gain of € 442.4 million (2017: € 0 million).

The return on equity after tax (net income after tax divided by average equity in 2018) was 4.2 per cent (2017: 11.0 per cent).

Profit after tax in 2018 was € 1,025.2 million (2017: € 959.8 million).

After movements in reserves of € 694.4 million and profit of € 1.5 million brought forward the previous year, the net profit in 2018 was € 332.3 million.

# Capital, share, voting, and control rights

The following disclosures satisfy the provisions of § 243a (1) of the Austrian Commercial Code (UGB):

(1) As at 31 December 2018, the company's share capital amounted to € 1,003,265,844.05 and was divided into 328,939,621 voting common bearer shares. As at 31 December 2018, 322,204 of those were own shares, and consequently 328,617,417 shares were outstanding at the reporting date. In comparison with 31 December 2017 (394,942 shares), this was a reduction of 72,738 own shares and was due to the transferring of shares within the framework of the share-based remuneration program.

(2) The Articles of Association contain no restrictions concerning voting rights or the transfer of shares. The principle of one share one vote applies and there is only one class of shares. Shares with multiple voting rights are not permissible under § 12 (3) of the Austrian Stock Corporation Act (AktG). The regional Raiffeisen banks and direct and indirect subsidiaries of the regional Raiffeisen banks are parties to a syndicate contract (syndicate agreement) regarding RBI AG. The terms of this syndicate agreement include not only a block voting agreement and preemption rights, but also a prohibition on sales of the RBI shares held by the regional Raiffeisen banks (with few exceptions) for a period of three years (lock-up period) from the effective date of the merger between RZB AG and RBI AG, i.e. from 18 March 2017, if the sale would reduce the regional Raiffeisen banks' aggregate shareholding in RBI AG (direct and/or indirect) to less than 50 per cent of the share capital plus one share. After the lock-up period expires, the shareholding threshold falls to 40 per cent of the share capital of RBI AG.

(3) RLB NÖ-Wien Sektorbeteiligungs GmbH holds around 22.24 per cent of the share capital of the company according to the most recent notification of voting rights published on 7 September 2018. By virtue of the syndicate agreement regarding RBI AG, the directly or indirectly held voting rights attached to a total of 193,449,778 shares, corresponding to a voting interest of around 58.81 per cent, are mutually attributable to the regional Raiffeisen banks and their direct and indirect subsidiaries pursuant to §§ 130 and 133 7 of the Austrian Stock Exchange Act (BörseG) as parties acting in concert as defined in § 1 6 of the Austrian Takeover Act (ÜbG) (see the notification of voting rights published on 7 September 2018). The remaining shares of RBI AG are held in free float, with no other direct or indirect shareholdings amounting to 10 per cent or more known to the Management Board.

(4) The Articles of Association do not contain any special rights of control associated with holding shares. According to the syndicate agreement for RBI AG, the regional Raiffeisen banks can nominate nine members of the RBI AG Supervisory Board. In addition to the members nominated by the regional Raiffeisen banks, the RBI AG Supervisory Board should also include three independent representatives of free-float shareholders who are not attributable to the Austrian Raiffeisen Banking Group.

(5) There is no control of voting rights arising from interests held by employees in the share capital.

(6) Pursuant to the Articles of Association, a person who is 68 years or older may not be appointed as a member of the Management Board or be reappointed for another term in office. The rule for the Supervisory Board is that a person who is aged 75 years or older may not be elected as a member of the Supervisory Board or be re-elected for another term in office. Moreover, no person who already holds eight supervisory board mandates in publicly traded companies may be a member of the Supervisory Board. Holding a position as chairman of the supervisory board of a publicly traded company would count twice for this purpose. The Annual General Meeting may choose to waive this restriction through a simple majority of votes if permitted by law. Any candidate who has more mandates for, or chairman positions on, supervisory boards in publicly traded companies must disclose this to the Annual General Meeting. There are no further regulations regarding the appointment or dismissal of members of the Management Board and the Supervisory Board beyond the provisions of the relevant laws. The Articles of Association stipulate that the resolutions of the Annual General Meeting are, provided that there are no mandatory statutory provisions to the contrary, adopted by a simple majority of the votes cast. Where the law requires a capital majority in addition to the voting majority, resolutions are adopted by a simple majority of the share capital represented in the votes. As a result of this provision, members of the Supervisory Board may be dismissed prematurely by a simple majority. The Supervisory Board is authorized to adopt amendments to the Articles of Association that only affect the respective wording. This right may be delegated to committees. Furthermore, there are no regulations regarding amendments to the company Articles of Association beyond the provisions of the relevant laws.

(7) Pursuant to § 169 of the Austrian Stock Corporation Act (AktG), the Management Board has been authorized since the Annual General Meeting of 4 June 2014 to increase the share capital with the approval of the Supervisory Board - in one or more tranches - by up to € 446,793,032.95 through issuing up to 146,489,519 new voting common bearer shares in exchange for contributions in cash and/or in kind (including by way of the right of indirect subscription by a bank pursuant to § 153 (6) of the AktG) by 25 August 2019 at the latest and to fix the offering price and terms of the issue with the approval of the Supervisory

Board. The Management Board is further authorized to exclude shareholders' subscription rights with the approval of the Supervisory Board (i) if the capital increase is carried out in exchange for contributions in kind, or (ii) if the capital increase is carried out in exchange for contributions in cash and the shares issued under the exclusion of subscription rights do not exceed 10 per cent of the company's share capital (exclusion of subscription rights).

The Annual General Meeting held on 21 June 2018 authorized the Management Board pursuant to § 65 (1) 8, § 65 (1a) and § 65 (1b) of the AktG to purchase own shares and to retire them if appropriate without requiring any further prior resolutions to be passed by the Annual General Meeting. Own shares, whether already purchased or to be purchased, may not collectively exceed 10 per cent of the company's share capital. The authorization to purchase own shares expires 30 months after the date of the Annual General Meeting resolution, i.e. until 20 December 2020. The acquisition price for repurchasing the shares may be no lower than € 1 per share and no higher than 10 per cent above the average unweighted closing price over the 10 trading days prior to exercising this authorization. The authorization may be exercised in full or in part or also in several partial amounts, for one or more purposes – with the exception of securities trading – by the company, by a subsidiary (§ 189a 7 of the UGB) or by third parties for the account of the company or a subsidiary.

The Management Board was further authorized, pursuant to § 65 (1b) of the AktG, to decide, with the approval of the Supervisory Board, on the sale of own shares by means other than the stock exchange or a public tender, to the full or partial exclusion of shareholders' subscription rights, and to stipulate the terms of sale. Shareholders' subscription rights may only be excluded if the own shares are used to pay for a contribution in kind, to acquire enterprises, businesses, operations or stakes in one or several companies in Austria or abroad. This authorization may be exercised in whole, in part or in several partial amounts for one or more purposes by the company, a subsidiary (§ 189a 7 UGB) or by third parties for the account of the company or a subsidiary and remains in force for five years from the date of this resolution, i.e. until 20 June 2023.

This authorization replaces the authorization approved by the 16 June 2016 Annual General Meeting to purchase and retire own shares pursuant to § 65 (1) 8 of the AktG. No own shares have subsequently been purchased either on the basis of the now expired June 2016 authorization or the authorization from June 2018 which is now in effect.

The Annual General Meeting of 21 June 2018 also authorized the Management Board, under the provisions of § 65 (1) 7 of the AktG, to purchase own shares for the purpose of securities trading, which may also be conducted off-market, during a period of 30 months from the date of the resolution (i.e. until 20 December 2020), provided that the trading portfolio of shares purchased for this purpose does not at the end of any given day exceed 5 per cent of the company's respective share capital. The consideration for each share to be acquired must not be less than half the closing price at the Vienna Stock Exchange on the last day of trading preceding the acquisition and must not exceed twice the closing price at the Vienna Stock Exchange on the last day of trading preceding the acquisition. This authorization may be exercised in full or in part or also in several partial amounts by the company, by a subsidiary (§ 189a 7 UGB) or by third parties acting for the account of the company or a subsidiary.

(8) The following material agreements exist, to which the company is a party and which take effect, change or come to an end upon a change of control in the company as a result of a takeover bid:

- RBI is insured under a Group-wide D&O policy. Insurance cover would remain in place following a merger with another legal entity belonging to the RBI Group. In the event of a merger with a legal entity outside the RBI Group, the insurance policy would automatically cease at the end of the insurance period in which the merger took effect. In such cases, insurance cover only exists for claims for damages arising from breaches of obligations that occurred before the merger, which are reported to the insurer prior to any termination of RBI's Group-wide D&O insurance cover, and thereafter, within the agreed notification period of five years.
- RBI AG is a member of the Professional Association of Raiffeisen Banks. Upon a change in control of RBI AG which results in the attainment of control by shareholders outside of the Raiffeisen Banking Group Austria, membership of the Professional Association of Raiffeisen Banks and of the Raiffeisen Customer Guarantee Scheme Austria may be terminated. RBI AG continues to serve as the central institution of the Raiffeisen Banking Group at a national level. Upon a change in control of RBI AG, related contracts (membership of the liquidity group pursuant to § 27a of the BWG; membership of the federal IPS pursuant to Art. 113 (7) of the CRR) may end or change.
- The company's refinancing agreements and agreements concerning third-party financing for subsidiaries, which are guaranteed by the company, stipulate that the lenders can demand early repayment of the financing in the event of a change in control.

(9) There are no indemnification agreements between the company and its Management Board and Supervisory Board members or employees that would take effect in the event of a public takeover bid.

# Non-financial Performance Indicators

Pursuant to the Sustainability and Diversity Improvement Act (NaDiVeG), the consolidated non-financial statement, which has to be prepared in accordance with § 267a of the Austrian Commercial Code (UGB), is issued as an independent non-financial report (Sustainability Report). The report containing detailed information on sustainability management developments, will be published online - at [www.rbinternational.com](http://www.rbinternational.com) → About us → Sustainability Management - and also contains the disclosure for the parent company in accordance with § 243b of the UGB.

# Corporate Governance

The Corporate Governance Report is available on RBI's website ([www.rbinternational.com](http://www.rbinternational.com) → Investor Relations → Corporate Governance).

# Risk report

Active risk management is a core competency of RBI AG. In order to effectively identify, measure, and manage risks the bank continues to develop its comprehensive risk management system. Risk management is an integral part of overall bank management. In particular, in addition to legal and regulatory requirements, it takes into account the nature, scale, and complexity of the business activities and the resulting risks. The risk report describes the principles and organization of risk management and explains the current risk exposures in all material risk categories.

## Risk management principles

RBI AG has a system of risk principles and procedures in place for measuring and monitoring risk. It is aimed at controlling and managing the risks at all banks and specialist companies owned by the bank. The risk policies and risk management principles are determined by the Management Board of RBI AG. The bank's risk principles include the following:

- **Integrated risk management**  
Credit, country, market, liquidity, participation and operational risks are managed as main risks on a bank-wide basis. For this purpose, these risks are measured, limited, aggregated, and compared to available risk coverage capital.
- **Standardized methodologies**  
Risk measurement and risk limitation methods are standardized in order to ensure a consistent and coherent approach to risk management. This is efficient for the development of risk management methods and it forms the basis for consistent overall bank management across all countries and business segments in RBI AG.
- **Continuous planning**  
Risk strategies and risk capital are reviewed and approved in the course of the annual budgeting and planning process, whereby special attention is also paid to preventing risk concentrations.
- **Independent control**  
A clear personnel and organizational separation is maintained between business operations and any risk management or risk controlling activities.

- Ex ante and ex post control  
Risks are consistently measured within the scope of product selling and in risk-adjusted performance measurement. It is thereby ensured that business in general is conducted only having regard to risk-return considerations and that there are no incentives for taking high risks.

## Organization of risk management

The Management Board of RBI AG ensures the proper organization and ongoing development of risk management. It decides which procedures are to be employed for identifying, measuring, and monitoring risks, and makes steering decisions on the basis of the risk reports and analyses. Independent risk management units and special committees support the Management Board in implementing these tasks.

RBI AG's risk management functions are performed on different levels. RBI AG develops and implements the relevant concepts as the parent credit institution and in cooperation with the subsidiaries of the Group. The central risk management units are responsible for the adequate and appropriate implementation of the risk management processes throughout the company. In addition, they implement the risk policy in the respective risk categories and manage RBI AG's activities within the approved risk budget.

The central and independent risk controlling function under the Austrian Banking Act is performed by the Group Risk Controlling organizational area. It is responsible for developing the company-wide framework for overall bank risk management (integrating all risk types) and preparing independent and neutral reports on the risk profile for the Risk Committee of the Supervisory Board, for the Management Board, and for the heads of the individual business areas.

## Risk committees

The Group Risk Committee is the most senior decision-making body for all of the Group's risk-related topic areas. It decides on the risk management methods and on the control concepts used for the overall Group and for key subdivisions, and is responsible for ongoing development and implementation of methods and parameters for risk quantification and for refining steering instruments. This also includes the risk appetite, different risk budgets and limits at overall bank level and monitoring of the current risk situation with respect to internal capital adequacy and the corresponding risk limits. It approves risk management and controlling activities (e.g. allocation of risk capital) and advises the Management Board on these matters.

