

RAIFFEISEN BANK INTERNATIONAL AG

ANNUAL FINANCIAL STATEMENTS 2017



Raiffeisen Bank
International

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In this report, Raiffeisen Bank International (RBI AG) refers to the to Raiffeisen Bank International AG. RZB AG refers to Raiffeisen Zentralbank Österreich AG.

This report is a translation of the original report in German, which is solely valid.

Annual financial statements

Statement of financial position

ASSETS	31/12/2017 in €	31/12/2016 in € thousand
1. Cash in hand and balances with central banks	4,780,629,091.59	1,677,798
2. Treasury bills and other bills eligible for refinancing with central banks	5,510,398,669.20	2,242,744
3. Loans and advances to credit institutions	9,013,052,888.81	9,739,523
a) Repayable on demand	1,911,732,188.90	1,785,973
b) Other loans and advances	7,101,320,699.91	7,953,550
4. Loans and advances to customers	18,276,411,159.54	18,026,569
5. Debt securities and other fixed-income securities	2,432,873,206.76	1,613,102
a) issued by public bodies	500,805,541.64	321,092
b) issued by other borrowers	1,932,067,665.12	1,292,009
hereof: own debt securities	15,721,285.14	16,047
6. Shares and other variable-yield securities	196,404,309.14	103,921
7. Participating interests	60,432,230.38	22,346
hereof: in credit institutions	24,222,655.85	0
8. Shares in affiliated undertakings	11,298,110,366.33	7,980,261
hereof: in credit institutions	2,679,198,503.86	1,154,972
9. Intangible assets	33,828,518.32	35,980
10. Tangible assets	9,074,621.96	5,642
11. Other assets	2,980,498,145.01	4,239,860
12. Accruals and deferred income	148,774,732.82	126,290
13. Deferred tax assets	827,860.42	0
Total	54,741,315,800.28	45,814,036

LIABILITIES		31/12/2017 in €	31/12/2016 in € thousand
1.	Liabilities to credit institutions	23,863,178,675.06	13,377,311
	a) Repayable on demand	2,819,417,354.12	2,942,878
	b) With agreed maturity dates or periods of notice	21,043,761,320.94	10,434,433
2.	Liabilities to customers (non-banks)	13,165,962,437.83	13,638,332
	a) Savings deposits	0.00	0
	b) Other liabilities	13,165,962,437.83	13,638,332
	aa) Repayable on demand	4,782,363,291.56	4,705,322
	bb) With agreed maturity dates or periods of notice	8,383,599,146.27	8,933,010
3.	Securitised liabilities	3,149,687,436.81	4,939,862
	a) Debt securities issued	1,919,405,952.82	3,553,108
	b) Other securitised liabilities	1,230,281,483.99	1,386,753
4.	Other liabilities	2,552,738,845.57	3,597,255
5.	Accruals and deferred income	101,902,895.12	121,330
6.	Provisions	327,367,619.73	365,768
	a) Provisions for severance payments	57,448,651.57	55,760
	b) Provisions for pensions	69,280,414.72	28,336
	c) Provisions for taxation	5,687,612.91	23,683
	d) Other Provisions	194,950,940.53	257,989
7.	Supplementary capital pursuant to Chapter 4 of Title I of Part 2 of Regulation (EU) No 575/2013	3,277,148,924.67	3,346,003
8.	Additional Tier 1 capital pursuant to Chapter 3 of Title I of Part 2 of Regulation (EU) no 575/2013	651,859,375.00	0
9.	Subscribed capital	1,002,061,270.95	892,031
	a) Share capital	1,003,265,844.05	893,586
	b) Nominal value of own shares	(1,204,573.10)	(1,555)
10.	Capital reserves	4,431,574,187.31	4,432,773
	a) Committed	4,334,507,788.51	4,334,859
	b) Uncommitted	97,066,398.80	97,066
	c) Option reserve	0.00	848
11.	Retained earnings	1,477,480,437.19	1,286,932
	a) Legal reserve	5,500,000.00	5,500
	b) Other reserves	1,471,980,437.19	1,281,432
12.	Liability reserve pursuant to Article 57 (5)	535,097,489.59	383,015
13.	Profit/Loss	205,256,205.45	(566,575)
Total		54,741,315,800.28	45,814,036

Income statement

	2017 in €	2016 in € thousand
1. Interest receivable and similar income	810,734,415.81	885,403
hereof: from fixed-income securities	82,432,796.75	60,154
2. Interest payable and similar expenses	(565,935,411.09)	(608,391)
I. NET INTEREST INCOME	244,799,004.72	277,012
3. Income from securities and participating interests	1,379,784,838.63	638,459
a) Income from shares and other variable-yield securities	7,730,611.87	6,221
b) Income from participating interests	8,813,089.79	2,013
c) Income from shares in affiliated undertakings	1,363,241,136.97	630,225
4. Commissions receivable	293,226,974.82	287,893
5. Commissions payable	(123,470,331.76)	(111,265)
6. Net profit or net loss on financial operations	12,215,534.73	(17,854)
7. Other operating income	147,206,674.21	151,917
II. OPERATING INCOME	1,953,762,695.35	1,226,162
8. General administrative expenses	(666,202,028.04)	(579,056)
a) Staff costs	(333,202,539.76)	(288,259)
aa) Wages and salaries	(257,276,198.89)	(216,942)
bb) Expenses for statutory social contributions and compulsory contributions related to wages and salaries	(52,592,312.03)	(45,499)
cc) Other social expenses	(7,065,226.11)	(6,643)
dd) Expenses für pensions and assistance	(10,992,751.06)	(5,581)
ee) Release of provision for pensions	3,045,904.39	1,361
ff) Expenses for severance payments and contributions to severance funds	(8,321,956.06)	(14,954)
b) Other administrative expenses	(332,999,488.28)	(290,797)
9. Value adjustments in respect of asset items 9 and 10	(9,667,752.52)	(15,273)
10. Other operating expenses	(38,798,620.85)	(64,949)
III. OPERATING EXPENSES	(714,668,401.41)	(659,278)
IV. OPERATING RESULT	1,239,094,293.94	566,884
11./12. Net income/expenses from the disposal and valuation of loans and advances and securities classified as current assets	(156,614,124.54)	(233,716)
13./14. Net income/expenses from the disposal and valuation of securities evaluated as financial investments and of shares in affiliated companies and participating interests	(47,885,044.72)	(193,634)
V. PROFIT ON ORDINARY ACTIVITIES	1,034,595,124.68	139,533
15. Tax on profit or loss	(18,172,715.27)	(13,398)
16. Other taxes not reported under Item 17	(56,611,727.95)	(81,305)
VI. PROFIT FOR THE YEAR AFTER TAX	959,810,681.46	44,831
17. Changes in reserves	(187,979,271.48)	0
hereof: allocation to liability reserve	0.00	0
VII. NET INCOME FOR THE YEAR	771,831,409.98	44,831
18. Loss brought forward	(566,575,204.53)	(611,406)
VIII. NET PROIT/LOSS FOR THE YEAR	205,256,205.45	(566,575)

Items off the statement of financial position

ASSETS	31/12/2017 in €	31/12/2016 in € thousand
1. Foreign assets	37,124,280,515.90	33,370,338

LIABILITIES	31/12/2017 in €	31/12/2016 in € thousand
1. Contingent liabilities	5,936,929,311.69	5,087,300
Guarantees and assets pledged as collateral security	5,936,929,311.69	5,087,300
2. Commitments	13,003,003,000.00	11,932,400
hereof: liabilities from repurchase agreements		
3. Commitments arising from agency services	218,297,023.75	241,115
4. Eligible own funds according to Part 2 of Regulation (EU) No 575/2013	10,734,434,925.43	9,569,937
hereof: supplementary capital pursuant to Chapter 4 of Title I of Part 2 of Regulation (EU) No 575/2013	2,978,859,546.57	3,266,440
5. Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013	33,329,884,725.37	28,883,504
hereof: capital requirements pursuant to Article 92 (1) (a) to (c) of Regulation (EU) No 575/2013		
a) hereof: capital requirements pursuant to Article 92 (a)	21.4%	21.8%
b) hereof: capital requirements pursuant to Article 92 (b)	23.3%	21.8%
c) hereof: capital requirements pursuant to Article 92 (c)	32.2%	33.1%
6. Foreign liabilities	12,569,917,420.39	12,059,743

Notes

General disclosures

Raiffeisen Bank International AG (RBI AG) is registered in the company register at the Commercial Court of Vienna under FN 122.119m. Its registered office is at Am Stadtpark 9, 1030 Vienna. The annual financial statements are deposited at the company register court and published in the official journal of the Wiener Zeitung in accordance with the Austrian disclosure regulations.

The annual financial statements for the year ending 31 December 2017 were prepared by the Management Board in accordance with the Austrian Commercial Code (UGB) as amended by the 2014 Austrian Financial Reporting Amendment Act (RÄG), taking into account the special provisions of the Austrian Banking Act (BWG) that apply to credit institutions, including the CRR Regulation 575/2013/EU and the Austrian Stock Corporation Act (AktG).

According to Section 221 (Size categories) of the Austrian Commercial Code (UGB), RBI AG qualifies as a large corporation. It is also a public interest entity pursuant to Section 43 (1a) of the Austrian Banking Act (BWG) in conjunction with Section 189a of the Austrian Commercial Code.

The Raiffeisen Bank International Group (RBI) is a corporate and investment bank for the top 1,000 companies in Austria and for large corporate customers in Western Europe. Through its equity participations, RBI has one of the largest networks held by Western banking groups in Central and Eastern Europe (CEE). It does business in this region through a closely-knit network of subsidiary banks, leasing companies and numerous specialized financial service providers with around 2,400 branches. In Austria, RBI holds stakes in companies specializing in housing finance, leasing, asset management, equities and certificates, pension funds, factoring and private banking. RBI's 16.5 million clients include commercial clients, small and medium-sized entities, private individuals, financial institutions and government entities. In addition, RBI is the lead institution of the Raiffeisen Banking Group Austria (RBG) and serves as the central institution of the Raiffeisen regional banks as defined by the Austrian Banking Act (BWG). RBI AG also has branches in Frankfurt, London, Beijing and Singapore.

As shares in the company are traded on a regulated market within the meaning of Section 1 (2) BörseG (prime market of the Vienna Stock Exchange) and numerous securities issued by Raiffeisen Bank International (RBI AG) are admitted to a regulated market in the EU, RBI AG has to publish annual consolidated financial statements in accordance with Section 59a of the Austrian Banking Act (BWG) in compliance with International Financial Reporting Standards. These consolidated financial statements are published on the Internet (www.rbinternational.com/ir).

As a credit institution within the meaning of Section 1 of the Austrian banking Act (BWG), RBI AG is subject to the regulatory oversight of the Financial Market Authority, Otto-Wagner-Platz 5, A-1090 Vienna (www.fma.gv.at) and the European Central Bank, Sonnemannstrasse 22 D-60314 Frankfurt am Main (www.bankingsupervision.europa.eu).

The disclosure requirements set out in Part 8 of EU Regulation 575/2013 on prudential requirements for credit institutions (Capital Requirements Regulation, CRR) are published online on the bank's website at investor.rbinternational.com.

Merger with RZB AG parent company

Following the Extraordinary General Meeting of RBI AG in January 2017, which approved the merger with Raiffeisen Zentralbank Österreich AG (RZB AG) by a 99.4 per cent vote, the merger was entered in the commercial register on 18 March 2017, thereby taking effect. Assets and liabilities were transferred to RBI AG's balance sheet as of 1 January 2017 while continuing the carrying amounts pursuant to Section 202 (2) of the Austrian Commercial Code (UGB). Income and expenses are included in the income statement until the effective merger date of 18 March 2017. In the course of the RBI AG capital increase, which was also entered in the commercial register, the shareholders of RZB AG were given new shares by way of consideration for the assets transferred in the merger. The total number of RBI AG shares issued is therefore now 328,939,621 compared to 292,979,038 previously.

After eliminating internal items, the transferred assets amount to € 12,619.7 million and the transferred liabilities amount to € 12,357.9 million, resulting in a net asset increase of € 261.8 million. This amount is divided into an increase in subscribed capital of € 109.7 million and an increase in the liability reserve of € 152.1 million.

Following the March 2017 merger of RBI AG with RZB AG, its former majority owner, the merged entity does business as Raiffeisen Bank International AG, as RBI AG did before it. As a result of the merger, RBI AG assumed all the rights, obligations and responsibilities incumbent on the transferring company, RZB AG.

It took over the following significant areas from RZB AG:

- **Sector business:** Refers to RBI AG's business with other banks in the Austrian Raiffeisen banking sector where RBI AG performs certain activities in connection with liquidity management and minimum reserve maintenance. These activities include, without limitation, short-term money market transactions between banks in the Austrian Raiffeisen banking sector and RBI AG as well as the investment of required liquidity with the Austrian National Bank. In addition, RBI AG performs advisory and service activities for the entire Austrian Raiffeisen banking sector such as arranging and managing central Raiffeisen advertising campaigns.
- **Liquidity management:** RBI AG, when taken together with the more than 400 banks in the Austrian Raiffeisen banking sector, represents Austria's largest cash pool. Members of the cash pool are required by Section 27a of the Austrian Banking Act (BWG) to maintain a liquidity reserve at the central institution. RBI AG invests the liquidity reserve in highly liquid assets as defined by CRR/CRD IV.
- **Equity participation business:** The management of a strategic equity participation portfolio mainly consisting of Austrian subsidiaries and minority interests. The portfolio contains bank-related business with specialty companies (Raiffeisen Bausparkasse, Raiffeisen Capital Management, Valida Pensionskasse, Raiffeisen Factorbank, Raiffeisen Leasing, Raiffeisen Wohnbaubank) as well as minority interests in the industry and insurance sectors (UNIQA, Leipnik-Lundenburger, Raiffeisen Informatik).

Federal institutional protection scheme in Austria (*Bundes-IPS*)

Institutional protection schemes (IPS) approved by the Financial Market Authority have been established within the RBG since the end of 2014. Contractual or statutory liability arrangements were concluded as well. The schemes and liability arrangements protect the participating institutes and, in particular, ensure their liquidity and solvency where required. The IPS is based on uniform, joint risk monitoring pursuant to Article 49 CRR (Capital Requirements Regulation). The IPS was designed with two levels (federal and provincial IPS) to reflect RBG's organizational structure.

As a result of the merger between RBI AG and RZB AG, RBI AG, now the central institute of the RBG, is also a member of the federal IPS whose members include, in addition to the Raiffeisen regional banks, Raiffeisen-Holding Niederösterreich-Wien, Posojilnica Bank, Raiffeisen Wohnbaubank and Raiffeisen Bausparkasse. The federal IPS is subject to regulatory supervision. Consequently, the capital adequacy requirements of the CRR must also be complied with at the level of the federal IPS. Consequently, no deductions are made for the members of the federal IPS for their participation in RBI AG. Moreover, internal receivables within the IPS can be weighted at zero per cent.

The federal IPS relies on uniform, joint risk monitoring as part of the early warning system of the Österreichische Raiffeisen-Einlagensicherung (ÖRE). The IPS hence supplements the RBG system of mutual assistance that comes into effect when members experience economic difficulties.

Recognition and measurement principles

General principles

The annual financial statements are prepared in accordance with the principles of proper accounting, and taking into account standard practice as described in Section 222 (2) of the Austrian Commercial Code (UGB), to give a true and fair view of the company's net assets, financial position and earnings.

The consolidated financial statements were prepared in compliance with the consistency principle. Comparability with previous years is limited due to the merger of RZB AG with RBI AG.

Assets and liabilities are valued on the principle of individual valuation and on the assumption that the company will continue to exist as a going concern. The principle of prudence is applied, taking into account the special characteristics of the banking business.

Stock market prices are used to determine the fair value of listed products. If stock market prices are not available, prices for original financial instruments and forward transactions are determined based on the calculated present value. The prices for options are determined based on suitable option price models. The calculation of present value is based on a yield curve composed of money-market, futures and swap rates and does not include a credit spread. Option pricing formulas as described by Black-Scholes 1972, Black 1976 and Garman-Kohlhagen are used together with other common models for the valuation of structured options.

Amounts in foreign currencies

Assets and liabilities in foreign currencies are converted at the ECB's reference exchange rates as at 31 December 2017 pursuant to Section 58 (1) of the Austrian Banking Act (BWG).

Financial instruments in the banking book

Securities intended to serve business purposes on a permanent basis (investment portfolio) are valued as fixed assets. The difference between the purchase cost and repayment amount is written off or recognized pro rata over the residual term.

Securities held as current assets have been valued strictly according to the lower of cost or market value principle, with any reversals of impairment losses up to amortized cost.

Derivatives on interest rates (interest rate swaps, interest rate options and forward rate agreements) and on exchange rates (cross currency interest rate swaps and forward exchange transactions) are accounted for according to the accrued interest method, in which interest amounts are accrued for each period.

In designating derivatives as part of effective micro hedging transactions, compensatory valuation of the underlying transaction and hedging derivative takes place.

RBI AG uses interest rate swaps to hedge the interest rate risk from assets (bonds and loans) and liabilities (own issues, promissory notes and custodian business) on the statement of financial position. Fixed cash flows are exchanged for variable cash flows to minimize the interest rate risk.

These derivatives form part of a valuation unit. Their market value is therefore not reported in the annual financial statements, as they are offset by cash flows from the underlying transactions recognized through profit and loss.

The hedging relationships are determined on the basis of micro fair value hedges in accordance with IAS 39 and documented according to applicable regulations. On designation, the effectiveness of the hedging relationship is reviewed by a prospective effectiveness test with 100 basis point shifts in the yield curve.

The effectiveness is measured retrospectively on the basis of a monthly regression analysis. Here, a set of 20 data points is used to determine the required calculation parameters used for the retrospective effectiveness test. A hedge is deemed to be effective if changes in the fair value of the underlying and hedging transaction are in a range of 80-125 per cent.

The banking book also includes derivatives which do not meet the criteria of a trading book and are not part of a micro hedge relationship. The focus is not on short-term gains but on management of income and interest rate risk through positioning based on medium- to long-term market opinion.

These derivatives were administrated in defined portfolios in order to guarantee a documented mapping to functional units. Within these functional units an imparitative valuation takes place. For a negative accounting balance per functional unit a provision for impending loss will be allocated, while a positive accounting balance will be unrecognized.

Derivatives of the bank book, which are not reflected in functional units, are valued imparitatively. In the case of negative market values a provision for impending loss will be allocated. The disclosure is shown in the income statement under position 11./12. net income/expenses from the disposal and valuation of loans and advances and securities held as current assets.

Credit default swaps have the following effect on the income statement: The margins received or paid (including accruals) are reported under commissions; the valuation results are recorded against income based on the imparity principle.

Financial instruments in the trading book

The securities in the trading portfolio are valued on a mark-to-market basis. All derivatives transactions in the trading book are also recognized at fair value.

The capital-guaranteed products (guarantee funds and pension provisions) are reported as put options sold on the respective funds to be guaranteed. Valuation is based on a Monte Carlo simulation and is in accordance with the framework conditions stipulated by law.

Derivative financial instruments

The price definition of OTC derivatives is subject to valuation adjustments to reflect the counterparty default risk (credit value adjustment - CVA) and adjustments for the Bank's own credit risk (debit value adjustment - DVA).

The CVA involves, first, the determination of the expected positive exposure and, second, the counterparty's probability of default. The DVA is determined by the expected negative exposure and RBI's credit quality.

To determine the expected positive exposure, a large number of scenarios for future points in time are simulated, reflecting all available risk factors (e.g. currency and yield curves). Having regard to these scenarios, the OTC derivatives are measured at market value and aggregated at counterparty level to finally determine the positive exposure for all the dates.

As a further component for the CVA, a probability of default has to be determined for each counterparty. If direct CDS (credit default swap) quotes are available, RBI derives the market-based probability of default for the respective counterparty and implicitly the loss-given default (LGD). To determine the probability of default of counterparties that are not actively traded in the market, the counterparty's internal rating is assigned to a sector- and rating-specific CDS curve.

The DVA is determined by the expected negative exposure and RBI's credit quality and represents the value adjustment with regard to RBI's own probability of default. The method applied to calculate the negative exposure is similar to that used for the CVA; the expected negative market value is applied instead of the expected positive market value. From the simulated future aggregated counterparty market values, negative, rather than positive, exposures are determined. These represent the expected liability to the counterparty at the respective future dates.

To determine the own probability of default values implied by the market are also used. If direct CDS quotes are available, these are applied. If no CDS quotes are available, the own rating is assigned to a sector- and rating-specific CDS curve to determine own probability of default.

Loans and advances

Loans and advances are generally recognized at amortized cost. Any difference between the amount paid out and the nominal amount is deferred on a straight-line basis and reported in net interest income, provided the difference is similar in nature to interest. Impairments are accounted for in the calculation of amortized cost. If the reasons for an impairment no longer apply, the impairment is reversed up to a maximum of no more than the cost of acquisition after reversing the difference (premium/discount).

Net provisioning for impairment losses

At the end of every reporting period, an assessment is conducted to determine whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered impaired and impairment losses are incurred if:

- there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the asset and before the reporting date (loss event);
- the loss event had an impact on the estimated future cash flows of the financial asset or group of financial assets; and
- the amount can be reliably estimated.

Objective evidence of impairment includes the counterparty experiencing significant financial difficulties, a breach of contract (e.g. default or delinquency in interest or principal payments), or a high probability that the borrower will enter bankruptcy or another form of financial reorganization.

Risks in the credit business are accounted for by recognizing individual loan loss provisions and portfolio-based loan loss provisions. Portfolio-based loan loss provisions apply to portfolios of loans with the same risk profile. They cover cases in which there is no objective evidence that any single financial asset is impaired yet; instead, groups of financial assets with comparable default risk profiles are collectively tested for impairment. Four underlying rating models are used for corporate customers: Corporate Large, Corporate Regular, SME Large and SME Regular. Portfolios are also assessed separately depending on whether they belong to the Financial Institution rating model or the Project Finance rating model. Portfolio-based loan loss provisions are calculated based on Group historical default rates (Group HDRs) that are centrally determined for each rating tier. These Group HDRs represent the average actual observed probability of default over the last 5 years. The individual loan loss provisions and portfolio-based loan loss provisions are set off against corresponding loans in the statement of financial position.

Provisions are recognized using standardized company-wide criteria to cover the expected default associated with the credit risks attributable to loans and advances to customers and banks. Loans are assumed to be at risk of default if the discounted projected repayment amounts and interest payments are less than the carrying amount of the loans, taking collateral into account. Portfolio-based loan loss provisions are calculated using valuation models that estimate future expected cash flows from the loans in the applicable loan portfolio based on historical loan loss experience.

Risks relating to items off the statement of financial position are accounted for by recognizing provisions for guarantees in accordance with the prudence principle.

Investments and shares in affiliated companies

Equity participations and interests in affiliated companies are carried at cost unless sustained losses or reduced equity require them to be written down to their fair value. They are written up to no more than their cost of acquisition if the reasons for the long-term impairment no longer apply.

Equity participations and affiliated companies are valued at the end of each financial year by means of an impairment test. Their fair value is determined during the test.

Fair value is calculated using a dividend discount model. The dividend discount model properly accounts for the specific characteristics of the banking business, including the need to comply with capital adequacy regulations. The recoverable amount is considered to be the present value of the expected future dividends that may be distributed to the shareholders after meeting all appropriate capital adequacy regulations.

The recoverable amount is calculated based on a five-year detailed planning period. The sustainable future (permanent dividend phase) is based on a going concern assumption (perpetuity). In most cases, the income used for the valuation is assumed to grow at a country-specific nominal rate based on the projected long-term inflation rate. If companies are significantly overcapitalized, an interim phase of five years is defined without extending the detailed planning phase. During this period, these companies can distribute full dividends without violating capital adequacy regulations. In the permanent dividend phase, earnings must be retained as the company grows in order to continue complying with capital adequacy regulations. Earnings retention is not required if no growth is expected in the permanent dividend phase.

In the permanent dividend phase, the model assumes a normalized, economically sustainable earnings situation in which the return on equity and the costs of equity capital converge.

Tangible and intangible fixed assets

Intangible fixed assets and tangible fixed assets are valued at acquisition or production cost less scheduled depreciation. Scheduled depreciation is on a straight-line basis (pro rata temporis). An impairment loss is recognized if an asset is permanently impaired.

Scheduled depreciation is based on the following periods of use (in years):

Useful life	Years	Useful life	Years
Buildings	50	Software	4 to 10
Office equipment	3 to 5	Hardware	3
Office fixtures and fittings	5 to 10	Business equipment	5 to 10
Vehicles	5	Tenancy rights	10

Low-value fixed assets are written off in full in the year of acquisition.

