Group 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).

Significant events in the reporting period

Optimization program in Austria

An optimization program entitled "TOM – Target Operating Model" was launched at head office and the specialized subsidiaries in Austria in 2019. The transformation processes will not only focus on cost reduction but also on transparency, simplicity and efficiency.

A provision of € 18 million was recognized at head office to carry out these measures, primarily for the intended workforce reduction. Most of this provision will be used in 2020. The program is expected to reduce general administrative expenses in the coming years.

In the course of this program, at its meeting in September 2019, RBI's Supervisory Board decided that the Management Board would be reduced from seven to six members when Martin Grüll's term of office expires at the end of February 2020.

IPO of SoftwareONE

Raiffeisen Informatik GmbH & Co KG (R-IT), in which RBI AG indirectly holds nearly 47 per cent of the equity, sold its 100 per cent stake in Comparex AG to SoftwareONE Holding AG (SWO), a Swiss software company, at the start of the year. As part of the sale, R-IT received 14.6 per cent of the share capital of SWO among other things. R-IT sold a portion of its SWO share capital in an IPO on the Swiss stock exchange at the end of October 2019 and reduced its holding to 7.9 per cent. A positive effect of €117 million resulted from the IPO proceeds and share price increase, which is included under current income from investments in associates.

Increase in bank levy in Slovakia

The government of Slovakia plans to double the existing bank levy, which was introduced in 2012 and originally intended to expire in 2020. The levy amounts to 0.2 per cent of total assets (minus shareholders' equity) and will increase to 0.4 per cent. It will be collected until further notice under a resolution that the Slovakian parliament passed in November 2019. RBI's subsidiary bank in Slovakia paid € 24 million in bank levies in 2019.

Early adoption of the EBA's new definition of default

In 2016, the EBA published its guidelines on the application of the definition of default, which are required to be adopted by the end of 2020. Risk management follows the new default definition, which also has an impact on the regulatory calculation parameters: probability of default (PD) and loss given default (LGD). Since these serve as the basis for the parameter calculations in the context of the calculation of expected credit loss (ECL) for the consolidated financial statements, changes in the default definition have an effect on the impairments that influence consolidated profit/loss.

RBI implemented the new guidelines in its risk management activities ahead of time in 2019. This resulted in an increase of € 74 million in impairment losses on financial assets in the financial year.

Earnings and financial performance

RBI's growth story continued in 2019 despite a slightly weakening economy in some markets: The 13 per cent increase in customer loans enabled core revenues – net interest income and net fee and commission income, adjusted for the 2018 sale of the Polish banking business – to rise significantly, by 8 and 7 per cent respectively.

Profit before tax reached € 1,767 million in the 2019 financial year, a slight 1 per cent, or € 13 million, increase on the previous year. As expected, the very strong results from the previous year, which were driven by exceptionally low net allocations to loan loss provisions (€ 166 million) due to impairment loss reversals and gains on sales of non-performing loans, could not be replicated, but RBI nonetheless continued on its growth trajectory in 2019. The common equity tier 1 ratio (after deduction of the proposed dividend for the 2019 financial year) reached 13.9 per cent, an increase of 0.6 percentage points.

Due to the positive developments, the Management Board has decided to propose a slightly higher dividend of € 1.00 per share for the 2019 financial year to the Annual General Meeting, an increase of 7 cents. This would correspond to a maximum dividend payout of € 329 million. Based on consolidated profit, the payout ratio would be 27 percent.

Comparison of results with the previous year

in € million	2019	2018	Change	
Net interest income	3,412	3,362	50	1.5%
Dividend income	31	51	(20)	(39.0)%
Current income from investments in associates[1]	171	80	91	114.6%
Net fee and commission income	1,797	1,791	5	0.3%
Net trading income and fair value result	(17)	17	(34)	–
Net gains/losses from hedge accounting	3	(11)	14	–
Other net operating income	78	88	(9)	(10.5)%
Operating income	**5,475**	**5,377**	**98**	**1.8%**
Staff expenses	(1,610)	(1,580)	(30)	1.9%
Other administrative expenses	(1,094)	(1,178)	84	(7.1)%
Depreciation	(389)	(290)	(99)	34.1%
General administrative expenses	**(3,093)**	**(3,048)**	**(45)**	**1.5%**
Operating result	**2,382**	**2,330**	**53**	**2.3%**
Other result[1]	(219)	(241)	22	(9.0)%
Levies and special governmental measures	(162)	(170)	7	(4.4)%
Impairment losses on financial assets	(234)	(166)	(68)	41.2%
Profit/loss before tax	**1,767**	**1,753**	**13**	**0.8%**
Income taxes	(402)	(355)	(47)	13.2%
Profit/loss after tax	**1,365**	**1,398**	**(33)**	**(2.4)%**
Profit attributable to non-controlling interests	(138)	(128)	(9)	7.4%
Consolidated profit/loss	**1,227**	**1,270**	**(43)**	**(3.4)%**

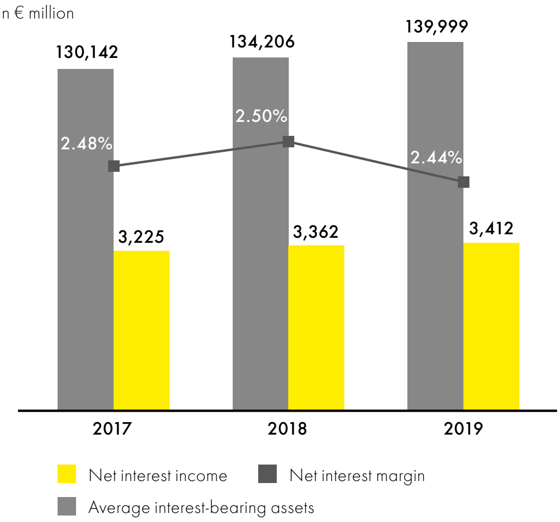
1 The current income from investments in associates previously reported in other result is now shown in a separate item.

