Group management report

Market development

Global economic developments amid the pandemic

Economic and financial market developments in 2020 were shaped by the global spread of COVID-19 and the associated restrictions to contain the pandemic. In early spring the sharply rising number of cases led to severe restrictions on business activities. These were accompanied by an unprecedented recession which affected all areas of the economy but particularly the service sector. As the number of new cases was greatly reduced in most countries after several weeks, there was a gradual easing of the lockdown measures and a significant rebound in economic activity began in May. However, in the last quarter new infections in many countries rose above the levels recorded in the spring, leading to renewed restrictions until the end of the year, in some cases similarly severe to those imposed in the spring.

GDP in the euro area fell by around 15 per cent on a cumulative basis in the first half of 2020. Even though some parts of the economy were able to recover to pre-pandemic levels during the summer, overall economic output in the third quarter was still around 4 per cent below end-2019 levels. GDP declined again in the fourth quarter of 2020 but to a significantly lesser extent than in the first half of the year. Over the year as a whole, GDP decreased by around 7 per cent.

The ECB responded to the COVID-19 crisis with extensive monetary policy easing. Additional refinancing operations were conducted for banks, and conditions for targeted longer-term refinancing operations were made significantly more attractive. The existing bond purchase program (Asset Purchase Program or APP) of € 20 billion per month was expanded by € 120 billion from March 2020 until the end of 2020. Additionally, there was a further increase in the pandemic emergency purchase program (PEPP) in December to a preliminary total size of € 1,850 billion and it was extended until March 2022 at the earliest. Overall, the central bank succeeded in keeping money market and capital market interest rates at a low level.

In the wake of the spring lockdown, the Austrian economy recorded a marked decline in GDP, which decreased by 2.8 per cent in the first quarter of 2020 compared to the fourth quarter of 2019 and by 11.6 per cent in the second quarter relative to the prior quarter. In the third quarter there was a significant increase in economic output, driven by easing restrictions, which was however followed by renewed business closures in the last two months of the year, leading to another drop in economic output in the final quarter (down 4.3 per cent). In contrast to the spring, industry showed a certain degree of resilience during the second lockdown, resulting in a noticeably smaller decline in GDP during the fourth quarter than in the second quarter. In 2020 as a whole, GDP declined 7.4 per cent (2019: up 1.4 per cent). On the demand side, this was due primarily to private consumption and at sector level due mainly to consumer-related services.

For Europe, the global economic environment was comparatively benign in 2020. Although the US economy also slid into a deep recession in the first half of the year, over the year as a whole GDP in the US contracted by only half as much as in the euro area. The rapid recovery in private consumption in the US was a result in particular of far-reaching fiscal measures despite continued high infection dynamics and political turbulence related to the transition of power in the White House. China managed to bring the pandemic under control significantly faster than Western democracies, which resulted in positive economic growth of 2.3 per cent in 2020. Although this corresponds to China's lowest GDP growth in decades, the economic momentum, bolstered by government infrastructure projects, provided for a positive surprise.

CE and SEE: impact of pandemic varies across countries, EE less severely affected

Despite the lockdowns and ensuing negative effects on domestic demand and consequently on consumption, consumer prices in Central Europe (CE) rose 3.2 per cent in 2020. This once again put inflation well above the 2 per cent mark. In contrast, the Southeastern Europe (SEE) region saw comparatively mild inflationary pressure (1.9 per cent) in the face of a decline in consumer demand and a lower inflow of foreign tourists. The disinflationary tendencies resulting from the lockdowns even led to declining year-on-year inflation rates in some countries (Croatia and Bosnia and Herzegovina) in the second and third quarters. As in the previous year, inflationary pressure in SEE mainly came from Romania, but abated from the second quarter onward as well. All in all, the inflation trend enabled Central and Southeastern European central banks to somewhat mitigate the effects of the recession through expansionary monetary policy measures. Unlike during previous crises, the economic upheavals in 2020 could be responded to with monetary policy easing. This not only included interest rate cuts that nearly exhausted the conventional scope of monetary policy, but also monetary policy measures such as bond purchases in Hungary, Poland, Romania, and Croatia.

Economic activity in CE recorded a marked decline of 4.0 per cent in 2020 (2019: up 3.8 per cent). The region was hit by a particularly severe second wave of the virus, which led to another drop in economic output in the fourth quarter, albeit by less than expected. The region's high dependency on the automotive sector and the temporary slump in foreign demand were also negative factors in the past year. The CE economies were, however, well-positioned at the outset of the crisis, with 2020 following a number of years of uninterrupted and dynamic economic growth, low unemployment rates and prudent fiscal policy. This positioning enabled governments to adopt appropriately scaled fiscal measures to mitigate the effects of the crisis.

The SEE region was impacted to a greater extent than the CE and Eastern Europe regions, with economic output declining 4.2 per cent in 2020 (2019: up 3.8 per cent). In SEE the region's dependency on tourism (Croatia: down 8.4 per cent) and remittances from nationals working abroad was especially noticeable. The strong domestic demand of previous years therefore failed to continue. Serbia experienced a comparatively mild recession (down 1.1 per cent), owing to particularly extensive fiscal and monetary stimuli and a partial recovery of private consumption.

In contrast to previous crises, such as the financial crisis in 2008/09, Eastern Europe (EE), which includes Russia, Ukraine, and Belarus, was less affected by the economic impact of the pandemic than the CE and SEE regions. The EE region's GDP declined 3.1 per cent in 2020, following a slight increase of 2.1 per cent in the previous year. Russia only tentatively instituted lockdown measures, while the energy and commodities industries were able to continue production. The negative impact of the fall in crude oil prices in the first half of the year was partially offset by the use of budget surpluses from previous years as well as currency depreciation and interest rate cuts. In addition, there were no negative effects from renewed economic sanctions. In Ukraine, 2020 (GDP decline of 4.2 per cent) was marked by political risks in addition to the effects of the pandemic. Ambitious reform plans were not put into effect after a government reshuffle in the spring. Cooperation with the IMF proved difficult. Nevertheless, the economy and currency remained stable, due in part to a stability-oriented policy approach implemented in previous years. Belarus proved to be an exception with respect to COVID-19 policies insofar as its government did not impose a lockdown. The second half of the year was marked by protests following the presidential election. With a decline in GDP of only 0.9 per cent, economic activity surprised on the upside; moreover, the currency remained relatively stable following a devaluation in the first half of the year.

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

Region/country	2019	2020e	2021f	2022f
Czech Republic	2.3	(5.6)	2.5	5.5
Hungary	4.6	(5.2)	5.0	5.5
Poland	4.5	(2.8)	3.7	4.4
Slovakia	2.3	(5.2)	5.0	3.5
Central Europe	**3.8**	**(4.0)**	**3.7**	**4.7**
Albania	2.2	(4.8)	4.0	4.0
Bosnia and Herzegovina	2.6	(4.8)	3.0	3.5
Bulgaria	3.7	(3.7)	3.0	4.3
Croatia	2.9	(8.4)	5.1	3.0
Kosovo	4.9	(5.1)	4.5	3.5
Romania	4.1	(3.9)	5.2	4.5
Serbia	4.2	(1.1)	4.5	3.0
Southeastern Europe	**3.8**	**(4.2)**	**4.6**	**4.0**
Belarus	1.3	(0.9)	1.5	2.0
Russia	2.0	(3.1)	2.3	1.3
Ukraine	3.2	(4.2)	3.8	3.5
Eastern Europe	**2.1**	**(3.1)**	**2.4**	**1.5**
Austria	**1.4**	**(7.4)**	**3.5**	**5.0**
Euro area	**1.3**	**(6.8)**	**4.3**	**3.7**

Source: Raiffeisen Research, as of 23 February 2021 (e: estimate, f: forecast); subsequent revisions may be made for prior years