Deferred taxes

Deferred tax assets are recognized based on asset-side temporary differences or tax loss carryforwards wherever it appears likely that they will be used within a reasonable time period. There were no liability-side temporary differences that could have been set off against the asset-side temporary differences in the financial year.

Issuance expenses

Issuance and management fees and premiums or discounts for bonds issued are distributed over the given term of the obligation. Other issuance expenses are expensed immediately.

Pension and severance payment obligations

The provisions for pension and severance payment obligations are determined in accordance with IAS 19 – Employee Benefits – based on the projected unit credit method.

The actuarial calculation of pension obligations for active employees is based on an interest rate of 1.7 per cent (31/12/2016: 1.6 per cent) p.a. and an effective salary increase of 2.7 per cent (31/12/2016: 2.7 per cent) p.a. The parameters for retired employees are calculated using a capitalization rate of 1.7 per cent (31/12/2016: 1.6 per cent) p.a. and an expected increase in retirement benefits of 1.2 per cent (31/12/2016: 1.2 per cent) p.a., and in the case of pension commitments with existing reinsurance policies of 0.5 per cent

(31/12/2016: 0.5 per cent) p.a. The calculations are based on an assumed retirement age of 60 for women and 65 for men, subject to transitional statutory requirements and special arrangements contained in individual contracts.

The actuarial calculation of severance payment and long-service bonus obligations is based on an interest rate of 1.5 per cent (31/12/2016: 1.6 per cent) p.a. and an average salary increase of 2.7 per cent (31/12/2016: 2.7 per cent) p.a.

The basis for the calculation of provisions for pensions, severance payments and long-service bonuses is provided by AVÖ 2008-P Rechnungsgrundlagen für die Pensionsversicherung (Computational Framework for Pension Insurance) by Pagler & Pagler, using the variant for salaried employees.

Other provisions

Other provisions are recorded at the level at which they are likely to be required. They take into account all identifiable risks and liabilities, the level of which is not yet known. Long-term provisions were discounted at prevailing market interest rates in the reporting period. The interest rates ranged from 1.33 to 1.43 per cent, depending on the residual terms of the individual provisions. The rates used were the discount rates published by Deutsche Bundesbank pursuant to Section 253 (2) of the German Commercial Code (HGB).

Other provisions include provisions for bonuses for identified staff (pursuant to European Banking Authority CP 42, 46). RBI AG fulfills the obligations set forth in the Annex to Section 39b of the Austrian Banking Act (BWG) as follows: 60 per cent of the annual bonus is paid out 50 per cent as an upfront cash payment and 50 per cent by way of a phantom share plan with a retention period of one year. 40 per cent of the annual bonus is subject to a five-year deferral period and likewise paid out 50 per cent in cash and 50 per cent by way of the phantom share plan. The phantom shares are converted on allocation and payment each using the average price of the preceding financial year.

Liabilities

These are recognized at the higher of the nominal value or the repayment amount. Zero-coupon bonds, on the other hand, are recognized at their pro rata annual values.

Notes on the statement of financial position

Assets

Loans and advances

Breakdown of maturities

Loans and advances to credit institutions, loans and advances to customers and other assets break down by their residual terms as follows:

in € million	31/12/2017	31/12/2016
Loans and advances to credit institutions	9,013.1	9,739.5
Repayable on demand	1,911.7	1,786.0
Up to 3 months	2,919.5	3,230.9
More than 3 months, up to 1 year	1,098.5	1,104.6
More than 1 year, up to 5 years	1,595.9	2,513.5
More than 5 years	1,487.3	1,104.2
Loans and advances to customers	18,276.4	18,026.6
Repayable on demand	2,160.1	2,258.1
Up to 3 months	3,912.0	3,349.9
More than 3 months, up to 1 year	2,248.3	2,748.5
More than 1 year, up to 5 years	7,179.3	7,473.6
More than 5 years	2,776.7	2,196.5
Other assets	2,980.5	4,239.9
Up to 3 months	2,816.6	4,239.9
More than 3 months, up to 1 year	0.0	0.0
More than 1 year, up to 5 years	0.0	0.0
More than 5 years	163.9	0.0

Derivative financial instruments

Hedging relationships

Economic hedges with hedging periods up to 2048 existed as at 31 December 2017.

On the basis of clean prices, the positive market values of the hedging derivatives amounted to € 400.0 million at the reporting date (31/12/2016: € 559.5 million). The negative market values of the derivatives amounted to € 24.0 million (31/12/2016: € 86.5 million) as at 31 December 2017.

Interest rate management derivatives

As at 31 December 2017, a provision for impending losses of € 28.5 million (31/12/2016: € 37.5 million) was recognized for derivatives in connection with functional units. In the 2017 financial year, in this context € 2.1 million (2016: € 10.5 million) was allocated to the provision and € 11.1 million (2016: € 6.7 million) was released due to changes in market value of the functional units.

The portfolio-based management of functional units is summarized according to the strategy applied to manage interest risk for the currencies contained therein, with the positive and negative fair values shown below:

in € thousand	31/12/2017		31/12/2016		Valuation effect
	Positive values	Negative values	Positive values	Negative values	31/12/2017
CHF	2	0	13	0	(11)
CZK	3,217	(110)	327	(14)	2,794
EUR	71,533	(28,397)	86,921	(37,479)	(6,306)
HUF	504	0	239	0	265
JPY	0	0	1	0	(1)
PLN	10	0	15	0	(5)
RUB	116	0	359	0	(243)
USD	2,991	(4)	5,361	(35)	(2,339)
Total	78,373	(28,511)	93,236	(37,528)	(5,846)

The main factors driving the valuation result were the change in market value due to the change in the euro interest rate market, a reduction in business volume in USD and an increase in volume in CZK.

The following tables show the open forward transactions for the reporting year and the previous year:

31/12/2017		Nominal amount by maturity			Market value		
in € thousand	Up to 1 year	More than 1 year, up to 5 years	More than 5 years	Total	hereof trading book	positive	negative
Total	74,883,238	85,000,153	53,723,508	213,606,899	163,373,010	2,799,371	(2,207,672)
a) Interest rate contracts	28,594,476	74,504,908	51,952,246	155,051,629	113,815,739	1,998,639	(1,401,924)
OTC products							
Interest rate swaps	22,583,828	64,245,731	48,088,759	134,918,317	95,775,222	1,834,182	(1,301,143)
Floating Interest rate swaps	0	0	0	0	0	0	0
Interest rate futures	2,538,623	0	0	2,538,623	1,671,859	246	(297)
Interest rate options - buy	1,253,343	5,092,370	1,981,872	8,327,585	7,851,554	163,644	0
Interest rate options - sell	1,077,782	4,963,647	1,766,609	7,808,039	7,058,039	0	(100,296)
Other similar interest rate contracts	0	0	0	0	0	0	0
Exchange-traded products							
Interest rate futures	129,276	161,990	87,537	378,802	378,802	79	0
Interest rate options	1,011,624	41,170	27,469	1,080,263	1,080,263	488	(188)
b) Foreign exchange rate contracts	46,237,573	10,142,566	1,619,062	57,999,202	49,436,463	798,910	(800,193)
OTC products							
Cross-currency interest rate swaps	4,567,734	9,310,972	1,560,643	15,439,350	7,547,156	450,594	(439,595)
Forward foreign exchange contracts	39,172,187	723,747	58,419	39,954,352	39,283,807	322,187	(332,113)
Currency options - purchased	1,272,537	69,677	0	1,342,215	1,342,215	26,129	0
Currency options - sold	1,225,115	38,170	0	1,263,285	1,263,285	0	(28,485)
Other similar interest rate contracts	0	0	0	0	0	0	0
Exchange-traded products							
Currency contracts (futures)	0	0	0	0	0	0	0
Currency options	0	0	0	0	0	0	0
c) Securities-related transactions	47,020	208,510	68,400	323,930	22,470	1,714	(640)
OTC products							
Securities-related forward transactions	0	0	0	0	0	0	0
Equity/Index options - buy	38,785	205,510	68,400	312,695	11,235	1,714	0
Equity/Index options - sell	8,235	3,000	0	11,235	11,235	0	(640)
Exchange-traded products							
Equity/Index futures	0	0	0	0	0	0	0
Equity/Index options	0	0	0	0	0	0	0
d) Commodity contracts	0	0	0	0	0	0	0
e) Credit derivative contracts	4,169	144,169	83,800	232,138	98,338	108	(4,915)
OTC products							
Credit default swaps	4,169	144,169	83,800	232,138	98,338	108	(4,915)

31/12/2016		Nominal amount by maturity			hereof trading book	Market value	
in € thousand	Up to 1 year	More than 1 year, up to 5 years	More than 5 years	Total		positive	negative
Total	71,386,187	80,164,389	71,394,359	222,944,935	151,390,486	4,520,613	(3,697,565)
a) Interest rate contracts	29,563,963	67,924,229	52,695,132	150,183,324	107,675,775	3,160,097	(2,257,876)
OTC products							
Interest rate swaps	26,043,635	57,536,004	46,538,013	130,117,652	88,602,497	2,865,664	(2,026,423)
Floating Interest rate swaps	0	0	0	0	0	0	0
Interest rate futures	1,079,515	0	0	1,079,515	1,079,515	176	(197)
Interest rate options - buy	1,202,976	5,226,108	3,206,507	9,635,591	9,225,356	294,185	0
Interest rate options - sell	1,098,330	5,058,272	2,864,294	9,020,896	8,520,896	0	(231,161)
Other similar interest rate contracts	0	0	0	0	0	0	0
Exchange-traded products							
Interest rate futures	139,507	49,412	38,592	227,511	227,511	0	(95)
Interest rate options	0	54,433	47,726	102,159	20,000	72	0
b) Foreign exchange rate contracts	40,908,792	11,913,857	18,630,327	71,452,976	42,710,683	1,358,606	(1,438,475)
OTC products							
Cross-currency interest rate swaps	6,130,763	10,934,900	18,563,638	35,629,301	8,032,939	881,751	(953,675)
Forward foreign exchange contracts	32,835,701	910,662	66,689	33,813,052	32,667,120	461,724	(469,829)
Currency options - purchased	932,632	29,860	0	962,492	962,493	15,131	0
Currency options - sold	996,354	38,435	0	1,034,789	1,034,789	0	(14,946)
Other similar interest rate contracts	0	0	0	0	0	0	0
Exchange-traded products							
Currency contracts (futures)	13,342	0	0	13,342	13,342	0	(25)
Currency options	0	0	0	0	0	0	0
c) Securities-related transactions	17,895	240,560	68,900	327,355	22,748	1,262	(527)
OTC products							
Securities-related forward transactions	0	0	0	0	0	0	0
Equity/Index options -buy	8,374	237,560	68,900	314,834	11,374	1,262	0
Equity/Index options -sell	9,521	3,000	0	12,521	11,374	0	(527)
Exchange-traded products							
Equity/Index futures	0	0	0	0	0	0	0
Equity/Index options	0	0	0	0	0	0	0
d) Commodity contracts	0	0	0	0	0	0	0
e) Credit derivative contracts	895,537	85,743	0	981,280	981,280	648	(687)
OTC products							
Credit default swaps	895,537	85,743	0	981,280	981,280	648	(687)

The following derivatives shown in the list of open forward transactions are recognized at fair value in the statement of financial position:

Derivatives in € million	Positive fair values		Negative fair values	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Derivatives in the trading book				
a) Interest rate contracts	1,369.9	2,210.4	1,000.8	1,743.2
b) Foreign exchange rate contracts	554.5	829.6	591.6	834.2
c) Share and index contracts	0.6	0.4	0.6	0.5
d) Credit derivatives	0.1	0.7	2.5	0.7

Securities

Debt securities and other fixed-income securities amounting to € 489.6 million (31/12/2016: € 202.5 million) will mature next financial year.

The table below lists the securities admitted to stock exchange trading (asset side), broken down into listed and unlisted securities (amounts incl. interest accrued):

Securities in € million	Listed	Unlisted	Listed	Unlisted
	31/12/2017	31/12/2017	31/12/2016	31/12/2016
Debt securities and other fixed-income securities	2,410.4	22.5	1,613.2	0.0
Shares and other variable-yield securities	8.5	0.0	8.4	0.0

The table below lists securities admitted to stock exchange trading (asset side) measured as fixed assets or current assets (including trading portfolio):

Securities in € million	Fixed assets	Current assets	Fixed assets	Current assets
	31/12/2017	31/12/2017	31/12/2016	31/12/2016
Debt securities and other fixed-income securities	1,541.5	891.4	982.2	631.0
Shares and other variable-yield securities	0.0	8.5	0.0	8.4

The following table shows the sale of fixed asset securities, including € 1,089.2 million in principal repayments (31/12/2016: € 553.1 million).

Balance sheet item in € million	Nominal amount	Net gain	Nominal amount	Net gain
	31/12/2017	31/12/2017	31/12/2016	31/12/2016
Treasury bills and other bills eligible for refinancing with central banks	800.0	0.6	493.3	12.7
Loans and advances to credit institutions	26.2	0.1	56.8	0.0
Loans and advances to customers	75.0	(0.4)	15.5	1.4
Debt securities and other fixed-income securities	298.3	0.4	200.3	1.0
Total	1,199.5	0.6	766.0	15.2

Difference between the acquisition cost and the repayment amount for securities (except zero-coupon bonds) in the investment portfolio (banking book):

The difference between the amortized costs and the repayment amounts is made up of € 138.9 million (31/12/2016: € 33.2 million) to be recognized in the future as expenditure and € 3.3 million (31/12/2016: € 1.2 million) to be recognized as income.

In the case of securities admitted to stock exchange trading and recognized at fair value that do not have the characteristics of financial investments, the difference between the acquisition cost and the higher fair value is € 2.9 million (31/12/2016: € 3.2 million) pursuant to Section 56 (4) of the Austrian Banking Act (BWG) and € 1.9 million (31/12/2016: € 2.2 million) pursuant to Section 56 (5) of the Austrian Banking Act (BWG).

The item loans and advances to credit institutions contains own bonds that are not admitted for public trading in an amount of € 7.4 million (31/12/2016: € 8.4 million).

Securities amounting to € 251.9 million (31/12/2016: € 239.7 million) are the subject of genuine repurchase transactions on the reporting date, whereby RBI AG is the seller and the securities continue to be recognized on the statement of financial position.

The volume of RBI's trading book pursuant to Article 103 CRR is € 164,326.8 million (31/12/2016: € 152,151.1 million), with € 944.7 million (31/12/2016: € 1,028.5 million) accounted for by securities and € 163,382.1 million (31/12/2016: € 151,122.6 million) accounted for by other financial instruments.

The fair value is lower than the carrying amount for the following financial instruments that are reported as financial investments:

Financial investments		Carrying amount	Fair value	Carrying amount	Fair value
in € million		31/12/2017	31/12/2017	31/12/2016	31/12/2016
1.	Treasury bills and other bills eligible for refinancing with central bank	266.7	265.9	26.1	26.0
2.	Loans and advances to credit institutions	0.0	0.0	30.7	28.7
3.	Loans and advances to customers	87.8	87.8	156.9	156.1
4.	Debt securities and other fixed-income securities				
	a) issued by public bodies	226.5	225.2	132.5	132.1
	b) issued by other borrowers	314.4	312.5	277.2	276.3
5.	Shares and other variable-yield securities	0.0	0.0	70.0	59.5
Total		895.5	891.4	693.4	678.8

An impairment (in accordance with Section 204 (2) 2 of the Austrian Commercial Code (UGB)) is not accounted for as the assessment of the credit rating of the security borrower is such that scheduled interest payments and repayments are expected to be made.

Investments and shares in affiliated companies

There are cross shareholdings with Raiffeisenlandesbank Kärnten - Rechenzentrum und Revisionsverband, registrierte Genossenschaft mbH, UNIQA Insurance Group AG, Vienna, and Posojilnica Bank eGen, Klagenfurt, (formerly ZVEZA Bank). There are no profit and loss transfer agreements as at 31 December 2017.

In the past, transactions to hedge the currency risk arising from the local currency denominated equity of the following companies were concluded:

- Raiffeisen Bank Polska S.A., Warsaw
- Ukrainian Processing Center JSC, Kiev
- VAT Raiffeisen Bank Aval, Kiev

The following table lists the affiliated companies:

Company, registered office (country)	Total nominal value	Exchange	Direct share of RBI	Equity in € thousand	Result in € thousand ¹	From annual financial statements ²
Angaga Handels- und Beteiligungs GmbH, Vienna	35,000	EUR	100%	19	(6)	31/12/2016
AO Raiffeisenbank, Moscow ³	36,711,260,000	RUB	100%	1,658,483	432,035	31/12/2017
BAILE Handels- und Beteiligungsgesellschaft m.b.H., Vienna ²	40,000	EUR	100%	231,026	991	31/12/2017
BUXUS Handels- und Beteiligungs GmbH in Liqu., Vienna	35,000	EUR	100%	8	(6)	31/12/2016
Centralised Raiffeisen International Services & Payments S.R.L., Bukarest	2,820,000	RON	100%	7,161	2,553	31/12/2016
Eastern European Invest Holding GmbH in Liqu., Vienna	35,000	EUR	100%	8,126	8,021	31/12/2016
Extra Year Investments Limited, Tortola	50,000	USD	100%	3	(3)	31/12/2010
FARIO Handels- und Beteiligungsgesellschaft m.b.H., Vienna	40,000	EUR	100%	6,991	33	31/12/2016
Golden Rainbow International Limited, Tortola	1	USD	100%	4,625	(14)	31/12/2016
Kathrein Privatbank Aktiengesellschaft, Vienna ²	20,000,000	EUR	0%	31,414	(5,052)	31/12/2017
KAURI Handels und Beteiligungs GmbH, Vienna ²	50,000	EUR	88%	6,940	(9)	31/12/2017
KIWANDA Handels- und Beteiligungs GmbH in Liqu., Vienna	35,000	EUR	100%	9	(6)	31/12/2016
LOTA Handels- und Beteiligungs-GmbH, Vienna	35,000	EUR	100%	930	87	31/12/2016
NAURU Handels- und Beteiligungs GmbH, Vienna	35,000	EUR	100%	114	(6)	31/12/2016
P & C Beteiligungs Gesellschaft m.b.H., Vienna	36,336	EUR	100%	12	(1,456)	31/12/2016
R.B.T. Beteiligungsges.m.b.H., Vienna	36,336	EUR	100%	39,289	39,253	31/10/2016
R.L.H. Holding GmbH, Vienna	35,000	EUR	100%	4,530	771	31/12/2016
R.P.I. Handels- und Beteiligungsges.m.b.H., Vienna ²	36,336	EUR	100%	258	(13)	31/12/2017
Raiffeisen Bank Aval JSC, Kiev ³	6,154,516,258	UAH	68%	319,405	147,659	31/12/2017
Raiffeisen Bank Polska S.A., Warschau ³	2,256,683,400	PLN	100%	1,554,333	49,222	31/12/2017
Raiffeisen Investment Advisory GmbH, Vienna	730,000	EUR	100%	545	(799)	31/12/2016
Raiffeisen RS Beteiligungs GmbH, Vienna ²	35,000	EUR	100%	5,010,991	912,266	31/12/2017
RBI Group IT GmbH, Vienna	100,000	EUR	100%	108	8	31/12/2016

¹ The result (in part from the consolidated financial statements) in € thousand corresponds to the annual profit/loss; equity is reported in accordance with Section 224 (3) lit a UGB including untaxed reserves (lit b).

² Equity and result reported in accordance with IFRS (fully consolidated domestic entities)

³ Equity and result reported in accordance with IFRS (fully consolidated foreign entities)

Company, registered office (country)	Total nominal value	Exchange	Direct share of RBI	Equity in € thousand	Result in € thousand ¹	From annual financial statements ²
RALT Raiffeisen Leasing Ges.m.b.H, Vienna ²	218,500	EUR	100%	41,647	1,062	31/12/2017
RALT Raiffeisen-Leasing GmbH & Co. KG, Vienna ²	20,348,394	EUR	97%	52,406	4,590	31/12/2017
RB International Finance (Hong Kong) Ltd., Hong Kong ³	10,000,000	HKD	100%	12,330	(3,193)	31/12/2017
RB International Investment Asia Limited, Labuan	1	EUR	100%	(1,606)	(10,399)	31/12/2016
RB International Markets (USA) LLC, New York ³	8,000,000	USD	100%	9,882	589	31/12/2017
RBI KI Beteiligungs GmbH, Vienna ²	48,000	EUR	100%	(128)	(169)	31/12/2017
RBI LEA Beteiligungs GmbH, Vienna ²	70,000	EUR	100%	131,323	9,993	31/12/2017
RBI PE Handels- und Beteiligungs GmbH, Vienna ²	150,000	EUR	100%	13,776	363	31/12/2017
Regional Card Processing Center s.r.o., Bratislava ³	539,465	EUR	100%	7,120	990	31/12/2017
RL Leasing Gesellschaft m.b.H., Eschborn	25,565	EUR	25%	2,432	301	31/12/2016
RZB Finance (Jersey) III Ltd, JE-St. Helier ³	1,000	EUR	100%	135	(23)	31/12/2017
RBI IB Beteiligungs GmbH, Vienna ²	35,000	EUR	100%	23,690	1,384	31/12/2017
RZB-BLS Holding GmbH, Vienna ²	500,000	EUR	100%	402,455	422,638	31/12/2017
RZB-Invest Holding GmbH, Vienna ²	500,000	EUR	100%	838,380	10,298	31/12/2017
Salvelinus Handels- und Beteiligungsges.m.b.H., Vienna ²	40,000	EUR	100%	361,576	27,028	30/06/2017
Ukrainian Processing Center PJSC, Kiev ³	180,000	UAH	100%	11,012	4,805	31/12/2017
ZHS Office- & Facilitymanagement GmbH, Vienna	36,336	EUR	1%	275	(66)	31/12/2017

1 The result (in part from the consolidated financial statements) in € thousand corresponds to the annual profit/loss; equity is reported in accordance with Section 224 (3) lit a UGB including untaxed reserves (lit b).

2 Equity and result reported in accordance with IFRS (fully consolidated domestic entities)

3 Equity and result reported in accordance with IFRS (fully consolidated foreign entities)

Fixed assets

The land value of developed land amounts to € 0.1 million (31/12/2016: € 0.0 million).

RBI AG was not directly involved in the leasing business as a lessor in 2017.

Obligations from the use of tangible fixed assets not reported on the statement of financial position amount to € 32.3 million (31/12/2016: € 30.0 million) for the following financial year, of which € 30.3 million were owed to affiliated companies (31/12/2016: € 24.4 million). The total amount of obligations for the following five years amounts to € 168.3 million (31/12/2016: € 154.5 million), of which € 157.5 million are owed to affiliated companies (31/12/2016: € 125.5 million).

The intangible fixed assets item includes € 0.0 million (31/12/2016: € 0.2 million) of intangible fixed assets acquired from affiliated companies.