Operating income

Operating income was up 2 per cent, or € 98 million, year-on-year to € 5,475 million. Adjusted for the sale of the Polish core banking operations, operating income grew 8 per cent. Net interest income rose 1 per cent to € 3,412 million and was driven by lending growth, with Group average interest-bearing assets up 4 per cent. Net interest income rose in nearly all markets, with the largest increases coming from Russia, the Czech Republic, Romania and Ukraine. The net interest margin fell 7 basis points to 2.44 per cent, mainly due to lower margins in new business in Russia as a result of increased competition, a higher proportion of low-margin head office business, as well as the sale of the core banking operations in Poland. In the period under review, current income from investments in associates rose € 91 million to € 171 million. The increase stemmed primarily from Raiffeisen Informatik GmbH & Co KG due to a valuation gain on a listed equity interest. Despite the sale of the Polish core banking operations, net fee and commission income also increased € 5 million year-on-year to € 1,797 million. This was primarily attributable to increases in Russia, at head office and in Hungary. The net trading income and fair value result fell to minus € 17 million, driven by interest rate-related valuation changes for certificates issued (down € 57 million), as well as valuation results from derivatives held for economic hedging purposes, including for a building society portfolio, leading to an effect of minus € 29 million. As these are certificates that are repayable once they reach maturity and hedging transactions, the valuation results are neutralized over the portfolios' lifetime. In contrast, predominantly gains on the sale and valuation of debt securities held for trading purposes combined with one-off income from the sale of equity instruments in Slovakia (€ 27 million) led to a positive change of € 44 million at head office.

Development of the net interest margin

in € million

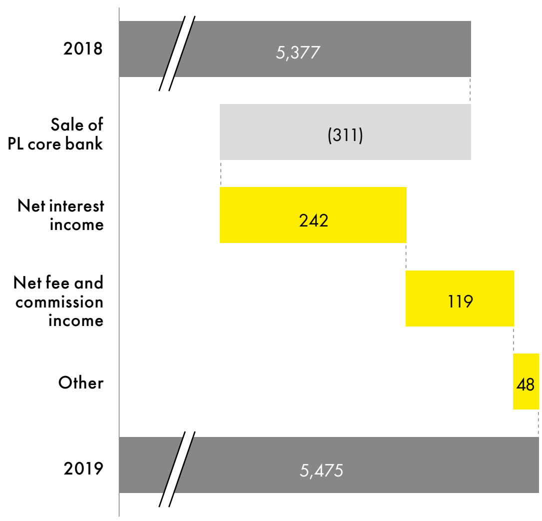


General administrative expenses

General administrative expenses increased € 45 million year-on-year to € 3,093 million. Comparability with the previous period is limited due to the sale of the Polish core banking operations and the first-time adoption of IFRS 16 with the corresponding effects on other administrative expenses and depreciation. The sale of the Polish core banking operations led to a reduction of € 179 million, adjusted for which the increase in general administrative expenses would have been € 224 million. Staff expenses rose especially as a result of salary adjustments in several countries and a rise in staffing levels in Russia and at head office. In addition, a restructuring provision of € 18 million was formed for an optimization program at head office.

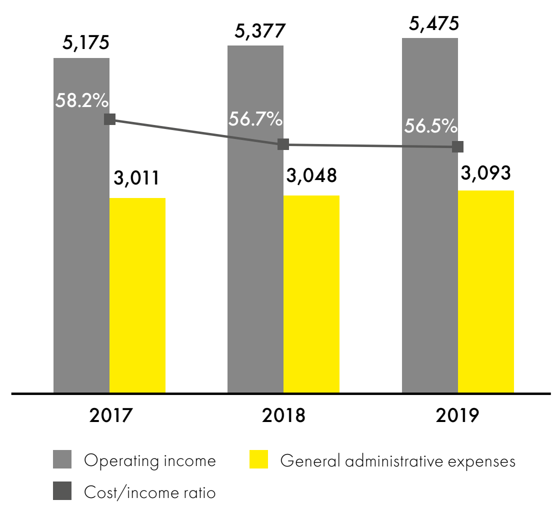
Development of operating income

in € million



Cost/income ratio performance

in € million



Overall, the average number of employees declined by 2,572 full-time equivalents year-on-year to 47,173. Excluding the sale in Poland, the number of full-time equivalents increased by 587. The increase in other administrative expenses is attributable to higher deposit insurance fees as well as higher advertising and consulting expenses. The number of business outlets fell by 119 year-on-year to 2,040, primarily in Romania (down 68) and Russia (down 37). Depreciation also increased, mainly as a result of higher capitalization of software at head office and in Russia, and an adjustment to the expected useful life of tangible fixed assets in Ukraine.