The Group Asset/Liability Committee assesses and manages the statement-of-financial-position structure and liquidity risks and defines the methodology for internal funds transfer pricing. In this context, it plays an important role in long-term funding planning and the hedging of structural interest rate and foreign exchange risks. The Capital Hedge Committee is a sub-committee of the Group Asset/Liability Committee and manages the currency risk of the capital position.

The Market Risk Committee controls market risks of trading and banking-book transactions and establishes corresponding limits and processes. In performing its control function, it relies in particular on profit and loss reports, the risks calculated and the limit utilization, as well as the results of scenario analyses and stress tests with respect to market risks.

The Credit Committees are staffed by front-office and back-office representatives with different participants depending on the customer segment (corporate customers, financial institutions and the public sector). They decide on the specific lending criteria for different customer segments and countries. Under the lending approval process and credit approval authority based on rating and exposure size, they also make all credit decisions relating to them.

The Problem Loan Committee is the most important committee in the assessment and decision-making process for problem customers. The Problem Loan Committee primarily comprises decision-making authorities (Management Boards) and is chaired by the Chief Risk Officer (CRO) of RBI AG. Additional voting members include Management Board members responsible for the customer divisions, the Chief Financial Officer (CFO) and the relevant division and department heads of Risk Management and Special Exposures Management (Workout).

The Securitization Committee is the decision-making committee for limit applications relating to securitization positions within the scope of the specific decision-making authority and for the development of proposals to modify the securitization strategy for the Management Board. The Securitization Committee also serves as a platform for the exchange of information pertaining to securitization positions and market developments.

The Group Operational Risk Management & Control Committee chaired by the CRO comprises representatives of the business areas (retail, market and corporate customers), as well as participants from Compliance, (including Financial Crime Management), Internal Control System (ICS), Operations, and Security and Risk Controlling. This committee is responsible for managing operational risk (including conduct risk) for the purpose of deriving and establishing an operational risk strategy based on the risk profile and business strategy and for making decisions concerning measures, controls and risk acceptance.

The Contingency/Recovery Committee is a decision-making body which is convened by the Management Board. The composition of the committee varies as circumstances require depending on the intensity and focus (e.g. capital and/or liquidity) requirements of the specific situation. The committee's core task is to maintain/restore financial stability as defined by the Federal Act on the Recovery and Resolution of Banks (BaSAG) and/or the Banking Recovery and Resolution Directive (BRRD) in the event of a critical financial situation.

### **Quality assurance and auditing**

Quality assurance with respect to risk management refers to ensuring the integrity, soundness, and accuracy of processes, models, calculations, and data sources. This is to ensure that RBI AG adheres to all legal requirements and that it can achieve the highest quality standards in its risk management practices.

All these aspects are coordinated by the Group Compliance division, which continuously analyzes the internal control system and – if actions are necessary for addressing any deficiencies – is also responsible for tracking their implementation.

Two very important functions in assuring independent auditing are performed by the Audit and Compliance divisions. Independent internal auditing is a legal requirement and a central pillar of the internal control system. Audit periodically assesses all business processes and thus contributes considerably to securing and improving them. It sends its reports directly to the Management Board of RBI AG, which discusses them on a regular basis in its board meetings.

The Compliance Office is responsible for all issues concerning compliance with legal requirements in addition to and as an integral part of the internal control system. This ensures that compliance with existing regulations in daily operations is monitored.

Moreover, an independent and objective audit, free of potential conflicts of interest, is carried out during the audit of the annual financial statements by the auditing companies.

## **Overall bank risk management**

Maintaining an adequate level of capital is a core objective of the Company's risk management. Capital requirements are monitored regularly on the basis of the risk determined by internal models; the choice of models used reflects the materiality of risks. This overall bank risk management approach takes account of capital requirements from a regulatory point of view (sustainability and going concern perspective) and from an economic standpoint (target rating perspective). It is therefore in line with the quantitative aspects of the internal capital adequacy assessment process (ICAAP) as legally required. RBI AG's overall ICAAP process is audited on an annual basis during the supervisory review process for the RBI credit institution group (RBI Kreditinstitutsgruppe).

The Risk Appetite Framework (RAF) limits the Group's overall risk in line with the strategic business objectives and allocates this to the various risk categories and business areas. The RAF's primary aim is to limit risk in particular in adverse scenarios and for major singular risks in such a way as to ensure compliance with regulatory minimum ratios. The RAF is therefore based on the ICAAP's three pillars (target rating, going-concern, sustainability perspective) and sets concentration risk limits for the risk types identified as significant in the risk assessment. In addition, the risk appetite decided by the Management Board and the Group's risk strategy and its implementation are reported regularly to the Supervisory Board's Risk Committee.



| Objective                  | Description of risk  | Measurement technique  | Confidence level  |
|----------------------------|--|--|---|
| Target rating perspective  | Risk of not being able to satisfy claims of the Group's senior debt holders            | Unexpected losses on an annual basis (economic capital) must not exceed the present value of equity and subordinated liabilities                       | 99.92 per cent as derived from the default probability implied by the target rating   |
| Going concern perspective  | Risk of not meeting the capital requirement as defined in the Basel III regulations    | Risk-taking capacity (projected earnings plus capital exceeding regulatory requirements) must not fall below the annualized value-at-risk of the Group | 95 per cent presuming the owners' willingness to inject additional own funds  |
| Sustainability perspective | Risk of falling short of a sustainable tier 1 capital ratio over a full business cycle | Capital and loss projection for a three-year planning period based on a severe macroeconomic downturn scenario   | 85-90 per cent based on the management decision that the Group might be required to temporarily reduce risks or raise additional core capital |

### Target rating perspective

Risks in the target rating perspective are measured on the basis of economic capital, which represents a comparable measure across all types of risks. It is calculated as the sum of unexpected losses stemming from different risk categories (credit, participation, market, liquidity, macroeconomic and operational risk as well as risk resulting from other tangible assets). In addition, a general buffer for other risks that are not explicitly quantified is held.

The following table shows the risk distribution of individual risk types to economic capital:

| in € thousand                      | 2018             | Percentage    | 2017             | Percentage    |
|------------------------------------|------------------|---------------|------------------|---------------|
| Participation risk                 | 1,957,305        | 62.2%         | 2,375,902        | 68.9%         |
| Credit risk corporate customers    | 511,939          | 16.3%         | 448,070          | 13.0%         |
| Market risk                        | 119,952          | 3.8%          | 77,670           | 2.3%          |
| Operational risk                   | 102,268          | 3.2%          | 86,162           | 2.5%          |
| Credit risk sovereigns             | 83,282           | 2.6%          | 117,988          | 3.4%          |
| Credit risk financial institutions | 74,081           | 2.4%          | 75,686           | 2.2%          |
| Other tangible assets              | 55,900           | 1.8%          | 42,655           | 1.2%          |
| Credit risk retail                 | 45,090           | 1.4%          | 0                | 0.0%          |
| Macroeconomic risk                 | 33,301           | 1.1%          | 43,019           | 1.2%          |
| CVA risk                           | 14,691           | 0.5%          | 17,084           | 0.5%          |
| Risk buffer                        | 149,890          | 4.8%          | 164,212          | 4.8%          |
| <b>Total</b>                       | <b>3,147,698</b> | <b>100.0%</b> | <b>3,448,448</b> | <b>100.0%</b> |

The objective of calculating the economic capital is to determine the amount of capital that would be required for servicing all customer and creditor claims including for such a rare loss event. To calculate the economic capital, RBI AG applies a confidence level of 99.92 per cent derived from the default probability implied by the target rating. Based on the empirical analysis of rating agencies, the selected confidence level corresponds to a rating of Single A.

Economic capital is an important instrument in overall bank risk management and is used in allocating risk budgets. Economic capital limits are allocated to individual business segments during the annual budgeting process and are supplemented for day-to-day management by volume, sensitivity, or value-at-risk limits. At RBI AG, this is planned on a revolving basis for the upcoming three years and incorporates the future development of economic capital as well as available internal capital. Economic capital thus substantially influences the plans for future lending activities and the overall limit for taking market risks.

Risk-adjusted performance measurement is also based on this risk measure. The ratio of the profitability of business units to the amount of economic capital attributable to such units is determined (risk-adjusted return on risk-adjusted capital, RORAC) to yield a comparable performance measure for all of the bank's business units. This measure is in turn used as an indicator in overall bank management, related capital allocation and in the compensation of executive management.

## Going concern perspective

Parallel to the target rating perspective, internal capital adequacy is also assessed with a focus on the uninterrupted operation of the bank on a going concern basis. The risk is compared to risk-taking capacity – having regard to regulatory capital and minimum capital requirements.

In line with this target, risk taking capacity is calculated as the amount of expected profits, expected impairment losses, and the excess of total capital (taking into account various limits on eligible capital). This capital amount is compared to the overall value-at-risk (including expected losses). Quantitative models used in the calculation are based on methods comparable (albeit with a lower 95 per cent confidence level) to those used in the target rating perspective. Using this approach, the bank ensures adequate regulatory capitalization (going concern) with the given probability.

## Sustainability perspective

The sustainability perspective is designed to ensure that RBI AG can maintain a sufficiently high tier 1 capital ratio at the end of the full multi-year planning period even if the macroeconomic environment deteriorates unexpectedly. The analysis of the sustainability perspective is based on a multi-year macroeconomic stress test which simulates hypothetical market developments in a significant, but realistic economic downturn. The risk parameters include: interest rates, foreign exchange rates and securities prices, as well as changes in default probabilities and rating migrations in the credit portfolio.

The main focus of this integrated stress test is on the ensuing tier 1 capital ratio at the end of the multi-year period. The ratio should not fall below a sustainable level and make it necessary for the bank to increase capital substantially or significantly reduce business activity. The current minimum amount of tier 1 capital is thus determined by the extent of the potential economic downturn. The need to allocate loan loss provisions, potential pro-cyclical effects that increase minimum regulatory capital requirements, the impact of foreign exchange fluctuations as well as other valuation and earnings effects are incorporated into this downturn scenario.

This perspective thus also complements traditional risk measurement based on the value-at-risk concept (which is mainly based on historical data). It is able to incorporate exceptional market situations that have not been observed in the past and it is possible to estimate the potential impact of such developments. The stress test also enables risk concentrations to be analyzed (e.g., individual positions, industries, or regions) and gives insight into profitability, liquidity and solvency under extreme situations. Based on these analyses, RBI AG's risk management actively manages portfolio diversification, for example through limits for total exposure in individual industry segments and countries or through ongoing adjustments to lending standards.

## Credit risk

RBI AG's credit risk stems mainly from default risks that arise from business with retail and corporate customers, other banks and sovereign borrowers. It is by far the most important risk category for RBI AG, which is also indicated by internal and regulatory capital requirements. Credit risk is therefore analyzed and monitored both on an individual loan and customer basis as well as on a portfolio basis. Credit risk management and lending decisions are based on the respective credit risk policies, credit risk manuals, and the tools and processes which have been developed for this purpose. The internal control system for credit risks includes different types of monitoring measures, which are tightly integrated into the workflows to be monitored – from the customer's initial credit application, to the bank's credit approval, and finally to the repayment of the loan.

No lending transaction is performed in the non-retail segments before the limit application process has been completed. This process applies not only to new lending, but also to increases in existing limits, roll-overs, overdrafts, and to cases in which the borrower's risk profile is no longer the same as the profile that formed the basis for the original lending decision (e.g., with respect to the financial situation of the borrower, purpose or collateral). It also applies to the setting of counterparty limits in trading and new issuance operations, other credit limits, and to participations.

Credit decisions are made within the context of a hierarchical competence authority scheme depending on the type and size of a loan. The approval of the business and the credit risk management divisions is always required for individual limit decisions and the regular rating renewals. If the individual decision-making parties disagree, the potential transaction has to be decided upon by the next higher-ranking credit authority.

In April, RBI AG concluded an agreement to sell the core banking operations of Raiffeisen Bank Polska S.A. by way of demerger to Bank BGZ BNP Paribas S.A., a subsidiary of BNP Paribas S.A. (BNP). RBI transferred the remaining operations of Raiffeisen Bank Polska S.A., mainly comprising the portfolio of retail foreign currency mortgage loans, to a Polish branch of RBI AG.

The following table shows total credit exposure by asset classes:

| in € thousand       | 2018              | Percentage    | 2017              | Percentage    |
|---------------------|-------------------|---------------|-------------------|---------------|
| Corporate customers | 34,248,392        | 46.9%         | 30,352,359        | 47.9%         |
| Project finance     | 2,285,772         | 3.1%          | 2,285,447         | 3.6%          |
| Retail customers    | 3,231,751         | 4.4%          | 0                 | 0.0%          |
| Banks               | 16,405,224        | 22.5%         | 18,919,400        | 29.9%         |
| Sovereigns          | 16,835,683        | 23.1%         | 11,775,979        | 18.6%         |
| <b>Total</b>        | <b>73,006,822</b> | <b>100.0%</b> | <b>63,333,185</b> | <b>100.0%</b> |

### Credit portfolio – Corporates

The internal rating models for corporate customers take into account qualitative parameters, various ratios from the statement of financial position and profit ratios covering different aspects of customer creditworthiness for various industries and countries. In addition, the model for smaller corporates also includes an account behavior component.