The following tables show the changes in fixed assets:

in € thousand		Cost of acquisition or conversion						
Item	Description of fixed assets	As at 1/1/2017	Additions due to merger	Exchange differences	Additions	Disposals	Reclassi- fication	As at 31/12/2017
		1	2	3	4	5	6	7
1.	Treasury bills and other bills eligible for refinancing with central banks	1,888,411	3,891,319	(3,153)	31,685	(742,526)	144,346	5,210,083
2.	Loans and advances to credit institutions	56,385	0	(3,094)	0	(23,010)	0	30,282
3.	Loans and advances to customers	280,658	0	0	198,678	(123,056)	0	356,280
4.	Debt securities and other fixed-income securities	1,002,100	816,360	(63,076)	100,882	(148,115)	(144,346)	1,563,805
a)	issued by public bodies	229,129	0	(27,741)	45,532	(20,753)	0	226,167
b)	issued by other borrowers	772,971	816,360	(35,335)	55,350	(127,362)	(144,346)	1,337,638
5.	Shares and other variable-yield securities	90,000	0	0	18,900	0	0	108,900
6.	Participating interests	29,060	66,868	0	3,456	(675)	0	98,709
7.	Shares in affiliated undertakings	10,076,292	2,531,544	0	1,611,139	(29,349)	0	14,189,626
8.	Intangible fixed assets	192,408	1,845	(4)	5,303	(5,066)	0	194,486
9.	Tangible assets	21,982	7,446	(260)	1,162	(2,008)	0	28,322
10.	Other assets	0	116	0	0	0	0	116
Total		13,637,296	7,315,499	(69,586)	1,971,206	(1,073,804)	0	21,780,610

in € thousand		Writing up/depreciation/revaluation							Carrying amount	
Item	Cumulative depreciation as of 1/1/2017	Additions due to merger	Exchange differences	Cumulative depreciation and amortization disposal	Write-ups	Depreciation	Reclassification	Cumulative depreciation as of 31/12/2017	31/12/2017	31/12/2016
	8	9	10	11	12	13	14	15	16	17
1.	(38,002)	(57,604)	(3)	17,502	503	(44,190)	167	(121,628)	5,088,456	1,850,409
2.	(19,150)	0	2,336	16,874	27	0	0	86	30,368	37,234
3.	(3,027)	0	0	334	683	(323)	0	(2,334)	353,946	277,631
4.	(23,683)	(2,216)	(19)	1,560	1,579	(4,100)	(167)	(27,046)	1,536,759	978,417
a)	239	0	(29)	(92)	292	(35)	0	375	226,542	229,368
b)	(23,922)	(2,216)	10	1,652	1,287	(4,065)	(167)	(27,421)	1,310,217	749,049
5.	0	0	0	0	0	0	0	0	108,900	90,000
6.	(6,714)	(24,957)	0	298	155	(7,059)	0	(38,277)	60,432	22,346
7.	(2,096,031)	(707,316)	0	29,135	103,088	(220,391)	0	(2,891,516)	11,298,110	7,980,261
8.	(156,428)	(464)	4	3,950	0	(7,720)	0	(160,658)	33,829	35,980
9.	(16,340)	(2,857)	193	1,705	0	(1,948)	0	(19,247)	9,075	5,642
10.	0	0	0	0	0	0	0	0	116	0
(2,359,376)		(795,413)	2,511	71,358	106,034	(285,732)	0	(3,260,618)	18,519,991	11,277,919

Other assets

As at 31 December 2017, other assets totaled € 2,980.5 million (31/12/2016: € 4,239.9 million). This item also contains loans and advances from treasury transactions (positive market values arising from derivatives in the trading book, as well as accrued interest from derivatives in the banking book – for details, refer to the table on open forward transactions) in the amount of € 2,149.8 million (31/12/2016: € 3,321.1 million). This item also includes loans and advances (special fund) to the Austrian Raiffeisen Deposit Guarantee scheme (ÖRE) relating to the Federal IPS contribution of € 163.9 million (31/12/2016: € 0.0 million), loans and advances to the tax administration in the amount of € 128.1 million (31/12/2016: € 5.4 million), holdings of precious metals in coin and other forms in the amount of € 111.8 million (31/12/2016: € 87.0 million), loans and advances to Group members arising from tax transfers in the amount of € 41.3 million (31/12/2016: € 0.0 million) and dividends receivable totaling € 40.2 million (31/12/2016: € 561.8 million).

The other assets also contain income of € 265.1 million (2016: € 841.8 million) which is not payable until after the reporting date.

Deferred tax assets

The statement of financial position contains deferred tax assets of € 0.8 million (31/12/2016: € 0.0 million) resulting solely from the assumption of deferred tax assets held by RB International Finance (USA), LLC, which was liquidated in the financial year, that were related to tax loss carryforwards that can be claimed against the US tax authorities. No deferred tax assets were recognized based on the asset-side temporary differences of € 313.7 million (31.12.2016: € 317.6 million) or the domestic tax loss carryforwards of € 1,809.4 (31.12.2016: € 1,141.3) because it currently appears unlikely that they will be used within a reasonable time period. There were no liability-side temporary differences that could have been set off against the asset-side temporary differences in the financial year.

Subordinated assets

Subordinated assets contained under assets:

in € million	31/12/2017	31/12/2016
Loans and advances to credit institutions	1,806.1	1,718.0
hereof to affiliated companies	1,757.4	1,716.4
hereof to companies linked by virtue of a participating interest	16.7	1.6
Loans and advances to customers	134.1	174.0
hereof to affiliated companies	26.1	6.3
hereof to companies linked by virtue of a participating interest	0.0	0.0
Debt securities and other fixed-income securities	11.8	27.0
hereof from affiliated companies	1.8	0.0
hereof from companies linked by virtue of a participating interest	0.0	0.0
Shares and other variable-yield securities	148.7	95.6
hereof from affiliated companies	126.1	72.9
hereof from companies linked by virtue of a participating interest	0.0	2.2

Restrictions related to asset availability

As at the reporting date, there were restrictions related to asset availability (in accordance with Section 64 (1) 8 BWG):

in € million	31/12/2017	31/12/2016
Indemnification for securities lending transactions	932.7	1,146.7
Loans assigned to Oesterreichische Kontrollbank (OeKB)	1,470.7	1,660.0
Loans assigned to European Investment Bank (EIB)	178.9	238.9
Loans assigned to Kreditanstalt für Wiederaufbau (KfW)	14.7	15.9
Loans assigned to Swedish Export Corporation (SEK)	34.9	56.2
Loans assigned to Euler Hermes	0.3	43.9
Institutional Protection Scheme	163.9	0.0
Margin requirements	39.4	37.0
Treasury call deposits for contractual netting agreements	721.6	1,175.9
Total	3,557.0	4,374.5

In addition, assets with usage restrictions in an amount of € 1,472.5 million (31/12/2016: € 1,430.2 million) exist for covered bonds which have been established but not yet issued.

Asset items for affiliated companies and companies linked by virtue of a participating interest

Loans and advances as well as debt securities and other fixed-income securities to and from affiliated companies and companies linked by virtue of a participating interest:

in € million	31/12/2017	31/12/2016
Loans and advances to credit institutions		
to affiliated companies	4,009.6	4,386.4
To companies linked by virtue of a participating interest	259.2	183.2
Loans and advances to customers		
to affiliated companies	1,879.4	2,011.8
To companies linked by virtue of a participating interest	114.0	109.1
Debt securities and other fixed-income securities		
from affiliated companies	0.0	17.2
from companies linked by virtue of a participating interest	0.0	0.0

Equity and liabilities

Liabilities

Breakdown of maturities

Liabilities to credit institutions, liabilities to customers, securitized liabilities and other liabilities break down by their residual terms as follows:

in € million	31/12/2017	31/12/2016
Liabilities to credit institutions	23,863.2	13,377.3
Repayable on demand	2,819.4	2,942.9
Up to 3 months	11,818.8	3,544.2
More than 3 months, up to 1 year	1,199.5	1,725.3
More than 1 year, up to 5 years	6,092.5	3,328.4
More than 5 years	1,933.1	1,836.6
Liabilities to customers (non-banks)	13,166.0	13,638.3
Repayable on demand	4,782.4	4,705.3
Up to 3 months	2,581.0	4,099.1
More than 3 months, up to 1 year	4,580.1	2,861.4
More than 1 year, up to 5 years	308.1	550.3
More than 5 years	914.4	1,422.3
Securitised liabilities	3,149.7	4,939.9
Up to 3 months	307.0	295.7
More than 3 months, up to 1 year	986.2	1,690.5
More than 1 year, up to 5 years	1,382.8	2,317.5
More than 5 years	473.7	636.2
Other liabilities	2,552.7	3,597.3
Up to 3 months	2,552.7	3,597.3
More than 3 months, up to 1 year	0.0	0.0
More than 1 year, up to 5 years	0.0	0.0
More than 5 years	0.0	0.0

Bonds and notes issued amounting to € 1,056.3 million (31/12/2016: € 1,553.9 million) will become due in next financial year.

Liabilities to affiliated companies and companies linked by virtue of a participating interest:

in € million	31/12/2017	31/12/2016
Liabilities to credit institutions		
from affiliated companies	3,735.2	3,917.7
from companies linked by virtue of a participating interest	3,287.4	568.5
Liabilities to customers (non-banks)		
from affiliated companies	2,781.5	1,781.5
from companies linked by virtue of a participating interest	101.0	77.3

Other liabilities

As at 31 December 2017, other liabilities amounted to € 2,552.7 million (31/12/2016: € 3,597.3 million). This item also contains liabilities from treasury transactions (primarily negative market values arising from derivatives in the trading book, as well as accrued interest from derivatives in the banking book – for details, refer to the table on open forward transactions) in the amount of € 1,692.9 million (31/12/2016: € 2,807.8 million) and liabilities of € 49.1 million (31/12/2016: € 77.2 million) from short positions in bonds. The fair market value of the hedges for capital guarantees for funds is € 97.6 million (31/12/2016: € 118.0 million). The item also includes accrued interest for additional capital of € 279.7 million (31/12/2016: € 251.8 million), liabilities from tax transfers (corporate income tax) and liabilities from creditable capital yields and withholding tax toward Group members totaling € 37.6 million (31/12/2016: € 0.0 million).

The other liabilities also contain expenses in the amount of € 385.1 million (2016: € 481.8 million), for which payment is to be made after the reporting date.

Provisions

Provisions amount to € 57.4 million (31/12/2016: € 55.8 million) for severance payments, € 69.3 million (31/12/2016: € 28.3 million) for pensions, € 5.7 million (31/12/2016: € 23.7 million) for tax provisions, and € 195.0 million (31/12/2016: € 258.0 million) for other provisions. Reinsurance policies are in place in the amount of € 14.4 million (31/12/2016: € 15.2 million) for pension provisions. Pension claims of the same amount are reported under other assets.

Tax provisions of € 5.7 million amount to € 4.3 million (31/12/2016: € 13.3 million) for corporate income tax, € 1.3 million (31/12/2016: € 0.0 million) for income tax in the US and € 0.1 million (31/12/2016: € 0.1 million) for income tax at the branches in Frankfurt and Singapore. The decline in other provisions mainly resulted from the complete use and release of provisions for additional funding obligations for equity interests and affiliated enterprises.

Other provisions in € million	31/12/2017	31/12/2016
Provisions for bonus payments	39.3	27.4
Provisions for losses on bankbook interest rate derivatives	28.5	37.5
Provisions for participations and affiliated enterprises	0.0	76.2
Provisions for process risks	31.8	53.1
Provisions for audit costs	0.7	0.9
Provisions for anniversary payments	18.8	15.4
Provisions for overdue vacation	17.7	13.6
Provisions for guarantee loans	49.2	22.9
Provisions for Supervisory Board fees	0.6	0.6
Provisions for other expenses/outstanding invoices	5.0	7.6
Provisions for restructuring costs	2.0	0.6
Provisions for operational risk/losses/other	1.4	2.2
Total	195.0	258.0

Tier 2 capital according to Part Two, Title I, Chapter 4 of Regulation (EU) No. 575/2013

As at 31 December 2017, tier 2 capital amounts to € 3,277,148,924.67 (31/12/2016: € 3,346,003 thousand).

Company tier 2 capital according to CRR:

in € million	31/12/2017	31/12/2016
6,625 % RBI bonds 2011-2021	1.4	0.2
5.875 % RBI debt securities issued 2023-2023	3.6	0.5
6 % RBI debt securities issued 2013-2023	2.4	0.4
RBI bonds 2014-2025	1.8	1.0
RBI bonds 2013-2024	0.1	0.0

In the reporting year issuances in the amount of € 5.7 million (2016: € 11.1 million) were redeemed. A loss of € 1.4 million (2016: loss of € 0.3 million) including the release of the corresponding hedging transaction was booked.

Subordinated liabilities

List of subordinated loans (including tier 2 capital) that exceed 10 per cent of the total subordinated liabilities of € 3,277.1 million (i.e. that exceed € 327.7 million):

Name	Nominal value in € million	Maturity date	Interest rate
Subordinated Notes 2025 Serie 56	500	21/2/2015	4,500%
Subordinated Notes 2023 Serie 45	500	16/10/2023	6,000%
Subordinated Notes 2021 Serie 4	500	18/5/2021	6,625%

Expenses for subordinated liabilities

The expenses for subordinated liabilities in the financial year amount to € 180.8 million (2016: € 183.8 million).

Additional tier 1 capital according to Part Two, Title I, Chapter 3 of Regulation (EU) No 575/2013

RBI AG issued additional tier 1 capital with a nominal value of € 650.0 million on 5 July 2017. The coupon is 6.125 per cent until 15 December 2022, after which it will be reset. Semi-annual coupon payments on scheduled coupon dates on 15 June and 15 December are discretionary. As of 31 December 2017, the additional tier 1 capital, plus accrued interest, amounts to € 651,859,375.0 (31/12/2016: € 0 thousand). The discount of € 4.3 million is carried as a deferred expense until the first call date on 15 December 2022.

Total amount of assets and liabilities in foreign currency:

in € million	31/12/2017	31/12/2016
Assets in foreign currency	11,768.7	11,354.6
Liabilities in foreign currency	9,483.6	8,839.2

Equity

Subscribed capital

In the course of the RBI AG capital increase in March 2017, the shareholders of RZB AG were given new shares by way of consideration for the assets transferred in the merger. Issuing these new no-par-value bearer shares increased the nominal capital of RBI AG to € 1,003,266 thousand (31/12/2016: € 893,586 thousand). Following the capital increase, the nominal capital consists of 328,939,621 no-par-value shares (bearer shares). After deduction of 394,942 own shares, the stated subscribed capital totaled € 1,002,061 thousand. (31/12/2016: € 892,031 thousand).)

Own shares

The Annual General Meeting held on 16 June 2016 authorized the Management Board to acquire own shares, pursuant to Section 65 (1) 8 and Subsections (1a) and (1b) of the Austrian Stock Corporation Act (AktG), during a period of 30 months as of the date of the resolution (i.e. by 15 December 2018), up to 10 per cent of the subscribed capital of the company and to withdraw them if applicable. This authorization may be exercised in full or in part or also in several installments and for one or more purposes – with the exception of securities trading – by the company, by a subsidiary (Section 189a 7 of the Austrian Commercial Code (UGB)) or, for their account, by third parties. The acquisition price for repurchasing the shares may be no lower than € 1.00 per share and no higher than 10 per cent above the average unweighted closing price over the ten trading days prior to exercising this authorization. The Management Board was further authorized pursuant to Section 65 (1b) of the Austrian Stock Corporation Act (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. Shareholders' subscription rights may only be excluded if the own shares are used to pay for a contribution in kind, to acquire enterprises, businesses, branches of activity or shares in one or several companies in Austria or abroad, or for the purpose of implementing the company's Share Incentive Program (SIP) for executives and members of the Management Boards of the company and affiliated enterprises. In addition, if convertible bonds are issued in accordance with the Annual General Meeting resolution of 26 June 2013, shareholders' subscription rights may also be excluded in order to issue (own) shares to the holders of these convertible bonds who exercise the conversion or subscription rights granted them under the terms of the convertible bonds to shares of the company. This authorization applies for a period of five years from the date of the resolution (i.e. until 15 June 2021). No own shares have been bought since the authorization was issued in June 2016.

The acquisition of own shares mainly serves to cover the obligation of RBI AG within the framework of the share incentive program (SIP) towards the members of the Management Board and executive employees. These bonus payments are carried out in the form of company shares.

The Annual General Meeting held on 16 June 2016 also authorized the Management Board, in accordance with Section 65 (1) 7 of the Austrian Stock Corporation Act (AktG), to acquire 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 15 December 2018), of up to a maximum of 5 per cent of the respective subscribed capital of the company. 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. This authorization may be exercised in full or in part or also in several installments by the company, by a subsidiary (Section 189a 7 of the Austrian Commercial Code (UGB)) or, for their account, by third parties.

Authorized capital

Pursuant to Section 169 of the Austrian Stock Corporation Act (AktG), the Management Board has been authorized since the Annual General Meeting of 4 June 2014 to increase the capital stock - in one or more tranches - by up to € 446,793,032.95 subject to the approval of the Supervisory Board by issuing up to 146,489,519 new common bearer shares with voting rights against contributions in cash and/or in kind (including by way of the right of indirect subscription by a bank pursuant to Section 153 (6) of the Austrian Stock Corporation Act (AktG)) by 25 August 2019 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 by contributions in kind or (ii) if the capital increase is carried out by contributions in cash and the shares issued under the exclusion of subscription rights do not exceed 10 per cent of the company's capital stock (exclusion of subscription rights).

Convertible bonds

In the Annual General Meeting held on 26 June 2013, the Management Board was authorized pursuant to Section 174 (2) of the Austrian Stock Corporation Act (AktG) to issue – with the approval of the Supervisory Board – convertible bonds in a total nominal amount of up to € 2,000,000 thousand, also in several tranches, within five years from the date of the resolution, which grant holders conversion or subscription rights for up to 39,101,024 common bearer shares of the company with a pro-rata share

in the subscribed capital of up to € 119,258 thousand. Shareholders' subscription rights to the convertible bonds are excluded. However, no convertible bonds have been issued to date.

Contingent capital

Pursuant to Section 159 (2) 1 of the Austrian Stock Corporation Act (AktG), the subscribed capital has been increased contingently by a maximum of € 119,258 thousand by issuing a maximum of 39,101,024 common bearer shares (contingent capital). The contingent capital increase will only be performed if and when use is made of an irrevocable right of exchange or subscription granted on shares by the company to creditors holding convertible bonds issued on the basis of the resolution of the Annual General Meeting on 26 June 2013 and the Management Board does not decide to issue own shares.

Capital reserves

The committed capital reserves of € 4,334,507,788.51 (31/12/2016: € 4,334,859 thousand) and the uncommitted capital reserves of € 97,066,398.80 (31/12/2016: € 97,066 thousand) remained essentially unchanged over the entire financial year. The year-on-year change is the result of reducing committed capital reserves by € 350,856.75 due to the allocation of own shares in the SIP program.

In the previous year, an option reserve was set up in the amount of € 847,721.58 for obligations under the Share Incentive Program for which RBI holds no own shares. The entire amount of this reserve was released to profit and loss because RBI holds sufficient own shares to cover the still-existing Share Incentive Program (SIP).

Retained earnings

Retained earnings consist of legal reserves of € 5,500,000.00 (31/12/2016: € 5,500 thousand) and other free reserves amounting to € 1,471,980,437.19 (31/12/2016: € 1,281,432 thousand). A contribution of 170,759,819.10 (31/12/2016: € 0 thousand) was allocated to other reserves in the 2017 financial year as a reserve for the federal institutional protection scheme (Federal IPS) based on the agreement to establish an institutional protection scheme and a corresponding resolution by the Federal IPS Risk Council. € 129,780,547.62 of this amount was reallocated in the course of the merger with RZB AG. The remaining € 40,979,271.48 is for new provisioning in the financial year. The Federal IPS reserve is not eligible for inclusion in the calculation of own funds pursuant to CRR. An additional € 147,000,000.00 (31/12/2016: € 0 thousand) was allocated to other free reserves from the profit for the year after tax. The remaining change in other free reserves of € 2,569,624.27 is fully attributable to changes relating to the Share Incentive Program (SIP).

Liability reserves

As at 31 December 2017, liability reserves stood at € 535,097,489.59 (31/12/2016: € 383,015 thousand). The increase in liability reserves is attributable to the merger with RZB AG.

Additional notes

Notes on liability arrangements:

In the government-promoted, subsidized forward private planning scheme, RBI AG has issued capital guarantee obligations in accordance with Section 108h (1) 3 of the Income Tax Act (EStG). In this context, the bank guarantees that in the event of transferring the capital into a perpetual annuity the payment amount available for this annuity is not less than the sum of the contributions made by the taxpayer plus the premiums credited to this taxpayer pursuant to Section 108g EStG. As at 31 December 2017, the volume of these guarantees was € 1,273 million (31/12/2016: € 1,540 million).

RBI AG is a member of the *Raiffeisen-Kundengarantiegemeinschaft Österreich* (Deposit Guarantee Association of Austria). Members of the Association assume contractual liability under which they jointly guarantee the timely honoring of all customer deposits and securities issues of an insolvent member of the Association up to an amount equaling the sum of the individual financial strength of the other member institutions. The individual financial strength of a member institution is determined based on its available reserves, taking into account the relevant provisions of the Austrian Banking Act (BWG).

The liability was met by inserting a noted item of one euro off the statement of financial position, as it is not possible to determine the exact amount of RBI's potential liability in connection with the cross-guarantee system.

Like the other members of the Federal IPS, RBI AG signed a guarantee agreement with Posojilnica Bank regarding a loan portfolio (RBI's portion: around € 6.3 million). The guarantee can be called in until 30 June 2018. A provision was recognized for the full guarantee amount.

As at 31 December 2017, soft letters of comfort in the amount of € 418.7 million (31/12/2016: € 379.2 million) had been issued.

The volume of liabilities to affiliated companies amounted to € 101.9 million as at 31 December 2017 (31/12/2016: € 818.1 million).

Open capital commitments on share capital in the amount of € 5.6 million (31/12/2016: € 5.6 million) exist vis-à-vis European Investment Fund S.A., Luxembourg.

Contingent liabilities off the statement of financial position of RBI AG of € 5,936.9 million were reported as at 31 December 2017 (31/12/2016: € 5,087.3 million). Of that amount, € 5,153.7 million (31/12/2016: € 4,518.4 million) was attributable to guarantees and € 783.2 million (31/12/2016: € 568.9 million) to letters of credit.

As at 31 December 2017, € 13,003.0 million (31/12/2016: € 11,932.4 million) in credit risk was reported under liabilities off the statement of financial position. In the reporting year, this credit risk was fully attributable to unused, irrevocable credit lines.

There are no other transactions with material risks or benefits that are not reported on or off the statement of financial position.

Synthetic securitizations

In the financial year 2017 two synthetic transactions were terminated by RBI AG: ROOF Real Estate 2015, referencing real estate loans originated by RBI AG, and ROOF Infrastructure 2014 referencing a portfolio of corporate and project finance loans principally originated by RBI AG.

Total capital according to CCR

in € million	31/12/2017	31/12/2016
Paid-in capital	1,002	892
Less obligation to purchase own shares	(19)	0
Capital reserves and premium to CET1 instruments	4,432	4,433
Retained earnings and other reserves ¹	1,842	1,670
Common equity tier 1 (before deductions)	7,257	6,995
Net loss for the year	0	(567)
Intangible fixed assets/goodwill	(34)	(36)
Provision shortage for IRB positions	(103)	(104)
Deductions exceeding common equity tier 1	0	(35)
Deduction securitizations	0	(5)
Transitional adoptions for common equity tier 1	27	56
Common equity tier 1 (after deductions)	7,147	6,304
Additional tier 1	646	0
Less obligation to purchase own AT1	(20)	0
Transitional adoptions for common equity tier 1	(17)	0
Tier 1	7,756	6,304
Supplementary capital	2,971	3,178
Less own supplementary capital	(9)	(2)
Less obligation to purchase own supplementary capital	(31)	0
Provision excess of internal rating approach positions	57	111
Transitional adoptions for Supplementary Capital	(10)	(21)
Tier 2 (after deductions)	2,978	3,266
Total capital	10,734	9,570
Risk-weighted assets, total (assessment basis)	33,330	28,884
Common equity tier 1 capital ratio	21.4%	21.8%
Tier 1 capital ratio	23.3%	21.8%
Total capital ratio (transitional)	32.2%	33.1%
Common equity tier 1 capital ratio (fully loaded)	21.4%	21.8%
Total capital ratio (fully loaded)	32.2%	33.1%

¹ Minus Federal IPS reserve of € 170.8 million (31/12/2016: € 0.0 million)

in € million	31/12/2017	31/12/2016
Risk-weighted assets, total (assessment basis)	33,330	28,884
Total capital requirement for credit risk	2,291	2,003
Internal rating approach	1,512	1,490
Standardized approach	737	426
CVA risk	17	28
Basel I - Floor	25	59
Total capital requirement for position risk in bonds, equities, commodities and open currency positions	120	91
Total capital requirement for operational risk	255	217
Total capital requirement	2,666	2,311

Capital requirements

in € million	31/12/2017	31/12/2016
Capital requirement according to standardized approach	737	426
Banks	0	2
Corporate customers	2	2
Equity exposures	695	401
Other positions	40	21
Capital requirement according to internal rating approach	1,512	1,490
Central governments and central banks	2	3
Banks	247	335
Corporate customers	922	832
Equity exposures	334	307
Securitization position	7	13
CVA risk	17	28
Basel I - Floor	25	59
Total capital requirement for credit risk	2,291	2,003

Per cent	31/12/2017	31/12/2016
Leverage ratio (fully loaded)	10.2%	10.8%
Risk weighted assets in per cent of total assets	60.9%	63.0%

Notes to the income statement

Income by geographic market in accordance with Section 64 (1) 9 BWG

A regional allocation to segments according to the business outlets' registered offices results in the following distribution:

2017 in € million	Total	Austria	Western Europe	Asia
Interest receivable and similar income	810.7	803.9	0.0	6.8
hereof: from fixed-income securities	82.4	82.3	0.0	0.1
Income from variable-yield securities and participations	1,379.8	1,379.8	0.0	0.0
Commissions receivable	293.2	292.3	0.7	0.2
Net profit or net loss on financial operations	12.2	(1.2)	0.0	13.4
Other operating income	147.2	147.0	0.1	0.1

2016 in € million	Total	Austria	Western Europe	Asia
Interest receivable and similar income	885.4	855.5	0.0	29.9
hereof: from fixed-income securities	60.2	59.8	0.0	0.4
Income from variable-yield securities and participations	638.5	638.5	0.0	0.0
Commissions receivable	287.9	285.1	0.8	1.9
Net profit or net loss on financial operations	(17.9)	(4.3)	(0.1)	(13.5)
Other operating income	151.9	151.3	0.0	0.5

Negative interest rates

Due to the low interest rate situation prevailing in the financial year, an expense, resulting from negative interest for loans and advances, was shown in an amount of € 38.4 million (2016: € 16.3 million) in the item interest receivable and similar income. This contrasted with income of € 40.7 million (2016: € 18.8 million) resulting from negative interest for liabilities which was shown in the item interest payable and similar expenses. The larger volume is responsible for the increase in expense and income resulting from negative interest.

