RAIFFEISEN BANK INTERNATIONAL AG

ANNUAL FINANCIAL STATEMENTS 2019

Raiffeisen Bank International

Content

In this report, Raiffeisen Bank International (RBI AG) refers to the to 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	31/12/2019 in €	31/12/2018 in € thousand
1.	Cash in hand and balances with central banks	10,319,452,781.62	10,521,347
2.	Treasury bills and other bills eligible for refinancing with central banks	3,976,382,092.42	5,317,410
3.	Loans and advances to credit institutions	8,983,872,861.01	6,551,414
	a) Repayable on demand	1,715,366,043.90	988,322
	b) Other loans and advances	7,268,506,817.11	5,563,092
4.	Loans and advances to customers	28,079,622,222.24	25,068,842
5.	Debt securities and other fixed-income securities	3,472,073,041.43	2,936,978
	a) Issued by public bodies	381,743,813.03	338,694
	b) Issued by other borrowers	3,090,329,228.40	2,598,284
	Hereof: own debt securities	1,528,138,893.90	751,989
6.	Shares and other variable-yield securities	487,094,099.47	291,147
7.	Participating interests	76,123,389.06	73,952
	Hereof: in credit institutions	40,650,935.26	37,756
8.	Shares in affiliated untertakings	10,821,361,613.03	10,632,210
	Hereof: in credit institutions	2,067,359,970.34	1,916,464
9.	Intangible assets	37,572,804.81	37,307
10.	Tangible assets	12,668,178.89	10,600
11.	Other assets	2,966,553,233.42	2,824,959
12.	Accruals and deferred income	190,193,332.82	157,179
13.	Deferred tax assets	440,517.18	26,110
	Total	**69,423,410,167.40**	**64,449,453**

	LIABILITIES	31/12/2019 in €	31/12/2018 in € thousand
1.	Liabilities to credit institutions	27,902,476,736.92	26,598,261
	a) Repayable on demand	3,671,502,137.71	3,457,347
	b) With agreed maturity dates or periods of notice	24,230,974,599.21	23,140,913
2.	Liabilities to customers	19,155,647,069.82	17,612,098
	a) Savings deposits	0.00	0
	b) Other liabilities	19,155,647,069.82	17,612,098
	aa) Repayable on demand	5,331,725,601.76	6,172,538
	bb) With agreed maturity dates or periods of notice	13,823,921,468.06	11,439,561
3.	Securitised liabilities	7,039,845,049.82	5,122,475
	a) Debt securities issued	6,113,826,815.24	4,037,849
	b) Other securitised liabilities	926,018,234.58	1,084,626
4.	Other liabilities	2,392,264,623.84	2,363,196
5.	Accruals and deferred income	137,596,248.40	82,155
6.	Provisions	408,725,668.20	309,394
	a) Provisions for severance payments	92,364,207.39	65,720
	b) Provisions for pensions	73,507,440.83	71,548
	c) Provisions for taxation	5,891,845.67	297
	d) Other	236,962,174.31	171,829
7.	Supplementary capital pursuant to chapter 4 of title I of part 2 of regulation (EU) no 575/2013	2,628,760,109.40	2,737,494
8.	Additional Tier 1 capital pursuant to chapter 3 of title I of part 2 of regulation (EU) no 575/2013	1,152,878,566.57	1,152,661
9.	Subscribed capital	1,002,283,121.85	1,002,283
	a) Share capital	1,003,265,844.05	1,003,266
	b) Nominal value of own shares	(982,722.20)	(983)
10.	Capital reserves	4,431,352,336.41	4,431,352
	a) Committed	4,334,285,937.61	4,334,286
	b) Uncommitted	97,066,398.80	97,066
	c) Option reserve	0.00	0
11.	Retained earnings	2,304,821,110.13	2,170,640
	a) Legal reserve	5,500,000.00	5,500
	b) Other reserves	2,299,321,110.13	2,165,140
12.	Liability reserve pursuant to article 57 (5	535,097,489.59	535,097
13.	Net profit for the year	331,662,036.45	332,346
	Total	**69,423,410,167.40**	**64,449,453**

Income statement

		2019 in €	2018 in € thousand
1.	Interest receivable and similar income	958,613,498.84	896,283
	hereof: from fixed-income securities	86,936,515.98	90,236
2.	Interest payable and similar expenses	(609,418,213.51)	(585,371)
I.	**NET INTEREST INCOME**	**349,195,285.33**	**310,912**
3.	Income from securities and participating interests	708,786,690.86	636,252
	a) Income from shares and other variable-yield securities	24,708,189.40	10,432
	b) Income from participating interests	6,389,017.72	6,759
	c) Income from shares in affiliated undertakings	677,689,483.74	619,061
4.	Commissions receivable	360,991,454.29	333,618
5.	Commissions payable	(133,326,066.63)	(131,495)
6.	Net profit or net loss on financial operations	(51,191,562.69)	39,885
7.	Other operating income	269,909,644.54	181,133
II.	**OPERATING INCOME**	**1,504,365,445.70**	**1,370,304**
8.	General administrative expenses	(786,307,294.70)	(736,597)
	a) Staff costs	(409,850,635.72)	(378,714)
	hereof: aa) Wages and salaries	(289,122,878.94)	(271,269)
	bb) Expenses for statutory social contributions and compulsory contributions	(61,275,496.14)	(55,792)
	cc) Other social expenses	(8,749,222.54)	(7,676)
	dd) Expenses for pensions and assistance	(11,056,391.24)	(9,812)
	ee) Allocation/Release of provision for pensions	(2,082,975.17)	(16,746)
	ff) Expenses for severance payments and contributions to severance funds	(37,563,671.69)	(17,419)
	b) Other administrative expenses	(376,456,658.98)	(357,883)
9.	Value adjustments in respect of asset items 9 and 10	(10,736,197.50)	(9,159)
10.	Other operating expenses	(305,378,222.10)	(104,888)
III.	**OPERATING EXPENSES**	**(1,102,421,714.30)**	**(850,645)**
IV.	**OPERATING RESULT**	**401,943,731.40**	**519,659**
11./12.	Net income/expenses from the disposal and valuation of loans and advances and securities classified as current assets	(105,908,678.38)	(31,566)
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	234,382,246.14	143,316
V.	**PROFIT ON ORDINARY ACTIVITIES**	**530,417,299.16**	**631,409**
15.	Tax on profit or loss	(28,803,483.75)	4,853
16.	Other taxes not reported under item 15	(62,501,954.69)	(53,414)
17.	Merger gain	0.00	442,359
VI.	**PROFIT FOR THE YEAR AFTER TAX**	**439,111,860.72**	**1,025,208**
18.	Changes in reserves	(134,181,212.59)	(694,376)
	hereof: allocation to liability reserve	0.00	0
VII.	**NET INCOME FOR THE YEAR**	**304,930,648.13**	**330,832**
19.	Profit/Loss brought forward	26,731,388.32	1,513
VIII.	**Net profit for the year**	**331,662,036.45**	**332,346**

Items off the statement of financial position

	ASSETS	31/12/2019 in €	31/12/2018 in € thousand
1.	Foreign assets	34,166,151,836.22	**40,161,913**

	LIABILITIES	31/12/2019 in €	31/12/2018 in € thousand
1.	Contingent liabilities	6,049,896,796.68	5,213,078
	Guarantees and assets pledged as collateral security	6,049,896,796.68	5,213,078
2.	Commitments	15,171,248,900.42	13,206,744
	hereof: liabilities from repurchase agreements		
3.	Commitments arising from agengy services	440,203,434.38	231,259
4.	Eligible own funds according to part 2 of regulation (EU) no 575/2013	10,851,123,643.79	11,221,044
	hereof: supplementary capital pursuant to chapter 4 of title I of part 2 of regulation EU) no 575/2013	1,833,643,130.35	2,304,718
5.	Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013	40,101,278,536.41	39,299,297
	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)	19.7%	19.8%
	b) hereof: capital requirements pursuant to Article 92 (b)	22.5%	22.7%
	c) hereof: capital requirements pursuant to Article 92 (c)	27.1%	28.6%
6.	Foreign liabilities	16,555,567,972.19	13,052,535

Notes

General disclosures

Raiffeisen Bank International AG (RBI AG) is registered in the company register at the Commercial Court of Vienna under FN 122119m. 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 2019 were prepared by the Management Board in accordance with the Austrian Commercial Code (UGB) as amended by the latest version of the 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 2,000 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 16.7 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 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 Ell, 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).

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) and the European Central Bank, Sonnemannstrasse 22 D-60314 Frankfurt am Main (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.

Federal IPS

Institutional protection schemes (IPS) approved by the Financial Market Authority have been established within the Raiffeisen Banking Group (RBG). Contractual or statutory liability arrangements were concluded in connection with the IPSs to 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 RBG, RBI AG is a member of the federal IPS, whose members include, in addition to the regional Raiffeisen banks, RAIFFEISEN-HOLDING NIEDERÖSTERREICH-WIEN registrierte Genossenschaft mit beschränkter Haftung, Posojilnica Bank eGen, Raiffeisen Wohnbaubank Aktiengesellschaft and Raiffeisen Bausparkasse Gesellschaft m.b.H. 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 Austrian Raiffeisen Deposit Guarantee scheme (ÖRE). 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 a Polish credit portfolio to the newly established branch office of RBI AG in Warsaw (Poland) in November 2018, comparison of the income statement with the previous year is possible to only a limited extent since, in the previous year, the income and expenses of the Polish branch office were only included in the income statement of RBI AG for two months.

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. The IFRS 9 calculation model is applied on the basis of corporation law to determine portfolio-based loan loss provisions.

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 2019 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 lo 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 AG 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 AG'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. General individual loan loss provisions for retail lending in the Polish branch are recognized based on the best statistically derived estimate of the expected loss after adjusting for indirect costs.

Portfolio-based loan loss provisions

IFRS 9 is used as a basis for the methodology used to calculate the portfolio-based loan loss provisions in accordance with the position paper of the AFRAC and the FMA on issues relating to subsequent measurement of credit exposures at 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 loss for both stages is 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 corresponds to the amount at the time of default owed to RBI AG over the next twelve months or over the entire term.
- Loss given default (LGD): Loss given default 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.

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

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

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. Liability-side temporary differences are set off against the asset-side temporary differences.

Issuance expenses

Issuance and management fees and premiums or discounts for bonds issued are distributed over the given term of the obligation using the effective interest method. 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 1.0 per cent (31/12/2018: 1.9 per cent) p.a. and an effective salary increase of 3.5 per cent (31/12/2018: 3.5 per cent). The parameters for retired employees are calculated using a capitalization rate of 1.0 per cent (31/12/2018: 1.9 per cent) and an expected increase in retirement benefits of 2.0 per cent (31/12/2018: 2.0 per cent), and in the case of pension commitments with existing reinsurance policies of 0.5 per cent (31/12/2018: 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), 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 0.9 per cent p.a. and 1.0 per cent p.a., respectively, (31/12/2018: 1.8 per cent) and an average salary increase of 3.5 per cent p.a. (31/12/2018: 3.5 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 0.6 per cent (31/12/2018: 0.9 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 lo 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. 40 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	31/12/2019	31/12/2018
Loans and advances to credit institutions	**8,983.9**	**6,551.4**
Repayable on demand	1,715.4	988.3
Up to 3 months	4,244.7	2,652.5
More than 3 months, up to 1 year	724.9	580.2
More than 1 year, up to 5 years	959.8	1,039.3
More than 5 years	1,339.1	1,291.1
Loans and advances to customers	**28,079.6**	**25,068.8**
Repayable on demand	3,078.8	2,496.7
Up to 3 months	2,425.8	2,947.9
More than 3 months, up to 1 year	4,291.3	4,066.1
More than 1 year, up to 5 years	12,335.1	9,581.1
More than 5 years	5,948.6	5,977.0
Other assets	**2,966.6**	**2,825.0**
Up to 3 months	2,714.4	2,621.0
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	252.2	204.0

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

Hedges with hedging periods up to 2048 existed as at 31 December 2019. On the basis of clean prices, the positive market values of the hedging derivatives amounted to € 303.5 million at the reporting date (31/12/2018: € 376.4 million). The negative market values of the derivatives amounted to € 23.0 million (31/12/2018: € 11.7 million) as at 31 December 2019.

Interest rate management derivatives

As at 31 December 2019, a provision for impending losses of € 30.6 million (31/12/2018: € 44.2 million) was recognized for derivatives in connection with functional units. In the 2019 financial year, in this context € 17.5 million (2018: € 18.6 million) was allocated to the provision and € 31.1 million (2018: € 2.9 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:

	31/12/2019		31/12/2018		Valuation effect
in € thousand	**Positive values**	**Negative values**	**Positive values**	**Negative values**	**31/12/2019**
CZK	2,238	(73)	3,121	(141)	(815)
EUR	68,232	(28,330)	63,967	(44,047)	19,982
GBP	5	0	7	0	(2)
HUF	1,134	0	693	0	441
NOK	2	0	0	0	2
PLN	1	0	3	0	(2)
RON	21	0	24	0	(3)
RUB	33	0	22	0	11
USD	155	(2,225)	793	(43)	(2,820)
Total	**71,821**	**(30,628)**	**68,630**	**(44,231)**	**16,794**

The main factors driving the valuation result were the change in market value due to the change in the euro interest rate market and expanded netting volume.

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

31/12/2019			Nominal amount by maturity			Market value	
in € thousand	Up to 1 year	More than 1 year, up to 5 years	More than 5 years	Total	hereof trading book	positive	negative
Total	**81,780,364**	**97,465,518**	**58,453,086**	**237,698,968**	**178,090,055**	**2,283,906**	**(1,991,505)**
a) Interest rate contracts	**36,328,590**	**87,229,265**	**56,874,925**	**180,432,780**	**127,409,117**	**1,782,214**	**(1,432,908)**
OTC products							
Interest rate swaps	27,536,897	80,255,973	52,968,881	160,761,751	108,168,620	1,633,373	(1,255,504)
Floating Interest rate swaps	0	0	0	0	0	0	0
Interest rate futures	4,639,407	0	0	4,639,407	4,639,407	159	(814)
Interest rate options - buy	1,889,060	3,867,487	1,860,405	7,616,952	7,236,420	148,588	0
Interest rate options - sell	1,703,664	2,775,208	1,513,674	5,992,546	5,942,546	0	(90,870)
Other similar interest rate contracts	486,755	243,841	485,428	1,216,024	1,216,024	26	(85,720)
Exchange-traded products							
Interest rate futures	39,500	86,756	36,537	162,793	162,793	7	0
Interest rate options	33,307	0	10,000	43,307	43,307	61	0
b) Foreign exchange rate contracts	**45,297,449**	**9,404,713**	**1,399,661**	**56,101,823**	**49,889,333**	**494,340**	**(539,293)**
OTC products							
Cross-currency interest rate swaps	6,192,039	7,395,291	1,399,661	14,986,991	10,675,603	233,504	(232,425)
Forward foreign exchange contracts	37,718,761	1,979,397	0	39,698,158	37,829,556	256,766	(301,452)
Currency options – purchased	710,112	12,240	0	722,352	689,852	4,070	0
Currency options – sold	676,537	17,785	0	694,322	694,322	0	(5,416)
Other similar interest rate contracts	0	0	0	0	0	0	0
Exchange-traded products							
Currency contracts (futures)	0	0	0	0	0	0	0
Currency options	0	0	0	0	0	0	0
c) Securities-related transactions	**147,325**	**93,400**	**0**	**240,725**	**46,465**	**1,906**	**(1,294)**
OTC products							
Securities-related forward transactions	0	0	0	0	0	0	0
Equity/Index options -buy	125,593	91,900	0	217,493	43,465	1,906	0
Equity/Index options -sell	21,732	1,500	0	23,232	3,000	0	(1,294)
Exchange-traded products							
Exchange-traded products							
Equity/Index futures	0	0	0	0	0	0	0
Equity/Index options	0	0	0	0	0	0	0
d) Commodity contracts	**0**	**0**	**0**	**0**	**0**	**0**	**0**
OTC products							
Commodity forward transactions	0	0	0	0	0	0	0
Exchange-traded products							
Commodity futures	0	0	0	0	0	0	0
e) Credit derivative contracts	**7,000**	**738,140**	**178,500**	**923,640**	**745,140**	**5,446**	**(18,010)**
OTC products							
Credit default swaps	7,000	738,140	178,500	923,640	745,140	5,446	(18,010)

31/12/2018			Nominal amount by maturity				Market value
in € thousand	Up to 1 year	More than 1 year, up to 5 years	More than 5 years	Total	hereof trading book	positive	negative
Total	**78,098,769**	**90,546,910**	**54,510,306**	**223,155,985**	**165,812,108**	**2,321,824**	**(1,925,226)**
a) Interest rate contracts	**38,999,727**	**80,613,828**	**53,193,495**	**172,807,050**	**122,097,721**	**1,680,804**	**(1,222,817)**
OTC products							
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
Exchange-traded products							
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) Foreign exchange rate contracts	**39,008,615**	**9,623,221**	**1,210,811**	**49,842,647**	**43,561,010**	**638,672**	**(698,704)**
OTC products							
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
Exchange-traded products							
Currency contracts (futures)	0	0	0	0	0	0	0
Currency options	0	0	0	0	0	0	0
c) Securities-related transactions	**90,427**	**178,660**	**22,200**	**291,287**	**22,176**	**830**	**(748)**
OTC products							
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)
Exchange-traded products							
Equity/Index futures	0	0	0	0	0	0	0
Equity/Index options	0	0	0	0	0	0	0
d) Commodity contracts	**0**	**0**	**0**	**0**	**0**	**0**	**0**
e) Credit derivative contracts	**0**	**131,201**	**83,800**	**215,001**	**131,201**	**1,518**	**(2,957)**
OTC products							
Credit default swaps	0	131,201	83,800	215,001	131,201	1,518	(2,957)

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

Derivatives	Positive fair values		Negative fair values	
in € million	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Derivatives in the trading book				
a) Interest rate contracts	1,240.6	1,125.9	1,065.2	886.9
b) Foreign exchange rate contracts	452.0	585.1	491.2	620.9
c) Share and index contracts	1.3	0.6	1.3	0.7
d) Credit derivatives	5.4	1.5	10.8	0.2

Securities

Due to a change in investment strategies, securities with a carrying amount of € 1,845.6 (31/12/2018: 145.1) million were reclassified from fixed assets to current assets at the end of the reporting year.

