

Report of the Supervisory Board

Review and performance

RBI ended the 2019 financial year on a very good note with a consolidated profit of 1,227 million euros and therefore was able to continue the successful path of recent years. This result is also especially encouraging as core revenues increased on the back of stronger loan growth. Adjusted for the sale of the Polish core banking operations in 2018, net interest income and net fee and commission income were up by 8 per cent and 7 per cent respectively year-on-year, with the net interest margin remaining stable. This revenue growth is particularly striking given the current low interest rate environment and level of competition. The results also strengthened RBI's capital position. The CET1 ratio of 13.9 per cent lays the groundwork for further sustainable growth. The risk situation also continued to improve; the NPE ratio fell to 2.1 per cent, and the NPE coverage ratio improved to 61.0 per cent. Aside from a better result at head office, the subsidiary banks have also consistently contributed towards consolidated profit. Overall, the emerging picture resulting from these developments is that RBI's on a solid trajectory in terms of revenues, as well as in the areas of capital and risk.

The general trend in cost development has proved challenging. Continuing wage pressure and necessary investment in the areas of digitalization and IT led to an increase in general administrative expenses in 2019. To counter this development and ensure the reaching of the targeted cost/income ratio of 55 per cent by 2021, the Management Board has launched an optimization program at head office. A series of measures towards increasing transparency and efficiency, as well as towards a sustainable reduction in costs, were defined under this program; the implementation of which had already commenced in 2019. Furthermore, in light of advancing digitalization and ever-changing customer requirements, the Management Board introduced important initiatives to realize the process of transforming RBI into an adaptive organization where customer needs come first. Further strategic focus areas for the Management Board and Supervisory Board in 2019, included the digital services offering as well as focused innovation measures designed to optimally intertwine the traditional and digital banking business. With an overarching goal of placing customers at the forefront of our banking business, the customer product offering should be made more attractive and cross-channel access to banking should be made as easy and as flexible as possible for customers. Developments at the subsidiary banks have been very pleasing in this regard, which is proven time and again by numerous awards from international specialist publications. Particularly notable was Tatra banka being awarded as "Best Digital Bank in the World" by specialist publication Global Finance. Furthermore, The Banker, trade magazine of the Financial Times, honored the subsidiary banks in Bulgaria, Bosnia & Herzegovina, as well as Ukraine, with the "Bank of the Year 2019" award for their respective market, whilst awarding RBI with the title of "Bank of the Year in Central and Eastern Europe".

2019 was again marked by the dynamic political climate. Continuing tensions between the US and Iran, with no end in sight to the US-China trade dispute, which have gradually had an increasing impact on the global economy, resulted in a global economic slowdown with persistently low inflation rates. As a countering monetary policy measure, the ECB maintained its existing low interest rate policy and resumed its bond purchasing program. This very expansive monetary policy poses a big challenge for European banks in terms of their yields and profitability. At the same time, there are continuing economic sanctions on Russia, which is one of RBI's most important markets. All these factors provided for uncertainty among investors and on the capital market, which was also reflected in RBI's negative share price development over the last year despite RBI's solid financial results.

Legal disputes relating to consumer protection rights were also being followed by capital market participants with great interest. Concerning the currently pending legal cases in Poland relating to FX-loans, it should be noted that the European Court of Justice's ruling did not qualify individual contractual clauses as invalid. The guidance is more so provided for questions from the Polish judiciary on the interpretation of civil rights. In addition, pending legal proceedings in Croatia relating to consumer protection right issues and their potential impact were also discussed in principle in the Supervisory Board. The Management Board and Supervisory Board continually monitored the development of potential legal risks and their impact on the Group, in order to appropriately address the basis of joint discussions as part of group-wide risk management and business policy.

Responsible business, to deliver sustainable added value, forms one of the core values of Raiffeisen Banking Group Austria. Consistent with the values and founding principles of Raiffeisen, RBI became a leader in the area of sustainable finance in Austria and was the largest issuer of green bonds in 2019. Following in the Raiffeisen tradition, RBI positioned itself as a responsible and active sustainably operating company through its initiatives for financing ecological projects with climate relevance. Through the issuance of green bonds, RBI will not only provide an important contribution towards an environmentally friendly future, but also will gain a new group of investors at the same time. Ultimately, it will also provide a positive contribution towards RBI's economic future.

Changes in the Management Board and Supervisory Board

At the Annual General Meeting on 13 June 2019, Martin Schaller was re-elected to the Supervisory Board of Raiffeisen Bank International AG, until the close of the Annual General Meeting which will resolve on the release from liability for the 2023 financial year, and his role was confirmed.

At its inaugural meeting on 13 June 2019, the Supervisory Board re-elected Martin Schaller as 1st Deputy Chairman of the Supervisory Board. Furthermore, Birgit Noggler was newly elected during the meeting as Chairman of the Risk Committee.

At its meeting on 10 September 2019, the Supervisory Board decided to allow the Management Board mandate of CFO Martin Gröll to expire at the end of February 2020, and not to subsequently fill the vacancy. The former areas of responsibility under the CFO will be reallocated.

