RAIFFEISEN BANK INTERNATIONAL

ANNUAL FINANCIAL REPORT 2016

Raiffeisen Bank International

Overview

Raiffeisen Bank International (RBI)						
Monetary values in € million	2016	Change	2015	2014	2013	2012
Income statement	1/1-31/12		1/1-31/12	1/1-31/12	1/1-31/12	1/1-31/12
Net interest income	2,935	(11.8)%	3,327	3,789	3,729	3,472
Net provisioning for impairment losses	(754)	(40.3)%	(1,264)	(1,750)	(1,149)	(1,009)
Net fee and commission income	1,497	(1.5)%	1,519	1,586	1,626	1,516
Net trading income	215	>500.0%	16	(30)	321	215
General administrative expenses	(2,848)	(2.3)%	(2,914)	(3,024)	(3,340)	(3,258)
Profit/loss before tax	886	24.6%	711	(105)	835	1,037
Profit/loss after tax	574	31.9%	435	(587)	603	752
Consolidated profit/loss	463	22.2%	379	(617)	557	730
Statement of financial position	31/12		31/12	31/12.	31/12	31/12
Loans and advances to banks	9,900	(8.6)%	10,837	15,573	22,243	22,323
Loans and advances to customers	70,514	0.8%	69,921	77,925	80,635	83,343
Deposits from banks	12,816	(21.7)%	16,369	22,408	30,105	30,186
Deposits from customers	71,538	3.7%	68,991	66,094	66,437	66,297
Equity	9,232	8.6%	8,501	8,178	10,364	10,873
Assets	111,864	(2.2)%	114,427	121,500	130,640	136,116
Key ratios	1/1-31/12		1/1-31/12	1/1-31/12	1/1-31/12	1/1-31/12
Return on equity before tax	10.3%	1.9 PP	8.5%	–	7.8%	9.7%
Consolidated return on equity	5.8%	1.0 PP	4.8%	–	4.9%	7.4%
Cost/income ratio	60.7%	1.6 PP	59.1%	56.5%	58.3%	61.5%
Return on assets before tax	0.79%	0.19 PP	0.60%	–	0.63%	0.73%
Net interest margin (average interest-bearing assets)	2.78%	(0.22) PP	3.00%	3.24%	3.11%	2.66%
Provisioning ratio (average loans and advances to customers)	1.05%	(0.59) PP	1.64%	2.17%	1.39%	1.21%
Bank-specific information	31/12		31/12	31/12	31/12	31/12
NPL ratio	9.2%	(2.7) PP	11.9%	11.4%	10.7%	9.8%
Risk-weighted assets (total RWA)	60,061	(5.1)%	63,272	68,721	79,897	82,822
Total capital requirement	4,805	(5.1)%	5,062	5,498	6,392	6,626
Total capital	11,537	5.0%	10,987	10,970	12,686	12,885
Common equity tier 1 ratio (transitional)	13.9%	1.8 PP	12.1%	10.8%	10.7%	10.7%
Common equity tier 1 ratio (fully loaded)	13.6%	2.1 PP	11.5%	10.0%	–	–
Total capital ratio (transitional)	19.2%	1.8 PP	17.4%	16.0%	15.9%	15.6%
Total capital ratio (fully loaded)	18.9%	2.2 PP	16.8%	15.1%	–	–
Stock data	1/1-31/12		1/1-31/12	1/1-31/12	1/1-31/12	1/1-31/12
Earnings per share in €	1.58	22.2%	1.30	(2.17)	1.83	2.72
Closing price in € (31/12)	17.38	27.7%	13.61	12.54	25.62	31.46
High (closing prices) in €	18.29	16.6%	15.69	31.27	33.59	33.36
Low (closing prices) in €	10.21	13.4%	9.01	11.51	19.96	18.64
Number of shares in million (31/12)	292.98	0.0%	292.98	292.98	195.51	195.51
Market capitalization in € million (31/12)	5,092	27.7%	3,986	3,672	5,009	6,150
Dividend per share in €	–	–	–	–	1.02	1.17
Resources	31/12		31/12	31/12	31/12	31/12
Employees as at reporting date (full-time equivalents)	48,556	(5.7)%	51,492	54,730	57,901	60,084
Business outlets	2,506	(7.4)%	2,705	2,866	3,025	3,106
Customers in million	14.1	(5.0)%	14.9	14.8	14.6	14.2

In this report, Raiffeisen Bank International (RBI) refers to the RBI Group, and RBI AG is used wherever statements refer solely to Raiffeisen Bank International AG. The same applies to RZB and RZB AG.

The original Annual Financial Report was prepared in German. Only the German language version is the authentic one. The English language version is a non-binding translation of the original German text. Please be aware that due to the rounding off of amounts and percentages there may be minor differences.

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With cooperation of: RBI Group Communications (Parts of Management Report), RZB Risk Controlling (Parts of Risk Report)

Content

Consolidated financial statements....4
Statement of comprehensive income....4
Statement of financial position....7
Statement of changes in equity....8
Statement of cash flows....9
Segment reporting....11
Notes....18
Notes to the income statement....22
Notes to the statement of financial position....29
Disclosures to financial instruments....53
Risk report....66
Other disclosures....103
Recognition and measurement principles....131
Events after the reporting date....151
Auditor's report....153

Management report....159
Market development....159
Earnings and financial performance....163
Statement of financial position....172
Equity....174
Research and development....175
Internal control and risk management system in relation to the Group accounting process....175
Capital, share, voting, and control rights....178
Risk management....180
Corporate Governance....180
Human Resources....181
Outlook....183
Events after the reporting date....184

Annual financial statements....185
Statement of financial position....185
Income statement....187
Items off the statement of financial position....188

Notes....189
Recognition and measurement principles....189
Company....194
Notes on individual items of the statement of financial position....195
Notes to the income statement....207
Events after the reporting date....208
Other....209

Management report....219
Development of the banking sector....219
Business performance at Raiffeisen Bank International AG....221
Financial Performance Indicators....224
Capital, share, voting, and control rights....227
Non-financial Performance Indicators....230
Sustainability Management....232
Corporate Governance....233
Risk management....233
Risk report....233
Internal control and risk management system with regard to the accounting process....250
Outlook....252
Auditor's Report....254

Statement of all legal representatives....259

Consolidated financial statements

Statement of comprehensive income

Income statement

in € thousand	Notes	2016	2015	Change
Interest income		4,043,862	4,916,202	(17.7)%
Interest expenses		(1,108,433)	(1,589,552)	(30.3)%
Net interest income	**[2]**	**2,935,429**	**3,326,650**	**(11.8)%**
Net provisioning for impairment losses	[3]	(754,387)	(1,263,802)	(40.3)%
Net interest income after provisioning		**2,181,042**	**2,062,847**	**5.7%**
Fee and commission income		1,997,477	1,987,107	0.5%
Fee and commission expense		(500,633)	(467,913)	7.0%
Net fee and commission income	**[4]**	**1,496,844**	**1,519,193**	**(1.5)%**
Net trading income	[5]	214,586	16,415	>500.0%
Net income from derivatives and liabilities	[6]	(188,752)	(4,272)	>500.0%
Net income from financial investments	[7]	152,940	68,448	123.4%
General administrative expenses	[8]	(2,848,228)	(2,913,986)	(2.3)%
Other net operating income	[9]	(141,749)	(78,810)	79.9%
Net income from disposal of group assets	[10]	18,914	41,111	(54.0)%
Profit/loss before tax		**885,598**	**710,946**	**24.6%**
Income taxes	[11]	(311,982)	(275,955)	13.1%
Profit/loss after tax		**573,615**	**434,991**	**31.9%**
Profit attributable to non-controlling interests	[32]	(110,512)	(56,142)	96.8%
Consolidated profit/loss		**463,104**	**378,850**	**22.2%**

Earnings per share

in € thousand	2016	2015
Consolidated profit/loss	463,104	378,850
Average number of ordinary shares outstanding in thousand	292,447	292,414
Earnings per share in €	**1.58**	**1.30**

Earnings per share are obtained by dividing consolidated profit/loss by the average number of common shares outstanding.

There were no conversion rights or options outstanding, hence a dilution of earnings per share did not take place.

Other comprehensive income and total comprehensive income

in € thousand	Total		Group equity		Non-controlling interests	
	2016	2015	2016	2015	2016	2015
Profit/loss after tax	**573,615**	**434,991**	**463,104**	**378,850**	**110,512**	**56,142**
Items which are not reclassified to profit and loss	**2,028**	**2,205**	**2,028**	**2,205**	**0**	**0**
Remeasurements of defined benefit plans	2,704	2,941	2,704	2,941	0	0
Deferred taxes on items which are not reclassified to profit and loss	(676)	(735)	(676)	(735)	0	0
Items that may be reclassified subsequently to profit or loss	**187,598**	**(55,474)**	**201,682**	**(49,740)**	**(14,085)**	**(5,734)**
Exchange differences	291,039	(194,064)	299,257	(185,071)	(8,218)	(8,993)
Capital hedge	(43,445)	90,316	(43,445)	90,316	0	0
Net gains (losses) on derivatives hedging fluctuating cash flows[1]	5,788	(436)	6,449	1,478	(661)	(1,914)
Net gains (losses) on financial assets available-for-sale	(77,321)	82,418	(70,428)	75,640	(6,893)	6,778
Deferred taxes on income and expenses directly recognized in equity	11,536	(33,708)	9,849	(32,103)	1,687	(1,606)
Other comprehensive income	**189,626**	**(53,269)**	**203,710**	**(47,535)**	**(14,085)**	**(5,734)**
Total comprehensive income	**763,241**	**381,722**	**666,814**	**331,315**	**96,427**	**50,408**

1 Adjustment of the previous year's figures due to a capital neutral shift between Group equity and non-controlling interests

Other comprehensive income

According to IAS 19, revaluations of defined benefit plans are to be shown in other comprehensive income. This resulted in other comprehensive income of € 2,704 thousand in the reporting year (2015: € 2,941 thousand).

Positive exchange rate differences are derived primarily from the upward revaluation of the Russian rouble, generating a gain of € 347,933 thousand, whereas the devaluation of the Polish zloty led to a reduction of € 48,582 thousand. Due to disposals of Group assets, losses of € 10,860 thousand (2015: losses of € 4,018 thousand) were reclassified to the income statement in the reporting year.

The capital hedge comprises hedges for investments in economically independent operations. The negative result of € 43,445 thousand posted in the 2016 financial year is attributable to the partial hedging of the net investments in Russia and Poland and the corresponding currency developments in these countries.

Cash flow hedging has been applied in two Group units to hedge against interest rate risk. In the reporting year, no gains or losses were reclassified to the income statement. In the previous year, losses of € 1,079 thousand were reclassified to the income statement.

The item net gains (losses) on financial assets available-for-sale directly shown in equity contains net valuation results from financial investments. The decrease in this item mainly resulted from the sale of shares in Visa Europe to Visa Inc. and the corresponding reclassification of cumulative gains of € 133,623 thousand to the income statement, following an upward revaluation of € 47,789 in the first half of 2016. In the previous year, losses of € 15 thousand were reclassified to the income statement.

The components of retained earnings developed as follows:

in € thousand	Remeasure-ments reserve	Exchange differences	Capital hedge	Hyper-inflation	Cash flow hedge[1]	Fair value reserve (AfS financial assets)	Deferred taxes
As at 1/1/2015	**(15,472)**	**(3,062,227)**	**79,614**	**175,012**	**(26,903)**	**36,674**	**307,359**
Unrealized net gains (losses) of the period	2,941	(189,089)	90,316	0	399	75,624	(32,835)
Net gains (losses) reclassified to income statement	0	4,018	0	0	1,079	15	(3)
As at 31/12/2015	**(12,532)**	**(3,247,298)**	**169,930**	**175,012**	**(25,425)**	**112,314**	**274,521**
Unrealized net gains (losses) of the period	2,704	284,008	(43,445)	0	6,449	51,858	(8,370)
Net gains (losses) reclassified to income statement	0	15,249	0	0	0	(122,286)	17,543
As at 31/12/2016	**(9,827)**	**(2,948,041)**	**126,486**	**175,012**	**(18,977)**	**41,886**	**283,694**

1 Adjustment of the previous year's figures due to a capital neutral shift between Group equity and non-controlling interests

Quarterly results

in € thousand	Q1/2016	Q2/2016	Q3/2016	Q4/2016
Net interest income	717,637	737,676	731,862	748,254
Net provisioning for impairment losses	(105,588)	(297,273)	(100,039)	(251,486)
Net interest income after provisioning	**612,048**	**440,403**	**631,824**	**496,767**
Net fee and commission income	346,857	372,459	377,946	399,582
Net trading income	28,271	56,127	51,809	78,378
Net income from derivatives and liabilities	(27,480)	(34,495)	(71,382)	(55,395)
Net income from financial investments	26,201	145,086	(5,708)	(12,639)
General administrative expenses	(718,000)	(694,356)	(687,156)	(748,716)
Other net operating income	(40,651)	(60,685)	(5,619)	(34,795)
Net income from disposal of group assets	1,786	(3,429)	3,980	16,578
Profit/loss before tax	**229,033**	**221,109**	**295,695**	**139,761**
Income taxes	(91,209)	(91,259)	(83,558)	(45,956)
Profit/loss after tax	**137,824**	**129,850**	**212,137**	**93,804**
Profit attributable to non-controlling interests	(23,550)	(34,006)	(28,456)	(24,500)
Consolidated profit/loss	**114,273**	**95,845**	**183,681**	**69,304**

in € thousand	Q1/2015	Q2/2015	Q3/2015	Q4/2015
Net interest income	819,975	861,070	813,710	831,896
Net provisioning for impairment losses	(260,411)	(343,430)	(190,800)	(469,160)
Net interest income after provisioning	**559,564**	**517,639**	**622,910**	**362,735**
Net fee and commission income	359,629	385,049	384,103	390,413
Net trading income	(62,087)	63,788	(13,934)	28,647
Net income from derivatives and liabilities	19,660	(29,411)	20,318	(14,839)
Net income from financial investments	64,027	(2,946)	7,394	(27)
General administrative expenses	(690,718)	(697,108)	(713,126)	(813,033)
Other net operating income	(62,996)	33,367	(64,299)	15,117
Net income from disposal of group assets	588	(2,989)	9,638	33,874
Profit/loss before tax	**187,667**	**267,389**	**253,002**	**2,888**
Income taxes	(87,691)	(53,311)	(51,502)	(83,451)
Profit/loss after tax	**99,976**	**214,078**	**201,500**	**(80,563)**
Profit attributable to non-controlling interests	(16,609)	(21,703)	(15,762)	(2,068)
Consolidated profit/loss	**83,367**	**192,376**	**185,738**	**(82,631)**

Statement of financial position

Assets in € thousand	Notes	2016	2015	Change
Cash reserve	[13, 33]	12,242,415	13,211,971	(7.3)%
Loans and advances to banks	[14, 33, 49]	9,900,012	10,837,209	(8.6)%
Loans and advances to customers	[15, 33, 49]	70,514,116	69,921,365	0.8%
Impairment losses on loans and advances	[16, 33]	(4,955,132)	(6,055,134)	(18.2)%
Trading assets	[17, 33, 49]	4,986,462	5,814,108	(14.2)%
Derivatives	[18, 33, 49]	1,428,639	1,573,637	(9.2)%
Financial investments	[19, 33, 49]	14,639,012	15,243,635	(4.0)%
Intangible fixed assets	[20, 22, 33]	598,402	620,912	(3.6)%
Tangible fixed assets	[21, 22, 33]	1,393,358	1,473,291	(5.4)%
Other assets	[23, 33, 49]	1,116,561	1,785,589	(37.5)%
Total assets		**111,863,845**	**114,426,583**	**(2.2)%**

Equity and liabilities in € thousand	Notes	2016	2015	Change
Deposits from banks	[24, 33, 49]	12,816,475	16,369,175	(21.7)%
Deposits from customers	[25, 33, 49]	71,538,226	68,990,887	3.7%
Debt securities issued	[26, 33, 49]	6,645,127	7,501,593	(11.4)%
Provisions for liabilities and charges	[27, 33, 49]	756,252	813,823	(7.1)%
Trading liabilities	[28, 33, 49]	5,119,743	5,091,510	0.6%
Derivatives	[29, 33, 49]	786,949	984,299	(20.0)%
Other liabilities	[30, 33, 49]	765,251	2,009,976	(61.9)%
Subordinated capital	[31, 33, 49]	4,203,693	4,164,353	0.9%
Equity	[32, 33]	9,232,130	8,500,967	8.6%
Consolidated equity		8,187,672	7,587,555	7.9%
Consolidated profit/loss		463,104	378,850	22.2%
Non-controlling interests		581,353	534,562	8.8%
Total equity and liabilities		**111,863,845**	**114,426,583**	**(2.2)%**

Statement of changes in equity

in € thousand	Subscribed capital	Capital reserves	Retained earnings	Consolidated profit/loss	Non-controlling interests	Total
Equity 1/1/2015	**891,742**	**4,991,269**	**2,417,002**	**(616,849)**	**494,561**	**8,177,725**
Capital increases/decreases	0	0	0	0	62,670	62,670
Transferred to retained earnings	0	0	(616,849)	616,849	0	0
Dividend payments	0	0	0	0	(50,516)	(50,516)
Total comprehensive income	0	0	(47,535)	378,850	50,408	381,722
Own shares/share incentive program	144	2,604	0	0	0	2,748
Other changes	0	0	(50,822)	0	(22,561)	(73,383)
Equity as at 31/12/2015	**891,886**	**4,993,872**	**1,701,796**	**378,850**	**534,562**	**8,500,967**
Capital increases/decreases	0	0	0	0	0	0
Transferred to retained earnings	0	0	378,850	(378,850)	0	0
Dividend payments	0	0	0	0	(40,272)	(40,272)
Total comprehensive income	0	0	203,710	463,104	96,427	763,241
Own shares/share incentive program	144	297	(441)	0	0	0
Other changes	0	0	17,558	0	(9,364)	8,193
Equity as at 31/12/2016	**892,031**	**4,994,169**	**2,301,473**	**463,104**	**581,353**	**9,232,130**

The item "Own shares/share incentive program" shows adjustments arising from the transfer of 47,318 own shares from a SIP tranche and other results related to the SIP program. The premium of the own shares has been deducted from retained earnings.

Further details about the changes shown above are reported in the notes under (32) Equity.

Statement of cash flows

in € thousand	Notes	2016	2015
Profit/loss after tax		**573,615**	**434,991**
Non-cash positions in profit/loss and transition to net cash from operating activities:			
Write-downs/write-ups of tangible fixed assets and financial investments	[7, 8, 20, 22]	338,745	325,974
Net provisioning for liabilities and charges and impairment losses	[3, 9, 27, 42]	1,109,023	1,515,939
Gains (losses) from disposals of tangible fixed assets and financial investments	[7, 9]	(177,926)	(78,297)
Other adjustments (net)		383,742	(1,186,118)
Subtotal		**2,227,199**	**1,012,490**
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:			
Loans and advances to banks and customers	[12, 14, 15]	(1,213,085)	11,775,004
Trading assets/trading liabilities (net)	[12, 17, 18, 28, 39]	1,020,621	530,573
Other assets/other liabilities (net)	[12, 19, 23, 30]	391,693	(3,344,951)
Deposits from banks and customers	[12, 24, 25]	(2,478,377)	(1,264,869)
Usage of provisions	[27, 42]	(370,989)	(402,989)
Debt securities issued	[26, 35]	(719,167)	(3,289,354)
Net cash from operating activities		**(1,142,106)**	**5,015,904**
Proceeds from sale of:			
Financial investments	[7, 19]	1,901,163	3,932,588
Tangible and intangible fixed assets	[9, 20, 21, 22]	212,390	173,022
Proceeds from disposal of group assets	[10, 52]	203,952	105,468
Payments for purchase of:			
Financial investments	[19]	(1,854,866)	(2,084,588)
Tangible and intangible fixed assets	[22]	(363,380)	(328,070)
Payments for acquisition of subsidiaries	[19, 52]	0	(494)
Net cash from investing activities		**99,258**	**1,797,926**
Capital increases	[32]	0	62,670
Inflows/outflows of subordinated capital	[31]	(103,812)	(36,574)
Dividend payments	[32]	(40,272)	(50,516)
Change in non-controlling interests	[32]	0	(48,673)
Net cash from financing activities		**(144,084)**	**(73,093)**

in € thousand		2016	2015
Cash and cash equivalents at the end of previous period[1]	**[12, 13]**	**13,482,547**	**6,768,685**
Cash and cash equivalents from disposal of subsidiaries		(163,171)	0
Net cash from operating activities		(1,142,106)	5,015,904
Net cash from investing activities		99,258	1,797,926
Net cash from financing activities		(144,084)	(73,093)
Effect of exchange rate changes		109,970	(26,874)
Cash and cash equivalents at the end of period	**[12, 13]**	**12,242,415**	**13,482,547**

1 Cash and cash equivalents deviates from the item cash reserve due to the disclosure of Raiffeisen Banka d.d., Maribor, and ZUNO BANK AG, Vienna, pursuant to IFRS 5.

Payments for taxes, interest and dividends		2016	2015
Interest received	[2]	3,788,115	4,554,983
Dividends received	[2]	86,462	58,688
Interest paid	[2]	(1,096,390)	(1,566,966)
Income taxes paid	[11]	(411,932)	(281,142)

The statement of cash flows shows the structure and changes in cash and cash equivalents during the financial year and is broken down into three sections:

- net cash from operating activities
- net cash from investing activities
- net cash from financing activities

Net cash from operating activities comprises inflows and outflows from loans and advances to banks and customers, from deposits from banks and customers as well as debt securities issued. Inflows and outflows from trading assets and liabilities, from derivatives, as well as from other assets and other liabilities are also shown in operating activities. The interest, dividend and tax payments from operating activities are separately stated.

Net cash from investing activities shows inflows and outflows from financial investments, tangible and intangible assets, proceeds from disposal of Group assets, and payments for acquisition of subsidiaries.

Net cash from financing activities consists of inflows and outflows of equity and subordinated capital. This covers capital increases, dividend payments, and changes in subordinated capital.

Cash and cash equivalents include the cash reserve recognized in the statement of financial position, which consists of cash in hand and balances at central banks due at call. It does not include loans and advances to banks that are due on demand, which belong to operating activities.

Segment reporting

Segment classification

Segmentation principles

As a rule, internal management reporting at RBI is based on the current organizational structure. This matrix structure means that each member of the Management Board is responsible both for individual countries and for specific business activities (country and functional responsibility model). A cash generating unit (CGU) within the Group is either a country or a business activity. Accordingly, the RBI management bodies – Management Board and Supervisory Board – make key decisions that determine the resources allocated to any given segment based on its financial strength and profitability, which is why these reporting criteria are an essential component in the decision-making process. Segment classification is therefore also undertaken in accordance with IFRS 8. The reconciliation contains mainly the amounts resulting from the elimination of intra-group results and consolidation between the segments.

Markets in Central and Eastern Europe are thereby grouped together into regional segments comprising countries with comparable economic profiles and similar long-term economic growth expectations. Business activities outside the CEE region are divided according to business area.

In order to achieve the maximum possible transparency and clear lines of reporting, seven segments were defined in accordance with the IFRS 8 thresholds. IFRS 8 establishes a 10 per cent threshold for the key figures of operating income, profit after tax and segment assets.

The following segments resulted thereof:

Central Europe

This segment encompasses the most advanced banking markets in Central and Eastern Europe, namely the EU members Czech Republic, Hungary and Slovakia. They are also the markets in which RBI has been operating the longest. In each of the countries, RBI is represented by a bank, leasing companies and other specialized financial institutions. In Slovakia, RBI is active in Corporate and Retail Customers business, including leasing. In retail business Tatra Banka is pursuing a multibrand strategy; besides the existing business outlets, outlets carrying the Raiffeisen brand are being further rolled out, with a focus on particular retail client groups. In the Czech Republic, RBI offers real estate leasing in addition to traditional banking services to corporate and retail customers. The focus is on broadening relationships with existing affluent customers. In Hungary, the Group provides services to private and corporate customers via the bank's countrywide network and also through leasing companies. The focus rests on corporate customers and affluent retail customers.

Southeastern Europe

The Southeastern Europe segment comprises Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Romania and Serbia. In these markets, RBI is represented by banks and leasing companies, as well as separate capital management and asset management companies and pension funds in some markets. In Albania and Bulgaria, financial services are offered across all business areas. In Kosovo, RBI also offers a comprehensive product range. In Bosnia and Herzegovina the emphasis is on small and medium-sized enterprises, while also including a wide range of products for retail customers. In Croatia the focus is on large and medium-sized corporate customers and also on retail customers (including pension funds business). In Romania a broad range of financial services is offered via a tightly knit branch network. Moreover, the Moldovan corporate customer market is also served from Romania. In Serbia, the market is serviced by a universal bank and a leasing company.

Eastern Europe

This segment comprises Belarus, Russia and Ukraine. In Belarus, RBI is represented by a bank and a leasing company, whilst in Kazakhstan it is represented in the leasing business. Raiffeisenbank Russia is one of the leading foreign banks in Russia and services both corporate and retail customers. The branch network also offers products targeted toward affluent retail customers and small and medium-sized entities, with the focus on large cities. Furthermore, RBI is active in the new issuance business. The product range in Russia is rounded off by leasing business. In Ukraine RBI is represented by a bank, a leasing company and a card-processing company and provides a full range of financial services via a tightly knit branch network.

Group Corporates

The Group Corporates segment covers business with Austrian and international corporate customers of RBI AG, which is managed from Vienna and grouped within the Corporate Customers profit center. These customers include Austria's largest companies and Western European multinational customers. The segment also contains the large corporate business with Central and Eastern European customers as well multinationals with CEE business, included in the Network Corporate Customers & Support profit center.