Debt securities and other fixed-income securities amounting lo € 996.8 million (31/12/2018: € 228.9 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	Listed	Unlisted	Listed	Unlisted
in € million	31/12/2019	31/12/2019	31/12/2018	31/12/2018
Debt securities and other fixed-income securities	3,460.9	11.2	2,919.3	17.7
Shares and other variable-yield securities	33.2	0.0	33.6	0.0

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

Securities	Fixed assets	Current assets	Fixed assets	Current assets
in € million	31/12/2019	31/12/2019	31/12/2018	31/12/2018
Debt securities and other fixed-income securities	766.6	2,705.5	1,401.8	1,535.1
Shares and other variable-yield securities	0.0	33.2	0.0	33.6

The table below shows the disposal of securities from fixed assets. Of this amount, € 1,283.5 million related to repayments (31/12/2018: € 1,600.4 million).

Balance sheet item in € million	Nominal amount 31/12/2019	Net result 31/12/2019	Nominal amount 31/12/2018	Net result 31/12/2018
Treasury bills and other bills eligible for refinancing with central banks	1,931.6	39.0	1,148.6	26.3
Loans and advances to credit institutions	0.0	0.0	32.7	0.0
Loans and advances to customers	128.5	0.1	369.8	0.0
Debt securities and other fixed-income securities	666.1	11.6	498.8	2.5
Shares and other variable-yield securities	0.0	0.0	20.0	0.0
Total	**2,726.1**	**50.7**	**2,069.9**	**28.8**

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 € 23.1 million (31/12/2018: € 62.5 million) to be recognized in the future as expenditure, and € 6.9 million (31/12/2018: € 11.5 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 € 88.3 million (31/12/2018: € 12.2 million) pursuant to Section 56 (4) of the Austrian Banking Act (BWG) and € 4.3 million (31/12/2018: € 1.4 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 € 20.9 million (31/12/2018: € 17.1 million).

Securities amounting to € 59.1 million (31/12/2018: € 264.4 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 € 187,248.5 million (31/12/2018: € 171,191.3 million), with € 1,070.1 million (31/12/2018: € 961.6 million) accounted for by securities and € 186,178.4 million (31/12/2018: € 170,229.7 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 in € million	Carrying amount 31/12/2019	Fair value 31/12/2019	Carrying amount 31/12/2018	Fair value 31/12/2018
1.	Treasury bills and other bills eligible for refinancing with centralbank	178.8	174.4	117.9	117.3
2.	Loans and advances to credit institutions	58.9	58.9	0.0	0.0
3.	Loans and advances to customers	149.3	148.3	189.7	187.3
4.	Debt securities and other fixed-income securities				
	a) Issued by public bodies	0.0	0.0	0.0	0.0
	b) Issued by other borrowers	28.4	28.2	210.1	209.0
5.	Shares and other variable-yield securities	0.0	0.0	175.1	167.3
Total		**415.4**	**409.8**	**692.8**	**681.0**

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 2019.

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

Affiliated companies

Company, registered office (country)	Total nominal value in thousand	Exchange	Direct share of RBI	Equity in € thousand	Result in € thousand[1]	From annual financial statements[2]
Angaga Handels- und Beteiligungs GmbH, Vienna	35	EUR	100%	32	(11)	31/12/2018
AO Raiffeisenbank, Moscow[3]	36,711,260	RUB	100%	2,464,664	497,747	31/12/2019
BAILE Handels- und Beteiligungsgesellschaft m.b.H.,Vienna[2]	40	EUR	100%	249,162	(27)	31/12/2019
Centralised Raiffeisen International Services & Payments S.R.L., Bukarest	2,820	RON	100%	5,825	1,888	31/12/2018
Elevator Ventures Beteiligungs GmbH, Vienna	100	EUR	100%	197	(153)	31/12/2018
Extra Year Investments Limited, Tortola	50	USD	100%	52	(8)	31/12/2018
FARIO Handels- und Beteiligungsgesellschaft m.b.H., Vienna	40	EUR	100%	5,466	(1,657)	31/12/2018
Golden Rainbow International Limited, Tortola	<1	USD	100%	369	1,943	31/12/2018
Kathrein Privatbank Aktiengesellschaft, Vienna[2]	20,000	EUR	0%	32,351	1,741	31/12/2019
KAURI Handels und Beteiligungs GmbH, Vienna[2]	50	EUR	88%	7,454	451	31/12/2019
LOTA Handels- und Beteiligungs-GmbH, Vienna	35	EUR	100%	98	(17)	31/12/2018
NAURU Handels- und Beteiligungs GmbH, Vienna	35	EUR	100%	641	533	31/12/2018
R.B.T. Beteiligungsges.m.b.H., Vienna	36	EUR	100%	266	(14)	31/12/2018
R.L.H. Holding GmbH, Vienna	35	EUR	100%	5,150	1,391	31/12/2018
R.P.I. Handels- und Beteiligungsges.m.b.H., Vienna[2]	36	EUR	100%	240	(19)	31/12/2018
Radwinter sp.z o.o., Warsaw[3]	10	PLN	100%	2	-[4]	31/12/2019
Raiffeisen Bank Aval JSC, Kiew[3]	6,154,516	UAH	68%	482,995	164,050	31/12/2019
Raiffeisen Investment Advisory GmbH, Vienna	730	EUR	100%	974	386	31/12/2018
Raiffeisen RS Beteiligungs GmbH, Vienna[2]	35	EUR	100%	5,083,044	486,733	31/12/2019
RBI Group IT GmbH, Vienna	100	EUR	100%	112	1	31/12/2018

1 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).
2 Equity and result reported in accordance with IFRS (fully consolidated domestic entities)
3 Equity and result reported in accordance with IFRS (fully consolidated foreign entities)
4 Established in 2019

Company, registered office (country)	Total nominal value in thousand	Exchange	Direct share of RBI	Equity in € thousand	Result in € thousand[1]	From annual financial statements[2]
RALT Raiffeisen Leasing Ges.m.b.H, Vienna[2]	219	EUR	100%	42,763	4,270	31/12/2019
RALT Raiffeisen-Leasing GmbH & Co. KG, Vienna[2]	20,348	EUR	97%	21,507	302	31/12/2019
RB International Finance (Hong Kong) Ltd., Hong Kong[3]	10,000	HKD	100%	19,341	671	31/12/2018
RB International Investment Asia Limited, MY-Labuan[3]	<1	EUR	100%	167	(247)	31/12/2018
RB International Markets (USA) LLC, New York[3]	8,000	USD	100%	10,894	57	31/12/2019
RBI KI Beteiligungs GmbH, Vienna[2]	48	EUR	100%	168	(39)	31/12/2019
RBI LEA Beteiligungs GmbH, Vienna[2]	70	EUR	100%	207,441	146,294	31/12/2019
RBI PE Handels- und Beteiligungs GmbH, Vienna[2]	150	EUR	100%	12,265	1,119	31/12/2019
REC Alpha LLC, Kiev[3]	1,726,843	UAH	85%	17,211	2,432	31/12/2019
Regional Card Processing Center s.r.o., Bratislava[3]	539	EUR	100%	16,512	1,141	31/12/2019
R-Insurance Services sp. z o.o., Ruda Śląska	5	PLN	100%	1	-[4]	31/12/2019
RL Leasing Gesellschaft m.b.H., Eschborn[3]	26	EUR	25%	2,595	166	31/12/2019
RSC Raiffeisen Daten Service Center GmbH, Vienna	2,000	EUR	50%	2,510	(179)	31/12/2018
RZB Finance (Jersey) III Ltd, JE-St. Helier[3]	1	EUR	100%	68	(47)	31/12/2019
RBI IB Beteiligungs GmbH, Vienna[2]	35	EUR	100%	52,571	12,539	31/12/2019
RZB-BLS Holding GmbH, Vienna[2]	500	EUR	100%	430,436	23,669	31/12/2019
RBI-Invest Holding GmbH, Vienna[2]	500	EUR	100%	852,638	10,043	31/12/2019
Salvelinus Handels- und Beteiligungsges.m.b.H., Vienna[2]	40	EUR	100%	389,812	237	31/12/2018
Ukrainian Processing Center PJSC, Kiew[3]	180	UAH	100%	18,022	7,093	31/12/2019
ZHS Office- & Facilitymanagement GmbH, Vienna	36	EUR	1%	495	348	31/12/2019

1 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).
2 Equity and result reported in accordance with IFRS (fully consolidated domestic entities)
3 Equity and result reported in accordance with IFRS (fully consolidated foreign entities)
4 Established in 2019

Fixed assets

The land value of developed land amounts to less than € 0.1 million (31/21/2018: less than € 0.1 million).

RBI AG was not directly involved in the leasing business as a lessor in 2019.

Obligations from the use of tangible fixed assets not reported on the statement of financial position amount to € 37.7 million (31/12/2018: € 32.3 million) for the following financial year, of which € 35.3 million were owed to affiliated companies (31/12/2018: € 30.6 million). The total amount of obligations for the following five years amounts to € 194.51 million (31/12/2018: € 167.9 million), of which € 182.2 million are owed to affiliated companies (31/12/2018: € 159.1 million).

The intangible fixed assets item includes no 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 1/1/2019	Additions due to merger	Exchange differences	Additions	Disposals	Reclassi-fication	As at 31/12/2019
		1	2	3	4	5	6	7
1.	Treasury bills and other bills eligible for refinancing with central banks	4,859,946	0	2,500	774,813	(3,506,540)	0	2,130,719
2.	Loans and advances to credit institutions	73,121	0	609	10,000	0	0	83,730
3.	Loans and advances to customers	647,054	0	2,416	52,803	(118,011)	0	584,262
4.	Debt securities and other fixed-income securities	1,421,433	0	4,931	354,190	(995,860)	0	784,693
a)	Issued by public bodies	0	0	0	0	0	0	0
b)	Issued by other borrowers	1,421,433	0	4,931	354,190	(995,860)	0	784,693
5.	Shares and other variable-yield securities	188,900	0	0	212,500	0	0	401,400
6.	Participating interests	119,318	0	0	5	(125)	(1,000)	118,198
7.	Shares in affiliated undertakings	12,870,329	0	0	18,640	(37,686)	1,000	12,852,283
8.	Intangible fixed assets	203,868	0	50	8,957	(5,478)	0	207,397
9.	Tangible assets	27,948	0	46	4,676	(774)	0	31,896
10.	Other assets	116	0	0	0	0	0	116
	Total	**20,412,033**	**0**	**10,553**	**1,436,584**	**(4,664,475)**	**0**	**17,194,695**

in € thousand	Writing up/depreciation/revaluation								Carrying amount	
Item	Cumulative depreciation as of 1/1/2019	Addi-tions due to merger	Exchange differences	Cumulative depreciation and amortization disposal	Write-ups	Depre-ciation	Reclassi-fication	Cumulative depreciation as of 31/12/2019	31/12/2019	31/12/2018
	8	9	10	11	12	13	14	15	16	17
1.	(112,461)	0	0	112,765	1,593	(29,858)	0	(27,961)	2,102,758	4,747,485
2.	(19)	0	0	0	0	16	0	(3)	83,726	73,101
3.	(4,055)	0	17	(153)	1,809	191	0	(2,190)	582,071	642,999
4.	(22,877)	0	(39)	1,709	2,838	(1,820)	0	(20,188)	764,505	1,398,556
a)	0	0	0	(2)	2	0	0	0	0.00	0
b)	(22,877)	0	(39)	1,711	2,836	(1,820)	0	(20,188)	764,505	1,398,556
5.	0	0	0	0	0	0	0	0	401,400	188,900
6.	(45,366)	0	0	125	3,170	(4)	0	(42,075)	76,123	73,952
7.	(2,238,119)	0	0	29,941	179,410	(2,154)	0	(2,030,922)	10,821,362	10,632,210
8.	(166,561)	0	(16)	4,888	0	(8,135)	0	(169,825)	37,573	37,307
9.	(17,349)	0	(20)	743	0	(2,602)	0	(19,228)	12,668	10,600
10.	0	0	0		0	0	0	0	116	116
	(2,606,806)	**0**	**(59)**	**150,017**	**188,821**	**(44,364)**	**0**	**(2,312,391)**	**14,882,304**	**17,805,227**

Other assets

As at 31 December 2019, other assets totaled € 2,966.6 million (31/12/2018: € 2,825.0 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 € 1,830.2 million (31/12/2018: € 1,857.5 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 € 252.2 million (31/12/2018: € 204.0 million), loans and advances to the tax administration in the amount of € 18.7 million (31/12/2018: € 17.3 million), holdings of precious metals in coin and other forms in the amount of € 203.9 million (31/12/2018: € 102.0 million), loans and advances to Group members arising from tax transfers in the amount of € 22.4 million (31/12/2018: € 18.2 million) and dividends receivable totaling € 494.9 million (31/12/2018: € 460.5 million).

The other assets also contain income of € 625.8 million (31/12/2018: € 604.4 million) which is not payable until after the reporting date.

Deferred tax assets

The deferred tax assets of € 0.4 million (31/12/2018: € 26.1 million) shown in the statement of financial position result from tax loss carryforwards against American tax authorities of the subsidiary RB International Finance (USA), LLC, New York, which was liquidated in 2017. They are based on the planned future taxable profit of the subsidiary RB International Markets (USA) LLC, New York. No deferred tax assets were recognized for temporary differences of € 294.7 million (31/12/2018: € 285.0 million) and € 2,089.9 million (31/12/2018: EUR 1,801.5 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, which are generally set off up to the amount of the asset-side temporary differences, in the financial year.

Subordinated assets

Subordinated assets contained under assets:

in € million	31/12/2019	31/12/2018
Loans and advances to credit institutions	**1,160.7**	**1,281.2**
hereof to affiliated companies	1,155.0	1,275.6
hereof to companies linked by virtue of a participating interest	3.7	3.6
Loans and advances to customers	**302.7**	**177.3**
hereof to affiliated companies	56.4	56.6
hereof to companies linked by virtue of a participating interest	2.2	2.1
Debt securities and other fixed-income securities	**49.2**	**30.1**
hereof from affiliated companies	0.0	0.0
hereof from companies linked by virtue of a participating interest	2.0	0.0
Shares and other variable-yield securities	**441.6**	**223.3**
hereof from affiliated companies	417.0	197.3
hereof from companies linked by virtue of a participating interest	0.1	1.3

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	31/12/2019	31/12/2018
Indemnification for securities lending transactions	246.6	1,001.8
Loans assigned to Oestereichische Kontrollbank (OeKB)	2,077.9	1,774.9
Indemnification for OeNB tender	169.7	1,000.0
Loans assigned to European Investment Bank (EIB)	55.5	48.8
Loans assigned to Kreditanstalt für Wiederaufbau (KfW)	29.8	41.1
Loans assigned to Euler Hermes	0.8	0.9
Institutional Protection Scheme	252.2	204.0
Margin requirements	12.1	27.3
Treasury call deposits for contractual netting agreements	690.4	598.2
Total	**3,535.0**	**4,697.0**

In addition, assets with usage restrictions in an amount of € 1,668.5 million (31/12/2018: € 1,429.8 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	31/12/2019	31/12/2018
Loans and advances to credit institutions		
To affiliated companies	2,113.2	2,044.7
To companies linked by virtue of a participating interest	247.6	65.2
Loans and advances to customers		
To affiliated companies	2,152.1	2,295.0
To companies linked by virtue of a participating interest	111.8	116.3
Debt securities and other fixed-income securities		
From affiliated companies	122.1	120.5
From companies linked by virtue of a participating interest	6.5	44.0

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	31/12/2019	31/12/2018
Liabilities to credit institutions	**27,902.5**	**26,598.3**
Repayable on demand	3,671.5	3,457.3
Up to 3 months	13,244.0	13,079.2
More than 3 months, up to 1 year	1,695.2	2,207.7
More than 1 year, up to 5 years	6,849.6	5,877.7
More than 5 years	2,442.4	1,976.3
Liabilities to customers	**19,155.6**	**17,612.1**
Repayable on demand	5,331.7	6,172.5
Up to 3 months	7,298.8	6,172.7
More than 3 months, up to 1 year	3,699.6	3,397.4
More than 1 year, up to 5 years	1,775.8	956.0
More than 5 years	1,049.8	913.6
Securitised liabilities	**7,039.8**	**5,122.5**
Up to 3 months	142.0	293.2
More than 3 months, up to 1 year	974.1	502.6
More than 1 year, up to 5 years	3,651.1	3,384.8
More than 5 years	2,272.6	941.8
Other liabilities	**2,392.3**	**2,363.2**
Up to 3 months	2,392.3	2,363.2
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 € 1.044,5 million (31/12/2018: € 572.3 million) will become due in next financial year.