Other result

The other result was minus € 219 million, compared to minus € 241 million in the previous year. Net income from the disposal of Group assets increased € 236 million. This was principally due to a loss of € 120 million recognized in the previous year in connection with the sale of the Polish core banking operations and an effect of minus € 64 million from recycling the accumulated foreign currency differences previously recognized in other comprehensive income. In the reporting period, net income from the disposal of Group assets amounted to € 52 million, which came mainly from the sale of a property in Slovakia.

During the reporting period, credit-related provisions for litigation were allocated on a portfolio basis in an amount of € 83 million. These were related to pending lawsuits in connection with foreign currency-denominated or foreign currency-indexed mortgage loans to consumers in Poland (€ 49 million), credit clauses in Croatia (€ 20 million), and proceedings with the consumer protection authority in Romania, also with respect to alleged misuse of credit clauses (€ 14 million).

Impairments on investments in subsidiaries and associates rose € 65 million to € 98 million, primarily on shares in Raiffeisen Informatik GmbH & Co KG, UNIQA Insurance Group AG and the building society in Slovakia. In addition, impairments on non-financial assets of € 59 million were taken during the reporting period (up € 38 million), which were predominantly driven by real estate owned by an Italian leasing company and by real estate holdings in Russia. A provision of € 27 million was allocated in the reporting period for property transfer taxes in Germany, which resulted from corporate reorganizations in previous years. They related to the merger of Raiffeisen Zentralbank and Raiffeisen Bank International in 2017 and to purchases of shares in Raiffeisen Leasing Group in 2012 and 2013.

Levies and special governmental measures

Levies and expenses for special governmental measures fell € 7 million to € 162 million compared to the same period in the previous year. Bank levies recorded a decline of € 6 million. In Poland, bank levies decreased € 18 million due to the sale of the Polish core banking operations. This reduction was counteracted in part by the newly introduced bank levy in Romania in the amount of € 10 million. Expenses from banking business due to governmental measures increased € 3 million as a result of the conversion of Swiss franc loans in Serbia. Resolution fund contributions fell € 5 million. The largest decline came from the sale of the Polish core banking operations (down € 9 million) with contributions also lower in the Czech Republic, while head office and Bulgaria recorded higher contributions.

Impairment losses on financial assets

Impairment losses on financial assets amounted to € 234 million in the reporting period, compared to € 166 million in the previous year. The main driver of the increase was the Group Corporates & Markets segment, which reported impairments of € 64 million in the reporting period as a result of individual cases involving large corporate customers; in the comparable period of the previous year, a € 62 million net release of loan loss provisions was booked which was mainly attributable to inflows and recoveries. The sale of the Polish core banking operations led to a € 62 million decline in provisioning for impairment losses in Poland to € 27 million, which was recognized in the reporting period for the remaining retail customer portfolio and was mainly driven by the application of the revised default definition and retail model parameter adjustments. Impairment losses on financial assets in the Czech Republic fell € 17 million to € 16 million due to a significant improvement in the corporate customer business and parameter adjustments in retail models. This was offset by a € 30 million negative effect from the application of the revised EBA default definition. In Croatia, impairment losses fell € 16 million to € 3 million due to positive developments in the corporate customer business, sales of non-performing loans and parameter adjustments in retail models. In contrast, an € 11 million increase in impairment losses to € 68 million was reported in Russia due to strong credit growth in both the retail and the corporate customer business. In Ukraine, net releases halved to € 10 million, mainly due to lower loan sales.

Application of the revised default definition resulted in negative effects of € 74 million in the retail portfolio during the reporting period, primarily in the Czech Republic, Romania, and Poland.

The NPE ratio continued to improve in 2019: From the beginning of the year, it fell 0.5 percentage points, primarily due to sales of non-performing loans and the derecognition of uncollectible loans, and stood at 2.1 per cent at year-end. The NPE coverage ratio improved 2.7 percentage points to 61 per cent.

Income taxes

Income taxes rose € 47 million to € 402 million. The main reason for the increase was a € 25 million impairment of deferred tax assets in Poland due to the anticipated inability to utilize them based on the updated medium-term tax planning. Other drivers included € 27 million higher income taxes in Russia due to earnings and tax payments for previous periods. The tax rate rose 2 percentage points to 23 per cent, partly as a result of the lower profit contribution from head office.

Consolidated profit/loss

Profit attributable to non-controlling interests increased from € 128 million in the previous year to € 138 million, while consolidated profit fell € 43 million to € 1,227 million.