Group Markets

The Group Markets segment covers RBI AG’s customer and proprietary business related to the capital market. Net income from currency, interest-based and securities trading as well as from trading in structured products for financial institutions is also allocated to this segment, as is proprietary business. The same applies to proprietary trading and market maker activities in Vienna. This segment includes net income from customer business, sales of all banking products and business relationships with banks, institutional customers, governments and local authorities. Furthermore, net income from Raiffeisen Centrobank arising from equity trading and capital market financing and from Kathrein Privatbank is also booked under this segment.

Corporate Center

The Corporate Center segment encompasses services provided by Group head office in various areas that serve to implement the Group’s overall strategy and that are allocated to this segment to ensure comparability. Therefore, this segment includes the following areas: Liquidity management and balance sheet structure management as part of proprietary trading, equity participation management, the banking operations carried out by Group head office for financing Group units, the Austrian transaction and services business for financial services providers, as well as other companies outside the financial service provider business that do not fall directly under another segment.

Non-Core

The Non-Core segment includes all business activities which are to be sold, rescaled or exited as a result of the strategic review decided upon in February 2015. These include the countries Poland and Slovenia as well as the online bank ZUNO BANK AG and the business activities in Asia and the USA.

In Poland, in addition to the credit business with corporate customers and small and medium-sized enterprises (including leasing and factoring), the focus is also on retail banking and on business with affluent customers. On 7 December 2016, negotiations with Alior Bank over the sale of the core banking business of Raiffeisen Bank Polska S.A. Warsaw, were terminated. RBI will now prepare the stock exchange listing of 15 per cent of the shares of Raiffeisen Polbank agreed with the regulatory authority and is at the same time working on optimization of the business model. The successful sale of Raiffeisen Leasing Polska S.A., Warsaw, resulted in the deconsolidation of the corresponding units at the start of December 2016. In Slovenia, the Group now has one leasing company following closure of the sale of the Slovenian bank in June 2016. The business volume of the Slovenian leasing company is being reduced as scheduled. Corporate customer business in Asia is operated via the outlets in Singapore and China (including Hong Kong); here too, a complete winding down of business activities is in progress. In the USA, the business activities will also be wound down in the course of 2017. Following the unsuccessful sales process for ZUNO BANK AG, Vienna, parts of the existing business in the Czech Republic and Slovakia will be integrated into the subsidiary banks in those countries. Conclusion of this integration process is planned for mid-2017.

Assessment of segment profit and loss

The segment reporting according to IFRS 8 shows the segment performance on the basis of internal management reporting, supplemented with the reconciliation of the segment results to the consolidated financial statements. In principle, RBI’s management reporting is based on IFRS. Therefore, no differences occur in the recognition and measurement principles between segment reporting and consolidated financial statements.

The governance of the separate segments is based on key indicators relating to profitability, growth, efficiency, constraints and business mix parameters. The target values of the separate key indicators are determined according to the specific market environment and adapted when necessary.

The performance of CGUs is evaluated as follows:

- **Profitability**

  Profitability is measured by the return on equity (ROE) and return on risk-adjusted capital (RORAC) based on the internal management systems. The return on equity shows the profitability of a CGU and is calculated as the ratio of profit/loss after deduction of non-controlling interests to average consolidated equity employed. The return on equity reflects the yield of the capital of each segment. The calculation of the RORAC incorporates risk-adjusted capital, which reflects the capital necessary in case of possible unexpected losses. In RBI this capital requirement is calculated within the economic capital model for credit, market and operational risk. This ratio shows the yield on the risk-adjusted equity (economic capital), but is not an indicator pursuant to IFRS. Within the different countries and business lines the actual RORAC generated is compared with the respective predetermined minimal value (RORAC hurdle), which reflects appropriate market yield expectations.

- **Efficiency**

  The cost/income ratio represents the cost efficiency of the segment. The cost/income ratio shows general administrative expenses in relation to operating income, which is the sum of net interest income, net fee and commission income, net trading income and other net operating income (less bank levies, impairment of goodwill, profit/loss from the release of negative goodwill and profit/loss from banking business due to governmental measures).

- **Constraints**

  In accordance with the Basel III framework, specific legal regulations have to be considered. The proportion of common equity tier 1 capital to total risk-weighted assets (common equity tier 1 ratio) is for example an important indicator of whether the underlying capital is adequate for the business volume. Industry sector specifics lead to different risk weights within the calculation of risk-weighted assets according to CRR. These factors are crucial for the calculation of the regulatory minimum total capital requirements. In addition, as part of the annual Supervisory Review and Evaluation Process (SREP), the ECB stipulates in a notification that additional CET1 capital must be held in order to cover those risks which are not considered or are insufficiently considered in Pillar I. The efficient use of the available capital is calculated internally, whereby the actual usage is compared to the theoretically available risk coverage capital. The long-term liquidity ratios are also restrictive and are defined in accordance with the regulatory requirements.

- **Business Mix**

  The following key performance indicators are relevant in ensuring a reasonable and sustainable business structure, whereby the composition of the results and the underlying portfolio parameters are of significance. The structure of the primary funding basis for loans and advances to customers is measured using the loan/deposit ratio (net) which is the proportion of loans and advances to customers less impairment losses to deposits from customers (each less claims and obligations from (reverse) repurchase agreements and securities lending). The share of the result derived from the core business is also relevant. The net interest margin is calculated based on average interest-bearing assets. The proportion of the net fee and commission income to operating income is also a key performance indicator, which is included in the target setting for the business mix.

The presentation of segment performance is based on the income statement and geared to the reporting structure internally used. Income and expenses are attributed to the country and/or business area in which they are generated. Operating income positions are the net interest income, net fee and commission income, net trading income and the recurring other net operating income. The other results include the net income from financial investments, the net income from derivatives and liabilities, the net income from disposal of group assets, the bank levies, the impairment of goodwill, the release of negative goodwill and the profit/loss from banking business due to governmental measures which is shown in sundry operating expenses. The segment result is shown up to the profit/loss after deduction of non-controlling interests. The segment assets are represented by the total assets and the risk-weighted assets. The item liabilities includes all positions from the liabilities side of the statement of financial position except the equity. The reconciliation includes mainly the amounts resulting from the elimination of intra-group results and consolidation between the segments. This is supplemented with financial ratios conventionally used within the industry to evaluate performance. The values shown in the segment reporting are for the most part taken from the IFRS individual financial statements which are also used for the compilation of the consolidated financial statements. In some units profit center results are taken from the internal management income statement.

1/1-31/12/2016 in € thousand	Central Europe	Southeastern Europe	Eastern Europe	Group Corporates	Group Markets
Net interest income	629,441	738,218	866,320	312,548	62,343
Net fee and commission income	382,804	390,478	391,394	59,892	112,817
Net trading income	28,412	53,738	64,236	7,735	122,205
Recurring other net operating income	(24,246)	20,519	(7,031)	1,846	9,184
Operating income	**1,016,411**	**1,202,953**	**1,314,919**	**382,021**	**306,549**
General administrative expenses	(643,316)	(673,897)	(518,868)	(152,898)	(211,428)
Operating result	**373,095**	**529,056**	**796,051**	**229,123**	**95,121**
Net provisioning for impairment losses	(38,172)	(174,928)	(163,367)	(74,383)	(34,224)
Other results	19,434	8,499	16,587	(4,368)	5,874
Profit/loss before tax	**354,356**	**362,627**	**649,271**	**150,373**	**66,771**
Income taxes	(63,524)	(61,919)	(125,685)	(36,505)	(15,279)
Profit/loss after tax	**290,833**	**300,708**	**523,586**	**113,868**	**51,492**
Profit attributable to non-controlling interests	(54,155)	(78)	(53,152)	(1,783)	0
Profit/loss after deduction of non-controlling interests	**236,678**	**300,630**	**470,434**	**112,085**	**51,492**
Risk-weighted assets (credit risk)	11,552,673	11,824,716	8,784,261	8,543,021	1,735,284
Risk-weighted assets (total RWA)	13,564,023	14,202,875	11,535,963	9,207,993	3,210,704
Total capital requirement	1,085,122	1,136,230	922,877	736,639	256,856
Assets	29,492,206	22,694,168	15,290,907	15,201,027	12,148,915
Liabilities	26,930,630	19,714,884	12,774,075	11,863,986	13,936,837
Net interest margin (average interest-bearing assets)	2.31%	3.55%	6.60%	2.16%	0.60%
NPL ratio	5.5%	10.5%	14.7%	4.6%	1.9%
NPL coverage ratio	71.0%	79.7%	85.7%	65.9%	71.9%
Cost/income ratio	63.3%	56.0%	39.5%	40.0%	69.0%
Provisioning ratio (average loans and advances to customers)	0.20%	1.32%	1.61%	0.52%	1.44%
Average equity	1,854,661	1,957,229	1,573,106	1,195,809	496,569
Return on equity before tax	**19.1%**	**18.5%**	**41.3%**	**12.6%**	**13.4%**
Business outlets	410	1,014	771	1	5

Significant changes in profit/loss are described below:

In **Central Europe**, RBI increased total assets through greater new business generation, especially in the Czech Republic and Slovakia. An additional increase resulted from the acquisition of Citibank's retail and credit card business in the Czech Republic (€ 669 million), which included a retail loan portfolio of € 201 million. The low level of interest rates, however, continued to negatively impact operating income. Lower net provisioning for impairment losses in all countries in the segment as well as income from the sale of Visa Europe Ltd. shares to Visa Inc. led to a significant improvement in profit before tax, which rose € 44 million year-on-year to € 354 million.

Net income in the **Southeastern Europe** segment improved, mainly due to the proceeds from the sale of Visa shares (€ 38 million) and a € 50 million reduction in the negative impact of banking business costs following governmental measures. In the reporting year, a new mortgage loan law in Romania resulted in expenses of € 27 million, while expenses of € 77 million had to be booked in the previous year in connection with the conversion of Swiss franc loans in Croatia.

As in 2015, the **Eastern Europe** segment was again affected by a high level of currency volatility in the reporting period. The average exchange rate of the Russian rouble was 7 per cent lower year-on-year, while the Ukrainian hryvnia and Belarusian rouble were down 15 and 20 per cent respectively. In Ukraine, net trading income increased € 85 million due to the more limited depreciation of the Ukrainian hryvnia compared to the prior year, and an improved result from foreign currency positioning. There were releases of provisions for impairment losses as a result of the improvement in the risk situation, after very high provisioning was still necessary in the comparable period in 2015 due to the political situation in the Donbass region. Profit before tax in Ukraine therefore increased € 241 million to € 150 million. In contrast, Russia reported a 16 per cent drop in profit before tax. A volume- and margin-related decline in net interest income was almost entirely offset by lower general administrative expenses and net provisioning for impairment losses; though in 2015, net income from the disposal of group assets of € 86 million was also recognized as a result of the sale of the Russian pension fund business, ZAO NPF Raiffeisen. In Belarus, profit fell year-on-year due to a valuation result from a foreign currency position recognized in the previous year and lower net income from proprietary trading.

The improvement in profit before tax in the Group Corporates segment was due mainly to lower net provisioning for impairment losses, after high provisions for impairment losses on loans and advances to large corporate customers – above all from the Donbass region in Ukraine – were required in the previous year. This was set against declining operating income and higher general administrative expenses.

Profit before tax in the Group Markets segment declined 29 per cent. This was mainly due to higher net provisioning for impairment losses. In contrast, operating income increased 32 per cent due to improved net trading income resulting from higher business volumes.

1/1-31/12/2016 in € thousand	Corporate Center	Non-Core	Reconciliation	Total
Net interest income	361,563	330,777	(365,781)	2,935,429
Net fee and commission income	41,535	154,035	(36,111)	1,496,844
Net trading income	(25,620)	(4,946)	(31,173)	214,586
Recurring other net operating income	114,388	(301)	(68,996)	45,364
Operating income	**491,866**	**479,564**	**(502,061)**	**4,692,222**
General administrative expenses	(325,950)	(405,719)	83,847	(2,848,228)
Operating result	**165,917**	**73,846**	**(418,214)**	**1,843,995**
Net provisioning for impairment losses	(9,388)	(255,145)	(4,780)	(754,387)
Other results	(220,785)	(21,741)	(7,511)	(204,010)
Profit/loss before tax	**(64,256)**	**(203,041)**	**(430,504)**	**885,598**
Income taxes	31,540	(40,609)	0	(311,982)
Profit/loss after tax	**(32,717)**	**(243,650)**	**(430,504)**	**573,615**
Profit attributable to non-controlling interests	(1,821)	(1)	478	(110,512)
Profit/loss after deduction of non-controlling interests	**(34,538)**	**(243,651)**	**(430,026)**	**463,104**
Risk-weighted assets (credit risk)	12,281,655	6,218,589	(12,098,954)	48,841,245
Risk-weighted assets (total RWA)	13,990,460	7,235,450	(12,886,823)	60,060,645
Total capital requirement	1,119,237	578,836	(1,030,946)	4,804,852
Assets	20,935,860	13,828,352	(17,727,590)	111,863,845
Liabilities	16,624,340	11,973,214	(11,186,251)	102,631,716
Net interest margin (average interest-bearing assets)	–	2.12%	–	2.78%
NPL ratio	–	17.7%	–	9.2%
NPL coverage ratio	–	66.6%	–	75.6%
Cost/income ratio	66.3%	84.6%	–	60.7%
Provisioning ratio (average loans and advances to customers)	–	2.31%	–	1.05%
Average equity	2,005,438	1,310,348	(1,822,371)	8,570,790
Return on equity before tax	**–**	**–**	**–**	**10.3%**
Business outlets	0	305	–	2,506

Corporate Center principally comprises net income from Group head office governance functions and from other Group units. As a result, its net income is generally more volatile. In 2016 profit before tax declined € 657 million. Operating income decreased mainly due to lower dividend income. Net income from derivatives and liabilities declined compared to an increase in net income from financial investments and net income from the disposal of Group assets.

The Non-Core segment encompasses those business areas which are to be sold or reduced in line with RBI's strategic review, as laid out in 2015. The segment's profit before tax improved 23 percent to minus € 203 million. This mainly resulted from lower net provisioning for impairment losses on loans and advances predominantly in Asia and reduced general administrative expenses. Operating income declined as a result of the planned reduction in volumes.

Reconciliation comprises consolidation adjustments to reconcile segments with Group results. The financials of the reportable segments are shown after elimination of intra-segment items. However, the inter-segment items are eliminated in the reconciliation. The main eliminations are dividend payments to head office and inter-segment revenues charged and expenses carried by the head office.

1/1-31/12/2015 in € thousand	Central Europe	Southeastern Europe	Eastern Europe	Group Corporates	Group Markets
Net interest income	654,409	780,220	948,557	325,711	74,144
Net fee and commission income	387,818	380,344	403,764	74,056	121,683
Net trading income	31,311	50,138	30,505	773	78,136
Recurring other net operating income	(25,404)	3,267	(21,597)	1,012	13,928
Operating income	**1,048,134**	**1,213,970**	**1,361,229**	**401,551**	**287,891**
General administrative expenses	(635,848)	(680,562)	(563,252)	(142,751)	(215,676)
Operating result	**412,286**	**533,408**	**797,978**	**258,800**	**72,215**
Net provisioning for impairment losses	(132,879)	(191,017)	(421,523)	(140,874)	6,587
Other results	30,536	(82,217)	173,060	(15,337)	15,421
Profit/loss before tax	**309,943**	**260,174**	**549,515**	**102,589**	**94,223**
Income taxes	(65,813)	(32,686)	(127,589)	(25,406)	(22,563)
Profit/loss after tax	**244,130**	**227,488**	**421,925**	**77,183**	**71,661**
Profit attributable to non-controlling interests	(57,375)	(1,181)	(4,773)	(1,091)	0
Profit/loss after deduction of non-controlling interests	**186,755**	**226,307**	**417,153**	**76,092**	**71,661**
Risk-weighted assets (credit risk)	10,761,209	11,491,224	9,588,789	7,770,899	1,634,033
Risk-weighted assets (total RWA)	12,909,877	13,967,653	11,641,878	8,590,224	3,781,066
Total capital requirement	1,032,790	1,117,412	931,350	687,218	302,485
Assets	26,877,762	22,120,394	14,179,099	13,873,346	13,460,865
Liabilities	24,449,729	19,174,229	12,458,753	12,207,042	19,229,383
Net interest margin (average interest-bearing assets)	2.67%	3.84%	6.14%	2.08%	0.77%
NPL ratio	7.1%	12.1%	18.9%	9.4%	5.7%
NPL coverage ratio	75.3%	71.6%	86.4%	56.7%	82.0%
Cost/income ratio	60.7%	56.1%	41.4%	35.5%	74.9%
Provisioning ratio (average loans and advances to customers)	0.71%	1.44%	3.54%	0.94%	(0.24)%
Average equity	1,697,586	1,737,542	1,640,918	1,098,732	548,184
Return on equity before tax	**18.3%**	**15.0%**	**33.5%**	**9.3%**	**17.2%**
Business outlets	395	1,064	862	1	5

1/1-31/12/2015 in € thousand	Corporate Center	Non-Core	Reconciliation	Total
Net interest income	1,123,763	384,908	(965,062)	3,326,650
Net fee and commission income	17,399	171,740	(37,612)	1,519,193
Net trading income	(147,131)	542	(27,859)	16,415
Recurring other net operating income	153,895	19,488	(78,096)	66,493
Operating income	**1,147,927**	**576,677**	**(1,108,629)**	**4,928,751**
General administrative expenses	(305,850)	(462,452)	92,405	(2,913,986)
Operating result	**842,077**	**114,225**	**(1,016,224)**	**2,014,765**
Net provisioning for impairment losses	(23,090)	(374,737)	13,731	(1,263,802)
Other results	(226,401)	(2,305)	67,225	(40,017)
Profit/loss before tax	**592,587**	**(262,817)**	**(935,269)**	**710,946**
Income taxes	21,644	(23,541)	0	(275,955)
Profit/loss after tax	**614,230**	**(286,358)**	**(935,269)**	**434,991**
Profit attributable to non-controlling interests	(18,500)	(9)	26,787	(56,142)
Profit/loss after deduction of non-controlling interests	**595,730**	**(286,366)**	**(908,481)**	**378,850**
Risk-weighted assets (credit risk)	13,707,964	9,192,475	(12,687,947)	51,458,646
Risk-weighted assets (total RWA)	14,777,339	10,611,238	(13,007,057)	63,272,218
Total capital requirement	1,182,187	848,899	(1,040,565)	5,061,777
Assets	27,287,163	18,834,740	(22,206,785)	114,426,583
Liabilities	17,009,804	17,147,627	(15,750,951)	105,925,617
Net interest margin (average interest-bearing assets)	–	2.01%	–	3.00%
NPL ratio	–	15.4%	–	11.9%
NPL coverage ratio	–	62.4%	–	71.3%
Cost/income ratio	26.6%	80.2%	–	59.1%
Provisioning ratio (average loans and advances to customers)	–	2.68%	–	1.64%
Average equity	2,039,659	1,459,596	(1,839,391)	8,382,827
Return on equity before tax	**29.1%**	**–**	**–**	**8.5%**
Business outlets	0	378	–	2,705

Notes

Principles underlying the preparation of financial statements

Reporting entity

Raiffeisen Bank International AG (RBI AG) is registered at the Vienna Commercial Court (Handelsgericht Wien) under Companies Register number FN 122.119m. The company address is at Am Stadtpark 9, 1030 Vienna. The consolidated financial statements are lodged with the Companies Register in accordance with Austrian disclosure regulations and published in the official journal of the Wiener Zeitung.

With a holding of just over 60 per cent, Raiffeisen Zentralbank Österreich AG (RZB AG) is the majority owner of RBI; the remaining shares are held in free float and are traded on the Vienna Stock Exchange. RZB AG is the central institution of the Austrian Raiffeisen Banking Group (RBG), the head of the RZB Group and also the service unit for RBG. At the end of September 2016, the ultimate parent company of RZB AG, Raiffeisen-Landesbanken-Holding GmbH, Vienna, and its 100 per cent subsidiary R-Landesbanken-Beteiligung GmbH, Vienna, in which 82.4 per cent of the shares in RZB AG were pooled, were merged into RZB AG. Accordingly, RZB AG serves, until its merger into RBI AG, as the ultimate parent company, and forms a consolidated group.

Raiffeisen Bank International (RBI) is a universal bank focusing on corporate and retail customers in Central and Eastern Europe (CEE) and exclusively on corporate customers in Austria. In CEE, RBI has a closely-knit network of subsidiary banks, leasing companies and numerous specialized financial service providers with around 2,500 business outlets. In Austria, RBI specializes in corporate banking and investment banking business. It is Austria's corporate finance bank and provides services to the country's top 1,000 companies. Numerous major international and multinational customers and financial firms also trust in its comprehensive service offering.

The consolidated financial statements were signed by the Management Board on February 28, 2017 and subsequently submitted for the notice of the Supervisory Board.

Principles underlying the consolidated financial statements

The consolidated financial statements for the 2016 financial year and the comparative figures for the 2015 financial year were prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) insofar as they were adopted by the EU on the basis of IAS Regulation (EC) 1606/2002. The interpretations of the International Financial Reporting Interpretations Committee (IFRIC/SIC) that are already applicable have been considered. All standards published by the IASB as International Accounting Standards and adopted by the EU have been applied to the financial statements for 2016. The consolidated financial statements also satisfy the requirements of Section 245a of the Austrian Commercial Code (UGB) and Section 59a of the Austrian Banking Act (BWG) regarding exempting consolidated financial statements that comply with internationally accepted accounting principles. IAS 20, IAS 41 and IFRS 6 have not been applied as there were no relevant business transactions in the Group.

The consolidated financial statements are based on the reporting packages of all fully consolidated Group members, which are prepared according to IFRS rules and uniform Group standards. All fully consolidated companies prepare their annual financial statements as at and for the year ended 31 December. Figures in these financial statements are stated in € thousand. The following tables may contain rounding differences.

The consolidated financial statements are based on the going concern principle.

A financial asset is recognized when it is probable that the future economic benefits will flow to the company and the acquisition or production costs or another value can be reliably measured. A financial liability is recognized when it is probable that an outflow of resources embodying economic benefits will result from the settlement of the obligation and the amount at which the settlement will take place can be measured reliably. An exception is certain financial instruments which are recognized at fair value at the reporting date. Revenue is recognized if the conditions of IAS 18 are met and if it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Foreign currency translation

The consolidated financial statements of RBI were prepared in euro which is the functional currency of RBI AG. The functional currency is the currency of the principal economic environment in which the company operates. Each entity within the Group determines its own functional currency taking all factors listed in IAS 21 into account.

All financial statements of fully consolidated companies prepared in a functional currency other than euro were translated into the reporting currency euro employing the modified closing rate method in accordance with IAS 21. Equity was translated at its historical exchange rates while all other assets, liabilities and the notes were translated at the prevailing foreign exchange rates as of the reporting date. Differences arising from the translation of equity (historical exchange rates) are offset against retained earnings.

The income statement items were translated at the average exchange rates during the year calculated on the basis of month-end rates. Differences arising between the exchange rate as of the reporting date and the average exchange rate applied in the income statement were offset against equity (retained earnings). According to IAS 21, in cases of significantly fluctuating exchange rates, the transaction rate was used instead of the average rate.

Accumulated exchange differences are reclassified from the item "exchange differences" shown in other comprehensive income to the income statement under net income from disposal of group assets, in the event of a disposal of a foreign business operation which leads to loss of control, joint management or significant influence over this business operation.

In the case of one subsidiary headquartered outside the euro area, the US dollar was the reporting currency for measurement purposes given the economic substance of the underlying transactions, as both the transactions and the financing were undertaken in US dollars. In the case of one subsidiary headquartered in the euro area, the Russian rouble was the reporting currency for measurement purposes given the economic substance of the underlying transactions.

The following exchange rates were used for currency translation:

	2016		2015	
Rates in units per €	**As at 31/12**	**Average 1/1-31/12**	**As at 31/12**	**Average 1/1-31/12**
Albanian lek (ALL)	135.400	137.299	137.280	139.668
Belarusian rouble (BYN)	2.068	2.186	2.030	1.758
Bosnian marka (BAM)	1.956	1.956	1.956	1.956
Bulgarian lev (BGN)	1.956	1.956	1.956	1.956
Croatian kuna (HRK)	7.560	7.544	7.638	7.621
Czech koruna (CZK)	27.021	27.041	27.023	27.305
Hungarian forint (HUF)	309.830	312.222	315.980	310.045
Kazakh tenge (KZT)	352.622	376.831	371.310	249.078
Malaysian ringgit (MYR)[1]	-	-	4.696	4.338
Polish zloty (PLN)	4.410	4.366	4.264	4.191
Romanian leu (RON)	4.539	4.496	4.524	4.444
Russian rouble (RUB)	64.300	73.876	80.674	69.043
Serbian dinar (RSD)	123.410	122.970	121.626	120.779
Singapore dollar (SGD)	1.523	1.526	1.542	1.529
Swiss franc (CHF)	1.074	1.090	1,084	1.075
Turkish lira (TRY)[1]	-	-	3.177	3.024
Ukrainian hryvnia (UAH)	28.599	28.214	26.223	24.016
US-Dollar (USD)	1.054	1.102	1.089	1.113

1 Due to the disposal of Group assets, the Malaysian ringgit and the Turkish lira were no longer in use in the 2016 financial year.

Key sources of estimation uncertainty and critical accounting judgments

If estimates or assessments are necessary for accounting and measuring under IAS/IFRS rules, they are made in accordance with the respective standards. They are based on past experience and other factors such as planning and expectations or forecasts of future events that appear likely. The estimates and underlying assumptions are reviewed on an ongoing basis. Alterations to estimates that affect only one period will be taken into account only in that period. If the following reporting periods are also affected, the alterations will be taken into consideration in the current and following periods. The critical assumptions, estimates and accounting judgments are as follows:

Risk provisions for loans and advances

At each reporting date, all financial assets, not measured at fair value through profit or loss, are subject to an impairment test to determine whether an impairment loss is to be recognized through profit or loss. In particular, it is required to determine whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of future cash flows when determining an impairment loss. Risk provisions are described in detail in the notes under (42) Risks arising from financial instruments, in the section on credit risk.