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

in € million	31/12/2019	31/12/2018
Liabilities to credit institutions		
From affiliated companies	6,193.0	4,346.8
From companies linked by virtue of a participating interest	4,274.3	3,905.0
Liabilities to customers		
From affiliated companies	3,896.7	3,771.5
From companies linked by virtue of a participating interest	173.1	106.9

Other liabilities

As at 31 December 2019, other liabilities amounted to € 2,392.4 million (31/12/2018: € 2,363.2 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 € 1,619.8 million (31/12/2018: € 1,580.5 million) and liabilities of € 185.9 million (31/12/2018: € 158.1 million) from short positions in bonds. The fair market value of the hedges for capital guarantees for funds is € 85.7 million (31/12/2018: € 91.5 million). The item also includes accrued interest for additional capital of € 286.9 million (31/12/2018: € 273.7 million), liabilities from tax transfers (corporate income tax) and liabilities from creditable capital yields and withholding tax toward Group members totaling € 20.2 million (31/12/2018: € 21.4 million).

The other liabilities also contain expenses in the amount of € 338.2 million (2018: € 345.4 million), for which payment is lo be made after the reporting date.

Provisions

Provisions amount to € 92.4 million (31/12/2018: € 65.7 million) for severance payments, € 73.5 million (31/12/2018: € 71.5 million) for pensions, € 5.9 million (31/12/2018: € 0.3 million) for tax provisions, and € 237.0 million (31/12/2018: € 171.8 million) for other provisions. Reinsurance policies for pension provisions are in place in the amount of € 14.6 million (31/12/2018: € 12.5 million). In the financial year under review these were offset with claims of the same amount.

Out of the tax provisions of € 5.9 million, € 4.9 million relate to provisions for real estate transfer taxes owed to the German tax administration, while € 1.0 million relate to provisions for corporate income tax from 2016.

The increase in other provisions resulted mainly from guaranteed loans and litigation risks relating to litigation on foreign currency loans in Poland. A number of customer lawsuits were filed in Poland. The provision is based on a statistical approach that incorporates statistical data, where relevant, as well as expert opinions. Possible verdict scenarios and the expected loss rates per scenario were estimated. The expected loss is based on loans extended to customers who have filed or threatened to file a lawsuit against the bank. To calculate the financial impact of each scenario, the loan amount is multiplied by the estimated financial outflow in the scenario and the likelihood that the bank will ultimately have to pay compensation to the customer. A reasonable discount rate is applied to outflows when it is assumed that they will not take place within a year. The financial impacts of the individual scenarios are weighted based on expert opinions. The resulting amount of € 48.8 million, which includes estimated attorneys' fees, was recognized in a provision for 2019.

Other provisions

in € million	31/12/2019	31/12/2018
Losses on bankbook interest rate derivatives	30.6	44.2
Guarantee loans	39.2	18.5
Process risks	50.3	0.2
Bonus payments	42.4	44.3
Anniversary payments	27.4	23.8
Overdue vacation	22.0	20.2
Restructuring costs	1.2	1.4
Supervisory Board fees	1.1	1.1
Operational risk/losses/other	4.8	1.2
Audit costs	0.5	0.4
Other expenses/outstanding invoices	17.6	16.6
Total	**237.0**	**171.8**

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

As at 31 December 2019, tier 2 capital amounts to € 2,628.8 million (31/12/2018: € 2,737.5 million).

Company tier 2 capital according to CRR:

in € million	31/12/2019	31/12/2018
6.625% RBI bonds 2011-2021	12.3	9.4
6% RBI debt securities issued 2013-2023	2.4	2.4
var. RBI bonds 2014-2025	8.9	0.4
var. RBI bonds 2013-2024	0.0	6.5

In the reporting year issuances in the amount of € 314.2 million (2018: € 5.1 million) were redeemed. A loss of € 4.4 million (2018: < € 0.1 million) including the release of the corresponding hedging transaction was booked in the financial year.

Subordinated liabilities

List of subordinated loans (including tier 2 capital) that exceed 10 per cent of the total subordinated liabilities of € 2,628.8 million (i.e. that exceed € 262.9 million):

Name	Nominal value in € million	Maturity date	Interest rate
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 € 128.4 million (2018: € 164.3 million).

Additional tier 1 capital

No additional tier 1 capital according to part two, title I, chapter 3 of regulation (EU) no 575/2013 was issued in the financial year. RBI completed its planned AT1 issuance program with a nominal issuance of € 1,150.0 million (€ 650.0 million in 2017 and € 500.0 million in 2018). As of 31 December 2019, the additional tier 1 capital, plus accrued interest, amounts to € 1,151.2 million (31/12/2018: € 1,152.7 million). The total 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.

Assets and liabilities in foreign currency

in € million	31/12/2019	31/12/2018
Assets in foreign currency	8,456.3	9,703.4
Liabilities in foreign currency	7,976.0	6,424.5

Equity

Subscribed capital

As of 31 December 2019, the capital stock of RBI AG pursuant to its articles of association was unchanged at € 1,003.3 million. 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 € 1,002.3 million (31/12/2018: € 1,002.3 million).

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.

No own shares have been bought or sold since the authorization was issued in June 2018.

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 13 June 2019 to increase the capital stock – in one or more tranches – by up to € 446.8 million subject to the approval of the Supervisory Board by issuing up to 164,469,810 new common bearer shares with voting rights against contributions in cash and/or in kind of up to € 501,632,920.50 (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 2 August 2024 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).

No use has been made of the authorization issued in June 2019 to use the authorized capital.

Capital reserves

The committed capital reserves of € 4,334.3 million (31/12/2018: € 4,334.3 million) and the uncommitted capital reserves of € 97.1 million (31/12/2018: € 97.1 million) remained unchanged over the entire financial year.

Retained earnings

Retained earnings consist of legal reserves of € 5.5 million (31/12/2018: € 5.5 million) and other free reserves amounting to € 2,299.3 million (31/12/2018: € 2,165.1 million). Of the other free reserves, an amount of € 265.3 million (31/12/2018: € 217.1 million) is allocated to the federal IPS. An amount of € 48.2 million (31/12/2018: € 46.4 million) was allocated to other reserves in the 2019 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 corresponding 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 € 86.0 million (31/12/2018: € 648.0 million) was allocated to other free reserves from the profit for the year after tax.

Liability reserves

As at 31 December 2019, liability reserves stood at € 535.1 million (31/12/2018: € 535.1 million).

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 2019, the volume of these guarantees was € 973 million (31/21/2018: € 1,029 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 Raiffeisen Customer Deposit Guarantee Association Austria (RKÖ), its affiliated state customer deposit guarantee associations and their members terminated their liability for all new loans relating to customer business relationships with members of the customer deposit guarantee associates as of 30 September 2019 (cut-off date). They remain liable for balances that existed as of the cut-off date; disbursements and all other debit entries after the cut-off date reduce their liability. They are not liable for any increases in balances after 30 September 2019 or any business relationships established after that date. 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.

As at 31 December 2019, soft letters of comfort in the amount of € 302.4 million (31/12/2018: € 382.8 million) had been issued.

The volume of liabilities to affiliated companies amounted to € 1,106.5 million as at 31 December 2019 (31/12/2018: € 648.3 million). The presentation as of 31/21/2018 has been changed so that all affiliated companies are included, not just those that are directly held.

Open capital commitments on share capital in the amount of € 5.6 million (31/12/2018: € 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 € 6,049.9 million were reported as at 31 December 2019 (31/12/2018: € 5,213.1 million). Of that amount, € 5,070.1 million (31/12/2018: € 4,263.3 million) was attributable to guarantees and € 979.8 million (31/12/2018: € 949.8 million) to letters of credit.

As at 31 December 2019, € 15,171.2 million (31/12/2018: € 13,206.7 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	31/12/2019	31/12/2018
Paid-in capital	1,002	1,002
Less obligation to purchase own shares	(19)	(19)
Capital reserves and premium to CET1 instruments	4,431	4,431
Retained earnings and other reserves[1]	2,577	2,515
Common equity tier 1 (before deductions)	**7,992**	**7,929**
Net loss for the year	0	0
Adjustment for Prudent Valuation	(27)	(29)
Intangible fixed assets/goodwill	(38)	(37)
Provision shortage for IRB-positions	(20)	(70)
Deduction deferred tax assets	0	(1)
Deduction securitizations	0	0
Transitional adaptions for common equity tier 1	0	0
Common equity tier 1 (after deductions)	**7,907**	**7,792**
Additional tier 1	1,145	1,144
Less own AT1 capital	(5)	(14)
Less obligation to purchase own AT1	(30)	(6)
Transitional adaptions for common equity tier 1	0	0
Tier 1	**9,017**	**8,916**
Supplementary capital	1,691	2,210
Less own supplementary capital	(24)	(18)
Less obligation to purchase own supplementary capital	(16)	(22)
Less own supplementary capital of substantial participations	(1)	(2)
Provision excess of internal rating approach positions	184	137
Transitional adaptions for supplementary capital	0	0
Tier 2 (after deductions)	**1,834**	**2,305**
Total capital	**10,851**	**11,221**
Common Equity Tier 1 ratio (transitional)	19.7%	19.8%
Common equity tier 1 capital ratio (fully loaded)	19.7%	19.8%
Tier 1 capital ratio	22.5%	22.7%
Total capital ratio (transitional)	27.1%	28.6%
Total capital ratio (fully loaded)	27.1%	28.6%

1 Minus Federal IPS reserve of € 265.3 million (31/12/2018: € 217.1 million)

in € million	31/12/2019	31/12/2018
Risk-weighted exposure amounts credit risk	34,599	33,863
Internal rating approach	30,462	29,238
Standardized approach	4,137	4,438
Total amount of risk positions for credit valuation adjustments	157	188
Risk exposure amount for settlement and delivery risk	46	0
Total risk exposure amount for position, foreign exchange and commodities risks	1,927	2,438
Total risk exposure amount for operational risk (OpR)	3,057	3,000
Other risk exposure amounts	314	0
TOTAL RISK EXPOSURE AMOUNT	**40,101**	**39,300**

Capital requirements

in € million	31/12/2019	31/12/2018[1]
Risk-weighted calculation base according to standardized approach	**4,137**	**4,432**
Banks	21	10
Corporate customers	4	11
Retail exposures	153	137
Receivables secured by real estate	3,354	3,562
Defaulted positions	93	119
Equity exposures	178	177
Other positions	334	416
Risk-weighted calculation basis according to internal rating approach	**30,462**	**29,238**
Central governments and central banks	43	38
Banks	1,943	2,125
Corporate customers	14,063	12,550
Equity exposures	14,413	14,188
Securitization position	0	338
Risk-weighted calculation basis for credit risk	**34,599**	**33,670**

1 The assessment base and total amount at risk (total RWAs) were uniformly used as reference parameters for the total capital pursuant to the CRR as of the 2019 reporting date. The comparison figures for the 2018 reporting date were adjusted accordingly.

	31/12/2019	31/12/2018
Leverage ratio (fully loaded)	13.1%	13.0%
Risk weighted assets of total assets	57.8%	61.0%

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:

2019 **in € million**	**Total**	**Austria**	**Europe**	**Asia**
Interest receivable and similar income	958.6	914.9	42.3	1.3
hereof: from fixed-income securities	86.9	86.8	0.0	0.1
Income from variable-yield securities and participations	708.8	708.8	0.0	0.0
Commissions receivable	361.0	356.7	4.3	0.0
Net profit or net loss on financial operations	(51.2)	(51.1)	0.3	(0.5)
Other operating income	269.9	267.8	2.1	0.0

2018 **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

Negative interest rates

Due to the low interest rate situation prevailing in the financial year 2019 as well, an expense, resulting from negative interest for loans and advances, was shown in an amount of € 43.6 million (2018: € 45.1 million) in the item interest receivable and similar income. This contrasted with income of € 62.7 million (2018: € 57.2 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 income resulting from negative interest.

Other operating income

Other operating income includes staff and administrative expenses passed on for services in the amount of € 86.8 million (2018: € 89.0 million), income from releases of provisions for impending losses from derivatives in the amount of € 33.1 million (2018: € 2.9 million), income from close-out fees for derivatives on the banking book in an amount of € 117.1 million (2018: € 25.8 million), as well as income from the release of other provisions in the amount of € 0.8 million (2018: € 43.5 million).

Staff expenses

Expenses for severance payments and benefits for occupational employee pension funds include € 37.6 million (2018: € 14.5 million) in expenses for severance payments. This includes reorganization expenses of € 18.2 million.

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 € 200.5 million to € 305.4 million in 2019. This includes allocations for provisions for pending losses for banking book derivatives in an amount of € 17.5 million (2018: € 19.8 million), allocations for other provisions for liabilities and charges of € 65.1 million (2018: € 22.1 million), expenses relating to the foreign branches in an amount of € 10.9 million (2018: € 13.7 million) as well as expenses deriving from close-out fees for banking book derivatives in an amount of € 196.6 million (2018: € 46.2 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 € 105.9 million (2018: minus € 31.6 million). This change derived, firstly, from a decrease in the net gain/loss on the valuation and disposal of marketable securities and banking book derivatives in the amount of € 3.5 million (2018: € 4.8 million) and, secondly, from a decrease in the net gain/loss on the valuation of loans and advances as well as guarantees to an amount of minus € 109.4 million (2018: minus € 36.4 million). The moderate year-on-year increase in the requirement for loan loss provisions derived mainly from releases of loan loss provisions in the 2018 financial year. RBI AG recognized net provisioning for individual loan loss provisions of € 98.2 million (2018: € 104.9 million). Net provisioning for portfolio-based loan loss provisions amounted to € 15.3 million (2018: € 38.6 million). The decline resulted from (i) a one-off effect caused by a change in method in the 2018 financial year in which the IFRS 9 calculation model used to determine portfolio-based loan loss provisions came into effect on 1 January 2018 under company law and (ii) the inclusion of expected credit risks relating to extraordinary events that the model cannot account for.

In the financial year under review, losses were realized on shares in investment funds in an amount of € 0.7 million (2018: € 0.4 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 € 150.8 million, RZB-BLS Holding GmbH, Vienna, in an amount of € 23.8 million, BAILE Handels- und Beteiligungsges. m.b.H., Vienna, in an amount of € 2.1 million, and Posojilnica Bank eGen, Klagenfurt, in an amount of € 2.9 million. Shares in affiliated companies and equity participations were written down by € 2.2 million in total. In total, gains of € 180.4 million (2018: gains of € 125.8 million) on the valuation of shares in affiliated companies and equity participations were reported.

Overall, the disposal of shares in affiliated companies and equity participations led to a break-even result of € 0.0 million (2018: loss of € 6.5 million).

Group taxation

RBI AG is the group parent of a corporate group pursuant to Section 9 of the Corporation Tax Act (KStG). As at 31 December 2019, 50 companies were members of the group of companies (31/12/2018: 50 companies) in accordance with Section 9 of the Corporation Tax Act (KStG).

Merger gain

The entire merger gain from the previous year related to the net gain/loss on the contribution of the remaining business of Raiffeisen Bank Polska S.A., Warsaw, following the sale of the core banking operations to Bank BGZ Paribas S.A.

Overall return on assets

The overall return on assets (net loss or profit after tax divided by the average total assets) in 2019 was 0.7 per cent (2018: 1.7 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 € 1.00 per share from the net profit shown in the 2019 annual financial statements. Based on the shares issued, this would result in a maximum amount of € 328,940 thousand.

Other

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

In the 2019 financial year the company had an average of 2,915 employees (2018: 2,533).

Expenses for severance payments and pensions

	Pension expenditure		Severance payments	
in € thousand	**2019**	**2018**	**2019**	**2018**
Members of the managing board and senior staff	2,505	3,340	3,162	1,738
Employees	10,635	22,563	34,402	15,680
Total	**13,140**	**25,903**	**37,564**	**17,418**

The increase in severance payments expenses was due to the restructuring expenses in the amount of € 18 million in the financial year. The decrease in pension expenditure was the result of changes to the mortality tables in the previous year.

Management Board

The Management Board was as follows:

Members of the Management Board	First assignment	End of period
Johann Strobl, Deputy Chairman	22 September 2010[1]	28 February 2022
Martin Grüll	3 January 2005	28 February 2020[2]
Andreas Gschwenter	1 July 2015	30 June 2023
Lukasz Januszewski	1 March 2018	28 February 2021
Peter Lennkh	1 October 2004	31 December 2020
Hannes Mösenbacher	18 March 2017	28 February 2025
Andrii Stepanenko	1 March 2018	28 February 2021

1 Effective as of 10 October 2010
2 The number of members of RBI AG's Management Board will be reduced from seven to six when Martin Grüll's Management Board mandate expires at the end of February 2020. The Management Board areas of responsibility will be reorganized in a way that aims to exploit opportunities to streamline the organization.

Supervisory Board

The Supervisory Board as at 31 December 2019 was as follows:

Members of the Supervisory Board	First assignment	End of period
Erwin Hameseder, Chairman	8 July 2010[1]	AGM 2020
Martin Schaller, 1st Deputy Chairman	4 June 2014	AGM 2024
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 2017	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
Andrea Gaal	21 June 2018	AGM 2023
Birgit Noggler	22 June 2017	AGM 2022
Rudolf Kortenhof[2]	10 October 2010	Until further notice
Peter Anzeletti-Reikl[2]	10 October 2010	Until further notice
Gebhard Muster[2]	22 June 2017	Until further notice
Sigrid Netzker[2]	1 January 2019	Until 31 December 2019
Helge Rechberger[2]	10 October 2010	Until further notice
Susanne Unger[2]	16 February 2012	Until further notice

1 Effective as of 10 October 2010.
2 Delegated by the Staff Council

Sigrid Netzker took over Natalie Egger-Grunicke's Supervisory Board functions for one year starting on 1 January 2019. Natalie Egger-Grunicke reassumed her Supervisory Board functions on 1 January 2020.

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	2019	2018
Fixed remunerations	5,434	5,154
Bonus (performance-based)	3,196	2,493
Share-based remuneration (performance-based)	0	399
Payments to pension funds and reinsurance policies	432	355
Other remunerations	2,346	2,345
Total	**11,408**	**10,746**
hereof remuneration of affiliated companies	2,160	1,813

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. The bonuses reported above are immediately payable bonus amounts for 2018 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, insurance policies and grants.