Banking sector in Austria

The Austrian banking sector was also presented with challenges in 2020. Not least due to support from numerous monetary and fiscal policy measures taken by both the Austrian and European authorities, the Austrian banking sector was able to continue to fulfill its important function for both the corporate sector and private households. In the corporate customer business, the previously dynamic loan growth weakened only slightly, with government guarantees having a significant supportive effect. Lending to households also proved comparatively resilient despite declining growth rates in the outstanding volume of consumer loans. Banks' asset quality generally improved, with the sector's NPL ratio (non-performing loans) reaching around 2 per cent (2019: 2.2 per cent). The domestic loan portfolio had an even lower NPL ratio of around 1.5 per cent. Loan repayment deferrals are one of the many measures adopted as a result of the COVID-19 crisis. The peak in loan volumes subject to repayment deferral was reached in June at € 30.6 billion; since then, they have declined by half (October: € 15.6 billion). Banks' profitability suffered as a result of increased provisioning requirements for potential non-performing loans. These rose significantly during the year and put additional pressure on the profitability of the banking sector. While the results of the Austrian banking sector for the first half of 2020 were 75 per cent below the previous year's level, the CE and SEE subsidiaries of Austrian banks saw their results decline by only around 32 per cent over the same period. The sector's capitalization remained stable over the course of the 2020 financial year.

Development of the banking sector in CEE

In retrospect, 2019 proved to be the culmination of a five-year path of steady improvement in asset quality and recovery in profitability in CE/SEE banks' core markets, which was interrupted by the COVID-19 outbreak in 2020. It should be emphasized that the CEE banking sector entered the crisis with sound fundamentals. Extensive policy support has also helped the banks to manage the crisis relatively well to date. While the pandemic diverted CEE banking markets from their path of ongoing loan growth, the fiscal and monetary policy response as well as regulatory easing kept lending growth momentum in positive territory (single digit per cent growth rates for the most part). Residential mortgages stand out as particularly robust (Czech Republic, Slovakia, Romania, Croatia and Russia). However, the moderate releveraging trend (increase in loan-to-deposit ratio) that began in 2019 was halted by the pandemic, which caused the average loan-to-deposit ratio to fall back to around 80 per cent in some markets due to an increased propensity to save, resulting from the decline in consumption, and the inflow of government deposits. Overall, the transformation of the deposit base towards shorter maturities continued. An increase in loan loss provisions was seen in the region as a whole, which was mainly the result of the migration of loans to IFRS Stage 2 while the rate of actual non-performing loans barely changed thanks to repayment deferrals for borrowers and government guarantee schemes. Higher risk costs brought ROE levels in most CE/SEE markets down to between 4 and 8 per cent, while certain EE markets (Russia, Ukraine) still had double-digit returns.

Regulatory environment

Banking supervision

In 2020 the European Banking Authority (EBA) also dealt with the development of the COVID-19 pandemic and the possible repercussions for the banking sector. Against this backdrop, it focused on three areas: credit risk (with an emphasis on concentration risk), risk management (in connection with internal governance) and data quality.

Furthermore, the EBA deemed it necessary to make changes to the Supervisory Review and Evaluation Process (SREP) guidelines (EBA/GL/2014/13) due to uncertainty relating to the COVID-19 pandemic. These should enable a flexible and pragmatic approach with regard to the implementation of SREP 2020.

Dividend restrictions

In a statement on 12 March 2020, the EBA urged credit institutions to follow a prudent dividend policy. At the same time, it was emphasized that all measures provided by the supervisory authorities are intended to be used for financing a response to the crisis and not for distributions. In June, the EU's European Systemic Risk Board (ESRB) recommended that dividend distributions be postponed until at earliest 1 January 2021.

On 27 July 2020, the European Central Bank (ECB) followed these recommendations with an extension of its initial recommendation until at earliest 1 January 2021. This was due to increased economic uncertainty and the difficulty of assessing the real impact of the COVID-19 crisis. A further recommendation from the ECB on 15 December 2020 called for extreme caution with regard to the distribution of dividends. However, dividend payments up to the thresholds prescribed by the ECB will be tolerated, provided that capitalization is solid and risk provisioning levels are appropriate.

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 permitted scope of application of internal models was also reduced and the requirements for these models were revised. In addition, an output floor will be phased in by 2027, setting a future floor for capital requirements calculated using internal models at 72.5 per cent of the values calculated using the standard models.

The Basel Committee's targeted implementation date was extended by one year to 1 January 2023 due to the COVID-19 pandemic. As there is still no legal implementation of the standards for the EU, there are currently no binding requirements with respect to the expected implementation date.

According to the EBA Call for Advice on the implementation of Basel IV, the new internal ratings-based (IRB) approach and related reduction in risk-weighted assets is expected to provide relief in terms of capital requirements. However, this assumption does not include the impact of the output floor. These effects are in any event dependent on the concrete implementation by European legislators.

Sustainable finance

New developments in sustainable finance also made their mark in 2020. The European Commission's Green Deal aims to make Europe the first climate neutral continent by 2050. As a consequence, the main focus is on sustainable activities in industry, to be achieved by means of CO_2 pricing rules and CO_2 limits, the further development of renewable energy production, investments in green buildings, e-mobility, waste management and recycling. For the financial services sector, this is primarily to be achieved through increased transparency and disclosure requirements for financial products and the inclusion of climate and environmental risks in the EU supervisory framework. RBI took part in the voluntary 2020 EBA climate stress test, as well as in the Paris Agreement Capital Transition Assessment (PACTA) 2020, involving a climate risk assessment of its financial portfolio.

Parallel to RBI's successful green bond issuance activity, which has been taking place since 2018, sustainable lending has also grown strongly. Since 2020, RBI has also offered financing which is already geared towards the EU Taxonomy. This relates to a European framework which details specific conditions and thresholds for economic activities (e.g., the production of aluminum, steel, cement or energy), in order to determine whether or not an activity can be rated as sustainable. If carbon-intensive industries can conduct their activities according to the conditions of the EU Taxonomy, they will materially contribute to the EU's climate goals. For this purpose, RBI established a sustainability framework which is geared towards the aforementioned EU Taxonomy, the RBI Green Bond Framework, and corresponding guidelines from supranational banks (European Investment Bank and European Bank for Reconstruction and Development). This is to ensure that there are Group-wide quality standards for sustainable finance. On the basis of these standards, investment activities and the associated financing can be rated as either green, neutral, or not sustainable. RBI aims to assist these industries and customers in their transformation towards sustainable production and to provide support through financing. Furthermore, the establishment of the Responsible Banking Steering & Decision Body – a committee which advises the RBI Management Board and spans different functions and board areas – has strengthened the focus on sustainable finance.

Digitalization in the financial sector

The effect of increased digitalization, development and application of new technologies as well as new business models and financial products was also apparent in the regulatory sphere in 2020. Although the supervisory authorities have concerned themselves for some time with fintechs and the implications of digitalization, the European Commission presented an extensive package relating to digital finance for the first time in 2020. This included a comprehensive digitalization strategy for the financial sector as well as a strategy for retail payment services. Furthermore, new proposals for legislation were initiated within the context of the digital finance package: firstly, for the regulation of crypto assets (MiCA) as well as pilot regulation for market infrastructure based on blockchain technology and, secondly, for the regulation and stability of digital systems relating to cybersecurity and resilience (DORA).

Furthermore, the European Commission presented its proposal in February 2020 for a European data strategy as well as a white paper on artificial intelligence including concepts for a possible regulatory framework. The EBA also regularly addresses developments in digitalization and new technologies and conducted, for example, surveys on regtech and digital platforms during 2020. On a national level, the Austrian Financial Market Authority's regulatory sandbox, which was established last year, was a notable development.