Fair value of financial instruments

Fair value is the price received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This applies regardless of whether the price can be directly observed or has been estimated on the basis of a measurement method. In determining the fair value of an asset or liability, the Group takes account of certain features of the asset or liability (e.g. condition and location of the asset or restrictions in the sale and use of an asset) if market participants would also take account of such features in determining the price for the acquisition of the respective asset or for the transfer of the liability at the measurement date. Where the market for a financial instrument is not active, fair value is established using a valuation technique or pricing model. For valuation methods and models, estimates are generally used depending on the complexity of the instrument and the availability of market-based data. The inputs to these models are derived from observable market data where possible. Under certain circumstances, valuation adjustments are necessary in order to account for model risk, liquidity risk or credit risk. The valuation models are described in the notes in the section on financial instruments – Recognition and measurement. In addition, the fair values of financial instruments are shown in the notes under (40) Fair value of financial instruments.

Provisions for pensions and similar obligations

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. The interest rate used to discount the Group’s defined benefit obligations is determined on the basis of the yields obtained in the market at the balance sheet date for top-rated fixed-income corporate bonds. Considerable discretion has to be exercised in this connection in setting the criteria for the selection of the corporate bonds representing the universe from which the yield curve is derived. The main criteria for the selection of such corporate bonds are the issuance volumes of the bonds, the quality of the bonds and the identification of outliers, which are not taken into account. Mercer’s recommendation is used to determine the interest rate. Assumptions and estimates used for the defined benefit obligation calculations are described in the section on pension obligations and other termination benefits. Quantitative data for long term employee provisions are disclosed in the notes under (27) Provisions for liabilities and charges.

Impairment of non-financial assets

Certain non-financial assets, including goodwill and other intangible assets, are subject to an annual impairment review. Goodwill and other intangible assets are tested more frequently if events or changes in circumstances, such as an adverse change in business climate, indicate that these assets may be impaired. The determination of the recoverable amount requires judgments and assumptions to be made by management. Because these estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change, the Group considers these estimates to be critical. Details concerning the impairment review of non-financial assets are disclosed in the section on business combinations. Additionally, the carrying amounts of goodwill are presented in the notes under (20) intangible assets.

Deferred tax assets

Deferred tax assets are recognized only to the extent that it is probable that in the future sufficient taxable profit will be available against which those loss carryforwards, unused tax credits or deductible temporary differences can be utilized. A planning period of five years is used to this end. This assessment requires significant management judgments and assumptions. In determining the amount of deferred tax assets, the management uses historical tax capacity and profitability information and, if relevant, forecasted operating results based upon approved business plans, including a review of the eligible carry-forward period.

Deferred taxes are not reported separately in the income statement and statement of financial position. Details are provided in the statement of comprehensive income, and in (11) Income taxes, (23) Other assets, and (27) Provisions for liabilities and charges.

Leasing agreements

To distinguish between finance leases on the one hand and operating leases on the other, judgments have to be made from the view of the lessor, the criterion being the transfer of essentially all risks and opportunities from the lessor to the lessee. Details are provided in (44) Finance leases, and (45) Operating Leases.

Control

According to IFRS 10, a Group controls an investee if it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 also provides specific information on the acknowledgement or assessment of potential voting rights, codecision rights or protective rights of third parties and constellations that are characterized by delegated or retained decision-making rights or de-facto control. Whether control exists requires a comprehensive assessment (i.e. requiring discretion) of the economic influence of the parent company over the investee. Details are provided in (52) Group composition.

Interests in structured entities

According to IFRS 12, structured entities are companies that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the company. This applies, for instance, when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. For the purposes of this IFRS, an interest in another entity is a contractual or non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity.

Assessment of which companies are structured entities, and what involvement in such companies actually represents an interest, requires judgments to be made. Details are provided in (52) Group composition, in the section on “Structured entities”.

Notes to the income statement

(1) Income statement according to measurement categories

in € thousand	2016	2015
Net gains (losses) on financial assets and liabilities held-for-trading	**214,447**	**105,649**
Financial assets and liabilities at fair value through profit or loss	**57,777**	**370,614**
Interest income	149,003	162,108
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	(91,226)	208,506
Financial assets available-for-sale	**153,400**	**47,182**
Interest income	28,301	87,651
Net realized gains (losses) on financial assets available-for-sale	148,984	2,664
Impairment on financial assets available-for-sale	(23,885)	(43,134)
Loans and advances	**2,723,634**	**2,776,114**
Interest income	3,477,104	4,039,632
Net realized gains (losses) on financial assets not measured at fair value through profit and loss	10,008	10,724
Impairment on financial assets not measured at fair value through profit and loss	(763,478)	(1,274,243)
Financial assets held-to-maturity	**141,425**	**164,129**
Interest income	128,352	152,359
Net realized gains (losses) on financial assets not measured at fair value through profit and loss	13,128	11,750
Write-ups/impairment on financial assets not measured at fair value through profit and loss	(55)	21
Financial liabilities	**(1,108,664)**	**(1,585,647)**
Interest expenses	(1,108,433)	(1,589,552)
Income from repurchase of liabilities	(230)	3,905
Derivatives (hedging)	**154,082**	**200,752**
Net interest income	160,449	194,763
Net gains (losses) from hedge accounting	(6,367)	5,989
Net revaluations from exchange differences	**23,715**	**64,645**
Sundry operating income and expenses	**(1,474,219)**	**(1,432,492)**
Profit/loss before tax	**885,598**	**710,946**

(2) Net interest income

Net interest income includes interest income and interest expenses from banking business, dividend income, and fees and commissions with interest-like characteristics.

in € thousand	2016	2015
Interest and interest-like income, total	**4,043,862**	**4,916,202**
Interest income	4,023,315	4,815,800
from balances at central banks	20,766	35,420
from loans and advances to banks	151,333	162,985
from loans and advances to customers	3,159,065	3,656,077
from financial investments	277,277	314,268
from leasing claims	153,773	172,598
from derivative financial instruments - economic hedge	100,653	279,689
from derivative financial instruments - hedge accounting	160,449	194,763
Current income	28,379	87,850
from shares and other variable-yield securities	78	198
from shares in affiliated companies	24,640	76,110
from other interests	3,661	11,541
Interest-like income	14,023	18,229
Negative interest from financial assets	(21,855)	(5,677)
Interest expenses and interest-like expenses, total	**(1,108,433)**	**(1,589,552)**
Interest expenses	(1,090,866)	(1,530,715)
on deposits from central banks	(14,358)	(53,964)
on deposits from banks	(161,976)	(190,163)
on deposits from customers	(604,356)	(905,602)
on debt securities issued	(149,626)	(194,370)
on subordinated capital	(160,549)	(186,615)
Interest-like expenses	(35,547)	(61,896)
Negative interest from financial liabilities	17,980	3,058
Total	**2,935,429**	**3,326,650**

Interest income includes interest income (unwinding) from impaired loans to customers and banks in the amount of € 185,018 thousand (2015: € 183,804 thousand). Interest income from impaired loans and advances to customers and banks is recognized based on the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(3) Net provisioning for impairment losses

Net provisioning for impairment losses on items reported on and off the statement of financial position is as follows:

in € thousand	2016	2015
Individual loan loss provisions	**(768,835)**	**(1,324,169)**
Allocation to provisions for impairment losses	(1,625,946)	(1,967,334)
Release of provisions for impairment losses	841,648	638,597
Direct write-downs	(112,791)	(117,352)
Income received on written-down claims	128,254	121,921
Portfolio-based loan loss provisions	**4,441**	**49,642**
Allocation to provisions for impairment losses	(179,337)	(194,730)
Release of provisions for impairment losses	183,778	244,372
Gains from loan termination or sale	**10,008**	**10,724**
Total	**(754,387)**	**(1,263,802)**

Details on risk provisions are shown under note (16) Impairment losses on loans and advances.

(4) Net fee and commission income

in € thousand	2016	2015
Payment transfer business	651,195	644,469
Loan and guarantee business	170,032	198,497
Securities business	136,556	136,056
Foreign currency, notes/coins, and precious metals business	391,626	381,034
Management of investment and pension funds	37,646	43,044
Sale of own and third party products	59,788	52,030
Other banking services	50,001	64,063
Total	**1,496,844**	**1,519,193**

(5) Net trading income

Net trading income includes interest and dividend income, financing costs, commissions and any changes in fair value of trading portfolios.

in € thousand	2016	2015
Interest-based transactions	118,507	67,993
Currency-based transactions	115,706	(60,259)
Equity-/index-based transactions	(18,265)	7,134
Credit derivatives business	(3,751)	(926)
Other transactions	2,388	2,473
Total	**214,586**	**16,415**

The improvement in currency-based transactions was primarily the result of a more limited Ukranian hryvnia devaluation than in the previous year (€ 80,987 thousand increase). Another positive effect was attributable to the discontinuation of a hedging transaction for Russian rouble denominated dividend income, which had resulted in a € 70,032 thousand reduction in the previous year. Belarus, in contrast, reported a decline of € 61,299 thousand from ending a strategic currency position.

(6) Net income from derivatives and liabilities

in € thousand	2016	2015
Net income from hedge accounting	(6,367)	5,989
Net income from credit derivatives	(48)	(90)
Net income from other derivatives	(77,029)	(125,718)
Net income from liabilities designated at fair value	(105,078)	111,643
Income from repurchase of liabilities	(230)	3,905
Total	**(188,752)**	**(4,272)**

Net income from hedge accounting includes a valuation result from derivatives used in fair value hedges of € 9,200 thousand (2015: minus € 112,615 thousand) and changes in the carrying amount of the fair value hedged items of minus € 15,778 thousand (2015: € 118,812 thousand). This item also includes the ineffective portions of the cash flow hedge amounting to € 211 thousand (2015: minus € 208 thousand).

Net income from other derivatives includes valuation results from derivatives held to hedge against market risks (except trading assets/liabilities). They relate to a non-homogeneous portfolio and therefore do not satisfy the requirements for hedge accounting according to IAS 39.

Net income from liabilities designated at fair value includes a loss from changes in own credit risk amounting to € 119,064 thousand (2015: loss of € 2,572 thousand) and a positive effect from changes in market interest rates totaling € 13,986 thousand (2015: positive effect of € 114,215 thousand).

(7) Net income from financial investments

Net income from financial investments comprises valuation results and net proceeds from sales of securities from the financial investment portfolio (held-to-maturity), from securities measured at fair value through profit and loss, and equity participations which include shares in affiliated companies and other companies.

in € thousand	2016	2015
Net income from securities held-to-maturity	**13,073**	**11,770**
Net valuations of securities	(55)	21
Net proceeds from sales of securities	13,128	11,750
Net income from equity participations	**126,850**	**(44,654)**
Net valuations of equity participations	(17,652)	(45,311)
Net proceeds from sales of equity participations	144,501	656
Net income from securities at fair value through profit and loss	**14,768**	**97,147**
Net valuations of securities	16,218	75,570
Net proceeds from sales of securities	(1,450)	21,576
Net income from available-for-sale securities	**(1,751)**	**4,185**
Total	**152,940**	**68,448**

In the 2016 financial year, most of the net proceeds from sales of equity participations came from the sale of Visa Europe Ltd. shares to Visa Inc. and the associated recycling of accumulated gains of € 133,623 thousand to profit or loss.

(8) General administrative expenses

in € thousand	2016	2015
Staff expenses	(1,409,841)	(1,389,414)
Other administrative expenses	(1,107,364)	(1,173,095)
hereof operating other administrative expenses	(963,697)	(1,005,874)
hereof regulatory other administrative expenses	(143,667)	(167,221)
Depreciation of tangible and intangible fixed assets	(331,023)	(351,476)
Total	**(2,848,228)**	**(2,913,986)**

Staff expenses

in € thousand	2016	2015
Wages and salaries	(1,072,610)	(1,053,851)
Social security costs and staff-related taxes	(248,820)	(255,289)
Other voluntary social expenses	(43,078)	(37,997)
Expenses for defined contribution pension plans	(11,382)	(11,359)
Expenses/income for defined benefit pension plans	(456)	(1,308)
Expenses for other post-employment benefits	(8,716)	(8,256)
Expenses for other long-term employee benefits	(2,519)	(5,033)
Termination benefits	(11,872)	(11,000)
Expenses on share incentive program (SIP)	(1,217)	(1,905)
Deferred bonus payments according to Section 39b BWG	(9,171)	(3,416)
Total	**(1,409,841)**	**(1,389,414)**

Other administrative expenses

in € thousand	2016	2015
Office space expenses	(244,965)	(271,220)
IT expenses	(259,584)	(253,518)
Communication expenses	(65,462)	(68,671)
Legal, advisory and consulting expenses	(95,038)	(96,978)
Advertising, PR and promotional expenses	(102,775)	(102,009)
Office supplies	(25,661)	(27,649)
Car expenses	(14,534)	(17,718)
Security expenses	(37,386)	(37,045)
Traveling expenses	(15,852)	(16,021)
Training expenses for staff	(16,998)	(16,736)
Sundry administrative expenses	(85,441)	(98,310)
Operating other administrative expenses	**(963,697)**	**(1,005,874)**
Deposit insurance fees	(91,987)	(125,853)
Resolution fund	(51,680)	(41,367)
Regulatory other administrative expenses	**(143,667)**	**(167,221)**
Total	**(1,107,364)**	**(1,173,095)**

Legal, advisory and consulting expenses include audit fees in relation to RBI AG and its subsidiaries which comprise expenses for the audit of financial statements amounting to € 6,531 thousand (2015: € 6,172 thousand) and tax advisory as well as other additional consulting services provided by the auditors amounting to € 8,524 thousand (2015: € 5,747 thousand). Thereof, € 1,879 thousand (2015: € 2,157 thousand) relates to the Group auditor for the audit of the financial statements and € 1,434 thousand (2015: € 1,450 thousand) accounts for the other consulting services.

Depreciation of tangible and intangible fixed assets

in € thousand	2016	2015
Tangible fixed assets	(122,883)	(149,716)
Intangible fixed assets	(177,478)	(170,864)
Leased assets (operating lease)	(30,663)	(30,896)
Total	**(331,023)**	**(351,476)**

Amortization of intangible fixed assets capitalized in the course of initial consolidation amounted to € 4,719 thousand (2015: € 5,747 thousand) which relates to scheduled amortization of customer relationship intangibles.

The depreciation of tangible and intangible fixed assets includes impairments of € 34,300 thousand (2015: € 50,246 thousand). The impairments comprise impairment losses for buildings and land of € 5,080 thousand (2015: € 17,850 thousand) and impairment losses for intangible assets of € 28,540 thousand (2015: 31,993 thousand), mainly for the brand Polbank.

Expenses for severance payments and retirement benefits

in € thousand	2016	2015
Members of the management board and senior staff	(3,528)	(3,045)
Other employees	(23,374)	(25,233)
Total	**(26,902)**	**(28,278)**

The same regulations for employees are in principle valid for the members of the Management Board. These regulations provide for a basic contribution to a pension fund from the company and an additional contribution if the employee pays own contributions of the same amount. Three members of the Management Board additionally have individual retirement benefits, which are funded by a reinsurance policy.

In the event of termination of function or employment contract and departure from the company, one member of the Management Board is entitled to severance payments according to the Salaried Employees Act (Angestelltengesetz) in connection with the Bank Collective Agreement (Bankenkollektivvertrag), one member of the Management Board according to contractual agreements and four members of the Management Board according to the Company Retirement Plan Act (Betrieblichen Mitarbeitervorsorgegesetz). The entitlement to receive severance payments according to the Salaried Employees Act or according to contractual agreements lapses in the case of termination by the employee.

Moreover, protection against the risk of occupational disability exists which is covered by a pension fund and/or by individual pension agreements secured through reinsurance. The contracts of the members of the Management Board run for the functional duration or are limited to a maximum of five years. Severance payments in the event of early termination of function without good cause amount to a maximum of two years total remuneration.

(9) Other net operating income

in € thousand	2016	2015[1]
Net income arising from non-banking activities	18,878	17,988
Sales revenues from non-banking activities	53,029	66,402
Expenses arising from non-banking activities	(34,151)	(48,413)
Net income from additional leasing services	5,338	5,602
Revenues from additional leasing services	71,748	61,531
Expenses from additional leasing services	(66,410)	(55,929)
Rental income from operating lease (vehicles and equipment)	30,888	30,880
Rental income from investment property incl. operating lease (real estate)	40,427	47,498
Net proceeds from disposal of tangible and intangible fixed assets	(1,650)	1,196
Other taxes	(71,789)	(75,476)
Net expense from allocation and release of other provisions	(17,288)	(4,470)
Sundry operating income	100,826	114,907
Sundry operating expenses	(60,265)	(71,632)
Recurring other net operating income	**45,364**	**66,493**
Impairment of goodwill	0	(6,954)
Bank levies	(157,846)	(119,100)
Profit/loss from banking business due to governmental measures	(29,268)	(19,249)
Total	**(141,749)**	**(78,810)**

1 Previous year figures adapted to reflect changes in allocation

The item "Other taxes" includes the financial transactions tax in Hungary in addition to property taxes.

Other net operating income includes no impairments of goodwill for the financial year. In the previous year, impairments of goodwill totaling € 6,954 thousand for Group units in Ukraine and Serbia were included.

The bank levies primarily consist of the levies required under the Austrian Stability Act (StabG) amounting to € 85,440 thousand (2015: € 84,175 thousand) as well as bank levies in Poland (€ 34,077 thousand, 2015: € 0 thousand), Slovakia (€ 19,365 thousand, 2015: € 17,553 thousand) and Hungary (€ 18,964 thousand, 2015: € 17,372 thousand).

The "Walkaway Law" came into force in Romania in the second quarter of 2016. Expected utilization resulted in a provisioning requirement of € 26,741 thousand for the reporting period. This new mortgage loan law stipulates that borrowers can sign their properties over to banks and thereby settle their debts, even if the outstanding volume of the loan exceeds the value of the property. The law relates to certain mortgage loans taken out by private individuals in any currency and applies retroactively. Since the Group is of the opinion that this contravenes the Romanian constitution, relevant proceedings were initiated. In October 2016, the Romanian Constitutional Court repealed sections of the law connected with its retroactive application. In the previous year, this item contained expenditures of € 81,987 thousand in Croatia and € 3,951 thousand in Serbia, which were offset by a partial release of provisions of € 66,689 thousand in Hungary.

(10) Net income from disposal of group assets

in € thousand	2016	2015
Net income from disposal of group assets	18,914	92,587
Impairment of assets held for sale	0	(51,772)
Total	**18,914**	**41,111**

Net income from the disposal of group assets consisted of the following:

in € thousand	RLPL Group	RBSI	Others	Total
Assets	1,580,189	545,114	153,426	2,278,729
Liabilities	1,416,664	489,413	122,926	2,029,004
Total identifiable net assets	**163,525**	**55,701**	**30,500**	**249,725**
Non-controlling interests	0	156	5,516	5,672
Net assets after non-controlling interests	**163,525**	**55,544**	**24,984**	**244,053**
Selling price/carrying amount	192,787	500	27,557	220,844
Effect from deconsolidations	**29,263**	**(55,044)**	**2,573**	**(23,209)**
Usage of provision for assets held for sale	0	51,772	0	51,772
Fair value reserve reclassified to income statement	0	1,212	0	1,212
FX reserve reclassified to income statement	(11,663)	(3,586)	4,388	(10,860)
Net income from disposal of group assets	**17,600**	**(5,647)**	**6,961**	**18,914**

RBSI: Raiffeisen Banka d.d., Maribor
RLPL Group: Raiffeisen-Leasing Polska S.A., Warsaw, and subsidiaries

In the reporting period, nine subsidiaries were excluded from the consolidated group due to materiality reasons. Moreover, six subsidiaries were excluded due to sale and one due to a change in control. Net income from the disposal of these group assets amounted to € 18,914 thousand.

In the previous year, net income amounted to € 41,111 thousand. The sale of ZAO NPF Raiffeisen, Moscow, resulted in a gain of € 86,171 thousand. The currency effects of minus € 4,018 thousand that were realized from this transaction were reclassified to the income statement. In contrast, a provision of € 51,772 thousand was recognized for the expected loss from the sale of Raiffeisen Banka d.d., Maribor.

Details are shown under (52) Group composition.

(11) Income taxes

in € thousand	2016	2015
Current income taxes	(282,466)	(281,314)
Austria	(19,740)	(47,225)
Foreign	(262,727)	(234,088)
Deferred taxes	(29,516)	5,359
Total	**(311,982)**	**(275,955)**

RBI AG, 22 of its domestic subsidiaries and eleven of its other affiliated companies are members of a joint tax entity headed by Raiffeisen Zentralbank Österreich Aktiengesellschaft. In the previous year, the existing tax compensation agreement was expanded with a supplementary agreement. If RBI AG has a negative result in the tax accounts which cannot be used in the group, the group parent is not obliged to pay negative tax contributions to RBI AG. However, the amount is to be settled in the event of a withdrawal from the tax group. The obligation of the tax group head to pay a negative tax contribution to RBI AG for usable losses remains.

The following reconciliation shows the relationship between profit before tax and the effective tax burden:

in € thousand	2016	2015
Profit/loss before tax	**885,598**	**710,946**
Theoretical income tax expense in the financial year based on the domestic income tax rate of 25 per cent	**(221,399)**	**(177,736)**
Effect of divergent foreign tax rates	102,893	77,554
Tax decrease because of tax-exempted income from equity participations and other income	65,449	38,059
Tax increase because of non-deductible expenses	(128,432)	(167,810)
Impairment on loss carry-forwards	(7,462)	(3,151)
Other changes	(123,032)	(42,871)
Effective tax burden	**(311,983)**	**(275,955)**
Effective tax rate in per cent	**35.2%**	**38.8%**

Other changes include € 89,224 thousand unrecognized deferred taxes from temporary differences. They were not capitalized because there was no utilization based on the current mid-term tax planning.

Notes to the statement of financial position

(12) Statement of financial position according to measurement categories

Assets according to measurement categories in € thousand	2016	2015
Cash reserve	**12,242,415**	**13,211,971**
Trading assets	**5,770,407**	**6,678,474**
Positive fair values of derivative financial instruments	3,437,526	3,696,941
Shares and other variable-yield securities	164,575	203,289
Bonds, notes and other fixed-interest securities	2,168,307	2,778,244
Financial assets at fair value through profit or loss	**3,962,757**	**5,363,032**
Shares and other variable-yield securities	3,694	3,751
Bonds, notes and other fixed-interest securities	3,959,064	5,359,281
Financial assets available-for-sale	**4,117,276**	**3,428,362**
Investments in other affiliated companies	193,421	176,390
Other interests	85,931	146,042
Bonds, notes and other fixed-interest securities	3,835,200	3,103,430
Shares and other variable-yield securities	2,724	2,499
Loans and advances	**76,482,005**	**75,646,253**
Loans and advances to banks	9,900,012	10,837,209
Loans and advances to customers	70,514,116	69,921,365
Other non-derivative financial assets	1,023,009	942,814
Impairment losses on loans and advances	(4,955,132)	(6,055,134)
Financial assets held-to-maturity	**6,558,979**	**6,452,241**
Bonds, notes and other fixed-interest securities	6,558,979	6,452,241
Derivatives (hedging)	**644,693**	**709,272**
Positive fair values of derivatives (hedging)	644,693	709,272
Other assets	**2,085,313**	**2,936,978**
Intangible and tangible fixed assets	1,991,760	2,094,203
Inventories	64,726	68,636
Assets held for sale (IFRS 5)	28,826	774,139
Total assets	**111,863,845**	**114,426,583**

Positive fair values of derivatives not designated as hedging instruments according to IAS 39 hedge accounting are reported in the measurement category "trading assets".

Equity and liabilities according to measurement categories in € thousand	2016	2015
Trading liabilities	**5,481,277**	**5,641,019**
Negative fair values of other derivative financial instruments	2,961,867	4,492,701
Short-selling of trading assets	555,346	453,459
Certificates issued	1,964,063	694,859
Financial liabilities	**93,185,123**	**96,447,725**
Deposits from banks[1]	12,064,755	15,530,422
Deposits from customers	71,538,226	68,990,887
Debt securities issued[1]	5,271,709	6,274,628
Subordinated capital[1]	3,545,183	3,641,812
Other non-derivative financial liabilities	765,251	716,207
Liabilities held for sale (IFRS 5)	0	1,293,769
Liabilities at fair value through profit and loss	**2,783,648**	**2,588,259**
Deposits from banks[1]	751,720	838,753
Debt securities issued[1]	1,373,418	1,226,965
Subordinated capital[1]	658,510	522,541
Derivatives (hedging)	**425,415**	**434,791**
Negative fair values of derivatives (hedging)	425,415	434,791
Provisions for liabilities and charges	**756,252**	**813,823**
Equity	**9,232,130**	**8,500,967**
Total equity and liabilities	**111,863,845**	**114,426,583**

1 Adaptation of previous year figures

Negative fair values of derivatives not designated as hedging instruments according to IAS 39 hedge accounting are reported in the measurement category "trading liabilities".

(13) Cash reserve

in € thousand	2016	2015
Cash in hand	2,975,329	2,495,135
Balances at central banks	9,267,086	10,716,836
Total	**12,242,415**	**13,211,971**

(14) Loans and advances to banks

in € thousand	2016	2015
Giro and clearing business	2,027,695	1,651,648
Money market business	6,048,921	6,547,259
Loans to banks	1,412,069	2,415,874
Purchased loans	257,469	49,781
Leasing claims	24	57
Claims evidenced by paper	153,833	172,590
Total	**9,900,012**	**10,837,209**

The purchased loans amounting to € 257,469 thousand (2015: € 49,781 thousand) are fully assigned to the measurement category "loans and advances".