An amount of € 1,137 thousand (2018: € 1,142 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 totaling € 1,346 thousand (2018: € 3,258 thousand) were paid to former members of the Management Board.

Remuneration of members of the Supervisory Board

in € thousand	2019	2018[1]
Remuneration Supervisory Board	1,069	1,060

1 Adjustment of the previous year's figure (€ 965 thousand) to the remuneration actually paid

The Annual General Meeting held on 21 June 2018 approved a new remuneration 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. In the 2019 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	2019	2018[1]
Remuneration Advisory Council	202	198

1 Adjustment of the previous year's figure (€ 104 thousand) to the remuneration actually paid

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. A provision of € 202 thousand was recognized for the 2019 financial year.

Events after the reporting date

There were no significant events after the reporting date.

Vienna, 28 February 2020

The Management Board

Johann Strobl

Martin Grüll

Andreas Gschwenter

Łukasz Januszewski

Peter Lennkh

Hannes Mösenbacher

Andrii Stepanenko

Management report

Market development

Industrial development dampens the euro area economy while interest rates remain low

At 1.2 per cent in 2019, gross domestic product (GDP) growth in the euro area came in lower than in the previous year (1.9 per cent). The economic slowdown was driven by very diverse developments in individual sectors. While the output of the industrial sector experienced a noticeable decline, economic output in the services and construction sectors developed solidly. The unemployment rate declined over the course of the year. At 1.2 per cent, the inflation rate was well below the European Central Bank (ECB) target of 2 per cent.

The ECB initially left key interest rates unchanged until the summer of 2019, while reinvestments were limited to redemption payments from its existing bond portfolio. The ECB adopted a new package of monetary easing measures at the meeting in early September. The package included a reduction in the deposit rate for commercial banks from minus 0.4 per cent to minus 0.5 per cent and the resumption of net bond purchases. The ECB's expansive monetary policy caused money market rates and yields on German government bonds to fall to historic lows over the course of the year. Between August and mid-October, even the yield on the 30-year German government bond was negative for the first time.

The Austrian economy also lost considerable momentum over the year. As a result of the good winter half-year 2018/19, real GDP growth for the whole of 2019 amounted to 1.6 per cent (2018: 2.4 per cent), thus remaining above the euro area average. Industrial production slowed markedly from spring 2019, after having previously seen a notable decoupling from the weak industrial production trends in Germany. Against this challenging external environment backdrop, foreign trade momentum also declined steadily over the course of the year, but nevertheless provided a positive impetus. Capital expenditures weakened noticeably as well. Consumer spending however provided support to the economy, benefiting from continued favorable labor market conditions and the growth in real disposable household incomes.

Growth in the US economy slowed in 2019, albeit remained robust. Real GDP grew 2.3 per cent, after 2.9 per cent growth in 2018. The US also suffered from a period of notable weakness in the industrial sector, although this had little impact on other parts of the economy. On the demand side, consumer spending supported the economy, benefiting from the continuation of the positive trend in the labor market. Job creation continued in tandem with a decline in the unemployment rate.

In China, economic growth momentum eased off in 2019: real GDP growth of 6.1 per cent was recorded for the entire 2019 year, around 0.6 percentage points less than the previous year. Credit growth continued to decline year-on-year, while growth rates for capital expenditures and industrial production reached new record lows. While the trade conflict with the US had initially only made itself felt in the sentiment surveys, it increasingly left its mark on exports and consequently also on real economic data.

Solid economic climate in CE and in SEE, while restrictive fiscal policy slowed growth in Russia

Inflation in the Central Europe (CE) region rose on average in 2019, compared with the previous year, and at 2.6 per cent was well above the two per cent mark. In Southeastern Europe (SEE), in contrast, inflation fell to just below 3 per cent. Inflationary pressure in SEE, as in the previous year, was driven by Romania, though this started to abate towards the end of 2019. All in all, central banks in Central & Eastern Europe (CEE) therefore found themselves able to continue their loose or rather neutral monetary policy. One exception was the Czech central bank, which had initiated a process of interest rate normalization in 2017, and reached a key interest rate level of 2.25 per cent at the beginning of 2020. Notably, the Romanian National Bank also decided to combat the underlying inflationary pressure through restrictive liquidity management. The renewed monetary easing measures taken by leading central banks, such as the ECB and the Fed, fundamentally increased the latitude for an expansive monetary policy in CEE countries. In Russia and Ukraine, in particular, the key rate was lowered in 2019 alongside falling inflation.

Economic growth in the CE region slowed comparatively moderately in 2019, reaching 3.6 per cent for the year compared to 4.5 per cent in the previous year. At 4.9 per cent, Hungary achieved the highest growth rate on an individual country level. Domestic demand, particularly consumer spending, supported by solid wage growth and a low unemployment rate, proved again to be the main driver of the CE economy in 2019. Despite the close trade links between industry in the CE region and Germany, the slowdown in industrial activity in CE was less pronounced than in Germany, especially in the automotive sector.

In the SEE region, economic growth in 2019 was 3.6 per cent, roughly on par with the previous year (3.7 per cent) and driven mainly by strong domestic demand. In the region's smaller markets, momentum slowed; especially in Serbia, where the growth rate recorded a sharp decline of 1.4 percentage points to 3.0 per cent, compared to 2018. Romania, the largest economy in the region, maintained its strong growth rate of around 4.1 per cent, making it the main growth engine in SEE.

GDP growth in Eastern Europe (EE) declined considerably to 1.4 per cent in 2019, after positive one-off growth effects in Russia (e.g. investment projects which had been completed in 2018), had led to a rate of 2.4 per cent in the previous year. Russia, which continued its restrictive fiscal policy while running federal budget surpluses, achieved only 1.2 per cent growth. Domestic demand remained weak. At the same time, inflation developed more moderately than expected despite an increase in VAT, which allowed the central bank to start significantly lowering key interest rates again from mid-2019. In addition, the absence of additional burdens from sanctions allowed the Russian ruble to appreciate. In Ukraine, 2019 was marked primarily by political events, i.e. presidential and parliamentary elections. The new leadership now faces the task of implementing ambitious reform plans. The economy performed well despite the political uncertainties, and the upswing continued with growth of 3.3 per cent year-on-year. The currency appreciated significantly with strong investment inflows. The inflation rate also fell in Ukraine, giving the central bank scope for stronger interest rate cuts in the second half of the year. In contrast, the pace of GDP growth in Belarus declined significantly to 1.2 per cent in 2019, which was partly related to the economic slowdown in Russia.

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

Region/country	2018	2019e	2020f	2021f
Czech Republic	2.9	2.4	2.0	2.2
Hungary	5.1	4.9	3.2	3.2
Poland	5.2	4.1	3.3	3.2
Slovakia	4.0	2.2	2.0	2.5
Slovenia	4.1	2.5	2.2	2.5
Central Europe	**4.5**	**3.6**	**2.8**	**2.9**
Albania	4.1	2.5	2.8	3.0
Bosnia and Herzegovina	3.7	2.5	2.1	2.6
Bulgaria	3.1	3.5	2.8	2.9
Croatia	2.7	2.8	2.5	1.8
Kosovo	3.8	4.1	3.8	3.8
Romania	4.0	4.1	3.0	2.0
Serbia	4.4	3.0	3.0	3.0
Southeastern Europe	**3.7**	**3.6**	**2.9**	**2.3**
Belarus	3.1	1.2	1.8	1.5
Russia	2.3	1.2	1.6	1.3
Ukraine	3.3	3.3	3.1	3.5
Eastern Europe	**2.4**	**1.4**	**1.7**	**1.5**
Austria	**2.4**	**1.6**	**0.8**	**1.4**
Germany	**1.5**	**0.6**	**0.6**	**1.2**
Euro area	**1.9**	**1.2**	**0.8**	**1.2**

Source: Raiffeisen Research on 26 February 2020 (e: estimate, f: forecast). Subsequent revisions to data for prior years are possible.

Banking sector in Austria

The Austrian banking sector extended its solid track record from previous years into 2019, despite light economic headwinds during the second half of the year. The corporate customer business sustained its positive momentum in 2019. Likewise, real estate lending continued its upward trajectory, but did not reach levels that would be deemed as clearly excessive from a supervisory perspective. At just over 2 per cent, non-performing loans (NPLs) remained below the euro area average of 2.9 per cent, while the coverage ratio significantly exceeded 50 per cent. The return on equity (before tax) of Austrian banks was 9 to 10 per cent on a consolidated basis in 2019 (mostly supported by low risk costs in domestic and foreign operations), and thus well above the euro area average of 6 to 7 per cent. This positive earnings trend was broadly underpinned by ongoing positive business developments in CEE, with double-figure return on equity in the core markets of the Czech Republic, Hungary, Romania, and Russia. Adjustments and efficiency enhancement programs implemented in recent years within the CEE business of Austrian banks, (e.g. changes to geographical footprint, stronger focus on retail business, expansion of branch network), have also had an effect. Given the positive developments in the overall market, the Austrian banking sector was able to further bolster its capitalization in the reporting period relative to other Western European banking sectors, ranking it in the upper-middle echelon of its European peers. However, the capital requirements for large Austrian banks could gradually increase further due to the recalibration of the systemic risk buffer and the buffer for other systemically important institutions as recommended by the Financial Market Stability Board.

Development of the banking sector in CEE

The development of the CEE banking sector was again promising in 2019. New lending and asset growth increased even further in some CE and SEE countries, such as in the Czech Republic, Slovakia and Romania. In addition, more banking markets (e.g. Hungary, Serbia and Bosnia and Herzegovina) participated in the overall positive trend, with asset growth recorded in almost all markets. In a few markets with identifiable sectoral overheating risks (e.g. real estate lending in the Czech Republic and Slovakia, with anticyclical capital buffers at bank level in the Czech Republic and Slovakia, or the retail segment in Russia), the respective central banks have responded with micro- and/or macro-prudential regulatory measures. In Russia, established western foreign banks benefited from a general improvement in the market environment (e.g. market shakeout, temporarily subsiding sanction risks, increasing local investment), with continuing attractive interest rate margin. Western foreign banks acting as niche players were even able to slightly increase their market share in Russia in 2019. Almost all CEE banking markets (except for Ukraine and Belarus) currently have a comfortable loan-to-deposit ratio (near to or well below 100 per cent), providing a solid basis for future growth. In addition, significant progress was made in the reduction of NPLs. In CE and SEE, the NPL ratio declined to just under 5 per cent and 7 per cent respectively in 2019, the lowest levels since 2008. In the three particularly important CE markets for western foreign banks – the Czech Republic, Slovakia and Hungary – the NPL ratio even approached 3 per cent at the end of 2019. Against a backdrop of positive overall market developments, the CEE banking sector's return on equity solidified in the double-digit range in 2019. Banking markets in Southeastern Europe as well as Ukraine, were particularly characterized by a significant recovery in 2018 and 2019. All three regions (CE, SEE and EE) recorded double-digit returns on equity in 2019 as well. As a result, the major Western European banks active in CEE were also able to generate a double-digit return on equity in CEE business in 2019.

Regulatory environment

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 for the most part 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. Additional improvements to the regulatory capital situation are expected as a result of the revised Pillar II framework. Moreover, the harmonization of reporting requirements for credit institutions is of significant importance. Other key changes include parameters for reducing risk-weighted assets for small and medium-sized enterprises (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 currently no detailed guidelines with respect to the expected implementation date.

BCBS 239

The Basel Committee on Banking Supervision issued 14 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 will 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

In Austria, the Bank Recovery and Resolution Directive (BRRD) was transposed into Austrian law by the Bank Recovery and Resolution Act (BaSAG). The review of the 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 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 resolution authorities, in close collaboration with RBI, to draw up resolution plans based on the underlying resolution strategy (multiple point of entry or single point of entry). RBI has adopted a multiple point of entry (MPE) approach. The responsible authorities define resolution groups for those units identified as relevant to the resolution process. The resolution plan has to facilitate the effective application of the resolution tools and describe the resolution strategy and its implementation. The resolution authority decides which resolution tools (sale of business, bridge institution, asset separation and bail-in) should be used. Official targets for minimum requirements for own funds and eligible liabilities (MREL targets) are being set for each resolution group and are expected for the first quarter of 2020.

Payment Services Directive 2

The new Payment Services Directive (PSD 2), which came into force on 13 January 2018, strengthens consumer protection and security requirements for online payments and has brought far-reaching changes with respect to an open banking system. The directive enables other market participants known as third party providers (TPPs) - such as other banks, payment service providers and fintechs - to offer payment services to banking customers. PSD 2 also includes a technical standard that governs the terms for granting access to client accounts and data when clients have given their consent to offer such access. These rules took effect on 14 September 2019 together with more stringent security provisions regarding access to payment accounts and the authorization of payments (Strong Customer Authentication – SCA). The details of the implementation of these requirements at the European level had previously been discussed up to the summer of 2019 and a transition period was instituted for the introduction of some of the new requirements. RBI has implemented the new provisions within the framework of various projects at Group head office and in the affected network banks.

General Data Protection Regulation (GDPR)

RBI considers the comprehensive protection of all data that is either transmitted to it or made available to it, in particular data relating to natural persons (e.g. customers and employees), to be an integral part of its business activities. As such, RBI attaches great importance to data protection. In the collection, storage, processing and transmission of personal data relating to natural persons, in addition to observing the mandatory legal requirements RBI maintains internal policies and procedures which must be adhered to, embedded in an organizational and operational structure specifically for data protection. Compliance with these requirements, policies and procedures is managed by the organizational units Group Data Privacy & Quality Governance, Group Information & Cyber Security and Group Business Continuity Management & Physical Security. Compliance is also monitored and supervised by the data protection officer.

Capital markets and sustainable financing

The year 2019 was marked by new developments in the field of sustainable financing. The European Commission's Green Deal aims to make Europe the first climate neutral continent by 2050. Various measures will be introduced, ranging from effective CO_2 pricing and mechanisms to adjust CO_2 limits for selected sectors, to cleaner energy and the mobilization of industry for a clean and circular economy. The financial sector has also been called upon to support these objectives. Sustainable financing is a central theme for 2020 and the coming years. The integration of climate and environmental risks into the EU supervisory framework will be a significant issue over the coming years in the financial sector, in addition to increased transparency and disclosure requirements for financial products.

Another Capital Markets Union initiative aims to reduce the dependence of SMEs on bank loans, diversify their capital market funding opportunities and encourage SMEs to issue more bonds and shares on public markets. In addition, the legal framework for covered bonds is to be harmonized, the aim of which is to establish minimum harmonization requirements that all covered bonds marketed in the EU must meet.

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

The European Banking Authority’s (EBA) Guidelines on Internal Governance were transposed into Austrian law in 2018. The process added new provisions to the Austrian Banking Act (§ 39 (6) BWG) which came into effect on 1 January 2019, thereby extending the regulatory compliance requirements for monitoring and ensuring the bank’s adherence to applicable Austrian law. The implementation of these activities at RBI builds on existing methods and tools, which were extended with further approaches.

The legal provisions stipulate, among other things, that all credit institutions must establish in writing appropriate policies and procedures, which take into account the nature, scope and complexity of their business activities, and update them regularly while complying with them on an ongoing basis. These policies and procedures are designed to detect and minimize the risks of non-compliance with the provisions listed under § 69 (1) of the BWG by management, supervisory board members and employees, as well as any associated risks that may ensue from such non-compliance.

Banking supervision

In 2019, the EBA focused its attention on the following areas: 1. Credit risk, with an emphasis on lending criteria and credit quality in general; 2. Risk management in connection with internal models (completion of the Targeted Review of Internal Models, TRIM) and internal bank processes to ensure adequate capital and liquidity (ICAAP, ILAAP); and 3. Risk management in the areas of IT and cyber risks. Furthermore, during 2019 RBI participated in the ECB’s EU-wide liquidity stress test, in which the supervisory authority conducted a sensitivity analysis of liquidity risk in order to assess the resilience of banks to hypothetical liquidity shocks. The liquidity reserves of the 103 banks tested were deemed adequate to cover the simulated net outflows. The results of the individual banks were not published but were taken into account in the banks’ annual Supervisory Review and Evaluation Process (SREP).

Business performance at Raiffeisen Bank International AG

Business development

RBI AG is one of Austria’s leading corporate and investment banks. The Corporates business serves the top 1,000 companies in the country as well as many large international and multinational corporations. These clients benefit from RBI AG’s extensive know-how and service portfolio in 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 institu tional customers. Its extensive product and service range includes, among others, clearing, settlement and payment services, custody and depositary banking services, credit financing as well as capital market and securities transactions.

The Capital Markets business includes trading on own account and for third parties. RBI AG offers its customers individually tailored solutions for liquidity and balance-sheet management, and for managing interest rate and currency risks as well. Its particular strengths lie in 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 debt capital raising via bond issuance and the securitization of loans and advances. A professional structuring team as well as strong sales and placement power ensure the successful execution of projects.

The Treasury and Group Participations businesses are internal control areas for the management of refinancing issues and the bank's investment portfolio.

Corporates

The Corporates business serves Austrian and international corporate customers. In addition to Austria's largest companies, these also 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 has been on structured customer acquisition and further exploitation of Group-wide earnings potential using strategic management tools and targeted sales initiatives. A core element is 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 order to further increase the customer support capabilities of our relationship managers and further enhance the benefit to our customers, the organizational structure of the Corporates business was completely restructured according to industry clusters in the financial year under review.

During the financial year under review, we also succeeded in significantly enhancing customer experience with our innovative digital solutions. We were the first bank in our region to digitize the KYC (know your customer) process, resulting in a reduction of up to 50 per cent in organizational and cost expenditure related to our corporate customers. Key efficiency drivers of this process include the pre-filling of form fields as well as the ability to upload documents and interact with RBI online. The second milestone was the introduction of eSpeedtrack, which enables customers to apply online for a subsidized export finance loan. The excellent customer feedback confirms our choice of priorities, and the next expansion stages of our digital customer platform are already in preparation.