Other operating income

Other operating income includes staff and administrative expenses passed on for services in the amount of € 80.6 million (2016: € 87.8 million), income from releases of provisions for impending losses from derivatives in the amount of € 11.1 million (2016: € 6.7 million), as well as other income from the release of other provisions in the amount of € 8.8 million (2016: € 1.9 million).

Staff expenses

Expenses for severance payments and benefits for occupational employee pension funds include € 5.6 million (2016: € 12.7 million) in expenses for severance payments.

Other administrative expenses

The auditor expenses for the financial year, broken down by service, are presented in the consolidated financial statements.

Sundry operating expenses

The sundry operating expenses decreased € 26.2 million to € 38.8 million in 2017. This position includes allocations of € 2.1 million (2016: € 12.1 million) to provisions for impending losses on bank book derivatives.

Disposal and valuation of securities valued as financial investments and from shares in affiliated companies and equity participations

The item net income/expenses from the disposal and valuation of securities valued as financial investments and from shares in affiliated companies and equity participations included a write-up for Raiffeisen Bank Aval JSC, Kiev, (€ 69.7 million). It also included write-downs of the book values of Raiffeisen Bank Polska S.A., Warsaw (€ 105.5 million), and RZB-BLS Holding GmbH, Vienna (€ 21.0 million). In total, losses of € 56.0 million (2016: € 270.8 million) on the valuation of shares in affiliated companies and equity participations were reported.

Group taxation

Until the merger, the company was a member of the Raiffeisen Zentralbank Österreich Aktiengesellschaft, Vienna group of companies in accordance with Section 9 of the Corporation Tax Act (KStG). RBI AG became the group parent when it merged with RZB AG. As at 31 December 2017, 53 companies are members of the group of companies in accordance with Section 9 of the Corporation Tax Act (KStG).

Overall return on assets

The overall return on assets (net loss or profit after tax divided by the average total assets) in 2017 was 1.9 per cent (2016: 0.1 per cent).

Recommendation for the Appropriation of Profits

The Management Board of RBI AG will propose to the Annual General Meeting to pay a dividend of € 0.62 per share from the net profit shown in the 2017 annual financial statements. Since the new shares issued in the course of the merger with RZB AG are entitled to full dividend rights for the 2017 financial year, the total dividend paid based on shares issued would be no more than € 203,943 thousand.

Other

The company did not conclude any significant transactions with related companies or persons at unfair market conditions.

In the 2017 financial year the company had an average of 2,341 employees (2016: 2,099).

Expenses for severance payments and pensions broke down as follows:

in € thousand	Pension expenditure		Severance payments	
	2017	2016	2017	2016
Members of the managing board and senior staff	(85)	156	2,154	2,712
Employees	7,853	3,635	6,165	11,729
Total	7,768	3,791	8,319	14,441

The decrease of severance payments expense was based on high expenses for severance payments in the previous year, due to the reduction of business operations in Asia.

Management Board

The Management Board as at 31 December 2017 was as follows:

Members of the Management Board	First assignment	End of period
Johann Strobl, Chairman	22 September 2010 ¹	28 February 2022
Martin Grill	3 January 2005	28 February 2020
Andreas Gschwenter	1 July 2015	30 June 2018
Peter Lennkh	1 October 2004	31 December 2020
Hannes Mösenbacher	18 March 2017	28 February 2020

¹ Effective as of 10 October 2010

Karl Sevelde resigned as Chairman of the Management Board on 18 March 2017. At the same time, Johann Strobl was appointed Chairman of the Management Board (previously Deputy Chairman of the Management Board) and Klemens Breuer was appointed Deputy Chairman of the Management Board (previously member of the Management Board).

Klemens Breuer (Deputy Chairman of the Management Board) resigned from his position on 31 October 2017. The Working Committee temporarily reallocated responsibilities following his resignation. On 1 November 2017, Johann Strobl assumed responsibility for the Capital Markets area of the Management Board, while Peter Lennkh assumed responsibility for the Management Board area of Retail Banking. A new Deputy Chairman of the Management Board had not been appointed at the time this report was written.

Supervisory Board

The Supervisory Board as at 31 December 2017 was as follows:

Members of the Supervisory Board	First assignment	End of period
Erwin Hameseder, Chairman	8 July 2010 ¹	AGM 2020
Martin Schaller, 1st Deputy Chairman	4 June 2014	AGM 2019
Heinrich Schaller, 2nd Deputy Chairman	20 June 2012	AGM 2022
Klaus Buchleitner	26 June 2013	AGM 2020
Peter Gauper	22 June 2017	AGM 2022
Wilfried Hopfner	22 June 2007	AGM 2022
Rudolf Könighofer	22 June 2017	AGM 2022
Johannes Ortner	22 June 2017	AGM 2022
Günther Reibersdorfer	20 June 2012	AGM 2022
Eva Eberhartinger	22 June 2017	AGM 2022
Birgit Noggler	22 June 2017	AGM 2022
Bettina Selden	4 June 2014	AGM 2019
Rudolf Kortenhoef ²	10 October 2010	Until further notice
Peter Anzeletti-Reikl ²	10 October 2010	Until further notice
Susanne Unger ²	18 January 2012	Until further notice
Gebhard Muster ²	22 June 2017	Until further notice
Natalie Egger-Grunicke ²	18 February 2016	Until further notice
Helge Rechberger ²	10 October 2010	Until further notice

¹ Effective as of 10 October 2010

² Delegated by the Staff Council

Walter Rothensteiner (Chairman of the Supervisory Board) and Kurt Geiger (member of the Supervisory Board) resigned their Supervisory Board mandates with effect from the end of the Annual General Meeting on 22 June 2017. At the same time, Erwin Hameseder was appointed Chairman (previously 1st Deputy Chairman) and Martin Schaller was appointed 1st Deputy Chairman (previously 3rd Deputy Chairman).

Michael Höllner and Johannes Schuster (both members of the Supervisory Board) resigned their Supervisory Board mandates with effect as of 18 March 2017.

State Commissioners:

- Alfred Lejsek, State Commissioner (since 1 January 2011)
- Anton Matzinger, Deputy State Commissioner (since 1 April 2011)

Remuneration of the Management Board

The following remuneration was paid to the Management Board:

in € thousand	2017	2016
Fixed remunerations	4,571	5,017
Bonus (performance-based)	1,881	1,467
Share-based remuneration (performance-based)	694	220
Payments to pension funds and reinsurance policies	301	264
Other remunerations	2,438	2,192
Total	9,885	9,160
hereof remuneration of affiliated companies	2,309	2,084

The fixed remuneration shown in the table contains salaries and benefits in kind.

The performance-based components of the Management Board's remuneration cover bonus payments and share-based compensation under the Share Incentive Program (SIP) – payment of the 2012 tranche. The bonuses reported above are immediately payable bonus amounts for 2016 and deferred bonus amounts for previous years.

Bonus calculation is linked to the achievement of annually agreed objectives. These cover four or five categories and in addition to specific objectives, include financial objectives which are specifically adjusted to the respective function, such as profit after tax in a segment, return on risk adjusted capital (RORAC), total costs, risk-weighted assets, customer, employee and process/efficiency and infrastructure objectives, plus other objectives where applicable. The amount of the bonus depends on the consolidated profit and on the cost/income ratio, and the objectives are derived from the Group's target medium-term ROE. Payment is made according to the applicable regulations of the Austrian Banking Act (BWG) implemented in the internal regulations (see employee compensation plans in the section recognition and measurement principles).

Other remuneration covers remuneration for functions in the boards of affiliated subsidiaries, insurance policies and grants.

An amount of € 1,277 thousand (2016: € 511 thousand) was paid in pension benefits to former members of the Management Board and to their surviving dependants. In addition to these amounts, short-term benefits, deferred bonus components, termination benefits and pro-rata payments from a matured SIP tranche totaling € 3,892 thousand (2016: € 493 thousand) were paid to former members of the Management Board. Up to the termination of their functions at the date of the merger of RZB AG with RBI AG, former members of the Management Board of RZB AG were paid a total of € 2,252 thousand.

Share-based remuneration

In 2014, the share incentive program (SIP) was terminated due to regulatory complexities. The last tranches of the SIP were issued in 2011, in 2012 and in 2013. The respective duration periods are five years. Therefore, the 2012 tranche matured in 2017. In accordance with the terms and conditions of the program (published by euro adhoc on 27 June 2012), the number of shares actually transferred was as follows:

Share incentive program (SIP) 2012 Group of persons	Number of shares due	Value as at stock price € 20.955 on allocation day	Number of shares actually transferred
Members of the management board of the company	52,718	1,104,706	36,168
Members of the management boards of bank subsidiaries affiliated with the company	70,277	1,472,655	54,437
Executives of the company and other affiliated companies	36,129	757,083	24,430

To avoid legal uncertainties, eligible employees in three countries were given a cash settlement instead of an allocation of shares as permitted by the program terms and conditions. In Austria, eligible parties were granted the option of accepting a cash settlement in lieu of half of the shares due in order to offset the income tax payable at the time of transfer. Therefore, fewer shares were actually transferred than the number that were due. The portfolio of own shares was subsequently reduced by the lower number of shares actually transferred.

On the reporting date, contingent shares for the last 2013 tranche still outstanding were allocated. As at 31 December 2017, the number of these contingent shares was 321,268. The originally published number of contingently allotted shares changed due to various personnel changes within Group units. It is shown on an aggregated level in the following table:

Share incentive program (SIP) 2013 Group of persons	Number of contingently allotted shares as at 31/12/2017	Minimum of allotment of shares	Maximum of allotment of shares
Members of the management board of the company	92,895	27,869	139,343
Members of the management boards of bank subsidiaries affiliated with the company	153,235	45,971	229,853
Executives of the company and other affiliated companies	75,138	22,541	112,707

In the financial year 2017, no shares were bought back for the share incentive program.

Remuneration of members of the Supervisory Board

in € thousand	2017	2016
Remunerations Supervisory Board	550	525

The Annual General Meeting held on 22 June 2017 approved annual remuneration for the members of the Supervisory Board of € 550 thousand and assigned the distribution to the Board itself. The members of the Supervisory Board determined the distribution by resolution on 15 May 2017 under the condition of approval in the Annual General Meeting held on 22 June 2017 as follows: Chairman € 70 thousand, Deputy Chairman € 60 thousand, members of the Supervisory Board € 50 thousand. Meeting attendance fees are not paid.

In the financial year 2017 no contracts subject to approval within the meaning of Section 95 (5) item 12 Austrian Stock Corporation Act (AktG) were concluded with members of the Supervisory Board.

Events after the reporting date

Change to composition of the Management Board

At the end of October 2017, Klemens Breuer resigned from his position on the Management Board, where he was responsible for the areas of Capital Markets and Retail Banking, on personal grounds.

On 7 December 2017, the Supervisory Board appointed Andrii Stepanenko to the Management Board, subject to approval by the supervisory authority. Upon receiving approval, Andrii Stepanenko is expected to take over the Retail Banking area from Peter Lennkh in March 2018, who has been provisionally holding the position since the departure of Klemens Breuer.

On 15 January 2018, the Supervisory Board appointed Lukasz Januszweski to the Management Board, subject to approval by the supervisory authority. Upon receiving approval, Lukasz Januszweski is expected to take over the Capital Markets area from Johann Strobl in March 2018, who has been provisionally holding the position since the departure of Klemens Breuer.

Vienna, 27. February 2018

The Management Board



Johann Strobl



Martin Grill



Andreas Gschwenter



Peter Lennkh



Hannes Mösenbacher

Management report

Market development

Strong economic growth in the euro area amid low interest rates

The **European Central Bank** (ECB) left key rates unchanged in 2017, with a main refinancing rate at 0 per cent and a deposit facility rate at minus 0.4 per cent. After the first quarter of 2017, it reduced its monthly bond purchase volume from € 80 billion to € 60 billion on average per month. Euribor rates were in negative territory across all maturities for the year as a whole. Money market rates for maturities of 6 and 12 months also drifted marginally lower. The yield on two-year German government bonds initially reduced significantly, touching an all-time low of around minus 0.95 per cent in February before recovering again somewhat. The yield on 10-year German government bonds hovered mostly between 0.15 per cent and 0.50 per cent for the year as a whole, deviating from this range only briefly in July to reach a high of 0.65 per cent for 2017.

Euro area GDP growth was at 2.5 per cent for the full-year 2017. The acceleration in economic growth momentum, compared to the previous year, was seen across all countries. The recovery was mainly domestically driven and buoyed by all demand components (public and private sector consumption as well as investment demand). Labor market conditions have also improved considerably. The unemployment rate is maintaining a stable downtrend, however was still well above the last cyclical low by the end of the year. In contrast, employment has surpassed its high reached in 2008. By end-2017, many sentiment indicators were either close to or above previous historical highs. Sentiment has sharply improved among both private households and financial market participants. At the sector level, company survey results from service providers and retailers, as well as the industry and construction sectors, were also substantially more positive. In the first half of the year, inflation rates were heavily driven by calendar effects and by the oil price. This initially caused inflation to jump to 2.0 per cent. However, the oil price effect gradually reduced until mid-year. The inflation rate subsequently fluctuated between 1.3 per cent and 1.5 per cent.

The pickup in economic activity in Austria accelerated significantly in the reporting period: The GDP growth for 2017 at 2.9 per cent, was double that of the 2016 (1.5 per cent). The economic trend was broad based and supported by both domestic and export demand. The demand in private consumption remained strong and stable. The extremely strong equipment investment cycle continued and building investment increased. After slow growth in 2016, exports began to revive significantly and contributed significantly to net export figures despite imports also rising. The noticeable uptick in employment and slower rise in employment potential led to a decline in the unemployment rate, which was at 5.5 per cent (ILO definitions) for the full year 2017, and remained on its downward trend since 2011.

As so often was the case in recent years, the US economy got off to a weak start in 2017. Economic growth picked up noticeably later in the year, however, with real gross domestic product up an average 2.9 per cent (annualized) from the second to the fourth quarter. In addition to private consumption, gross fixed capital formation in particular enjoyed dynamic growth thanks to a higher oil price. The US economic output grew 2.3 per cent for full-year 2017.

In terms of economic growth, China surprised to the upside in 2017: The real GDP growth data released for the full year 2017 was at 6.9 per cent. Overall, the Chinese government succeeded in keeping the country's economic growth engine on track while curbing capital outflows and stabilizing the exchange rate; though signs of an imminent leveling off of economic growth momentum mounted towards the end of the year.

Strong growth in CE and SEE, moderate recovery in Russia

At the turn of 2016/2017, Central and Southeastern Europe (CE and SEE) saw inflation rates – in some cases negative – rise significantly, mainly driven by the positive trend in oil prices. As this leveled off again in the course of the year, however, overall inflation remained moderate. In 2017, inflation rates averaged 2.1 per cent in CE and 1.6 per cent in SEE. Consequently, inflation in 2017 only slightly raised the pressure to tighten monetary policy in the region. Key rate hikes in 2017 only occurred in the Czech Republic. In Romania, however, money market rates have already increased significantly and the Romanian central bank has already raised its deposit rates as a result.

The Central European region (CE) recorded stronger year-on-year economic growth in 2017, with GDP growth of 4.4 per cent, and was 1.6 percentage points above the previous year's level. The region benefited from strong economic growth in Germany, an ongoing recovery in the euro area, as well as expansionary monetary policies on the part of the ECB and CE central banks. Another factor was the step-up in investment activity from increased EU transfer payments in the region. Poland, the CE region's growth engine, gained considerable traction, posting 4.5 per cent year-on-year growth. Overall, the economic data indicates balanced growth with solid export and dynamic domestic economic activity.

In Southeastern Europe (SEE), the economy reported growth of 5.1 per cent year-on-year in 2017, which was at a level not seen in years. Although a portion of this was attributable to temporary factors, it nonetheless highlights the fact that the weak phase of previous years has been overcome. In particular, the Romanian economy's growth rate was once again significantly higher than in the previous year, increasing to 7.0 per cent. Its growth momentum was partly caused by fiscal easing in the form of tax cuts and by wage increases. As Romania's growth rate is considerably higher than its potential growth rate, it is seen as unsustainable. Bulgaria enjoyed GDP growth of 4.0 per cent, catching up somewhat with Romania. Although Serbia's growth disappointed in 2017, economic growth in Croatia came in stronger than expected.

Economic conditions in Eastern Europe (EE) continued to improve in 2017. Russia benefited from an oil price recovery relative to the previous year and private household demand also recovered again following an extended soft patch. Moreover, Moscow's prudent monetary and fiscal policy had a stabilizing effect, though failed to deliver any additional growth impetus. All in all, following stagnation in the previous year, Russia's economy returned to growth of 1.5 per cent in 2017, slightly higher than expected at the beginning of the year. Inflation in Russia continued to retreat significantly against the backdrop of a more stable currency and at the end of the year fell to the historic mark of 2.5 per cent. This allowed the Russian central bank to cautiously adjust its key rates downwards, albeit the interest rate level of 7.75 per cent at end-2017 is still very high. Ukraine's economy grew 2.2 per cent – a slightly slower rate than in the previous year – but continued its moderate recovery. Belarus' economy, which is heavily dependent on Russia, benefited from growth in Russia and ended its two-year recession.

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

Region/country	2016	2017e	2018f	2019f
Czech Republic	2.5	4.5	3.3	3.2
Hungary	2.2	4.0	3.8	3.2
Poland	2.9	4.5	4.6	3.9
Slovakia	3.3	3.4	4.0	4.0
Slovenia	3.1	4.8	3.8	2.8
Central Europe	2.8	4.4	4.1	3.6
Albania	3.4	3.8	4.0	3.8
Bosnia and Herzegovina	3.1	2.5	2.8	3.0
Bulgaria	3.9	4.0	4.2	4.0
Croatia	3.2	2.9	2.3	2.5
Kosovo	4.1	4.1	4.2	4.0
Romania	4.8	7.0	4.2	3.5
Serbia	2.8	1.8	2.5	2.5
Southeastern Europe	4.1	5.1	3.7	3.3
Belarus	(2.5)	2.4	2.5	2.0
Russia	(0.2)	1.5	1.5	1.5
Ukraine	2.3	2.2	2.5	3.0
Eastern Europe	(0.1)	1.6	1.6	1.6
Austria	1.5	2.9	2.8	1.9
Germany	1.9	2.5	2.2	1.6
Euro area	1.8	2.5	2.5	1.7

Banking sector in Austria

Supported by very positive macroeconomic developments, the banking sector in Austria gained considerable ground on the euro area in 2017 (above all in the corporate customer business) after somewhat below-average performance in the previous years. The profitability of Austria's banking sector increased markedly at a consolidated level. This was supported by CEE business, notably in the Czech Republic, Russia, Hungary and Slovakia. Similarly, adjustments carried out in recent years and efficiency-boosting programs are bearing fruit. Based on the positive overall market development, the Austrian banking sector markedly improved its capitalization relative to major Western European countries in 2017, and therefore its reported regulatory capital ratios are no longer below average by international standards. Capital requirements will gradually increase following the introduction of the systemic risk buffer and the buffer for Other Systemically Important Institutions (O-SIIs), which the Financial Market Stability Board (FMSB) has recommended. The reduction in the bank tax implemented in 2016 should also have a positive impact on the profitability of Austria's (major) banks in the following years.

Development of the banking sector in CEE

Multiple indicators in 2017 confirmed a significant recovery of the CEE banking sector relative to the partly still subdued development of the previous years. New lending and asset growth both continued to accelerate in some CE and SEE countries in 2017 (e.g. in the Czech Republic, Slovakia and Romania). Moreover, a greater number of banking markets (e.g. Hungary, Serbia, Croatia, and Bosnia and Herzegovina) participated in the overall positive regional trend, with significant asset growth reported virtually across the board. In Russia, banks with a sustainable business model benefited from an improving general market environment – despite a further market shakeout driven by the central bank. The necessary nationalization of two major banks in Russia, in the fall of 2017, had no impact either on the overall market or on Western foreign banks operating as niche players. Virtually all banking markets in CEE now show a comfortable loan/deposit ratio (well below 100 per cent for the most part), which represents a solid foundation for future growth. In addition, significant progress was made in 2017 in terms of reducing non-performing loans (NPLs). In CE and SEE, in particular, the NPL ratio continued to drop in 2017, down from 7.1 per cent to nearly 6 per cent, and is at its lowest level since 2009. Against the backdrop of the positive overall market development, return on equity in the CEE banking sector continued to increase significantly in 2017 to double-digit levels and above the comparable levels in the euro area. At around 15 to 17 per cent, the return on equity before tax of the leading Western European CEE banks has reached its highest level since 2007.

Regulatory environment

Changes in the regulatory environment

The Group continued to focus intensively on current and forthcoming regulatory developments in the reporting period.

Changes in prudential requirements (CRD IV/CRR) and the recovery and resolution framework (BRRD, SRMR)

The proposals made by the European Commission for the revision of the Capital Requirement Directive IV / Capital Requirement Regulation, as well as of the Bank Recovery and Resolution Directive (BRRD), are currently being discussed by European legislators. The proposals relating to third country equivalence with respect to capital instruments issued are of particular interest to RBI as a bank active on a cross-border basis. The capital and liquidity waivers relating to the application of capital and liquidity requirements also have a high degree of significance, as they are prerequisites for the efficient allocation of capital and liquidity within the Group. Other important issues are the limits under the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), changes in market risk and favorable regulatory treatment of software. RBI was extensively involved in the consultation process in 2017. The regulations are expected to take effect from 2021 or 2022.

Basel IV

At the end of 2017, the Basel Committee on Banking Supervision finalized the new international regulations for the calculation of risk-weighted assets (Basel IV). This relates to the issue of how banks calculate their risk, which must be supported by capital. For the calculation of risks, banks may use a standard model defined by the regulator or their own in-house model. The output floor (a floor for the total RWA from all risk categories), set at 72.5 per cent for banks which use their own in-house models, constitutes a

major change. This means that the capital requirement calculated using the bank's in-house model must equate to at least 72.5 per cent of the value calculated using a standard model.

Basel IV must be implemented internationally by 1 January 2022; there is not yet a legal translation of the standard for the EU. For the output floor, a transitional period is planned until 2027, by which time the 72.5 per cent must be reached.

BCBS 239

In January 2013, the Basel Committee on Banking Supervision issued 14 general principles for risk data aggregation and risk reporting for credit institutions (BCBS 239). The objective is to strengthen the risk management of credit institutions and is in accordance with the conclusions of the Basel Committee that the issues of data and data quality play a major role at banks.

Due to its classification as a systemically important institution, RBI must comply with these principles. A high degree of importance was accordingly assigned to BCBS 239 in 2017. A comprehensive Group-wide action and implementation plan was developed to ensure compliance with the BCBS 239 principles on a timely basis.

Bank recovery and bank resolution

On 1 January 2015, the Austrian Bank Recovery and Resolution Act (Bankenabwicklungs- und Sanierungsgesetz BaSAG)), the national transposition of the BRRD from 2014, entered into force. RBI AG is subject to direct European Central Bank (ECB) supervision with respect to bank recovery within the Single Supervisory Mechanism (SSM) framework and to direct supervision by the Single Resolution Board (SRB) with respect to resolution within the Single Resolution Mechanism (SRM) framework.

RBI AG has a Group recovery plan, in accordance with BaSAG requirements. Potential measures to ensure operational capability in a financial stress situation are set out in the recovery plan. Along with the monitoring of the major Key Performance Indicators for early identification, the recovery plan forms a comprehensive governance structure for stress situations. The recovery plan is produced by RBI AG and examined by the regulator (ECB).

Payment Services Directive 2

The new payment services directive (PSD 2), which took effect from 13 January 2018, is aimed at improving consumer protection through advancing the security of services provided and the application of new technologies within the scope of the open banking principle. The directive enables new market participants defined as Third Party Providers (TPPs) such as fintechs to offer payment transfer services and regulates their relationship to the traditional banks, which must facilitate access for the TPPs to customer accounts provided the customers have given their consent.