Comparison of results with the previous quarter

Quarterly results

in € million	Q4/2018	Q1/2019	Q2/2019	Q3/2019	Q4/2019
Net interest income	843	825	840	866	881
Dividend income	(9)	9	14	2	5
Current income from investments in associates[1]	24	23	13	14	120
Net fee and commission income	467	402	437	468	489
Net trading income and fair value result	(3)	(52)	(27)	(8)	70
Net gains/losses from hedge accounting	(11)	6	(6)	(7)	10
Other net operating income	8	0	21	(8)	65
Operating income	**1,318**	**1,213**	**1,293**	**1,327**	**1,642**
Staff expenses	(416)	(379)	(410)	(392)	(429)
Other administrative expenses	(325)	(257)	(267)	(260)	(310)
Depreciation	(79)	(89)	(95)	(96)	(109)
General administrative expenses	**(819)**	**(724)**	**(773)**	**(748)**	**(848)**
Operating result	**499**	**489**	**520**	**580**	**794**
Other result[1]	(98)	(26)	(7)	(35)	(151)
Levies and special governmental measures	(13)	(114)	(17)	(11)	(21)
Impairment losses on financial assets	(222)	(9)	(2)	(68)	(154)
Profit/loss before tax	**166**	**340**	**494**	**465**	**468**
Income taxes	(40)	(81)	(110)	(124)	(88)
Profit/loss after tax	**127**	**259**	**384**	**341**	**380**
Profit attributable to non-controlling interests	(29)	(33)	(39)	(38)	(27)
Consolidated profit/loss	**97**	**226**	**345**	**303**	**353**

1 The current income from investments in associates previously reported in other result is now shown in a separate item.

OVERVIEW OF RBI

GROUP MANAGEMENT REPORT

SEGMENT REPORTS

CONSOLIDATED FINANCIAL STATEMENTS

SERVICE

Development of the fourth quarter of 2019 compared to the third quarter of 2019

Operating income

RBI's net interest income rose 2 per cent quarter-on-quarter, or € 15 million, to € 881 million, mainly due to a € 13 million volume-related rise in Russia. At head office, net interest income rose € 10 million as a result of lower interest expenses on customer deposits, whereas there were declines of € 8 million in the Czech Republic and of € 2 million in the Raiffeisen Leasing Group due to one-off effects in the third quarter of 2019. The net interest margin continues to stabilize with a slight increase of 1 basis point to 2.47 per cent.

Current income from investments in associates rose € 106 million and stemmed mainly from Raiffeisen Informatik GmbH & Co KG due to a valuation gain on a listed equity interest.

Net fee and commission income increased 5 per cent compared to the third quarter, or € 21 million, to € 489 million. The main driver of the increase was higher revenues from clearing, settlement and payment services and the loan and guarantee business in the fourth quarter, especially in Russia and at head office.

The net trading income and fair value result rose € 78 million quarter-on-quarter to € 70 million. This included a € 42 million improvement in net trading income, mainly due to interest rate-related valuation gains on certificates measured at fair value and to one-time income from the sale of equity instruments (€ 27 million) in Slovakia.

Other net operating income increased € 73 million quarter-on-quarter. This was primarily attributable to releases of provisions in Romania and Russia. In Romania, provisions for litigation in connection with state subsidies for building society savings were reduced by € 27 million; in Russia, a € 9 million provision for litigation was released, whereas a provision of € 6 million was formed in the preceding quarter. Additional drivers of the increase included proceeds from residential construction in the Raiffeisen Leasing Group amounting to € 9 million, sales of loans and bonds in Romania amounting to € 6 million, and higher other operating income mainly at head office.

General administrative expenses

General administrative expenses came to € 848 million in the fourth quarter, up 13 per cent, or € 100 million, from € 748 million in the previous quarter.

This included a € 37 million quarter-on-quarter rise in staff expenses to € 429 million. The principal causes were the recognition of a restructuring provision at head office as well as higher bonuses and salary adjustments, mainly in Russia and Slovakia. Other administrative expenses increased € 50 million quarter-on-quarter to € 310 million, primarily due to seasonally higher advertising expenses, especially in Romania and Russia, and higher legal, advisory and consultancy expenses, notably at head office. Depreciation of tangible and intangible fixed assets increased by € 13 million to € 109 million in the fourth quarter, mainly in Russia and at head office.

Other result

In the fourth quarter of 2019, the other result amounted to minus € 151 million, compared to minus € 35 million booked in the previous quarter. The main drivers were impairments on investments in subsidiaries and associates, which increased € 60 million, and a € 42 million increase in impairments on non-financial assets, which principally arose from real estate owned by an Italian leasing company and in Russia. In addition, loan-related provisions for litigation increased € 51 million on a portfolio basis, mainly in connection with foreign currency-denominated or foreign currency-indexed mortgage loans to consumers in Poland. This was offset by a positive effect of € 50 million from the sale of a property in Slovakia.

Levies and special governmental measures

The expenses for levies and special governmental measures rose € 10 million quarter-on-quarter to € 21 million. The increase was caused by the new bank levy introduced in Romania in 2019, amounting to € 10 million.

Impairment losses on financial assets

In the fourth quarter of 2019, impairment losses on financial assets rose € 86 million to € 154 million, principally due to higher risk costs in the Group Corporates & Markets segment (€ 33 million increase) for various individual cases in the large corporate customer business, in the Czech Republic (€ 18 million increase) primarily due to the application of the revised default definition, and in Russia (€ 14 million increase) due to strong credit growth.

Income taxes

Income taxes fell € 36 million compared to the previous quarter to € 88 million. The main driver was impairment charges of € 25 million on deferred tax assets in Poland in the third quarter, which are not expected to be utilized in the future based on the updated medium-term tax planning. In Croatia, tax expenses fell € 12 million due to the utilization of tax loss carryforwards. The overall tax rate therefore fell 8 percentage points to 19 per cent.