The following table shows the total credit exposure according to internal corporate ratings (large corporates, mid-market and small corporates). For presentation purposes, the individual grades of the rating scale are summarized into nine main rating grades.

| in € thousand |                                      | 2018              | Percentage    | 2017              | Percentage    |
|---------------|--------------------------------------|-------------------|---------------|-------------------|---------------|
| 1             | Minimal risk                         | 4,669,102         | 13.6%         | 4,234,841         | 14.0%         |
| 2             | Excellent credit standing            | 8,739,378         | 25.5%         | 7,338,638         | 24.2%         |
| 3             | Very good credit standing            | 6,764,990         | 19.8%         | 5,070,761         | 16.7%         |
| 4             | Good credit standing                 | 4,976,510         | 14.5%         | 5,610,697         | 18.5%         |
| 5             | Sound credit standing                | 5,787,680         | 16.9%         | 4,725,897         | 15.6%         |
| 6             | Acceptable credit standing           | 1,832,702         | 5.4%          | 1,695,912         | 5.6%          |
| 7             | Marginal credit standing             | 308,633           | 0.9%          | 231,779           | 0.8%          |
| 8             | Weak credit standing / sub-standard  | 331,012           | 1.0%          | 309,342           | 1.0%          |
| 9             | Very weak credit standing / doubtful | 35,010            | 0.1%          | 165,311           | 0.5%          |
| 10            | Default                              | 791,786           | 2.3%          | 958,895           | 3.2%          |
| NR            | Not rated                            | 11,589            | 0.0%          | 10,287            | 0.0%          |
| <b>Total</b>  |                                      | <b>34,248,392</b> | <b>100.0%</b> | <b>30,352,359</b> | <b>100.0%</b> |

The total credit exposure for corporate customers increased € 3,896,033 thousand compared to year-end 2017 to € 34,248,392 thousand.

The increase of € 1,400,740 thousand in rating grade 2 to € 8,739,378 thousand was mainly attributable to a rise in repo transactions in Austria. This was, however, partially offset by a decline in Great Britain. Moreover, credit financing increased in Austria and Germany. Rating grade 3 reported an increase of € 1,694,229 thousand to € 6,764,990 thousand, which was due to facility financing in Great Britain and Luxembourg and to credit financing in France, Austria, the Czech Republic and Switzerland. The increase of € 1,061,783 thousand in rating grade 5 to € 5,787,680 thousand resulted from a customer's rating shift in Singapore from rating grade 4 and from facility and credit financing.

The rating model for project finance has five grades and takes both individual probability of default and available collateral into account. The breakdown of the project finance exposure is shown in the table below:

| in € thousand |  | 2018             | Percentage    | 2017             | Percentage    |
|---------------|--|------------------|---------------|------------------|---------------|
| 6.1           | Excellent project risk profile - very low risk | 1,690,396        | 74.0%         | 1,563,041        | 68.4%         |
| 6.2           | Good project risk profile - low risk           | 225,636          | 9.9%          | 383,081          | 16.8%         |
| 6.3           | Acceptable project risk profile - average risk | 2,164            | 0.1%          | 26,108           | 1.1%          |
| 6.4           | Poor project risk profile - high risk          | 39,582           | 1.7%          | 4,757            | 0.2%          |
| 6.5           | Default  | 154,513          | 6.8%          | 193,811          | 8.5%          |
| NR            | Not rated                                      | 173,481          | 7.6%          | 114,650          | 5.0%          |
| <b>Total</b>  |  | <b>2,285,772</b> | <b>100.0%</b> | <b>2,285,447</b> | <b>100.0%</b> |

Credit exposure to loans reported under project financing showed an increase of € 325 thousand to € 2,285,772 thousand as at 31 December 2018.

## Credit portfolio – Retail customers

The following table shows the total credit exposure to retail customers according to internal ratings:

| in € thousand |                                      | 2018             | Percentage    |
|---------------|--------------------------------------|------------------|---------------|
| 0.5           | Minimal risk                         | 2,029,459        | 62.8%         |
| 1.0           | Excellent credit standing            | 346,466          | 10.7%         |
| 1.5           | Very good credit standing            | 83,580           | 2.6%          |
| 2.0           | Good credit standing                 | 100,462          | 3.1%          |
| 2.5           | Sound credit standing                | 70,450           | 2.2%          |
| 3.0           | Acceptable credit standing           | 126,938          | 3.9%          |
| 3.5           | Marginal credit standing             | 33,980           | 1.1%          |
| 4.0           | Weak credit standing / sub-standard  | 53,444           | 1.7%          |
| 4.5           | Very weak credit standing / doubtful | 10,909           | 0.3%          |
| 5.0           | Default                              | 243,197          | 7.5%          |
| NR            | Not rated                            | 132,867          | 4.1%          |
| <b>Total</b>  |                                      | <b>3,231,751</b> | <b>100.0%</b> |

## Credit portfolio – Banks

The following table shows the total credit exposure by internal rating for banks (excluding central banks). Due to the small number of customers (or observable defaults), the default probabilities of individual rating grades in this asset class are calculated based on a combination of internal and external data.

| in € thousand |                                      | 2018              | Percentage    | 2017              | Percentage    |
|---------------|--------------------------------------|-------------------|---------------|-------------------|---------------|
| 1             | Minimal risk                         | 2,561,163         | 15.6%         | 2,403,990         | 12.7%         |
| 2             | Excellent credit standing            | 6,680,272         | 40.7%         | 1,907,743         | 10.1%         |
| 3             | Very good credit standing            | 5,002,354         | 30.5%         | 12,181,881        | 64.4%         |
| 4             | Good credit standing                 | 1,030,192         | 6.3%          | 966,742           | 5.1%          |
| 5             | Sound credit standing                | 669,620           | 4.1%          | 804,530           | 4.3%          |
| 6             | Acceptable credit standing           | 266,501           | 1.6%          | 306,548           | 1.6%          |
| 7             | Marginal credit standing             | 15,516            | 0.1%          | 126,952           | 0.7%          |
| 8             | Weak credit standing / sub-standard  | 169,061           | 1.0%          | 203,879           | 1.1%          |
| 9             | Very weak credit standing / doubtful | 121               | 0.0%          | 4,183             | 0.0%          |
| 10            | Default                              | 8,288             | 0.1%          | 9,304             | 0.0%          |
| NR            | Not rated                            | 2,136             | 0.0%          | 3,649             | 0.0%          |
| <b>Total</b>  |                                      | <b>16,405,224</b> | <b>100.0%</b> | <b>18,919,400</b> | <b>100.0%</b> |

Total credit exposure amounted to € 16,405,224 thousand, a decrease of € 2,514,176 thousand compared to year-end 2017. The decrease was primarily due to the sale of the Polish core banking operations. In rating grades 2 and 3, shifts occurred that were largely attributable to improved ratings of Raiffeisen banks.

## Credit portfolio – Sovereigns

Another asset class is formed by central governments, central banks, and regional municipalities as well as other public sector entities. The table below provides a breakdown of the total credit exposure to sovereigns (including central banks) by internal rating:

| in € thousand |                                      | 2018              | Percentage    | 2017              | Percentage    |
|---------------|--------------------------------------|-------------------|---------------|-------------------|---------------|
| 1             | Minimal risk                         | 1,054,165         | 6.3%          | 1,410,877         | 12.0%         |
| 2             | Excellent credit standing            | 13,447,712        | 79.9%         | 8,384,364         | 71.2%         |
| 3             | Very good credit standing            | 930,867           | 5.5%          | 585,005           | 5.0%          |
| 4             | Good credit standing                 | 693,841           | 4.1%          | 774,813           | 6.6%          |
| 5             | Sound credit standing                | 490,222           | 2.9%          | 442,934           | 3.8%          |
| 6             | Acceptable credit standing           | 169,494           | 1.0%          | 143,763           | 1.2%          |
| 7             | Marginal credit standing             | 19,057            | 0.1%          | 7,138             | 0.1%          |
| 8             | Weak credit standing / sub-standard  | 3,836             | 0.0%          | 16,261            | 0.1%          |
| 9             | Very weak credit standing / doubtful | 26,488            | 0.2%          | 10,755            | 0.1%          |
| 10            | Default                              | 0                 | 0.0%          | 70                | 0.0%          |
| NR            | Not rated                            | 0                 | 0.0%          | 0                 | 0.0%          |
| <b>Total</b>  |                                      | <b>16,835,683</b> | <b>100.0%</b> | <b>11,775,979</b> | <b>100.0%</b> |

Credit exposure to sovereigns increased € 5,059,704 thousand to € 16,835,683 thousand compared to year-end 2017. The increase of € 5,063,348 thousand in rating grade A2 to € 13,447,712 thousand was due to deposits at the Austrian National Bank.

## Credit portfolio management

RBI AG's credit portfolio is managed, among other factors, on the basis of the portfolio strategy. This limits the exposure to different countries, industries and product types to avoid undesired risk concentrations. In addition, the long-term opportunities in the single markets are regularly analyzed. This enables future lending activities to be strategically repositioned at an early stage.

RBI AG's credit portfolio is broadly diversified by region and sector. The geographical breakdown of the loans on and off the statement of financial position reflects the broad diversification of the credit business in the European markets. These loans are broken down by region according to the customer's country of risk as follows (countries with credit exposure greater than € 1 billion are shown separately):

| in € thousand  | 2018              | Percentage    | 2017 <sup>1</sup> | Percentage    |
|----------------|-------------------|---------------|-------------------|---------------|
| Austria        | 32,145,939        | 44.0%         | 25,750,344        | 40.7%         |
| Germany        | 7,889,752         | 10.8%         | 7,981,841         | 12.6%         |
| Great Britain  | 4,753,446         | 6.5%          | 4,940,076         | 7.8%          |
| Poland         | 4,527,834         | 6.2%          | 2,289,612         | 3.6%          |
| France         | 3,411,128         | 4.7%          | 2,311,383         | 3.6%          |
| Swiss          | 2,090,161         | 2.9%          | 2,012,461         | 3.2%          |
| Luxembourg     | 1,621,344         | 2.2%          | 921,161           | 1.5%          |
| Russia         | 1,461,724         | 2.0%          | 1,701,516         | 2.7%          |
| USA            | 1,431,375         | 2.0%          | 1,710,219         | 2.7%          |
| Far East       | 1,416,584         | 1.9%          | 1,340,508         | 2.1%          |
| Czech Republic | 1,382,293         | 1.9%          | 1,354,654         | 2.1%          |
| Romania        | 1,193,745         | 1.6%          | 1,223,879         | 1.9%          |
| Netherlands    | 1,127,720         | 1.5%          | 1,259,158         | 2.0%          |
| Spain          | 1,014,978         | 1.4%          | 787,075           | 1.2%          |
| Others         | 7,538,798         | 10.3%         | 7,749,297         | 12.2%         |
| <b>Total</b>   | <b>73,006,822</b> | <b>100.0%</b> | <b>63,333,185</b> | <b>100.0%</b> |

<sup>1</sup> Adjustment of prior-year figures due to change from risk country to risk country having regard to guarantor

RBI AG's loan portfolio grew € 9,673,637 thousand to € 73,006,822 thousand. Austria reported the biggest increase of € 6,395,595 thousand to € 32,145,939 thousand, which reflected an increase in deposits at the Austrian National Bank and credit financing. In Poland, the increase of € 2,238,222 thousand to € 4,527,834 thousand resulted from the transfer of the remaining operations of Raiffeisen Bank Polska S.A., which mainly comprised the portfolio of retail foreign currency mortgage loans, to the Polish branch of RBI AG. However, the increase was partially offset by a decline in credit financing. France reported an increase of € 1,099,745 thousand to € 3,411,128 thousand. This was due to an increase in the bonds portfolio, facility and credit financing and money market and repo transactions. Luxembourg reported a rise of € 700,183 thousand to € 1,621,344 thousand, which was due to credit and facility financing and an increase in the bonds portfolio.

Risk policies and the assessment of credit ratings at RBI AG also take account of the borrowers' industries. Banking and insurance represents the largest industry class in the credit portfolio. However, this is largely attributable to exposures to members of the Austrian Raiffeisen Group. Sovereigns mainly includes securities of the Republic of Austria as issuer.

The following table sets out the credit exposure broken down by customers' industry classification:

| in € thousand  | 2018              | Percentage    | 2017              | Percentage    |
|--|-------------------|---------------|-------------------|---------------|
| Financial Intermediation   | 32,924,066        | 45.1%         | 29,557,283        | 46.7%         |
| Real estate, renting and business activities   | 9,155,982         | 12.5%         | 8,794,547         | 13.9%         |
| Public administration and defence, compulsory social security                                      | 7,285,955         | 10.0%         | 6,840,031         | 10.8%         |
| Manufacturing  | 6,635,667         | 9.1%          | 5,847,157         | 9.2%          |
| Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods | 6,348,130         | 8.7%          | 5,711,127         | 9.0%          |
| Agriculture, hunting and forestry; fishing; mining and quarrying                                   | 5,522             | 0.0%          | 1,373,671         | 2.2%          |
| Construction   | 1,396,111         | 1.9%          | 948,663           | 1.5%          |
| Transport, storage and communication   | 939,051           | 1.3%          | 877,358           | 1.4%          |
| Education; health and social work; other community, social and personal service activities         | 855,060           | 1.2%          | 677,820           | 1.1%          |
| Electricity, gas and water supply  | 1,144,658         | 1.6%          | 621,703           | 1.0%          |
| Private households   | 3,077,530         | 4.2%          | 0                 | 0.0%          |
| Others   | 3,239,090         | 4.4%          | 2,083,826         | 3.3%          |
| <b>Total</b>   | <b>73,006,822</b> | <b>100.0%</b> | <b>63,333,185</b> | <b>100.0%</b> |

A more detailed credit portfolio analysis is based on individual customer ratings. Customer ratings are tailor-made and are therefore carried out separately for different asset classes. Internal risk classification models (rating and scoring models), which are validated by a central organization unit, are used. The rating models in the main non-retail segments – corporates and financial institutions – provide for 27 rating grades, and in the public sector for ten rating grades. Rating and validation software tools are available for rating preparation and validation (e.g. business valuation, rating and default database).

