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**RAIFFEISEN BANK INTERNATIONAL AG**
**Report of the Management Board pursuant to sec. 174 para. 4 of the Stock Corporation Act (*Aktiengesetz*) in conjunction with sec. 153 para. 4 of the Stock Corporation Act for resolving on item 10 of the agenda of the Annual General Meeting of shareholders to be held on 20 October 2020 (exclusion of the subscription right)**

The Management Board and the Supervisory Board of Raiffeisen Bank International AG intend to propose to the Annual General Meeting of shareholders of the Company to be held on 20 October 2020 that the Management Board be authorized pursuant to sec. 174 para. 2 of the Stock Corporation Act to issue with full exclusion of shareholders' subscription rights – with the approval of the Supervisory Board – also in several tranches, convertible bonds with rights to convert into or subscribe to shares of the Company or convertible bonds with conversion obligations (contingent convertible bonds pursuant to sec. 26 of the Banking Act (*Bankwesengesetz*)), including convertible bonds that meet the requirements for Additional Tier 1 capital instruments pursuant to Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on supervisory requirements for credit institutions and investment firms, as amended, within five years from the date of the resolution, i.e. until 19 October 2025.

It is also to be permitted that the convertible bonds may be issued by a company which is one hundred per cent directly or indirectly owned by Raiffeisen Bank International AG; for this event, the Management Board is to be authorized to provide, with the consent of the Supervisory Board, a guarantee for the convertible bonds on behalf of the Company and to grant the holders of the convertible bonds conversion rights into ordinary bearer shares of Raiffeisen Bank International AG and, if a conversion obligation is stipulated in the convertible bonds' issuance terms, to enable the obligation of conversion into ordinary bearer shares of Raiffeisen Bank International AG to be fulfilled.

The issue price and the conversion ratio are to be calculated in accordance with recognized quantitative financial methodology and the price of the Company's shares in a recognized pricing procedure (calculation basis of the issuance price); the issue price of the convertible bonds may not be below the proportionate amount of the share capital. In this respect, the Management Board is to be authorized, with the consent of the Supervisory Board, to determine all further issuance and structural features as well as the issuance terms and conditions of the convertible bonds, in particular the interest rate, issue price, term of validity and denomination, provisions protecting against dilution, conversion period, conversion rights and obligations, conversion ratio and conversion price.

It is intended that the Company may utilize the national and international capital markets depending on market conditions and be able to issue in the currency of the United States of America or in the currency of any other Organisation for Economic Cooperation and Development member state as well as in euros. The right of shareholders to subscribe to the convertible bonds issued within the scope of this authorization is to be excluded.

In the opinion of the Management Board, the exclusion of the subscription right in connection with this resolution authorizing the issuance of convertible bonds is in the prevailing interest of the Company, but also, at least indirectly, in the interest of the existing shareholders of the Company. Pursuant to the applicable legal provisions, the Management Board submits the following report with respect to the legal and commercial reasons and justification for the exclusion of the subscription right.

An exclusion of the subscription right in the case of convertible bonds is to be seen in light of the following material factors, which are of varying importance depending on the structure of the convertible bonds – with conversion rights for investors or conversion obligations:

The flexibility of the Company in raising capital pursuant to Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on supervisory requirements for credit institutions and investment firms, as amended ("CRR"), in order to meet regulatory capital requirements or to improve the capital position of the Company, comparatively low and thus attractive financing costs for the Company, the optimization of a high conversion price, the development of new investor groups and the raising of capital within the Group directly by the company in which the proceeds are actually used.

In order to put into effect and/or optimally use the aforementioned factors in the interest of the Company, an exclusion of the shareholders' subscription right to the convertible bonds issued is necessary, suitable, reasonable and objectively justified in the prevailing interest of the Company.

## 1. Improved financing possibilities

Investors receive interest from convertible bonds with conversion rights at a comparably low risk with respect to repayment of the capital invested. At the same time, they are granted the right to acquire shares in the Company in the future at a price fixed upon issue of the convertible bonds ("conversion price"), whereby the creditors – after conversion – are able to gain exposure to the inherent value and earnings power of the business.