Consolidated profit/loss

The consolidated profit in the fourth quarter rose 16 per cent, or € 50 million, to € 353 million, and was driven by a strong operating result.

Statement of financial position

In the course of 2019, RBI's total assets increased 9 per cent, or € 12,084 million, to € 152,200 million. Currency movements resulted in an increase of around 2 per cent, or € 2,520 million, notably from appreciation of the Ukrainian hryvnia against the euro by 19 per cent, of the Russian ruble by 14 per cent, of the Belarusian ruble by 5 per cent, and of the US dollar by 2 per cent; countered by depreciation of the Hungarian forint by 3 per cent and of the Romanian leu by 2 per cent.

Assets

in € million	31/12/2019	31/12/2018	Change	
Loans to banks	9,435	9,998	(563)	(5.6)%
Loans to customers	91,204	80,866	10,339	12.8%
Securities	19,538	19,778	(240)	(1.2)%
Cash and other assets	32,022	29,473	2,549	8.6%
Total	**152,200**	**140,115**	**12,084**	**8.6%**

The 6 per cent, or € 563 million, decline in loans to banks to € 9,435 million, mainly resulted from reduced short-term investments at commercial banks.

Loans to customers were up 13 per cent, or € 10,339 million, to € 91,204 million. Households accounted for € 3,621 million of the increase, non-financial corporations for € 3,234 million, and other financial corporations for € 3,206 million; the remainder was attributable to loans to governments. There was growth in the customer business in almost all markets: The strong growth at head office (up € 3,607 million or 17 per cent) stemmed from € 2,135 million in loans to other financial corporations – of which € 1,105 million was repo business – and € 1,471 million in loans to corporate customers, primarily project finance, export finance and standard loans. The increase in Russia (up € 2,826 million, or 33 per cent, around half of which was attributable to currency movements), was mainly in loans to non-financial corporations (up € 1,584 million) and households (up € 1,073 million), in particular mortgage loans, personal loans and credit card lending. There was also significant growth in Slovakia (up € 881 million or 9 per cent) and in the Czech Republic (up € 741 million or 7 per cent) – primarily in loans to households, in particular mortgage loans, and to a lesser extent loans to non-financial corporations – as well as in Hungary (up € 468 million or 14 per cent) and in Bulgaria (up € 421 million or 16 per cent).

Since the beginning of the year, cash and other assets rose € 2,549 million to € 32,022 million. Cash balances increased € 1,732 million to € 24,289 million, primarily at head office (increase of € 1,427 million, particularly from repo business). Other assets were up € 817 million to € 7,733 million, half of which was due to the recognition of right-of-use assets in the statement of financial position (application of IFRS 16).

Equity and liabilities

in € million	31/12/2019	31/12/2018	Change	
Deposits from banks	23,607	23,980	(373)	(1.6)%
Deposits from customers	96,214	87,038	9,176	10.5%
Debt securities issued and other liabilities	18,614	16,684	1,930	11.6%
Equity	13,765	12,413	1,352	10.9%
Total	**152,200**	**140,115**	**12,084**	**8.6%**

The 11 per cent, or € 9,176 million, increase in deposits from customers to € 96,214 million, mainly resulted from higher deposits from non-financial corporations (€ 3,446 million), households (€ 3,865 million) and other financial corporations (€ 1,451 million). The increase was primarily driven by Russia (up € 2,816 million, or 26 per cent, half of which was currency-related), head office (up € 1,403 million or 7 per cent), the Czech Republic (up € 1,102 million or 8 per cent), Slovakia (up € 1,034 million or 9 per cent), Ukraine (up € 718 million, or 40 per cent, half of which was also currency-related), Bulgaria (up € 546 million or 17 per cent), and Romania (up € 425 million or 6 per cent).

The rise in debt securities issued and other liabilities related to head office (up € 1,232 million, mainly as a result of new debt security issues) and Raiffeisen Centrobank AG (up € 565 million) due to own issues.

For information relating to funding, please refer to note (53) Liquidity management, in the risk report section of the consolidated financial statements.

Equity on the statement of financial position

RBI's equity including capital attributable to non-controlling interests rose € 1,352 million from the start of the year to € 13,765 million. The increase was primarily the result of total comprehensive income for the period of € 1,771 million and the distribution of dividends totaling € 428 million for the 2018 financial year.

The total comprehensive income of € 1,771 million comprised profit after tax of € 1,365 million and other comprehensive income of € 406 million. The main contribution to other comprehensive income came from currency exchange differences, particularly for the Russian ruble (€ 269 million) and the Ukrainian hryvnia (€ 72 million). The partial hedge of the net investment resulted in minus € 51 million. Further significant contributions were made by changes in the fair value of equity instruments recognized in other comprehensive income and of debt securities, in the amounts of € 97 million and € 49 million, respectively.

Dividends totaling € 428 million were distributed for the 2018 financial year. The distribution of a dividend of € 0.93 per share to RBI's shareholders accounted for € 306 million. A total of € 60 million was also paid out to holders of non-controlling interests in Group companies. Dividend payments of € 62 million were made on AT1 capital.