Collateralization is one of the main strategies and an actively pursued measure for reducing potential credit risks. The value of collateral and the effects of other risk mitigation techniques are determined during the limit application process. The risk mitigation effect taken into account is the value that RBI AG expects to receive when it sells the collateral within a reasonable period. Types of eligible collateral are defined in the collateral list and relevant valuation guidelines. The collateral value is calculated according to uniform methods, including standardized calculation formulas based on market values, predefined minimum discounts, and expert assessments.

## Credit default and workout process

The credit portfolio and individual borrowers are subject to constant monitoring. The main objectives of monitoring are to ensure that the borrower meets the terms and conditions of the contract and to keep track of the borrower's financial position. Such a review is conducted at least once annually in the non-retail asset classes (corporates, financial institutions, and sovereigns). This includes a rating review and the revaluation of financial and tangible collateral.

Problem loans (where debtors might run into material financial difficulties or a delayed payment is expected) need special treatment. In non-retail divisions, problem loan committees make decisions on problematic exposures. If restructuring is necessary, problem loans are assigned either to a designated specialist or to a restructuring unit (workout department). Involving employees of the workout departments at an early stage can help reduce losses from problem loans.

According to Article 178 CRR, a default and thus non-performing loan (NPL) is defined as a case in which a specific debtor is unlikely to pay its credit obligations to the bank in full, or a case in which the debtor is overdue more than 90 days on any material credit obligation. Twelve indicators have been defined to identify a default event in the non-retail segment. These include: a customer is involved in insolvency or similar proceedings; an impairment provision has been allocated or a direct write-off has been taken; credit risk management has judged that a customer account receivable is not wholly recoverable; the Workout unit is considering stepping in to help a customer regain its financial soundness.



The following table shows the share of non-performing loans in the defined asset classes loans and advances to customers and loans and advances to banks as reported in the statement of financial position (excluding items off the statement of financial position):

| in € thousand                | NPL              |                  | NPL ratio   |             | NPL Coverage ratio |              |
|------------------------------|------------------|------------------|-------------|-------------|--------------------|--------------|
|                              | 2018             | 2017             | 2018        | 2017        | 2018               | 2017         |
| Other financial corporations | 52,100           | 39,714           | 0.7%        | 0.7%        | >100%              | >100%        |
| Non financial corporations   | 871,023          | 1,098,698        | 6.1%        | 9.0%        | 57.9%              | 44.4%        |
| Households                   | 173,497          | 743              | 5.5%        | 9.1%        | 78.3%              | >100%        |
| <b>Total non-banks</b>       | <b>1,096,621</b> | <b>1,139,224</b> | <b>4.3%</b> | <b>5.9%</b> | <b>63.3%</b>       | <b>47.4%</b> |
| Banks                        | 7,757            | 9,299            | -           | 0.1%        | -                  | 99.4%        |
| <b>Total</b>                 | <b>1,104,378</b> | <b>1,148,523</b> | <b>3.9%</b> | <b>4.2%</b> | <b>63.6%</b>       | <b>47.8%</b> |

The following table shows the development of impairment losses on loans and provisions for liabilities off the statement of financial position during the financial year and the corresponding asset classes:

| in € thousand                               | As at<br>1/1/2018 | Additions<br>due to<br>merger | Allocation     | Release          | Usage            | Reclassifications,<br>exchange<br>differences <sup>1</sup> | As at          |
|---|-------------------|-------------------------------|----------------|------------------|------------------|--|----------------|
|   |                   |                               |                |                  |                  |  | 31/12/2018     |
| <b>Individual loan loss provisions</b>      | <b>548,193</b>    | <b>142,393</b>                | <b>383,352</b> | <b>(368,091)</b> | <b>(109,459)</b> | <b>247,691</b>   | <b>844,079</b> |
| Banks                                       | 8,594             | 0                             | 140            | (6,549)          | 4,663            | 328  | 7,175          |
| Corporate customers                         | 495,568           | 60,893                        | 357,191        | (309,279)        | (113,410)        | 247,193  | 738,156        |
| Retail customers                            | 817               | 81,398                        | 14,225         | (69)             | (712)            | (356)  | 95,302         |
| Sovereigns                                  | 0                 | 0                             | 0              | 0                | 0                | 0  | 0              |
| Off-balance sheet obligations               | 43,215            | 102                           | 11,797         | (52,193)         | 0                | 526  | 3,447          |
| <b>Portfolio-based loan loss provisions</b> | <b>24,111</b>     | <b>44,166</b>                 | <b>123,134</b> | <b>(84,618)</b>  | <b>0</b>         | <b>55</b>  | <b>106,848</b> |
| Banks                                       | 339               | 0                             | 2,547          | (1,905)          | 0                | (39)   | 941            |
| Corporate customers                         | 17,302            | 6,995                         | 68,912         | (43,646)         | 0                | 258  | 49,821         |
| Retail customers                            | 438               | 37,139                        | 12,155         | (8,696)          | 0                | (255)  | 40,781         |
| Sovereigns                                  | 32                | 0                             | 392            | (144)            | 0                | 0  | 280            |
| Off-balance sheet obligations               | 6,000             | 32                            | 39,129         | (30,227)         | 0                | 91   | 15,025         |
| <b>Total</b>                                | <b>572,304</b>    | <b>186,559</b>                | <b>506,486</b> | <b>(452,708)</b> | <b>(109,459)</b> | <b>247,746</b>   | <b>950,927</b> |

<sup>1</sup> Includes reclassifications of provisions, changes to customer categories and changes to ILLP booked through net interest income. Includes the reversal of a write-off amounting to € 152.1 million from 2017.

## Country risk

Country risk includes transfer and convertibility risks as well as political risk. It arises from cross-border transactions and direct investments in foreign countries. RBI AG's business activities in the converging Central, Eastern European and Asia markets expose it to this risk. In those markets, political and economic risks are to some extent still considered to be significant.

RBI AG's active country-risk management is based on the country risk policy, which is set by the Management Board. This policy is part of the credit portfolio limit system and sets a strict limitation on cross-border risk exposure to individual countries. In day-to-day work, business units therefore have to submit limit applications for the respective countries for all cross-border transactions in addition to the limit applications for specific customers. A model which takes into account the internal rating for the sovereign, the size of the country, and RBI AG's own capitalization is applied to determine the absolute limit for individual countries.

Country risk is also reflected through the internal funds transfer pricing system in product pricing and in risk-adjusted performance measurement. In this way, the bank offers the business units an incentive to hedge country risks by seeking insurance (e.g. from export credit insurance organizations) or guarantors in third countries. The insights gained from the country risk analysis are not only used to limit total cross-border exposure, but also to cap total credit exposure in each individual country (i.e. including the exposure that is funded by local deposits). RBI AG thus realigns its business activities to the expected economic development in different markets and enhances the broad diversification of its credit portfolio.

## Counterparty credit risk

The default of a counterparty in a derivative, repurchase, securities or commodities lending or borrowing transaction can lead to losses from reestablishing an equivalent contract. At RBI AG, this risk is measured by the mark-to-market approach where a predefined buffer is added to the current positive fair value of the contract in order to account for potential future changes. The total amount of the potential expected credit exposures from derivatives transactions determined in this way is set out in the tables of the individual customer segments. For internal management purposes, potential price changes, which affect the fair value of an instrument, are calculated specifically for different contract types based on historical market price changes.

For derivative contracts, the standard limit approval process applies; the same risk classification, limitation, and monitoring procedures as in traditional lending are used. Credit risk mitigation instruments such as netting agreements and collateralization represent an important strategy for reducing counterparty credit risk. In general, RBI AG strives to conclude standardized ISDA master agreements with all major counterparties for derivative transactions to perform close-out netting and to agree on credit support annexes (CSA) for full risk coverage for positive fair values on a daily basis.

## Participation risk

The risks from listed and unlisted participations are also considered to be part of the banking book. They are reported separately under this risk category. Most of RBI AG's direct or indirect participations are fully consolidated in the consolidated financial statements and their risks are therefore captured in detail. Accordingly, the management, measurement and monitoring methods described for the other types of risk are used for the risks arising out of such participations.

The roots of participation risk and default risk are similar: a deterioration in the financial situation of a participation is normally followed by a rating downgrade (or default) of that unit. The calculation of the value-at-risk and of the economic capital for participations is based on an extension of the credit risk approach according to Basel III.

RBI AG's participations are managed by RBI Group Participations. It monitors the risks that arise from long-term participations in equity and is also responsible for the ensuing results. New investments are made only by RBI AG's Management Board on the basis of a separate due diligence.

## Market risk

RBI AG defines market risk as the risk of possible losses arising from changes in market prices of trading and banking book positions. Market risk is determined by fluctuations in exchange rates, interest rates, credit spreads, equity and commodity prices, and other relevant market parameters (e.g. implied volatilities).

Market risks from the customer divisions are transferred to the Treasury division by using the transfer price method. Treasury is responsible for managing these structural market risks and for complying with the bank's overall limit. The Capital Markets division comprises proprietary trading, market making, and customer business with money market and capital market products.

## Organization of market risk management

RBI AG measures, monitors, and manages all market risks for the bank as a whole.

The Market Risk Committee is responsible for strategic market risk management. It is responsible for managing and controlling all market risks. The bank's overall limit is set by the Management Board on the basis of the risk-taking capacity and income budget. This limit is apportioned to sub-limits in coordination with business divisions according to strategy, business model and risk appetite.

The Market Risk Management department ensures that the business volume and product range comply with the defined and agreed strategy and risk appetite. It is responsible for developing and enhancing risk management processes, manuals, measurement techniques, risk management infrastructure and systems for all market risk categories and secondary credit risks arising from market price changes in derivative transactions. In addition, the department independently measures and reports all market risks on a daily basis.

All products in which open positions can be held are listed in the product catalog. New products are added to this list only after successfully completing the *product approval process*. Product applications are investigated thoroughly for any risks. They are approved only if the new products can be implemented in the bank's front-office and back-office (and risk management) systems respectively.

### Limit system

RBI AG uses a comprehensive risk management approach for trading and banking books (total-return approach). Market risks are managed consistently in all trading and banking books. The following values are measured and limited on a daily basis in the market risk management system:

- Value-at-Risk (VaR) confidence level 99 per cent, horizon one day  
The VaR limit caps the maximum loss which is not exceeded with a confidence level of 99 per cent within one day. It is the main steering instrument in liquid markets and normal market situations.
- Sensitivities (to changes in exchange rates, interest rates, gamma, vega, equity and commodity prices).  
Sensitivity limits are designed to avoid concentrations in normal market situations and represent the main steering instrument in stress situations or in illiquid markets or those markets that are structurally difficult to measure.
- Stop loss  
This limit strengthens traders' management of their proprietary positions to ensure that they do not allow losses to accumulate, but strictly limit them instead.

A comprehensive stress testing concept complements this multi-level limit system. It simulates potential present value changes of defined scenarios for the total portfolio. The risk concentrations revealed by these stress tests are reported to the Market Risk Committee and limits are set to reflect them. Stress test reports for individual portfolios are included in daily market risk reports.

### Value-at-Risk (VaR)

VaR is measured based on a hybrid approach in which 5,000 scenarios are simulated. The approach combines the advantages of a historical simulation and a Monte Carlo simulation. The market parameters used are based on 500-day historical time series. Distribution assumptions include modern features such as volatility declustering and random time change in order to accurately reproduce fat-tailed and asymmetrical distributions. The Austrian Financial Market Authority has approved this model as an internal model for calculating total capital requirements for market risks. Value-at-risk results are used for economic capital allocation as well as risk limitation purposes.