Loans and advances to banks classified regionally (counterparty domicile) are as follows:

in € thousand	2016	2015
Austria	2,263,695	3,383,989
Foreign	7,636,316	7,453,220
Total	**9,900,012**	**10,837,209**

Loans and advances to banks break down into the following segments:

in € thousand	2016	2015
Central banks	1,109,775	2,355,185
Commercial banks	8,786,233	8,475,233
Multilateral development banks	4,003	6,790
Total	**9,900,012**	**10,837,209**

(15) Loans and advances to customers

in € thousand	2016	2015
Credit business	44,077,339	44,550,999
Money market business	4,378,329	2,962,552
Mortgage loans	17,501,479	16,815,309
Purchased loans	2,222,508	1,774,747
Leasing claims	1,841,422	3,170,455
Claims evidenced by paper	493,039	647,303
Total	**70,514,116**	**69,921,365**

Purchased loans amounting to € 2,222,508 thousand (2015: € 1,774,747 thousand) are exclusively assigned to the measurement category "loans and advances". The drop in leasing claims is primarily due to the sale of the leasing company in Poland. Details on leasing claims are shown under (44) Finance leases.

Loans and advances to customers are distributed among asset classes as follows:

in € thousand	2016	2015
Sovereigns	659,231	814,425
Corporate customers – large corporates	41,676,239	41,685,252
Corporate customers – mid market	2,600,364	2,786,716
Retail customers – private individuals	23,392,811	21,878,405
Retail customers – small and medium-sized entities	2,185,471	2,756,567
Total	**70,514,116**	**69,921,365**

Loans and advances to customers classified regionally (counterparty domicile) are as follows:

in € thousand	2016	2015
Austria	5,108,924	5,297,257
Foreign	65,405,192	64,624,108
Total	**70,514,116**	**69,921,365**

(16) Impairment losses on loans and advances

Provisions for impairment losses were formed in accordance with uniform Group standards and cover all recognizable credit risks. A table showing the development of the impairment losses on loans and advances can be found in the risk report. Provisions for impairment losses were allocated to the following asset classes:

in € thousand	2016	2015
Banks	50,365	119,916
Sovereigns	4,753	5,392
Corporate customers – large corporates	2,929,930	3,778,315
Corporate customers – mid market	216,334	289,427
Retail customers – private individuals	1,515,175	1,583,638
Retail customers – small and medium-sized entities	238,574	278,447
Total	**4,955,132**	**6,055,134**

The reduction in impairment losses on loans and advances was largely caused by the sale of non-performing loans with a nominal value of € 1,186,945 thousand and the derecognition of uncollectible loans.

Loans and advances and loan loss provisions according to asset classes are shown in the following table:

2016 in € thousand	Fair value	Carrying amount	Individually impaired assets	Individual loan loss provisions	Portfolio-based loan loss provisions	Net carrying amount
Banks	9,909,101	9,900,012	50,606	48,300	2,065	9,849,646
Sovereigns	594,130	659,231	5,607	4,347	406	654,478
Corporate customers – large corporates	37,564,456	41,676,239	4,186,286	2,825,635	104,295	38,746,308
Corporate customers – mid market	2,406,066	2,600,364	268,976	208,956	7,378	2,384,031
Retail customers – private individuals	22,311,945	23,392,811	1,685,669	1,303,946	211,229	21,877,636
Retail customers – small and medium-sized entities	2,062,307	2,185,471	321,337	213,247	25,327	1,946,897
Total	**74,848,005**	**80,414,128**	**6,518,482**	**4,604,432**	**350,700**	**75,458,996**

2015 in € thousand	Fair value	Carrying amount	Individually impaired assets	Individual loan loss provisions	Portfolio-based loan loss provisions	Net carrying amount
Banks	10,806,542	10,837,209	120,657	117,672	2,244	10,717,293
Sovereigns	709,805	814,425	7,808	5,027	364	809,033
Corporate customers – large corporates	37,126,663	41,685,252	5,557,602	3,635,428	142,887	37,906,937
Corporate customers – mid market	2,476,074	2,786,716	377,006	280,241	9,186	2,497,289
Retail customers – private individuals	20,507,112	21,878,405	1,810,777	1,409,232	174,406	20,294,767
Retail customers – small and medium-sized entities	2,613,887	2,756,567	378,288	250,229	28,218	2,478,120
Total	**74,240,083**	**80,758,573**	**8,252,139**	**5,697,828**	**357,306**	**74,703,439**

Impaired financial assets

Impairments and collateral according to asset classes are shown in the following table:

2016 in € thousand	Individually impaired assets	Individual loan loss provisions	Individually impaired assets after deduction of ILLP	Collateral for individually impaired assets	Interest on individually impaired assets
Banks	50,606	48,300	2,306	0	109
Sovereigns	5,607	4,347	1,260	0	6
Corporate customers – large corporates	4,186,286	2,825,635	1,360,650	702,301	93,678
Corporate customers – mid market	268,976	208,956	60,020	117,076	9,506
Retail customers – private individuals	1,685,669	1,303,946	381,724	422,806	61,911
Retail customers – small and medium-sized entities	321,337	213,247	108,090	100,328	19,809
Total	**6,518,482**	**4,604,432**	**1,914,050**	**1,342,511**	**185,018**

ILLP individual loan loss provisions

2015 in € thousand	Individually impaired assets	Individual loan loss provisions	Individually impaired assets after deduction of ILLP	Collateral for individually impaired assets	Interest on individually impaired assets
Banks	120,657	117,672	2,986	183	153
Sovereigns	7,808	5,027	2,781	46	30
Corporate customers – large corporates	5,557,602	3,635,428	1,922,174	1,401,764	95,616
Corporate customers – mid market	377,006	280,241	96,765	82,404	12,420
Retail customers – private individuals	1,810,777	1,409,232	401,545	412,123	58,620
Retail customers – small and medium-sized entities	378,288	250,229	128,059	123,087	16,965
Total	**8,252,139**	**5,697,828**	**2,554,310**	**2,019,607**	**183,804**

ILLP individual loan loss provisions

(17) Trading assets

in € thousand	2016	2015
Bonds, notes and other fixed-interest securities	**2,168,307**	**2,778,244**
Treasury bills and bills of public authorities eligible for refinancing	632,054	1,029,632
Other securities issued by the public sector	300,058	299,452
Bonds and notes of non-public issuers	1,236,195	1,449,160
Shares and other variable-yield securities	**164,575**	**203,289**
Shares	115,513	173,360
Mutual funds	48,969	29,922
Other variable-yield securities	93	7
Positive fair values of derivative financial instruments	**2,653,580**	**2,832,575**
Interest-based transactions	1,857,351	1,927,195
Currency-based transactions	697,525	833,322
Equity-/index-based transactions	94,938	69,838
Credit derivatives business	648	1,776
Other transactions	3,119	443
Total	**4,986,462**	**5,814,108**

Pledged securities which are permitted to be sold or repledged by the transferee shown under the item "trading assets" amounted to € 63,540 thousand (2015: € 1,079,590 thousand).

(18) Derivatives

in € thousand	2016	2015
Positive fair values of derivatives in fair value hedges (IAS 39)	**641,851**	**691,539**
Interest-based transactions	641,559	691,539
Currency-based transactions	291	0
Positive fair values of derivatives in cash flow hedges (IAS 39)	**2,842**	**1,021**
Interest-based transactions	2,842	0
Currency-based transactions	0	1,021
Positive fair values of derivatives in net investment hedge (IAS 39)	**0**	**16,711**
Currency-based transactions	0	16,711
Positive fair values of other derivatives	**783,945**	**864,366**
Interest-based transactions	567,886	560,995
Currency-based transactions	216,060	303,371
Total	**1,428,639**	**1,573,637**

As long as the conditions for hedge accounting according to IAS 39 are fulfilled, derivative financial instruments are reported at their fair values (dirty prices) in their function as hedging instruments. The items hedged by fair value hedges are loans and advances to customers, deposits from banks and debt securities issued, which are hedged against interest rate risks. The changes in carrying amount of the hedged underlying transactions in IAS 39 fair value hedges are included in the respective items of the statement of financial position.

This item also includes the positive fair values of derivative financial instruments which are used for hedging against market risks (excluding trading assets and trading liabilities) for a non-homogeneous portfolio. These derivatives do not meet the conditions for IAS 39 hedge accounting.

The table below shows the expected hedged cash flows from assets and the effect on the statement of comprehensive income by period:

in € thousand	2016	2015
1 year	351,086	411,398
More than 1 year, up to 5 years	708,454	1,577,255
More than 5 years	4,000,862	3,460,207

(19) Financial investments

This position consists of securities available-for-sale, financial assets at fair value through profit or loss, and securities held-to-maturity as well as strategic equity participations held on a long-term basis.

in € thousand	2016	2015
Bonds, notes and other fixed-interest securities	**14,353,243**	**14,914,953**
Treasury bills and bills of public authorities eligible for refinancing	7,804,483	9,026,174
Other securities issued by the public sector	4,632,268	3,807,862
Bonds and notes of non-public issuers	1,896,098	2,060,554
Other	20,394	20,363
Shares and other variable-yield securities	**6,417**	**6,250**
Shares	1,493	2,598
Mutual funds	1,662	390
Other variable-yield securities	3,262	3,262
Equity participations	**279,352**	**322,432**
Interest in affiliated companies	193,421	176,408
Other interests	85,931	146,024
Total	**14,639,012**	**15,243,635**

Pledged securities permitted to be sold or repledged by the transferee shown under financial investments amounted to € 598,309 thousand (2015: € 259,526 thousand).

The carrying amount of the securities reclassified into the category "held-to-maturity" amounted at the date of reclassifications to € 452,188 thousand. Thereof, reclassifications in 2008 amounted to € 371,686 thousand and in 2011 € 80,502 thousand. As of 31 December 2016, the carrying amount totaled € 3,314 thousand and the fair value totaled € 3,707 thousand. In 2016, a result from the reclassified securities of € 213 thousand (2015: € 557 thousand) was shown in the income statement. If the reclassification had not been made, a loss of € 78 thousand (2015: loss of € 355 thousand) would have arisen.

Equity participations valued at amortized cost for which fair values could not be measured reliably amounted to € 249,143 thousand (2015: € 231,869 thousand).

(20) Intangible fixed assets

in € thousand	2016	2015
Software	531,127	531,165
Goodwill	39,587	39,585
Other intangible fixed assets	27,688	50,162
hereof brand	9,272	36,657
hereof customer relationships	17,199	12,643
Total	**598,402**	**620,912**

Software

The item software comprises acquired software amounting to € 416,656 thousand (2015: € 411,138 thousand) and internally developed software amounting to € 114,471 thousand (2015: € 120,027 thousand).

Goodwill

The following overview shows the development of the carrying amount of goodwill, gross amounts and cumulative impairments of goodwill, by cash generating units. The main goodwill position relates to Raiffeisenbank a.s., Prague (RBCZ).

Development of goodwill

2016 in € thousand	RBCZ	Other	Total
As at 1/1	**37,881**	**1,704**	**39,585**
Additions	0	2,431	2,431
Impairment	0	(2,431)	(2,431)
Exchange rate changes	3	0	3
As at 31/12	**37,884**	**1,704**	**39,587**
Gross amount	37,884	529,069	566,953
Cumulative impairment[1]	0	(527,366)	(527,366)

2015 in € thousand	RBCZ	Other	Total
As at 1/1	**36,908**	**10,085**	**46,993**
Disposals	0	(91)	(91)
Impairment	0	(6,954)	(6,954)
Exchange rate changes	972	(1,335)	(363)
As at 31/12	**37,881**	**1,704**	**39,585**
Gross amount	37,881	516,421	554,302
Cumulative impairment[1]	0	(514,717)	(514,717)

1 Calculated with average exchange rates
RBCZ: Raiffeisenbank a.s., Prague (CZ)

In the 2016 financial year, € 2,431 thousand in goodwill was acquired and impaired in connection with the purchase of a Citibank operation in the Czech Republic. The impairment was included in general administrative expenses. The cumulative impairments resulted from impairments recognized in previous years for Raiffeisen Bank Sh.a., Tirana, Raiffeisen Bank Polska S.A., Warsaw, and AO Raiffeisenbank, Moscow.

Impairment test for goodwill

At the end of each financial year, goodwill is reviewed by comparing the recoverable value of each cash generating unit for which goodwill is recognized with its carrying value. The carrying amount value is equal to net assets including goodwill and other intangible assets which are recognized within the framework of business combinations. In line with IAS 36, impairment tests for goodwill are carried out during the year if a reason for impairment occurs.

Recoverable value

In the course of impairment testing the carrying amount of each cash generating unit (CGU) is compared with the recoverable amount. If the recoverable amount of a cash generating unit is below its carrying amount, the difference is recognized as impairment in the income statement under other net operating income.

The Group generally identifies the recoverable amount of cash generating units on the basis of the "value-in-use" concept using a dividend discount model. The dividend discount model reflects the characteristics of the banking business including the regulatory framework. The present value of estimated future dividends that can be distributed to shareholders after taking into account relevant regulatory capital requirements represents the recoverable value.

The calculation of the recoverable amount is based on a five-year detailed planning period. The sustainable future growth (stabilization phase) is based on the premise of perpetuity (perpetual annuity); in the majority of cases country nominal growth rates of earnings are assumed, which are based on the long-term expected rate of inflation. For companies that have a significant overcapitalization an interim period of five years is defined, but without extending the detailed planning phase. Within this period, it is possible for these CGUs to make full payments without violating the capital adequacy requirements. In the stabilization phase, profit retention relating to growth while ensuring compliance with capital requirements is imperative. If, however, zero growth is assumed in the stabilization phase, no profit retention is required.

In the stabilization phase the model is based on a normal economically sustainable earnings situation, whereby convergence of expected return on equity and cost of equity is assumed.

Key assumptions

Key assumptions that have been made for the individual cash generating units:

2016 Cash generating units	RBCZ
Discount rates (after tax)	9.8-10.9%
Growth rates in phase I and II	33.0%
Growth rates in phase III	3.0%
Planning period	5 years

2015 Cash generating units	RBCZ
Discount rates (after tax)	9.7-10.7%
Growth rates in phase I and II	9.0%
Growth rates in phase III	3.0%
Planning period	5 years

RBCZ: Raiffeisenbank a.s., Prague (CZ)

The use value of a cash generating unit is sensitive to various parameters: primarily to the level and development of future dividends, to the discount rates as well as the nominal growth rate in the stabilization phase. The applied discount rates have been calculated using the capital asset pricing model: they are composed of a risk-free interest rate and a risk premium for entrepreneurial risk taking. The risk premium is calculated as the market risk premium that varies according to the country in which the unit is registered multiplied by the beta factor for the indebted company. The values for the risk-free interest rate and the market risk premium are defined using accessible external market data sources. The risk measure beta factor is derived from a peer group of financial institutions operating in Western and Eastern Europe. The above-mentioned interest rate parameters represent market assessments; therefore they are not stable and could in the event of a change affect the discount rates.

The following table provides a summary of significant planning assumptions and a description of the management approach to identify the values that are assigned to each significant assumption under consideration of a risk assessment.

Cash generating unit	Significant assumptions	Management approach	Risk assumption
RBCZ	Czech Republic is a core market for the Group where a selective growth strategy is pursued. Improvement through increased use of alternative distribution channels and additional consulting services. Stable costs are assumed.	The assumptions are based on internal as well as external sources. Macroeconomic assumptions of the research department were compared with external data sources and the 5-year plans were presented to the Management Board. Moreover, the detail planning phase was approved by the Supervisory Board.	Weakening of the macroeconomic environment. Possible negative effects of changed local capital requirements. Pressure on interest margins through greater competition.

RBCZ: Raiffeisenbank a.s., Prague (CZ)

Sensitivity analysis

A sensitivity analysis was carried out based on the above-mentioned assumptions in order to evaluate the stability of the impairment test for goodwill. From a number of options for this analysis, two parameters were selected, namely the cost of equity and the reduction of the growth rate. The following overview demonstrates to what extent an increase in the cost of equity or a reduction in the long-term growth rate could occur without the value in use of cash generating units declining below the respective carrying value (equity capital plus goodwill).

2016 Maximum sensitivity[1]	RBCZ
Increase in discount rate	4.7 PP
Reduction of the growth rates in phase III	0.0 PP

2015 Maximum sensitivity[1]	RBCZ
Increase in discount rate	0.3 PP
Reduction of the growth rates in phase III	0.0 PP

1 The respective maximum sensitivity refers to the change of the perpetuity.
RBCZ: Raiffeisenbank a.s., Prague (CZ)

Brand

Group companies use brands to differentiate their services from the competition. According to IFRS 3, brands of acquired companies have been recognized separately under the item "intangible fixed assets". Brands have an indeterminable useful life and are therefore not subject to scheduled amortization. Brands are tested annually in the course of the impairment test of goodwill per cash generating unit and additionally whenever indications of impairment arise.

Brand rights are only recognized for Raiffeisen Bank Polska S.A., Warsaw (RBPL) and for Raiffeisen Bank Aval JSC, Kiev (AVAL). The carrying values of the brands as well as gross amounts and cumulative impairment losses have developed as shown below:

2016 in € thousand	AVAL	RBPL	Total
As at 1/1	**10,109**	**26,548**	**36,657**
Impairment[1]	0	(26,133)	(26,133)
Exchange differences	(837)	(416)	(1,252)
As at 31/12	**9,272**	**0**	**9,272**
Gross amount	25,757	45,348	71,106
Cumulative impairment[2]	(16,485)	(45,348)	(61,833)

2015 in € thousand	AVAL	RBPL	Total
As at 1/1	**15,163**	**46,803**	**61,966**
Impairment[1]	(1,102)	(20,731)	(21,833)
Exchange differences	(3,953)	476	(3,477)
As at 31/12	**10,109**	**26,548**	**36,657**
Gross amount	27,073	46,905	73,978
Cumulative impairment[2]	(16,964)	(20,357)	(37,321)

1 Calculated with average exchange rates
2 Calculated with period-end exchange rates
AVAL: Raiffeisen Bank Aval JSC, Kiev (UA)
RBPL: Raiffeisen Bank Polska S.A., Warsaw (PL)

According to IAS 36.9 at the end of each reporting period, an entity is required to assess whether there is any indication that an asset may be impaired based on a list of external and internal indicators of impairment. The assumptions underlying the value of the Polbank brand had to be revisited in light of new information in the third quarter of 2016 due to the planned sale of Raiffeisen Bank Polska S.A., Warsaw. IAS 36 defines the recoverable amount as the higher of fair value less costs to sell and the value in use. Both of these perspectives provided strong indications that the brand was impaired since it provided no value in use for potential buyers. This was due to the current consolidation of the Polish banking market. The consolidation process is being primarily driven by regulatory pressure on capital ratios, the introduction of bank taxes and other negative impacts on the banking business due to governmental measures. In this environment, the advantages posed by a brand (cross selling and client loyalty) appear to be greatly diminished. As a result, an impairment of € 26,133 thousand was recognized for the brand Polbank.

The brand value of the Raiffeisen Bank Aval JSC, Kiev (AVAL), was determined using the comparable historical cost approach, because neither immediately comparable transactions nor a market with observable prices was available at the time of purchase price allocation. Documentation of brand-related marketing expenses in the previous years was taken as the basis for the historical cost approach. In 2016, the impairment test led to no impairment.

Customer relationships

If customer contracts and associated customer relationships are acquired in a business combination, they must be recognized separately from goodwill, if they are based on contractual or other rights. The acquired companies meet the criteria for a separate recognition of non-contractual customer relationships for existing customers. The customer base is valued using the multi-period excess earnings method based on projected future income and expenses allocable to the respective customer base. The projections are based on planning figures for the corresponding years.

In 2016, new customer relationships were capitalized following the purchase of Citibank's retail and credit card business in the Czech Republic (RBCZ). The Group also capitalized customer relationship intangibles in relation to Raiffeisen Bank Polska S.A., Warsaw (RBPL), and Raiffeisen Bank Aval JSC, Kiev (AVAL). In the reporting year the carrying amount of the customer relationships as well as the gross amounts and cumulative impairments developed as follows:

2016 in € thousand	AVAL	RBPL	RBCZ	Total
As at 1/1	**6,413**	**6,230**	**0**	**12,643**
Additions	0	0	9,994	9,994
Depreciation	(833)	(2,212)	(1,674)	(4,720)
Impairment[1]	0	0	0	0
Exchange differences	(531)	(207)	20	(718)
As at 31/12	**5,049**	**3,811**	**8,339**	**17,199**
Gross amount	18,311	15,963	10,007	44,280
Cumulative impairment[2]	(13,262)	(12,152)	(1,668)	(27,082)

2015 in € thousand	AVAL	RBPL	Total
As at 1/1	**10,390**	**9,481**	**19,872**
Depreciation	(992)	(3,329)	(4,321)
Impairment[1]	(324)	0	(324)
Exchange differences	(2,661)	78	(2,583)
As at 31/12	**6,413**	**6,230**	**12,643**
Gross amount	18,171	16,511	34,682
Cumulative impairment[2]	(11,758)	(10,280)	(22,039)

1 Calculated with average exchange rates
2 Calculated with period-end exchange rates
AVAL: Raiffeisen Bank Aval JSC, Kiev (UA)
RBCZ: Raiffeisenbank a.s., Prague (CZ)
RBPL: Raiffeisen Bank Polska S.A., Warsaw (PL)

The impairment test of customer relationships of Raiffeisen Bank Polska S.A., Warsaw (RBPL), Raiffeisenbank a.s., Prague (RBCZ), and Raiffeisenbank Aval JSC, Kiev (AVAL) identified no impairment need in 2016.

(21) Tangible fixed assets

in € thousand	2016	2015
Land and buildings used by the Group for own purpose	480,713	486,684
Other land and buildings (investment property)	451,311	470,603
Office furniture, equipment and other tangible fixed assets	236,624	230,832
Leased assets (operating lease)	224,710	285,172
Total	**1,393,358**	**1,473,291**

The fair value of investment property totaled € 454,745 thousand (2015: € 474,098 thousand).

Details on leased assets are shown under (45) Operating leases.

(22) Development of fixed assets

	Cost of acquisition or conversion						
in € thousand	As at 1/1/2016	Change in consolidated group	Exchange differences	Additions	Disposals	Transfers	As at 31/12/2016
Intangible fixed assets	**2,193,865**	**(38,253)**	**43,904**	**159,463**	**(84,791)**	**(484)**	**2,273,704**
Goodwill	554,302	(12,162)	22,382	2,431	0	0	566,953
Software	1,515,157	(25,163)	27,621	146,733	(84,076)	(3,793)	1,576,479
Other intangible fixed assets	124,406	(928)	(6,099)	10,299	(715)	3,309	130,272
Tangible fixed assets	**2,690,011**	**(132,601)**	**58,432**	**224,113**	**(245,143)**	**484**	**2,595,296**
Land and buildings used by the Group for own purpose	753,778	(16,436)	29,568	33,021	(46,052)	1,197	755,076
Other land and buildings	546,627	(2,055)	6,730	14,075	(28,813)	485	537,049
of which land value of developed land	11,449	0	(230)	0	(2,728)	0	8,491
Office furniture, equipment and other tangible fixed assets	967,604	(21,191)	23,932	89,914	(90,441)	544	970,362
Leased assets (operating lease)	422,002	(92,919)	(1,799)	87,103	(79,837)	(1,741)	332,809
Total	**4,883,876**	**(170,854)**	**102,336**	**383,576**	**(329,934)**	**0**	**4,869,000**

in € thousand	Write-ups, amortization, depreciation, impairment Cumulative	hereof Write-ups	hereof Depreciation	Carrying amount As at 31/12/2016
Intangible fixed assets	**(1,675,302)**	**393**	**(177,478)**	**598,402**
Goodwill	(527,366)	0	(2,431)	39,587
Software	(1,045,352)	172	(143,604)	531,127
Other intangible fixed assets	(102,584)	221	(31,443)	27,688
Tangible fixed assets	**(1,201,938)**	**858**	**(153,546)**	**1,393,358**
Land and buildings used by the Group for own purpose	(274,363)	0	(33,808)	480,713
Other land and buildings	(85,738)	83	(13,456)	451,311
of which land value of developed land	(518)	0	(33)	7,973
Office furniture, equipment and other tangible fixed assets	(733,738)	632	(75,619)	236,624
Leased assets (operating lease)	(108,099)	143	(30,663)	224,710
Total	**(2,877,240)**	**1,251**	**(331,023)**	**1,991,760**

in € thousand	Cost of acquisition or conversion As at 1/1/2015	Change in consolidated group	Exchange differences	Additions	Disposals	Transfers	As at 31/12/2015
Intangible fixed assets	**2,231,728**	**(13,486)**	**(130,448)**	**155,898**	**(63,496)**	**13,669**	**2,193,865**
Goodwill	603,950	0	(49,648)	0	0	0	554,302
Software	1,477,596	(13,469)	(59,026)	155,016	(62,254)	17,294	1,515,157
Other intangible fixed assets	150,182	(17)	(21,774)	882	(1,242)	(3,625)	124,406
Tangible fixed assets	**2,610,498**	**191,542**	**(74,388)**	**191,233**	**(215,205)**	**(13,669)**	**2,690,011**
Land and buildings used by the Group for own purpose	834,146	0	(71,936)	24,540	(33,525)	553	753,778
Other land and buildings	310,215	189,429	58,517	11,647	(18,140)	(5,041)	546,627
of which land value of developed land	12,352	(3)	(907)	495	(488)	0	11,449
Office furniture, equipment and other tangible fixed assets	1,086,895	2,113	(76,148)	77,452	(107,763)	(14,945)	967,604
Leased assets (operating lease)	379,242	0	15,179	77,594	(55,777)	5,764	422,002
Total	**4,842,226**	**178,056**	**(204,836)**	**347,131**	**(278,701)**	**0**	**4,883,876**

in € thousand	Write-ups, amortization, depreciation, impairment Cumulative	hereof Write-ups	hereof Depreciation	Carrying amount As at 31/12/2015
Intangible fixed assets	**(1,569,091)**	**0**	**(177,819)**	**620,912**
Goodwill	(514,717)	0	(6,954)	39,585
Software	(980,130)	0	(143,403)	531,165
Other intangible fixed assets	(74,244)	0	(27,461)	50,162
Tangible fixed assets	**(1,216,691)**	**7,505**	**(180,612)**	**1,473,291**
Land and buildings used by the Group for own purpose	(267,094)	2,919	(41,901)	486,684
Other land and buildings	(76,024)	667	(19,023)	470,603
of which land value of developed land	(529)	0	(578)	10,920
Office furniture, equipment and other tangible fixed assets	(736,743)	3,637	(88,792)	230,832
Leased assets (operating lease)	(136,830)	282	(30,896)	285,172
Total	**(2,785,782)**	**7,505**	**(358,431)**	**2,094,203**

In the reporting year and the previous year, there were no single investments exceeding € 10,000 thousand.