Total capital pursuant to the CRR/Austrian Banking Act (BWG)

As at 31 December 2019, RBI's common equity tier 1 (CET1) after deductions amounted to € 10,862 million, representing an increase of € 1,160 million compared to the 2018 year-end figure. Material factors behind the improvement were the inclusion of eligible profit, foreign exchange effects directly recognized in equity and changes to qualifying minority interests. Tier 1 capital after deductions increased € 1,164 million to € 12,092 million primarily as a result of the increase in CET1. There was a € 418 million reduction in tier 2 capital to € 1,940 million, mainly due to early repayments and the regulatory amortization of outstanding issues. RBI's total capital amounted to € 14,032 million, representing an increase of € 746 million compared to the 2018 year-end figure.

Risk-weighted assets (total RWA) totaled € 77,966 million as at 31 December 2019. The major factors behind the € 5,294 million increase were new lending business as well as general business developments at head office, in Russia and in Bulgaria.

In addition, foreign exchange movements also increased risk-weighted assets, primarily due to the Russian ruble. The changes in market risk reduced risk-weighted assets, while the change in settlement risk increased them marginally.

As a result, the CET1 ratio (fully loaded) was up 0.6 percentage points at 13.9 per cent, the tier 1 ratio (fully loaded) was 15.4 per cent (up 0.5 percentage points), and the total capital ratio (fully loaded) was 17.9 per cent (down 0.3 percentage points).

Research and development

Product development

In financial engineering, customized solutions in connection with investments, financing and hedging are developed for customers. Financial engineering encompasses not only structured investment products, but also structured financing, i.e. financing concepts that go beyond the use of standard instruments and are employed in areas such as acquisition or project financing. RBI also develops individual solutions for its customers to hedge a broad spectrum of risks, from interest rate risk and currency risk through to commodity price risk. Besides financial engineering, RBI is also actively working on the further development of integrated product solutions for international clearing, settlement and payment services in the area of cash management.

There was a particular focus on agile working within software development in 2019: 60 per cent of the product teams at head office, which include employees from other business areas and not just IT professionals, were working in an agile set-up by the end of the year. This iterative working method not only allows for faster but also more cost-efficient developments. By the middle of 2020, this percentage should increase to 80 per cent. Taking all areas at head office into account, the percentage of employees working in agile teams, or in teams applying agile methods, was over 40 per cent at the end of the reporting period.

Digitalization

Mobile banking is a central theme in the advancing digitalization for banks. While penetration was at 22 per cent for RBI in 2018, it had reached 32 per cent by the end of the reporting period. By the end of 2021, it should rise to 55 per cent. There is also growing acceptance of online loans: At the end of 2018, 20 per cent of loans were granted through digital channels, and this had increased to 25 per cent by year-end 2019. For 2021, it is expected that a 35 per cent share of loans will be sold digitally.

RBI is focused on the opportunities that all facets of digitalization in the financial sector offers the Group. To fully capitalize on them, the Group Strategy & Innovation area combines the Strategy and Innovation departments. This aims to put focus on the strategic aspect of RBI's digital transformation alongside the development and implementation of innovative ideas and partnerships. Since April 2018, an Innovation Board specifically created for the purpose has undertaken management and coordination of all the Group's innovation activities.

RBI successfully completed the second round of its Elevator Lab fintech partnership program at the start of 2019. This program tests innovative solutions with selected fintech start-ups and works toward establishing long-term business relationships. The Group-wide and regional Elevator Lab programs have given rise to numerous fintech partnerships. Examples include the use of Pisano customer experience management software in Bulgaria and Kosovo as well as the Symmetric mobile payment solution in Albania.

Elevator Ventures, RBI's corporate venture capital company, has € 25 million in investment capital and focuses on strategic direct investments in selected fintechs. Elevator Ventures represents a logical addition to Elevator Lab, through which participants can be offered the prospect of follow-up investments. Investment targets are fintechs that have gained some market experience and need capital to scale up their business models. An investment was made in kompany, an Austrian Elevator Lab participant, together with UNIQA Ventures in August 2019. RBI has integrated kompany's solution in its innovative know your customer process eKYC, which accelerates the onboarding and data update process for customers by up to 50 per cent.

In 2019, RBI launched the third round of its group-wide intrapreneurship program, Innovation Garden. Out of the 563 submitted ideas, the final nine made it through a multi-stage selection process to enter the twelve-week intrapreneurship program, where the selected ideas were further explored, tested and reviewed. The cross-functional teams from all network units also developed their knowledge of innovative working practices throughout the process. Three teams and ideas were selected to proceed into a six months MVP (Minimum Viable Product) phase, starting in 2020.

RBI also worked extensively on blockchain technology in 2019. The focus was on specific applications in trade finance, capital market transactions and in clearing, settlement and payment services. To further develop blockchain solutions, RBI entered into a cooperation agreement with the Austrian Blockchain Center at the Vienna University of Economics and Business. It has been a member of the international blockchain consortium R3 since the end of 2017 and has participated as a member in worldwide feasibility studies.

The topics covered range from digital blockchain-based solutions for trade/export finance (Marco Polo, Voltron) to projects for real estate transactions (Instant Property Network). RBI also works with R3 consortium partners on proof of concepts for cash/collateral tokens (IVNO Token Trial) and for asset tokenization, which makes assets tradeable by unitizing them. The Russian Raiffeisenbank developed R-Chain Payments, a Corda-based clearing, settlement and payment solution that enables real-time bank transfers.