Structural interest rate risks and spread risks from bond books maintained as a liquidity buffer dominate RBI AG's VaR.

| Trading book VaR 99% 1d<br>in € thousand | VaR as of<br>31/12/2018 | Average VaR | Maximum VaR | Minimum VaR |
|--|-------------------------|-------------|-------------|-------------|
| Currency risk                            | 678                     | 1,883       | 4,864       | 413         |
| Interest rate risk                       | 1,351                   | 828         | 1,733       | 389         |
| Credit spread risk                       | 728                     | 719         | 1,611       | 431         |
| Vega risk                                | 78                      | 142         | 405         | 62          |
| Basis risk                               | 775                     | 594         | 1,265       | 276         |
| Total                                    | 1,262                   | 2,299       | 4,979       | 1,200       |

| Trading book VaR 99% 1d<br>in € thousand | VaR as of<br>31/12/2017 | Average VaR | Maximum VaR | Minimum VaR |
|--|-------------------------|-------------|-------------|-------------|
| Currency risk                            | 806                     | 1,587       | 8,468       | 415         |
| Interest rate risk                       | 1,489                   | 1,052       | 2,418       | 420         |
| Credit spread risk                       | 638                     | 664         | 1,262       | 321         |
| Vega risk                                | 87                      | 181         | 400         | 80          |
| Basis risk                               | 1,120                   | 434         | 1,120       | 321         |
| Total                                    | 1,910                   | 2,380       | 9,084       | 1,298       |

| Banking book VaR 99% 1d<br>in € thousand | VaR as of<br>31/12/2018 | Average VaR | Maximum VaR | Minimum VaR |
|--|-------------------------|-------------|-------------|-------------|
| Currency risk                            | 0                       | 0           | 72          | 0           |
| Interest rate risk                       | 1,803                   | 2,710       | 5,815       | 700         |
| Credit spread risk                       | 3,745                   | 3,436       | 6,447       | 2,282       |
| Vega risk                                | 86                      | 197         | 664         | 82          |
| Basis risk                               | 1,541                   | 1,534       | 2,432       | 1,032       |
| Total                                    | 4,711                   | 4,844       | 7,289       | 3,634       |

| Banking book VaR 99% 1d<br>in € thousand | VaR as of<br>31/12/2017 | Average VaR | Maximum VaR | Minimum VaR |
|--|-------------------------|-------------|-------------|-------------|
| Currency risk                            | 0                       | 0           | 55          | 0           |
| Interest rate risk                       | 1,563                   | 1,858       | 6,568       | 761         |
| Credit spread risk                       | 4,713                   | 4,821       | 12,760      | 1,323       |
| Vega risk                                | 195                     | 1,137       | 4,011       | 178         |
| Basis risk                               | 1,706                   | 1,207       | 1,893       | 895         |
| Total                                    | 5,148                   | 6,828       | 21,319      | 3,097       |

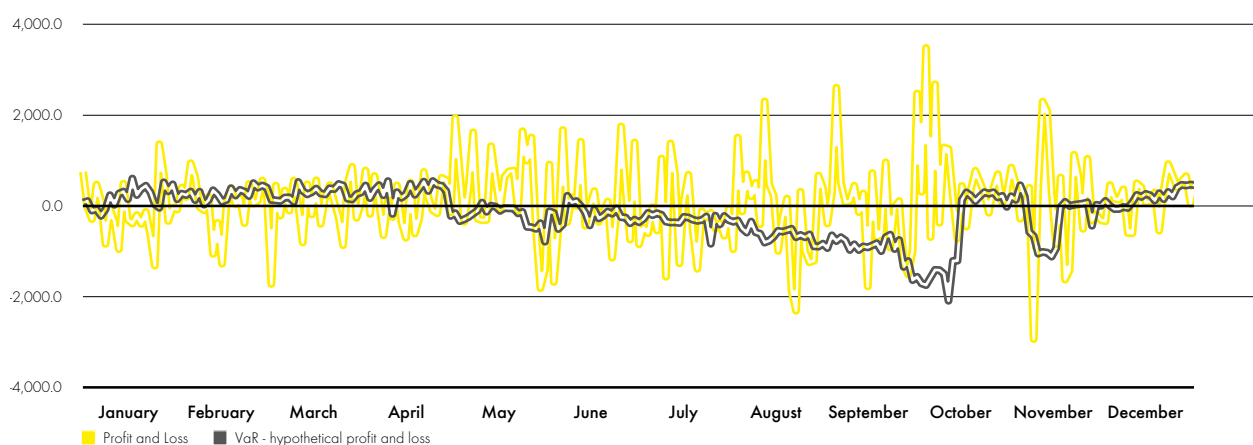
| Total VaR 99% 1d<br>in € thousand | VaR as of<br>31/12/2018 | Average VaR | Maximum VaR | Minimum VaR |
|-----------------------------------|-------------------------|-------------|-------------|-------------|
| Currency risk                     | 678                     | 1,883       | 4,864       | 413         |
| Interest rate risk                | 2,322                   | 2,741       | 5,981       | 682         |
| Credit spread risk                | 3,842                   | 3,466       | 5,946       | 2,260       |
| Vega risk                         | 100                     | 257         | 694         | 98          |
| Basis risk                        | 1,841                   | 1,763       | 2,754       | 1,219       |
| Total                             | 4,470                   | 5,217       | 7,616       | 3,679       |

| Total VaR 99% 1d<br>in € thousand | VaR as of<br>31/12/2017 | Average VaR | Maximum VaR | Minimum VaR |
|-----------------------------------|-------------------------|-------------|-------------|-------------|
| Currency risk                     | 806                     | 1,587       | 8,468       | 415         |
| Interest rate risk                | 2,285                   | 1,758       | 4,736       | 924         |
| Credit spread risk                | 4,794                   | 4,984       | 12,791      | 1,468       |
| Vega risk                         | 183                     | 1,129       | 4,091       | 177         |
| Basis risk                        | 2,291                   | 1,305       | 2,291       | 940         |
| Total                             | 5,634                   | 7,091       | 20,573      | 3,331       |

Besides qualitative analysis of profitability, backtesting and statistical validation techniques are regularly used to monitor the risk measurement methods employed. If model weaknesses are identified, the methods are adjusted. The following chart compares VaR with the hypothetical profits and losses for RBI AG's regulatory trading book on a daily basis. VaR denotes the maximum loss that will not be exceeded with a 99 per cent confidence level within a day. The respective hypothetical profit or loss represents that which would have been realized due to changes in the actual market movements on the next day. Last year there were no hypothetical backtesting exceptions.

### Value-at-Risk and theoretical market price changes of trading book

in € thousand



## Interest rate risk in the trading book

The following table shows the largest present value changes in the trading book given a parallel one-basis-point interest rate increase (significant currencies shown separately). The trading book strategy remains largely unchanged.

| 2018<br>in € thousand | Total | < 3 m | > 3 to 6<br>months | > 6 to<br>12 m | > 1 to<br>2 y | > 2 to<br>3 y | > 3 to<br>5 y | > 5 to<br>7 y | > 7<br>to 10 y | > 10 to<br>15 y | > 15 to<br>20 y | >20y |
|-----------------------|-------|-------|--------------------|----------------|---------------|---------------|---------------|---------------|----------------|-----------------|-----------------|------|
| CHF                   | (1)   | (10)  | (2)                | 14             | (2)           | 3             | (3)           | 5             | (6)            | 0               | 1               | 0    |
| CNY                   | 4     | 0     | 0                  | 4              | 0             | 0             | 0             | 0             | 0              | 0               | 0               | 0    |
| CZK                   | 8     | 9     | (9)                | 2              | 5             | (2)           | 1             | (1)           | 3              | 0               | 0               | 0    |
| EUR                   | (207) | 20    | (18)               | 23             | (38)          | (29)          | (8)           | (59)          | 41             | (30)            | (20)            | (87) |
| GBP                   | (1)   | 0     | 0                  | (1)            | 0             | 0             | 0             | 0             | 0              | 0               | 0               | 0    |
| HRK                   | 0     | 0     | 0                  | 0              | 0             | 1             | (2)           | 0             | 0              | 0               | 0               | 0    |
| HUF                   | 0     | (6)   | 2                  | 3              | 1             | (4)           | 7             | 2             | (4)            | 0               | 0               | 0    |
| NOK                   | 1     | 0     | 0                  | 0              | 0             | (2)           | 2             | 0             | 0              | 0               | 0               | 0    |
| PLN                   | 34    | (3)   | 15                 | 5              | 8             | (8)           | 2             | 0             | 16             | 0               | 0               | 0    |
| RON                   | (2)   | (1)   | 1                  | 0              | 4             | 6             | 0             | (5)           | (1)            | (7)             | 0               | 0    |
| RUB                   | (8)   | 1     | (1)                | 3              | (3)           | (1)           | (6)           | 0             | 0              | 0               | 0               | 0    |
| USD                   | (12)  | (6)   | 1                  | (5)            | 5             | (13)          | (12)          | 2             | 10             | (10)            | 14              | 2    |
| Others                | (1)   | 0     | 0                  | 0              | 0             | 0             | (1)           | 0             | 0              | 0               | 0               | 0    |

| 2017<br>in € thousand | Total | < 3 m | > 3 to 6<br>months | > 6 to<br>12 m | > 1 to<br>2 y | > 2 to<br>3 y | > 3 to<br>5 y | > 5 to<br>7 y | > 7<br>to 10 y | > 10 to<br>15 y | > 15 to<br>20 y | >20y |
|-----------------------|-------|-------|--------------------|----------------|---------------|---------------|---------------|---------------|----------------|-----------------|-----------------|------|
| CHF                   | 3     | 5     | 0                  | 0              | 5             | (5)           | (1)           | 1             | (1)            | 0               | 1               | 0    |
| CNY                   | 4     | 0     | 0                  | 4              | 0             | 0             | 0             | 0             | 0              | 0               | 0               | 0    |
| CZK                   | 24    | 4     | (3)                | (3)            | 14            | 7             | (1)           | 1             | 4              | 0               | 0               | 0    |
| EUR                   | (65)  | 7     | (28)               | 37             | (78)          | 59            | 48            | (66)          | 40             | (39)            | (9)             | (36) |
| GBP                   | (1)   | 0     | 0                  | (1)            | 0             | 0             | 0             | 0             | 0              | 0               | 0               | 0    |
| HRK                   | 0     | 0     | 0                  | 0              | 0             | 1             | 1             | (1)           | 0              | 0               | 0               | 0    |
| HUF                   | 21    | (3)   | (9)                | 4              | 22            | 3             | 2             | 17            | (15)           | 0               | 0               | 0    |
| NOK                   | 1     | 0     | 0                  | 1              | 0             | 0             | 1             | 0             | 0              | 0               | 0               | 0    |
| PLN                   | 12    | 1     | (2)                | 1              | 9             | 1             | 0             | 4             | (3)            | 0               | 0               | 0    |
| RON                   | 1     | 0     | 0                  | (1)            | 2             | 0             | 3             | (3)           | 0              | 0               | 0               | 0    |
| RUB                   | (3)   | (2)   | 2                  | (2)            | (2)           | 1             | 1             | 0             | 0              | 0               | 0               | 0    |
| USD                   | 9     | (3)   | 2                  | 6              | (15)          | (9)           | 1             | 21            | (18)           | (15)            | 25              | 13   |
| Others                | 1     | 0     | 0                  | 0              | (2)           | 0             | (1)           | 1             | 3              | 0               | 0               | 0    |

## Interest rate risk in the banking book

As a result of different maturities and repricing schedules of assets and the corresponding liabilities (i.e. deposits and refinancing on debt and capital markets), RBI AG is subject to interest rate risk. This risk arises in particular from different interest rate sensitivities, rate adjustments, and other optionality of expected cash flows. Interest rate risk in the banking book exists in the euro and US dollar as major currencies.

This risk is mainly hedged by a combination of transactions on and off the statement of financial position, in particular interest rate swaps and - to a lesser extent - interest rate forwards and interest rate options are also used. Management of the statement of financial position is a core task of the Treasury division, which is supported by the Group Asset/Liability Committee. The latter uses scenarios and interest income simulations that ensure proper interest rate sensitivity in line with expected changes in market rates and the overall risk appetite.

Interest rate risk in the banking book is measured not only in a value-at-risk framework, but is also managed by the traditional tools of nominal and interest rate gap analyses. The following table shows the change in the present value of the banking book given a one-basis-point parallel interest rate increase. The main currencies are shown separately.

| 2018<br>in € thousand | Total | < 3<br>m | > 3 to 6<br>months | > 6 to<br>12 m | > 1 to<br>2 y | > 2 to<br>3 y | > 3 to<br>5 y | > 5 to<br>7 y | > 7<br>to 10 y | > 10 to<br>15 y | > 15 to<br>20 y | >20y |
|-----------------------|-------|----------|--------------------|----------------|---------------|---------------|---------------|---------------|----------------|-----------------|-----------------|------|
| CHF                   | (367) | 48       | 1                  | (1)            | (9)           | (9)           | (34)          | (40)          | (84)           | (134)           | (82)            | (23) |
| CNY                   | (3)   | 0        | (1)                | (2)            | 0             | 0             | 0             | 0             | 0              | 0               | 0               | 0    |
| CZK                   | 23    | 1        | 0                  | (8)            | 13            | 5             | 13            | 0             | 1              | (2)             | 0               | 0    |
| EUR                   | 629   | (58)     | (12)               | 453            | (268)         | 62            | 21            | 89            | 276            | 145             | (51)            | (27) |
| GBP                   | 3     | (3)      | 9                  | 0              | 0             | 0             | (1)           | (1)           | 0              | 0               | 0               | 0    |
| HUF                   | 2     | 0        | 0                  | 0              | (1)           | 0             | 2             | 0             | 0              | 0               | 0               | 0    |
| PLN                   | 8     | 2        | 0                  | 1              | 2             | 7             | 5             | (5)           | (3)            | (1)             | 0               | 0    |
| SGD                   | 0     | 0        | 0                  | 1              | 0             | 0             | 0             | 0             | 0              | 0               | 0               | 0    |
| USD                   | (140) | 11       | (24)               | (1)            | (14)          | (11)          | (18)          | (6)           | (13)           | (40)            | (24)            | 0    |
| Others                | (16)  | 0        | 0                  | 1              | 1             | (1)           | (3)           | (11)          | (3)            | 0               | 0               | 0    |

| 2017<br>in € thousand | Total | < 3<br>m | > 3 to 6<br>months | > 6 to<br>12 m | > 1 to<br>2 y | > 2 to<br>3 y | > 3 to<br>5 y | > 5 to<br>7 y | > 7<br>to 10 y | > 10 to<br>15 y | > 15 to<br>20 y | >20y |
|-----------------------|-------|----------|--------------------|----------------|---------------|---------------|---------------|---------------|----------------|-----------------|-----------------|------|
| CHF                   | (14)  | 6        | 0                  | 1              | 1             | 2             | 3             | (2)           | (7)            | (17)            | 0               | 0    |
| CNY                   | (3)   | 0        | 0                  | (3)            | 0             | 0             | 0             | 0             | 0              | 0               | 0               | 0    |
| CZK                   | 12    | 1        | 1                  | 0              | 0             | 7             | 6             | 0             | (2)            | 0               | 0               | 0    |
| EUR                   | 311   | (12)     | 1                  | 200            | (18)          | 22            | 125           | 117           | 13             | (28)            | (19)            | (90) |
| GBP                   | (4)   | 0        | 0                  | 0              | 0             | 0             | (1)           | (1)           | (1)            | 0               | 0               | 0    |
| HUF                   | 1     | 1        | 0                  | 0              | (1)           | 0             | 2             | 0             | 0              | 0               | 0               | 0    |
| PLN                   | 16    | 1        | 0                  | 1              | 2             | 2             | 17            | (1)           | (6)            | 0               | 0               | 0    |
| SGD                   | 1     | 0        | 0                  | 1              | 0             | 0             | 0             | 0             | 0              | 0               | 0               | 0    |
| USD                   | (90)  | 11       | (9)                | 6              | (10)          | (5)           | 3             | (6)           | (25)           | (34)            | (21)            | 2    |
| Others                | 0     | 1        | 0                  | 0              | 0             | 0             | 0             | 0             | 0              | 0               | 0               | 0    |