Although the income side was impacted by the persistently low interest rate environment and pressure on loan margins in the corporate customers business, expansion of business volumes and strong cross-selling of bank products and services made it possible to achieve outstanding results. In addition to the traditional lending business, the bank's outstanding product expertise led to a significant contribution to the positive performance from structured project and acquisition financing, real estate financing, export and trade finance business and transaction banking.

In terms of product innovation, the Corporates business performed well again in 2019.

Ongoing positive developments in the Asset Based Finance and Factoring businesses should also be highlighted, where our strong reputation and high level of solutions-oriented expertise led to significant additional income growth. In the Debt Capital Markets business, RBI AG benefited considerably from positive market developments and consolidated its key position in promissory note and senior bond issuance.

The ongoing positive trends in loan quality and risk costs continue to make a significant contribution to the very good results in the Corporates business in 2019.

Institutional Clients

Notwithstanding the global growth slowdown affecting our Central and Eastern European core markets, business with institutional clients increased significantly in 2019, even compared to the very pleasing level of business activity in the previous year. This was reflected in an increasing number of transactions and higher volumes, as well as in the expansion of business relationships with existing customers and the acquisition of many new customers. RBI thus once again demonstrated its central role for business in and from Central and Eastern Europe.

As in previous years, sales activities focused on equity and liquidity-preserving banking products, while income from commission-based businesses reached a new record high. The traditionally strong results from clearing, settlement and payment services again demonstrated higher than average performance, thereby underscoring RBI's strong bridging function between West and East in its business with banks, insurers and asset managers. Furthermore, the entire capital market business, including new bond issuance, securities sales flows related to new issuance, foreign currency trading by customers and securities lending also posted significant growth. The investment fund business and securities services likewise showed stable growth, adding to the positive picture. In response to increasing digitization and continuous innovation across all product areas relevant to institutional clients, maximum attention is being paid to ensuring a clear alignment of our products and services with actual client needs and to enhancing efficiency in processing.

The traditional interbank lending business remained stable at a low level and remains focused on longstanding customer relationships with high cross-selling potential. These endeavors have been well complemented by the aforementioned product initiatives.

The deglobalization within the financial sector, which set in following the financial crisis, has led to the emergence of regional specialists. This trend supports RBI Group's positioning as a leading institution in Central and Eastern Europe with a bridging function between East and West. This has been confirmed once again by the successes of recent years in the institutional client business and by the continued potential for further growth.

Capital Markets

The 2019 financial year was marked by political issues such as Brexit and trade disputes between the USA, Asia and Europe. Central banks also largely stuck to their expansionary monetary policy.

In this environment, many equity market indices gained 20-30 per cent over the course of the year. Western bond markets also showed positive performance. Credit spreads narrowed by a further 45 basis points on average. In most foreign exchange markets, currency pairs traded in relatively narrow bands and traded volatilities fell to even lower levels.

Despite this historically low volatility, foreign currency trading delivered satisfactory performance for the year and further increased the proportion of business accounted for by electronic trading.

The Money Market and Securities Finance segment exceeded the previous year's result despite the ongoing excess liquidity and negative interest rate environment.

Bond trading generated a record result in 2019. This was due to increased Eurobond trading activity in Austria and Eastern Europe. Highly successful activities in Serbia, Romania, Russia and Ukraine likewise made substantial contributions, as did CEE local currency bonds as a niche product. Revenues from international customers increased significantly in these segments. The institutional clients business demonstrated very successful overall performance.

A capital markets highlight was the first "green" fixed-interest bonds issued in Austria, which attracted both institutional and retail customers.

Treasury

For medium to long-term refinancing, RBI AG uses long-term deposits and issuance: Issuance is mainly done under RBI AG's EUR 25,000,000,000 Debt Issuance Program, which enables bonds to be issued in different currencies, formats and structures.

In 2019, RBI AG again increasingly used international large-volume bonds in various formats alongside long-term deposits in implementing its funding plan. A successful € 500 million subordinated issue in September accompanied by an offer to repurchase an existing capital-inefficient bond was followed by the issuance of a € 750 million senior green bond in September and a € 500 million covered bond in November. The covered bond is backed by mortgage loans and is the first such bond publically issued by RBI AG. The remaining refinancing requirements of RBI AG were covered by small unsecured private placements.

The total volume of multi-year deposits and issuance taken up amounted to approximately € 4,518,837.25 and had a weighted maturity of approximately six years. At year-end 2019, the total volume of outstanding issued unsecured bonds excluding additional tier 1 (AT1) amounted to approximately € 7,103,873,203.

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 complemented 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 to steadily increase the value of the overall portfolio.

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

There were significant write-ups at Raiffeisen Bank Aval JSC, Kiev (€ 150.8 million) and RZB-BLS Holding GmbH (€ 23.8 million).

Raiffeisen Informatik GmbH & Co KG (R-IT), in which RBI AG indirectly holds just under 47 per cent, sold its 100 per cent shareholding in Comparex AG to SoftwareONE Holding AG (SWO), a Swiss software company, at the beginning of the year. In return, R-IT received, among other things, around 14.6 per cent of the share capital in SWO. In late October 2019, R-IT sold a portion of its share capital in SWO in an IPO on the Swiss Stock Exchange and reduced its shareholding to about 7.9 per cent.

Retail

The sale of the Polish core banking operations and the subsequent merger of the remaining operations of Raiffeisen Bank Polska S.A., Warsaw, with a newly established Polish branch of RBI AG in November 2018 gave RBI AG a portfolio of retail foreign currency mortgage loans. As at 31 December 2019, the net carrying amount of the loan exposures (less impairments) totaled approximately € 2.9 billion, consisting of € 2.1 billion (2018: € 2.3 billion) in Swiss franc loans, € 0.7 billion (2018: € 0.7 billion) in euro loans and € 0.1 billion (2018: € 0.1 billion) in Polish zloty loans.

The branch conducts neither deposit gathering nor new customer acquisition, focusing instead on servicing the foreign currency loans transferred to the branch until their final maturity and on providing services to the borrowers. Beyond this, RBI AG has no further plans actively to expand its retail business in Poland.

In 2019, the business environment was notably marked by the legal dispute between customers with Swiss franc-denominated residential mortgage loans and banks. A provision was recognized in the amount of € 48.8 million on account of this pending legal issue.

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

RBI AG has a branch in Poland following the sale of the core banking operations of the former Raiffeisen Bank Polska S.A. 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 newly established Warsaw branch. The portfolio's loan volume is around € 2.9 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 between Singapore and the European Union that took effect in 2019 is expected to bolster trading activities.

Under the Belt-and-Road initiative in Central and Eastern Europe, the Peking branch supports a growing number of Chinese companies and financial institutions with their far-flung operations in this region by providing the full range of RBI banking services. The branch's tailored support for Chinese customers and the hosting of seminars and presentations in Peking has increased RBI's name recognition among multinational Chinese companies. The Peking branch achieved a milestone in 2019 when it initiated RBI AG's involvement in a syndicated loan of EUR 3.5 billion to a major multinational company in Hong Kong.

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 2019, additional receivables financing mandates were won and implemented for customers in RBI AG's numerous focus markets, and business was further developed. In addition to winning new customers, another key task in the corporate customer business involves providing sales support for RBI AG'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 London branch, which celebrates its 30-year anniversary this year, has three main business areas. The London sales team serves institutional customers in the United Kingdom, Ireland, Scandinavia, the Middle East and Asia. It focuses on CEE/CIS fixed-income bonds, including sovereign and corporate bonds in EUR/USD and local currencies, in both the primary and secondary market. The fund finance team, whose core product includes the subscription credit facility, is part of our asset-based finance franchise strategy in Vienna. Our corporate desk provides corporate customers based in the United Kingdom and Ireland with information and access to a number of financial products and services offered by the head office and the network banks. The branch will seek a third-country license to maintain future business operations as part of Brexit.

The operational business of all the branches except for the Poland branch is booked at the head office in Vienna.

Financial Performance Indicators

Statement of Financial Position

Raiffeisen Bank International AG's (RBI AG) total assets increased € 5.0 billion, or 7.7 per cent, to € 69.4 billion in the 2019 financial year. The growth in total assets resulted in particular from the increase of € 3.0 billion in loans and advances to customers and the increase of € 2.4 billion in loans and advances to banks.

On the asset side, the cash reserve and balances at central banks decreased € 0.2 billion to € 10.3 billion. This resulted from a moderate decline in deposits at the Austrian Central Bank. Loans and advances to banks increased 37.1 per cent, or € 2.4 billion, to € 9.0 billion. Loans and advances to banks were up 37.1 per cent, or € 2.4 billion, to € 9.0 billion. This growth mainly reflected an increase of € 1.6 billion in sale and repurchase transactions. In addition, giro and clearing business was up € 0.6 billion.

Loans and advances to customers increased 12.0 per cent, or € 3.0 billion, to € 28.0 billion. Lending was up € 1.9 billion as a result of increased business activity. Value adjustments to loans and advances to customers were unchanged at € 0.9 billion. Sale and purchase transactions with customers increased € 1.9 billion. In contrast, cash collateral from securities lending fell € 0.8 billion.

Bonds, notes and other fixed-interest securities were up 18.2 per cent, or € 0.5 billion, to € 3.5 billion. The increase was primarily due to the increase in repurchased own issues. The volume of shares and other variable-yield securities rose 67.3 per cent, or € 0.2 billion, to € 0.5 billion.

Shares in affiliated companies increased € 0.2 billion to € 10.8 billion, which mostly reflected the need to write up the value of an affiliated company.

Other assets were up € 0.1 billion, or 5.0 per cent, year-on-year to € 3.0 billion. The development was largely attributable to increased holdings of gold coins, which are not legal tender.

On the liability side, liabilities to credit institutions rose € 1.3 billion, or 5.0 per cent, to € 27.9 billion, largely due to a significant € 0.9 billion increase in money market transactions. Liabilities to credit institutions represent a significant source of funding for RBI AG at 40 per cent of total assets.

Liabilities to customers were up € 1.5 billion, or 8.8 per cent, to € 19.2 billion, largely due to a considerable € 1.6 billion increase in time deposits.

Securitized liabilities and additional capital according to CRR rose 23.0 per cent, or € 1.8 billion, year-on-year to € 9.7 billion. Funds raised through new issues amounted to € 2.9 billion (2018: € 3.3 billion) in 2019. In contrast, retirements of securitized liabilities from scheduled and early repayments amounted to € 1.1 billion in 2019 (2018: € 1.9 billion). Other liabilities were more or less unchanged year-on-year.

The provisions include provisions of € 92.4 million for severance payments (31/12/2018: € 65.7 million) provisions of € 73.5 million for pensions (31/12/2018: € 71.5 million), tax provisions of € 6.0 billion (31.12.2018: € 0.3 million), and other provisions of € 237.0 million (31/12/2018: € 171.8 million). The increase in provisions for severance payments included provisions of € 20 million for voluntary severance payments. The increase in tax provisions was based on an allocation to provisions for foreign real estate transfer tax resulting from mergers within the RBI Group. The increase in other provisions was mainly due to provisions of € 48.8 million for litigation risks as a result of legal disputes concerning foreign currency loans in Poland.

Total risk exposure at year-end 2019 was € 40.1 billion (2018: € 39.3 billion). Of that amount, credit risk accounted for € 34.8 billion (2018: € 33.9 billion), operational risk for € 3.1 billion (2018: € 3.0 billion), and market risk for € 1.9 billion (2018: € 2.4 billion). Total risk exposure was up around € 0.8 billion year-on-year, mainly due to new lending, which increased risk exposure for the credit risk.

Common equity tier I (CET1) capital was up to € 7.9 billion at year-end 2019 (2018: € 7.8 billion) mainly as a result of retained earnings of € 0.1 billion. Tier 1 capital amounted to € 9.0 billion (2018: € 8.9 billion). Tier 2 amounted to € 1.8 billion (2018: € 2.3 billion). The reduction was largely due to the repayment of issues and regulatory amortization in the last five years to maturity. All in all, total capital amounted to € 10.9 billion, a year-on-year rise of € 0.4 billion.

The CET1 ratio of 19.7 per cent was 0.1 per cent lower than in the previous year (19.8 per cent). The tier 1 ratio of 22.5 per cent was 0.2 per cent lower than in the previous year. The total capital ratio was 27.1 per cent (2018: 28.6 per cent). All capital ratios were sufficiently above the respective requirements (including all buffer and Pillar 2 requirements).

The committed capital reserves of € 4.3 million (31/12/2018: € 4.3 million) and uncommitted capital reserves of € 97.1 million (31/12/2018: € 97.1 million) were unchanged in the financial year.

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 2019. With a nominal value of € 1.0 million, this represented 0.1 per cent of share capital. The share incentive programs expired in 2018, ending commitments to allot further own shares under the programs. Retained earnings covered legal reserves of € 5.5 million (31/12/2018: € 5.5 million) and other free reserves of € 2.3 million (31/12/2018: € 2.2 million). Of the other free reserves, an amount of € 265.3 million (31/12/2018: € 217.1 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 € 48.2 million (31/12/2018: € 46.4 million) was allocated to other reserves in 2019 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 € 86.0 million (31/12/2018: € 648.0 million) was transferred to other free reserves. The liability reserve of € 535.1 million was unchanged at year-end 2019 (31.12.2018: € 535.1 million).

Earnings performance

In the 2019 financial year, Raiffeisen Bank International AG (RBI AG) reported an increase in net interest income of 12.3 per cent, or € 38.3 million, to € 349.2 million. This was driven mainly by loans and advances to customers of the Polish branch, as the corresponding interest income was included in the result of RBI AG in the previous year for only two months due to the merger at the end of October 2018. In addition, an increase in income from negative interest rates on deposits and lower funding costs in customer business contributed to the growth in net interest income.

Income from securities and participating interests increased € 72.5 million to € 708.8 million mainly due to the € 58.6 million increase in income from shares in affiliated companies resulting from higher dividend income from affiliated companies in 2019. Income from participating interests was mainly from RS Beteiligungs GmbH (€ 470.0 million), Raiffeisen Bank Aval (€ 81.0 million), and AO Raiffeisenbank (€ 91.8 million).

The net amount of commissions payable and commissions receivable was up € 25.5 million to € 227.7 million. The largest contribution to net fee and commission income was provided by clearing, settlement and payment services (33.0 per cent, or € 75.1 million), followed by the lending business (24.2 per cent, or € 55.0 million) and the securities business (22.6 per cent, or € 51.5 million).

The net profit on financial operations decreased € 91.1 million, to a loss of € 51.2 million (2018: profit of € 39.9 million). This mainly reflected the reduction of € 127.7 million in net trading income from currency-based derivative transactions, which fell to minus € 32.1 million (2018: € 95.6 million). In contrast, the profit contribution of interest-based derivative and securities transactions improved to minus € 17.0 million (2018: € minus 55.1 million).

Other operating income rose € 88.8 million to € 269.9 million. This item included income from services provided to network banks of € 86.8 million (2018: € 89.0 million), income of € 117.1 million from the early termination of hedges due to the sale of the securities portfolios underlying such hedges (2018: € 22.8 million), income from the release of other provisions amounting to € 0.8 million (2018: € 43.5 million), income from transitory items of € 26.1 million (2018: € 14.3 million), and income from the release of provisions for losses on banking book derivatives amounting to € 33.1 million (2018: € 2.9 million).

Operating income therefore amounted to € 1,504.4 million, a 9.8 per cent increase year-on-year.

Total operating expenses were up 29.6 per cent year-on-year, to € 1,102.4 million.

Staff costs increased € 31.1 million year-on-year, to € 409.9 million. Nearly one-third of the increase was attributable to the Polish branch, which, as a result of the merger with RBI AG at the end of October 2018, was included for only two months in income and expenses in the previous year. The rest of the increase was due in part to an increase in the average number of staff and in part to a provision for restructuring measures. Expenses for pension provisions developed positively. In the previous year, adjustments to mortality tables led to a negative one-off effect on expenses for pension provisions. Other administrative expenses increased € 18.6 million, or 5.2 per cent, to € 376.5 million. Other administrative expenses consisted mainly of IT expenses amounting to € 148.6 million (2018: € 151.3 million), rent of € 35.8 million (2018: € 30.0 million), and consulting and audit fees of € 49.7 million (2018: € 43.9 million). They also included the annual contribution to the bank resolution fund of € 19.5 million (2018: € 16.5 million). Depreciation of tangible assets and intangible fixed assets was up € 1.6 million to € 10.7 million (2018: € 9.2 million).

Other operating expenses of RBI AG increased € 202.5 million to € 305.4 million in 2019. Provisions for impending losses on derivatives declined € 2.3 million to € 17.5 million (2018: € 19.8 million). Expenses related to the early termination of hedges due to the sale of the securities portfolios underlying such hedges increased € 150.5 million to € 196.6 million. Other provisions decreased € 12.9 million to € 9.2 million. Expenses for transitory items rose € 4.5 million to € 10.4 million. In addition, other operating expenses included provisions of € 48.8 million as a result of litigation involving foreign currency loans in Poland.

After deducting operating expenses from operating income, RBI AG generated an operating result of € 401.9 million for the 2019 financial year. This represents a year-on-year decline of 22.7 per cent, or € 117.7 million.

As a consequence, the cost/income ratio (operating expenses divided by operating income) was 73.3 per cent (2018: 62.1 per cent).