The implementation requirements of the second EU Payment Services Directive (PSD2) were the starting point for creating an API (Application Programming Interface) product offering that went beyond the minimum regulatory requirements. On 14 September 2019, RBI made the regulatory PSD2 APIs live in all its EU markets; the Czech Republic and Slovakia had already gone live to meet local requirements. For this purpose, all network banks were connected to the Merlin platform in 2019, which allows for a common data format. RBI views the Open API Initiative as a fundamental component of its strategy of encouraging cooperation between RBI, fintechs, bigtechs and developers. RBI's API Marketplace has been online since the fourth quarter of 2019 (https://api.rbinternational.com).

The subsidiary banks in CEE also regularly initiate innovative projects. The experience gained here and in head office is regularly evaluated and enhanced. The stated goal of the digitalization strategy is to further refine these insights and then implement them at other Group network banks.

Internal control and risk management system in relation to the Group accounting process

Balanced and comprehensive financial reporting is a priority for RBI and its governing bodies. Compliance with all relevant statutory requirements is therefore a basic prerequisite. The Management Board is responsible for establishing and defining a suitable internal control and risk management system that encompasses the entire accounting process while adhering to company requirements. This is embedded in the company-wide framework for the internal control system (ICS).

The aim of the ICS is to provide the Management Board with the necessary means to ensure effective and continuously improving internal controls for accounting. The control system is designed to comply with all relevant guidelines and regulations and to optimize conditions for specific control measures in order to prevent any unintentional misstatements.

The consolidated financial statements are prepared in accordance with the relevant Austrian laws, predominantly the Austrian Banking Act (BWG) and Austrian Commercial Code (UGB), which govern the preparation of consolidated annual financial statements. The accounting standards, used to prepare the consolidated financial statements, are the International Financial Reporting Standards (IFRS) as adopted by the EU.

Control environment

An internal control system pertaining to financial reporting has been in place for several years in the Group, which includes directives and instructions on key strategic issues. It incorporates:

- The hierarchical decision-making process for approving Group and company directives, as well as departmental and divisional instructions,
- process descriptions for the preparation, quality control, approval, publication, implementation and monitoring of directives, and instructions including related controls, as well as
- regulations for the revision and repeal of directives and instructions.

The senior management of each Group unit is responsible for implementing the Group-wide instructions. Compliance with Group rules is monitored by Group Accounting & Reporting and in the course of the audits performed by internal Group and local auditors.

The consolidated financial statements are prepared by Group Accounting & Reporting, which reports to the Chief Financial Officer. The associated responsibilities are defined for the Group within the framework of a dedicated Group function.

Risk assessment

Significant risks relating to the Group accounting process are evaluated and monitored by the Management Board. Complex accounting standards can increase the risk of errors, as can the use of differing valuation standards, particularly in relation to the Group's principal financial instruments. A difficult business environment can also increase the risk of significant financial reporting errors. For the purpose of preparing the consolidated financial statements, estimates have to be made for asset and liability items for which no market value can be reliably determined. This is particularly relevant for the lending business, equity participations and goodwill. Social capital, provisions for legal risks and the valuation of securities, are also based on estimates.

Control measures

The preparation of financial information on an individual Group unit level is decentralized and carried out by each Group unit in accordance with the RBI guidelines; the calculation of parts of the impairment charges under IFRS 9 is, however, carried out centrally. The Group unit employees and managers responsible for accounting are required to provide a full presentation and accurate valuation of all transactions. Differences in local accounting standards can result in inconsistencies between local individual financial statements and the financial information submitted to RBI. The local management is responsible for ensuring implementation of mandatory internal control measures, such as the separation of functions and the principle of dual control. The reconciliation and validation controls are embedded in the aggregation, calculation and accounting valuation activities for all financial reporting processes. Particular focus is placed on the controls for the core processes that play a fundamental role in the preparation of the financial statements. This primarily relates to processes which are relevant for valuations, the results of which have a significant impact on the financial statements (such as credit risk provisions, derivatives, equity participations, provisions for personnel expenses and market risk).

Group consolidation

The financial statement data are predominantly automatically transferred to the IBM Cognos Controller consolidation system by the end of January of the subsequent year. The IT system is kept secure by limiting access rights.

The plausibility of each Group unit's financial statements is initially checked by the responsible key account manager within Group Accounting & Reporting. Group-level control activities comprise the analysis and, where necessary, modification of the financial statements submitted by Group units. In this process, the results of meetings with representatives of the individual companies, in which the financial statements are discussed, and comments from the audit of the financial statements are taken into account. The discussions cover the plausibility of the individual financial statements as well as critical matters pertaining to the Group unit.

The subsequent consolidation steps are then performed using the consolidation system, including capital consolidation, expense and income consolidation, and debt consolidation. Finally, intra-Group gains are eliminated where applicable. At the end of the consolidation process, the notes to the financial statements are prepared in accordance with IFRS and the BWG/UGB.

All control measures constitute part of the day-to-day business processes and are used to prevent, detect and correct any potential errors or inconsistencies in the financial reporting. Control measures range from managerial reviews of the results for the period, as well as the specific reconciliation of accounts, through to analyzing ongoing accounting processes.