## Credit spread risk

The market risk management framework uses time-dependent bond and CDS-spread curves as risk factors to measure credit spread risks. It covers all capital market instruments in the trading and banking book.

## Liquidity management

### Principles

Internal liquidity management is an important business process within general bank management because it ensures the continuous availability of funds required to cover day-to-day demands.

Liquidity adequacy is ensured from both an economic and also a regulatory perspective. In order to approach the economic perspective RBI AG established a governance framework comprising internal limits and steering measures which complies with the Principles for Sound Liquidity Risk Management and Supervision established by the Basel Committee on Banking Supervision and the regulation on credit institution risk management (KI-RMV) issued by the Austrian regulatory authority.

The regulatory component is addressed by compliance with reporting requirements under Basel III (liquidity coverage ratio, net stable funding ratio and additional liquidity monitoring metrics) and also by complying with the regulatory limits.

## Organization and responsibility

Responsibility for ensuring adequate levels of liquidity lies with the overall Management Board. The functionally responsible board members are the Chief Financial Officer (Treasury/ALM) and the Chief Risk Officer (Risk Controlling). Accordingly, the processes regarding liquidity risk are essentially run by two areas within the bank: Firstly by the Treasury unit, which takes on liquidity risk positions within the strategy, guidelines and parameters set by the responsible decision-making bodies. Secondly, they are monitored and supported by the independent Risk Controlling unit, which measures and models liquidity risk positions, sets limits and supervises their compliance.

Besides the responsible units in the line functions, the Group Asset/Liability Management Committee (ALCO) acts as the decision-making body with respect to all matters affecting the management of the liquidity position and statement-of-financial-position structure of RBI AG, including the definition of strategies and policies for managing liquidity risks. The ALCO takes decisions and provides standard reports on liquidity risk to the Management Board at least on a monthly basis.

## Liquidity strategy

Treasury is required to achieve KPIs and to comply with risk-based principles. The current set of KPIs includes general targets (e.g. for return on risk-adjusted capital (RORAC) or coverage ratios), as well as specific Treasury targets for liquidity such as a minimum survival period in defined stress scenarios or diversification of the funding structure. While generating an adequate structural income from maturity transformation which reflects the liquidity and market risk positions taken by the bank, Treasury has to follow a prudent and sustainable risk policy when steering the statement of financial position. Strategic goals include a reduction in parent funding within the Group, a further increase in the stability of the depositor base, and continuous compliance with regulatory requirements and the internal limit framework.

## Liquidity Risk Framework

Regulatory and internal liquidity reports and ratios are generated and determined based on defined modelling approaches. Whereas the regulatory reports are generated in accordance with the requirements of the authorities, the internal reports are based on assumptions from empirical observations.

RBI AG has a substantial database along with expertise in forecasting capital flows arising from all material items on and off the statement of financial position. Cash inflows and outflows are modelled in a sufficiently detailed manner which, as a minimum, distinguishes between products, customer segments and, where applicable, currencies. Modelling of retail and corporate customer deposits includes assumptions concerning the retention times for deposits after maturity. The modelling approaches are prudent, in that they do not, for example, assume rollover of deposits from financial institutions and all financing channels and liquidity buffers are subject to simultaneous stress testing, without considering the mitigating effects of diversification.

The mainstays of the internal liquidity risk framework are the going concern and the time to wall scenario (TTW). The going concern report shows the structural liquidity position and covers all main risk drivers which could detrimentally affect RBI AG in a normal business environment (business as usual). The going concern models are also the main input factors for the cost contribution for the funds transfer pricing model. The time to wall report, on the other hand, shows the survival horizon for defined adverse scenarios and stress models (market, reputational and combined crisis) and determines the minimum level of the liquidity buffer (and/or the counter-balancing capacity) for each Group unit.

The liquidity scenarios are modelled using a Group-wide approach which considers local specifics where warranted due to influencing factors such as the market or the legal environment or certain business characteristics. When modelling cash inflows and outflows a distinction is at minimum made between products, customer segments and individual currencies (where applicable). For products without a contractual maturity, the distribution of cash inflows and outflows is calculated using a geometric Brownian motion which derives statistical forecasts for future daily balances from the observed, exponentially weighted historical volatility of the corresponding products.

The liquidity risk framework is continuously developed. In various projects, the technical infrastructure is enhanced and data availability is improved in order to meet the new reporting and management requirements for this area of risk.



## Risk appetite and liquidity limits

The liquidity position is monitored at the level of RBI AG and at the level of its branches and is restricted by means of a comprehensive limit system. The limits are determined both for a normal business environment and also for stress scenarios. In accordance with the defined risk appetite, each unit must demonstrate a survival horizon of a few months (TTW) in a severe, combined stress scenario (reputational and market stress). This can be ensured either by a structurally positive liquidity profile or by a sufficiently high liquidity buffer. In a normal going concern environment (GC), maturity transformation must be fully covered by the available liquidity buffer in the medium term. This means that the cumulative liquidity position over a period of up to one year must be positive. In the long term (one year or more), maturity transformation is permitted up to a certain level. For internal models, these limits are supplemented by limits for compliance with regulatory liquidity ratios, such as the liquidity coverage ratio (LCR). All limits must be complied with on a daily basis.

## Liquidity monitoring

The bank uses a range of customized measurement tools and early warning indicators that provide board members and senior management with timely and forward-looking information. The limit framework ensures that the bank can continue to operate in a period of severe stress.

Monitoring of limits and reporting limit compliance is performed regularly and effectively and the respective escalation channels are utilized and work as designed. Limit compliance is generally very high and any breach is reported to ALCO and escalated. In such cases, appropriate steps are undertaken or contentious matters are escalated to the Management Board.

## Liquidity stress test

Stress tests are conducted on a daily basis for RBI AG and once a week at Group level. The tests cover three scenarios (market, reputational and combined crisis), consider the effects of the scenarios for a period of several months and demonstrate that stress events can simultaneously result in a time-critical liquidity requirement in several currencies. The stress scenarios include the principal funding and market liquidity risks, without considering beneficial diversification effects (i.e. all units of RBI AG are simultaneously subject to a severe combined crisis for all their major products). The results of the stress tests are reported to the Management Board and other members of management on a weekly basis; they also form a key component of the monthly ALCO meetings and are included in the bank's strategic planning and contingency planning.

A conservative approach is adopted when establishing outflow ratios based on historical data and expert opinions. The simulations assume a lack of access to the money or capital markets and also assume simultaneous significant outflows of customer deposits. In this respect, the deposit concentration risk is considered by assigning even higher outflow ratios to large customers. Furthermore, stress assumptions are formulated for the drawdown of guarantees and credit obligations. In addition, the liquidity buffer positions are adapted by haircuts in order to cover the risk of disadvantageous market movements, and the potential outflows resulting from collateralized derivative transactions are estimated. The bank continuously monitors whether the formulated stress assumptions are still appropriate or whether new risks need to be considered.

The time to wall concept has established itself as the main control instrument for day-to-day liquidity management and is therefore a central component of funding planning and budgeting. It is also fundamental to determining performance ratios relating to liquidity

## Liquidity buffer

As shown by the daily liquidity risk reports, each Group unit actively maintains and manages liquidity buffers, including high-quality liquid assets (HQLA) which are always sufficient to cover the net outflows expected in crisis scenarios. RBI AG has sizeable, unencumbered and liquid securities portfolios and favors securities eligible for Central Bank tender transactions in order to ensure sufficient liquidity in various currencies. Each Group unit ensures the availability of liquidity buffers, tests its ability to utilize central bank funds, constantly evaluates its collateral positions with regard to their market value and encumbrance and examines their other countermeasures, including the funding potential and the liquidity of the assets.

Generally, a haircut is applied to all liquidity buffer positions. These haircuts include a market-risk-specific haircut and a central bank haircut. While the market risk haircut represents the potential price volatility of the assets-side securities in the liquidity buffer, the central bank haircut represents an additional haircut for each individual relevant security that may be offered as collateral.

### Intraday liquidity management

In compliance with regulatory requirements for intraday liquidity risk management, a daily stressed forecast of available intraday liquidity at defined critical times during a business day is calculated for RBI AG. This stressed forecast, which considers outflow assumptions analogous to the regular liquidity stress testing in the Group (see above), is quite conservative since inflows that are not final (revocable) are not considered at all. In case of limit breaches, the intraday contingency and escalation process is triggered.

### Emergency funding plan

Under aggravated liquidity conditions, the units switch to a contingency process in which they follow predefined liquidity contingency plans. These contingency plans also constitute an element of the liquidity management framework and are mandatory for all significant Group units and thus also for RBI AG. The emergency management process is sophisticated and is designed so that the Group can retain a strong liquidity position even in serious crisis situations.

### Liability structure and liquidity position

Funding is founded on a strong base of customer deposits and is supplemented by wholesale funding. The ability to procure funds is precisely monitored and evaluated by Treasury.

In the past year and to date, RBI AG's excess liquidity was significantly above all regulatory and internal limits. The result of the internal time to wall stress test demonstrates that RBI AG would survive throughout the modelled stress phase of a few months even without applying contingency measures.

The results of the going concern scenario are shown in the following table. The table shows excess liquidity and the ratio of expected capital inflows and the counter-balancing capacity to capital outflows (liquidity ratio) for selected maturities on a cumulative basis. The capital flows are based on assumptions taken from expert opinions, statistical analyses and country specifics. This calculation also includes estimates of the stability of the customer deposit base, outflows from off-balance sheet items and downward market movements in relation to positions which are included in the counter-balancing capacity.

| in € thousand<br>Maturity | 2018      |           | 2017      |           |
|---------------------------|-----------|-----------|-----------|-----------|
|                           | 1 month   | 1 year    | 1 month   | 1 year    |
| Liquidity gap             | 2,871,841 | 3,318,873 | 2,379,611 | 3,724,891 |
| Liquidity ratio           | 108%      | 105%      | 107%      | 105%      |

Liquidity gap and liquidity ratio have declined due to the planned reduction of excess liquidity.

### Liquidity coverage ratio

The Liquidity Coverage Ratio (LCR) supports the short-term resilience of banks, which must ensure that they have an adequate stock of unencumbered high-quality liquid assets (HQLA) in order to be able to cover potential outflows due to liabilities that may be incurred during crises. HQLAs can be converted into cash in order to cover the liquidity requirement within the framework of a liquidity stress scenario for at least 30 calendar days.

The calculation of the expected cash inflows and outflows as well as HQLAs is based on regulatory guidelines.

In 2017 the regulatory LCR limit was 80 per cent; it will be 100 per cent from 2018.

| in € thousand                   | 31/12/2018  | 31/12/2017  |
|---------------------------------|-------------|-------------|
| Average liquid assets           | 17,042,412  | 11,404,506  |
| Net outflows                    | 14,030,981  | 9,084,032   |
| Inflows                         | 4,293,880   | 4,559,677   |
| Outflows                        | 18,324,861  | 13,643,709  |
| <b>Liquidity Coverage Ratio</b> | <b>121%</b> | <b>126%</b> |

A uniform increase in average liquid assets and net liquidity outflows leads to a convergence to 100 per cent for ratios of >100 per cent. The increase in average liquid assets resulted mainly from an increase in holdings on the central bank account. With regard to outflows, the majority of the increase was attributable to non-operational financial customers.