BCBS 239

The Basel Committee on Banking Supervision has 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 the 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 and is currently being executed 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 and had to be implemented by 28 December 2020 through 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 the banks, to draw up resolution plans based on the underlying resolution strategy (multiple point of entry (MPE) or single point of entry (SPE)):

- The resolution plan has to facilitate the effective application of the resolution tools and describe the resolution strategy and its implementation
- RBI has adopted an MPE approach. The responsible authorities define resolution groups for those units identified as relevant to the resolution process
- The resolution authority decides which resolution tools (sale of business, bridge institution, asset separation and bail-in) should be used; the preferred instrument in the event of an RBI resolution would be bail-in
- Official targets for minimum requirements for own funds and eligible liabilities (MREL targets) are set annually for each resolution group (the next notification is expected in the second quarter of 2021)

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. These are refined whenever necessary in coordination with the data protection officer. 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. As is the case for all European companies, RBI is faced with the extensive requirements for transferring data to countries outside of the EU brought about by the Schrems II judgement of the Court of Justice of the European Union.

Capital Markets Union

The new action plan for implementation of the Capital Markets Union consists of 16 measures, for example, for providing access for SMEs to bank financing, the participation of retail investors, removal of barriers to cross-border investments and the creation of an appropriate market infrastructure. The establishment of a suitably designed European Single Access Point (ESAP) is intended to bring about the changes urgently needed to increase the visibility of EU companies and help with capital allocation.

An effective Capital Markets Union will contribute to the rebuilding of the EU economy, by providing new sources of finance for companies and through offering investment opportunities to Europeans. The strengthening of the capital markets is a prerequisite for the European Green Deal and the digital transformation.

Significant events in the reporting period

Financial year strongly influenced by COVID-19 pandemic

The economic shutdown caused by the COVID-19 pandemic in March 2020 has had unprecedented economic repercussions. In rapid succession, countries where RBI is active imposed restrictions to limit the transmission of COVID-19. In order to alleviate the economic consequences caused by these restrictions, policy interventions were enacted to assist individuals, households and businesses, as well as provide temporary supervisory relief measures for banks. Stabilization measures which affect RBI include payment moratoriums, direct government assistance programs and subsidies to mitigate the economic impact, as well as restrictions on cross-border capital movements and dividend payments.

Many governments attempted to control the impact of the pandemic in the financial year through various measures to restrict contact, which led to a partial or near total lockdown of national economies. The adverse effect on the economic situation, particularly in certain sectors, cannot be fully quantified at present due to diverse governmental support measures and interventions in the legal framework.

As a result of the measures and severe global recession, RBI also reported a significant decline in profit. In order to better reflect the resulting loan portfolio losses, additional expected impairment losses of around € 282 million were posted in excess of the ECL model. This contributed nearly 30 basis points to the 42 basis point increase in the provisioning ratio and relates to post-model adjustments to estimates of the expected credit losses. The adjustments were necessary as the models do not fully capture the speed of the changes and the severity of the pandemic's economic effects. Individual sectors such as tourism (including leisure facilities), aviation (including freight transport), extraction and processing of oil and natural gas, as well as the automotive industry, have been hardest hit. Further information on the development in provisioning for impairment losses can be found in the notes to the consolidated financial statements.

In addition to the significantly higher net provisioning for impairment losses, impairments on equity investments and goodwill amounting to approximately € 95 million were recognized due to changes in medium-term planning parameters. Loan modifications due to payment moratoriums in an amount of minus € 29 million were recorded through profit/loss. Further information can be found in the notes to the consolidated financial statements.

Payment moratoriums

Many of RBI's markets saw the introduction of various moratoriums that can essentially be summarized as payment moratoriums. Borrowers were granted a temporary deferral of obligations to make principal repayments as well as payments for interest and fees. The payment moratoriums were structured differently depending on local legislation or the regulatory guidelines in the respective banking sector. Borrowers in some countries (such as Croatia, Romania and Austria) could choose whether to make use of a payment moratorium, while those in other countries (such as Hungary and Serbia) were automatically granted payment moratoriums. Countries implemented different approaches to both the duration of the payment moratorium and to the capitalization of interest during the moratorium period (with or without compound interest). At the peak, up to € 11 billion of loans were subject to a moratorium. While moratoriums in some countries have already expired, there was still a volume of almost € 3 billion at the balance sheet date, mostly in Hungary where the moratorium was extended to the middle of 2021.

A change in payment plans may lead to a net present value loss on an individual loan contract, which is generally recognized in the other result of RBI as a one-off adjustment to the gross carrying amount resulting from an immaterial modification of the contract. In 2020, a net present value loss of € 29 million was reflected in the result in this respect. Further effects can be expected in subsequent reporting periods.

Direct government programs

Like many banks, RBI saw an increase in demand for loans from companies as a result of the economic consequences of the COVID-19 pandemic. This was mainly for bridge loans and refinancing, while demand for investment finance fell. In Austria, in particular, loans granted to companies had government guarantees.

To counter the economic downturn caused by the COVID-19 pandemic, many countries adopted various support measures for the economy and to protect jobs. The measures include various forms of direct financial support for individuals, households and businesses, as well as bridge loans extended by banks and guaranteed by governments to ensure that companies have sufficient liquidity during the COVID-19 pandemic.

Restrictions on capital movements and dividend payments

In order to strengthen the capital base of banks and financial institutions during the COVID-19 pandemic, many countries introduced restrictions on dividend payments for the 2019 and 2020 financial years, either through recommendations from supervisory authorities or through enacted legislation for the duration of the COVID-19 pandemic. In contrast to many EU countries, however, there were dividend payments from Russia and Ukraine totaling € 535 million.

Regulatory relief

In the context of the COVID-19 pandemic, both the ECB and the EBA enacted regulatory relief measures to enable banks supervised by the ECB to continue to play their central role in providing financing to households and businesses. The ECB explicitly allowed banks under its supervision to operate below the levels defined by the Pillar 2 guidance, the capital conservation buffer and the liquidity coverage ratio. Banks were also allowed to use other capital instruments in addition to common equity tier 1 capital to meet capital requirements. This particular measure would originally not have come into force until the beginning of 2021 as part of the implementation of CRD V (Capital Requirements Directive). Furthermore, the ECB is of the opinion that these measures should be supported by an appropriate relaxation of the countercyclical capital buffer by the national supervisory authorities. The EBA also expects consistent application of the rules regarding the definition of default, forbearance and IFRS 9, and calls for the use of the full flexibility provided for in the regulations.

Bank levy in Slovakia

In June 2020, the Slovakian government decided to completely abolish the bank levy which had initially been doubled at the beginning of 2020 from the second half of 2020. In 2020, RBI paid € 26 million in bank levies in Slovakia (previous year: € 24 million).

Amendment to the proposal for the utilization of net profit for the 2019 financial year

On 16 September 2020, in line with the ECB's recommendation on dividend payments, the Management Board decided to propose to the Annual General Meeting on 20 October 2020 that the entire € 332 million net profit for the 2019 financial year be carried forward. The proposed resolution was approved by the Annual General Meeting.

Earnings and financial performance

Like most banks, RBI also ended the financial year below its own expectations and the previous year's results in light of the pandemic. Despite the challenging market conditions and the ongoing low interest rate environment, consolidated profit posted a comparatively moderate decline of 34 per cent, or € 423 million, to € 804 million. In addition to its direct effects, the pandemic also resulted in significant currency devaluations in some of RBI's core markets. In particular, both the Russian ruble and the Ukrainian hryvnia fell 31 per cent while the Hungarian forint fell 10 per cent year-on-year, with a corresponding impact on total comprehensive income.

In this environment, operating income decreased 5 per cent, or € 280 million, and was influenced in particular by a 5 per cent decline in net interest income and a 3 per cent decline in net fee and commission income. The lockdown measures resulted in revenue-related reductions, especially in the second quarter, while net interest income was affected by lower interest rates, primarily as a result of key interest rate cuts in some markets. On the other hand, the currency effect was also reflected in general administrative expenses. Combined with reductions in other administrative expenses, this resulted in a decrease of 5 per cent or € 144 million.