Such convertible bonds constitute a reasonable method for the Company to keep its capital costs as low as possible. As a result of the factors referred to, namely the high degree of security for bond creditors and the possibility of participating in price increases through the right to convert into shares, the Company receives flexible and quick access to attractive financing conditions, which are generally below the level of (pure) debt instruments.

Due to the convertible bond terms customary in the capital market, the issue price of the shares to be issued will lie above the share price at the time of the issuance of the convertible bonds ("conversion premium"), so that the Company is able to achieve a higher issue price in comparison to an immediate capital increase; expressed differently, it is thereby possible to provide additional capital to the Company.

The value of convertible bonds is made up of two components: the bond component and the component of an option providing an entitlement to convert the bonds into shares. Due to the option component associated with the convertible bonds, investors in principle accept a lower rate of interest in comparison to classic corporate bonds. The value of the option component is influenced by the term and the level of interest, but also strongly by the development and volatility of the share price; high volatility (with corresponding price potential) has the effect technically of increasing the value of the option component in the calculation methods usually employed in the market, and is ultimately reflected in a comparably lower interest rate on the convertible bonds. Thus, convertible bonds in particular also offer an opportunity to utilize price volatility – which might also occur in the case of Raiffeisen Bank International AG shares – to the benefit of the Company and thereby to reduce the capital costs of the Company.

Experience has shown that better terms can often be obtained with issues that exclude the subscription right because the immediate placement thereby made possible enables pricing risks detrimental to the Company arising from changes in market conditions to be avoided. This is due to the structure of rights issues, in the case of which the statutory provisions require compliance with a subscription period of at least two weeks. Therefore, with an exclusion of the subscription right, it is possible, upon a correct assessment of the market conditions, to generate comparatively more financial resources for the Company with a lower number of shares to be issued upon use of the conversion right. Additionally, the placement risk for the Company is significantly reduced because issuance with subscription rights carries the risk that the terms and conditions initially defined are no longer in line with the market at the actual time of the placement, as market assessments are often subject to considerable changes during the statutory subscription period.

For these reasons, the exclusion of the subscription right in connection with the issuance of convertible bonds is now also usual practice in the capital market. These considerations regarding the exclusion of subscription rights also apply to convertible bonds in the forms described below.

## 2. Flexibility of the Company in raising capital

Although the Company currently has sufficient capital resources, it is advantageous that it has all the legal and regulatory options available to it to raise capital in accordance with the provisions of the CRR. These include the possibility of issuing Additional Tier 1 capital instruments, the provisions of which stipulate that if a trigger event occurs, the instruments will be converted into Common Equity Tier 1 instruments, and which are therefore subject to a conversion obligation in clearly defined cases (such as shortfalls in relation to specific capital ratios). An instrument with such a conversion obligation, in comparison to Additional Tier 1 capital instruments whose terms stipulate a temporary or permanent reduction of the principal amount of the instruments upon the occurrence of a trigger event, may constitute an attractive alternative for the Company when issuing Additional Tier 1 instruments, depending on market conditions.

The issuance of such instruments therefore provides the Company with additional access to regulatory Tier 1 capital and thus a further instrument for strengthening capital and meeting statutory capital requirements.

## 3. Optimization of a high conversion price

The issue price of the shares to be issued to the convertible bond creditors upon exercise of the conversion and/or subscription right (conversion price) is determined, in accordance with international capital market practice, on the basis of the current volume-weighted average price of the shares of the Company upon allotment of the convertible bonds plus a premium reflecting an estimate of the future development of the Company's share price in conjunction with benchmarking using comparable capital market transactions in the relevant market.

Since the share price upon issuance of the convertible bonds is an important factor for setting the terms of the convertible bonds, it is in the interest of the Company to have the best possible "control" over the reference price of the shares in the Company at the point in time of the allotment of an issue, which plays a significant role in the determination of the terms.

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When considering, for example, the overall price volatility observed in the stock markets, it is evident that both the price development as well as the market assessment during a two week subscription period, which would have to be observed without an exclusion of the subscription right, could well be subject to very significant changes. In the event of issuance with an exclusion of the subscription right, however, the Company could select a favorable point in time for allotment based on its assessment comparatively quickly and flexibly.