The Supervisory Board thanks Martin Gröll for his long-standing successful and loyal cooperation, in which he unquestionably shaped RBI and its reputation on the capital market.

Meetings of the Supervisory Board and of its Committees

In the 2019 financial year, the members of the Supervisory Board and its Committees held meetings as detailed in the table below. This demonstrates a high level of attendance for both the Supervisory Board members and the Committees.

Decision-making body	Number of meetings	Level of attendance
Supervisory Board (total)	7	90%
Working Committee	8	95%
Nomination Committee	4	86%
Audit Committee	4	94%
Personnel Committee	2	100%
Risk Committee	4	94%
Remuneration Committee	2	100%

As part of its responsibilities, the Supervisory Board regularly and comprehensively monitored the business performance and risk developments at RBI and its principal subsidiaries. Based on the reports on risks arising from banking business, the Supervisory Board held discussions with the Management Board on the adequacy of capital and liquidity, and on the direction of the Group's business and risk strategies. In addition, the Management Board provided the Supervisory Board with regular and detailed reports on relevant matters concerning performance in the respective business areas. It also provided the Supervisory Board with regular reports on regulatory developments and the resulting measures. Based on the periodic compliance reports, the Supervisory Board addressed adherence to the Group-wide compliance policies and the results of the compliance monitoring program including on the measures taken. The Supervisory Board also regularly discussed on a well-informed and knowledgeable basis the proposals submitted by the Management Board relating to matters which require Supervisory Board approval in accordance with the Articles of Association and Rules of Procedure. The Supervisory Board made decisions after considering any potential risks. Finally, the Supervisory Board was regularly informed by the respective chairmen of the work carried out in the individual Supervisory Board Committees.

In order to gain direct insight into the work of individual subsidiary banks, the Chairman of the Supervisory Board, together with the Chairman of the Management Board, visited RBI's subsidiary banks in Slovakia, Hungary and Ukraine in 2019. During these on-site visits, as in the previous year, the banks current issues as well as business and risk developments are discussed with the local Management Board. The Chairman of the Supervisory Board regularly reported on the respective visits during the Supervisory Board meetings, which generally depicted a very positive development at the subsidiary banks.

Key focus areas of the Supervisory Board

While setting priority areas, a strong focus was placed on the subject of adaptive organization in order to ensure continued competitiveness and to be able to react more effectively to future changes. Substantial progress in the transformation process represented a key building block in taking account of rapid technological development. In this connection, the Supervisory Board placed great importance on continuing to drive forward Group-wide digital initiatives, and the opportunities within the area of digitalization and their implementation were discussed in detail. As part of strategy considerations, the Supervisory Board discussed the material aspects of the new Vision statement for RBI with the Management Board, to be the most recommended financial services group in its markets in 2025.

In course of meetings on the digital transformation of RBI, the Supervisory Board also concentrated intensively on the strategic measures being taken to strengthen cyber security at RBI, to ensure the highest level of protection for customers and the early identification and successful remedy of potential threat scenarios for the bank's IT infrastructure.

To achieve the targeted cost/income ratio of around 55 per cent by 2021, the Supervisory Board also concentrated on the sustainable optimization of the cost structure in 2019. Aside from active cost management measures, there was an optimization program launched at head office to support the transformation into an adaptive and agile organization, as well as to further measures to increase transparency and efficiency and sustainably reduce costs. The details of the analyses and measures presented by the Management Board were regularly discussed and assessed accordingly.

In terms of strategy, the opportunities for focused organic and inorganic growth were discussed in depth with the Management Board. This approach is being further pursued taking a balanced risk and profitability assessment into account. Given the significance, the Supervisory Board also dealt extensively with the development and strategic direction of the Austrian financial service providers, particularly those of Raiffeisen Bausparkasse GmbH, Raiffeisen Leasing GmbH and Raiffeisen Kapitalanlage GmbH. Aside from RBI's role as the central institution, these Austrian subsidiaries play an important role in collaborating with the Raiffeisen Banking Group Austria through their service partnership agreements.

In context of special reports, compliance matters relating to anti-money laundering (AML) were discussed extensively with the Management Board and responsible experts from Compliance and Legal, as were the measures to be taken. The Austrian Financial Market Authority's proceedings against RBI relating to the fulfilment of formal KYC documentation requirements was closely followed by the Supervisory Board and its progress and details were extensively reported on in Supervisory Board and committee meetings. At the end of 2019, RBI won its appeal at the Austrian Supreme Administrative Court which led to the fine being annulled. The Management Board and Supervisory Board placed great emphasis on the continuous advancement of RBI's Group Compliance division. Therefore, RBI invested in a lot of resources in the continual further development of Compliance, employed more expert staff and implemented modern Compliance systems groupwide.