The recession caused by COVID-19 negatively impacted RBI primarily through impairment losses on financial assets in the amount of € 630 million, corresponding to an increase of € 396 million, two-thirds of which related to corporate customers. The main portion of new provisions is attributable to the stage transfer to stage 2 in the ECL calculation (€ 301 million net), while impairment losses on defaulted loans (stage 3) increased only € 123 million.

Comparison of results with the previous year

in € million	2020	2019	Change	
Net interest income	3,241	3,412	(171)	(5.0)%
Dividend income	22	31	(9)	(29.3)%
Current income from investments in associates	41	171	(131)	(76.3)%
Net fee and commission income	1,738	1,797	(59)	(3.3)%
Net trading income and fair value result	94	(17)	111	–
Net gains/losses from hedge accounting	0	3	(4)	–
Other net operating income	60	78	(19)	(23.6)%
Operating income	**5,195**	**5,475**	**(280)**	**(5.1)%**
Staff expenses	(1,566)	(1,610)	45	(2.8)%
Other administrative expenses	(986)	(1,094)	108	(9.9)%
Depreciation	(397)	(389)	(9)	2.2%
General administrative expenses	**(2,949)**	**(3,093)**	**144**	**(4.7)%**
Operating result	**2,246**	**2,382**	**(136)**	**(5.7)%**
Other result	(205)	(219)	14	(6.5)%
Levies and special governmental measures	(179)	(162)	(16)	9.9%
Impairment losses on financial assets	(630)	(234)	(396)	169.1%
Profit/loss before tax	**1,233**	**1,767**	**(533)**	**(30.2)%**
Income taxes	(324)	(402)	78	(19.5)%
Profit/loss after tax	**910**	**1,365**	**(455)**	**(33.3)%**
Profit attributable to non-controlling interests	(106)	(138)	32	(23.1)%
Consolidated profit/loss	**804**	**1,227**	**(423)**	**(34.5)%**

Operating income

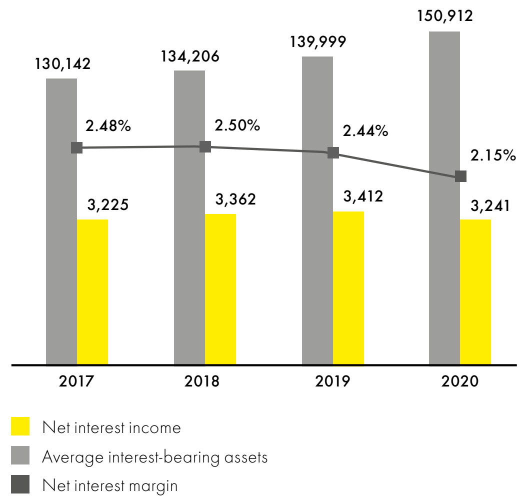
Operating income was down 5 per cent year-on-year, or € 280 million, to € 5,195 million.

Net interest income decreased € 171 million to € 3,241 million as a result of negative currency effects and, in particular, interest rate cuts in numerous Group countries in response to the consequences of the COVID 19 pandemic. In contrast, the Group's average interest-bearing assets increased 8 per cent despite significant currency devaluations. This was primarily due to an increase in short-term investments as a result of excess liquidity. Consequently, the net interest margin decreased 29 basis points to 2.15 per cent. On a currency-adjusted basis, lending grew around 5 per cent.

Net fee and commission income declined 3 per cent, or € 59 million, to € 1,738 million, primarily due to volume reductions related to COVID-19 in the second quarter, especially in the area of clearing, settlement and payments services, and due to currency devaluations.

Net interest margin

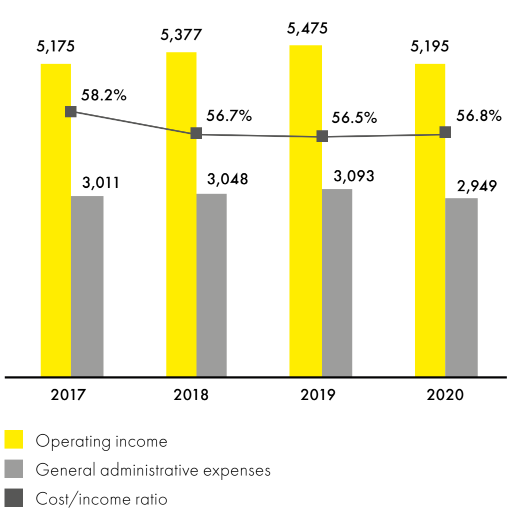
in € million



Net trading income and the fair value result improved € 111 million year-on-year to € 94 million. In the previous year, there was a one-off effect from valuation losses on unhedged portfolios that have been incorporated into a hedge relationship since mid-2019. At head office, positive changes were recorded in the financial year from the valuation of loans and advances carried at fair value as well as interest rate and credit derivatives. In contrast, gains/losses from companies valued at equity decreased € 131 million, mainly due to a one-off effect in the previous year, whereby RBI benefited from income at Raiffeisen Informatik related to the IPO of SoftwareONE.

Cost/income ratio

in € million



General administrative expenses

General administrative expenses declined € 144 million year-on-year to € 2,949 million. Currency translation resulted in a positive effect of € 113 million in the reporting period, mainly due to the devaluation of the Belarusian ruble (down 19 per cent), the Russian ruble (down 14 per cent) and the Hungarian forint (down 8 per cent) on an average basis for the period.

Staff expenses decreased 3 per cent, or € 45 million, to € 1,566 million, mainly due to currency developments in the Eastern European countries, with the average number of employees (full-time equivalents) falling 828 year-on-year to 46,345. Scheduled salary adjustments in certain markets resulted in some upward pressure on staff expenses. Other administrative expenses fell 10 per cent, or € 108 million, to € 986 million. In addition to currency effects, the main drivers of the reduction were lower advertising expenses, primarily at head office, in the Czech Republic, Romania and Slovakia, as well as lower deposit insurance fees in Russia (down € 14 million) and Romania (down € 6 million). The other expense items were also down due to the COVID-19 pandemic. Depreciation of tangible and intangible fixed assets rose 2 per cent, or € 9 million. As a result of optimization measures taken, the number of business outlets was further reduced year-on-year, by 183 to 1,857, with the largest reductions in Ukraine (99), Russia (22), Romania (17) and Slovakia (15).

Other result

The other result totaled minus € 205 million in the reporting period compared with minus € 219 million in the same period of the previous year. Impairment losses on investments in companies valued at equity amounted to € 68 million, a decrease of € 29 million. In the financial year, impairment losses were recognized on investments in UNIQA Insurance Group AG and LEIPNIK-LUNDENBURGER INVEST Beteiligungs AG, principally as a result of the deteriorating economic outlook caused by the pandemic. Impairment losses on other non-financial assets were € 39 million lower at € 20 million and related primarily to real estate in Russia and Slovakia.

Credit-linked provisions for litigation were allocated on a portfolio basis in an amount of € 60 million, of which € 44 million were related to the foreign-currency mortgage loan portfolio in Poland, which was below the previous year's figure of € 83 million. Provisions for property transfer taxes in Germany of € 27 million posted in the prior-year period were adjusted only slightly in the reporting period. This was in contrast to negative effects from the partial impairment on goodwill relating to Raiffeisen Kapitalanlage-Gesellschaft in the amount of € 27 million due to the revised medium-term plan as a result of the pandemic and net modification losses in the amount of € 41 million. Of this amount, € 29 million related to payment moratoriums in the lending business enacted in connection with the COVID-19 pandemic in various markets. The result from the deconsolidation of group assets decreased € 53 million after the sale of a building in Slovakia generated income of € 50 million in the comparable period of the previous year.