## Net Stable Funding Ratio (NSFR)

The NSFR is defined as the ratio of available stable funding to required stable funding. The regulatory limit is expected to be set at 100 per cent and to be used for the first time in 2020. Available stable funding is defined as that portion of equity and debt which is expected to be a reliable source of funds over the time horizon of one year covered by the NSFR. A bank's required stable funding depends on the liquidity characteristics and residual maturities of the various assets held and of off-balance sheet exposures.

RBI AG targets a balanced funding position. The regulatory provisions are currently being revised by the regulatory authorities.

| in € thousand                   | 2018       | 2017       |
|---------------------------------|------------|------------|
| Required stable funding         | 33,901,396 | 32,282,796 |
| Available stable funding        | 32,871,966 | 29,326,354 |
| <b>Net Stable Funding Ratio</b> | <b>97%</b> | <b>91%</b> |

## Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Internal risk drivers such as unauthorized activities, fraud or theft, losses caused by conduct, model errors, execution and process errors, or business disruption and system failures are managed in this risk category. External factors such as damage to physical assets or fraudulent intentions are also managed and controlled.

These risks are analyzed and managed on the basis of RBI AG's own historical loss data and the results of the risk assessment.

As with other risk types, the principle of firewalling between risk management and risk controlling also applies to operational risk at RBI AG. To this end, individuals are designated and trained as Operational Risk Managers for each division. Operational Risk Managers provide central Operational Risk Controlling with reports on risk assessments, loss events, indicators and measures. They are supported in their work by Dedicated Operational Risk Specialists (DORS).

Operational risk controlling units are responsible for reporting, implementing the framework, developing control measures and monitoring compliance with requirements. Within the framework of the annual risk management cycle, they also coordinate the participation of the relevant second line of defense departments (Financial Crime Management, Compliance, Vendor Management, Outsourcing Management, Insurance Management, Information Security, Physical Security, BCM, Internal Control System) and all first line of defense contacts (Operational Risk Managers).

## Risk identification

Identifying and evaluating risks that would endanger the bank as a going concern (but which have a very low probability of occurrence) and other areas in which losses occur more frequently (but cause only small losses) represent key tasks in the management of operational risk.

Operational risk is assessed, through risk assessments, in a structured form according to categories such as business processes and event types. Moreover, all new products are subject to a risk assessment. The impact of high probability/low impact events and low probability/high impact events is measured over a one-year and a ten-year horizon. Low probability/high impact events are quantified on the basis of scenarios. The internal risk profile, loss events or external changes determine which scenarios are analyzed.

## Monitoring

In order to monitor operational risks, early warning indicators are used for prompt identification and mitigation of losses.

Operating losses are recorded in a structured manner in a central database named ORCA (Operational Risk Controlling Application) and are broken down by business line and type of event. In addition to requirements for the internal and external reporting, loss events are used for the exchange of information with international loss databases to further develop the measurement methods used as well as to track measures and the effectiveness of controls. Since 2010, RBI AG has participated in the ORX data consortium (Operational Risk data eXchange Association), whose data is currently used for internal benchmark purposes and analyses and as part of the operational risk model. The ORX data consortium is an association of banks and insurance groups for statistical purposes. The results of the analyses and events resulting from operational risk are reported in a comprehensive manner to the relevant Operational Risk Management Committee on a regular basis.

## Quantification and mitigation

Since October 2016, RBI AG has calculated the equity requirement using the Advanced Measurement Approach (AMA).

The Advanced Measurement Approach is based on an internal model with the input factors from the external and internal loss events and the Group-wide scenarios. Risk-based management is carried out with the allocation on the basis of the input factors of the corresponding units and operating income for stabilization. The implementation of these high qualitative standards has already been rolled out in broad sections of the Group.

To mitigate operational risk, the business division heads take preventive action to reduce and transfer risk. The progress and success of these actions is monitored by Risk Controlling. The business division heads also draw up contingency plans and nominate persons or departments to take the required measures if losses do in fact occur. In addition, several dedicated organizational units provide support to business divisions to reduce operational risks. Financial Crime Management assumes an important role in connection with operational risk activities, providing support in fraud prevention and identification. RBI AG also organizes regular extensive staff training programs and has a range of contingency plans and back-up systems in place.

# Internal control and risk management system with regard to the accounting process

## Introduction

The establishment and definition of a suitable internal control and risk management system with regard to the accounting process is extremely significant for RBI AG. The annual financial statements of RBI AG are prepared in the Financial Accounting and Treasury Accounting departments, which fall within the CFO's area of responsibility. The foreign branches deliver financial statements to head office and they themselves are responsible for preparing the financial statements.

The annual financial statements are prepared on the basis of the relevant Austrian laws, above all the Austrian Banking Act (BWG) and the Austrian Commercial Code (UGB), which deal with the preparation of annual financial statements.

RBI AG's general ledger is maintained in SAP. The GEBOS core banking system fulfills important sub-ledger functions such as credit and deposit processing, and clearing, settlement and payment services. Other sub-ledgers exist in addition to GEBOS, including in particular:

- Wall Street Systems and Murex (Treasury transactions)
- GEOS und GEOS Nostro (securities settlement and nostro securities management)
- Clearing, settlement and payment services
- Trade finance (guarantees and letters of credit)
- UBIX (stock exchange traded securities derivatives)
- ARTS/SE4 (Repo and lending business)
- SAP sub-ledgers (accounts receivable/accounts payable/fixed asset accounting)
- FineVare (loan loss provisioning)

The accounting process can be described as follows:

- **Day-to-day accounting**  
Day-to-day accounting records are mainly posted to the respective sub-ledgers (sub-systems). This posting data is transferred to the general ledger (SAP) in aggregated form on a daily basis, using automated interfaces. In addition, individual postings are recorded directly in the SAP general ledger.  
The general ledger in SAP has multi-GAAP functionality, which means two equivalent parallel general ledgers are maintained in SAP: one in accordance with UGB/BWG reporting standards and also a parallel ledger in accordance with IFRS. An operational chart of accounts exists for the two general ledgers; depending on the respective content, all postings are effected either simultaneously in both general ledgers or in only one of the two ledgers. The parallelism of the entries and the parallel existence of the two general ledgers remove the need for reconciliations from UGB/BWG to IFRS.
- **Individual financial statements for RBI head office in accordance with UGB/BWG and IFRS**  
The SAP trial balance in accordance with UGB/BWG and/or IFRS results from the posting data of the respective sub-systems which is delivered via automated interfaces. In addition, a number of supplementary ledger-specific closing entries are made directly in SAP. These are independent of the respective sub-systems. The sum of all these entries gives the statement of financial position and the income statement pursuant to UGB/BWG or IFRS.
- **Individual financial statements of RBI AG**  
In a final step, the financial statements of RBI AG in accordance with UGB/BWG are produced. These include head office and also the branches. Both the branch data and also the closing data of head office are conveyed by automated transfer from SAP or in some cases by direct input into the IBM Cognos Controller consolidation system. The data are consolidated in this system, on the basis of which RBI AG's overall individual financial statements are prepared.

## Control environment

In general, all Group-internal instructions can be retrieved from the Group Internal Law Database. With regard to accounting, mention should be made above all of the Group Accounts Manual, which contains a description of the following points in particular:

- General accounting rules
- Measurement methods
- Required (quantitative) information in the notes
- Accounting rules for special transactions

Further guidelines relate solely to RBI AG or only deal with functions within departments. The Corporate Directive Accounting Guidelines for example apply to the accounting system. These deal with the instruction process for the settlement of purchase invoices, cost refunds and the management of clearing accounts.

### **Risk assessment**

The assessment of the risk of incorrect financial reporting is based on various criteria. Valuations of complex financial instruments may lead to an increased risk of error. In addition, asset and liability items have to be valued for the preparation of the annual financial statements; in particular the assessment of the impairment of receivables, securities and participations, which are based on estimates of future developments, gives rise to a risk.

### **Control measures**

The control measures encompass a wide range of reconciliation processes, notably the reconciliation between the general ledger in SAP and the sub-ledgers. Besides the four eyes principle, automation-aided controls and monitoring instruments dependent on risk levels are used, such as the reconciliation between financial accounting and balance sheet risk management. The duties assigned to individual positions are documented and updated on an ongoing basis. Particular emphasis is placed on effective deputizing arrangements to ensure that deadlines are not missed due to the absence of one person. The controls in the core processes are important for the financial statements process. These primarily involve measurement-related processes whose results have a significant influence on the financial statements (e.g. loan loss provisioning, derivatives, equity participations, personnel provisions, market risk).

The Audit Committee of the Supervisory Board considers and approves the annual financial statements and the management report. They are published in the Wiener Zeitung and finally filed with the commercial register.

### **Information and communication**

Information on the accounting treatment of the respective products is regularly exchanged with the specialist departments. For example, regular monthly meetings take place with the Capital Markets and Treasury departments, in which among other topics accounting for complex products is addressed. The Accounting team is also represented at regularly scheduled jour-fixe meetings during the product launch process in order to provide information on the technical aspects of accounting and their implications for product launches. Regular department events ensure that employees receive ongoing training on changes to accounting rules under UGB, BWG and IFRS.

As part of the reporting process, the Management Board receives monthly and quarterly reports analyzing the results of RBI AG. The Supervisory Board is also regularly informed about the results at its meetings.

External reports are for the most part prepared only for the consolidated results of RBI AG. The reporting cycle is quarterly: besides the consolidated financial statements, a semi-annual financial report and interim quarterly reports for the Group are published. In addition, reports have to be regularly provided to the banking supervisory authority.

### **Monitoring**

Financial reporting is an important part of the ICS, in which the accounting processes are subject to additional monitoring and control, the results of which are presented to the Management Board and Supervisory Board. The Audit Committee is also responsible for monitoring the accounting process. The Management Board is responsible for ongoing company-wide monitoring. In accordance with the target operating model, three successive lines of defense are established to meet the increased requirements for internal control systems.

The first line of defense is formed by the individual departments, where department heads are responsible for monitoring their business areas. Controls and plausibility checks are conducted on a regular basis within the departments, in accordance with the documented processes.

The second line of defense is provided by issue-specific specialist areas. These include, for example, Compliance, Data Quality Governance, Operational Risk Controlling or Security & Business Continuity Management. Their primary aim is to support the individual departments when carrying out control steps, to validate the actual controls and to introduce state-of-the-art practices within the organization.

Internal audits are the third line of defense in the monitoring process. Responsibility for auditing lies with Group Internal Audit at RBI and also the respective internal audit departments of the Group units. All internal auditing activities are subject to the Group Audit standards, which are based on the Austrian Financial Market Authority's minimum internal auditing requirements and international best practices. Group Audit's internal rules are additionally applicable (notably the Audit Charter). Group Audit regularly and independently verifies compliance with the internal rules within the RBI Group units. The head of Group Internal Audit reports directly to the Management Boards.

# Outlook

## Economic outlook

### Central Europe

Economic conditions in Central Europe (CE) should remain favorable overall in 2019, despite global headwinds and that GDP growth is expected to slow somewhat: A growth rate of 3.4 per cent is anticipated for 2019 – down from 4.5 per cent in 2018. Thanks to a continuing decline in unemployment and solid real wage increases, private consumption should remain a stable pillar of economic growth. Despite the prospect of lower GDP growth rates, investment is also likely to be a key source of support for the economy in 2019. At country level, Slovakia and Poland are expected to post the strongest increases (at 4.0 per cent and 3.6 per cent, respectively).

### Southeastern Europe

In Southeastern Europe (SEE), economic growth is expected to again slow to a low level. As in 2018, this is being driven by economic developments in Romania, where the GDP makes up the largest contribution to the region. GDP growth of 2.5 per cent is expected in Romania (following 4.1 per cent in 2018). In the remaining SEE countries, economic activity is expected to remain relatively stable or slightly decline; with a slowdown to 2.8 per cent from 3.7 per cent in 2018. Economic activity is expected to be driven primarily by domestic demand. An increase in wages should have a positive impact on spending on the part of private households. Similarly, investment activity is expected to remain at high levels, albeit heavily dependent on progress made in the utilization of EU funds and implementation of major infrastructure projects. All in all, the expected economic slowdown in the EU is also likely to curb the region's economic growth in 2019 and 2020.

### Eastern Europe

Following a somewhat stronger 2018, the Russian economy is expected to grow at a low rate of 1.5 per cent in 2019, and therefore continue on its moderate growth trajectory. Oil prices should support the economy, while no significant impetus is expected from the continued comparatively restrictive monetary and fiscal policy. Risks of sanctions continue to persist, which could negatively affect the currency and economic development. In Ukraine, parliamentary and presidential elections are scheduled for 2019, but the renewed cooperation with the International Monetary Fund should have a stabilizing effect. Economic growth in Ukraine should reach a moderate 2.7 per cent in 2019.

### Austria

Even though the economic peak in Austria has already passed, economic momentum should continue to remain over the average euro area rate, despite slowing down and increased external risks. Following 2.7 per cent in 2018, GDP growth is expected to expand at the low rate of from to 1.3 per cent in 2019. Domestic demand is anticipated to be the main driver while foreign trade should increasingly feel the effects of global headwinds. Thanks to the continuation of good labor market conditions, private consumption also looks set to achieve solid growth rates in 2019. Although investment activity should weaken, it is expected to also support economic growth in 2019.