(23) Other assets

in € thousand	2016	2015
Tax assets	211,318	322,829
Current tax assets	69,646	59,485
Deferred tax assets	141,671	263,345
Receivables arising from non-banking activities	57,679	63,784
Prepayments and other deferrals	129,482	132,054
Clearing claims from securities and payment transfer business	325,454	133,628
Lease in progress	40,782	43,785
Assets held for sale (IFRS 5)	28,826	774,139
Inventories	64,726	68,636
Valuation fair value hedge portfolio	37,699	24,058
Any other business	220,595	222,675
Total	**1,116,561**	**1,785,589**

Application of IFRS 5

The decline in the item "Assets held for sale" is attributable to the fact that Raiffeisen Banka d.d., Maribor, was sold as of 30 June 2016 and ZUNO BANK AG, Vienna, was reclassified because the sales negotiations were inconclusive.

Deferred taxes

in € thousand	2016	2015
Deferred tax assets	141,671	263,345
Provisions for deferred taxes	(57,345)	(57,400)
Net deferred taxes	**84,326**	**205,945**

The net deferred taxes result from the following items:

in € thousand	2016	2015
Loans and advances to customers	28,999	199,441
Impairment losses on loans and advances	115,813	158,440
Tangible and intangible fixed assets	7,084	10,867
Other assets	15,485	4,633
Provisions for liabilities and charges	56,869	59,335
Trading liabilities	67,180	72,177
Other liabilities	359,378	361,864
Tax loss carry-forwards	24,047	48,824
Other items of the statement of financial position	119,415	200,306
Deferred tax assets	**794,269**	**1,115,887**
Loans and advances to banks	10,331	10,971
Loans and advances to customers	34,488	70,976
Impairment losses on loans and advances	49,832	98,371
Trading assets	42,474	85,922
Tangible and intangible fixed assets	77,310	77,468
Deposits from customers	10	603
Provisions for liabilities and charges	23	0
Other liabilities	4,860	4,828
Other items of the statement of financial position	490,616	560,803
Deferred tax liabilities	**709,943**	**909,942**
Net deferred taxes	**84,326**	**205,945**

In the consolidated financial statements, deferred tax assets are recognized for unused tax loss carry-forwards which amounted to € 24,047 thousand (2015: € 48,824 thousand). The tax loss carry-forwards are mainly without any time limit. The Group did not recognize deferred tax assets of € 347,016 thousand (2015: € 476,384 thousand) because from a current point of view there is no prospect of realizing them within a reasonable period of time.

(24) Deposits from banks

in € thousand	2016	2015
Giro and clearing business	4,008,410	3,694,353
Money market business	5,241,580	7,950,665
Long-term refinancing	3,566,485	4,724,157
Total	**12,816,475**	**16,369,175**

The Group refinances itself periodically with international commercial banks and multinational development banks. These credit contracts contain ownership clauses normally used in business. These clauses grant permission to the parties to the contracts for exceptional termination in the event of a change in direct or indirect control of RBI AG. This could lead to increased refinancing costs for the Group.

Deposits from banks classified regionally (counterparty domicile) break down as follows:

in € thousand	2016	2015
Austria	5,164,540	6,003,632
Foreign	7,651,934	10,365,543
Total	**12,816,475**	**16,369,175**

Deposits from banks break down into the following segments:

in € thousand	2016	2015
Central banks	1,081,913	1,241,339
Commercial banks	10,606,026	13,229,751
Multilateral development banks	1,128,536	1,898,085
Total	**12,816,475**	**16,369,175**

(25) Deposits from customers

in € thousand	2016	2015
Sight deposits	44,461,093	37,487,997
Time deposits	23,344,880	28,408,583
Savings deposits	3,732,254	3,094,308
Total	**71,538,226**	**68,990,887**

Deposits from customers break down as follows:

in € thousand	2016	2015
Sovereigns	1,464,965	1,713,265
Corporate customers – large corporates	28,560,874	30,643,854
Corporate customers – mid market	2,983,553	2,989,683
Retail customers – private individuals	32,579,753	28,547,853
Retail customers – small and medium-sized entities	5,949,082	5,096,233
Total	**71,538,226**	**68,990,887**

Deposits from customers classified regionally (customer domicile) are as follows:

in € thousand	2016	2015
Austria	6,415,736	7,742,505
Foreign	65,122,490	61,248,382
Total	**71,538,226**	**68,990,887**

(26) Debt securities issued

in € thousand	2016	2015
Bonds and notes issued	6,604,140	7,402,374
Money market instruments issued	38,995	94,024
Other debt securities issued	1,992	5,195
Total	**6,645,127**	**7,501,593**

The following table contains debt securities issued amounting to or exceeding € 200,000 thousand nominal value:

Issuer	ISIN	Type	Currency	Nominal value in € thousand	Coupon	Due
RBI AG	XS0803117612	senior public placements	EUR	750,000	2.8%	10/7/2017
RBI AG	XS0989620694	senior public placements	EUR	500,000	1.9%	8/11/2018

(27) Provisions for liabilities and charges

in € thousand	As at 1/1/2016	Change in consolidated group	Allocation	Release	Usage	Transfers, exchange differences	As at 31/12/2016
Severance payments and other	89,669	(6,126)	13,629	(8,509)	(1,574)	(2,567)	84,523
Retirement benefits	30,380	0	4,386	(6,221)	0	0	28,545
Taxes	135,587	(888)	91,505	(11,598)	(90,224)	5,349	129,731
Current	78,187	(412)	85,914	(7,507)	(86,901)	3,105	72,386
Deferred	57,400	(476)	5,591	(4,091)	(3,323)	2,245	57,345
Contingent liabilities and commitments	98,804	849	93,898	(71,162)	(353)	1,198	123,233
Pending legal issues	80,770	(84)	20,979	(6,991)	(16,578)	6,818	84,914
Overdue vacation	46,984	(1,426)	12,794	(15,520)	(445)	1,086	43,473
Bonus payments	129,683	(1,028)	116,789	(27,646)	(77,822)	7,318	147,294
Restructuring	15,305	(3,101)	13,504	(5,319)	(8,709)	2,551	14,231
Provisions for banking business due to governmental measures	114,762	0	26,741	(7,109)	(119,885)	(7)	14,503
Other	71,878	(4,662)	92,145	(16,529)	(53,325)	(3,701)	85,806
Total	**813,823**	**(16,467)**	**486,370**	**(176,604)**	**(368,915)**	**18,045**	**756,252**

The item "Severance and similar payments" includes provisions for service anniversary bonuses and other payments in the amount of € 25,979 thousand (2015: € 26,600 thousand) and obligations from other benefits due to termination of employment according to IAS 19 amounting to € 58,544 thousand (2015: € 63,070 thousand).

The change in provisions for banking business charges due to governmental measures was partly due to the provisioning of € 26,741 thousand for the "Walkaway Law" in Romania and the useage of the provision relating to the mandatory conversion of loans denominated in Swiss francs at the historical rates at the time of lending in Croatia.

The Group is involved in litigation arising from the undertaking of banking business. The Group does not expect that these legal cases will have a material impact on the financial position of the Group. As of 31 December 2016, Group-wide provisions for pending legal issues amounted to € 84,914 thousand (2015: € 80,770 thousand). Single cases involving provisions in excess of € 10,000 thousand occurred in Austria and Slovakia (2015: in Austria and Slovakia).

- Legal steps were taken against Raiffeisen Bank International AG, Vienna, in connection with the early repayment of an Icelandic liability. The amount in dispute is € 25,000 thousand.
- In Slovakia, a customer has taken legal action in relation to a disputed amount of approximately € 71,150 thousand against Tatra banka a.s., Bratislava. The case revolves around agreed credit facilities and a contract breach allegedly committed by Tatra banka a.s. through failing to execute payment transfer orders and renew credit facilities, which ultimately led to the termination of the customer's business activities.
- Another closely related legal action in relation to a disputed amount of € 127,063 thousand was brought by a Cypriot plaintiff who had purchased the underlying claim from a shareholder of the above Slovakian customer's holding company.

Pension obligations and other termination benefits

The Group contributes to the following defined benefit pension plans and other post-employment benefits:

- Defined benefit pension plans in Austria and other countries
- Other post-employment benefits in Austria and other countries
- These defined benefit plans and other post-employment benefits expose the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

Funding

For pensions there are different plans: unfunded, partly funded and fully funded. The partly and fully funded plans are all invested by Valida Pension AG. Valida Pension AG is a pension fund, and is subject in particular to the provisions of the PKG (Pension Act) and BPG (Company Pension Act).

The Group expects to pay € 287 thousand in contributions to its defined benefit plans in 2017. In the financial year 2016, the Group's contribution to defined benefit plans was € 278 thousand.

Pension obligations/defined benefit pension plans

Financial status

in € thousand	2016	2015
Defined benefit obligation (DBO)	42,748	44,143
Plan assets at fair value	(14,203)	(13,763)
Net liability/asset	28,545	30,380

The defined benefit obligations developed as follows:

in € thousand	2016	2015
DBO as at 1/1	**44,143**	**48,117**
Current service cost	450	668
Interest cost	868	940
Payments	(1,179)	(1,061)
Loss/(gain) on DBO due to past service cost	0	(1,146)
Transfer	(6)	(917)
Remeasurement	(1,528)	(2,458)
DBO as at 31/12	**42,748**	**44,143**

Plan assets developed as follows:

in € thousand	2016	2015
Plan assets at fair value as at 1/1	**13,762**	**14,687**
Interest income	273	292
Contributions to plan assets	332	382
Payments from fund	(271)	(275)
Transfer	(177)	(1,343)
Return on plan assets excluding interest income	284	19
Plan assets at fair value as at 31/12	**14,203**	**13,762**

The return on plan assets for 2016 was € 548 thousand (2015: € 311 thousand). The fair value of rights to reimbursement recognized as an asset was € 15,200 thousand (2015: € 15,519 thousand) as at year-end 2016.

Structure of plan assets

Plan assets broke down as follows:

Per cent	2016	2015
Bonds	40	51
Shares	35	27
Alternative Investments	3	2
Property	5	4
Cash	17	17
Total	**100**	**100**
hereof own financial instruments	0	1

In the reporting year, most of the plan assets were quoted on an active market, less than 10 per cent were not quoted on an active market.

Asset Liability Matching

The pension provider Valida established an asset/risk management process (ARM process). According to this process, the risk-bearing capacity of each fund is evaluated once a year based on the liability structure of investment and risk associations. Based on this risk-bearing capacity, the investment structure of the fund is derived. When determining the investment structure, defined and documented customer requirements are also taken into account.

The defined investment structure is implemented in the two funds named "VRG 60" and "VRG 7", in which the accrued amounts for RZB/RBI are invested, with an investment concept. The weighting of predefined asset classes moves within a range according to objective criteria, which can be derived from market trends. In times of stress, hedges of the equity component are put in place.

Actuarial assumptions

The following table shows the actuarial assumptions used to calculate the net defined benefit obligation:

Per cent	2016	2015
Discount rate	1.6	2.0
Future pension basis increase	2.7	3.0
Future pension increase	1.2	2.0

The following table shows the longevity assumptions used to calculate the net defined benefit obligation:

Years	2016	2015
Longevity at age 65 for current pensioners - males	21.1	20.9
Longevity at age 65 for current pensioners - females	23.6	23.5
Longevity at age 65 for current members aged 45 - males	24.6	24.5
Longevity at age 65 for current members aged 45 - females	26.8	26.7

The weighted average duration of the net defined benefit obligation was 15.1 years (2015: 16.0 years).

Sensitivity analysis

Changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	2016		2015	
in € thousand	Addition	Decrease	Addition	Decrease
Discount rate (1 per cent change)	(5,543)	6,894	(5,939)	7,427
Future salary growth (0.5 per cent change)	433	(414)	496	(474)
Future pension increase (0.25 per cent change)	1,380	(1,320)	1,464	(1,398)
Remaining life expectancy (change 1 year)	1,714	(1,896)	1,766	(2,012)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

Other termination benefits

The other termination benefits developed as follows:

in € thousand	2016	2015
DBO as at 1/1	**63,458**	**60,186**
Changes in consolidated group	(8,093)	0
Current service cost	4,122	3,781
Interest cost	1,182	1,162
Payments	(2,366)	(1,430)
Loss/(gain) on DBO due to past service cost	(176)	(17)
Transfer	1,505	240
Remeasurement	(1,088)	(464)
DBO as at 31/12	**58,544**	**63,458**

Actuarial assumptions

The following table shows the actuarial assumptions used to calculate the other termination benefits:

Per cent	2016	2015
Discount rate	1.6	2.0
Additional future salary increase for employees	2.7	3.0

Sensitivity analysis

Changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

in € thousand	2016 Addition	2016 Decrease	2015 Addition	2015 Decrease
Discount rate (1 per cent change)	(5,619)	6,629	(6,400)	7,566
Future salary growth (0.5 per cent change)	3,119	(2,903)	3,545	(3,333)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

Employee benefit expenses

Details of employee benefit expenses (expenses for defined benefit pension plans, other benefits due to termination of employment) are stated under note (8) General administrative expenses.

(28) Trading liabilities

in € thousand	2016	2015
Negative fair values of derivative financial instruments	**2,600,333**	**3,943,192**
Interest-based transactions	1,835,473	2,004,541
Currency-based transactions	588,762	784,285
Equity-/index-based transactions	164,863	1,024,373
Credit derivatives business	687	1,960
Other transactions	10,547	128,033
Short-selling of trading assets	**555,346**	**453,459**
Certificates issued	**1,964,063**	**694,859**
Total	**5,119,743**	**5,091,510**

The decline in equity-/index-based transactions is attributable to a change in the presentation of certificates issued.

(29) Derivatives

in € thousand	2016	2015
Negative fair values of derivatives in fair value hedges (IAS 39)	**132,565**	**194,932**
Interest-based transactions	132,508	194,932
Currency-based transactions	57	0
Negative fair values of derivatives in cash flow hedges (IAS 39)	**275,102**	**239,858**
Currency-based transactions	275,102	239,858
Negative fair values of derivatives in net investment hedge (IAS 39)	**17,749**	**0**
Currency-based transactions	17,749	0
Negative fair values of credit derivatives	**0**	**154**
Negative fair values of other derivative financial instruments	**361,534**	**549,355**
Interest-based transactions	173,039	190,655
Currency-based transactions	188,495	358,700
Total	**786,949**	**984,299**

As long as the conditions for hedge accounting according to IAS 39 are fulfilled, derivative financial instruments are measured at their fair values (dirty prices) in their function as hedging instruments. The hedged items in connection with fair value hedges are loans and advances to customers, deposits from banks and debt securities issued, which are hedged against interest rate risk.

The table below shows the expected hedged cash flows from liabilities affecting the statement of comprehensive income by maturity:

in € thousand	2016	2015
1 year	2,416,321	3,714,123
More than 1 year, up to 5 years	587,577	385,701
More than 5 years	63,196	109,874

Net gains of € 5,788 thousand (2015: net loss € 435 thousand) relating to the effective portion of cash flow hedges were recognized in other comprehensive income.

(30) Other liabilities

in € thousand	2016	2015
Liabilities from non-banking activities	72,517	75,397
Liabilities from insurance contracts	82	112
Accruals and deferred items	194,989	214,618
Liabilities from dividends	1,000	877
Clearing claims from securities and payment transfer business	374,276	168,052
Valuation fair value hedge portfolio	57,564	63,839
Liabilities held for sale (IFRS 5)	0	1,293,769
Other liabilities	64,823	193,312
Total	**765,251**	**2,009,976**

Application of IFRS 5

The decline in the item "Liabilities held for sale" was caused by the sale of Raiffeisen Banka d.d., Maribor, as at 30 June 2016 and the reclassification of ZUNO BANK AG, Vienna, following inconclusive sales negotiations.

(31) Subordinated capital

in € thousand	2016	2015
Hybrid tier 1 capital	396,725	396,725
Subordinated liabilities and supplementary capital	3,806,968	3,767,628
Total	**4,203,693**	**4,164,353**

The following table contains subordinated borrowings that exceed 10 per cent of the total subordinated capital:

Issuer	ISIN	Type	Currency	Nominal value in € thousand	Coupon[1]	Due
RBI AG	XS0619437147	Subordinated capital	EUR	500,000	6,625%	18/5/2021
RBI AG	XS0981632804	Subordinated capital	EUR	500,000	6,000%	16/10/2023
RBI AG	XS1034950672	Subordinated capital	EUR	500,000	4,500%	21/2/2025

1 Current interest rate, interest clauses are agreed.

In the reporting period, expenses on subordinated capital totaled € 160,549 thousand (2015: € 186,615 thousand).

(32) Equity

in € thousand	2016	2015
Consolidated equity	8,187,672	7,587,555
Subscribed capital	892,031	891,886
Capital reserves	4,994,169	4,993,872
Retained earnings	2,301,473	1,701,796
Consolidated profit/loss	463,104	378,850
Non-controlling interests	581,353	534,562
Total	**9,232,130**	**8,500,967**

The development of equity is shown under the section statement of changes in equity.

Subscribed capital

As at 31 December 2016, the subscribed capital of RBI AG as defined by the articles of incorporation amounted to unchanged € 893,586 thousand. The subscribed capital consists of 292,979,038 non-par bearer shares. After deduction of own shares of 509,977, the stated subscribed capital totaled € 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), item 8 and Sections (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, item 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 or branches of activity of 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 replaces the authorization granted at the Annual General Meeting of 4 June 2014 pursuant to Section 65 (1), item 4 and 8 of the Austrian Stock Corporation Act (AktG) to purchase and use own shares and, with regard to their use, extends to the own shares already purchased by the company. No own shares have been bought since the authorization was issued in June 2016. This authorization applies for a period of five years from the date of the resolution (i.e. until 15 June 2021).

The acquisition of own shares mainly serves to cover the obligation of the Group 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), item 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, item 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 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 AktG) 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) item 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.

Dividend proposal

No dividends will be distributed for the 2016 financial year.

Number of shares outstanding

Number of shares	2016	2015
Number of shares issued as at 1/1	**292,979,038**	**292,979,038**
New shares issued	0	0
Number of shares issued as at 31/12	**292,979,038**	**292,979,038**
Own shares as at 1/1	557,295	604,517
Purchase of own shares	0	0
Sale of own shares	(47,318)	(47,222)
Less own shares as at 31/12	**509,977**	**557,295**
Number of shares outstanding as at 31/12	**292,469,061**	**292,421,743**

Non-controlling interests

The following table contains financial information of subsidiaries which are held by the Group and in which material non-controlling interests exist. The amounts reported below refer to the non-controlling interests that were not eliminated.

2016 in € thousand	Ownership interest	Net assets	Profit/loss after tax	Other comprehensive income	Total comprehensive income
Raiffeisen Bank Aval JSC, Kiev (UA)	31.8%	110,659	42,633	(6,788)	35,844
Raiffeisenbank a.s., Prague (CZ)	25.0%	232,068	24,078	(3,749)	20,329
Tatra banka a.s., Bratislava (SK)	21.2%	201,210	26,858	(3,160)	23,698
Priorbank JSC, Minsk (BY)	12.3%	41,266	8,246	302	8,548
Other	n/a	(3,850)	8,698	(689)	8,008
Total		**581,353**	**110,512**	**(14,085)**	**96,427**

2015 in € thousand	Ownership interest	Net assets	Profit/loss after tax	Other comprehensive income	Total comprehensive income
Raiffeisen Bank Aval JSC, Kiev (UA)	31.8%	74,814	(2,660)	(2,232)	(4,892)
Raiffeisenbank a.s., Prague (CZ)	25.0%	225,695	23,241	6,530	29,771
Tatra banka a.s., Bratislava (SK)	21.2%	201,576	24,567	3,536	28,104
Priorbank JSC, Minsk (BY)	12.3%	0	13,009	(11,951)	1,059
Other	n/a	32,477	(2,015)	(1,618)	(3,634)
Total		**534,562**	**56,142**	**(5,734)**	**50,408**

As opposed to the above stated financial information which only relates to non-controlling interests, the following table contains financial information of the individual subsidiaries (including controlling interests):

2016 in € thousand	Raiffeisen Bank Aval JSC, Kiev (UA)	Raiffeisenbank a.s., Prague (CZ)	Tatra banka a.s., Bratislava (SK)	Priorbank JSC, Minsk (BY)
Operating income	260,870	362,445	380,833	173,889
Profit/loss after tax	133,913	96,311	126,583	67,258
Other comprehensive income	(21,323)	(14,625)	(14,895)	(3,185)
Total comprehensive income	**112,591**	**81,686**	**111,687**	**64,073**
Current assets	1,294,459	5,920,463	4,011,927	1,082,880
Non-current assets	661,686	5,858,452	7,153,017	308,780
Current liabilites	1,607,155	9,906,597	9,230,563	941,215
Non-current liabilities	1,401	944,044	986,076	113,838
Net assets	**347,590**	**928,274**	**948,305**	**336,607**
Net cash from operating activities	194,082	1,520,710	(91,844)	15,242
Net cash from investing activities	(7,382)	297,945	18,034	17,040
Net cash from financing activities	(144,644)	169,770	(113,413)	(25,185)
Effect of exchange rate changes	(16,503)	(10,373)	(76)	(1,949)
Net increase in cash and cash equivalents	**25,553**	**1,978,052**	**(187,299)**	**5,148**
Dividends paid to non-controlling interests during the year [1]	0	12,711	23,970	3,346

1 Included in net cash from financing activites

2015 in € thousand	Raiffeisen Bank Aval JSC, Kiev (UA)	Raiffeisenbank a.s., Prague (CZ)	Tatra banka a.s., Bratislava (SK)	Priorbank JSC, Minsk (BY)
Operating income	177,484	342,178	417,263	236,271
Profit/loss after tax	(70,709)	92,962	115,787	106,115
Other comprehensive income	(59,317)	27,165	16,666	(99,525)
Total comprehensive income	**(130,026)**	**120,128**	**132,453**	**6,590**
Current assets	1,163,589	3,890,887	4,278,006	1,033,626
Non-current assets	790,149	5,224,497	6,719,135	275,061
Current liabilites	1,636,383	7,230,308	8,838,163	843,362
Non-current liabilities	82,356	982,297	1,208,949	171,144
Net assets	**234,999**	**902,780**	**950,030**	**294,181**
Net cash from operating activities	336,012	1,251,199	772,106	58,094
Net cash from investing activities	(1,975)	36,058	(66,230)	(11,455)
Net cash from financing activities	(299,940)	(18,165)	(138,078)	(25,583)
Effect of exchange rate changes	(35,339)	6,769	752	(36,046)
Net increase in cash and cash equivalents	**(1,242)**	**1,275,862**	**568,551**	**(14,990)**
Dividends paid to non-controlling interests during the year [1]	0	9,659	28,861	3,231

1 Included in net cash from financing activites

Significant restrictions

For Raiffeisenbank a.s., Prague, a syndicate contract exists between RBI AG and the joint shareholder. The syndicate contract regulates especially purchase options between direct and indirect shareholders. The syndicate contract expires automatically if control over the company changes – also in the case of a takeover bid.

In relation to the approval of the acquisition of Polbank shares, a commitment was made – besides other undertakings – to the Polish Financial Supervision Authority that 15 per cent of the shares in the Polish banking unit would be listed on the Warsaw Stock Exchange by June 2017 at the latest. Furthermore, a commitment was made in relation to the approval that RBI shares would also be listed on the Warsaw Stock Exchange (in addition to the listing on the Vienna Stock Exchange) from June 2018 at the latest or, alternatively, that the listed proportion of shares in the Polish banking unit would be increased to 25 per cent.

The European Bank for Reconstruction and Development (EBRD) participated in the capital increase of Raiffeisen Bank Aval JSC, Kiev, which took place in December 2015. Within the course of this transaction, RBI agreed with EBRD to offer RBI shares to EBRD in exchange for the AVAL shares held by EBRD after six years of its participation in a so-called share swap. The execution of this transaction is subject to approvals from regulatory authorities, the Annual General Meeting and other committees.

As at end of 2014, the Ukrainian National Bank launched foreign currency transfer controls. A foreign investor is currently not able to execute dividend payments in a foreign currency. This restriction was extended indefinitely in the 2016 financial year.

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 2011 tranche matured in 2016. In accordance with the terms and conditions of the program (published by "euro adhoc" on 14 September 2011), the number of shares actually transferred was as follows:

Share incentive program (SIP) 2011 Group of persons	Number of shares due	Value at share price of € 13.92 on allocation date	Number of shares actually transferred
Members of the management board of the company	24,493	340,943	12,809
Members of the management boards of bank subsidiaries affiliated with the company	30,050	418,296	23,125
Executives of the company and other affiliated companies	19,839	276,159	11,384

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.

This means that as at the reporting date, contingent shares for two tranches were allocated. As at 31 December 2016, the number of these contingent shares was 693,462 (of which 367,977 shares were attributable to the 2012 allotment and 325,485 shares to the 2013 allotment). 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) 2012 – 2013 Group of persons	Number of contingently allotted shares as at 31/12/2016	Minimum of allotment of shares	Maximum of allotment of shares
Members of the management board of the company	214,091	64,227	321,137
Members of the management boards of bank subsidiaries affiliated with the company	291,910	87,573	437,865
Executives of the company and other affiliated companies	187,461	56,238	281,192

In the financial year 2016, no shares were bought back for the share incentive program.