General Data Protection Directive (GDPR)

The General Data Protection Directive (GDPR) takes effect from 25 May 2018 and applies to data relating to natural persons (e.g. customers or employees); it strengthens the control rights of these individuals with respect to their data. All departments within RBI which deal with personal data are affected by this directive. Since February 2017 a comprehensive project has been under way in RBI, concerning the definition and implementation of processes for the protection of personal data and the identification of personal data protection breaches, along with the establishment of the necessary IT framework. In addition to the project at Group head office, there are further projects in the network units as well as in the affiliated companies and companies in which equity participations are held in Austria, for which the head office provides coordination and support.

Preparation for the implementation of MiFID II and PRIIP

The implementation of the Markets in Financial Instruments Directive (MiFID II) which already began in 2016, along with the regulation (MiFIR) and other technical obligations, was continued so that MiFID II could be implemented on 3 January 2018.

Similarly, the directive on key information documents for Packaged Retail and Insurance-based Investment Products (PRIIP) has been implemented in such a way that the relevant key information documents could be delivered to retail customers from 3 January 2018.

Banking supervision

The focus of the ECB banking supervision was on three areas in 2017: Risks relating to the business model and profitability, credit risk with an emphasis on non-performing loans and risk management in general. The focus of the Joint Supervisory Team was also on operations outsourced by RBI and on evaluation of the internal credit risk models. The effects in relation to Brexit and develop

ments in the Fintech sector were also analyzed. Additionally, there was an extensive process with the competent resolution authorities - with the Single Resolution Board on EU level, the Austrian Financial Market Authority and the respective national authorities in the EU member states in which RBI is present with network banks, to establish the capability to resolve the bank.

Business performance at Raiffeisen Bank International AG

Business development

RBI AG is one of Austria's leading corporate and investment banks.

The Corporates business looks after the top 1,000 companies in the country and numerous large international and multinational customers. These clients benefit from RBI AG's extensive know-how and service portfolio in the areas of export financing, trade financing, cash management, treasury and fixed-income.

Financial Institutions and Sovereigns groups business with banks and institutional customers. It has developed out of Correspondent Banking in its original form and today stands for an integrated approach to doing business with banks, insurance companies and other institutional customers. An extensive product and service range includes, among others, transaction and clearing services, custody and deposit bank services, credit financing and capital market and securities transactions.

The Capital Markets business includes trading on own account and for third parties. Here, RBI AG offers its customers individually tailored solutions for liquidity and balance-sheet management, and for managing interest and currency risks. Its special strengths are interest rate, currency and credit products for the German-speaking countries (Austria, Germany and Switzerland) and CEE. Cash products, derivatives and structured products are also offered, as well as the issuance of debt capital via bonds and the securitization of loans and advances. A professional structuring team as well as sales strength and placement power ensure the successful implementation of projects.

The Treasury and Group Participations businesses are internal control areas for managing refinancing and the Bank's investment portfolio.

Corporates

The Corporates business services Austrian and international corporate customers. In addition to Austria's largest companies, these include Western European corporate customers with business activities in CEE, large corporate customers from Central and Eastern Europe and internationally active commodities and trading companies.

In Austria, the strategic focus was on structured customer acquisition and further exploitation of Group-wide earnings potential using strategic management tools and targeted sales initiatives. A core element here was the Global Account Management System, which offers international clients advisory services and support coordinated across the entire Group and enables a comprehensive product portfolio throughout the whole network.

In addition, work continues to further increase the attractiveness of products. Since RBI AG's customers are used to integral solutions, cross-business collaboration between Retail and Corporates is extremely important, particularly in the digital environment. In this connection, RBI AG collaborated with five international fintech companies on pilot projects for innovative banking products as part of its Elevator Lab fintech accelerator program. First tests were conducted in Austria and four CEE markets and always placed the main focus on customer benefit. This and further optimization of service and support processes, as well as the continuing high degree of cost discipline made a positive contribution to the cost/income ratio in the last financial year.

Despite the low interest rate environment and the continuing challenging economic and geopolitical environment, the result in terms of income was good. In addition to traditional credit business, the bank's outstanding product expertise led to structured

project and acquisition financing, real estate financing, export and trade finance business and transaction banking also making a significant contribution to the positive performance.

Additionally, the once again positive development in the Asset Based Finance business should also be highlighted, where income further increased significantly as a result of a strong reputation and a high degree of solutions-oriented expertise. In the Debt Capital Markets business, RBI AG benefited considerably from the positive market development and consolidated its key position in promissory note and senior bond issuance.

The substantial reduction in the allocation to loan loss provisions in the financial year (both for Western European and Austrian as well as Central and Eastern European customers) reflected the high quality of the credit portfolio and made a significant contribution to the very good result.

Financial Institutions & Sovereigns

For the Financial Institutions & Sovereigns business, the 2017 financial year was shaped by the continuing recovery on the financial markets and by stable revenues and business development for banks and institutional customers. The financial sector has overcome the difficulties of the previous years, with a decline in non-performing loans (NPLs) and robust growth of the European economy resulting in positive trends within the business.

In 2017, sales activities again focused on equity and liquidity-preserving banking products; income from commission-based business reached a record level. In addition to the traditionally good results from the payment transfer business, which again posted higher than average performance, capital market business for new bond issuances and the associated securities sales also increased significantly. Performance for order management and securities services was also pleasing, adding to the positive picture.

Traditional credit business with financial institutions was stable at a low level and mainly focused on strong customer relationships with high cross-selling potential. These endeavors were very well complemented by the aforementioned product offensives.

While deglobalization is still observable within the financial sector, its momentum has reduced, with simultaneous signs of an emergence of regional players. Accordingly, RBI AG's leading role as a bridging function between East and West was again confirmed by the increased business volume in the Financial Institutions business.

Capital Markets

In 2017, the robust underlying macroeconomic conditions in the euro area resulted in high growth and increased inflation.

In its congressional hearing, the FED confirmed its intention to continue gradual interest rate increases and from October, it reduced the central bank balance, which had increased significantly as a result of the bond purchase program. As a result, short-term USD interest rates increased, resulting in a flattening of the USD yield curve.

Eastern Europe presented a mixed picture: whereas interest rates were raised in the Czech Republic, they fell to an all-time low in Hungary. The Russian central bank also reduced interest rates due to historically low inflation. The already tight liquidity situation for Eastern European government bonds heightened due to continuing interest from purchasers with very few sellers. This resulted in a narrowing of credit spreads.

The 2017 financial year was very pleasing for Institutional Sales. Good results were achieved in both primary and secondary market bonds business.

In the FX business, a consistently high level of trading activity by customers in the eFX segment and strategic positioning aimed at stable CEE currency development ensured a pleasingly strong annual performance.

The development of the EUR-USD exchange rate in particular again enabled Corporate Sales to increase its volume of foreign exchange business. However, continuing market expectations of lower money market interest rates led to subdued demand for interest rate hedges.

Treasury

For medium to long-term financing, RBI AG used long-term deposits and issuances. Senior issues are mainly under RBI AG's "EUR 25,000,000,000 Debt Issuance Program", which enables bonds to be issued in different currencies and with different structures.

In 2017, RBI AG again implemented its funding plan primarily with long-term deposits. The remaining requirement was covered by small unsecured private placements. Of a total volume of around € 2.2 billion and a weighted maturity of approximately 4.6 years, around € 200 million was placed in the form of unsecured bonds and € 650 million in the form of additional core capital (additional tier 1), with the remaining amount in the form of long-term deposits.

At year-end 2017, the total volume of outstanding issued unsecured bonds excluding additional core capital amounted to € 5.9 billion.

In order to optimize the financing structure, RBI AG took on € 1 billion of long-term secured financing via the ESCB (European System of Central Banks) in the form of TLTRO. This program of the ECB offers four-year secured financing at favorable terms.

In addition, in 2017, RBI AG started to establish a secured refinancing platform which aims to secure financing in times of crisis.

Group Participations

In addition to 14 subsidiary banks in CEE, RBI AG's subsidiaries also include numerous additional Austrian and international subsidiaries in the strategic financial services sector. These companies are completed by a number of other banking-related ancillary services as well as other participations.

RBI AG's participation strategy aims to safeguard and expand the strategic interests of RBI AG and also to steadily increase the value of the overall portfolio.

Governance and administration of all participations is steered by RBI Group Participations.

In the financial year, participations with a book value of € 1,824 million were taken over within the framework of the merger with RZB AG. The principal other addition involved the purchase of the shares of AO Raiffeisenbank from Raiffeisen CIS Region-Holding GmbH for € 1,560 million. Key write-downs involved Raiffeisen Bank Polska S.A. (€ 106 million) and RZB-BLS Holding GmbH (€ 21 million). In contrast, Raiffeisen Bank Aval JSC resulted in a write-up of € 70 million.

Branches and representative offices

RBI AG operates a total of four branches – in Frankfurt, London, Singapore and Beijing. As service branches, these support the RBI headoffice in Vienna and RBI network banks with customer care and sales activities.

In addition to its branch offices, RBI AG also operates representative offices in Paris, Stockholm, Mumbai, Seoul, Ho Chi Minh City and Zhuhai (China).

Financial Performance Indicators

Statement of Financial Position

Raiffeisen Bank International AG's (RBI AG) total assets increased € 8.9 billion, or 19.5 per cent, to € 54.7 billion in the 2017 financial year. The growth in total assets resulted in particular from the merger of Raiffeisen Zentralbank Österreich AG (RZB AG) into Raiffeisen Bank International AG, amounting to € 12.6 billion.

On the asset side, the cash reserve and balances with central banks increased € 3.1 billion year-on-year to € 4.8 billion. In the course of the merger with RZB AG € 4.5 billion was acquired. This resulted mainly from its function as the lead institution of the Raiffeisen banking sector and the associated obligation to maintain the minimum reserve for the Raiffeisen banking sector. Treasury bills also increased € 3.3 billion to € 5.5 billion, whereby € 4.3 billion can be attributed to the investments in government bonds acquired from RZB AG.

Loans and advances to banks declined 7.5 per cent, or € 0.7 billion, to € 9.0 billion in total. This development largely resulted from a € 0.8 billion decrease in lending, a € 0.5 billion decline in cash collaterals issued and a € 0.2 billion fall in long-term money market transactions. This contrasted with a € 0.8 billion increase in reverse repo business.

Loans and advances to customers remained relatively constant, with an increase of 1.4 per cent, or € 0.2 billion, to € 18.3 billion. The loan share fell by € 0.4 billion, while loss provisions for customer loans decreased by € 0.6 billion. This decline resulted predominantly from the derecognition of cases of loan loss provisions.

Bonds, notes and other fixed-interest securities rose 50.8 per cent, or € 0.8 billion year-on-year, to € 2.4 billion. This increase was due mainly to the securities portfolio acquired from RZB AG. The volume of shares and other variable-yield securities also rose, largely due to the merger with RZB AG, by 89.0 per cent or € 0.1 billion, to € 0.2 billion.

Shares in affiliated companies increased € 3.3 billion to € 11.3 billion. In addition to the shares acquired from RZB AG as part of the merger in the amount of € 1.8 billion, this development was largely attributable to the purchase of AO Raiffeisenbank shares from Raiffeisen CIS Region-Holding GmbH amounting to € 1.6 billion.

Other assets declined 29.7 per cent, or € 1.3 billion year-on-year, to € 2.9 billion. This is primarily attributable to the € 1.1 billion decline in positive fair values arising out of derivative financial instruments in the trading book and the € 0.5 billion fall in dividend accruals. Receivables (special reserve) in relation to the federal IPS contribution due from Österreichische Raiffeisen-Einlagensicherung eGen (ÖRE) were acquired from RZB AG, amounting to a balance of € 0.2 billion at year end.

On the liabilities side, liabilities to credit institutions rose 78.4 per cent, or € 10.5 billion, to € 23.9 billion due largely to a significant € 9.5 billion increase in long-term money market transactions. € 11.4 billion was acquired in connection with the merger. Liabilities to credit institutions still represent the largest source of funding for RBI AG at 44 per cent of total assets.

Liabilities to customers were down € 0.5 billion, or 3.5 per cent, to € 13.2 billion, largely due to a considerable € 0.6 billion decrease in long-term money market transactions.

Debt securities issued and additional capital according to CRR declined 22.4 per cent, or € 1.9 billion year-on-year, to € 6.4 billion. Funds raised through new issues amounted to € 0.2 billion in 2017 (2016: € 0.8 billion). In contrast, debt securities issued fell € 2.2 billion in 2017 as a result of repayments and retirements (2016: € 1.3 billion). Furthermore, short-term money market certificates in the amount of € 0.0 billion (2016: € 0.1 billion) were outstanding as at the reporting date.

Other liabilities decreased year-on-year € 1.0 billion, predominantly due to the decline in holdings of derivatives in the trading book.

The total risk exposure amount at year-end 2017 was € 33.3 billion (2016: € 28.9 billion). Of this amount, credit risk accounted for € 28.6 billion (2016: € 25.1 billion), operational risk for € 3.2 billion (2016: € 2.7 billion), market risk for € 1.5 billion (2016: € 1.1 billion). The total risk exposure amount increased around € 4.4 billion year-on-year. Common equity tier 1 (CET1) capital

amounted to € 7.1 billion at year-end 2017 (2016: € 6.3 billion). In 2017 additional tier 1 capital (AT1) was issued for the first time; the level of tier 1 capital therefore amounted to € 7.8 billion (2016: € 6.3 billion). Additional capital amounted to € 3.0 billion (2016: € 3.3 billion). All in all, total capital amounted to € 10.7 billion, a year-on-year rise of € 1.1 billion. The higher total risk exposure resulted, despite the increase in total capital, in varying ratios on the whole. While the CET1 ratio, at 21.4 per cent, was lower than in the previous year (21.8 per cent), the tier 1 ratio, at 23.3 per cent, was higher than at 31.12.2016 (21.8 per cent). The total capital ratio was 32.2 per cent (2016: 33.1 per cent). The total capital surplus was € 8.1 billion, therefore increasing € 0.8 billion year-on-year.

The number of own shares related to the share incentive program (SIP) for key personnel in the company (Management Board and senior executives) and members of the management boards of associated bank subsidiaries and acquired in the years 2005 to 2009 amounted to 394,942 shares at year-end 2017. At a nominal value of € 1.2 million, this represented a proportion of 0.1 per cent of the total share capital. In the 2017 financial year, 115,035 of these own shares were allocated to the entitled individuals. The nominal value of these allocated shares was € 0.4 million, representing 0.0 per cent of share capital.

Earnings performance

As a result of the merger of RZB AG into RBI AG, the profit and loss statement can be compared with the previous year only to a limited extent.

In the 2017 financial year, Raiffeisen Bank International AG's (RBI AG) net interest income declined 11.6 per cent, or € 32.2 million, to € 244.80 million. Slightly reduced volumes primarily with respect to investments, and the generally low interest-rate level, largely contributed to the decline in net interest income.

Income from securities and participating interests rose € 741.3 million to € 1,379.8 million mainly because income from shares in affiliated companies increased € 733.0 million, due to higher dividend income from affiliated companies in 2017.

The net amount of commissions payable and commissions receivable declined € 6.9 million to € 169.8 million. The largest share of commission earnings came from the securities business (38.4 per cent, or € 65.2 million), followed by the payment transfer business (31.9 per cent, or € 54.1 million) and the guarantee business (18.7 per cent, or € 31.7 million).

The net profit on financial operations was € 12.2 million, compared to a net loss of € 17.9 million the previous year. Most of the reduction was due to the result from currency-based derivative transactions, which improved € 42.4 million to minus € 3.3 million (2016: minus € 45.7 million). In contrast the profit contribution of the predominantly interest-based derivative transactions fell to € 10.8 million (2016: € 28.3 million).

Other operating income fell € 4.7 million to € 147.2 million. This item included income from services provided to network banks amounting to € 80.6 million (2016: € 87.8 million), income from the release of other provisions amounting to € 8.8 million (2016: € 1.9 million), and income from the release of provisions for losses on bank book derivatives amounting to € 11.1 million (2016: € 15.1 million).

Operating income therefore amounted to € 1,953.8 million, a 59.3 per cent rise year-on-year.

Total operating expenses rose 8.4 per cent year-on-year, to € 714.7 million.

Staff costs increased, year-on-year, by € 44.9 million, to € 333.2 million. This was due to increased staffing levels as a result of the merger with RZB AG, an increase that was partially offset by lower staff expenses owing to the reduction of business activities in Asia.

Other administrative expenses increased 14.5 per cent, or € 42.2 million, to € 333.0 million. Other administrative expenses consisted mainly of IT expenses amounting to € 125.8 million (2016: € 102.0 million), rent amounting to € 29.8 million (2016: € 28.7 million), and consulting fees and audit fees amounting to € 44.4 million (2016: € 32.7 million). They also included the annual contribution to the bank resolution fund in an amount of € 21.2 million (2016: € 26.0 million). Depreciation of tangible assets and intangible fixed assets declined € 5.6 million to € 9.7 million.

Other operating expenses of RBI AG decreased € 26.2 million to € 38.8 million in 2017, mainly because allocations to provisions for legal costs fell to € 6.2 million (2016: € 31.3 million).

After deducting operating expenses from operating income, RBI AG generated an operating result of € 1,239.1 million for the 2017 financial year. This represents a year-on-year increase of 118.6 per cent, or € 672.2 million.

The cost/income ratio was consequently 36.6 per cent (2016: 53.8 per cent).

Net income/expenses from the disposal and valuation of loans and advances and securities classed as current assets recorded a net expense – as in the previous year – of € 156.6 million in 2017 (2016: € 233.7 million). This development was due above all to an improvement of the negative result from the valuation of loans and advances and guarantees to € 133.6 million (2016: € 228.3 million), resulting from a lower requirement for loan loss provisions compared to the previous year due to the improved macroeconomic environment. Net income/expenses from the disposal and valuation of financial investments changed from a net expense of € 193.6 million in 2016 to a net expense of € 47.9 million in 2017, mainly due to € 59.7 million higher write-ups and € 154.9 million lower unscheduled write-downs of affiliated companies. Gains on sale, however, fell € 56.0 million.

As a result, the profit on ordinary activities for the year under review amounted to € 1,034.6 million (2016: € 139.5 million).

The return on equity before taxes was 14.7 per cent (2016: 2.46 per cent).

Taxes on profit or loss amounted to an expense of € 18.2 million in 2017 (2016: € 13.4 million). Expenses for other taxes amounted to € 56.6 million (2016: € 81.3 million) and largely consisted of € 55.0 million for the stability contribution for banks (2016: € 78.2 million).

The return on equity after taxes was 11.0 per cent (2016: 0.79 per cent).

In 2017 the net income for the year after tax was € 959.8 million (2016: € 44.8 million).

After including the movements in reserves of € 188.0 million and the loss brought forward of € 566.6 million, the net profit for the year is € 205.3 million.

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 2017, 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 2017, 394,942 of those were own shares, and consequently 328,544,679 shares were outstanding at the reporting date. In comparison with 31 December 2016 (509,977 shares), this results in a reduction of 115,035 own shares and was based on the transferring of shares within the framework of the share-based remuneration program.

(2) The Articles of Association contain no restrictions concerning voting rights or the transfer of shares. The regional Raiffeisen banks and the direct and indirect subsidiaries of the regional Raiffeisen banks are parties to a syndicate contract (syndicate agreement) regarding RBI AG. The terms of this syndicate agreement include not only a block voting agreement and preemption rights, but also a prohibition on sales of the RBI shares held by the regional Raiffeisen banks (with few exceptions) for a period of three years (lock-up period) from the effective date of the merger between RZB AG and RBI AG, i.e. from 18 March 2017, if the sale would directly and/or indirectly reduce the regional Raiffeisen banks' aggregate shareholding in RBI AG to less than 50 per cent of the share capital plus one share. After the lock-up period expires, the shareholding threshold falls to 40 per cent of the share capital of RBI AG.

(3) RLB NÖ-Wien Sektorbeteiligungs GmbH holds around 22.24 per cent of the share capital of the company according to the notification of voting rights published on 20 March 2017. By virtue of the syndicate agreement regarding RBI AG, the directly or indirectly held voting rights attached to a total of 193,449,778 shares, corresponding to a voting interest of around 58.81 per cent, are mutually attributable to the regional Raiffeisen banks and their direct and indirect subsidiaries pursuant to §§ 130 and 133 7 of the Austrian Stock Exchange Act (BörseG) as parties acting in concert as defined in § 1 6 of the Austrian Takeover Act (ÜbG) (see the notification of voting rights published on 20 March 2017). 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 4 June 2014 to increase the share capital with the approval of the Supervisory Board – in one or more tranches – by up to € 446,793,032.95 through issuing up to 146,489,519 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 25 August 2019 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).

Pursuant to § 159 (2) 1 of the AktG, the share capital has been increased contingently by up to € 119,258,123.20 through the issue of up to 39,101,024 common bearer shares (contingent capital). The contingent capital increase will only be undertaken if and when use is made of an irrevocable exchange or subscription right to shares granted by the company to creditors holding convertible bonds issued on the basis of the resolution of the Annual General Meeting held on 26 June 2013 and the Management Board does not decide to allocate own shares. Pursuant to § 174 (2) of the AktG, the Annual General Meeting of 26 June 2013 authorized the Management Board to issue, in one or more tranches, convertible bonds in a total nominal amount of up to € 2,000,000,000, which grant holders conversion or subscription rights for up to 39,101,024 common bearer shares of the company with a proportional amount of the share capital of up to € 119,258,123.20, within five years from the date of resolution adopted by the Annual General Meeting, with the approval of the Supervisory Board. Shareholders' subscription rights to the convertible bonds are excluded. No convertible bonds have been issued to date.

The Annual General Meeting held on 16 June 2016 authorized the Management Board pursuant to § 65 (1) 8, § 65 (1a) and § 65 (1b) of the AktG to purchase own shares and to retire them if appropriate without requiring any further prior resolutions to be passed by the Annual General Meeting. Own shares, whether already purchased or to be purchased, may not collectively exceed 10 per cent of the company's share capital. The authorization to purchase own shares expires 30 months after the date of the Annual General Meeting resolution, i.e. as of 15 December 2018. The acquisition price for repurchasing the shares may be no lower than € 1 per share and no higher than 10 per cent above the average unweighted closing price over the ten 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, or for the purpose of implementing the company's Share Incentive Program (SIP) for executives and members of the Management Boards of the company and affiliated companies. In addition, if convertible bonds are issued in accordance with the Annual General Meeting resolution of 26 June 2013, shareholders' subscription rights may also be excluded in order to issue (own) shares to the holders of these convertible bonds who exercise the conversion or subscription rights granted to them under the terms of the convertible bonds to shares of the company. 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 15 June 2021.

No own shares have been bought since the authorization was issued in June 2016.

The Annual General Meeting of 16 June 2016 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 15 December 2018), provided that the trading portfolio of shares purchased for this purpose does not exceed 5 per cent of the company's respective share capital at the end of any given day. 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 was insured as a subsidiary of RZB under RZB's group-wide D&O insurance until the merger took effect on 18 March 2017. On 18 March 2017, the insured party was changed from RZB to RBI AG through an addendum to the contract. Thus there was no change to the insurance cover for RBI AG and for the whole RBI Group. Insurance cover would remain in place following a merger with another legal entity of the RBI Group. In the event of a merger with a legal entity outwith the RBI Group, the insurance policy would automatically cease at the end of the insurance period in which the merger took effect. In such cases, insurance cover only exists for claims for damages arising from breaches of obligations that occurred before the merger, which are reported to the insurer prior to any termination of RBI's group-wide D&O insurance cover, and thereafter, within the agreed notification period of five years.
- The company's SIP provides the following upon change in corporate control: "If a change in corporate control or a merger occurs during the vesting period, and the combination does not exclusively concern subsidiaries, all contingent shares will lapse without replacement at the time of acquiring the shares of RBI AG and the investor's effective power to dispose of them, or at the time of the merger. An indemnification payment will be made for these contingent shares. The indemnity sum calculated will be paid out with the next possible salary payment."
- Furthermore, the syndicate agreement concluded by RBI AG in relation to a subsidiary bank with a joint shareholder will automatically be terminated upon a change of control.
- 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 continues to serve as the central institution of the Raiffeisen Banking Group at a national level. Upon a change in control of RBI AG, related contracts (membership of the liquidity group pursuant to § 27a of the BWG; membership of the federal IPS pursuant to Art. 113 (7) of the CRR; membership of the Österreichischen Raiffeisen-Einlagensicherung EGen) may end or change.
- The company's refinancing agreements and agreements concerning third-party financing for subsidiaries, which are guaranteed by the company, stipulate 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.

Non-financial Performance Indicators

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

Corporate Governance

The Corporate Governance Report is available on RBI's website (www.rbinternational.com → Investor Relations → Corporate Governance).

Risk report

Taking and transforming risks form integral components of the banking business. This makes active risk management as much a core competence of overall bank governance as capital planning and management of the bank's profitability. In order to effectively identify, classify and contain risks, RBI AG utilizes comprehensive risk management and controlling.