Levies and special governmental measures

Expenses for levies and special governmental measures increased € 16 million to € 179 million. Due to higher assessment bases as well as additional payments, there was an increase of € 26 million in contributions to the resolution fund, primarily at head office, in Bulgaria, Romania and the Czech Republic. Bank levies, on the other hand, decreased € 7 million. This was mainly due to developments in Romania, where the new bank levy, which was introduced in 2019, was abolished again in 2020.

Impairment losses on financial assets

Impairment losses on financial assets recorded a € 396 million increase in the reporting period to € 630 million as a result of the pandemic.

In the area of expected credit losses (stage 1 and 2), net impairment losses of € 315 million (an increase of € 301 million) were recognized in the reporting period due to the anticipated effects of the recession resulting from the pandemic. The industries and customer groups primarily affected were those that were most negatively impacted by the COVID-19 pandemic, particularly tourism, the hotel industry, further related sectors such as the automotive industry, air travel, oil and gas, real estate and some consumer goods sectors. This resulted in net impairment losses of € 176 million on loans to non-financial corporations and € 103 million on loans to households. Besides the modeled impairment losses, additional expected loan loss provisions of around € 282 million are included, of which € 236 million relate to non-financial corporations and € 46 million to households, as a result of adjusted macroeconomic data as well as structural effects on specific industries triggered by the COVID-19 pandemic.

A lower increase was seen in relation to defaulted loans (stage 3), for which net impairment losses of € 302 million were recognized in the reporting period, an increase of € 123 million. Of this amount, € 152 million was attributable to households and € 139 million to non-financial corporations.

At 1.9 per cent, the NPE ratio was 0.2 percentage points lower than the previous year, primarily as a consequence of the increase in loan volumes, while non-performing loans remained almost stable due to sales and derecognition. The NPE coverage ratio improved 0.5 percentage points to 61.5 per cent due to the additional impairment losses.

Income taxes

Income taxes fell € 78 million – largely as a result of lower earnings – to € 324 million. The tax rate increased 3 percentage points to 26 per cent, principally due to the lower contribution to earnings from head office, which partly resulted from the impairment losses described above.

Comparison of results with the previous quarter

Quarterly results

in € million	Q4/2019	Q1/2020	Q2/2020	Q3/2020	Q4/2020
Net interest income	881	881	825	770	765
Dividend income	5	6	8	4	3
Current income from investments in associates	120	(9)	31	22	(3)
Net fee and commission income	489	448	392	433	466
Net trading income and fair value result	70	37	25	33	(2)
Net gains/losses from hedge accounting	10	12	(8)	3	(8)
Other net operating income	65	29	12	8	9
Operating income	**1,642**	**1,405**	**1,286**	**1,273**	**1,232**
Staff expenses	(429)	(402)	(405)	(367)	(391)
Other administrative expenses	(310)	(259)	(218)	(226)	(284)
Depreciation	(109)	(94)	(96)	(97)	(110)
General administrative expenses	**(848)**	**(755)**	**(719)**	**(690)**	**(785)**
Operating result	**794**	**650**	**567**	**584**	**447**
Other result	(151)	(82)	(91)	(38)	6
Levies and special governmental measures	(21)	(128)	(38)	(7)	(6)
Impairment losses on financial assets	(154)	(153)	(158)	(185)	(133)
Profit/loss before tax	**468**	**286**	**279**	**354**	**314**
Income taxes	(88)	(79)	(66)	(95)	(84)
Profit/loss after tax	**380**	**207**	**213**	**259**	**230**
Profit attributable to non-controlling interests	(27)	(31)	(21)	(29)	(25)
Consolidated profit/loss	**353**	**177**	**192**	**230**	**205**

Development of fourth quarter of 2020 compared to third quarter of 2020

Operating income

Net interest income declined € 5 million quarter-on-quarter to € 765 million. Developments in the fourth quarter continued to be affected by key rate cuts in several markets and excess levels of liquidity. The most significant reduction was in Ukraine (down € 3 million), due to lower market interest rates. In Russia, net interest income decreased € 2 million due to volume and currency effects. The net interest margin was down 3 basis points to 1.97 per cent principally as a result of a significant increase in short-term investments and lower margins due to rate cuts relating to COVID-19.

Current income from investments in associates amounted to minus € 3 million in the fourth quarter compared to € 22 million in the previous quarter. The main reason for this was the negative result of UNIQA Insurance Group AG in the fourth quarter (minus € 12 million compared to € 14 million in the third quarter), which came under pressure largely because of a restructuring provision.

Net fee and commission income improved 8 per cent or € 33 million to € 466 million due to one-off effects and higher volumes than in the previous quarter. As a result, income from clearing, settlement and payment services rose € 18 million to € 195 million primarily in Russia, where the fourth quarter saw remuneration from payment systems service providers and volume-related growth.

Income from asset management also rose € 17 million to € 67 million due to higher volumes, especially at Raiffeisen Kapitalanlage-Gesellschaft m.b.H. and the Valida Group.

Net trading income and the fair value result declined € 35 million compared to the previous quarter to minus € 2 million. The change was largely the result of market-driven valuations of currency derivatives, mainly used in hedging relationships, and credit derivatives at head office. This was partly offset by increases from valuations of issued certificates following losses in the previous quarter resulting from movements in own credit spread. Furthermore, income increased from the valuation of loans and advances measured at fair value in Hungary.

General administrative expenses

General administrative expenses increased 14 per cent, or € 95 million, to € 785 million in the fourth quarter, mainly as a result of seasonal factors.

Staff expenses rose € 24 million quarter-on-quarter to € 391 million. The principal causes of this increase were the allocation to provisions for staff in Romania, as well as higher bonuses and salary adjustments, mainly in Russia. Compared to the previous quarter, other administrative expenses increased € 58 million to € 284 million due to seasonal factors, primarily as a result of a € 19 million rise in advertising expenses – especially in Russia, at head office and in Romania – in addition to a € 17 million rise in legal, advisory and consulting expenses, mainly at head office, in Romania and in the Czech Republic. Depreciation of tangible and intangible fixed assets increased € 13 million in the fourth quarter to € 110 million, mostly in Hungary and at head office.

Other result

The other result totaled € 6 million in the fourth quarter compared to minus € 38 million in the previous quarter. The main driver of this improvement was the valuation of investments in associates. In the third quarter, impairments on investments in associates were recognized in the amount of € 32 million. However, in the fourth quarter there were reversals of impairment losses totaling € 41 million, mainly stemming from the valuation of the investment in UNIQA Insurance Group AG. Impairments on non-financial assets rose € 17 million compared to the previous quarter, primarily on real estate in Russia and Slovakia. In Romania, credit-linked provisions in the amount of € 14 million were released in the third quarter due to a change in the estimated repayment rate with respect to fees, while the fourth quarter saw no further effects. At € 15 million, net modification losses were € 11 million above the previous quarter's level.

Levies and special governmental measures

Levies and expenses from special governmental measures in the fourth quarter mainly comprised bank levies and declined € 1 million compared to the third quarter to € 6 million. The bank levies were primarily related to current payments in Austria.

Impairment losses on financial assets

At € 133 million, impairment losses on financial assets were € 52 million below the level of the previous quarter. At head office, a € 71 million reduction was recorded, relating to post-model adjustments (subsequent model adjustments to estimates of expected credit losses) and stage 3 impairments (defaults). In the fourth quarter, the post-model adjustments mainly related to real estate and project finance, while in the third quarter significantly higher provisions were recognized for the hotel and leveraged finance portfolios. The € 20 million reduction in Russia resulted primarily from lower provisions for retail customers due to positive changes in the risk parameters. In contrast, the Czech Republic reported higher impairments than in the previous quarter (increase: € 19 million) due to a change in macroeconomic parameters for the retail and corporate customer portfolios and to defaults in the retail customer business. In Romania, the € 15 million increase was mainly driven by post-model adjustments to the office property portfolio and updates to macroeconomic data for the retail portfolio.