Net income/expenses from the disposal and valuation of loans and advances and securities classed as current assets resulted in a net expense – as in the previous year – of minus € 105.9 million (2018: minus € 31.6 million). This development was due, firstly, to a moderate reduction in valuation results and proceeds from disposals of securities held as current assets and the banking book derivatives of € 3.5 million (2018: € 4.8 million) and, secondly, to a reduction in the valuation of loans and guarantees to minus € 109.4 million (2018: minus € 36.4 million). The provisioning requirement for loan losses remained low in 2019 due to the good macroeconomic environment. The moderate increase in the requirement compared to the previous year was based mainly on releases of provisions in the 2018 financial year. With regard to individual loan loss provisions, there was a net allocation to provisions in the amount of € 98.2 million, an improvement of € 104.9 million compared to the previous year. In the case of portfolio-based loan loss provisions, there was a net allocation of € 15.3 million, which represented a year-on-year increase of € 23.3 million. The decline resulted from (i) a one-off effect caused by a change in method in the 2018 financial year in which the IFRS 9 calculation model used to determine portfolio-based loan loss provisions came into effect on 1 January 2018 under company law and (ii) the inclusion of expected credit risks relating to extraordinary events that the model cannot account for.

Net income/expenses from the disposal and valuation of financial investments increased from € 143.3 million in 2018 to € 234.4 million in 2019, mainly due to an increase of € 16.4 million in write-ups and a decrease of € 38.3 million in impairments of affiliated companies. Net gains/losses on sale were up € 28.5 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 € 530.4 million (2018: € 631.4 million).

The return on equity before tax (profit before tax divided by average equity in 2019) was 5.5 per cent (2018: 8.0 per cent) in the financial year.

Income taxes showed an expense of € 28.8 million in 2019 (2018: gain € 4.9 million), which was due to the write-off of deferred tax assets at the Polish branch. Expenses for other taxes amounted to € 62.5 million (2018: € 53.4 million), mainly reflecting € 61.7 million for the stability contribution for banks (2018: € 56.2 million).

In 2019, RBI AG did not report a profit from mergers. The entire merger gain in 2018 related to the net gain/loss on the contribution of the remaining business of Raiffeisen Bank Polska S.A., Warsaw, following the sale of the core banking operations to Bank BGZ Paribas S.A. (2018: € 442.4 million).

The return on equity after tax (net income after tax divided by average equity in 2019) was 4.5 per cent (2018: 4.2 per cent).

Profit after tax in 2019 was € 439.1 million (2018: € 1,025.2 million).

After movements in reserves of € 134.2 million and profit of € 26.7 million brought forward from the previous year, net profit in 2019 was € 331.7 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 2019, 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 2019, 322,204 (31 December 2018: 322,204) of those were own shares, and consequently 328,617,417 shares were outstanding at the reporting date.

(2) The Articles of Association contain no restrictions concerning voting rights or the transfer of shares. 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 20 August 2019. 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 20 August 2019). 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 13 June 2019 to increase the share capital with the approval of the Supervisory Board – in one or more tranches – by up to € 501,632,920.50 through issuing up to 164,469,810 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 2 August 2024 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).

No use has been made to date of the authority granted in June 2019 to utilize the authorized capital.

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.

No own shares have been purchased or sold since the authorization was granted in June 2018.

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 AG 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 also serves as the central institution of the Raiffeisen Banking Group at a national level. Upon a change in control of RBI AG, related contracts (central institution 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 in some cases 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 → 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 → 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 describes current risk exposure 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, which is aimed at controlling and managing material risks at all banks and specialist companies owned by the bank. The risk policies and risk management principles are laid out 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 key 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 lines 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 all 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. Thereby it is ensured that business in general is conducted only under 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 according to the risk reports and analyses. The Management Board is supported in undertaking these tasks by independent risk management units and special committees.

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. Its responsibilities include developing the company-wide framework for overall bank risk management (integrating all risk types) and preparing independent reports on the risk profile for the Supervisory Board's Risk Committee, the Management Board and the heads of individual business units.

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 setting the risk appetite and the various risk budgets and limits at overall bank level as well as monitoring the current risk situation with respect to internal capital adequacy and the corresponding risk limits. It approves risk management and controlling activities (such as the 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 standards for internal funds transfer pricing. In this context it plays an important role in planning long-term funding 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 arising from trading and banking book transactions and establishes corresponding limits and processes. In particular, it relies 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 the staff assignments depending on the type of customer (corporate customers, banks, sovereigns and retail). The committees decide upon the specific lending criteria for the different customer segments and countries and make all credit decisions concerning those segments and countries in connection with the credit approval process (depending on rating and exposure size).

The Problem Loan Committee is the most important committee in the evaluation and decision-making process concerning problem loans. It primarily comprises decision-making authorities; its chairman is the Chief Risk Officer (CRO) of RBI AG. Further members with voting rights are those members of the Management Board responsible for the customer divisions, the Chief Financial Officer (CFO), and the relevant division and departmental managers from risk management and special exposures management.

The Securitization Committee is the decision-making committee for limit requests in relation to securitization positions within the specific decision-making authority framework. It develops proposals for modifications to the securitization strategy for the Management Board. In addition, the Securitization Committee offers a platform for exchanging information regarding securitization positions and market developments.

The Group Operational Risk Management & Controls Committee comprises representatives of the business areas (retail, market and corporate customers) and representatives from Compliance (including financial crime), Internal Control System, Operations, Security and Risk Controlling, under chairmanship of the CRO. This committee is responsible for managing operational risk (including conduct risk). It derives and sets the operational risk strategy based on the risk profile and the business strategy and also makes decisions regarding actions, controls and risk acceptance.

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

Quality assurance and internal audit

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 standards in risk management operations.

All these aspects are coordinated by the Group Compliance division, which analyzes the internal control system on an ongoing basis and – if actions are necessary to address any deficiencies – is also responsible for tracking their implementation.

Two very important functions in assuring independent oversight are performed by the divisions Audit and Compliance. Independent internal auditing is a legal requirement and a central pillar of the internal control system. Internal Audit periodically assesses all business processes and 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. Thus 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 independent auditors.

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 based on the risk level measured by internal models, and in choosing appropriate models the materiality of risks annually assessed is taken into account. This concept of overall bank risk management provides for meeting capital requirements from both a regulatory perspective (normative perspective) and from an economic point of view (economic capital, value-at-risk perspective). Thus it covers the quantitative aspects of the internal capital adequacy assessment process (ICAAP) as legally required and as described in the ICAAP Directive published by the European Central Bank. RBI AG's overall ICAAP process is audited during the supervisory review process for the RBI credit institution group (RBI Kreditinstitutsgruppe) on an annual basis.

The Risk Appetite Framework (RAF) limits the Group's overall risk in line with the strategic business objectives and allocates the risk capital calculated to the different risk categories and business areas. The primary aim of the RAF is to limit risk, particularly in adverse scenarios and for major singular risks in such a way as to ensure compliance with regulatory minimum ratios. The Risk Appetite Framework is therefore closely linked with the ICAAP and the ILAAP (Internal Liquidity Adequacy Assessment Process) and sets concentration limits for the risk types identified as significant in the risk assessment. There is also a connection to the recovery plan as the risk capacity and risk tolerance limits in the RAF are aligned with the corresponding trigger monitoring limits.. 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.

Approach	Description of risk	Measurement technique	Confidence level
Economic perspective			
Economic capital	Risk that unexpected losses exceed the internal capital from an economic perspective	The unexpected loss for the risk horizon of one year (economic capital) may not exceed the present level of the tier 1 capital)	99.90 per cent
Value-at-risk	The risk of falling below the capital requirements under the Basel III rules	Risk-taking capacity (projected earnings and capital in excess of the regulatory requirement) must exceed the company's value-at-risk (risk horizon: one-year)	95 per cent presuming the owners' willingness to inject additional own funds
Normative perspective			
Stress scenarios	Risk of falling below a sustainable tier 1 capital ratio over a full business cycle	Capital and earnings projection for a three-year planning period based on a severe macroeconomic downturn scenario	Around 95 per cent based on potential management decisions to reduce risk temprarily or raise additional equity capital

Economic perspective – economic capital approach

In this approach, risks are measured on the basis of economic capital, which represents a comparable riskwa indicator across all risk types. Economic capital is calculated as the sum of unexpected losses stemming from different risk categories. In addition, a general buffer is held to cover other risk types not explicitly quantified.

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

in € thousand	2019	Percentage	2018	Percentage
Participation risk	3,798,288	66.0%	1,957,305	62.2%
Credit risk corporate customers	611,625	10.6%	511,939	16.3%
Credit risk retail customers	419,895	7.3%	45,090	1.4%
Market risk	276,088	4.8%	119,952	3.8%
Operational risk	100,542	1.7%	102,268	3.2%
Credit risk banks	85,187	1.5%	74,081	2.4%
Macroeconomic risk	68,510	1.2%	33,301	1.1%
Owned property risk	66,163	1.1%	55,900	1.8%
Credit risk sovereigns	43,403	0.8%	83,282	2.6%
CVA risk	12,418	0.2%	14,691	0.5%
Risk buffer	274,106	4.8%	149,890	4.8%
Total	**5,756,226**	**100.0%**	**3,147,698**	**100.0%**

The economic capital increased € 2,608,528 thousand to € 5,756,226 thousand at the end of 2019. Although participation risk increased € 1,840,983 thousand to € 3,798,288 thousand as at 31 December 2019 due to an adjustment of the currently used model for other affiliated companies and equity participations, materially lower participation risks may be expected again in the course of 2020 as a result of the development of a comprehensive new model. The increase in credit risk retail customers of € 374,805 thousand to € 419,895 thousand was the result of the implementation of the regulatory capital already held in pillar I into the economic capital with regard to the foreign currency mortgage loans in Poland.

RBI AG uses a confidence level of 99.9 per cent (2018: 99.92 per cent) to calculate economic capital at the end of 2019. In compliance with the ICAAP Directive published by the European Central Bank, the tier 2 capital will no longer be used to calculate the internal capital as of the end of 2019.

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 areas during the annual budgeting process and are supplemented in day-to-day management by volume, sensitivity, and 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 plans for future lending activities and the overall limit for taking market risk.

Risk-adjusted performance measurement is also based on the indicator for economic capital. The profitability of a business unit is examined in relation to the amount of economic capital attributed to the unit in question (risk-adjusted profit in relation to risk-adjusted capital, RORAC), which yields a comparable performance indicator for all business units in the bank. That indicator is used in turn as a key figure in overall bank management and for future capital allocations to business units, and influences the remuneration paid to the Bank's executive management.

Economic perspective – value-at-risk approach

Parallel to the economic capital approach, internal capital adequacy is assessed with a focus on risk taking capacity with regard to the regulatory capital and total capital requirements.

In pursuit of the hedging objective, expected profits, expected loan loss provisions and surplus capital (taking into account various limits on eligible capital) are counted towards risk-taking capacity. The figure for risk-taking capacity is compared to the overall value-at-risk (including expected losses), which is calculated using similar techniques as those used under the economic capital approach (albeit using a lower confidence level of 95 per cent). The bank takes this approach to ensure adequate regulatory capitalization (with the given probability.

Normative perspective – stress scenarios

The analysis of the stress scenarios in the normative perspective of the ICAAP is intended to ensure that RBI AG has a sufficiently high tier 1 ratio at the end of the multi-year planning period, even in a severe macroeconomic downturn scenario. The analysis is based on a multi-year macroeconomic stress test where hypothetical market developments in a severe but realistic economic downturn scenario are simulated. The risk parameters considered include interest rates, foreign exchange rates and securities prices, as well as changes in default probabilities and rating migrations in the credit portfolio.

The integrated stress test focuses primarily on the tier 1 ratio at the end of the multi-year observation period. It should not fall below a sustainable level, meaning that is should not require the bank to substantially increase capital or to significantly reduce its business activities. The current minimum amount of tier 1 capital is therefore determined by the size of a potential economic downturn. The downturn scenario assumed incorporates recognition of the necessary loan loss provisions and potential pro-cyclical effects (which increase the minimum regulatory capital requirement) along with the impact of foreign exchange rate fluctuations and other valuation and earnings effects. Regulatory changes already known are taken into account for the planning period.

This perspective thus also complements traditional risk measurement methods based on the value-at-risk concept (which is in general based on historical data). Therefore, it can account for exceptional market situations that have not been observed in the past, and also permits estimation of the potential impact of such developments. The stress test also allows for analyzing risk concentrations (e.g. individual positions, industries, or geographical regions) and gives insight into profitability, liquidity situation, and solvency under extreme situations. Building on these analyses, RBI AG's risk management actively contributes to portfolio diversification, for example via limits for the total exposure to individual industry segments and countries and through ongoing updates 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 competence authority hierarchy based on the size and type of the loan. Approval from the business and the credit risk management divisions is always required when making individual limit decisions or performing regular rating renewals. If the individual decision-making parties disagree, the potential transaction is decided upon by the next higher-ranking credit authority.

The following table shows total credit exposure by asset classes (rating models):

in € thousand	2019	Percentage	2018	Percentage
Corporate customers	38,680,405	48.2%	34,248,392	46.9%
Project finance	2,700,623	3.4%	2,285,772	3.1%
Retail customers	3,085,385	3.8%	3,231,751	4.4%
Banks	20,493,647	25.5%	16,405,224	22.5%
Sovereigns	15,266,165	19.0%	16,835,683	23.1%
Total	**80,226,225**	**100.0%**	**73,006,822**	**100.0%**

Credit portfolio – Corporate customers

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 have been combined into nine main rating grades.

in € thousand		2019	Percentage	2018	Percentage
1	Minimal risk	5,054,831	13.1%	4,669,102	13.6%
2	Excellent credit standing	9,091,087	23.5%	8,739,378	25.5%
3	Very good credit standing	8,899,440	23.0%	6,764,990	19.8%
4	Good credit standing	6,347,374	16.4%	4,976,510	14.5%
5	Sound credit standing	5,842,365	15.1%	5,787,680	16.9%
6	Acceptable credit standing	2,390,989	6.2%	1,832,702	5.4%
7	Marginal credit standing	132,822	0.3%	308,633	0.9%
8	Weak credit standing/sub-standard	61,625	0.2%	331,012	1.0%
9	Very weak credit standing/doubtful	77,948	0.2%	35,010	0.1%
10	Default	767,332	2.0%	791,786	2.3%
NR	Not rated	14,591	0.0%	11,589	0.0%
Total		**38,680,405**	**100.0%**	**34,248,392**	**100.0%**

The total credit exposure for corporate customers increased € 4,432,013 thousand compared to year-end 2018 to € 38,680,405 thousand.

The increase of € 2,134,450 thousand in rating grade 3 to € 8,899,440 thousand was mainly attributable to a rise credit financing in Austria and Luxembourg. Repo and money market transactions in Great Britain and facility financing in Austria and Germany. This increase in facility financing in Austria was partially offset by a decline in Great Britain and Switzerland. Rating grade 4 reported an increase of € 1,370,864 thousand to € 6,347,374 thousand, which was attributable to credit financing in France and the Netherlands, to guarantees issued in Austria and Slovenia and to facility financing in Spain, Italy and Romania. Rating improvements at Swiss customers in rating grade 5 also had a positive impact. The increase of € 558,287 thousand in rating grade 6 to € 2,390,989 thousand resulted from new credit financing in Germany and Romania There was also a rating downgrade of a Romanian customer to rating class 5.

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

in € thousand		2019	Percentage	2018	Percentage
6.1	Excellent project risk profile - very low risk	2,204,156	81.6%	1,690,396	74.0%
6.2	Good project risk profile - low risk	272,336	10.1%	225,636	9.9%
6.3	Acceptable project risk profile - average risk	34,435	1.3%	2,164	0.1%
6.4	Poor project risk profile - high risk	51,707	1.9%	39,582	1.7%
6.5	Default	137,988	5.1%	154,513	6.8%
NR	Not rated	0	0.0%	173,481	7.6%
Total		**2,700,623**	**100.0%**	**2,285,772**	**100.0%**

Credit exposure to loans reported under project financing showed an increase of € 414,851 thousand to € 2,700,623 thousand as at 31 December 2019. The increase of € 513,760 thousand in rating class 6.1 to € 2,204,156 thousand resulted from special financing in Austria, a new facility financing in Germany and rating improvements of Serbian customers. The assignment of Dutch and Austrian customers to rating class 6.1 and expired project financing in Serbia led to a reduction of € 173,481 thousand in customers not rated.

Credit portfolio – Retail customers

The following table shows the total credit exposure to retail customers by internal rating:

in € thousand		2019	Percentage	2018	Percentage
0.5	Minimal risk	1,987,319	64.4%	2,029,459	62.8%
1.0	Excellent credit standing	334,073	10.8%	346,466	10.7%
1.5	Very good credit standing	60,625	2.0%	83,580	2.6%
2.0	Good credit standing	91,101	3.0%	100,462	3.1%
2.5	Sound credit standing	71,236	2.3%	70,450	2.2%
3.0	Acceptable credit standing	80,258	2.6%	126,938	3.9%
3.5	Marginal credit standing	52,688	1.7%	33,980	1.1%
4.0	Weak credit standing/sub-standard	33,054	1.1%	53,444	1.7%
4.5	Very weak credit standing/doubtful	28,031	0.9%	10,909	0.3%
5.0	Default	229,002	7.4%	243,197	7.5%
NR	Not rated	117,997	3.8%	132,867	4.1%
Total		**3,085,385**	**100.0%**	**3,231,751**	**100.0%**

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		2019	Percentage	2018	Percentage
1	Minimal risk	2,446,446	11.9%	2,561,163	15.6%
2	Excellent credit standing	8,732,473	42.6%	6,680,272	40.7%
3	Very good credit standing	6,526,657	31.8%	5,002,354	30.5%
4	Good credit standing	1,674,380	8.2%	1,030,192	6.3%
5	Sound credit standing	519,358	2.5%	669,620	4.1%
6	Acceptable credit standing	474,008	2.3%	266,501	1.6%
7	Marginal credit standing	101,149	0.5%	15,516	0.1%
8	Weak credit standing/sub-standard	6,080	0.0%	169,061	1.0%
9	Very weak credit standing/doubtful	1,625	0.0%	121	0.0%
10	Default	3,297	0.0%	8,288	0.1%
NR	Not rated	8,174	0.0%	2,136	0.0%
Total		**20,493,647**	**100.0%**	**16,405,224**	**100.0%**

Total credit exposure amounted to € 20,493,647 thousand, an increase of € 4,088,423 thousand compared to year-end 2018. The increase of € 2,052,201 thousand to € 8,732,473 thousand in rating grade 2 was largely attributable to overdrafts, facility and credit financing as well as repo and swap transactions of Austrian customers. In addition to the improvement in the ratings of Russian banks from rating class 3 to rating class 2, the appreciation of the Russian ruble and swap transactions led to an increased exposure. Loans to banks in Great Britain and Croatia as well as facility financing in Poland and repo transactions in France and Great Britain also increased. The actual increase in rating class 3, which was due to repo transactions in Germany, Spain, Italy and the Netherlands, was partially offset by the improved ratings of the Russian banks. The increase in rating class 4 of € 644,188 thousand to € 1,674,380 thousand resulted from an increase in repo transactions in Great Britain and from rating downgrades of British customers from rating class 3.