This function spans the entire organizational structure, including all levels of management, and is implemented through the risk management organization. Risk management is structured to ensure the careful handling and professional management of credit risk, country risk, market risk, liquidity risk, investment risk and operational risk in order to ensure an appropriate risk/reward ratio.

Active risk management is a core competency of RBI AG. In order to effectively identify, measure, and manage risks the bank continues to develop its comprehensive risk management system. Risk management is an integral part of overall bank management. In particular, in addition to legal and regulatory requirements, it takes into account the nature, scale, and complexity of the business activities and the resulting risks. The risk report describes the principles and organization of risk management and explains the current risk exposures in all material risk categories.

Risk management principles

RBI AG has a system of risk principles and procedures in place for measuring and monitoring risk. It is aimed at controlling and managing the risks at all banks and specialist companies owned by the bank. The risk policies and risk management principles are determined by the Management Board of RBI AG. The bank's risk principles include the following:

- Integrated risk management: Credit, country, market, liquidity, and operational risks are managed as main risks on a bank-wide basis. For this purpose, these risks are measured, limited, aggregated, and compared to available risk coverage capital.

- Standardized methodologies: Risk measurement and risk limitation methods are standardized in order to ensure a consistent and coherent approach to risk management. This is efficient for the development of risk management methods and it forms the basis for consistent overall bank management across all countries and business segments in RBI AG.
- Continuous planning: Risk strategies and risk capital are reviewed and approved in the course of the annual budgeting and planning process, whereby special attention is also paid to preventing risk concentrations.
- Independent control: A clear personnel and organizational separation is maintained between business operations and any risk management or risk controlling activities.
- Ex ante and ex post control: Risks are consistently measured within the scope of product selling and in risk-adjusted performance measurement. Thereby it is ensured that business in general is conducted only under risk-return considerations and that there are no incentives for taking high risks.

Organization of risk management

The Management Board of RBI AG ensures the proper organization and ongoing development of risk management. It decides which procedures are to be employed for identifying, measuring, and monitoring risks, and makes steering decisions on the basis of the risk reports and analyses. Independent risk management units and special committees support the Management Board in implementing these tasks.

RBI AG's risk management functions are performed on different levels. RBI AG develops and implements the relevant concepts as the parent credit institution and in cooperation with the subsidiaries of the Group. The central risk management units are responsible for the adequate and appropriate implementation of the risk management processes throughout the company. In addition, they implement the risk policy in the respective risk categories and manage RBI AG's activities within the approved risk budget. The merger of RZB AG into RBI AG made it possible to simplify and streamline the organization of risk management and risk controlling.

The central and independent risk controlling function under the Austrian Banking Act is performed by the Group Risk Controlling organizational area. It is responsible for developing the company-wide framework for overall bank risk management (integrating all risk types) and preparing independent and neutral reports on the risk profile for the Risk Committee of the Supervisory Board, to the Management Board and the heads of the individual business areas.

Risk committees

The Group Risk Committee is the most senior decision-making body for all of the Group's risk-related topic areas. It decides on the risk management methods and on the control concepts used for the overall Group and for key subdivisions, and is responsible for ongoing development and implementation of methods and parameters for risk quantification and for refining steering instruments. This also includes the risk appetite, different risk budgets and limits at overall bank level and monitoring of the current risk situation with respect to internal capital adequacy and the corresponding risk limits. It approves risk management and controlling activities (e.g. allocation of risk capital) and advises the Management Board on these matters.

The Group Asset/Liability Committee assesses and manages the statement of financial position structure and liquidity risks and defines the methodology for internal funds transfer pricing. In this context, it plays an important role in long-term funding planning and the hedging of structural interest rate and foreign exchange risks. The Capital Hedge Committee is a sub-committee of the Group Asset/Liability Committee and manages the currency risk of the capital position.

The Market Risk Committee controls market risks of trading and banking book transactions and establishes corresponding limits and processes. In performing its control function, it relies in particular on profit and loss reports, the risks calculated and the limit utilization, as well as the results of scenario analyses and stress tests with respect to market risks.

The Credit Committees are staffed by front office and back office representatives with different participants depending on the customer segment (corporate customers, financial institutions and the public sector). They decide on the specific lending criteria for different customer segments and countries. Under the lending approval process and credit approval authority based on rating and exposure size, they also make the respective credit decisions.

The Problem Loan Committee is the most important committee in the assessment and decision-making process for problem customers. The Problem Loan Committee primarily comprises decision-making authorities (Management Boards) and is chaired by the Chief Risk Officer (CRO) of RBI AG. Additional voting members include Management Board members responsible for the customer divisions, the Chief Financial Officer (CFO) and the relevant division and department heads of Risk Management and Workout.

The Securitization Committee is the decision-making committee for limit applications relating to securitization positions within the scope of the specific decision-making authority and for the development of proposals to modify the securitization strategy for the Management Board. The Securitization Committee also serves as a platform for the exchange of information pertaining to securitization positions and market developments.

The Group Operational Risk Management & Controls Committee comprises representatives of the business areas (retail, market and corporate customers), as well as participants from Compliance, (including Financial Crime Management), Internal Control System, Operations, and Security and Risk Controlling, and is chaired by the CRO. This committee is responsible for managing operational risk (including conduct risk) for the purpose of deriving and establishing an operational risk strategy based on the risk profile and business strategy and to make decisions concerning measures, controls and risk acceptance.

The Contingency/Recovery Committee is a decision-making body which is convened by the Management Board. The composition of the committee varies as circumstances require depending on the requirements of the specific situation. The committee's core task is to maintain/restore financial stability as defined by the Federal Act on the Recovery and Resolution of Banks (BaSAG) and/or the Banking Recovery and Resolution Directive (BRRD) in the event of a critical financial situation.

Quality assurance and auditing

Quality assurance with respect to risk management refers to ensuring the integrity, soundness, and accuracy of processes, models, calculations, and data sources. This is to ensure that RBI AG adheres to all legal requirements and that it can achieve the highest standards in its risk management practices.

All these aspects are coordinated by the division Group Compliance, which continuously analyzes the internal control system and – if actions are necessary for addressing any deficiencies – is also responsible for tracking their implementation.

Two very important functions in assuring independent auditing are performed by the divisions Audit and Compliance. Independent internal auditing is a legal requirement and a central pillar of the internal control system. Audit periodically assesses all business processes and contributes considerably to securing and improving them. It sends its reports directly to the Management Board of RBI AG which discusses them on a regular basis in its board meetings.

The Compliance Office is responsible for all issues concerning compliance with legal requirements in addition to and as an integral part of the internal control system. Thereby, compliance with existing regulations in daily operations is monitored.

Moreover, an independent and objective audit, free of potential conflicts of interest, is carried out during the audit of the annual financial statements by the auditing companies.

Overall bank risk management

Maintaining an adequate level of capital is a core objective of the risk management of the company. Capital requirements are monitored regularly on the basis of the risk determined by internal models; the choice of models used reflects the materiality of risks. This overall bank risk management approach takes account of capital requirements from a regulatory point of view (sustainability and going concern perspective) and from an economic standpoint (target rating perspective). It is therefore in line with the quantitative aspects of the internal capital adequacy assessment process (ICAAP) as legally required. RBI AG's overall ICAAP process is audited during the supervisory review process for the RBI credit institution group (RBI Kreditinstitutgruppe) on an annual basis.

The Risk Appetite Framework (RAF) limits the Group's overall risk in line with the strategic business objectives and allocates this to the various risk categories and business areas. The primary aim of the RAF is to limit risk in particular in adverse scenarios and for major singular risks in such a way as to ensure compliance with regulatory minimum ratios. The RAF is therefore based on the ICAAP's three pillars (target rating, going-concern, sustainability perspective) and sets the concentration risk limits for the risk types identified as significant in the risk assessment.

In addition, the risk appetite decided by the Management Board and the Group's risk strategy and its implementation are reported regularly to the Supervisory Board's Risk Committee.

Objective	Description of risk	Measurement technique	Confidence level
Target rating perspective	Risk of not being able to satisfy claims of the Group's senior debt holders	Unexpected losses on an annual basis (economic capital) must not exceed the present value of equity and subordinated liabilities	99.92 per cent as derived from the default probability implied by the target rating
Going concern perspective	Risk of not meeting the capital requirement as defined in the Basel III regulations	Risk-taking capacity (projected earnings plus capital exceeding regulatory requirements) must not fall below the annualized value-at-risk of the Group	95 per cent presuming the owners' willingness to inject additional own funds
Sustainability perspective	Risk of falling short of a sustainable tier 1 capital ratio over a full business cycle	Capital and loss projection for a three-year planning period based on a severe macroeconomic downturn scenario	85-90 per cent based on the management decision that the Group might be required to temporarily reduce risks or raise additional core capital

Target rating perspective

Risks in the target rating perspective are measured on the basis of economic capital, which represents a comparable measure across all types of risks. It is calculated as the sum of unexpected losses stemming from different risk categories (credit, participation, market, liquidity, macroeconomic and operational risk as well as risk resulting from other tangible assets). In addition, a general buffer for other risks that are not explicitly quantified is held.

The following table shows the risk distribution of individual risk types to economic capital:

in € thousand	2017	Percentage	2016	Percentage
Participation risk	2,375,902	68.9%	1,744,561	62.3%
Credit risk corporate customers	448,070	13.0%	428,390	15.3%
Credit risk sovereigns	117,988	3.4%	139,020	5.0%
Operational risk	86,162	2.5%	95,801	3.4%
Market risk	77,670	2.3%	63,143	2.3%
Credit risk financial institutions	75,686	2.2%	115,551	4.1%
Macroeconomic risk	43,019	1.2%	24,000	0.9%
Other tangible assets	42,655	1.2%	28,253	1.0%
CVA risk	17,084	0.5%	28,007	1.0%
Risk buffer	164,212	4.8%	133,336	4.8%
Total	3,448,448	100.0%	2,800,063	100.0%

The changes in the individual risk categories relative to the comparable period, especially for the participation risk, are predominantly due to the merger of RZB AG into RBI AG.

The objective of calculating the economic capital is to determine the amount of capital that would be required for servicing all customer and creditor claims also for such a rare loss event. To calculate the economic capital, RBI AG applies a confidence level

of 99.92 per cent derived from the default probability implied by the target rating. On the basis of the empirical analysis of rating agencies, the selected confidence level corresponds to a rating of Single A.

Economic capital is an important instrument in overall bank risk management and is used in allocating the risk budget. Economic capital limits are allocated to individual business segments during the annual budgeting process and are complemented for day-to-day management by volume, sensitivity, or value-at-risk limits. At RBI AG, this is planned on a revolving basis for the upcoming three years and incorporates the future development of economic capital as well as available internal capital. Economic capital thus substantially influences the plans for future lending activities and the overall limit for taking market risks.

Risk-adjusted performance measurement is also based on this risk measure. The ratio of the profitability of business units to the amount of economic capital attributable to such units is determined (risk-adjusted return on risk-adjusted capital, RORAC) to yield a comparable performance measure for all of the bank's business units. This measure is used in turn as an indicator in overall bank management, related capital allocation and in the compensation of executive management.

Going concern perspective

Parallel to the target rating perspective, internal capital adequacy is also assessed with a focus on the uninterrupted operation of the bank on a going concern basis. The risk is compared to risk-taking capacity – having regard to regulatory capital and minimum capital requirements. In line with this target, risk taking capacity is calculated as the amount of expected profits, expected impairment losses, and the excess of total capital (taking into account various limits on eligible capital). This capital amount is compared to the overall value-at-risk (including expected losses). Quantitative models used in the calculation are based on methods comparable (albeit with a lower 95 per cent confidence level) to those used in the target rating perspective. Using this approach, the bank ensures adequate regulatory capitalization (going concern) with the given probability.

Sustainability perspective

The sustainability perspective is to ensure that RBI AG can maintain a sufficiently high tier 1 capital ratio at the end of the full multi-year planning period even if the macroeconomic environment deteriorates unexpectedly. The analysis of the sustainability perspective is based on a multi-year macroeconomic stress test which simulates hypothetical market developments in a significant, but realistic economic downturn. The risk parameters include: interest rates, foreign exchange rates and securities prices, as well as changes in default probabilities and rating migrations in the credit portfolio.

The main focus of this integrated stress test is on the ensuing tier 1 capital ratio at the end of the multi-year period. The ratio should not fall below a sustainable level and make it necessary for the bank to increase capital substantially or significantly reduce business activity. The current minimum amount of tier 1 capital is thus determined by the extent of the potential economic downturn. The need to allocate loan loss provisions, potential pro-cyclical effects that increase minimum regulatory capital requirements, the impact of foreign exchange fluctuations as well as other valuation and earnings effects are incorporated into this downturn scenario.

This perspective thus also complements traditional risk measurement based on the value-at-risk concept (which is mainly based on historical data). It is able to incorporate exceptional market situations that have not been observed in the past and it is possible to estimate the potential impact of such developments. The stress test enables risk concentrations to be analyzed (e.g., individual positions, industries, or regions) and gives insight into profitability, liquidity and solvency under extreme situations. Based on these analyses, RBI AG's risk management actively manages portfolio diversification, for example through limits for total exposure in individual industry segments and countries and through ongoing adjustments to lending standards.

Credit risk

RBI AG's credit risk stems mainly from default risks that arise from business with retail and corporate customers, other banks and sovereign borrowers. It is by far the most important risk category for RBI AG, which is also indicated by internal and regulatory capital requirements. Credit risk is therefore analyzed and monitored both on an individual loan and customer basis as well as on a portfolio basis. Credit risk management and lending decisions are based on the respective credit risk policies, credit risk manuals, and the tools and processes which have been developed for this purpose. The internal control system for credit risks includes different types of monitoring measures, which are tightly integrated into the workflows to be monitored – from the customer's initial credit application, to the bank's credit approval, and finally to the repayment of the loan.

No lending transaction is performed in the non-retail segments before the limit application process has been completed. This process applies not only to new lending, but also to increases in existing limits, roll-overs, overdrafts, and to cases in which the borrower's risk profile is no longer the same as the profile that formed the basis for the original lending decision (e.g., with respect to the financial situation of the borrower, purpose or collateral). In addition, it applies to the setting of counterparty limits in treasury and investment banking operations, other credit limits, and to participations.

Credit decisions are made within the context of a hierarchical competence authority scheme depending on the type and size of a loan. The approval of the business and the credit risk management divisions is always required for individual limit decisions and the regular rating renewals. If the individual decision-making parties disagree, the potential transaction has to be decided upon by the next higher-ranking credit authority.

Credit portfolio management

RBI AG's credit portfolio is managed, among other factors, on the basis of the portfolio strategy. This limits the exposure to different countries, industries and product types to avoid undesired risk concentrations. In addition, the long-term opportunities in the single markets are regularly analyzed. This enables future lending activities to be strategically repositioned at an early stage.

RBI AG's credit portfolio is broadly diversified by region and sector. The geographical breakdown of the loans on and off the statement of financial position reflects the broad diversification of the credit business in the European markets. These loans are broken down by region according to the customer's country of risk as follows (countries with credit exposure greater than € 1 billion are shown separately):

in € thousand	2017	Percentage	2016	Percentage
Austria	25,078,927	39.6%	18,539,615	33.7%
Germany	7,554,023	11.9%	5,143,729	9.3%
Great Britain	4,811,873	7.6%	4,957,889	9.0%
Poland	2,250,890	3.6%	1,916,577	3.5%
France	2,211,598	3.5%	2,711,170	4.9%
Swiss	2,015,822	3.2%	1,912,805	3.5%
Russia	1,936,666	3.1%	2,065,985	3.8%
Far East	1,734,518	2.7%	2,541,580	4.6%
USA	1,603,949	2.5%	1,834,726	3.3%
Czech Republic	1,357,831	2.1%	971,152	1.8%
Netherlands	1,297,300	2.0%	1,378,088	2.5%
Romania	1,280,230	2.0%	1,368,135	2.5%
Luxemburg	1,082,753	1.7%	620,422	1.1%
Others	9,116,805	14.4%	9,106,801	16.5%
Total	63,333,185	100.0%	55,068,672	100.0%

The following table shows the effect of the merger of RZB AG into RBI AG, broken down by region.

in € thousand	2017	Percentage
Austria	9,084,174	70.6%
Germany	935,769	7.3%
Italy	654,815	5.1%
Spain	501,661	3.9%
Poland	345,394	2.7%
Luxemburg	278,357	2.2%
Ireland	196,639	1.5%
Czech Republic	133,228	1.0%
Portugal	29,999	0.2%
Others	708,811	5.5%
Total	12,868,846	100.0%

Taking the merger of RZB AG into RBI AG into account, the credit portfolio recorded a year-on-year decline of € 4,604,333 thousand to € 63,333,185 thousand. This was primarily the result of declines in swap and money-market transactions. In addition, the reduction of branches in Asia resulted in a reduction in the credit portfolio.

Risk policies and the assessment of credit ratings at RBI AG also take account of the borrowers' industries. Banking and insurance represents the largest industry class in the credit portfolio. However, this is largely attributable to exposures to members of the Austrian Raiffeisen Group. The public sector is mainly attributable to securities of the Republic of Austria as issuer. The following table sets out the credit exposure broken down according to the customers' industry classification:

in € thousand	2017	Percentage	2016	Percentage
Financial Intermediation	29,557,283	46.7%	25,627,976	46.5%
Real estate, renting and business activities	8,794,547	13.9%	6,755,529	12.3%
Public administration and defence, compulsory social security	6,840,031	10.8%	3,426,900	6.2%
Manufacturing	5,847,157	9.2%	6,329,540	11.5%
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	5,711,127	9.0%	5,741,176	10.4%
Others	2,083,826	3.3%	1,880,235	3.4%
Agriculture, hunting and forestry; fishing; mining and quarrying	1,373,671	2.2%	1,103,904	2.0%
Construction	948,663	1.5%	1,586,444	2.9%
Transport, storage and communication	877,358	1.4%	996,611	1.8%
Education; health and social work; other community, social and personal service activities	677,820	1.1%	641,043	1.2%
Electricity, gas and water supply	621,703	1.0%	979,316	1.8%
Total	63,333,185	100.0%	55,068,672	100.0%

A more detailed credit portfolio analysis is based on individual customer ratings. Customer ratings are tailor-made and are therefore carried out separately for different asset classes. Internal risk classification models (rating and scoring models), which are validated by a central organization unit, are used. The rating models in the main non-retail segments – corporates and financial

institutions – provide for 27 rating grades, and in the public sector for ten rating grades. Rating and validation software tools are available for rating preparation and validation (e.g. business valuation, rating and default database).

Collateralization is one of the main strategies and an actively pursued measure for reducing potential credit risks. The value of collateral and the effects of other risk mitigation techniques are determined during the limit application process. The risk mitigation effect taken into account is the value that RBI AG expects to receive when it sells the collateral within a reasonable period. Types of eligible collateral and valuation guidelines are defined in the collateral list. The collateral value is calculated according to uniform methods, including standardized calculation formulas based on market values, predefined minimum discounts, and expert assessments.

Credit default and workout process

The credit portfolio and individual borrowers are subject to constant monitoring. The main objectives of monitoring are to ensure that the borrower meets the terms and conditions of the contract and to keep track of the borrower's financial position. Such a review is conducted at least once annually in the non-retail asset classes (corporates, financial institutions, and sovereigns). This includes a rating review and the revaluation of financial and tangible collateral.

Problem loans (where debtors might run into material financial difficulties or a delayed payment is expected) need special treatment. In non-retail divisions, problem loan committees make decisions on problematic exposures. If restructuring is necessary, problem loans are assigned either to a designated specialist or to a restructuring unit (workout department). Involving employees of the workout departments at an early stage can help reduce losses from problem loans.

According to Article 178 CRR, a default and thus non-performing loan (NPL) is defined as a case in which a specific debtor is unlikely to pay its credit obligations to the bank in full, or a case in which the debtor is overdue more than 90 days on any material credit obligation. RBI AG has defined twelve indicators to identify a default event in the non-retail segment. These include: a customer is involved in insolvency or similar proceedings; an impairment provision has been allocated or a direct write-off has been taken; credit risk management has judged that a customer account receivable is not wholly recoverable; the work-out unit is considering stepping in to help a customer regain its financial soundness.

As part of the Basel II project, a Group-wide default database was created to record and document customer defaults. Defaults and default reasons are also recorded in the database, which enables probabilities of default to be calculated and validated. Provisions for impairment losses are formed in accordance with defined guidelines based on IFRS accounting principles and cover all identifiable credit risks. In the non-retail business, problem loan committees decide on individual loan loss provisions.

The following table shows the share of non-performing loans in the defined asset classes loans and advances to customers and loans and advances to banks as reported in the statement of financial position (excluding items off the statement of financial position):

in € thousand	NPL		NPL Ratio		NPL Coverage Ratio	
	2017	2016	2017	2016	2017	2016
Corporate customers	1.139.154	1.594.494	6,1%	8,4%	47,3%	74,2%
Sovereigns	70	1.397	0,0%	0,4%	46,0%	0,0%
Total non-banks	1.139.224	1.595.891	5,9%	8,3%	47,4%	74,3%
Banks	9.299	75.605	0,1%	0,8%	99,4%	62,6%
Total	1.148.523	1.671.496	4,2%	5,8%	47,8%	73,8%

The following table shows the development of impairment losses on loans and provisions for liabilities off the statement of financial position during the financial year and the corresponding asset classes:

in € thousand	As at 1/1/2017	Change in consolidated group	Allocation ¹	Release	Usage ²	Reclassifications, exchange differences ³	As at 31/12/2017
Individual loan loss provisions	1,225,930	6,252	262,440	(121,016)	(815,605)	(9,807)	548,193
Banks	46,720	0	1,063	(347)	(33,091)	(5,751)	8,594
Corporate customers	1,161,703	0	232,143	(99,789)	(775,225)	(23,263)	495,568
Retail customers	3,052	0	3,873	(5)	(7,288)	1,185	817
Sovereigns	0	0	0	0	0	0	0
Off-balance sheet obligations	14,456	6,252	25,361	(20,875)	0	18,021	43,215
Portfolio-based loan loss provisions	30,460	155	1,579	(8,114)	0	31	24,111
Banks	580	0	1	(118)	0	(125)	339
Corporate customers	21,373	130	1,069	(5,440)	0	171	17,302
Retail customers	100	0	459	(104)	0	(17)	438
Sovereigns	1	0	9	(1)	0	23	32
Off-balance sheet obligations	8,406	25	41	(2,451)	0	(20)	6,000
Total	1,256,390	6,407	264,018	(129,130)	(815,605)	(9,776)	572,304

¹ This includes changes due to Unwinding of impaired customers and changes in internal interest exemptions.

² This includes changes to internal interest exemptions.

³ This includes reclassifications of provisions and changes to customer categories.

Country risk

Country risk includes transfer and convertibility risks as well as political risk. It arises from cross-border transactions and direct investments in foreign countries. RBI AG's business activities in the converging Central, Eastern European and Asia markets expose it to this risk. In those markets, political and economic risks to some extent are still considered to be significant.

RBI AG's active country risk management is based on the country risk policy, which is set by the Management Board. This policy is part of the credit portfolio limit system and sets a strict limitation on cross-border risk exposure to individual countries. In day-to-day work, business units therefore have to submit limit applications for the respective countries for all cross-border transactions in addition to the limit applications for specific customers. A model which takes into account the internal rating for the sovereign, the size of the country, and RBI AG's own capitalization is applied to determine the absolute limit for individual countries.

Country risk is also reflected through the internal funds transfer pricing system in product pricing and in risk-adjusted performance measurement. In this way, the bank offers the business units an incentive to hedge country risks by seeking insurance (e.g. from export credit insurance organizations) or guarantors in third countries. The insights gained from the country risk analysis are not only used to limit total cross-border exposure, but also to cap total credit exposure in each individual country (i.e. including the exposure that is funded by local deposits). RBI AG thus realigns its business activities to the expected economic development in different markets and enhances the broad diversification of its credit portfolio.

Counterparty credit risk

The default of a counterparty in a derivative, repurchase, securities or commodities lending or borrowing transaction can lead to losses from reestablishing an equivalent contract. At RBI AG, this risk is measured by the mark-to-market approach where a pre-defined buffer is added to the current positive fair value of the contract in order to account for potential future changes. The total amount of the potential expected credit exposures from derivatives transactions determined in this way is set out in the tables of the individual customer segments. For internal management purposes, potential price changes, which affect the fair value of an instru-

ment, are calculated specifically for different contract types based on historical market price changes.

For derivative contracts, the standard limit approval process applies; the same risk classification, limitation, and monitoring procedures as in traditional lending are used. Credit risk mitigation instruments such as netting agreements and collateralization represent an important strategy for reducing counterparty credit risk. In general, RBI AG strives to conclude standardized ISDA master agreements with all major counterparties for derivative transactions to perform close-out netting and to agree on credit support annexes (CSA) for full risk coverage for positive fair values on a daily basis.