Income taxes

Due to lower results, income taxes fell € 11 million to € 84 million, whereby the tax rate remained constant compared to the previous quarter at 27 per cent.

Statement of financial position

Since the beginning of the year, RBI's total assets rose 9 per cent or € 13,759 million to € 165,959 million. In contrast, currency movements against the euro – affected by depreciation pressure on numerous CEE currencies as a result of the crisis, especially the Russian ruble and the Ukrainian hryvnia (down 31 per cent), the Belarusian ruble (down 35 per cent), the Hungarian forint (down 10 per cent) and the US dollar (down 9 per cent) – led to a decline in total assets of 4.5 per cent or € 7,470 million. On a currency-adjusted basis, total assets grew € 21,229 million or 13.5 per cent.

Assets

in € million	2020	2019	Change	
Loans to banks	11,952	9,435	2,517	26.7%
Loans to customers	90,671	91,204	(533)	(0.6)%
Securities	22,162	19,538	2,623	13.4%
Cash and other assets	41,174	32,022	9,152	28.6%
Total	**165,959**	**152,200**	**13,759**	**9.0%**

The 27 per cent or € 2,517 million increase in loans to banks was mainly the result of short-term investments at commercial and central banks.

Growth in lending to customers was limited by the sharp currency devaluations and consequently declined slightly overall, by 1 per cent or € 533 million. Many markets continued to record growth in the customer business on a currency-adjusted basis. The € 1,098 million or 4 per cent increase at head office related to loans to corporate customers (€ 856 million), primarily in project and real estate financing and short-term lending to governments and the public sector (€ 867 million), whereas there was a decrease in loans to other financial corporations – mainly repo transactions. In Slovakia, loans to customers grew € 371 million or 3 per cent, predominantly driven by mortgage loans to households and real estate financing for corporate customers. Hungary and Russia recorded – on a currency-adjusted basis – increases of € 676 million or 18 per cent and € 561 million or 5 per cent respectively.

Securities, which largely consist of debt securities, increased € 2,623 million, primarily due to the investment of liquidity in government bonds, mainly comprising an increase of € 1,117 million at head office, € 694 million in the Czech Republic, € 445 million in Slovakia and € 376 million in Romania.

Cash balances increased € 9,371 million to € 33,660 million, principally driven by head office with an increase of € 6,859 million for liquidity management reasons, mainly in the form of balances held at the Austrian National Bank and repo transactions, together with an € 862 million increase in Romania.

Equity and liabilities

in € million	2020	2019	Change	
Deposits from banks	29,121	23,607	5,514	23.4%
Deposits from customers	102,112	96,214	5,899	6.1%
Debt securities issued and other liabilities	20,438	18,614	1,824	9.8%
Equity	14,288	13,765	523	3.8%
Total	**165,959**	**152,200**	**13,759**	**9.0%**

The Group's funding from banks, which mainly relates to short-term deposits at head office, rose 23 per cent or € 5,514 million.

Deposits from customers grew 6 per cent or € 5,899 million despite strong currency depreciation. The largest increases occurred at head office (up € 2,051 million or 10 per cent), primarily driven by short-term deposits from non-financial corporations, in Romania (up € 1,434 million or 19 per cent), in the Czech Republic (up € 1,343 million or 10 per cent), and in Hungary (up € 727 million or 12 per cent).

The € 1,824 million increase in debt securities issued and other liabilities related mainly to head office (up € 1,722 million) as a result of the issuance of new debt securities (increase of € 1,330 million). Among the debt securities issued by RBI were a € 500 million tier 2 bond as well as a € 500 million subordinated bond.

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

Equity including capital attributable to non-controlling interests rose € 523 million from the start of the year to € 14,288 million. This change was mainly due to the issuance of additional tier 1 capital (AT1) with a nominal value of € 500 million and to total comprehensive income of € 103 million.

Total comprehensive income of € 103 million comprised profit after tax of € 910 million and other comprehensive income of minus € 806 million. The main contribution to other comprehensive income came from currency exchange rate differences, particularly for the Russian ruble (minus € 625 million), the Ukrainian hryvnia (minus € 135 million) and the Belarusian ruble (minus € 104 million). The partial hedge of the net investment resulted in a positive contribution of € 183 million.

No dividend was distributed to RBI's shareholders in 2020 due to the ECB's recommendations. A total of € 47 million was paid out to holders of non-controlling interests in Group companies, particularly in Ukraine. Dividend payments of € 74 million were also made on AT1 capital.

Taking the ECB's recommendation on dividend payments into account, the Management Board of RBI AG will propose to the Annual General Meeting (planned for 22 April 2021) to pay a dividend of € 0.48 per share. The total dividend paid based on shares issued would be no more than € 158 million. The Management Board reserves the right to consider a possible additional dividend payment as soon as the ECB withdraws its recommendation.

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

Common equity tier 1 (CET1) after deductions amounted to € 10,762 million, representing a € 100 million reduction compared to the 2019 year-end figure. While currency effects and loan loss provisioning recognized directly in equity had a negative impact, the profit for the year increased CET1. Following the recommendation from the ECB, the Management Board proposed to the Annual General Meeting on 20 October 2020, for the entire net profit for the 2019 financial year to be carried forward. This proposal was adopted by the Annual General Meeting. However, the proposed dividend for 2020 of € 0.48 per share, as well as the dividend proposal originally announced for the 2019 financial year of € 1 per share are deducted from CET1. Tier 1 capital after deductions increased € 397 million to € 12,489 million. The increase was primarily attributable to an only slight reduction in CET1 and the issuance of € 500 million of additional tier 1 capital in July 2020. Tier 2 capital rose € 161 million to € 2,101 million. The increase was driven by the issuance of a tier 2 bond in June 2020, offset by regulatory amortization of outstanding issues. Total capital amounted to € 14,590 million, representing an increase of € 558 million compared to the 2019 year-end figure.

Total risk-weighted assets (RWA) increased € 898 million year-on-year to € 78,864 million. The major reasons for the increase were new loan business as well as business developments at head office, in Russia and in the Czech Republic. Organic growth and rating downgrades were offset by negative currency effects, especially from the Russian ruble, the Ukrainian hryvnia, and the Czech koruna. An increase in market risk, mainly driven by the rise in volatility caused by the COVID-19 pandemic, also led to an increase in risk-weighted assets.

This resulted in a (fully loaded) CET 1 ratio of 13.6 per cent (down 0.3 percentage points). The dividend originally proposed for 2019 remains deducted (effect of 0.4 percentage points), as does the dividend proposal for 2020 (0.2 percentage points). The tier 1 ratio stood at 15.7 per cent (up 0.3 percentage points) and the total capital ratio at 18.4 per cent (up 0.6 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.

Digitalization

A central theme for banks in the ongoing advancement of digitalization is the growing relevance of mobile banking. While the penetration (rate of active mobile banking use) was at 32 per cent for RBI Group in 2019, it had reached 43 per cent in 2020 (this figure varies greatly between markets). It is expected to continue to rise to 55 per cent by the end of 2021. There is also growing acceptance of online loans: At the end of 2019, 25 per cent of loans were granted through digital channels, and this increased to 48 per cent by year-end 2020. As a result of the exceptional circumstances due to the COVID-19 pandemic, the 2021 target of 35 per cent was thus already exceeded substantially in 2020.

In its product range for retail customers and small businesses, RBI places a strong focus on the full end-to-end digitalization of the core products (accounts, cards and loans). With this and the branch network optimization which is taking place in parallel (down 300 branches by 2022), RBI expects to achieve yearly cost savings as well as additional income by 2025.