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		2019	Percentage	2018	Percentage
A1	Minimal risk	799,917	5.2%	1,054,165	6.3%
A2	Excellent credit standing	12,313,328	80.7%	13,447,712	79.9%
A3	Very good credit standing	995,814	6.5%	930,867	5.5%
B1	Good credit standing	439,215	2.9%	693,841	4.1%
B2	Sound credit standing	601,338	3.9%	490,222	2.9%
B3	Acceptable credit standing	80,094	0.5%	169,494	1.0%
B4	Marginal credit standing	2,139	0.0%	19,057	0.1%
B5	Weak credit standing/sub-standard	31,498	0.2%	3,836	0.0%
C	Very weak credit standing/doubtful	2,816	0.0%	26,488	0.2%
D	Default	0	0.0%	0	0.0%
NR	Not rated	6	0.0%	0	0.0%
Total		**15,266,165**	**100.0%**	**16,835,683**	**100.0%**

Credit exposure to sovereigns decreased € 1,569,518 thousand to € 15,266,165 thousand compared to year-end 2018. The largest decline was reported in rating grade A2 (minus € 1,134,384 thousand) due to lower deposits with the Austrian National Bank and the reduction of the bond portfolio of the Republic of Austria and France.

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	2019	Percentage	2018	Percentage
Austria	31,511,680	39.3%	32,145,939	44.0%
Germany	9,199,917	11.5%	7,889,752	10.8%
Great Britain	7,720,265	9.6%	4,753,446	6.5%
Poland	4,336,679	5.4%	4,527,834	6.2%
France	3,578,953	4.5%	3,411,128	4.7%
Swiss	2,382,958	3.0%	2,090,161	2.9%
Luxembourg	2,258,681	2.8%	1,621,344	2.2%
Spain	1,818,209	2.3%	1,014,978	1.4%
Russia	1,806,941	2.3%	1,461,724	2.0%
USA	1,524,811	1.9%	1,431,375	2.0%
Czech Republic	1,458,982	1.8%	1,382,293	1.9%
Far East	1,361,744	1.7%	1,416,584	1.9%
Romania	1,197,562	1.5%	1,193,745	1.6%
Netherlands	1,136,170	1.4%	1,127,720	1.5%
Others	8,932,672	11.1%	7,538,798	10.3%
Total	**80,226,225**	**100.0%**	**73,006,822**	**100.0%**

RBI AG's loan portfolio grew € 7,219,403 thousand to € 80,226,225 thousand. Austria reported a decline of € 634,259 thousand to € 31,511,680 thousand, which was attributable to deposits at the Austrian National Bank, the reduction of the bond portfolio of the Republic of Austria, and to repo transactions. In Germany the increase of € 1,310,165 thousand to € 9,199,917 thousand was mainly attributable to facility and credit financing as well as repo transactions. Growth in the repo and swap business led to an increase of € 2,966,819 thousand to € 7,720,265 thousand in Great Britain. This was attributable to facility financing and repo transactions. The increase of € 637,337 thousand to € 2,258,681 thousand in Luxembourg was essentially attributable to credit financing. Spain reported an increase of € 803,231 thousand to € 1,818,09 thousand. The increase in other exposures of € 1,393,874 thousand to € 8,932,672 thousand was mainly attributable to Italy, Belgium, Hungary and Canada.

Risk policies and the assessment of credit ratings at RBI AG also take account of the borrowers' industries. Banking and insurance represent 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 original customer's industry classification:

in € thousand	2019	Percentage	2018[1]	Percentage
Financial Intermediation	33,380,067	41.6%	27,210,155	37.3%
Real estate, renting and business activities	9,278,559	11.6%	8,682,556	11.9%
Public administration and defence, compulsory social security	5,477,586	6.8%	7,546,563	10.3%
Manufacturing	11,572,886	14.4%	9,770,091	13.4%
Wholesale and retail trade; repair of motor vehicles, motorcyles and personal and household goods	8,038,019	10.0%	7,526,255	10.3%
Agriculture, hunting and forestry; fishing; mining and quarrying	1,203,627	1.5%	1,783,486	2.4%
Construction	1,806,554	2.3%	1,452,684	2.0%
Transport, storage and communication	706,742	0.9%	273,949	0.4%
Education; health and social work; other community, social and personal service activities	951,200	1.2%	1,002,144	1.4%
Electricity, gas and water supply	1,573,852	2.0%	865,571	1.2%
Private households	2,945,901	3.7%	3,077,530	4.2%
Others	3,291,232	4.1%	3,815,839	5.2%
Total	**80,226,225**	**100.0%**	**73,006,822**	**100.0%**

1 The previous year's figures were adjusted due to an optimized allocation of indivual areas of activity of large companies and conglomerates.

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.

Credit default is assessed on the basis of quantitative and qualitative criteria. First, a borrower is considered to be in default if his contractual payments are more than 90 days overdue. Second, a borrower is considered to be in default if it meets the criteria of unlikely payment, which indicate that the customer is in significant financial difficulty and is unlikely to meet its payment obligations.

A loan obligation is no longer classified as default if - after a period of at least three months (six months after a non-performing retail restructuring) – the customer has shown good payment discipline during this period and no further indications of a high probability of default have been identified.

The following table shows non-performing exposures pursuant to the applicable definition contained in the Implementing Technical Standard (ITS) on Supervisory Reporting (Forbearance and non-performing exposures) issued by the EBA. It includes the defaulted exposures.

	NPE		NPE ratio		NPE coverage ratio	
in € thousand	2019	2018	2019	2018	2019	2018
Banks	3,289	7,757	0.0%	0.1%	86.9%	92.5%
Other financial corporations	54,564	52,100	0.6%	0.7%	43.9%	84.8%
Non-financial corporations	708,529	913,041	4.6%	6.4%	58.7%	50.9%
Households	185,495	203,359	6.1%	6.4%	60.9%	46.9%
Loans and advances	**951,877**	**1,176,257**	**2.0%**	**2.9%**	**58.4%**	**51.9%**
Bonds	**11,340**	**8,952**	**0.2%**	**0.1%**	**-**	**-**
Total	**963,217**	**1,185,209**	**1.8%**	**2.5%**	**57.7%**	**51.6%**

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 1/1/2019	Allocation	Release[1]	Usage[2]	Reclassifications, exchange differences[3]	As at 31/12/2019
Individual loan loss provisions	**844,079**	**588,827**	**(490,578)**	**(112,157)**	**14,984**	**845,155**
Banks	7,175	18	(1)	(4,506)	173	2,859
Corporate customers	738,156	490,940	(435,416)	(102,016)	12,025	703,689
Retail customers	95,302	40,143	(19,585)	(5,635)	2,745	112,970
Sovereigns	0	0	0	0	0	0
Off-balance sheet obligations	3,447	57,726	(35,576)	0	41	25,638
Portfolio-based loan loss provisions	**106,848**	**130,616**	**(115,348)**	**0**	**1,617**	**123,733**
Banks	941	800	(1,372)	0	41	410
Corporate customers	49,821	72,627	(60,242)	0	1,035	63,241
Retail customers	40,781	22,313	(17,896)	0	958	46,156
Sovereigns	280	1,400	(1,296)	0	(1)	383
Off-balance sheet obligations	15,025	33,476	(34,542)	0	(416)	13,543
Total	**950,927**	**719,443**	**(605,926)**	**(112,157)**	**16,601**	**968,888**

1 This contains changes in internal interest exemptions
2 This contains unwinding interest income from impaired customers and changes in internal interest exemptions as well as allocations of provisions for EWB.
3 This contains reclassifications of provisions and changes in customer categories

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 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 add-on 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, where the same risk classification, limitation, and monitoring process is used as for traditional lending. 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 establish standardized ISDA master agreements with all major counterparties for derivative transactions in order to be able to perform close-out netting and 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 estimates are based on changes 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 using the transfer price method. Treasury is responsible for managing structural market risks and for complying with the bank's overall limit. The Capital Markets division is responsible for proprietary trading, market making, and customer business in 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 issues. 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 credit risks arising from market price changes in derivative transactions. Furthermore, Market Risk Management 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- and back-office and risk management systems.

Limit system

RBI AG uses a comprehensive risk management approach for both the trading and the banking books (total-return approach). Market risk is therefore managed consistently in all trading and banking books. The following indicators 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. VaR is measured based on a hybrid simulation approach in which 5,000 scenarios are calculated for the regulatory trading book and 1,000 scenarios for the banking book. The approach combines the advantages of a historical simulation and a Monte Carlo simulation and derives market parameters from 500 days of historical data. Distribution assumptions include modern features such as volatility declustering and random time changes, which helps in accurately reproducing fat-tailed and asymmetric distributions. The Austrian Financial Market Authority has approved the VaR model for use in calculating the total capital requirements for market risks. Value-at-risk results are used not only for risk limitation but also for the allocation of economic capital, for which longer time series of 7 years are used for interest rate risk.

- Sensitivities (to changes in exchange rates and interest rates, gamma, vega, equity and commodity prices)
  Sensitivity limits are to ensure that concentrations are avoided in normal market situations and are the main steering instrument under extreme market situations and in illiquid markets or in markets that are structurally difficult to measure.

- Stop loss
  Stop loss limits serve to strengthens the discipline of traders such that they do not allow losses to accumulate on their own proprietary positions 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 results on market risk concentrations shown by these stress tests are reported to the Market Risk Committee and taken into account when setting limits. Stress test reports for individual portfolios are included in daily market risk reporting.

Value-at-Risk (VaR)

The following tables show the VaR (VaR 99 per cent, one day) for the individual market risk categories in the trading book and the banking book. 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 in € thousand	VaR as of 31/12/2019	Average VaR	Maximum VaR	Minimum VaR
Currency risk	287	832	2,999	105
Interest rate risk	1,362	1,262	2,233	698
Credit spread risk	424	598	1,005	294
Vega risk	219	122	257	50
Basis risk	302	405	746	216
Total	1,663	1,641	3,913	1,026

Trading book VaR 99% 1d in € thousand	VaR as of 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

Banking book VaR 99% 1d in € thousand	VaR as of 31/12/2019	Average VaR	Maximum VaR	Minimum VaR
Currency risk	3	1	3	0
Interest rate risk	11,871	3,418	11,871	1,471
Credit spread risk	9,593	3,663	9,918	2,265
Vega risk	173	337	3,667	52
Basis risk	1,112	1,424	1,905	1,047
Total	13,754	5,804	13,754	3,645

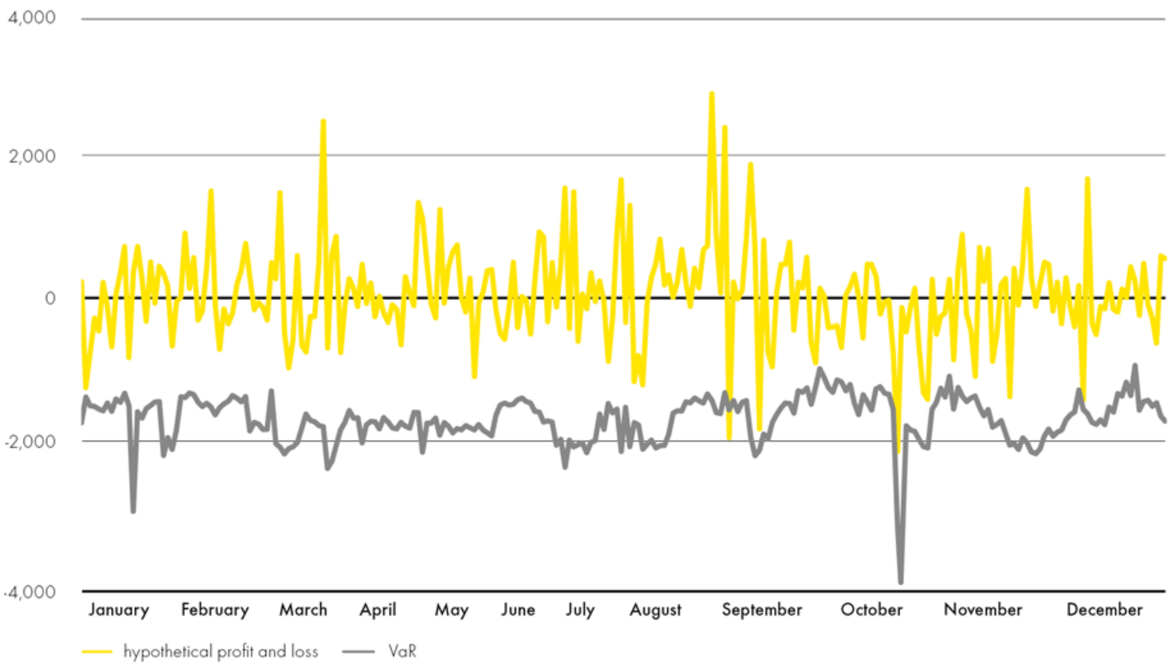
Banking book VaR 99% 1d in € thousand	VaR as of 31/12/2018	Average VaR	Maximum VaR	Minimum VaR
Currency risk	0	0	72	0
Interest rate risk	1,803	2,710	5,815	700
Credit spread risk	3,745	3,436	6,447	2,282
Vega risk	86	197	664	82
Basis risk	1,541	1,534	2,432	1,032
Total	4,711	4,844	7,289	3,634

Total VaR 99% 1d in € thousand	VaR as of 31/12/2019	Average VaR	Maximum VaR	Minimum VaR
Currency risk	289	832	2,999	105
Interest rate risk	13,241	4,267	13,241	1,650
Credit spread risk	9,853	3,717	10,243	2,283
Vega risk	367	395	3,766	77
Basis risk	1,170	1,538	1,998	1,099
Total	14,550	6,416	14,550	4,105

Total VaR 99% 1d in € thousand	VaR as of 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

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 was one hypothetical backtesting exceptions.

Value-at-Risk and theoretical market price changes of trading book
in € thousand



In March there was a strong positive change in hypothetical profit and loss against a stable VaR. This was due to daily market movements in long-term euro interest rates of up to minus 9 basis points. As in August, a portfolio of equity instruments was affected, which also explained the hypothetical profit in the event of falling interest rates. This portfolio was reduced towards the end of March , which was reflected in the volatility of the hypothetical profit and loss and a reduced VaR.

The main reason for the fluctuation in hypothetical profit and loss in August was the volatility of euro interest rates. In addition, a hypothetical backtesting exceeding was measured and reported to the regulator at the beginning of August. The background was strong daily market value fluctuations in long-term euro interest rates. A portfolio of equity instruments, measured in the internal model as perpetuals with a maturity of 2099, was the main driver.

Strategic hedge positions in head office led to a change in VaR and hypothetical profit and loss due to a forthcoming decision by the European Court of Justice regarding Swiss franc loans in Poland. These positions were closed within a few days.

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.

2019 in € thousand	Total	< 3 m	> 3 to 6 months	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20y
CHF	(5)	(4)	(2)	(2)	3	0	2	(2)	(1)	1	0	0
CNY	4	0	0	4	0	0	0	0	0	0	0	0
CZK	(9)	0	(4)	(14)	11	5	(6)	0	4	(6)	0	0
EUR	(177)	13	(15)	2	(7)	(22)	(32)	(34)	36	(27)	(20)	(73)
GBP	0	0	0	0	0	0	0	0	0	0	0	0
HRK	2	0	0	0	1	(1)	1	0	0	0	0	0
HUF	8	(4)	4	6	1	(8)	6	1	4	(1)	0	0
NOK	3	0	0	0	(1)	2	2	0	0	0	0	0
PLN	24	2	6	2	0	(3)	13	0	4	0	0	0
RON	(15)	0	0	(1)	5	(3)	7	(13)	(3)	(7)	0	0
RUB	(7)	(1)	(2)	(5)	(1)	(1)	6	(2)	(1)	0	0	0
USD	(47)	(3)	(6)	(8)	(19)	(18)	26	(5)	14	(29)	13	(12)
Others	(16)	1	0	(1)	(3)	(3)	(6)	(3)	(1)	0	0	0

2018 in € thousand	Total	< 3 m	> 3 to 6 months	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 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

Interest rate risk in the banking book

Different maturities and repricing schedules of assets and the corresponding liabilities (i.e. deposits and financing from money markets and capital markets) cause interest rate risk in RBI AG. 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 is material for 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 where in particular interest rate swaps and – to a smaller extent – also interest rate forwards and interest rate options are 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 not only measured not only in a value-at-risk framework but 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.