### Banking sector in Austria

The positive trend in new business in the Austrian banking market should continue in 2019. Depending on the market segment, credit growth rates are expected to range between 3 per cent and 5 per cent. A pick-up in the corporate customer business, despite the economic slowdown, continued to support positive momentum in the sector. Moreover, the continuing positive wage trends should support the granting of loans. Nonetheless, a moderate downturn in the granting of mortgage loans is expected

following stricter communication by the regulator. All in all, the return on equity of Austrian banks should be in the high single-digit percentage range in 2019, with stable or only slightly increasing risk costs.

## CEE banking sector

For the CEE banking markets, credit growth rates are expected to range between 5 per cent and 9 per cent over the next 12-18 months. Accordingly, solid economic growth in the CE and SEE regions should have an overall positive impact on CEE banks' earnings in 2019, despite moderately weaker momentum. Given new unemployment rate lows in CE and SEE, growth in wages should also be in the high single-digit percentage range in 2019, while some regional central banks in CE and SEE are expected to cautiously normalize monetary policy. It is anticipated that tightened macroprudential regulations will curb mortgage and consumer loan growth, notably in the Czech Republic, Slovakia and Romania, but conversely also maintain the sustainable return potential of these markets. Thanks to the adjustments carried out in recent years – e.g. reducing foreign currency loans and NPL portfolios – there should be no significant negative impact on returns from this side. Likewise, given the still positive overall economic growth and currently stable corporate insolvency situation, a significant increase in risk costs is not anticipated. Also, in Russia, Ukraine and Belarus, the general conditions for the banking sector should develop favorably in 2019 in view of high local interest rate levels and solid macroeconomic parameters. All in all, the return on equity of the CEE banking sector in 2019 should almost reach its 2018 level, even though there is the possibility of a slight rise in risk costs in some regions (starting from low levels). In Romania, a newly introduced bank tax is expected to have a negative impact on new loan business and the profitability of the Romanian banking sector.

## Outlook for RBI AG

Given the continuing positive economic outlook for the coming financial year 2019, we assume RBI AG will report sustainable loan growth in the mid-single-digit area for the next few years.

Due to the volume-related increase in the net interest margin in 2018, we also expect very positive interest-rate effects in the coming financial year. An increase in volumes should also result in a corresponding increase in net fee and commission income. We also expect a moderate increase in dividend income from affiliated companies in the 2019 financial year. These positive developments should lead to an increase in operating income in the high single-digit area.

In the area of general administrative expenses, continuing high investment for digitalization and regulatory requirements is squeezing earnings.

At € 36 million, net provisioning for impairment losses was at a historic low in 2018; this was in particular attributable to proceeds from the sale of impaired loans and also to the robust economy. With the economy remaining strong, we anticipate only a slight increase in loan loss provisions in 2019. However, a significant reduction in proceeds from loan sales is expected.

We target a CET1 ratio (fully loaded) after dividend of around 13 per cent for the RBI Group in the medium term. Based on this target we intend dividend distributions of 20 to 50 per cent of the consolidated profit.



# Auditor's Report

## Report on the Financial Statements

### Audit Opinion

We have audited the financial statements of

**Raiffeisen Bank International AG,  
Vienna**

which comprise the Statement of financial position as of 31 December 2018, the income statement for the year then ended, and the notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2018, and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accounting Principles, and other legal requirements (Austrian Banking Act).

### Basis for our Opinion

We conducted our audit in accordance with EU Regulation 537/2014 ("AP Regulation") and the Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the Company, in accordance with Austrian company and banking law as well as professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole. However, we do not provide a separate opinion thereon.

In the following we present the key audit matters from our point of view:

- Recoverability of loans and advances to customers
- Recoverability of shares in affiliated companies

#### **Recoverability of loans and advances to customers**

##### ***The Financial Statement Risk***

Loans and advances to customers are reported in the statement of financial position net of loan loss provisions (individual and portfolio-based loan loss provisions), in an amount of EUR 25.1 billion. They comprise predominantly loans and advances to Austrian and foreign corporate customers and about EUR 3.1 billion of mortgage loans to retail customers in the Warsaw branch.

The Management Board describes the composition of the loans and advances to customers, the process of monitoring the credit risk and the procedures for determining the loan loss provisions in the "Recognition and Measurement Principles" section in the notes to the Financial Statements and in the "Credit Risk" section of the Risk Report in the Management Report.

As part of the credit risk monitoring process the bank checks if there is a default and if individual loan loss provisions are therefore needed. This includes assessing whether the customer can fully meet the contractually agreed repayments without the need to realize collateral.

In case of a default, individual loan loss provisions are recognized in the amount of the expected loss according to homogeneous standards. The provision amount is determined by the difference between the carrying value of the loan and the lower present value of projected future repayments including interest and any recoveries from the realization of collaterals. The assessment as to whether a loan loss provision is required is significantly influenced by the estimate of the client's economic situation and development, the estimate of collateral values and the scenario-weighted forecast amount and timing of future cash flows.

Even for non-defaulted loans as at balance sheet date, there is a credit risk to be considered. Losses associated with any future default potential of such borrowers are defined as expected credit losses. Portfolio-based loan loss provisions are calculated for those expected credit losses. Under Section 201 (2) 7 UGB, their estimation has to be prudent, considering existing collaterals and based on statistical assumptions and historical data. Credit institutions that calculate expected credit losses under IFRS 9 meet that condition. The bank has applied the IFRS 9 method to determine expected credit losses since 2018. Previously, portfolio-based loan loss provisions were calculated using centrally calculated historical Group default rates in the Group for each rating grade and risk model and other parameters based on statistical assumptions and historical data.

The calculation of loan loss provisions is significantly influenced by management's assumptions and estimates. These assumption and estimate uncertainties lead to a risk of misstatement in the Financial Statements.

### ***Our Audit Approach***

We have obtained the documentation that describes the processes of loan issuance, loan monitoring and determination of a loan provision for corporate and retail customer loans and assessed these documents to determine whether the processes adequately identify impairment indicators and ensure that the valuation of loans and advances to customers is appropriately reflected in the Financial Statements. In addition, we tested the essential key controls within these processes. As part of this work we checked the design, implementation and effectiveness of these key controls.

For individual loan loss provisions, we used a sampling based approach to determine whether there was a default and thus impairment indicators were identified and appropriate individual loan loss provisions were calculated. We assessed the bank's estimates regarding the amount and timing of future cash flows, including those resulting from realization of collateral, and whether the bank's assessment was appropriate and in line with the internal and external information available. The sample selection was made using both a risk based approach, and a random selection approach. With regard to the internal collateral valuation, we assessed on a sample basis whether the assumptions used in the models were adequate and in line with available market data.

For portfolio-based loan loss provisions, we critically assessed whether the models and relevant parameters used were adequate for calculating loan loss provisions. We analyzed the bank's documentation for consistency with IFRS 9 requirements. On the basis of the bank's internal validations, we also assessed the models and their parameters to determine whether they provide a suitable basis for calculating reasonable impairments. We evaluated the reasonableness of the probabilities of default for stage 1 and stage 2 and assessed the statistical models, parameters and mathematical principles. We also analyzed the selection and calculation of forward-looking estimates and scenarios and examined how they were taken into account in stage allocation and parameter estimates. We assessed the arithmetical correctness of expected credit losses in ECL stage 1 and 2 for loans and advances to corporate customers for the entire population. For retail customer, we did so on a sample basis. In these audit procedures, we were supported by our financial mathematicians. In addition, we performed a control-based audit approach to assess the processes, systems and interfaces underlying the calculation models.

Finally, we assessed whether the disclosures in the notes to the Financial Statements and the Management Report regarding customer loan loss provisions were appropriate.

### **Recoverability of shares in affiliated companies**

#### ***The Financial Statement Risk***

Shares in affiliated companies amount to around EUR 10.6 billion in total and represent a significant item on the balance sheet of Raiffeisen Bank International AG. In particular, the bank has shareholdings in domestic and foreign credit institutions and in finance and project companies.

The Management Board describes the process for managing the participation portfolio and the procedures for assessing impairment of shares in affiliated companies under "Recognition and measurement principles" in the notes to the Financial Statements and in the Participation risk section in the Risk Report in the Management Report.

The banks division Group Participations assesses whether, on the basis of the fair value of the individual equity participations, there are triggers for permanent impairment in any given case or whether a reversal of a previous impairment up to the amount of the acquisition cost is necessary.

Internal and external company valuations are used to calculate the fair value. The company valuation calculations are primarily based on assumptions and estimates of the future business development and expected returns to the owners, especially as dividends. These are based on the budgeted figures approved by the governing bodies of the respective company. The discount rates applied are derived from the financial and capital markets and can be affected by market-based, economic and legal factors which may change in the future.

As a consequence, valuations are by nature based on judgment within certain limits and are subject to estimation uncertainties. There is therefore a potential risk of misstatement in the Financial Statements.

### ***Our Audit Approach***

We have examined the key processes in the Group Participations division and examined the key controls on a test basis to assess whether the process structure and implementation are adequate to identify necessary impairments or potential impairment reversals on a timely basis.

Our valuation specialists have examined the valuation models, which in their design are based on the dividend discount approach, the main planning assumptions and the valuation parameters. The valuation models applied were analyzed to assess whether they formed an adequate basis for calculating the value of the companies in a correct manner. The planning and valuation parameters used in the models were evaluated. We assessed the reasonableness of interest rate parameters by comparing them to market- and industry-specific benchmarks. Backtesting was performed to assess the forecasting accuracy with respect to the main assumptions in the detailed planning phase. In this process, the cash flows used in the valuation model from the previous year were compared with and assessed in relation to the actual values and the current budgeted values regarding their appropriateness. The calculation of the company valuations was analyzed on a sampling basis. The material company valuations were compared with market data and publicly available information (in particular industry-specific market multiples).

Finally, we assessed whether the disclosures in the notes to the Financial Statements and in the Management Report regarding the recoverability of shares in affiliated companies are appropriate.

## **Responsibilities of Management and the Audit Committee for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Austrian Generally Accepted Accounting Principles and other legal requirements (Austrian Banking Act) and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with the AP Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatements in the financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We conclude on the appropriateness of management's use of the going concern basis of accounting assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast considerable doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

## Report on Other Legal Requirements

### Management Report

In accordance with Austrian company law, the management report is to be audited as to whether it is consistent with the financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the management report in accordance with Austrian company law.

We have conducted our audit in accordance with generally accepted standards on the audit of management reports as applied in Austria.

### Opinion

In our opinion, the management report is consistent with the financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

### Statement

Based on our knowledge gained in the course of the audit of the financial statements and our understanding of the Company and its environment, we did not note any material misstatements in the management report.

### Additional information under Article 10 AP Regulation

At the Annual General Meeting dated 22 June 2017, we were elected as auditors. We were appointed by the supervisory board on 10 July 2017. We have been the Company's auditors since the Company's first listing on the stock exchange in 2005.

We declare that our opinion expressed in the "Report on the Financial Statements" section of our report is consistent with our additional report to the audit committee, in accordance with Article 11 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 AP Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Company.

### Engagement Partner

The engagement partner is Mr. Mag. Wilhelm Kovsca.

Vienna, 27 February 2019

KPMG Austria GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft



Wilhelm Kovsca

Wirtschaftsprüfer

(Austrian Chartered Accountant)

**This report is a translation of the original report in German, which is solely valid.**

The financial statements, together with our auditor's opinion, may only be published if the financial statements and the management report are identical with the audited version attached to this report. Section 281 (1) of the Austrian Commercial Code (UGB) applies.

# Statement of the board of Management pursuant to Art. 82 (4) Z3 Austrian Stock Exchange Act

We confirm to the best of our knowledge that the financial statement give a true and fair view of the assets, liabilities, financial positions and profit or loss of the company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

Vienna, 27 February 2019

The Managing Board



**Johann Strobl**

Chief Executive Officer responsible for Chairman's Office, Group Communications, Group Compliance, Group Executive Office, Group Governmental & Public Affairs, Group Human Resources, Group Internal Audit, Group Marketing, Group Participations, Group Regulatory Affairs, Group Strategy & Innovation, Group Sustainability Management, International Banking Units and Legal Services



**Martin Grill**

Member of the Management Board responsible for Active Credit Management, Group Investor Relations, Group Planning & Finance, Group Treasury and Group Tax Management



**Andreas Gschwenter**

Member of the Management Board responsible for COO Strategy Governance and Change, Group Efficiency Management, Group IT, Group Procurement, Cost & Real Estate Management, Group Project Portfolio & Security and Head Office Operations



**Łukasz Januszewski**

Member of the Management Board responsible for Group Competence Center for Capital Markets Corporate & Retail Sales, Group Business Management & Development, Group Capital Markets, Group Investment Banking, Institutional Clients and Raiffeisen Research



**Peter Lennkh**

Member of the Management Board responsible for Corporate Customers, Corporate Finance, Group Corporate Business Strategy & Steering, International Leasing Steering & Product Management and Trade Finance & Transaction Banking



**Hannes Mösenbacher**

Member of the Management Board responsible for Financial Institutions, Country & Portfolio Risk Management, Group Corporate Credit Management, Group Risk Controlling, Group Special Exposures Management, International Retail Risk Management and Sector Risk Controlling Services



**Andrii Stepanenko**

Member of the Management Board responsible for International Retail Business Management & Steering, International Mass Banking, Sales & Distribution, International Premium & Private Banking, International Small Business Banking, International Retail Online Banking, International Retail CRM, International Retail Lending and Group Asset Management