Furthermore, there are plans to develop more products and individual product components centrally and to make these available to all of the Group's banks. RBI also expects lower costs a result of this initiative. Aside from the financial benefits, this should lead to a substantial reduction in the time required for the full digitalization of the 5 most important products across the entire Group.

Digitalization is also a key issue for corporate and institutional customers. Since the end of 2019, RBI has digitalized a series of products and services on the myRaiffeisen platform. This includes a digital KYC process (eKYC) for companies and institutional customers, digital account opening (eAccount Opening) and digital export finance (eSpeedtrack), as well as further services such as eFinance, eGateway, and eArchive. The figures for 2020 demonstrate that the digital offering has been a success with our customers – 39 per cent of new accounts at RBI in Austria were initiated digitally and 42 per cent were verified using the fully digitalized KYC process in 2020.

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 many 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 belongs to the CFO area under the CEO. 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 the 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).

As the control measures were carried out on an electronic basis, the COVID-19 pandemic and associated lockdown and partial physical absence (home office) had no impact on the internal control system.

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 external reviews 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 data requirements. 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 responsible Management Board members 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 2020, 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 2020, 322,204 (31 December 2019: 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) since the expiration of 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 2020, if the sale would reduce the regional Raiffeisen banks' aggregate shareholding in RBI AG (direct and/or indirect) to less than 40 per cent (previously 50 per cent) of the share capital plus one share.

(3) RLB NÖ-Wien Sektorbeteiligungs GmbH holds around 22.24 per cent of the share capital of the company. 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). 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). The (i) utilization of authorized capital with exclusion of the statutory

subscription right in the event of a capital increase in return for a contribution in cash, and the (ii) implementation of the conditional capital resolved upon in the Annual General Meeting on 20 October 2020 in order to grant conversion or subscription rights to convertible bond creditors may in total not exceed 10 per cent of the share capital of the company. The utilization of the authorized capital in the form of a capital increase in return for a contribution in kind is not covered by this restriction.

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

The share capital is conditionally increased (conditional capital) pursuant to § 159 (2) 1 of the AktG by up to € 100,326,584 by issuing of up to 32,893,962 ordinary bearer shares. The conditional capital increase will only be implemented to the extent that use is made of an irrevocable right of conversion into or subscription to shares which the company grants to the creditors holding convertible bonds issued on the basis of the resolution passed at the Annual General Meeting on 20 October 2020, or in the event of having to fulfil a conversion obligation set out in the convertible bonds' terms of issuance. In both cases, the Management Board does not decide to allocate own shares. The issue price and the conversion ratio are to be calculated in accordance with recognized quantitative financial methodologies and the price of the company's shares in a recognized pricing procedure (calculation basis of the issuance price); the issue price may not be below the proportionate amount of the share capital. The newly issued shares from the conditional capital increase are entitled to a dividend equivalent to that of the shares traded on the stock exchange at the time of issuance. The Management Board is authorized, with the approval of the Supervisory Board, to determine the further details of the implementation of the conditional capital increase.

The Management Board was further authorized pursuant to § 174 (2) of the AktG by the Annual General Meeting on 20 October 2020, within 5 years from the date of the resolution, i.e. until 19 October 2025, with the consent of the Supervisory Board, to issue 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 § 26 of the Banking Act), 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 the Council of 26 June 2013 on supervisory requirements for credit institutions and investment firms, as amended, with full exclusion of shareholders' subscription rights. The authorization includes the issuance of convertible bonds in a total nominal amount of up to € 1,000,000,000 with rights to convert into or subscribe to up to 32,893,962 ordinary bearer shares of the company with a proportionate amount of the share capital up to € 100,326,584. The issue price and the conversion ratio are to be calculated in accordance with recognized quantitative financial methodologies and the price of the company 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 authorized 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. The convertible bonds may also be issued – observing the limit of the corresponding equivalent value in euros – in the currency of the United States of America and in the currency of any other Organization for Economic Cooperation and Development (OECD) member state. The convertible bonds may also be issued by a company which Raiffeisen Bank International AG owns 100 per cent of, directly or indirectly. For this event, the Management Board is 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; with the exclusion of the rights of shareholders to subscribe to the convertible bonds.

There have been no convertible bonds issued to date.

The Annual General Meeting held on 20 October 2020 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, though with the approval of the purchase by the Supervisory Board can also be effected off-exchange under the exclusion of the shareholders' pro rata tender right. 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 19 April 2023. The acquisition price for repurchasing the shares may be no lower than € 3.05 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. Furthermore, shareholders' subscription rights may be excluded in the event that convertible bonds are issued in future, in order that (own) shares may be issued to such convertible bond creditors that have exercised their right of conversion into or subscription to shares in the company, and also in the event of a conversion obligation stipulated in the convertible bonds' issuance conditions in order to fulfil this conversion obligation. 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 19 October 2025. This authorization replaces the authorization granted by the Annual General Meeting of 21 June 2018 pursuant to § 65 (1) 8 of the AktG to acquire and utilize own shares and refers also to the utilization of own shares already acquired by the company. Since that time, there were no own shares purchased on the basis of the lapsed authorization from June 2018 nor on the basis of the current authorization from October 2020.

The Annual General Meeting of 20 October 2020 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 19 April 2023), 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. In the event of a merger with another legal entity, 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 the termination of RBI's Group-wide D&O insurance cover
- 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 and Remuneration Policy), as well as in the Corporate Governance Report chapter of the Annual Report.

Consolidated non-financial report

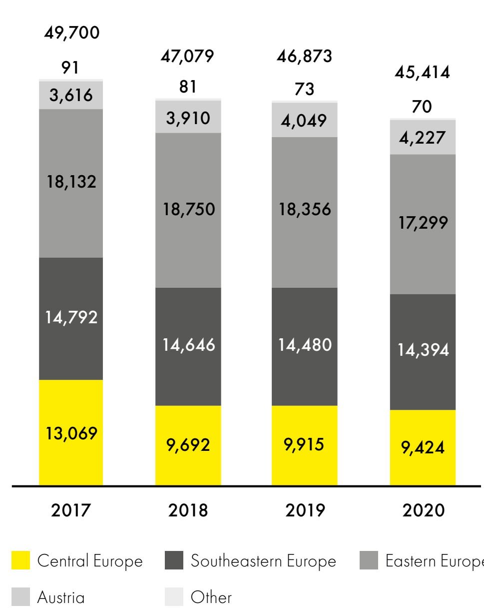
Pursuant to the Sustainability and Diversity Improvement Act (NaDiVeG), the consolidated non-financial statement, which has to be prepared in accordance with § 267a of the Austrian Commercial Code (UGB), is issued as an independent non-financial report (Sustainability Report). The report containing detailed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

Human Resources

The former Group Human Resources division merged with the Strategy Development department and was renamed as the People & Organisational Innovation division (P&OI). P&OI plays an essential role in the implementation of RBI's strategy and achievement of its corporate goals. The focus is on two main areas; firstly, the efficient execution of personnel processes such as data administration, payroll accounting, contract preparation and recruitment, and secondly, the division is responsible for personnel development and career management, as well as for professional education and training. The area of Organisational Innovation has been incorporated into the division since May 2020, thereby broadening the scope of activities to include innovation in terms of strategic direction and employee training. A key focal point in 2020 was the implementation of the new corporate Vision & Mission and the company values.

Another core issue was the management of the complicated situation resulting from COVID-19. Close coordination both within and with the crisis team enabled in some cases for over 95 per cent of employees at head office to work remotely from the middle of March. The P&OI division was responsible for preparing RBI for the constantly evolving legal framework, regularly updating the employees, carrying out the corresponding adminisitrative changes, as well as to consider the needs of employees and – when possible and practical – responding to these.

Number of staff by region



Personnel development

As at 31 December 2020, RBI had 45,414 employees (full-time equivalents), which was 1,459 fewer than at the end of 2019. The largest declines occurred in Ukraine, in Slovakia, and in the Czech Republic.