2019 in € thousand	Total	< 3 m	> 3 to 6 months	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20y
CHF	(249)	(40)	(1)	(1)	(2)	(12)	(31)	(13)	(39)	(50)	(38)	(23)
CNY	(2)	0	(1)	(1)	0	0	0	0	0	0	0	0
CZK	(2)	5	(1)	0	0	(2)	(3)	0	(2)	0	0	0
EUR	(2268)	148	(13)	21	(704)	(560)	(799)	(197)	(362)	99	44	55
GBP	(17)	(3)	(5)	0	1	(1)	(7)	(1)	0	0	0	0
HUF	3	0	0	0	(1)	(1)	6	(1)	0	0	0	0
PLN	(15)	(5)	(1)	(1)	(1)	0	(1)	(5)	0	0	0	0
SGD	1	0	0	1	0	0	0	0	0	0	0	0
USD	(89)	19	(20)	(18)	(2)	(8)	(14)	(4)	(1)	(25)	(17)	0
Others	(7)	0	0	1	0	0	(1)	0	0	(2)	(4)	(2)

2018 in € thousend	Total	< 3 m	> 3 to 6 months	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 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

Credit spread risk

The market risk management framework uses time-dependent bond and CDS-spread curves as risk factors in order to measure credit spread risks. It captures 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 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 set out by the Basel Committee on Banking Supervision and the Kreditinstitute-Risikomanagement-Verordnung (KI-RMV) 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) as well as 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 run essentially by two areas within the bank: On the one side the Treasury unit, which takes on liquidity risk positions within the strategy, guidelines and parameters set by the responsible decision-making bodies. On the other side they are monitored and supported by the independent Risk Controlling unit, which measures and models liquidity risk positions, sets limits and supervises the compliance with those.

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 ALCOs take decisions and provide standard reports on liquidity risk to the Board of Management at least on a monthly basis.

Liquidity strategy

Treasury units are committed to achieve KPIs and to comply to 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 balance sheet. Strategic goals comprise a reduction in parent funding within the group, the sustainable management of the depositor base and of credit growth as well as 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 particular modelling assumptions. Whereas the regulatory reports are calculated on specifications given by authorities, the internal reports are modelled with assumptions from empirical observations.

RBI AG has a substantial database along with expertise in forecasting cash flows arising from all material on- and off-balance sheet positions. The modelling of liquidity in- and outflows is carried out on a sufficient granular level, differentiating between product and customer segments, and, where applicable, currencies as well. Modelling of retail and corporate customer deposits includes assumptions concerning the retention times for deposits after maturity. The model assumptions are quite prudent, e.g. there is a "no rollover" assumption on funding from banks and all funding channels and the liquidity buffer are stressed simultaneously without taking mitigating effects from diversification into account.

The cornerstones of the economic liquidity risk framework are the Going Concern (GC) and the Time to Wall (TTW) scenario. The Going Concern report shows the structural liquidity position. It covers all main risk drivers which could detrimentally affect the group in a business-as-usual scenario. The Going Concern Models are important input factor for the liquidity contribution to the internal Funds transfer pricing model. On the other hand, the Time to Wall report 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. The technical infrastructure is enhanced in numerous projects 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. Limits are defined both under a business as usual as well as under a stress perspective. In accordance with the defined risk appetite, each unit must demonstrate a survival horizon of several 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. Any breach by Group units is reported to the Group ALCO and escalated. In such cases, appropriate steps are undertaken in consultation with the relevant unit or contentious matters are escalated to the next highest responsible body.

Liquidity stress test

Stress tests are conducted for RBI AG on a daily basis and on Group level on a weekly basis. 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 simultaneously significant outflows of customer deposits. In this respect, the deposit concentration risk is considered by assigning 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 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, the main Group units actively maintain and manage 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. The main Group units ensure the availability of liquidity buffers, test their ability to utilize central bank funds, constantly evaluate their collateral positions as regards their market value and encumbrance and examines the remaining counterbalancing capacity, including the funding potential and the sale ability 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 securities held as assets as part of 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.

Contingency funding plan

Under difficult 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 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 deposit base. Funding requirements are regularly updated to take account of balance sheet developments and to ensure that liquidity ratios are maintained in accordance with management requirements. 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 several months even without applying contingency measures.

The results of the going concern scenario are shown in the following table. It illustrates excess liquidity and the ratio of expected cash inflows plus the counterbalancing capacity to cash outflows (liquidity ratio) for selected maturities on a cumulative basis. Based on assumptions employing expert opinions, statistical analyses and country specifics. This calculation also incorporates estimates of the stability of the customer deposit base, outflows from off-balance sheet items and downward market movements in relation to positions which influence the liquidity counterbalancing capacity.

in € thousand	2019		2018	
Maturity	1 month	1 year	1 month	1 year
Liquidity gap	4,250,532	4,562,591	2,871,841	3,318,873
Liquidity ratio	110%	106%	108%	105%

Liquidity coverage ratio

The liquidity coverage ratio (LCR) requires the short-term resilience of banks by ensuring that they have an adequate stock of unencumbered high-quality liquid assets (HQLA) to meet potential liability run offs that might occur in a crisis, which can be converted into cash to meet the liquidity needs for a minimum of 30 calendar days in a liquidity stress scenario.

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

The regulatory limit for the LCR is 100 per cent.

in € thousand	31/12/2019	31/12/2018
Average liquid assets	**16,163,381**	**17,042,412**
Net outflows	**12,372,628**	**14,030,981**
Inflows	7,601,297	4,293,880
Outflows	19,973,925	18,324,861
Liquidity Coverage Ratio	**131%**	**121%**

Secured capital market transactions led to an increase in inflows, whereas the increase in outflows was primarily attributable to non-operating, short-term deposits.

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Net Stable Funding Ratio (NSFR)

The NSFR is defined as the ratio of available stable funding to required stable funding. From 28.06.2021, the new regulatory requirements come into force and the regulatory limit of 100 percent must be complied with. . 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 positions.

RBI AG targets a balanced funding position.

in € thousand	2019	2018
Required stable funding	38,336,772	33,901,396
Available stable funding	37,914,378	32,871,966
Net Stable Funding Ratio	**99%**	**97%**

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. In this risk category internal risk drivers such as unauthorized activities, fraud or theft, conduct-related losses, modelling errors, execution and process errors, or business disruption and system failures are managed. External factors such as damage to physical assets or fraud are managed and controlled as well.

This risk category is analyzed and managed based on RBI AG's own historical loss data and the results of risk assessment.

As with other risk types the principle of firewalling of risk management and risk controlling is also applied 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, IT Risk Management) and all first line of defense contacts (Operational Risk Managers).

Risk identification

Identifying and evaluating risks that might endanger the bank's existence (but the occurrence of which is highly improbable) and areas where losses are more likely to arise more frequently (but have only limited impact) are important aspects of operational risk management.

Operational risk assessment is executed in a structured and Group-wide uniform manner according to risk categories such as business processes and event types. Moreover, risk assessment applies to new products as well. 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, losses arising and external changes determine which cases are dealt with in detail.

Monitoring

In order to monitor operational risks, early warning indicators are used that allow prompt identification and minimization of losses.

Loss data is collected in a central database called ORCA (Operational Risk Controlling Application) in a structured manner and on a Group-wide basis according to the event type and the business line. In addition to the requirements for internal and external reporting, information on loss events is exchanged with international data pools to further develop operational risk management tools as well as to track measures and control effectiveness. Since 2010, The Group has been a participant in the ORX data pool (Operational Risk Data Exchange Association), whose data are 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 as well as events resulting from operational risks 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 reduce operational risk, business managers decide on preventive risk reduction actions such as risk mitigation or risk transfer. The progress and effectiveness of these actions is monitored by risk control. The former also define contingency plans and nominate responsible persons or departments for initiating the defined actions if losses in fact occur. In addition, several dedicated organizational units provide support to business units for reducing operational risks. An important role in connection with operational risk activities is taken on by Financial Crime Management. Financial Crime Management provides support for the prevention and identification of fraud. 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 Transaction Accounting, Bank Accounting and Financial 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 accouting 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

Real GDP growth in Central Europe (CE) is likely to continue to slow moderately in 2020, in line with the broader economic landscape, but should remain well above the growth rate expected for the euro area (0.8 per cent) at 2.8 per cent (2019: 3.6 per cent). Private consumption should once again support the economy, thanks to a continued decline in unemployment and solid real wage growth. In contrast, industrial activity is forecast to continue weakening over the year, however growth rates should nevertheless remain in positive territory. At the individual country level, Poland is expected to achieve the highest GDP growth (3.3 per cent), followed by Hungary (3.2 per cent).

Southeastern Europe

In Southeastern Europe (SEE), economic growth of 2.9 per cent is forecast for 2020. This represents a slowdown of just over half a percentage point versus 2019. Domestic demand is expected to be the main growth driver. The economic slowdown anticipated in the euro area is expected to also curb economic growth in SEE, affecting almost all countries in the region. In both Romania and Bulgaria, which together make up around two-thirds of SEE's regional GDP, a decline of around one percentage point is anticipated. Countries such as Croatia or Bosnia and Herzegovina are expected to show only a slight weakening in growth rates.

Eastern Europe

After a somewhat weaker year in 2019, the Russian economy is likely to show a slightly stronger growth rate of around 1.6 per cent in 2020. This should continue the moderate growth trajectory of recent years. While monetary and fiscal policy had a more restrictive effect in 2019, lower key interest rates, government infrastructure projects, and higher social security expenses, are expected to provide a slight boost to growth in 2020. Sanctions risks remain and could have a negative impact on currency and economic developments. In Ukraine, the new government is about to implement ambitious reform projects (e.g. land reform), while the expected revival of cooperation with the International Monetary Fund should have a stabilizing effect. Economic growth of 3.1 per cent is forecast for Ukraine in 2020. The Belarusian economy is expected to grow by 1.8 per cent in 2020, following a dip in 2019.

Austria

The Austrian economy is likely to continue to show only moderate momentum in the first quarters of 2020. Consequently, expected GDP growth of 0.8 per cent for the entire 2020 year, will again be lower than recorded in 2019 (1.6 per cent), though should be at the cyclical trough. While the impetus from foreign trade is likely to fall away, this also shouldn't turn out to be a significant negative factor. At the same time, the highly robust and sustained capital investment cycle is forecast to come to an end, albeit likewise without weighing on the general economy. Consumer spending is expected to be much more of a mainstay for the economy, benefiting from the ongoing solid growth of real disposable household income (also supported by fiscal easing measures).

Banking sector in Austria

The positive trend in new business in the Austrian banking market should continue in 2020. Depending on the market segment, credit growth rates in the range of 3 to 5 per cent are expected. In the corporate customer business, a moderate weakening of growth momentum is anticipated in view of the impending economic slowdown. Ongoing positive income trends and positive market dynamics in the retail and real estate lending business should continue to provide fundamental support to lending volumes. Nevertheless, a moderate slowdown is expected in mortgage loan originations – also in light of intensified communication with national and supranational regulators with regard to possible overvaluations and aggressive lending practices. Overall, the return on equity for the Austrian banking sector should remain in the high single-digit percentage range in 2020, with risk costs stable or rising only slightly.

CEE Banking Sector

For the CEE banking markets, credit growth rates in the range of 5 to 8 per cent are forecast for the next 12 to 18 months, i.e. a moderate slowdown in growth compared to the previous year. Credit growth dynamics in CE and SEE in 2020 are expected to have a positive overall impact on CEE bank earnings. In the EE markets, further decisive interest rate cuts by central banks, over the course of the year, should reduce earnings prospects, while no significant shifts in the interest rate landscape are expected in CE and SEE, expect for in Hungary. However, tighter micro- and macro-prudential regulations are likely to slow down further growth in mortgage and consumer lending, especially in the Czech Republic and Slovakia, as well as in some Southeastern European countries and Russia. Thanks to the adjustments made in recent years – such as the decrease in foreign currency loans, more prudent lending standards and the reduction of NPL portfolios – no significant negative effects on earnings are currently expected, even in the event of a moderate economic downturn in CE and SEE. Overall, the return on equity of the CEE banking sector in 2020 should almost reach the level of 2019, even if risk costs in some regions potentially rise slightly (from a low base). Risks to the growth prospects and earnings situation in the CEE banking sector are currently primarily political in nature (e.g. remaining litigation relating to old foreign currency loan portfolios, special sector taxation). In the medium term, the wave of consolidation currently emerging in CEE banking markets could have a positive impact on earnings prospects.

Outlook for RBI AG

Despite a slight weakening of the economic outlook for the coming 2020 financial year, we expect business volumes for RBI AG to remain stable in the coming years.

Accordingly, we expect that the effect of interest rates on income will remain slightly positive in the coming financial year, particularly as a result of more favorable refinancing. Moderate growth in service business volumes should also lead to a slight rise in fee and commission income. We also expect an increase in dividend income from affiliated companies in the 2020 financial year. These positive developments should result in a low single-digit percentage increase in operating income.

The first effects of the "TOM" project should be seen in general administrative expenses and lead to a noticeable reduction in the cost structure as early as 2020 as a result of efficiency gains and process improvements, supported by increasing digitization.

Net provisioning for impairment losses was low in 2019 (€ 109 million), mainly reflecting the good state of the economy and proceeds from the sale of non-performing loans. However, we expect a moderate increase in provisioning for impairment losses in 2020 as a result of the slight economic slowdown.

Over the medium term, we target a CET1 ratio (fully loaded) after dividend of around 13 per cent for the RBI Group. Based on that target, we intend to pay dividends equal to 20 to 50 per cent of consolidated profit.

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, 28 February 2020

The Managing Board

Johann Strobl

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

Martin Grüll

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

Andreas Gschwenter

Member of the Management Board responsible for Group Core IT, Group Data, Group Efficiency Management, Group IT Delivery, Group Procurement, Cost & Real Estate Management, Group Project Portfolio & Security and Head Office Operations

Łukasz Januszewski

Member of the Management Board responsible for Group Capital Markets Corporate & Retail Sales, Group Capital Markets Trading & Institutional Sales, Group Investment Banking, Group Investor Services, Group MIB Business Management & IC Experience, 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 Advanced Analytics, 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 Group Asset Management, International Retail Business Management & Steering, International Mass Banking, Sales & Distribution, International Premium & Private Banking, International Retail CRM, International Retail Lending, International Retail Online Banking and International Small Business Banking

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 2019, 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 2019, 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:

1. Recoverability of loans and advances to customers
2. Provision for legal risk regarding retail mortgages in the Warsaw branch of RBI AG
3. Recoverability of shares in affiliated companies

1. 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 28.1 billion. They comprise predominantly loans and advances to Austrian and foreign corporate customers and about EUR 2.9 billion of mortgage loans to retail customers in the Warsaw branch of RBI AG.

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.

The impairment amount for individual significant customers (corporate customers, "Non-Retail") is determined individually by the projected timing and amount of future cashflows based on scenario-weighted forecast. The cashflows are significantly influenced by the estimate of the client's economic situation and the estimate of collateral values.

For defaulted, individually insignificant customers in the household segment (retail) as well as for non-defaulted loans, a collective impairment allowance is recognized for expected credit losses based on models with statistic assumptions on e.g. probabilities of default and loss-given-default. The bank has applied the IFRS 9 method to determine expected credit losses (twelve-month ECL is used (ECL stage 1) and lifetime-ECL (for stage 2 and 3)).

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

Our Audit Approachs

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 risk-oriented as well as a random sample based approach to determine whether there is an indication for 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. With regard to the internal collateral valuation, we assessed on a sample basis, together with our valuation specialists, whether the estimates used in the models were adequate and in line with available market data.

In the case of defaulted individual insignificant customers and for portfolio-based loan loss provisions, we critically assessed whether the models and relevant parameters used were adequate for calculating loan loss provisions. 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 used probabilities of default also by performed backtestings. We also analyzed the selection and calculation of forward-looking estimates and scenarios and examined how they were taken into account in parameter estimates. 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.

2. Provision for legal risk regarding retail mortgages in the Warsaw branch of RBI AG

Risk for the Financial Statements

On the reporting date, the Warsaw branch of RBI AG had consumer mortgage loans denominated in or indexed to foreign currencies with a book value of EUR 2.9 billion. In connection to these loans, customers filed civil lawsuits to certain contractual stipulations. The bank recognized a provision of EUR 49.34 million in this regard.

The Management Board describes the process for determining the provision in the notes to the financial statements in the Recognition and Measurement Principles and section Provision for liabilities and charges.

The provision is based on a statistical approach with weigthed scenario calculations. In these calculations, possible decision scenarios have been estimated together with the expected loss rates per scenario to determine the expected impact. In addition probabilities of occurrence of various claims were assessed and an expected value was calculated. Furthermore, the corresponding external legal costs were estimated and considered.

The bank's estimate regarding the parameters used and the expected probability of occurrence of the respective decision scenarios have a significant impact on the determination of the provision and therefore, due to uncertainties regarding the actual loss rates as well as potential upcomming legal regulations, leads to a risk of misstatement in the financial statements.

Our Response

We evalueted the general process of recording and measuring provisions for legal risks, analysed the internal controls and assessed the Bank's accounting treatment of this provision.

Further, we assessed the appropriateness of the expected scenarios and loss rates used as well as the allocated weighted probabilities. These are based on the legal and economic expert opinions of RBI as well as on the opinion of a legal advisor who is involved in the lawsuit. We also verified the arithmetical accuracy of the provision calculation.

Finally, we assessed whether the disclosures in the notes regarding the provision were appropriate and complete.

3. Recoverability of shares in affiliated companies

The Financial Statement Risk

Shares in affiliated companies amount to around EUR 10.8 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, misprepresentations 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 21 June 2018, we were elected as auditors. We were appointed by the supervisory board on 26 July 2018.

At 13 June 2019, we were elected as group auditor for the consolidated financial statements of the fiscal year ending 31 December 2020 and were appointed by the Supervisory Board on 11 July 2019.

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, 28 February 2020

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.