Disclosures to financial instruments

(33) Breakdown of remaining terms to maturity

2016	Short-term assets/liabilities			Long-term assets/liabilities	
in € thousand	Due at call or without maturity	Up to 3 months	More than 3 months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Cash reserve	12,242,415	0	0	0	0
Loans and advances to banks	4,243,475	4,153,208	777,297	405,692	320,340
Loans and advances to customers	7,731,784	9,951,599	9,385,212	24,326,063	19,119,458
Impairment losses on loans and advances	(4,955,132)	0	0	0	0
Trading assets	168,555	650,738	660,827	1,780,389	1,725,952
Financial investments	282,192	2,931,881	2,196,199	7,958,089	1,270,651
Sundry assets	2,153,011	864,518	152,705	877,160	489,567
Total assets	**21,866,300**	**18,551,944**	**13,172,241**	**35,347,393**	**22,925,967**
Deposits from banks	4,084,452	2,396,550	1,632,095	2,776,168	1,927,210
Deposits from customers	48,004,468	11,776,469	8,453,654	2,030,824	1,272,811
Debt securities issued	0	443,924	2,169,542	3,107,203	924,458
Trading liabilities	281,739	484,177	496,745	2,353,080	1,504,001
Subordinated capital	0	37	30,845	999,723	3,173,087
Sundry liabilities	786,503	790,373	128,671	490,613	112,291
Subtotal	**53,157,163**	**15,891,531**	**12,911,554**	**11,757,610**	**8,913,857**
Equity	9,232,130	0	0	0	0
Total equity and liabilities	**62,389,293**	**15,891,531**	**12,911,554**	**11,757,610**	**8,913,857**

2015	Short-term assets/liabilities			Long-term assets/liabilities	
in € thousand	Due at call or without maturity	Up to 3 months	More than 3 months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Cash reserve	13,211,971	0	0	0	0
Loans and advances to banks	1,961,987	5,527,674	1,305,561	469,110	1,572,876
Loans and advances to customers	7,698,266	11,134,422	10,212,342	22,726,471	18,149,864
Impairment losses on loans and advances	(6,055,134)	0	0	0	0
Trading assets	438,770	405,188	644,488	2,822,342	1,503,321
Financial investments	326,237	4,244,823	2,156,345	7,253,683	1,262,547
Sundry assets	2,600,863	486,136	455,333	994,483	916,614
Total assets	**20,182,959**	**21,798,243**	**14,774,069**	**34,266,090**	**23,405,221**
Deposits from banks	3,715,948	4,800,766	2,322,350	3,671,258	1,858,854
Deposits from customers	40,468,200	15,375,668	9,068,723	2,640,591	1,437,705
Debt securities issued	0	598,857	1,153,153	5,043,017	706,566
Trading liabilities	412,115	482,505	599,953	2,052,374	1,544,563
Subordinated capital	0	5,807	22,025	484,642	3,651,878
Sundry liabilities	1,658,554	746,096	501,670	595,476	306,302
Subtotal	**46,254,817**	**22,009,699**	**13,667,873**	**14,487,357**	**9,505,869**
Equity	8,500,967	0	0	0	0
Total equity and liabilities	**54,755,784**	**22,009,699**	**13,667,873**	**14,487,357**	**9,505,869**

(34) Foreign currency volumes

in € thousand	2016	2015
Assets	61,071,903	55,305,039
Liabilities	48,678,601	48,228,043

(35) Securitization

The Group as originator

Securitization represents a particular form of refinancing and credit risk enhancement under which risks from loans or lease agreements are packaged into portfolios and placed with capital market investors.The objective of the Group's securitization transactions is to relieve Group regulatory total capital and to use additional refinancing sources.

The following transactions for all or at least individual tranches were executed with external contractual partners, were still active in the reporting year and resulted in a reduction in risk-weighted assets. The stated amounts represent the securitized portfolio and the underlying receivables as well as the junior tranche at the transaction closing date.

in € thousand	Seller of claims or secured party	Date of contract	End of maturity	Securitized portfolio	Outstanding portfolio (securitized and retained)	Portfolio	Junior tranche
Synthetic Transaction ROOF RBCZ 2015	Raiffeisenbank a.s., Prague (CZ)	December 2015	April 2024	1,000,000	1,422,446	Company loans and guarantees	1.4%
Synthetic Transaction ROOF Infrastructure 2014	Raiffeisen Bank International AG, Vienna	December 2014	March 2027	978,222	1,413,865	Company loans, guarantees, revolving credit facilities	6.1%
Synthetic Transaction ROOF Real Estate 2015	Raiffeisen Bank International AG, Vienna	July 2015	May 2025	552,862	1,067,181	Company loans (real estate financing)	7.1%
Synthetic Transaction EIF JEREMIE Slovakia	Tatra banka a.s., Bratislava (SK)	March 2014	June 2025	26,895	38,421	SME loans	25.0%
Synthetic Transaction EIF JEREMIE Romania	Raiffeisenbank S.A., Bucharest (RO)	December 2010	December 2023	12,597	15,746	SME loans	25.0%
Synthetic Transaction EIF Western Balkans EDIF Croatia	Raiffeisenbank Austria d.d., Zagreb (HR)	April 2015	May 2023	4,590	6,557	SME loans	22.0%

SME: small and medium-sized enterprises

In the reporting year no new securitization programs resulting in a significant transfer of risk were initiated with external investors. The following securitization programs concluded in former years were still active in the reporting year:

In December 2015 a synthetic securitization of € 1,000,000 thousand in loans and advances to corporate customers and project finance loans originated by Raiffeisenbank a.s., Prague, was concluded. This synthetic securitization is referred to as "ROOF RBCZ 2015" and was split into a senior, a mezzanine and a junior tranche. The mezzanine tranche was sold to two institutional investors, while Raiffeisenbank a.s., Prague, holds the credit risk of the junior and senior tranches.

A synthetic securitization of loans and advances to corporate customers principally originated by RBI AG has been active since 2014 under "ROOF Infrastructure 2014". The junior tranche is externally placed and amounted to € 101,497 thousand as at 31 December 2016 (2015: € 98,963 thousand).

A synthetic securitization of real estate loans and advances to corporate customers from Austria and Germany originated by RBI AG was concluded in July 2015 under "ROOF Real Estate 2015". The transaction was split into a senior and a junior tranche. The junior tranche was externally placed and amounted to € 51,445 thousand as at 31December 2016 (2015: € 49,720 thousand).

Within the scope of further synthetic securitizations, the Group participated in the JEREMIE programs in Romania in 2010 ("EIF JEREMIE Romania), as well as in Slovakia since 2013 ("EIF JEREMIE Slovakia SME 2013-1"). The European Investment Fund (EIF) provides guarantees from EIF under the JEREMIE initiative to subsidiaries granting loans to small and medium-sized enterprises. The maximum volume of the portfolio under the JEREMIE first loss guarantees amounts to € 172,500 thousand for Raiffeisenbank S.A., Bucharest, and € 60,000 thousand for Tatra banka a.s., Bratislava.

In 2015 Raiffeisenbank Austria d.d., Zagreb, signed a portfolio guarantee agreement under the Western Balkans Enterprise Development and Innovation Facility (EIF Western Balkans EDIF Croatia); the agreement is financed by the EU and aims to support small and medium-sized enterprises in accessing finance. The maximum volume is € 20,107 thousand.

A securitization transaction placed by the leasing subsidiary in Poland under "ROOF Poland Leasing 2014" comprised a portfolio of car leasing contracts with an underlying transaction volume of PLN 1,500,000 thousand. The SPV established for this transaction was consolidated within the Group until November 30, 2016. Following the sale of the originating Raiffeisen-Leasing Polska S.A., Warsaw, and ROOF Poland Leasing 2014 Ltd, Dublin (IE), which was closed in December 2016, the securitization transaction was eliminated from the Group.

The Group as investor

Besides the above-mentioned refinancing and placing of risk arising from loans or leasing claims, the Group also acts as an investor in ABS structures. Essentially, this relates to investments in Structured Credit Products, Asset Based Financing and partly also Diversified Payment Rights. During the financial year, market value changes led to a negative valuation result of € 89 thousand (2015: negative valuation result of € 12 thousand) and to a realized result from sales of € 679 thousand (2015: € 811 thousand).

Total exposure to structured products (excluding CDS):

in € thousand	2016 Outstanding nominal amount	2016 Carrying amount	2015 Outstanding nominal amount	2015 Carrying amount
Asset-backed securities (ABS)	445,868	446,569	450,764	450,913
Asset-Based Financing (ABF)	248,387	248,387	225,406	225,406
Collateralized debt obligations (CDO)	35,595	74	34,633	159
Other	10,000	6,580	0	0
Total	**739,850**	**701,609**	**710,803**	**676,478**

(36) Transferred assets

The Group enters into transactions that result in the transfer of trading assets, financial investments and loans and advances to customers. The transferred financial assets continue to be recognized in their entirety or to the extent of the Group's continuing involvement, or are derecognized in their entirety. The Group transfers financial assets that are not derecognized in their entirety or for which the Group has continuing involvement primarily through sale and repurchase of securities, securities lending and securitization activities.

Transferred financial assets not derecognized

Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it at a fixed price on a future date. The Group continues to recognize the securities in their entirety in the statement of financial position because it retains substantially all of the risks and rewards of ownership. The cash consideration received is recognized as a financial asset and a financial liability is recognized for the obligation to pay the repurchase price. Because the Group sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of the arrangement.

Securities lending agreements are transactions in which the Group lends securities for a fee and receives cash as collateral. The Group continues to recognize the securities in their entirety in the statement of financial position because it retains substantially all of the risks and rewards of ownership. The cash received is recognized as a financial asset and a financial liability is recognized for the obligation to repay it. Because as part of the lending arrangement the Group sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of the arrangement.

Loans and advances to customers are sold by the Group to securitization vehicles that in turn issue notes to investors collateralized by the purchased assets. In the securitizations in which the Group transfers loans and advances to an unconsolidated securitization vehicle, it retains some credit risk while transferring some credit risk, prepayment and interest rate risk to the vehicle. The Group therefore does not retain or transfer substantially all of the risks and rewards of such assets.

The table below shows the carrying amounts of financial assets transferred:

2016	Transferred assets			Associated liabilities		
in € thousand	Carrying amount	hereof securitizations	hereof repurchase agreements	Carrying amount	hereof securitizations	hereof repurchase agreements
Loans and advances	300,057	0	300,057	292,527	0	292,527
Trading assets	32,783	0	32,783	31,846	0	31,846
Financial investments	49,417	0	49,417	47,748	0	47,748
Total	**382,257**	**0**	**382,257**	**372,120**	**0**	**372,120**

2015	Transferred assets			Associated liabilities		
in € thousand	Carrying amount	hereof securitizations	hereof repurchase agreements	Carrying amount	hereof securitizations	hereof repurchase agreements
Loans and advances	390,409	327,669	62,741	323,619	268,322	55,297
Trading assets	288,276	0	288,276	251,613	0	251,613
Financial investments	37,705	0	37,705	36,098	0	36,098
Total	**716,391**	**327,669**	**388,722**	**611,330**	**268,322**	**343,009**

Transferred financial assets that are not entirely derecognized

The Group currently has no securitization transactions in which financial assets are partly derecognized.

(37) Assets pledged as collateral and received financial assets

The Group pledges assets mainly for repurchase agreements, securities lending agreements as well as other lending arrangements and for margining purposes in relation to derivative liabilities. The table below contains assets from repo business, securities lending business, securitizations, debentures transferred as collateral of liabilities or guarantees (this means collateralized deposits).

in € thousand	2016	2015
Loans and advances[1]	6,729,870	6,732,916
Trading assets[2]	63,540	1,077,547
Financial investments	678,766	572,848
Total	**7,472,177**	**8,383,312**

1 Without loans and advances from reverse repo and securities lending business
2 Without derivatives

The table below shows the liabilities corresponding to the assets pledged as collateral and contains liabilities from repo business, securities lending business, securitizations and debentures:

in € thousand	2016	2015
Deposits from banks	2,579,979	3,370,649
Deposits from customers	45,906	561,207
Debt securities issued	1,610,164	1,586,489
Other liabilities	201,069	645,593
Contingent liabilities and commitments	0	115,798
Total	**4,437,118**	**6,279,735**

The following table shows securities and other financial assets accepted as collateral:

in € thousand	2016	2015
Securities and other financial assets accepted as collateral which can be sold or repledged	5,139,516	1,780,968
hereof which have been sold or repledged	418,169	307,566

The Group received collaterals which can be sold or repledged even if no default occurs in the course of reverse repo business, securities lending business, derivative and other transactions.

Significant restrictions regarding access to or usage of Group assets

Statutory, contractual or regulatory requirements as well as protective rights of non-controlling interests might restrict the ability of the Group to access and transfer assets freely to or from other Group entities and settle liabilities. As at the reporting date, the Group hasn't granted any material protective rights associated with non-controlling interests and therefore these were not a source of significant restrictions.

The following products restrict the Group in the use of its assets: repurchase agreements, securities lending contracts as well as other lending contracts for margining purposes in relation to derivative liabilities, securitizations and various insurance activities. The table below shows assets pledged as collateral and otherwise restricted assets with a corresponding liability. These assets are restricted from usage to secure funding, for legal or other reasons.

	2016		2015	
in € thousand	Pledged	Otherwise restricted with liabilities	Pledged	Otherwise restricted with liabilities
Loans and advances[1]	6,729,870	1,338,469	6,732,916	1,983,278
Trading assets[2]	63,540	29,174	1,077,547	56,227
Financial investments	678,766	386,013	572,848	7,327
Total	**7,472,177**	**1,753,656**	**8,383,312**	**2,046,832**

1 Without loans and advances from reverse repo and securities lending business
2 Without derivatives

(38) Offsetting of financial assets and liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that are offset in the Group's statement of financial position or are subject to an enforceable/unenforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position or not.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements.

Some of the agreements are not set-off in the statement of financial position. This is because they create, for the parties to the agreement, a right of set off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously. The Group receives and gives collaterals in the form of cash and marketable securities.

2016 in € thousand	Gross amount of recognized assets set-off in the statement of financial position	Gross amount of recognized liabilities set-off in the statement of financial position	Net amount of recognized assets set-off in the statement of financial position	Related amounts not set-off in the statement of financial position: Financial instruments	Related amounts not set-off in the statement of financial position: Cash collateral received	Net amount
Derivatives (legally enforceable)	4,501,241	733,698	3,767,544	2,631,677	38,683	1,097,183
Reverse repurchase, securities lending & similar agreements (legally enforceable)	3,681,162	0	3,681,162	3,681,162	0	0
Other financial instruments (legally enforceable)	188,172	0	188,172	0	0	188,172
Total	**8,370,575**	**733,698**	**7,636,877**	**6,312,839**	**38,683**	**1,285,355**

2016 in € thousand	Gross amount of recognized liabilities set-off in the statement of financial position	Gross amount of recognized assets set-off in the statement of financial position	Net amount of recognized liabilities set-off in the statement of financial position	Related amounts not set-off in the statement of financial position: Financial instruments	Related amounts not set-off in the statement of financial position: Cash collateral pledged	Net amount
Derivatives (legally enforceable)	3,953,907	733,698	3,220,210	1,986,648	110,345	1,123,217
Repurchase, securities lending & similar agreements (legally enforceable)	447,514	0	447,514	433,849	0	13,665
Other financial instruments (legally enforceable)	10,206	0	10,206	0	0	10,206
Total	**4,411,628**	**733,698**	**3,677,930**	**2,420,497**	**110,345**	**1,147,088**

In 2016, assets which were not subject to legally enforceable netting agreements amounted to € 104,226,968 thousand (2015: € 109,067,016 thousand), of which an immaterial part was accounted for by derivative financial instruments and cash balances from reverse repo business. Liabilities which were not subject to legally enforceable netting agreements totaled € 99,535,179 thousand in 2016 (2015: € 102,392,574 thousand), of which only an immaterial part was accounted for by derivative financial instruments and cash deposits from repo business.

2015 in € thousand	Gross amount of recognized assets set-off in the statement of financial position	Gross amount of recognized liabilities set-off in the statement of financial position	Net amount of recognized assets set-off in the statement of financial position	Related amounts not set-off in the statement of financial position: Financial instruments	Related amounts not set-off in the statement of financial position: Cash collateral received	Net amount
Derivatives (legally enforceable)	4,398,339	563,947	3,834,392	2,693,543	33,017	1,107,832
Reverse repurchase, securities lending & similar agreements (legally enforceable)	1,326,950	0	1,326,950	1,310,863	0	16,087
Other financial instruments (legally enforceable)	212,652	14,427	198,224	0	0	198,224
Total	**5,937,941**	**578,374**	**5,359,567**	**4,004,406**	**33,017**	**1,322,143**

2015 in € thousand	Gross amount of recognized liabilities set-off in the statement of financial position	of recognized assets set-off in the statement of financial position	Net amount of recognized liabilities set-off in the statement of financial position	Related amounts not set-off in the statement of financial position Financial instruments	Cash collateral pledged	Net amount
Derivatives (legally enforceable)	4,319,563	563,947	3,755,616	2,656,661	170,599	928,356
Repurchase, securities lending & similar agreements (legally enforceable)	225,431	0	225,431	217,366	0	8,065
Other financial instruments (legally enforceable)	100,985	14,427	86,558	0	0	86,558
Total	**4,645,979**	**578,374**	**4,067,605**	**2,874,028**	**170,599**	**1,022,979**

The gross amounts of financial assets and financial liabilities and their net amounts disclosed in the above tables have been measured at either fair value (derivatives, other financial instruments) or amortized cost (loans and advances, deposits and other financial instruments). All amounts have been reconciled to the line items in the statement of financial position.

(39) Derivative financial instruments

2016 in € thousand	Nominal amount by maturity Up to 1 year	More than 1 year, up to 5 years	More than 5 years	Total	Fair values Positive	Negative
Total	**65,512,221**	**74,540,645**	**69,082,240**	**209,135,105**	**4,082,219**	**(3,387,283)**
Interest rate contracts	**26,699,382**	**63,426,788**	**50,318,362**	**140,444,531**	**3,069,639**	**(2,141,020)**
OTC products						
Interest rate swaps	23,243,697	53,017,215	44,161,793	120,422,706	2,774,581	(1,909,513)
Interest rate futures	824,943	0	0	824,943	34	0
Interest rate options – purchased	1,203,708	5,353,995	3,206,507	9,764,211	294,952	0
Interest rate options – sold	1,096,945	4,951,732	2,863,743	8,912,420	0	(230,881)
Products trading on stock exchange						
Interest rate futures	330,089	49,412	38,592	418,093	0	(626)
Interest rate options	0	54,433	47,726	102,160	72	0
Foreign exchange rate and gold contracts	**36,878,782**	**9,413,284**	**18,535,556**	**64,827,623**	**913,876**	**(1,070,164)**
OTC products						
Cross-currency interest rate swaps	4,912,509	8,359,482	18,535,556	31,807,547	465,483	(729,777)
Forward foreign exchange contracts	28,748,913	973,379	0	29,722,293	429,751	(320,081)
Currency options – purchased	1,202,723	27,264	0	1,229,987	14,774	0
Currency options – sold	1,402,522	34,639	0	1,437,162	0	(14,003)
Gold commodity contracts	1,431	18,519	0	19,950	492	0
Products trading on stock exchange						
Currency contracts (futures)	610,685	0	0	610,685	3,376	(6,304)
Equity/index contracts	**924,565**	**1,519,131**	**228,322**	**2,672,017**	**94,938**	**(164,863)**
OTC products						
Equity-/index-based options - purchased	48,915	590,584	123,230	762,729	49,563	0
Equity-/index-based options - sold	209,132	904,613	104,595	1,218,340	8,942	(125,385)
Products trading on stock exchange						
Equity/index futures - forward pricing	405,278	291	497	406,066	31,302	(32,414)
Equity/index futures	261,240	23,643	0	284,883	5,131	(7,065)
Commodities	**95,930**	**95,699**	**0**	**191,629**	**3,119**	**(9,428)**
Credit derivatives	**895,537**	**85,743**	**0**	**981,281**	**648**	**(687)**
Precious metals contracts	**18,024**	**0**	**0**	**18,024**	**0**	**(1,120)**

The surplus of negative market values for equity/index contracts is offset by shares purchased for hedging purposes. These shares are recorded under trading assets and are not shown in the above table.

2015	Nominal amount by maturity				Fair values	
in € thousand	Up to 1 year	More than 1 year, up to 5 years	More than 5 years	Total	Positive	Negative
Total	**80,710,102**	**75,897,307**	**50,153,791**	**206,761,200**	**4,406,213**	**(4,927,491)**
Interest rate contracts	**31,184,684**	**62,690,306**	**47,475,761**	**141,350,751**	**3,179,729**	**(2,390,128)**
OTC products						
Interest rate swaps	24,126,580	54,008,153	41,570,577	119,705,310	2,893,293	(2,133,649)
Interest rate futures	1,913,964	0	0	1,913,964	1,231	(2,549)
Interest rate options – purchased	979,454	4,442,682	2,944,024	8,366,160	284,805	0
Interest rate options – sold	1,289,859	4,205,272	2,883,845	8,378,977	0	(253,873)
Other similar contracts	2,161	0	0	2,161	0	0
Products trading on stock exchange						
Interest rate futures	2,872,666	34,198	58,945	2,965,809	336	(57)
Interest rate options	0	0	18,371	18,371	64	0
Foreign exchange rate and gold contracts	**47,617,072**	**10,253,473**	**2,230,651**	**60,101,197**	**1,154,426**	**(1,382,843)**
OTC products						
Cross-currency interest rate swaps	6,346,523	9,209,688	2,217,123	17,773,334	739,139	(941,323)
Forward foreign exchange contracts	37,336,296	866,568	0	38,202,865	381,159	(390,424)
Currency options – purchased	1,497,065	105,479	0	1,602,545	31,221	0
Currency options – sold	1,639,230	68,754	0	1,707,984	0	(29,752)
Gold commodity contracts	0	2,984	13,529	16,512	47	(12,240)
Products trading on stock exchange						
Currency contracts (futures)	797,957	0	0	797,957	2,859	(9,103)
Equity/index contracts	**1,250,956**	**1,821,516**	**403,490**	**3,475,961**	**69,838**	**(1,024,373)**
OTC products						
Equity-/index-based options - purchased	84,862	505,331	113,035	703,229	39,062	0
Equity-/index-based options - sold	133,298	648,667	163,124	945,088	0	(161,330)
Other similar equity/index contracts	229,331	644,521	127,331	1,001,183	120	(826,338)
Products trading on stock exchange						
Equity/index futures - forward pricing	436,540	0	0	436,540	24,803	(22,172)
Equity/index futures	366,924	22,997	0	389,921	5,853	(14,532)
Commodities	**141,386**	**128,795**	**43,889**	**314,071**	**442**	**(110,759)**
Credit derivatives	**494,078**	**992,305**	**0**	**1,486,383**	**1,776**	**(2,114)**
Precious metals contracts	**21,926**	**10,912**	**0**	**32,838**	**1**	**(17,274)**

The previous year's surplus of negative market values for equity/index contracts was offset by shares purchased for hedging purposes. These shares are recorded under trading assets and are not shown in the above table.

(40) Fair value of financial instruments

In the Group fair value is primarily measured based on external data sources (mainly stock exchange prices or broker quotations in highly liquid markets). Financial instruments which are measured using quoted market prices are mainly listed securities and derivatives and also liquid bonds which are traded on OTC markets. These financial instruments are assigned to Level I of the fair value hierarchy.

In the case of a market valuation where the market cannot be considered as an active market because of its restricted liquidity, the underlying financial instrument is assigned to Level II of the fair value hierarchy. If no market prices are available, these financial instruments are measured using valuation models based on observable market data. These observable market data are mainly reproducible yield curves, credit spreads and volatilities. The Group generally uses valuation models which are subject to an internal audit by the Market Risk Committee in order to ensure appropriate measurement parameters.

If fair value cannot be measured using either sufficiently regularly quoted market prices (Level I) or using valuation models which are entirely based on observable market prices (Level II), then individual input parameters which are not observable on the market are estimated using appropriate assumptions. If parameters which are not observable on the market have a significant impact on the measurement of the underlying financial instrument, it is assigned to Level III of the fair value hierarchy. These measurement parameters which are not regularly observable are mainly credit spreads derived from internal estimates.

Assigning certain financial instruments to the level categories requires regular assessment, especially if measurement is based on both observable parameters and also parameters which are not observable on the market. The classification of an instrument can also change over time because of changes in market liquidity and thus price transparency.

Fair value of financial instruments reported at fair value

Bonds are primarily measured using prices that can be realized in the market. If no quotations are available, the securities are measured using the discounted cash flow model. The measurement parameters used here are the yield curve and an adequate credit spread. The credit spread is calculated using comparable financial instruments which are available on the market. For a small part of the portfolio, a conservative approach was selected and credit default spreads were used for measurement. External measurements by third parties are also taken into account, all of which are indicative in nature. Items are assigned to levels at the end of the reporting period.

In the Group, well-known conventional market valuation techniques are used to measure OTC derivatives. For example, interest rate swaps, cross currency swaps or forward rate agreements are measured using the customary discounted cash flow model for these products. OTC options, such as foreign exchange options or caps and floors, are based on valuation models which are in line with market standards. For the products mentioned as examples, these would include the Garman-Kohlhagen model, Black-Scholes 1972 and Black 1976. Complex options are measured using binomial tree models and Monte-Carlo simulations.

Determination of the fair value a credit value adjustment (CVA) is also necessary to reflect the counterparty risk associated with OTC derivative transactions, especially of those contractual partners with whom hedging via credit support annexes has not yet been conducted. This amount represents the respective estimated market value of a security which could be used to hedge against the credit risk of the counterparties to the Group's OTC derivative portfolios.