In this manner, the Company becomes able within the authorization period to flexibly determine attractive issue terms at what it views as an optimal point in time and thereby to optimize its conversion and financing terms in the interest of all shareholders. At the same time, the expected share price development can be taken into consideration, as well as the usual terms and practices of the international financial markets at the time of issue.

### 4. Development of new investor groups

Convertible bonds are usually subscribed to only by institutional investors who specialize in this investment form, which it would also be planned to approach in relation to convertible bonds to be issued on the basis of this authorization. With the issuance of convertible bonds, the Company thus is able to develop a new investor base. The issuance of convertible bonds with subscription rights would in contrast mean that these investors could not be approached, or only with a lower issue volume, due to a structure and allotment mechanism that is unconventional in the market and/or the market risks to which these investors would be exposed within the minimum two week subscription period.

In addition, it is to be noted that in the valuation of a convertible bond issue with subscription rights in line with market conditions (i.e. at the best terms attainable in the market, which the Company will also aim for), the subscription rights themselves have no independent economic significance.

By forgoing the protracted and thus also costly subscription right process, the capital requirements of the Company may be covered very quickly using short-term market opportunities; in addition new investors can be attracted in Austria and abroad.

Overall, the possibility of an exclusion of the subscription right therefore achieves a strengthening of capital and a lowering of financing costs in the interest of the Company and ultimately of all shareholders.

## 5. Raising of capital in the Group directly where the proceeds will actually be used

The authorization requested by the Management Board and the Supervisory Board also contains the possibility of issuance of convertible bonds by a company directly or indirectly one hundred per cent owned by Raiffeisen Bank International AG; the issue would be guaranteed by the Company and the convertible bondholders would be granted rights of conversion into ordinary shares of Raiffeisen Bank International AG. In the event of a conversion obligation stipulated in the convertible bonds' issuance terms, the shares of Raiffeisen Bank International AG could also be used to fulfill the conversion obligation.

It should be noted that a significant portion of the Group's financing is not raised directly by the Company, but by its subsidiaries in Central and Eastern Europe, or funds raised by the Company are passed on to these subsidiaries within the Group.

The structure described would enable the Company to place capital raised in the Group directly where the funds made available to the Company would actually be used and/or where financing can only be raised with a significantly higher interest spread, ultimately to the detriment of the financing expense of the Company and the Group. With the combination of the raising of capital through a subsidiary and a right of conversion into shares of the Company, the Company expects (in addition to the reasons set out in item 4) to be able to address groups of investors which, due to their risk profiles or business orientation, could not be gained for a classic corporate bond.

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**Summary / balancing of interests**

The proposed exclusion of the subscription right is objectively justified by the objectives to be achieved, namely the Company's flexibility in raising capital in accordance with the CRR, an optimization of the capital structure and a lowering of financing costs, the optimization of a high conversion price, the development of new groups of investors, and the raising of capital in the Group directly where the proceeds will actually be used, thereby ensuring a further strengthening and improvement of the competitive position of the Company in the interest of the Company and the shareholders.

The exclusion of the subscription right moreover is reasonable and necessary, since the expected supply of equity or capital as defined in the CRR (such as Additional Tier 1 capital) replaces more expensive capital measures through the specific target-group orientation of the convertible bonds, offers favorable financing conditions and ensures flexible long-term business planning and realization of the planned business objectives for the benefit of the Company and, connected therewith, also of all shareholders. Without the exclusion of the subscription right the Company is not able to react to favorable market conditions with comparable speed and flexibility.

The Management Board of the Company expects that the advantage provided to the Company from the issuance of convertible bonds with an exclusion of the subscription right will benefit all shareholders and clearly outweighs the (potential) proportionate dilution of the shareholders whose subscription rights are excluded, so that therefore also on an overall basis the interest of the Company outweighs the disadvantage to shareholders from the exclusion of the subscription right.

In summary, and weighing all circumstances reviewed, it can be established that the exclusion of the subscription right within the limits described is necessary, suitable, reasonable and objectively justified, and required in the prevailing interest of the Company.

Vienna, September 2020

The Management Board
of
Raiffeisen Bank International AG