Outlook

Economic outlook

Towards the end of 2020, a resurgence in COVID-19 cases was countered with further restrictions, some of which were very severe. A return to normality and the start of a sustained European economic recovery depends to a large extent on medical developments. Comprehensive vaccination for defined risk groups will not be available before spring of 2021. The expected subsequent easing of restrictions on businesses to a greater degree will allow economic activity to increase, which should be reflected in higher GDP growth rates. Support is expected to stem from pent-up consumer demand from 2020 and from monetary and fiscal policy stimulus (not least from EU budgetary measures/NextGeneration EU).

Central Europe

The Central Europe (CE) region is expected to show significant economic growth averaging 3.7 per cent in 2021 following the deep recession of the previous year. Comprehensive vaccination programs are expected to be underway somewhat later than in Western Europe. After a slow start to the year, economic growth momentum is expected to accelerate in the second half. Monetary policy is likely to remain expansionary, while government support measures are not expected to be abruptly curtailed. With GDP growth of 5.0 per cent, Slovakia and Hungary are expected to see the strongest economic recovery in the region, while real growth should be 3.7 per cent in Poland and 2.5 per cent in the Czech Republic.

Southeastern Europe

Real GDP growth in the Southeastern Europe (SEE) region is forecast to reach 4.6 per cent in 2021. At the individual country level, the expected increase of 5.1 per cent in Croatia stands out, although this should be viewed against the backdrop of the previous year's steep economic decline (down 8.4 per cent). Romania, the largest economy in the region, is expected to see the highest economic growth rate at 5.2 per cent. Key factors in the SEE region include vaccinations over the course of the year, as in other regions, and the relatively large sums the region will receive from the NextGeneration EU fiscal plan starting in the second half of the year. The involuntary reductions in consumption are likely to result in a certain degree of pent-up demand and a recovery in consumer spending.

Eastern Europe

The Russian economy is expected to grow around 2.3 per cent in 2021, a low rate by regional standards. However, the growth forecast should be viewed in the context of the comparatively mild recession experienced in the previous year. Russia’s key interest rates are expected to remain low at 4.25 per cent while the inflation rate is expected to decline again over the course of 2021 from an elevated level at the beginning of the year. Sanction risks could rise slightly, but a strong further wave of sanctions is not expected. Real GDP in Ukraine is expected to grow just under 4 per cent. Relations with the International Monetary Fund are difficult due to Ukraine’s slower pace of reform. However, the country’s adequate currency reserves are expected to have a stabilizing effect on its currency. The Belarusian economy is expected to grow 1.5 per cent in 2021 after a comparatively mild recession in the previous year.

Austria

The extensive lockdown, which was partially eased only at the beginning of February, is expected to weigh on the Austrian economy in the first quarter as well, resulting in a decline in GDP compared to the prior quarter. As the year unfolds, however, an economic rebound can be expected as restrictions ease, and quarter-on-quarter GDP growth rates are likely to be markedly positive. It is expected that private consumption will prove to be the main driver of the economy. In contrast, capital expenditure is likely to grow at below-average rates for an economic upturn, as the increase in debt levels in the previous year is expected to result in companies having less scope for capital expenditures. Additionally, the recession was preceded by an exceptionally strong investment cycle lasting several years. The related capacity expansion should subdue the need for capital expenditures as demand rises. Due to the unfavorable conditions at the outset of the year (weak six months during the 2020/21 winter season), a partial recovery from the preceding GDP contraction is expected for 2021 as a whole, with real GDP growth of 3.5 per cent. However, the GDP level of the fourth quarter of 2019, prior to COVID-19, is only likely to be reached again during the course of 2022.

Banking sector in Austria

The improved economic outlook for 2021 is expected to underpin stable business development in the Austrian banking sector. Despite banks' somewhat tighter lending standards, which tend to make it more difficult to grant credit, the development of new business is likely to be stable. Access to the ECB's targeted longer-term refinancing operations, which will continue to provide the banking sector with favorable terms, is expected to have a supportive effect as well. In contrast, asset quality is expected to deteriorate over the course of 2021, with expiring moratoriums leading to an increase in the non-performing loan ratio. The proportion of provisions in banks' earnings for the period will also remain elevated, which will impact the profitability of the Austrian banking sector. Nonetheless, the domestic banking sector appears to be well-prepared for the current year.

CEE banking sector

Loan and balance sheet growth at CEE banks are expected to be moderate over the coming 12 to 24 months. The medium-term outlook is supported by the vaccine rollout, the favorable refinancing conditions and the regulatory framework. However, the potentially ongoing challenging situation in the labor markets, an expected deterioration in the credit quality of loan applicants and the possible withdrawal of regulatory and fiscal measures initiated in 2020 could have a negative impact. Besides expectations for moderate loan growth, the low interest rate environment and sustained risk costs (e.g. a delayed rise in unemployment, expiry of moratoriums) are also negatively affecting bank profitability, even if some CEE markets show greater resilience. In this respect, the risk remains that a portion of the loans subject to repayment deferrals will become non-performing in the coming months, including in the more vulnerable SME and retail portfolios. Overall, retail loan growth (in local currency) in the CEE banking sector in 2021, should be near the median of CEE countries in 2020 (up 7 per cent p.a.), and growth in corporate lending should be between 6 and 8 per cent (median in CEE region for 2020: up 5 per cent p.a.). Furthermore, it is expected that growth in the retail sector will outpace that of corporate. Against this backdrop, the RoE ratios in CEE should fall between 5 and 9 per cent (median 2020 forecast: 9 per cent).

Outlook for RBI

We expect modest loan growth in the first half of 2021, accelerating in the second half of the year.

The provisioning ratio for FY 2021 is expected to be around 75 basis points, as moratoria and government support programs expire.

We remain committed to a cost/income ratio of around 55 per cent – possibly as soon as 2022 depending on the speed of the recovery.

We expect the consolidated return on equity to improve in 2021, and we target 11 per cent in the medium term.

We confirm our CET1 ratio target of around 13 per cent for the medium term.

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

Events after the reporting date

RBI signs agreement on the acquisition of Czech Equa bank

On 6 February 2021, Raiffeisen Bank International AG (RBI) announced that it had signed an agreement on the acquisition of 100 per cent of the shares of Equa bank (Equa bank a.s. and Equa Sales and Distribution s.r.o.) from AnaCap Financial Partners (AnaCap), a specialist financial services private equity investor, through its Czech subsidiary Raiffeisenbank a.s. The transaction is subject to a successful closing and regulatory approvals.

The acquisition of Equa bank is expected to have an impact on RBI's CET1 ratio of around 30 basis points (based on a pro-forma CET1 consolidation at year-end 2020). The final impact is subject to completion accounts at closing.

Equa bank focuses on consumer lending and serves just under 480,000 customers. The proposed acquisition is part of RBI's strategy to expand its presence in selected focus markets. The business models of Equa bank and Raiffeisenbank are very complementary, which is why the transaction would ultimately lead to strategic synergies as well as enhanced digital capabilities. As of year-end 2020, Equa bank had total assets of more than € 2.8 billion, while Raiffeisenbank a.s. reported total assets of € 15.7 billion.

Closing is expected around the end of the second quarter of this year. On the basis that deal completion is successful, there is a plan to merge Equa bank with Raiffeisenbank and thereby allowing realization of the identified synergies.

Raiffeisenbank a.s. (Czech Republic) signs referral agreement with ING on re-contracting of Czech retail customers

In February 2021, RBI's subsidiary bank in the Czech Republic, Raiffeisenbank a.s., signed a referral agreement with ING Bank N.V. (ING) on the re-contracting of ING's Czech retail customers. The transaction is subject to approval by the Czech Office for Protection of the Competition.