For OTC derivatives, credit value adjustments (CVA) and debit value adjustments (DVA) are used to cover expected losses from credit business. The CVA will depend on the expected future exposure (expected positive exposure) and the probability of default of the contractual partner. The DVA is determined based on the expected negative exposure and on RBI's credit quality. The expected positive exposure is calculated by simulating a large number of scenarios for future points in time, taking into account all available risk factors (e.g. currency and yield curves). OTC derivatives are measured at market values taking into account these scenarios at the respective future points in time and are aggregated at counterparty level in order to then ascertain the expected positive exposure for all points in time. Counterparties with CSA contracts (credit support annex contracts) are taken into account in the calculation. Here, the expected exposures are not calculated directly from simulated market values, but from a future expected change in market values based on a "margin period of risk" of 10 days.

A further element of the CVA involves determining a probability of default for each counterparty. Where direct credit default swap (CDS) quotations are available, the Group calculates the market-based probability of default and, implicitly, the loss-given-default (LGD) for the respective counterparty. The probability of default for counterparties which are not actively traded on the market is calculated by assigning a counterparty's internal rating to a sector and rating-specific CDS curve.

The DVA is determined by the expected negative exposure and by RBI's credit quality and represents the value adjustment for own probability of default. The method of calculation is similar to that for the CVA, but the expected negative market value is used instead of the expected positive market value. Instead of the expected positive exposures, expected negative exposures are calculated from the simulated future aggregated counterparty market values; these represent the expected debt which the Group has to the counterparty at the respective future points in time. Values implied by the market are also used to calculate the own probability of default. Direct CDS quotations are used where available. If no CDS quotation is available, the own probability of default is calculated by assigning the own rating to a sector and rating-specific CDS curve.

No Funding Value Adjustment (FVA) was considered to measure OTC derivatives. RBI is observing market developments and will develop a method to calculate the FVA where appropriate.

In the following tables, the financial instruments reported at fair value in the statement of financial position are grouped according to items in the statement of financial position and classified according to measurement category. A distinction is made as to whether the measurement is based on quoted market prices (Level I), or whether the valuation models are based on observable market data (Level II) or on parameters which are not observable on the market (Level III). Items are assigned to levels at the end of the reporting period.

in € thousand	2016 Level I	 Level II	 Level III	2015 Level I	 Level II	 Level III
Trading assets	**2,030,695**	**3,667,492**	**72,220**	**2,764,434**	**3,889,826**	**24,214**
Positive fair values of derivatives[1]	93,900	3,342,774	852	64,453	3,630,168	2,320
Shares and other variable-yield securities	164,159	350	65	202,603	449	237
Bonds, notes and other fixed-interest securities	1,772,637	324,368	71,303	2,497,378	259,210	21,657
Financial assets at fair value through profit or loss	**1,937,532**	**1,972,735**	**52,490**	**2,224,975**	**3,072,102**	**65,955**
Shares and other variable-yield securities	2,502	23	1,168	2,560	0	1,191
Bonds, notes and other fixed-interest securities	1,935,030	1,972,712	51,322	2,222,415	3,072,102	64,764
Financial assets available-for-sale	**3,750,409**	**44,138**	**73,585**	**2,930,139**	**95,835**	**170,518**
Other interests[2]	1,536	28,673		1,127	0	89,436
Bonds, notes and other fixed-interest securities	3,748,871	15,465	70,865	2,929,009	95,835	78,586
Shares and other variable-yield securities	3	0	2,721	3	0	2,496
Derivatives (hedging)	**0**	**644,693**	**0**	**0**	**709,272**	**0**
Positive fair values of derivatives from hedge accounting	0	644,693	0	0	709,272	0

1 Including other derivatives
2 Includes securities traded on the stock exchange and also shares measured according to income approach

Level I Quoted market prices
Level II Valuation techniques based on market data
Level III Valuation techniques not based on market data

in € thousand	2016 Level I	 Level II	 Level III	2015 Level I	 Level II	 Level III
Trading liabilities	**618,955**	**4,854,785**	**7,537**	**524,973**	**5,087,363**	**28,683**
Negative fair values of derivative financial instruments[1]	135,334	2,826,443	91	161,769	4,309,317	21,614
Call/time deposits from trading purposes	0	0	0	0	0	0
Short-selling of trading assets	483,236	72,111	0	363,204	90,255	0
Certificates issued	386	1,956,232	7,446	0	687,791	7,068
Liabilities at fair value through profit and loss	**0**	**2,783,648**	**0**	**0**	**2,588,259**	**0**
Deposits from banks[2]	0	751,720	0	0	838,753	0
Debt securities issued[2]	0	1,373,418	0	0	1,226,965	0
Subordinated capital[2]	0	658,510	0	0	522,541	0
Derivatives (hedging)	**0**	**425,415**	**0**	**0**	**434,791**	**0**
Negative fair values of derivatives from hedge accounting	0	425,415	0	0	434,791	0

1 Including other derivatives
2 Adaptation of previous year figures

Level I Quoted market prices
Level II Valuation techniques based on market data
Level III Valuation techniques not based on market data

Movements between Level I and Level II

For each financial instrument, a check is made whether quoted market prices are available on an active market (Level I). For financial instruments where there are no quoted market prices, observable market data such as yield curves are used to calculate fair value (Level II). Reclassification takes place if this estimate changes.

If instruments are reclassified from Level I to Level II, this means that market quotations were previously available for these instruments but are no longer so. These securities are now measured using the discounted cash flow model, using the respective applicable yield curve and the appropriate credit spread.

If instruments are reclassified from Level II to Level I, this means that the measurement results were previously calculated using the discounted cash flow model but that market quotations are now available and can be used for measurement.

Compared to year-end, the share of financial assets classified as Level II decreased. The decrease resulted mainly from divestitures from the category "financial assets at fair value through profit and loss", particularly the category "Bonds, notes and other fixed-interest securities". Moreover, there was a slight shift from Level I to Level II. This was due to the fact that no directly quoted market prices for these financial instruments were available at the reporting date.

Movements in Level III of financial instruments at fair value

The following tables show the changes in the fair value of financial instruments whose fair value cannot be calculated on the basis of observable market data and which are therefore subject to other measurement models. Financial instruments in this category have a value component which is unobservable on the market and which has a material impact on the fair value. Due to a change in the observable valuation parameters, certain financial instruments were reclassified from Level III. The reclassified financial instruments are shown under Level II as they are valued on the basis of market input parameters.

in € thousand	As at 1/1/2016	Change in consolidated group	Exchange differences	Purchases	Sales, repayment
Trading assets	24,214	0	(790)	70,261	(19,691)
Financial assets at fair value through profit or loss	65,955	0	4,667	18,586	(45,287)
Financial assets available-for-sale	170,518	0	(2,277)	14,619	(149,215)
Derivatives (hedging)	0	0	146	0	(28)

in € thousand	Gains/loss in P/L	Gains/loss in other comprehensive income	Transfer to level III	Transfer from level III	As at 31/12/2016
Trading assets	(1,775)	0	0	0	72,220
Financial assets at fair value through profit or loss	8,569	0	0	0	52,490
Financial assets available-for-sale	129,399	(89,459)	0	0	73,585
Derivatives (hedging)	(118)	0	0	0	0

in € thousand	As at 1/1/2016	Change in consolidated group	Exchange differences	Purchases	Sales, repayment
Trading liabilities	28,683	0	0	12,849	(19,931)

in € thousand	Gains/loss in P/L	Gains/loss in other comprehensive income	Transfer to level III	Transfer from level III	As at 31/12/2016
Trading liabilities	(258)	0	0	(13,806)	7,537

In the reporting year, gains resulting from financial instruments of the Level III fair value hierarchy amounted to € 135,817 thousand (2015: € 34,227 thousand).

Qualitative information for the measurement of Level III financial instruments

Financial assets	Type	Fair value in € thousand	Valuation technique	Significant unobservable inputs	Range of unobservable inputs
Shares and other variable-yield securities	Closed end real estate fund	65	Net asset value	Haircuts	40-90%
Shares and other variable-yield securities	Shares, floating rate notes	3,888	Cost of aquisition, DCF - method	Realization rate Credit spread	10-40%
Other investments	Shares	0	Income approach	Prognosticated cash flows	-
Bonds, notes and other fixed-interest securities	Fixed coupon bonds	186,680	Discounted cash flow method	Credit spread	0,4-50%
Bonds, notes and other fixed-interest securities	Asset backed securities	6,810	Discounted cash flow method	Realization rate Credit spread	10-20%
Positive fair value of banking book derivatives without hedge accounting	Forward foreign exchange contracts	852	Net present value method Internal model	Interest rate PD LGD	10-30% 0.25-100% 37-64%
Total		**198,295**			

Financial liabilities	Type	Fair value in € thousand	Valuation technique	Significant unobservable inputs	Range of unobservable inputs
Negative fair value of banking book derivatives without hedge accounting	OTC options	91	Option model Net present value method	Closing period Currency risk LT volatility Index category Net interest rate	2-5% 0-5% 0-3% 0-5% 10-30%
Issued certificates for trading purposes	Certificates	7,446	Option model (Curran)	Closing period Bid-Ask spread LT volatility Index category	0-3% 0-3% 0-3% 0-2.5%
Total		**7,537**			

Fair value of financial instruments not reported at fair value

Fair values which are different from the carrying amount are calculated for fixed-interest loans and advances to and deposits from banks or customers, if the remaining maturity is more than one year. Variable-interest loans and advances and deposits are taken into account if they have an interest rollover period of more than one year. The fair value of loans and advances is calculated by discounting future cash flows using interest rates at which similar loans and advances with the same maturities could have been granted to customers with similar creditworthiness. Moreover, the specific credit risk and collaterals are considered for the calculation of fair values for loans and advances.

2016 in € thousand	Level I	Level II	Level III	Fair value	Carrying amount	Difference
Assets						
Cash reserve		12,242,415		12,242,415	12,242,415	0
Loans and advances to banks	0	8,262,067	1,647,033	9,909,101	9,849,646	59,455
Loans and advances to customers	0	17,216,090	47,722,814	64,938,904	65,609,350	(670,445)
Financial investments	5,249,218	1,458,517	193,692	6,901,428	6,809,658	91,770
Liabilities						
Deposits from banks	0	10,417,797	1,724,605	12,142,402	12,064,755	77,647
Deposits from customers	0	27,002,668	44,585,410	71,588,078	71,538,226	49,852
Debt securities issued	106,814	3,728,921	1,469,758	5,305,493	5,271,709	33,784
Subordinated capital	0	3,337,908	401,636	3,739,544	3,545,183	194,361

2015 in € thousand	Level I	Level II	Level III	Fair value	Carrying amount	Difference
Assets						
Cash reserve	0	13,211,971	0	13,211,971	13,211,971	0
Loans and advances to banks	0	7,526,878	3,279,664	10,806,542	10,717,293	89,249
Loans and advances to customers	0	15,903,839	47,529,702	63,433,541	63,986,146	(552,606)
Financial investments	5,193,682	1,487,619	211,392	6,892,693	6,685,237	207,456
Liabilities						
Deposits from banks[1]	0	12,685,593	2,886,555	15,572,148	15,530,422	41,725
Deposits from customers	0	27,280,163	42,252,466	69,532,630	68,990,887	541,742
Debt securities issued	271,962	4,275,546	1,790,895	6,338,403	6,274,628	63,775
Subordinated capital	0	3,565,784	406,123	3,971,907	3,641,811	330,096

1 Adaptation of previous year figures

(41) Contingent liabilities and commitments

in € thousand	2016	2015
Contingent liabilities	**9,055,448**	**9,386,509**
Acceptances and endorsements	0	26,180
Credit guarantees	5,397,891	4,928,800
Other guarantees	2,626,370	2,985,994
Letters of credit (documentary business)	993,936	1,237,908
Other contingent liabilities	37,251	207,627
Commitments	**10,174,261**	**9,980,036**
Irrevocable credit lines and stand-by facilities	10,174,261	9,980,036
Up to 1 year	2,818,529	2,894,232
More than 1 year	7,355,732	7,085,805

The following table contains revocable credit lines:

in € thousand	2016	2015
Revocable credit lines	**16,890,479**	**15,775,452**
Up to 1 year	9,643,908	9,581,961
More than 1 year	4,090,360	4,119,528
Without maturity	3,156,211	2,073,964

RBI AG is a member of Raiffeisen-Kundengarantiegemeinschaft Austria. The members of this association have a contractual obligation to guarantee jointly the punctual fulfillment of the entirety of an insolvent association member's commitments arising from customer deposits and its own issues up to the limit of the sum of the individual capacities of the remaining association members. The individual capacity of an association member is measured on the basis of its freely available reserves subject to the pertinent provisions of the Austrian Banking Act (BWG).

Risk report

(42) Risks arising from financial instruments

Active risk management is a core competency of the Group. In order to effectively identify, measure, and manage risks the Group 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

The Group has a system of risk principles and procedures in place for measuring and monitoring risk, which is aimed at controlling and managing material risks at all banks and specialist companies in the Group. The risk policies and risk management principles are laid out by the Management Board. The principles include the following risk policies:

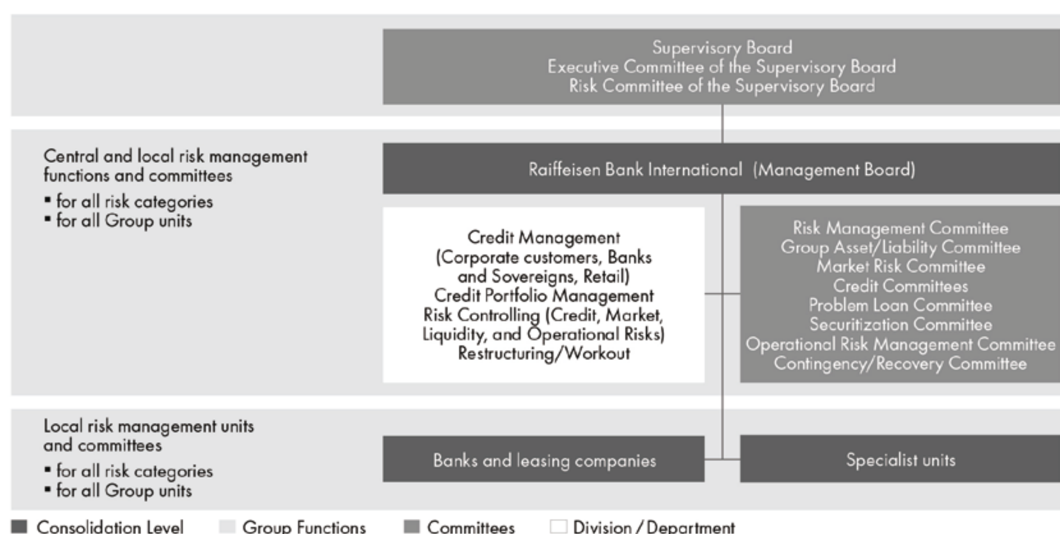
- Integrated risk management: Credit, country, market, liquidity, and operational risks are managed as key risks on a Group-wide basis. For this purpose, these risks are measured, limited, aggregated, and compared to available risk coverage capital.
- Standardized methodologies: Risk measurement and risk limitation methods are standardized Group-wide 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 lines in RBI.
- 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.

Individual risk management units of the Group develop detailed risk strategies, which set more concrete risk targets and specific standards in compliance with these general principles. The overall Group risk strategy is derived from the Group's business strategy and the risk appetite and adds risk relevant aspects to the planned business structure and strategic development. These aspects include for example structural limits and capital ratio targets which have to be met in the budgeting process and in the scope of business decisions. More specific targets for individual risk categories are set in detailed risk strategies. The credit risk strategy of RBI, for instance, sets credit portfolio limits for individual countries and segments and defines the credit approval authority for limit applications.

Organization of risk management

The Management Board of the Group 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 according to the risk reports and analyses. The Management Board is supported in undertaking these tasks by independent risk management units and special committees.

Risk management functions are performed on different levels in the Group. RBI AG develops and implements the relevant concepts in coordination with RZB AG 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 Group's risk management processes. In particular, they establish common Group directives and set business-specific standards, tools, and practices for all Group entities.



In addition, local risk management units are established in the different Group entities of RBI. They implement the risk policies for specific risk types and take active steering decisions within the approved risk budgets in order to achieve the targets set in the business policy. For this purpose, they monitor resulting risks using standardized measurement tools and report them to central risk management units via defined interfaces.

The central Risk Controlling division assumes the independent risk controlling function required by banking law. Its responsibilities include developing the Group-wide framework for overall bank risk management (integrating all risk types) and preparing independent reports on the risk profile for the Risk Committee of the Supervisory Board, the Management Board and the heads of individual business units. It also measures required risk coverage capital for different Group units and calculates the utilization of the allocated risk capital budgets in the internal capital adequacy framework.

Risk committees

The Risk Management Committee is responsible for ongoing development and implementation of methods and parameters for risk quantification and for refining steering instruments. The committee also analyzes the current risk situation with respect to internal capital adequacy and the corresponding risk limits. It approves risk management and controlling activities (such as the allocation of risk capital) and advises the Management Board in these matters.

The Group Asset/Liability Committee assesses and manages statement of financial position structure and liquidity risks and defines the standards for internal funds transfer pricing. In this context it plays an important role in the 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 arising from trading and banking book transactions and establishes corresponding limits and processes. In particular, it relies 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 customers (corporate customers, banks, sovereigns and retail). They decide upon the specific lending criteria for different customer divisions and countries and approve all credit decisions concerning them according to the credit approval authority (depending on rating and exposure size).

The Problem Loan Committee is the most important committee in the evaluation and decision-making process concerning problem loans. It comprises primarily decision making authorities; its chairman is the Chief Risk Officer (CRO) of RBI. Further members with voting rights are those members of the Management Board responsible for the customer divisions, the Chief Financial Officer (CFO) and the relevant division and departmental managers from risk management and special exposures management (workout).

The Securitization Committee is the decision-making committee for limit requests in relation to securitization positions within the specific decision-making authority framework and develops proposals for modifications to the securitization strategy for the Management Board. In addition, the Securitization Committee is a platform for exchanging information regarding securitization positions and market developments.

The Operational Risk Management Committee comprises representatives of the business areas (retail, market and corporate customers) and representatives from Compliance (including financial crime), Internal Control System, Operations, Security and Risk Controlling, under chairmanship of the CRO. This committee is responsible for controlling the operational risk (including conduct risk) of the Group. It derives and sets the operational risk strategy based on the risk profile and the business strategy and also makes decisions regarding measures, controls and risk acceptance.

The Contingency/Recovery Committee is a decision-making body convened by the Management Board. The composition of the committee varies as circumstances require depending on the intensity and focus of the specific requirements pertaining to the situation (e.g. capital and/or liquidity). The core task of the committee is to maintain or recover financial stability in accordance with BaSAG (Austrian Bank Recovery and Resolution Act) and BRRD (Banking Recovery and Resolution Directive) in the event of a critical financial situation.

Quality assurance and internal audit

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 the Group adheres to all legal requirements and that it can achieve the highest standards in risk management related operations.

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

Two very important functions in assuring independent oversight 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 the Group 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 integral part of the internal control system. Thus, 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. Finally, the Group is continuously supervised by the European Central Bank, the Austrian Financial Market Authority and also by the local supervisor in those countries where the Group is represented by branches or subsidiaries.

Overall group risk management

Maintaining an adequate level of capital is a core objective of the Group. Capital requirements are monitored regularly based on the risk level as measured by internal models, and in choosing appropriate models the materiality of risks annually assessed is taken into account. This concept of overall bank risk management provides for capital requirements from a regulatory point of view (sustainability and going concern perspective) and from an economic point of view (target rating perspective). Thus it covers the quantitative aspects of the internal capital adequacy assessment process (ICAAP) as legally required. The full ICAAP process of the Group is audited during the supervisory review process for RZB credit institution group (RZB-Kreditinstitutsgruppe) on an annual basis.

The Risk Appetite Framework (RAF) limits the Group's overall risk in accordance with the strategic business objectives and allocates these to the different risk categories and business areas. The primary aim of the RAF is to limit risk, particularly 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 lenders	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 CRR 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 capital
Sustainability perspective	Risk of falling short of a sustainable tier 1 ratio over a full business cycle	Capital and net income projection for a three-year planning period based on a severe macroeconomic downturn scenario	70-90 per cent based on the management decision that the Group might be required to temporarily reduce risks or raise additional capital

Target rating perspective

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

The objective of calculating economic capital is to determine the amount of capital that would be required for servicing all of the claims of customers and creditors even in the case of such an extremely rare loss event. The Group uses a confidence level of 99.92 per cent for calculating economic capital. This confidence level is derived from the probability of default implied by the target rating. Based on the empirical analysis of rating agencies, the selected confidence level corresponds to a rating of Single A.

During the year, the economic capital of the Group decreased 5 per cent, or € 289,746 thousand, to € 5,309,708 thousand. Overall, as at the reporting date, credit risk accounted for 61 per cent (2015: 60 per cent) of economic capital. Additionally, a general buffer for other risks, unchanged at 5 per cent of calculated economic capital, is added. In the allocation of risk capital as at 31 December 2016, the largest share of economic capital, at 34 per cent (2015: 41 per cent), is consumed by Group units located in Central Europe.

The economic capital is compared to internal capital, which mainly comprises equity and subordinated capital of the Group. This capital form serves as a primary means of risk coverage for servicing claims of senior lenders if the bank should incur losses. As at year-end 2016, total utilization of available risk capital (the ratio of economic capital to internal capital) amounted to 46 per cent (2015: 51 per cent).

Economic capital is an important instrument in overall bank risk management. Economic capital limits are allocated to individual business areas during the annual budgeting process and are supplemented for day-to-day management by volume, sensitivity, or value-at-risk limits. In the Group this planning is undertaken 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 profitability of business units is examined in relation to the amount of economic capital attributed to these units (risk-adjusted profit in relation to risk-adjusted capital, RORAC), which yields a comparable performance measure for all business units of the Group. This measure is used in turn as a key figure for overall bank management, for future capital allocations to business units, and influences the remuneration of the Group's executive management.

Risk distribution of individual risk types to economic capital:

in € thousand	2016	Share	2015[1]	Share
Credit risk corporate customers	1,478,538	27.8%	1,596,219	28.5%
Credit risk retail customers	1,154,508	21.7%	1,200,409	21.4%
Operational risk	590,317	11.1%	639,280	11.4%
Credit risk sovereigns	412,024	7.8%	388,328	6.9%
Macroeconomic risk	391,510	7.4%	499,000	8.9%
FX risk capital position	275,745	5.2%	246,621	4.4%
Market risk	217,897	4.1%	211,082	3.8%
Credit risk banks	191,258	3.6%	171,793	3.1%
Other tangible fixed assets	190,782	3.6%	216,179	3.9%
Participation risk	108,942	2.1%	108,631	1.9%
CVA risk	30,457	0.6%	32,455	0.6%
Liquidity risk	14,887	0.3%	22,817	0.4%
Risk buffer	252,843	4.8%	266,641	4.8%
Total	**5,309,708**	**100.0%**	**5,599,454**	**100.0%**

1 Adaptation of previous year figures

The risk position “FX risk capital position” was shown separately for the first time as at 30 June 2016. It represents the risk from the foreign currency capital positions. A longer holding period (1 year) is assumed for non-hedgeable currencies. The breakdown also eliminates diversification effects between the two risk types shown. The comparative values for 31 December 2015 for market risk and FX risk capital position were adapted based on the methodology used as at 30 June 2016.

Regional allocation of economic capital according to Group booking unit:

in € thousand	2016	Share	2015[1]	Share
Central Europe	1,823,142	34.3%	2,268,010	40.5%
Southeastern Europe	1,207,851	22.7%	1,252,447	22.4%
Austria	1,134,260	21.4%	1,076,497	19.2%
Eastern Europe	1,132,709	21.3%	967,081	17.3%
Rest of World	11,746	0.2%	35,420	0.6%
Total	**5,309,708**	**100.0%**	**5,599,454**	**100.0%**

1 Adaptation of previous year figures

The decline in Central Europe was mainly attributable to the sale of Raiffeisen Banka d.d., Maribor, and Raiffeisen-Leasing Polska S.A. The sales were primarily reflected in the credit and macroeconomic risk. The increase in Eastern Europe was due to market risk.

Going concern perspective

Parallel to the target rating perspective, internal capital adequacy is assessed with focus on the uninterrupted operation of the Group on a going concern basis. In this perspective, risks again are compared to risk taking capacity – with a focus on regulatory capital and total 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 thereof are mostly comparable to the target rating perspective, (albeit on a lower 95 per cent confidence level). Using this perspective the Group ensures adequate regulatory capitalization (going concern) with the given probability.

Sustainability perspective

The main goal of the sustainability perspective is to ensure that the Group can maintain a sufficiently high tier 1 ratio at the end of the multi-year planning period, also in a severe macroeconomic downturn scenario. This analysis is based on a multi-year macroeconomic stress test where hypothetical market developments in a severe but realistic economic downturn scenario are simulated. The risk parameters considered 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 the resulting tier 1 ratio at the end of the multi-year period. It should not fall below a sustainable level and thus neither require the bank to substantially increase capital nor to significantly reduce business activities. The current minimum amount of tier 1 capital is therefore determined by the size of the potential economic downturn. In this downturn scenario the need for allocating loan loss provisions, potential pro-cyclical effects that increase minimum regulatory capital requirements, the impact of foreign exchange rate fluctuations as well as other valuation and earnings effects are incorporated.

This perspective thus also complements traditional risk measurement based on the value-at-risk concept (which is in general based on historical data). Therefore it can 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 also allows for analyzing risk concentrations (e.g. individual positions, industries, or geographical regions) and gives insight into the profitability, liquidity situation, and solvency under extreme situations. Based on these analyses risk management in the Group enhances portfolio diversification, for example via limits for the total exposure to individual industry segments and countries and through ongoing updates to lending standards.