The consolidated financial statements and management report are reviewed by the Audit Committee of the Supervisory Board and are also presented to the full Supervisory Board for information. The consolidated financial statements are published as part of the Annual Report on the company's website and in the Wiener Zeitung's official journal and are then filed in the commercial register.

Information and communication

The consolidated financial statements are prepared using Group-wide standardized forms. The accounting and valuation standards are defined and explained in the RBI Group Accounts Manual and must be applied when preparing the financial statements. Detailed instructions for the Group units on measuring credit risk and similar issues are provided in the Group directives. The relevant units are kept abreast of any changes to the instructions and standards through regular training courses.

Each year the Annual Report contains the consolidated results in the form of a complete set of consolidated financial statements. In addition, the Group management report contains comments on the consolidated results in accordance with the statutory requirements.

Throughout the year, consolidated monthly reports are produced for the Group's senior management. The statutory interim reports conform to the provisions of IAS 34 and are published quarterly in accordance with the Austrian Stock Exchange Act. Before publication, the consolidated financial statements are presented to senior managers and the Chief Financial Officer for final approval and then submitted to the Supervisory Board's Audit Committee. Analyses pertaining to the consolidated financial statements are also provided for management, as are forecast Group figures at regular intervals. The financial and capital planning process, undertaken by Group Planning & Finance, includes a three-year Group budget.

Monitoring

Financial reporting is a primary focus of the ICS framework, whereby financial reporting processes are subject to risk-based prioritization and control examinations with results regularly reported to the Management Board and the Supervisory Board for evaluation. Additionally, the Audit Committee is required to monitor the financial reporting process. The Management Board is responsible for ongoing company-wide monitoring. The internal control system is based on three lines of defense:

The first line of defense consists of individual departments, whereby department heads are responsible for monitoring their business areas and ensuring that an appropriate control environment is established. The departments conduct control activities and plausibility checks on a regular basis, in accordance with the documented processes.

The second line of defense is made up of specialist areas focused on specific topics. These include, for example, Compliance, Data Quality Governance, Operational Risk Controlling, and Security & Business Continuity Management. Their primary aim is to support specialist areas with their control processes, to validate the actual controls, and to introduce leading practices within the organization.

Internal audits are the third line of defense in the monitoring process. Responsibility for auditing lies with Group Internal Audit and 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 Internal Audit's internal rules also apply (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 Board, with additional reporting obligations to the Chairman of the Supervisory Board and members of the Audit Committee of the Supervisory Board.

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. Please see note (31) equity for further disclosures.

(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.

Risk management

For information on risk management, please refer to the risk report in the consolidated financial statements.

Corporate Governance

The Corporate Governance Report can be found on the RBI website (www.rbinternational.com → Investors → Corporate Governance), as well as in the Corporate Governance Report chapter of the Annual Report.

Consolidated non-financial report

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.

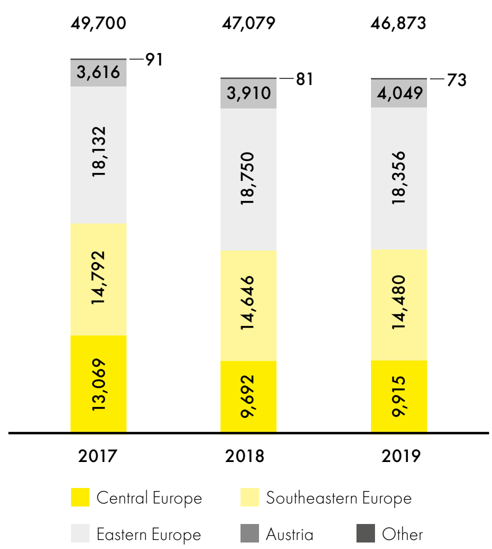
Human Resources

Human Resources (HR) plays a pivotal role in the implementation of RBI's strategy and achievement of its corporate goals. A principal function of HR, while planning, organizing and managing personnel resources within the Group, lies in taking both employee needs and corporate interests into consideration. Alongside core HR processes, such as recruitment and talent management, this also involves preparing employees as best possible to meet existing and future challenges in the banking sector. A key focus is on the implementation of the new corporate Vision & Mission and the company values, which sees employees as a key stakeholder in the future development of the Group.

Personnel development

As at 31 December 2019, RBI had 46,873 employees (full-time equivalents), which was 206 persons fewer than at the end of 2018. The largest declines occurred in Russia (down 179), in Ukraine (down 132), and in Romania (down 128); whereas, the largest increases were reported in Hungary (up 148), and at head office (up 120).

Number of staff at year-end



Outlook

Economic outlook

Central Europe

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

We will pursue loan growth with an average yearly percentage increase in the mid-single digit area.

The provisioning ratio for FY 2020 is expected to be around 50 basis points.

We aim to achieve a cost/income ratio of around 55 per cent in 2021.

In the coming years we target a consolidated return on equity of approximately 11 per cent.

We seek to maintain a CET1 ratio of at least 13 per cent in the medium term.

Based on this target, we intend to distribute between 20 and 50 per cent of the consolidated profit.

Events after the reporting date

There were no significant events after the reporting date.