

## **Information notice on the possible effects of a recovery or resolution of Banque Raiffeisen s.c. on investments in Profit Units issued by Banque Raiffeisen s.c.**

Dear Client

Banque Raiffeisen s.c. (hereinafter "the **Issuer**") has issued Profit Units (without maturity).

In accordance with its legal and regulatory obligations, the Issuer wishes to remind you of the effects that the application of the recovery and resolution regime could have on your investments in Profit Units issued by the Issuer, in particular:

- The risks of a possible "bail-in"<sup>1</sup> as well as
- The ranking in the order of repayment of creditors having invested in the said Profit Units.

### **1. Background**

In response to the financial crisis of 2007/2008, the European Union and many countries adopted rules aimed at resolving weak or failing credit institutions or investment firms (hereinafter "**Institutions**") without having to involve taxpayers in the future.

As a result, the shareholders and creditors of the Institutions being resolved may have to share in the losses of these Institutions. The aim is to ensure the resolution of an Institution without using public funds. To this end, the European Union has adopted the following legislation:

- The Bank Recovery and Resolution Directive (**BRRD**)<sup>2</sup>, which, among other things, provides resolution authorities with a set of tools and powers, and
- A Regulation establishing uniform rules and procedures for the resolution of institutions in the European Union in the context of a Single Resolution Mechanism and a Single Resolution Fund (**SRM Regulation**)<sup>3</sup>.

### **2. Risks of a possible bail-in and powers of the Resolution Authority**

Holders of Profit Units (hereinafter "**Holders**") do not benefit from any guarantee or protection from a deposit guarantee scheme in Luxembourg (FGDL - *Fonds de Garantie des Dépôts au Luxembourg*). Consequently, Holders should be aware that they will not be able to claim a deposit guarantee in the event of unavailability of the Profit Units.

In case of application of the BRR 2015 Law and the SRM Regulation, Holders may be subject to the exercise of the powers of the Resolution Authority prior to a resolution at the point of non-viability (PONV) of the Issuer and in case of resolution.

---

<sup>1</sup> Technical term designating internal bail-in and used in the following case: In the event of a resolution procedure aimed at rescuing an Institution in a scenario of financial difficulties, the Resolution Authority of the Institution may decide to reduce in full or in part the amount of the financial instruments issued by the Issuer.

<sup>2</sup> European Directive 2014/59/EU of 15/05/2014 establishing a framework for the recovery and resolution of credit institutions and investment firms transposed by the Law of 18 December 2015 on the failure of credit institutions and certain investment firms (BRR Law 2015).

<sup>3</sup> Regulation (EU) No 806/2014 of 15 July 2014 establishing uniform rules and procedure for the resolution of credit institutions and certain investment firms under a Single Resolution Mechanism and a Single Banking Resolution Fund and amending Regulation (EU) No 1093/2010).

The point of non-viability is the point at which:

- (i) the Resolution Authority determines that the Issuer meets the conditions for resolution (but no resolution action has yet been taken) or
- (ii) the Resolution Authority determines that the Issuer will no longer be viable unless the Profit Units are reduced or converted or
- (iii) extraordinary public financial support, other than that granted to remedy a serious disturbance in the economy of a Member State of the European Economic Area (EEA) and to preserve financial stability, is required by the Issuer.

The powers of the Resolution Authority may include and result in any one or a combination of the following:

- (i) The **reduction** of all or part of the amounts due, on a permanent basis;
- (ii) The **conversion** of all or part of the amounts due into shares, other securities or other obligations of the Issuer or another person (and the issue to the Holder of such shares, securities or obligations), including by means of an amendment, modification or change to the terms of the Profit Units, in which case the Holder undertakes to accept in lieu of its rights under the Profit Units such shares, other securities or other obligations of the Issuer or another person;
- (iii) The **cancellation** of the Profit Units or amounts due;
- (iv) The **amendment** of the amount of distributions under the Profit Units, or of the date on which the distribution becomes due, including by suspending their payment.

**The provisions of the Profit Units** are subject to the exercise of the Bail-in-Power by the relevant Resolution Authority, and may be amended, if necessary, to give effect to it.

**No repayment or payment of the amounts due** will become due and payable or will be paid after the relevant Resolution Authority has exercised its Bail-in-Power with respect to the Issuer, unless, at the time such repayment or payment, respectively, becomes due and payable, the Issuer is authorised to make such repayment or payment under the laws and regulations in force in Luxembourg and in the European Union applicable to it.

If the relevant Resolution Authority exercises the Bail-in-Power for an amount less than the total of the amounts due, any cancellation, write-off or conversion made in respect of the Profit Units pursuant to the Bail-in-Power will be made on a pro rata basis.

Even without the consent of the holders of Profit Units, the Profit Units may be subject to write-down or conversion into equity which may result in such holders losing some or all of their investment.

### 3. Position of creditors who have invested in Profit Units in the order of repayment

#### 3.1. Ranking of creditors having invested in Profit Units

The Profit Units constitute unsecured and subordinated financial instruments of the Issuer and rank at all times as follows:

- (i) *Pari passu* without any preference between themselves;
- (ii) *Pari passu* with:
  - the Issuer's existing Additional Tier 1 Capital<sup>4</sup> Instruments, and
  - any other obligations or capital instruments of the Issuer which rank or are deemed to rank equally with the Profit Units in the event of the liquidation or bankruptcy of the Issuer;
- (iii) Senior to the holders of the Issuer's Tier 1 Core Capital Instruments (CET1<sup>5</sup>) and any other capital instruments of the Issuer which rank junior or are deemed to rank junior to the Profit Units upon liquidation or bankruptcy of the Issuer;
- (iv) rank junior to present or future claims of:
  - Unsubordinated creditors of the Issuer and
  - Subordinated creditors of the Issuer, including holders of Tier 2 capital instruments, other than present or future claims of creditors ranking *pari passu* with or junior to the Profit Units.

#### 3.2. Summary of the ranking of creditors

**In the event of the Issuer's bankruptcy of the Issuer**, the Holders will be reimbursed before the holders of shares (*Parts sociales*) but after the Institution's other creditors. The Holders thus rank subordinate to the other creditors of the Institution. As a result of this subordination, Holders may not be repaid in full (or at all) if the net assets are insufficient. In such a case, the Holder's claim may not be set off against a claim of Issuer against the Holder.

---

<sup>4</sup> Additional Tier 1 (AT1) capital is a type of capital instrument issued by institutions to meet regulatory requirements. AT1 capital instruments are considered a form of hybrid capital as they have characteristics of both debt and equity. These instruments are designed to provide additional loss-absorbing capacity to Institutions in times of financial stress.

<sup>5</sup> CET1 (Common Equity Tier 1) represents an Institution's core capital level, comprising mainly core capital (issued share capital and reserves), adjusted for items that may be considered as sub-investment grade capital. It is used to assess an institution's ability to absorb potential losses and maintain its solvency in the face of risk.

## Claims hierarchy

Increasing safety level (from bottom to top)	Guaranteed deposits (max EUR 100k) covered by FGDL
	Deposits from SMEs and individuals
	Deposits by large companies
	...
	Subordinated obligations (Notes) ( <i>Tier 2</i> )
	Profit Units ( <i>Additional Tier 1 - AT1</i> )
	Core capital / shares (Parts sociales)( <i>Common Equity Tier 1 - CET1</i> )
	Core capital / shares (Parts sociales)( <i>Common Equity Tier 1 - CET1</i> )