Participation risk

The risks from listed and unlisted participations are also considered to be part of the banking book. They are reported separately under this risk category. Most of RBI AG's direct or indirect participations are fully consolidated in the consolidated financial statements and their risks are therefore captured in detail. Accordingly, the management, measurement and monitoring methods described for the other types of risk are used for the risks arising out of such participations.

The roots of participation risk and default risk are similar: a deterioration in the financial situation of a participation is normally followed by a rating downgrade (or default) of that unit. The calculation of the value-at-risk and of the economic capital for participations is based on an extension of the credit risk approach according to Basel III.

RBI AG's participations are managed by RBI Group Participations. It monitors the risks that arise from long-term participations in equity and is also responsible for the ensuing results. New investments are made only by RBI AG's Management Board on the basis of a separate due diligence.

Market risk

RBI AG defines market risk as the risk of possible losses arising from changes in market prices of trading and banking book positions. Market risk is determined by fluctuations in exchange rates, interest rates, credit spreads, equity and commodity prices, and other relevant market parameters (e.g. implied volatilities).

Market risks from the customer divisions are transferred to the Treasury division by using transfer price method. Treasury is responsible for managing structural market risks and for complying with the bank's overall limit. The Capital Markets division comprises proprietary trading, market making, and customer business with money market and capital market products.

Organization of market risk management

RBI AG measures, monitors, and manages all market risks for the bank as a whole.

The Market Risk Committee is responsible for strategic market risk management. It is responsible for managing and controlling all market risks. The bank's overall limit is set by the Management Board on the basis of the risk-taking capacity and income budget. This limit is apportioned to sub-limits in coordination with business divisions according to strategy, business model and risk appetite.

The Market Risk Management department ensures that the business volume and product range comply with the defined and agreed strategy and risk appetite. It is responsible for developing and enhancing risk management processes, manuals, measurement techniques, risk management infrastructure and systems for all market risk categories and secondary credit risks arising from market price changes in derivative transactions. In addition, the department independently measures and reports all market risks on a daily basis.

All products in which open positions can be held are listed in the product catalog. New products are added to this list only after successfully completing the *product approval process*. Product applications are investigated thoroughly for any risks. They are approved only if the new products can be implemented in the bank's front- and back-office (and risk management) systems respectively.

Limit system

RBI AG uses a comprehensive risk management approach for trading and banking books (total-return approach). Market risks are managed consistently in all trading and banking books. The following values are measured and limited on a daily basis in the market risk management system:

- Value-at-Risk (VaR) confidence level 99 per cent, horizon one day
The VaR limit caps the maximum loss which is not exceeded with a confidence level of 99 per cent within one day. It is the main steering instrument in liquid markets and normal market situations. At the end of the third quarter, the VaR calculation was supplemented to include base interest rate risk factors.
- Sensitivities (to changes in exchange rates, interest rates, gamma, vega, equity and commodity prices). Sensitivity limits are designed to avoid concentrations in normal market situations and represent the main steering instrument in stress situations or in illiquid markets or those markets that are structurally difficult to measure.
- Stop loss
This limit strengthens traders' management of their proprietary positions to ensure that they do not allow losses to accumulate, but strictly limit them instead.

A comprehensive stress testing concept complements this multi-level limit system. It simulates potential present value changes of defined scenarios for the total portfolio. The risk concentrations revealed by these stress tests are reported to the Market Risk Committee and limits are set to reflect them. Stress test reports for individual portfolios are included in daily market risk reports.

Value-at-Risk (VaR)

VaR is measured based on a hybrid approach in which 5,000 scenarios are simulated. The approach combines the advantages of a historical simulation and a Monte Carlo simulation. The market parameters used are based on 500-day historical time series. Distribution assumptions include modern features like volatility declustering and random time change in order to accurately reproduce fat-tailed and asymmetrical distributions. The Austrian Financial Market Authority has approved this model as an internal model for calculating total capital requirements for market risks. Value-at-risk results are used for economic capital allocation as well as risk limitation purposes.

Structural interest rate risks and spread risks from bond books maintained as a liquidity buffer dominate RBI AG's VaR.

Due to the merger with RZB AG, only limited comparability with the previous year's figures is possible.

Trading book VaR 99% 1d in € thousand	VaR as of 31/12/2017	Average VaR	Maximum VaR	Minimum VaR
Currency risk	806	1,587	8,468	415
Interest rate risk	1,489	1,052	2,418	420
Credit spread risk	638	664	1,262	321
Vega risk	87	181	400	80
Basis risk	1,120	434	1,120	321
Total	1,910	2,380	9,084	1,298

Trading book VaR 99% 1d in € thousand	VaR as of 31/12/2016	Average VaR	Maximum VaR	Minimum VaR
Currency risk	2,951	1,595	5,203	478
Interest rate risk	2,215	934	2,551	252
Credit spread risk	322	1,450	5,353	274
Vega risk	249	479	1,337	111
Total	3,565	3,159	6,545	1,296

Banking book VaR 99% 1d in € thousand	VaR as of 31/12/2017	Average VaR	Maximum VaR	Minimum VaR
Currency risk	0	0	55	0
Interest rate risk	1,563	1,858	6,568	761
Credit spread risk	4,713	4,821	12,760	1,323
Vega risk	195	1,137	4,011	178
Basis risk	1,706	1,207	1,893	895
Total	5,148	6,828	21,319	3,097

Banking book VaR 99% 1d in € thousand	VaR as of 31/12/2016	Average VaR	Maximum VaR	Minimum VaR
Currency risk	0	0	4	0
Interest rate risk	2,267	1,875	15,063	851
Credit spread risk	1,591	2,883	9,960	1,071
Vega risk	1,082	2,160	5,240	632
Total	3,552	5,634	18,315	3,048

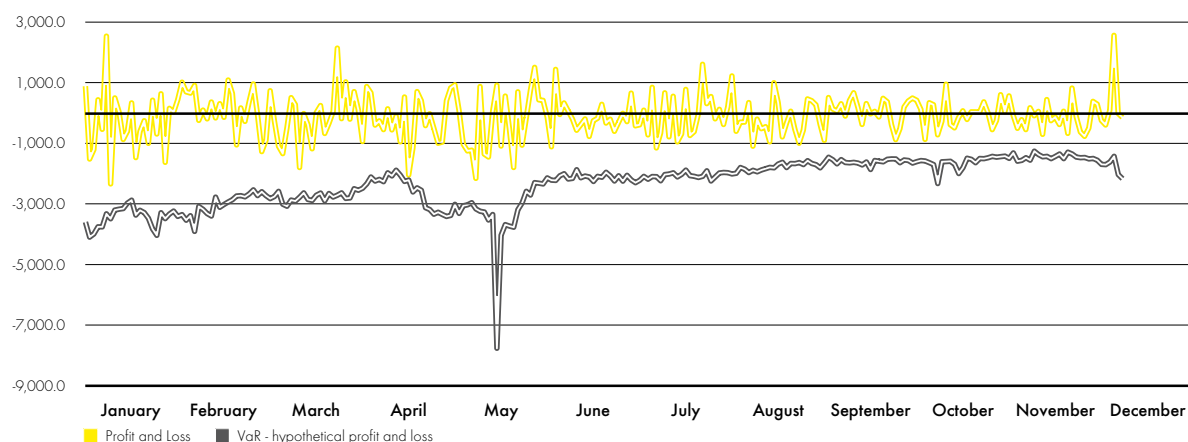
Total VaR 99% 1d in € thousand	VaR as of 31/12/2017	Average VaR	Maximum VaR	Minimum VaR
Currency risk	806	1,587	8,468	415
Interest rate risk	2,285	1,758	4,736	924
Credit spread risk	4,794	4,984	12,791	1,468
Vega risk	183	1,129	4,091	177
Basis risk	2,291	1,305	2,291	940
Total	5,634	7,091	20,573	3,331

Total VaR 99% 1d in € thousand	VaR as of 31/12/2016	Average VaR	Maximum VaR	Minimum VaR
Currency risk	2,951	1,595	5,207	478
Interest rate risk	2,079	2,064	14,459	891
Credit spread risk	1,653	3,903	10,591	1,389
Vega risk	1,007	1,969	4,702	665
Total	4,480	6,850	17,320	3,668

Besides qualitative analysis of profitability, backtesting and statistical validation techniques are regularly used to monitor the risk measurement methods employed. If model weaknesses are identified, the methods are adjusted. The following chart compares VaR with the hypothetical profits and losses for RBI AG's regulatory trading book on a daily basis. VaR denotes the maximum loss that will not be exceeded with a 99 per cent confidence level within a day. The respective hypothetical profit or loss represents that which would have been realized due to changes in the actual market movements on the next day. Last year there were no hypothetical backtesting exceptions.

Value-at-Risk and theoretical market price changes of trading book

in € thousand



Interest rate risk in the trading book

The following table shows the largest present value changes in the trading book given a parallel one-basis-point interest rate increase (significant currencies shown separately). The trading book strategy remains largely unchanged.

2017 in € thousand	Total	< 3 m	> 3 to 12 months	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20y
CHF	3	5	0	0	5	(5)	(1)	1	(1)	0	1	0
CNY	4	0	0	4	0	0	0	0	0	0	0	0
CZK	24	4	(3)	(3)	14	7	(1)	1	4	0	0	0
EUR	(65)	7	(28)	37	(78)	59	48	(66)	40	(39)	(9)	(36)
GBP	(1)	0	0	(1)	0	0	0	0	0	0	0	0
HRK	0	0	0	0	0	1	1	(1)	0	0	0	0
HUF	21	(3)	(9)	4	22	3	2	17	(15)	0	0	0
NOK	1	0	0	1	0	0	1	0	0	0	0	0
PLN	12	1	(2)	1	9	1	0	4	(3)	0	0	0
RON	1	0	0	(1)	2	0	3	(3)	0	0	0	0
RUB	(3)	(2)	2	(2)	(2)	1	1	0	0	0	0	0
USD	9	(3)	2	6	(15)	(9)	1	21	(18)	(15)	25	13
Others	1	0	0	0	(2)	0	(1)	1	3	0	0	0

2016 in € thousand	Total	< 3 m	> 3 to 12 months	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20y
CHF	(8)	1	2	(5)	(9)	1	9	(5)	(1)	(1)	1	0
CNY	5	4	1	0	0	0	0	0	0	0	0	0
CZK	5	(4)	(1)	4	3	1	1	(2)	2	0	0	0
EUR	(137)	9	4	7	16	2	(56)	(58)	33	(92)	10	(12)
GBP	1	0	0	1	0	0	0	0	0	0	0	0
HRK	(1)	0	0	0	0	0	2	(3)	0	0	0	0
HUF	39	0	(6)	4	14	12	15	1	(2)	0	0	0
NOK	1	0	1	0	0	0	0	1	0	0	0	0
PLN	1	0	0	1	1	1	1	(1)	(2)	0	0	0
RON	3	0	0	0	2	0	1	0	0	0	0	0
RUB	(5)	(1)	0	(5)	2	(1)	0	0	0	0	0	0
USD	(13)	(14)	8	2	(8)	(3)	8	(6)	(33)	6	15	12
Others	0	0	(1)	(1)	1	0	0	0	1	0	0	0

Interest rate risk in the banking book

As a result of different maturities and repricing schedules of assets and the corresponding liabilities (i.e. deposits and refinancing on debt and capital markets), RBI AG is subject to interest rate risk. This risk arises in particular from different interest rate sensitivities, rate adjustments, and other optionality of expected cash flows. Interest rate risk in the banking book exists in the euro and US dollar as major currencies.

This risk is mainly hedged by a combination of transactions on and off the statement of financial position, in particular interest rate swaps and – to a lesser extent – interest rate forwards and interest rate options are also used. Management of the statement of financial position is a core task of the Treasury division, which is supported by the Group Asset/Liability Committee. The latter uses scenarios and interest income simulations that ensure proper interest rate sensitivity in line with expected changes in market rates and the overall risk appetite.

Interest rate risk in the banking book is measured not only in a value-at-risk framework, but is also managed by the traditional tools of nominal and interest rate gap analyses. The following table shows the change in the present value of the banking book given a one-basis-point parallel interest rate increase. The main currencies are shown separately.

2017 in € thousand	Total	< 3 m	> 3 to 12 months	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20y
CHF	(14)	6	0	1	1	2	3	(2)	(7)	(17)	0	0
CNY	(3)	0	0	(3)	0	0	0	0	0	0	0	0
CZK	12	1	1	0	0	7	6	0	(2)	0	0	0
EUR	311	(12)	1	200	(18)	22	125	117	13	(28)	(19)	(90)
GBP	(4)	0	0	0	0	0	(1)	(1)	(1)	0	0	0
HUF	1	1	0	0	(1)	0	2	0	0	0	0	0
PLN	16	1	0	1	2	2	17	(1)	(6)	0	0	0
SGD	1	0	0	1	0	0	0	0	0	0	0	0
USD	(90)	11	(9)	6	(10)	(5)	3	(6)	(25)	(34)	(21)	2
Others	0	1	0	0	0	0	0	0	0	0	0	0

2016 in € thousand	Total	< 3 m	> 3 to 12 months	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20y
CHF	(14)	1	0	0	1	2	10	4	(8)	(23)	0	0
CNY	(4)	(2)	(2)	0	0	0	0	0	0	0	0	0
CZK	17	2	0	0	6	4	3	1	0	0	0	0
EUR	311	(21)	5	109	36	(27)	64	235	(55)	18	15	(68)
GBP	(5)	0	0	0	0	0	(1)	(1)	(2)	0	0	0
HUF	(2)	(2)	0	0	0	0	0	0	0	0	0	0
PLN	16	0	(1)	0	5	2	7	2	0	0	0	0
SGD	1	1	0	1	0	0	0	0	0	0	0	0
USD	(118)	17	(4)	0	22	(6)	(5)	(10)	(19)	(45)	(39)	(29)
Others	0	1	0	0	0	0	0	0	0	0	0	0

Credit spread risk

The market risk management framework uses time-dependent bond and CDS-spread curves as risk factors to measure credit spread risks. It covers all capital market instruments in the trading and banking book.

Liquidity management

Principles

Internal liquidity management is an important business process within general bank management because it ensures the continuous availability of funds required to cover day-to-day demands.

Liquidity adequacy is ensured from both an economic and also a regulatory perspective. In order to approach the economic perspective RBI AG established a governance framework comprising internal limits and steering measures which complies with the Principles for Sound Liquidity Risk Management and Supervision established by the Basel Committee on Banking Supervision and the regulation on credit institution risk management (KI-RMV) issued by the Austrian regulatory authority.

The regulatory component is addressed by compliance with reporting requirements under Basel III (liquidity coverage ratio, net stable funding ratio and additional liquidity monitoring metrics) respectively complying with the regulatory limits. In addition some Units of the group have additional liquidity and reporting requirements set by their local supervisory authorities.

Organization and responsibility

Responsibility for ensuring adequate levels of liquidity lies with the overall Management Board. The functionally responsible board members are the Chief Financial Officer (Treasury/ALM) and the Chief Risk Officer (Risk). Accordingly, the processes regarding liquidity risk are run essentially by two areas within the bank: On the one side the Treasury unit, which takes on liquidity risk positions within the strategy, guidelines and parameters set by the responsible decision making bodies. On the other side they are monitored and supported by independent Risk Controlling unit, which measures and models liquidity risk positions, sets limits and supervises the compliance with those.

Besides the responsible units in the line functions, there is the Group Asset/Liability Management Committee (ALCO) acting as the decision making body with respect to all matters affecting the management of the liquidity position and balance sheet structure of RBI AG including the definition of strategies and policies for managing liquidity risks. The ALCO takes decisions and provides standard reports on liquidity risk to the Board of Management at least on a monthly basis.

Liquidity strategy

Treasury units are committed to achieve KPIs and to comply to risk based principles. The current set of KPIs includes general targets (e.g. for return on risk-adjusted capital (RORAC) or coverage ratios), as well as specific Treasury targets for liquidity such as a minimum survival period in defined stress scenarios or diversification of the funding structure. While generating an adequate structural income from maturity transformation which reflects the liquidity and market risk positions taken by the bank, Treasury has to follow a prudent and sustainable risk policy when steering the balance sheet. Strategic goals comprise a reduction of parent funding within the group, a further increase of the stability of the depositor base and continuous compliance with regulatory requirements and the internal limit framework.

Liquidity Risk Framework

Regulatory and internal liquidity reports and ratios are generated and determined based on defined modelling approaches. Whereas the regulatory reports are generated in accordance with the requirements of the authorities, the internal reports are based on assumptions from empirical observations.

RBI AG has a substantial database along with expertise in forecasting capital flows arising from all material items on and off the statement of financial position. Cash inflows and outflows are modelled in a sufficiently detailed manner which, as a minimum, distinguishes between products, customer segments and, where applicable, currencies. Modelling of retail and corporate customer deposits includes assumptions concerning the retention times for deposits after maturity. The modelling approaches are prudent, in that they do not, for example, assume rollover of deposits from financial institutions and all financing channels and liquidity buffers are subject to simultaneous stress testing, without considering the mitigating effects of diversification.

The mainstays of the internal liquidity risk framework are the going concern and the time to wall scenario (TTW). The going concern report shows the structural liquidity position and covers all main risk drivers which could detrimentally affect RBI AG in a normal business environment (business as usual). The going concern models are also the main input factors for the cost contribution for the funds transfer pricing model. The time to wall report, on the other hand, shows the survival horizon for defined adverse scenarios and stress models (market, reputational and combined crisis) and determines the minimum level of the liquidity buffer (and/or the counter-balancing capacity) for each Group unit.

The liquidity scenarios are modelled using a Group-wide approach which considers local specifics where warranted due to influencing factors such as the market or the legal environment or certain business characteristics. When modelling cash inflows and outflows a distinction is at minimum made between products, customer segments and individual currencies (where applicable). For products without a contractual maturity, the distribution of cash inflows and outflows is calculated using a geometric Brownian motion which derives statistical forecasts for future daily balances from the observed, exponentially weighted historical volatility of the corresponding products.

The liquidity risk framework is continuously developed. The technical infrastructure is enhanced and data availability is improved in order to meet the new reporting and management requirements for this area of risk.

Risk appetite and liquidity limits

The liquidity position is monitored at the level of RBI AG and at the level of its branches and is restricted by means of a comprehensive limit system. The limits are determined both for a normal business environment and also for stress scenarios. In accordance with the defined risk appetite, each unit must demonstrate a survival horizon of a few months (TTW) in a severe, combined stress scenario (reputational and market stress). This can be ensured either by a structurally positive liquidity profile or by a sufficiently high liquidity buffer. In a normal going concern environment, maturity transformation must be fully covered by the available liquidity buffer in the medium term. This means that the cumulative liquidity position over a period of up to one year must be positive. In the long term (one year or more), maturity transformation is permitted up to a certain level. For internal models, these limits are supplemented by limits for compliance with regulatory liquidity ratios, such as the liquidity coverage ratio (LCR). All limits must be complied with on a daily basis.

Liquidity monitoring

The bank uses a range of customized measurement tools and early warning indicators that provide board members and senior management with timely and forward looking information. The limit framework ensures that the bank can continue to operate in a period of severe stress.

Monitoring of limits and reporting limit compliance is performed effectively and the respective escalation channels are being utilized and work as designed. Limit compliance is generally very high and any breach is reported to ALCO and escalated. In such cases, appropriate steps are undertaken or contentious matters are escalated to the next highest responsible body.

Liquidity stress test

Stress tests are conducted on a daily basis for RBI AG and once a week at Group level. The tests cover three scenarios (market, reputational and combined crisis), consider the effects of the scenarios for a period of several months and demonstrate that stress events can simultaneously result in a time-critical liquidity requirement in several currencies. The stress scenarios include the principal funding and market liquidity risks, without considering beneficial diversification effects (i.e. all units of RBI AG are simultaneously subject to a severe combined crisis for all their major products). The results of the stress tests are reported to the Management Board and other members of management on a weekly basis; they also form a key component of the monthly ALCO meetings and are included in the bank's strategic planning and contingency planning.

A conservative approach is adopted when establishing outflow ratios based on historical data and expert opinions. The simulations assume a lack of access to the money or capital markets and also assume simultaneous significant outflows of customer deposits. In this respect, the deposit concentration risk is considered by assigning even higher outflow ratios to large customers. Furthermore, stress assumptions are formulated for the drawdown of guarantees and credit obligations. In addition, the liquidity buffer positions are adapted by haircuts in order to cover the risk of disadvantageous market movements, and the potential outflows resulting from collateralized derivative transactions are estimated. The bank continuously monitors whether the formulated stress assumptions are still appropriate or whether new risks need to be considered.

The time to wall concept has established itself as the main control instrument for day-to-day liquidity management and is therefore a central component of funding planning and budgeting. It is also fundamental to determining performance ratios relating to liquidity.

Liquidity buffer

As shown by the daily liquidity risk reports, each Group unit actively maintains and manages liquidity buffers, including high quality liquid assets (HQLA) which are always sufficient to cover the net outflows expected in crisis scenarios. RBI AG has sizeable, unencumbered and liquid securities portfolios and favors securities eligible for Central Bank tender transactions in order to ensure sufficient liquidity in various currencies. Each Group unit ensures the availability of liquidity buffers, tests its ability to utilize central bank funds, constantly evaluates its collateral positions as regards their market value and encumbrance and examines their other countermeasures, including the funding potential and the realizability of the assets.

Generally, a haircut is applied to all liquidity buffer positions. These haircuts include a market-risk-specific haircut and a central bank haircut. While the market risk haircut represents the potential price volatility of the assets-side securities in the liquidity buffer, the central bank haircut represents an additional haircut for each individual relevant security that may be offered as collateral.

Intraday liquidity management

In compliance with regulatory requirements for intraday liquidity management a daily stressed forecast of available intraday liquidity at defined critical times during a business day is calculated for RBI AG. This stressed forecast, which considers outflow assumptions analogous to the regular liquidity stress testing in the Group (see above), is quite conservative since inflows that are not final (revocable) are not considered at all. In case of limit breaches, the intraday contingency and escalation process is triggered.

Emergency funding plan

Under aggravated liquidity conditions, the units switch to a contingency process in which they follow predefined liquidity contingency plans. These contingency plans also constitute an element of the liquidity management framework and are mandatory for all significant Group units and thus also for RBI AG. The emergency management process is sophisticated and is designed so that the Group can retain a strong liquidity position even in serious crisis situations.

Liability structure and liquidity position

Funding is founded on a strong base of customer deposits and is supplemented by wholesale funding. The ability to procure funds is precisely monitored and evaluated by Treasury.

In the past year and to date, RBI AG's excess liquidity was significantly above all regulatory and internal limits. The result of the internal time to wall stress test demonstrates that RBI AG would survive throughout the modelled stress phase of a few months even without applying contingency measures.

The results of the going concern scenario are shown in the following table. The table shows excess liquidity and the ratio of expected capital inflows and the counter-balancing capacity to capital outflows (liquidity ratio) for selected maturities on a cumulative basis. The capital flows are based on assumptions taken from expert opinions, statistical analyses and country specifics. This calculation also includes estimates of the stability of the customer deposit base, outflows from off-balance sheet items and downward market movements in relation to positions which are included in the counter-balancing capacity.

in € thousand Maturity	2017		2016	
	1 month	1 year	1 month	1 year
Liquidity gap	2,379,611	3,724,891	4,211,782	4,958,137
Liquidity ratio	107%	105%	113%	108%

Liquidity gap and liquidity ratio have declined due to the planned reduction of excess liquidity.

Liquidity coverage ratio

The Liquidity Coverage Ratio (LCR) supports the short-term resilience of banks, which must ensure that they have an adequate stock of unencumbered high-quality liquid assets (HQLA) in order to be able to cover potential outflows due to liabilities that may be incurred during crises. HQLAs can be converted into cash in order to cover the liquidity requirement within the framework of a liquidity stress scenario for at least 30 calendar days.

The calculation of the expected cash inflows and outflows as well as HQLAs is based on regulatory guidelines.

In 2017 the regulatory LCR limit was 80 per cent; it will be 100% from 2018.

in € thousand	31/12/2017	31/12/2016
Average liquid assets	11,404,506	4,616,369
Net outflows	9,084,032	2,077,857
Inflows	4,559,677	4,780,120
Outflows	13,643,709	6,857,977
Liquidity Coverage Ratio	126%	222%

Compared to year-end 2016, in 2017 the LCR of RBI Group decreased as planned. Main drivers were the inclusion of RZB AG's business into RBI AG in March 2017 and the intended liquidity surplus reduction at RBI AG. The increase in average liquid assets resulted from the merger of RZB into RBI AG.