With regard to geopolitical developments, this year the Supervisory Board again held discussions on detailed country-specific reports. A focus of these discussions was on the consequences of and risk-specific precautions and measures relating to the US sanctions on Russia, as well as Brexit. In coordination with RBI's Risk Committee, the Management Board implemented a comprehensive set of measures in the areas of Compliance and Risk Management designed to ensure adherence to existing sanctions and to adequately address sanction risk. The appropriate balance of Russia risk appetite was managed at Group level through the introduction of risk thresholds and early warning indicators. On the customer side, business and limits with companies at risk of potential sanctions were either restricted or reduced. The Supervisory Board intensively monitors RBI's measures to ensure that all the different sanction requirements are followed and to gain a comprehensive picture of the adequateness of RBI's internal procedures and resources.

The Supervisory Board also addressed further development in the area of Corporate Governance, commissioned corresponding policies and monitored their implementation. In the course of its monitoring and advisory activities, the Supervisory Board maintained direct contact with the responsible Management Board members, the auditor and the heads of the internal control functions. It also maintained a continuous exchange of information and views with representatives of the banking supervisory authorities on topical issues. Between meetings, the Supervisory Board also maintained a regular exchange of information on current developments and business issues with the Management Board. The Management Board was available where required for bilateral or multilateral discussions with members of the Supervisory Board, when applicable with the involvement of experts on the matters addressed.

Cooperation between the Supervisory Board and Management Board

The Members of the Supervisory Board and Management Board also maintained constant contact between Supervisory Board meetings. There is a frequent exchange of information between the Chairman of the Management Board and Chairman of the Supervisory Board and his deputy. The work undertaken together with the Management Board was based on a relationship of mutual trust and conducted in a spirit of efficient and constructive collaboration, whereby discussions are open and critical and opposing viewpoints are considered within the decision-making processes. The Chairman of the Supervisory Board safeguards an effective flow of information between the Management Board and Supervisory Board as well as within the Supervisory Board.

Training and professional development measures

The members of the Supervisory Board undertook independent training and professional development measures required for their Supervisory Board roles and for which adequate support from RBI was received. In addition, the members of the Supervisory Board were able to undertake regular professional development training in the form of Fit & Proper courses, two of which were offered during the year.

In March 2019, the ECB's key audit areas for 2019 and the topic of adaptive organization and related aspects of transformation were the focus of the courses.

In September 2019, a new program on the evaluation and further development of the efficiency and effectiveness of the Supervisory Board was presented, which will be conducted together with the Vienna University of Economics and Business, and the areas of Compliance and AML measures primarily focused on. There was also a comprehensive update on current regulatory and legal issues at both meetings.

On account of the interesting topics and practical relevance of the talks at the Fit & Proper courses, there was a very high attendance rate of around 85 per cent of Supervisory Board members.

Consolidated and annual financial statements

The annual financial statements and the management report of Raiffeisen Bank International AG for the 2019 financial year were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft Vienna (KPMG). According to the final results of the audit, the auditor had no reason for objections and issued an unqualified auditor's report.

The consolidated financial statements, prepared by the Management Board pursuant to Section 245a of the Austrian Commercial Code (UGB) in accordance with the provisions of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) mandatorily applicable on the reporting date, and the consolidated management report of RBI AG for the 2019 financial year were audited by KPMG and issued with an unqualified auditor's report.

The reports of the auditor of the financial statements and of the auditor of the consolidated financial statements were submitted to the Supervisory Board. The Audit Committee reviewed the 2019 annual financial statements including the management report and the 2019 consolidated financial statements and the consolidated management report and undertook preparations for the adoption of the annual financial statements by the Supervisory Board. The Supervisory Board reviewed all documents and also the Audit Committee's report. The Supervisory Board concurred with the 2019 annual financial statements and consolidated financial statements and approved the 2019 financial statements, which were thus adopted in accordance with Section 96 (4) of the Austrian Stock Corporation Act (AktG).



Corporate Governance Report and non-financial report

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

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

Strategy 2020

Building on RBI's pleasing results of recent years, the already established approach is being consistently pursued in order to become the most recommended financial services group in our markets. This should secure the strategic aim of creating solid and sustainable added value for RBI's shareholders.

One side of the approach is the clear focus on growth strategies RBI in individual business areas relating to the further digital transformation through customer orientation. A material aspect of this transformation process is RBI's development into an adaptive organization, in order to ensure the ability to quickly respond to changing market conditions and to adapt operations and service models to technological advancements. An appropriate IT strategy should ensure the building of a sustainable and scalable IT infrastructure and a stronger focus on the development of Data & Analytics capabilities should also enable more target-orientated analysis and understanding of customer behavior.

In expectation of a continuing low interest rate environment in the near future, and on the basis of a prudent risk policy, revenue growth should be achieved through a sharper focus on organic customer growth. A balanced tradeoff between risk and profitability form the basis of these decisions. On the cost side, increased synergies through optimizing the Group-wide IT governance, as well as centralization and automation initiatives are planned.

RBI carries out an important role as the central institute of Raiffeisen Banking Group Austria and collaborates with the institutes of Raiffeisen Banking Group Austria in special areas and on select projects.

On behalf of the members of the Supervisory Board, I would like to thank all employees for their tireless efforts for the bank. Consistent with collective collaboration, we will also overcome future challenges together.

On behalf of the Supervisory Board
Erwin Hameseder, Chairman