Net Stable Funding Ratio (NSFR)

The NSFR is defined as the ratio of available stable funding to required stable funding. The regulatory limit is expected to be set at 100 per cent and to be used for the first time in 2020. This ratio should continuously be at least 100 per cent, although no regulatory limit has been set. Available stable funding is defined as that portion of equity and debt which is expected to be a reliable source of funds over the time horizon of one year covered by the NSFR. A bank's required stable funding depends on the liquidity characteristics and residual maturities of the various assets held and of off-balance sheet exposures.

RBI AG targets a balanced funding position. The regulatory provisions are currently being revised by the regulatory authorities.

in € thousand	2017	2016
Required stable funding	32,282,796	26,830,272
Available stable funding	29,326,354	26,144,916
Net Stable Funding Ratio	91%	97%

Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. In this risk category, internal risk drivers such as unauthorized activities, fraud or theft, losses caused by conduct, model errors, execution and process errors, or business disruption and system failures are managed. External factors such as damage to physical assets or fraudulent intentions are also managed and controlled.

These risks are analyzed and managed on the basis of RBI's own historical loss data and the results of the risk assessment.

As with other risk types, the principle of firewalling between risk management and risk controlling also applies to operational risk at RBI AG. To this end, individuals are designated and trained as Operational Risk Managers for each division. Operational Risk Managers provide central Operational Risk Controlling with reports on risk assessments, loss events, indicators and measures. They are supported in their work by Dedicated Operational Risk Specialists (DORS).

Operational risk controlling units are responsible for reporting, implementing the framework, developing control measures and monitoring compliance with requirements. Within the framework of the annual risk management cycle, they also coordinate the participation of the relevant second line of defense departments (Financial Crime Management, Compliance, Vendor Management, Outsourcing Management, Insurance Management, Information Security, Physical Security, BCM, Internal Control System) and all first line of defense contacts (Operational Risk Managers).

Risk identification

Identifying and evaluating risks that endanger the bank as a going concern (but risks that occur with a very low degree of probability) and other areas in which losses occur more frequently (but cause only small losses) represent key tasks in the management of operational risk.

Operational risk is assessed in a structured form according to categories such as business processes and event types by risk assessments. Moreover, all new products are subject to a risk assessment. The impact of high probability/low impact events and low probability/high impact events is measured over a one- and ten-year horizon. Low probability/high impact events are quantified on the basis of scenarios. The internal risk profile, loss events or external changes determine which scenarios are analyzed.

Monitoring

In order to monitor operational risks, early warning indicators are used for prompt identification and mitigation of losses.

Operating losses are recorded in a central database named ORCA (Operational Risk Controlling Application) in a structured manner and are broken down by business line and type of event. In addition to the requirements for the internal and external reporting, loss events are used for the exchange of information with international databases to further develop the measurement methods used as well as to track measures and effectiveness of controls. Since 2010, RBI AG has participated in the ORX data consortium (Operational Risk data exchange Association), whose data is currently used for internal benchmark purposes and analyses and as part of the operational risk model. The ORX data consortium is an association of banks and insurance groups for statistical purposes. The results of the analyses and events resulting from operational risk are reported in a comprehensive manner to the relevant Operational Risk Management Committee on a regular basis.

Quantification and mitigation

Since October 2016 RBI AG has calculated the equity requirement using the Advanced Measurement Approach (AMA).

The Advanced Measurement Approach is based on an internal model with the input factors from the external and internal loss events and the Group-wide scenarios. Risk-based management is carried out with the allocation on the basis of the input factors of the corresponding units and operating income for stabilization. The implementation of these high qualitative standards has already been rolled out in broad sections of the Group.

To mitigate operational risk, the business division heads take preventive action to reduce and transfer risk. The progress and success of these actions is monitored by risk controlling. The business division heads also draw up contingency plans and nominate persons or departments to take the required measures if losses do in fact occur. In addition, several dedicated organizational units provide support to business divisions to reduce operational risks. An important role in connection with operational risk activities is taken on by Financial Crime Management. Financial Crime Management provides support for the prevention and identification of fraud. RBI AG also organizes regular extensive staff training programs and has a range of contingency plans and back-up systems in place.

Internal control and risk management system with regard to the accounting process

Introduction

The establishment and definition of a suitable internal control and risk management system with regard to the accounting process is extremely significant for RBI AG. The annual financial statements of RBI AG are prepared in the Financial Accounting and Treasury Accounting departments, which fall within the CFO's area of responsibility. The foreign branches deliver financial statements to head office and they themselves are responsible for preparing the financial statements.

The annual financial statements are prepared on the basis of the relevant Austrian laws, above all the Austrian Banking Act (BWG) and the Austrian Commercial Code (UGB), which deal with the preparation of annual financial statements.

RBI AG's general ledger is maintained in SAP. The GEBOS core banking system fulfills important sub-ledger functions such as credit and deposit processing (GIRO) and a partial coexistence function to the SAP general ledger. Other sub-ledgers exist in addition to GEBOS, including in particular:

- Wall Street Systems and Murex (Treasury transactions)
- GEOS und GEOS Nostro (securities settlement and nostro securities management)

- Payments
- Banktrade (guarantees and letters of credit)
- UBIX (stock exchange traded securities derivatives)
- ARTS/SE4 (Repo and lending business)
- SAP sub-ledgers (accounts receivable/accounts payable/fixed asset accounting)

The accounting process can be described as follows:

- **Day-to-day accounting**
Day-to-day accounting records are mainly posted to the respective sub-ledgers (sub-systems). This posting data is transferred to the general ledger (SAP) in aggregated form on a daily basis, using automated interfaces. In addition, individual postings are recorded directly in the SAP general ledger.
The general ledger in SAP has multi-GAAP functionality, which means two equivalent parallel general ledgers are maintained in SAP: one in accordance with UGB/BWG reporting standards and also a parallel ledger in accordance with IFRS. An operational chart of accounts exists for the two general ledgers; depending on the respective content, all postings are effected either simultaneously in both general ledgers or in only one of the two ledgers. The parallelism of the entries and the parallel existence of the two general ledgers remove the need for reconciliations from UGB/BWG to IFRS.
- **Individual financial statements for RBI head office in accordance with UGB/BWG and IFRS**
The SAP trial balance in accordance with UGB/BWG and/or IFRS results from the posting data of the respective sub-systems which is delivered via automated interfaces. In addition, a number of supplementary ledger-specific closing entries are made directly in SAP. These are independent of the respective sub-systems. The sum of all these entries gives the statement of financial position and the income statement pursuant to UGB/BWG or IFRS.
- **Individual financial statements of RBI AG**
In a final step, the financial statements of RBI AG in accordance with UGB/BWG are produced. These include RBI head office and also the branches. Both the branch data and also the closing data of RBI head office are conveyed by automated transfer from SAP or in some cases by direct input into the IBM Cognos Controller consolidation system. The data are consolidated in this system, on the basis of which RBI AG's overall individual financial statements are prepared.

Control environment

In general, all Group-internal instructions can be retrieved from the Group Internal Law Database. With regard to accounting, mention should be made above all of the Group Accounts Manual, which contains a description of the following points in particular:

- General accounting rules
- Measurement methods
- Required (quantitative) information in the notes
- Accounting rules for special transactions

Further guidelines relate solely to RBI AG or only deal with functions within departments. The Corporate Directive Accounting Guidelines for example apply to the accounting system. These deal with the instruction process for the settlement of purchase invoices, cost refunds and the management of clearing accounts.

Risk assessment

The assessment of the risk of incorrect financial reporting is based on various criteria. Valuations of complex financial instruments may lead to an increased risk of error. In addition, asset and liability items have to be valued for the preparation of the annual financial statements; in particular the assessment of the impairment of receivables, securities and participations, which are based on estimates of future developments, gives rise to a risk.

Control measures

The main control measures encompass a wide range of reconciliation processes. Besides the four eyes principle, automation-aided controls and monitoring instruments dependent on risk levels are used. The reconciliation between general ledgers and sub-ledgers or the reconciliation between financial accounting and balance sheet risk management can be cited as examples. Particular emphasis is placed on effective deputizing arrangements to ensure that deadlines are not missed due to the absence of one person.

The Audit Committee of the Supervisory Board considers and approves the annual financial statements and the management report. They are published in the Wiener Zeitung and finally filed with the commercial register.

Information and communication

Information on the accounting treatment of the respective products is regularly exchanged with the specialist departments. For example, regular monthly meetings take place with the Capital Markets and Treasury departments, in which among other topics accounting for complex products is addressed. The Accounting team is also represented at regularly scheduled *jour-fixe* meetings during the product launch process in order to provide information on the technical aspects of accounting and their implications for product launches. Regular department events ensure that employees receive ongoing training on changes to accounting rules under UGB, BWG and IFRS.

As part of the reporting process, the Management Board receives monthly and quarterly reports analyzing the results of RBI AG. The Supervisory Board is also regularly informed about the results at its meetings. This ensures that the internal control system is monitored.

External reports are for the most part prepared only for the consolidated results of RBI AG. The reporting cycle is quarterly: besides the consolidated financial statements, a semi-annual financial report and interim quarterly reports for the Group are published. In addition, reports have to be regularly provided to the banking supervisory authority.

Monitoring

Financial reporting is an important part of the ICS, in which the accounting processes are subject to additional monitoring and control, the results of which are presented to the Management Board and Supervisory Board. The Audit Committee is also responsible for monitoring the accounting process. The Management Board is responsible for ongoing company-wide monitoring. In accordance with the target operating model, three successive lines of defense are established to meet the increased requirements for internal control systems.

The first line of defense is formed by the individual departments, where department heads are responsible for monitoring their business areas. Controls and plausibility checks are conducted on a regular basis within the departments, in accordance with the documented processes.

The second line of defense is provided by issue-specific specialist areas. These include, for example, Compliance, Data Quality Governance, Operational Risk Controlling or Security & Business Continuity Management. Their primary aim is to support the individual departments when carrying out control steps, to validate the actual controls and to introduce state-of-the-art practices within the organization.

Internal audits are the third line of defense in the monitoring process. Responsibility for auditing lies with Group Internal Audit at RBI and also 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 Audit's internal rules are additionally applicable (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 Boards.

Outlook

Economic prospects

Austria

The economic upturn in Austria probably peaked in 2017, with real GDP growth likely to slow from 3.2 per cent to 2.6 per cent in 2018. Economic growth should continue to be buoyed both by domestic demand and net exports, whereas the contribution to growth from investment is expected to fall back as a result of weakening momentum in equipment investment. In contrast, private consumption is anticipated to benefit from the ongoing increase in employment.

Central Europe

The strong economic growth that Central Europe (CE) achieved in 2017 should continue in 2018. Growth also remains broad based, with increasing export demand, mostly supported by solid economic growth in Germany and in the euro area, rising investment spending and a pick-up in private consumer demand in the region's markets. Significant GDP growth of between 3.8 per cent and 4.1 per cent is expected for the Polish, Slovakian and Slovenian economies in 2018. Hungary and the Czech Republic should also enjoy continued growth of over 3 per cent. According to current forecasts, the CE economies are projected to grow at a rate of 3.8 per cent in 2018, following 4.2 per cent in 2017.

Southeastern Europe

The Southeastern Europe (SEE) region is also expected to continue its growth trend. Following very strong GDP growth of 5.0 per cent in 2017, SEE should be able to increase its economic output in 2018 by 3.7 per cent. Economic growth in Romania is expected to slow to a rate of 4.2 per cent in 2018. Given that this is still above Romania's potential growth rate, however, external imbalances could widen further. Moreover, Romania's public deficit runs the risk of exceeding the 3 per cent Maastricht ceiling. In Serbia, economic growth should recover somewhat in 2018, following the weak growth experienced in 2017. In Croatia, growth in 2018 is projected at 2.3 per cent, somewhat weaker than seen in 2017.

Eastern Europe

According to current forecasts, the Russian economy is poised to continue its moderate recovery in 2018, with economic growth seen at around 1.5 per cent. A slightly higher oil price should support the economy while ongoing comparatively tight monetary and fiscal policy is unlikely to provide any significant economic growth stimulus. The Russian presidential election in March 2018 is not expected to have a major impact on the economic situation. In Ukraine, parliamentary and presidential elections are on the agenda for 2019, which could heighten political uncertainty in 2018 and curb economic growth. As a result, economic growth in Ukraine is seen at a moderate 2.5 per cent in 2018.

Outlook for RBI AG

Given the positive economic outlook for the coming financial year 2018, we assume RBI AG will report sustainable loan growth in the low single digit area for the next few years.

Due to the exceptionally high dividend income from affiliated companies in financial year 2017, which will not be repeated in 2018, we expect lower operating income. In addition, we expect only minor stimuli from the persistent low interest rate environment. As a result, we anticipate a slight volume-related increase in the net interest margin compared to 2017 (€ 245 million). Net fee and commission income should also increase slightly.

In the area of general administrative expenses, continuing high investment for digitalization and regulatory requirements is squeezing earnings. In the medium term, we aim for a cost/income ratio of less than 50 per cent.

Net provisioning for impairment losses was already very low in 2017 with negative effects from only a few large individual cases. The generally good economic situation should also have a positive effect on credit risk in 2018.

We target a CET1 ratio (fully loaded) after dividend of around 13 per cent for the RBI Group in the medium term. Based on this target we intend dividend distributions of 20 to 50 per cent of the consolidated profit.

Auditor's Report

Report on the Financial Statements

Audit Opinion

We have audited the financial statements of

**Raiffeisen Bank International AG,
Vienna**

which comprise the Statement of financial position as of 31 December 2017, the Income statement for the year then ended, and the notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2017, and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accounting Principles, and other legal requirements (Austrian Banking Act).

Basis for our Opinion

We conducted our audit in accordance with EU Regulation 537/2014 ("EU Regulation") and the Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the Company, in accordance with Austrian Generally Accepted Accounting Principles and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, however, we do not provide a separate opinion thereon. In the following we present the key audit matters from our point of view:

1. Recoverability of loans and advances to customers
2. Recoverability of shares in affiliated companies
3. Valuation of derivative financial instruments

1. Recoverability of loans and advances to customers

The Financial Statement Risk

Loans and advances to customers are reported in the statement of financial position net of individual and portfolio-based loan loss provisions, in an amount of EUR 18.3 billion. They comprise predominantly loans and advances to Austrian and foreign corporate customers.

The Management Board describes the composition of the loans and advances to customers, the process of monitoring the credit risk and the procedures for determining the loan loss provisions in the "Recognition and Measurement Principles" section in the notes to the Financial Statements and in the "Credit Risk" section of the Risk Report in the Management Report.

As part of the credit risk monitoring process the bank checks if there is any indication of impairment and therefore whether individual loan loss provisions are needed. This includes assessing whether the customer can fully meet the contractually agreed repayments without the need to realize collateral.

Where there is an indication of impairment of loans, individual loan loss provisions are recognized in the amount of the expected loss according to homogeneous standards. The provision amount is determined by the difference between the carry-ing value of the loan and the lower present value of projected future repayments including interest and any recoveries from the realization of collaterals. The assessment of a loan loss provisioning is significantly influenced by the estimate of the client's economic situation and development, the estimate of collateral values and the forecast amount and timing of future cash flows.

Portfolio-based loan loss provisions are recognized for all loans that are not impaired based on their individual risk profile (individual rating classes). Portfolio-based loan loss provisions are determined using centrally calculated historical Group default rates for each rating class and risk model, considering collateral values and parameters based on statistical assumptions and historical data.

The calculation of loan loss provisions is significantly influenced by management's assumptions and estimates. These assumption and estimate uncertainties lead to a risk of misstatement in the Financial Statements.

Our Audit Approach

We have obtained the documentation that describes the process of loan issuance, loan monitoring and determination of loan loss provisions for corporate customer loans and assessed these documents to determine whether the processes adequately identify impairment indicators and ensure that the valuation of loans and advances to customers is appropriately reflected in the Financial Statements. In addition, we tested the essential key controls within these processes. As part of this work we checked the design, implementation and effectiveness of these key controls.

For individual loan loss provisions, we used a sampling based approach to determine whether impairment indicators were identified and appropriate loan loss provisions were calculated. We assessed the bank's estimates regarding the amount and timing of future cash flows, including those resulting from realization of collateral, and whether the bank's assessment was in line with the internal and external information available. The sample selection was made using both a risk based approach dependent on the client's rating class, and a random selection approach for clients with a lower probability of default. With regard to the internal collateral valuation, we evaluated whether the assumptions used in the model were adequate and in line with available market data.

For portfolio loan loss provisions, we critically assessed whether the models and relevant parameters used were adequate for calculating loan loss provisions. We used sampling to test whether the applied probability of default rates per rating class had been correctly determined. Our valuation specialists assessed the appropriateness of the models and parameters used. They assessed whether the models and parameters used, taking into account backtesting results, are appropriate for calculating loan loss provisions. We have analyzed the correctness of the calculation of the provisions.

Finally we assessed whether the disclosures in the notes to the Financial Statements and the Management Report regarding loan loss provisions were appropriate.

2. Recoverability of shares in affiliated companies

The Financial Statement Risk

Shares in affiliated companies amount to around EUR 11.3 billion in total and represent a significant item on the balance sheet of Raiffeisen Bank International AG. In particular, the bank has shareholdings in domestic and foreign credit institutions, in which it holds a majority either directly (AO Raiffeisenbank, Moscow; Raiffeisen Bank Polska S.A., Warsaw; Raiffeisen Bank Aval JSC, Kiev) or indirectly through a holding company. Additionally, RBI has holdings in further finance and project companies.

The Management Board describes the process for managing the participation portfolio and the procedures for assessing impairment of shares in affiliated companies under "Recognition and measurement principles" in the notes to the Financial Statements and in the Participation risk section in the Risk Report in the Management Report.

The banks division "Group Participations" assesses whether, on the basis of the fair value of the individual equity participations, there are triggers for permanent impairment in any given case or whether a reversal of a previous impairment up to the amount of the acquisition cost is necessary.

Internal and external company valuations are used to calculate the fair value. The company valuation calculations are primarily based on assumptions and estimates of the future business development and expected returns to the owner, especially as dividends. These are based on the budgeted figures approved by the governing bodies of the respective company. The discount rates applied are derived from the financial and capital markets and can be affected by market-based, economic and legal factors which may change in the future.

In consequence the valuations are based on judgmental factors by nature within a certain range and carry uncertainties with respect to the estimates. They therefore lead to a potential risk of misstatement in the Financial Statements.

Our Audit Approach

We have examined the processes in the "Group Participations" division and tested the key controls using a sample approach, to assess whether the process structure and implementation are adequate to identify necessary impairments or potential impairment reversals on a timely basis.

Our valuation specialists have examined the valuation model, the planning assumptions and the valuation parameters. The adequacy of the applied valuation models for calculations of the fair value of the companies was analysed. The valuation parameters used in the model, primarily the interest rate components, were evaluated. The assumptions used to determine the interest rates were assessed as to their appropriateness by comparison with market and industry-specific benchmarks. Backtesting was performed to assess the forecasting accuracy with respect to the assumptions in the detailed planning phase. In this process, the cash flows used in the valuation model from the previous year were compared with and assessed in relation to the actual values and the current budgeted values regarding their appropriateness. The calculation of the company valuations was analyzed on a sampling basis. The calculation of the company valuations was compared with market data and publicly available information (primarily industry-specific market multiples, in particular the price-to-book (P/B) ratio and the price-to-earnings (P/E) ratio).

Finally, we assessed whether the disclosures in the notes to the Financial Statements and in the Management Report regarding the recoverability of shares in affiliated companies are appropriate.

3. Valuation of Derivatives

The Financial Statement Risk

The bank has entered into derivatives transactions for trading and hedging purposes as part of its business activities. The allocation of a derivative to the trading or banking book and any recognition of valuation units or functional units are significant for its presentation and subsequent valuation.

The Management Board describes the procedure for classification of derivative financial instruments, the designation of hedging relationships and functional units and the calculation of fair value of financial instruments in the "Recognition and Measurement Principles" section in the notes to the Financial Statements.

For derivative financial instruments measured at fair value for which no quoted prices or only insufficient observable market data are available, the valuation is determined using internal models and the assumptions and parameters used therein and therefore requires discretionary judgment. Due to the leverage inherent in derivatives, market values of derivatives can be subject to significant fluctuation.

For the formation of hedging relationships (valuation units), certain documentation requirements for the hedging relationship and its efficiency must be met.

In presence of a documented strategy, banking book derivatives used for interest rate risk management can be included in functional units. If the conditions for the recognition of a valuation unit or functional unit are not met or not verified, a corresponding provision for impending loss must be recognized for derivatives with a negative fair value.

Our Audit Approach

Together with our valuation specialists, we have assessed the fair values calculated by the bank and examined the appropriateness of the valuation models used and the underlying valuation parameters. We have also compared the parameters used with market data. Furthermore, we have analyzed the valuation assumptions and the calculation of fair value using sampling.

We have examined the existence of valuation units by reviewing the hedge accounting documentation using a sampling approach and in particular assessed whether the hedging intention and documentation of the hedging instrument were in place. We also assessed the effectiveness tests conducted by the bank to ensure they are appropriate and analyzed the calculation of ineffective relationships.

For functional units of derivatives used for interest risk management, we have assessed whether the required strategy is in place based on the documentation, and whether the documentation and risk management meet the requirements for recognition of functional units.

Finally we have assessed whether the disclosures in the notes to the Financial Statements relating to the categorization, presentation of valuation methods and the recognition of hedging relationships and functional units are complete and appropriate.

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Austrian Generally Accepted Accounting Principles and other legal requirements (Austrian Banking Act) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with the EU Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatements in the financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast considerable doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the financial statements. If such disclosures are not ap

appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Management Report

In accordance with Austrian Generally Accepted Accounting Principles, the management report is to be audited as to whether it is consistent with the financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the management report in accordance with Austrian Generally Accepted Accounting Principles and other legal requirements (Austrian Banking Act).

We have conducted our audit in accordance with generally accepted standards on the audit of management reports as applied in Austria.

Opinion

In our opinion, the management report is consistent with the financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the financial statements and our understanding of the Company and its environment, we did not note any material misstatements in the management report.

Additional information under Article 10 EU Regulation

At the Annual General Meeting dated 16 June 2016, we were elected as auditors. We were appointed by the supervisory board on 16 June 2016. We have been the Company's auditors since the Company's first listing on the stock exchange in 2005.

We declare that our opinion expressed in the "Report on the Financial Statements" section of our report is consistent with our additional report to the audit committee, in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Company.

Engagement Partner

The engagement partner is Mr. Mag. Wilhelm Kovsca.

Vienna, 27 February 2018

KPMG Austria GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

A handwritten signature in black ink, appearing to read 'Wilhelm Kovsca', with a stylized flourish on the left side.

Wilhelm Kovsca

Wirtschaftsprüfer

(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid.

The financial statements, together with our auditor's opinion, may only be published if the financial statements and the management report are identical with the audited version attached to this report. Section 281 (1) of the Austrian Commercial Code (UGB) applies.

Statement of the board of Management pursuant to Art. 82 (4) Z3 Austrian Stock Exchange Act

We confirm to the best of our knowledge that the financial statement give a true and fair view of the assets, liabilities, financial positions and profit or loss of the company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

Vienna, 27 February 2018
The Managing Board



Johann Strobl

Chief Executive Officer responsible for Chairman's Office, Group Communications, Group Compliance¹, Group Digital Banking, Group Executive Office, Group Human Resources, Group Internal Audit¹, Group Marketing, Group Participations, Group Regulatory Affairs, Group Strategy, Group Sustainability Management, International Banking Units, Legal Services, Group Asset Management (via RCM)², Group Business Management & Development², Group Capital Markets², Group Investment Banking², Institutional Clients² and Raiffeisen Research²



Martin Grill

Member of the Management Board responsible for Active Credit Management, Group Investor Relations, Group Planning & Finance, Group Treasury and Tax Management



Andreas Gschwenter

Member of the Management Board responsible for COO Strategy, Governance and Change, Group Efficiency Management, Group IT, Group Procurement, Cost & Real Estate Management, Group Project Portfolio & Security and Head Office Operations



Peter Lennkh

Member of the Management Board responsible for Corporate Customers, Corporate Finance, Group Corporate Business Strategy & Steering, International Business Support, International Leasing Steering & Product Management, Trade Finance & Transaction Banking, International Consumer & Small Business Banking³, International Premium & Private Banking³ and International Retail Strategy & Products³



Hannes Mösenbacher

Member of the Management Board responsible for Financial Institutions, Country & Portfolio Risk Management, Group Corporate Credit Management, Group Risk Controlling, Group Special Exposures Management, International Retail Risk Management and Sector Risk Controlling Services

¹ Reports to the whole Management and Supervisory Board

² Reports temporarily to the CEO

³ Reports temporarily to the Management Board member for Corporate Banking