Credit risk

In the Group, 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 in the Group, as also indicated by internal and regulatory capital requirements. Credit risk thus is analyzed and monitored both on an individual loan and customer basis as well as on a portfolio basis in the Group. Credit risk management and lending decisions are based on the respective credit risk policies, credit risk manuals, and the corresponding 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.

Limit application process

In the non-retail division, each lending transaction runs through the limit application process beforehand. This process covers – besides new lending – increases in existing limits, rollovers, overdrafts, and changes in the risk profile of a borrower (e.g. with respect to the financial situation of the borrower, the terms and conditions, or collateral) compared to the time of the original lending decision. It is also used when setting counterparty limits in trading and new issuance operations, other credit limits, and for equity participations.

Credit decisions are made within the context of a competence authority hierarchy based on the size and type of a loan. It always requires the approval of the business and the credit risk management divisions for individual limit decisions or when performing regular rating renewals. If the individual decision-making parties disagree, the potential transaction is decided upon by the next higher-ranking credit authority.

The whole limit application process is based on defined uniform principles and rules. Account management for multinational customers doing business simultaneously with more than one RBI Group unit is supported by the Global Account Management System, for example. This is made possible by Group-wide unique customer identification in non-retail asset classes.

The limit application process in the retail division is to a larger extent automated due to the high number of applications and lower exposure amounts. Limit applications often are assessed and approved in central processing centers based on credit score cards. This process is facilitated by the respective IT systems.

Credit portfolio management

Credit portfolio management in the Group is, among other aspects, based on the credit portfolio strategy which is in turn based on the business and risk strategy. By means of the selected strategy, the exposure amount in different countries, industries or product types is limited and thus prevents undesired risk concentrations. Additionally, the long-term potentials of different markets are continuously analyzed. This allows for an early strategic repositioning of future lending activities.

Reconciliation of figures from the IFRS consolidated financial statements to total credit exposure (according to CRR)

The following table translates items of the statement of financial position (bank and trading book positions) into the maximum credit exposure, which is used in portfolio management. It includes exposures on and off the statement of financial position before the application of credit-conversion factors and thus represents the maximum credit exposure. It is not reduced by the effects of credit risk mitigation such as guarantees and physical collateral, effects that are, however, considered in the total assessment of credit risks. The maximum credit exposure is used – if not explicitly stated otherwise -- in all subsequent tables in the risk report. The reasons for different values used for internal portfolio management and external financial accounting are the different scopes of consolidation (regulatory versus accounting rules according to IFRS, i.e. corporate legal basis), different classifications and presentation of exposure volumes.

In 2016 the presentation of the total credit exposure was extended to include the loans and advances contained in synthetic securitizations. The values of the comparative period were adapted accordingly.

in € thousand	2016	2015[2]
Cash reserve	9,267,086	10,716,836
Loans and advances to banks	9,900,012	10,837,209
Loans and advances to customers	70,514,116	69,921,365
Trading assets	4,986,462	5,814,108
Derivatives	1,428,639	1,573,637
Financial investments	14,353,243	14,914,953
Other assets	637,692	1,510,645
Contingent liabilities	9,055,448	9,386,509
Commitments	10,174,261	9,980,036
Revocable credit lines	16,890,479	15,775,452
Disclosure differences	(634,289)	538,094
Total[1]	**146,573,149**	**150,968,845**

1 Items on the statement of financial position containing only credit risk parts
2 Adaptation of previous year figures

A more detailed credit portfolio analysis is based on individual customer ratings. Ratings are performed separately for different asset classes using internal risk classification models (rating and scoring models), which are validated by a central organization unit. Default probabilities assigned to individual rating grades are calculated for each asset class separately. As a consequence the default probability of the same ordinal rating grade (e.g. corporates good credit standing 4, banks A3, and sovereigns A3) is not directly comparable between these asset classes.

Rating models in the main non-retail asset classes – corporates, banks, and sovereigns – are uniform in all Group units and rank creditworthiness in 27 grades for corporate customers and banks and ten grades for sovereigns. For retail asset classes, country specific scorecards are developed based on uniform Group standards. Customer rating, as well as validation is supported by specific software tools (e.g. business valuation tools, rating and default database).

Credit portfolio – Corporates

The internal rating models for corporate customers take into account qualitative parameters, various ratios from the statement of financial position and profit ratios covering different aspects of customer creditworthiness for various industries and countries. In addition, the model for smaller corporates also includes an account behavior component.

The following table shows the total credit exposure according to internal corporate ratings (large corporates and mid-market). For presentation purposes, the individual grades of the rating scale are summarized into the nine main rating grades.

in € thousand		2016	Share	2015[1]	Share
1	Minimal risk	5,804,818	8.8%	3,582,589	5.2%
2	Excellent credit standing	7,080,479	10.8%	8,841,232	12.9%
3	Very good credit standing	7,634,073	11.6%	8,320,494	12.1%
4	Good credit standing	10,488,162	15.9%	10,850,849	15.8%
5	Sound credit standing	13,149,526	20.0%	11,937,323	17.4%
6	Acceptable credit standing	10,811,774	16.4%	10,541,442	15.3%
7	Marginal credit standing	4,356,303	6.6%	5,728,309	8.3%
8	Weak credit standing / sub-standard	1,498,401	2.3%	2,242,753	3.3%
9	Very weak credit standing / doubtful	683,561	1.0%	972,003	1.4%
10	Default	4,025,766	6.1%	5,622,237	8.2%
NR	Not rated	226,379	0.3%	110,663	0.2%
Total		**65,759,242**	**100.0%**	**68,749,895**	**100.0%**

1 Adaptation of previous year figures

The total credit exposure to corporates amounted to € 65,759,242 thousand (2015: € 68,749,895 thousand) at year-end 2016. The increase in rating grade 1 resulted from a rating upgrade of individual financial service providers and customers in the Group Markets and Group Corporates segments. Rating grade 5 recorded a € 1,212,203 thousand increase to € 13,149,526 thousand, due to an increase in credit financing and swap transactions. The € 1,372,006 thousand decline in rating grade 7 resulted from a reduction in facility and credit financing, guarantees issued, and from a reduction in deposits in the Group Corporates, Non-Core and Southeastern Europe segments. Rating grade 10 recorded a € 1,596,471 thousand decline to € 4,025,766 thousand. The decline was attributable to the reduction in exposure and the sales of non-performing loans in several countries, notably in Group Corporates, Asia, Russia and Hungary, and to the sales of Raiffeisen Banka d.d., Maribor, and Raiffeisen-Leasing Polska S.A., Warsaw.

The rating model for project finance has five different grades which take both individual default probabilities and collateral into consideration. The project finance volume is composed as shown in the table below:

in € thousand		2016	Share	2015[1]	Share
6.1	Excellent project risk profile – very low risk	4,530,210	56.0%	3,907,386	48.3%
6.2	Good project risk profile – low risk	1,850,736	22.9%	2,180,389	27.0%
6.3	Acceptable project risk profile – average risk	843,661	10.4%	676,171	8.4%
6.4	Poor project risk profile – high risk	246,584	3.0%	414,076	5.1%
6.5	Default	596,213	7.4%	894,909	11.1%
NR	Not rated	19,929	0.2%	11,079	0.1%
Total		**8,087,334**	**100.0%**	**8,084,011**	**100.0%**

1 Adaptation of previous year figures

The credit exposure in project finance amounted to € 8,087,334 thousand (2015: € 8,084,011 thousand) at year-end 2016. At 78.9 per cent (2015: 75.3 per cent), projects rated in the two best rating grades, excellent project risk profile – very low risk (rating 6.1) or good project risk profile – low risk (rating 6.2), accounted for the highest share of the portfolio. This reflects mainly the high level of collateralization in specialized lending transactions. The increase in rating grade 6.1 excellent project risk profile – very low risk was attributable to a rating upgrade of individual customers in Austria, Hungary and Slovakia.

The following table provides a breakdown by country of risk of the total credit exposure for corporate customers and project finance structured by regions:

in € thousand	2016	Share	2015[1]	Share
Central Europe	20,922,091	28.3%	22,880,766	29.8%
Austria	12,896,882	17.5%	14,407,083	18.8%
Western Europe	10,971,652	14.9%	9,383,779	12.2%
Eastern Europe	12,321,417	16.7%	11,874,752	15.5%
Southeastern Europe	11,098,349	15.0%	10,300,863	13.4%
Asia	1,943,739	2.6%	3,550,538	4.6%
Other	3,692,445	5.0%	4,436,125	5.8%
Total	**73,846,576**	**100.0%**	**76,833,905**	**100.0%**

1 Adaptation of previous year figures

The credit exposure for corporate customers and project financing declined € 2,987,329 thousand to € 73,846,576 thousand. Central Europe recorded a € 1,958,675 thousand decline, which was attributable to project and facility financing and to a reduction in the bond portfolio. The decrease of € 1,510,201 thousand in the Austrian region resulted mainly from facility financing. Western Europe recorded an increase of € 1,587,873 thousand due to an increase in repo and swap transactions and to money market business. As a result of the decision to downscale business operations in Asia as part of the transformation program, Asia recorded a decline of € 1,606,799 thousand.

The table below provides a breakdown of the total credit exposure for corporates and project finance by industries:

in € thousand	2016	Share	2015[1]	Share
Manufacturing	16,836,731	22.8%	17,022,635	22.2%
Wholesale and retail trade	15,888,410	21.5%	17,043,083	22.2%
Financial intermediation	7,746,120	10.5%	8,534,257	11.1%
Real estate	8,350,888	11.3%	8,644,148	11.3%
Construction	5,377,591	7.3%	5,567,635	7.2%
Freelance/technical services	4,208,989	5.7%	4,104,635	5.3%
Transport, storage and communication	3,346,237	4.5%	3,530,765	4.6%
Electricity, gas, steam and hot water supply	3,046,017	4.1%	3,734,447	4.9%
Other industries	9,045,592	12.2%	8,652,301	11.3%
Total	**73,846,576**	**100.0%**	**76,833,905**	**100.0%**

1 Adaptation of previous year figures

Credit portfolio – Retail customers

Retail customers are subdivided into private individuals and small and medium-sized entities (SME). For retail customers a two-fold scoring system is used – consisting of the initial and ad-hoc scoring based on customer data and of the behavioral scoring based on account data. The table below provides a breakdown of the retail credit exposure of the Group:

in € thousand	2016	Share	2015	Share
Retail customers – private individuals	26,497,529	90.9%	24,618,945	88.4%
Retail customers – small and medium-sized entities	2,668,266	9.1%	3,225,167	11.6%
Total	**29,165,795**	**100.0%**	**27,844,112**	**100.0%**
hereof non-performing loans	2,138,814	7.3%	2,282,662	8.2%
hereof individual loan loss provision	1,522,231	5.2%	1,669,456	6.0%
hereof portfolio-based loan loss provision	249,294	0.9%	206,761	0.7%

The total credit exposure to retail customers breaks down by Group segments as follows:

2016 in € thousand	Central Europe	Southeastern Europe	Eastern Europe	Non-Core	Group Markets
Retail customers – private individuals	9,954,054	7,335,063	4,003,633	5,191,768	13,011
Retail customers – small and medium-sized entities	1,002,360	738,631	403,160	522,804	1,310
Total	**10,956,414**	**8,073,694**	**4,406,793**	**5,714,572**	**14,321**
hereof non-performing loans	488,621	537,071	698,602	414,520	0
hereof individual loan loss provision	273,452	371,579	643,693	233,462	45
hereof portfolio-based loan loss provision	86,772	90,081	55,444	16,997	0

2015 in € thousand	Central Europe	Southeastern Europe	Eastern Europe	Non-Core	Group Markets
Retail customers – private individuals	8,362,152	6,892,493	3,411,455	5,939,594	13,251
Retail customers – small and medium-sized entities	1,095,471	902,940	446,912	778,107	1,736
Total	**9,457,623**	**7,795,433**	**3,858,367**	**6,717,702**	**14,987**
hereof non-performing loans	423,890	546,889	900,920	410,962	0
hereof individual loan loss provision	268,798	319,446	805,949	232,657	60
hereof portfolio-based loan loss provision	79,524	51,134	48,359	23,328	0

Compared to year-end 2015, the retail credit portfolio with a volume of € 29,165,795 thousand showed an increase of € 1,321,683 thousand. The highest volume of € 10,956,414 thousand (2015: € 9,457,623 thousand) was shown in the segment Central Europe. Compared to year-end 2015, this was an increase of € 1,498,791 thousand, mainly caused by a rise in loans to private individuals in the Czech Republic and Slovakia and by the purchase of a loan portfolio in the Czech Republic. The second largest segment was Southeastern Europe at € 8,073,694 thousand (2015: € 7,795,433 thousand). Compared to the previous year, the exposure increased € 278,261 thousand. This was mainly due to Bulgaria and Romania. Compared to year-end 2015, the segment Non-Core reported a decrease of € 1,003,130 thousand mainly resulting from the sale of Raiffeisen-Leasing Polska S.A., Warsaw, and Raiffeisen Banka d.d., Maribor. The segment Eastern Europe showed an increase of € 548,426 thousand to € 4,406,793 thousand. This was mainly attributable to Russia and Ukraine. The increase was primarily due to the appreciation of the Russian rouble.

In the table below the total retail credit exposure by products is shown:

in € thousand	2016	Share	2015	Share
Mortgage loans	15,548,794	53.3%	14,977,762	53.8%
Personal loans	6,668,084	22.9%	5,945,319	21.4%
Credit cards	3,196,821	11.0%	2,441,433	8.8%
Car loans	495,976	1.7%	1,251,341	4.5%
Overdraft	1,647,468	5.6%	1,699,054	6.1%
SME financing	1,608,652	5.5%	1,529,203	5.5%
Total	**29,165,795**	**100.0%**	**27,844,112**	**100.0%**

The increase in mortgage loans was mainly attributable to the Czech Republic, Russia and Slovakia, but was partly offset by a decrease in Poland and Ukraine. Personal loans also rose due to Russia, Poland and Romania. The increase in credit card exposure resulted from the purchase of a loan portfolio in the Czech Republic and from organic growth in Russia. The decline in car loans was on the one hand due to the decision, taken in 2015, to withdraw from this product category in Russia and also to the sale of Raiffeisen-Leasing Polska S.A., Warsaw.

2016 in € thousand	Central Europe	Southeastern Europe	Eastern Europe	Non-Core	Group Markets
Mortgage loans	7,331,681	2,244,661	1,587,248	4,385,204	0
Personal loans	991,066	3,569,309	1,511,882	587,219	8,608
Credit cards	1,011,368	960,885	956,812	264,676	3,081
Car loans	158,827	131,061	205,255	833	0
Overdraft	837,935	369,961	34,297	404,857	418
SME financing	625,538	797,818	111,300	71,783	2,214
Total	**10,956,414**	**8,073,694**	**4,406,793**	**5,714,572**	**14,321**

2015 in € thousand	Central Europe	Southeastern Europe	Eastern Europe	Non-Core	Group Markets
Mortgage loans	6,616,952	2,403,254	1,317,397	4,640,159	0
Personal loans	865,823	3,270,247	1,266,241	532,725	10,284
Credit cards	494,547	882,014	765,571	296,140	3,162
Car loans	119,612	140,932	338,589	652,207	0
Overdraft	842,337	375,491	28,456	452,090	680
SME financing	518,353	723,495	142,113	144,381	861
Total	**9,457,623**	**7,795,433**	**3,858,367**	**6,717,702**	**14,987**

The share of foreign currency loans in the retail portfolio provides an indication of the potential change in default rates if the exchange rate of the domestic currency changes. The internal risk assessment thus takes into account the share of foreign currency loans but also the usually stricter lending criteria when granting the loan and – in several countries – the customers' matching foreign currency income.

in € thousand	2016	Share	2015	Share
Swiss franc	3,099,078	43.8%	3,585,047	44.8%
Euro	3,402,789	48.1%	3,617,077	45.2%
US-Dollar	564,276	8.0%	794,474	9.9%
Other foreign currencies	1,987	0.0%	3,290	0.0%
Loans in foreign currencies	**7,068,130**	**100.0%**	**7,999,889**	**100.0%**
Share of total loans	**24.2%**		**28.7%**	

Compared to year-end 2015, loans denominated in Swiss francs, euros and US dollars decreased. The decrease in foreign currency loans denominated in Swiss francs was mainly due to the statutory provisions concerning the mandatory conversion at historical rates for loans granted in Croatia.

The following table shows the credit exposure in foreign currencies to this asset class by segments:

2016 in € thousand	Central Europe	Southeastern Europe	Eastern Europe	Non-Core	Group Markets
Swiss franc	4,839	311,336	0	2,782,903	0
Euro	47,654	2,483,627	20,297	851,212	0
US-Dollar	5,445	4,098	549,646	3,689	1,398
Other foreign currencies	308	20	796	554	309
Loans in foreign currencies	**58,245**	**2,799,081**	**570,739**	**3,638,357**	**1,708**
Share of total loans	**0.5%**	**34.7%**	**13.0%**	**63.7%**	**11.9%**

2015 in € thousand	Central Europe	Southeastern Europe	Eastern Europe	Non-Core	Group Markets
Swiss franc	6,011	642,205	0	2,936,397	434
Euro	19,093	2,575,930	31,750	990,304	0
US-Dollar	3,301	4,377	780,855	4,392	1,550
Other foreign currencies	410	1,350	277	676	578
Loans in foreign currencies	**28,815**	**3,223,861**	**812,883**	**3,931,768**	**2,562**
Share of total loans	**0.3%**	**41.4%**	**21.1%**	**58.5%**	**17.1%**

Credit portfolio – Banks

The banks asset class mainly contains banks and securities firms. The internal rating model for banks was revised in 2015. Both internal and external data were used and the same statistical methods that were applied to develop the successful rating models for corporate customers were used. The revised internal rating model for banks was approved by the ECB in October 2016 and has been used in all risk management processes since November 2016.

The structure of the revised rating model for banks is based on the procedure used by external rating agencies. The rating is arrived at in three steps:

1. Viability rating

Quantitative factors (statement of financial position ratios), qualitative factors and the financial sector risk are combined to create a viability rating using a statistically developed risk function. The viability rating represents the risk assessment without considering support from an owner and/or by a government.

Quantitative factors	Qualitative factors	Risk in the financial sector
▪ Profitability ▪ Quality of assets ▪ Liquidity ▪ Development of the statement of financial position ▪ Income structure	▪ Market position ▪ Quality of assets ▪ Funding & liquidity ▪ Capitalization ▪ Profitability ▪ Outlook	Risk in the financial sector is assessed in a separate module based on macroeconomic indicators. The main focus is on the assessment of risk liability and the stability of the economic environment in which the bank operates.

2. Final rating

The final rating includes the potential support from an owner and/or by a government. An assessment is made as to whether the owner or government would support the bank in question in the event of financial difficulties and whether it would be able to support it. Based on this assessment and a strict algorithm, the viability rating is improved and a final rating is determined.

3. Country ceiling

A country ceiling is used in order to take the transfer risk of international transactions into account. The default probability applied for the bank must be at least as high as the default probability of the relevant country.

The revised rating model for banks permits better differentiation of risk and offers improved forecasting quality.

At the end of 2013, a 25-step master scale was introduced in conjunction with the rating models for corporate customers. This master scale comprises nine principal grades with up to three sub-grades A, B or C, i.e. 1C, 2A, 2B, 2C, 3A,..., 9A, 9B, 9C. Each grade is linked to a fixed PD band which represents the risk associated with the respective grade. The same 25-step master scale (i.e. both the same designations for the rating grades and also the same PD bands) is also used for the revised rating model for banks. This offers the advantage that in future, risk ratings of corporate customers can be directly compared with ratings for banks. This will make it possible to improve the management of the portfolio and significantly simplify reporting.

The following table shows the credit exposure for banks in the nine principal grades of the new master scale:

in € thousand		2016	Share
1	Minimal risk	2,520,990	13.5%
2	Excellent credit standing	2,918,689	15.7%
3	Very good credit standing	9,934,631	53.3%
4	Good credit standing	1,391,396	7.5%
5	Sound credit standing	1,041,572	5.6%
6	Acceptable credit standing	218,373	1.2%
7	Marginal credit standing	186,097	1.0%
8	Weak credit standing / sub-standard	245,432	1.3%
9	Very weak credit standing / doubtful	77,456	0.4%
10	Default	83,767	0.4%
NR	Not rated	9,141	0.0%
Total		**18,627,544**	**100.0%**

The following table shows the credit exposure for banks based on the previously used rating scale:

in € thousand		2015	Share
A1	Excellent credit standing	0	0.0%
A2	Very good credit standing	1,853,562	10.9%
A3	Good credit standing	1,802,532	10.6%
B1	Sound credit standing	9,294,803	54.7%
B2	Average credit standing	1,115,254	6.6%
B3	Mediocre credit standing	1,033,347	6.1%
B4	Weak credit standing	1,320,815	7.8%
B5	Very weak credit standing	277,171	1.6%
C	Doubtful/high default risk	158,099	0.9%
D	Default	137,493	0.8%
NR	Not rated	3,459	0.0%
Total		**16,996,536**	**100.0%**

Due to the change in the internal rating model for banks, it is not possible to make a direct comparison with the previous year 2015.

The following table provides a breakdown of the total credit exposure by country of risk grouped into regions:

in € thousand	2016	Share	2015	Share
Western Europe	8,640,033	46.4%	7,359,597	43.3%
Austria	4,617,079	24.8%	5,600,117	32.9%
Asia	1,128,700	6.1%	1,232,447	7.3%
Eastern Europe	1,793,563	9.6%	1,003,535	5.9%
Central Europe	794,418	4.3%	557,041	3.3%
Southeastern Europe	140,297	0.8%	109,638	0.6%
Other	1,513,453	8.1%	1,134,160	6.7%
Total	**18,627,544**	**100.0%**	**16,996,536**	**100.0%**

The total credit exposure to banks amounted to € 18,627,544 thousand (2015: € 16,996,536 thousand) at year-end 2016. The largest increase of € 1,280,436 thousand was recorded by Western Europe, mainly due to an increase in repo transactions. The rise of € 790,028 thousand in Eastern Europe also resulted from an increase in repo transactions. Central Europe recorded growth of € 237,377 thousand due to an increase in the bond portfolio and in facility financing and repo transactions. The increase in the overall credit portfolio was, however, partly offset by a decrease in Austria. This was mainly due to a reduction in short-term money market business.

Time deposits, securities lending business, potential future exposures from derivatives, sight deposits, and bonds are the main product categories in this asset class. These exposures therefore have high collateralization grades (e.g. in securities lending business or through netting agreements) depending on the type of product.

The Group continues to reduce the unsecured credit exposure in this asset class according to its strategy. New business in this asset class thus mainly stems from counterparty credit exposure from derivatives and short-term money market deposits. Credit business with other banks in the Austrian Raiffeisen Banking Group which are participating in a joint risk monitoring system is not restricted.

The table below shows the total credit exposure to banks (excluding central banks) by products:

in € thousand	2016	Share	2015	Share
Loans	5,071,334	27.2%	4,728,489	27.8%
Derivatives	3,801,657	20.4%	3,885,666	22.9%
Repo	3,754,785	20.2%	1,157,084	6.8%
Bonds	2,585,038	13.9%	2,895,266	17.0%
Money market	2,067,598	11.1%	3,067,019	18.0%
Other	1,347,133	7.2%	1,263,013	7.4%
Total	**18,627,544**	**100.0%**	**16,996,537**	**100.0%**

Credit exposure – Sovereigns

Another asset class is formed by central governments, central banks, and regional municipalities as well as other public sector entities. The table below provides a breakdown of the credit exposure to sovereigns (including central banks) by internal rating. Since defaults in this asset class are historically very rare, default probabilities are estimated using full data sets provided by external rating agencies.

in € thousand		2016	Share	2015	Share
A1	Excellent credit standing	1,918,575	7.7%	8,322,919	28.4%
A2	Very good credit standing	2,805,251	11.3%	891,918	3.0%
A3	Good credit standing	5,950,211	23.9%	4,564,252	15.6%
B1	Sound credit standing	3,825,660	15.3%	4,206,332	14.4%
B2	Average credit standing	2,690,331	10.8%	3,117,402	10.6%
B3	Mediocre credit standing	4,627,223	18.6%	2,636,501	9.0%
B4	Weak credit standing	1,563,842	6.3%	4,178,438	14.3%
B5	Very weak credit standing	837,488	3.4%	720,668	2.5%
C	Doubtful/high default risk	711,850	2.9%	618,117	2.1%
D	Default	1,669	0.0%	3,305	0.0%
NR	Not rated	1,134	0.0%	34,439	0.1%
Total		**24,933,234**	**100.0%**	**29,294,291**	**100.0%**

The credit exposure to sovereigns amounted to € 24,933,234 thousand (2015: € 29,294,291 thousand) at year-end 2016. It accounted for 17.0 per cent (2015: 19.4 per cent) of the total credit exposure.

The rating grade excellent credit standing (rating A1) showed a decrease of € 6,404,344 thousand. This mainly resulted from the decrease in deposits at the Austrian National Bank. As a result of the internal rating downgrade of the Republic of Austria, the remaining deposits at year-end 2016 were classified in the rating grade A2 very good credit standing which showed an increase of € 1,912,333 thousand.

The medium rating grades good credit standing (rating A3) to mediocre credit standing (rating B3) represented the highest share at 68.6 per cent (2015: 49.6 per cent). The high exposure in the medium rating grades resulted amongst other factors from bonds of central banks and central governments. The medium rating grades also reflected minimum reserves and money market transactions. The rating grade A3 good credit standing showed an increase due to money market business in the Czech Republic, which was however partly offset by a reduction in the bond portfolio in Slovakia and the Czech Republic. The change in rating grade B3 mediocre credit standing and B4 weak credit standing was on the one hand due to a rating upgrade of Hungary and on the other due to the decline in deposits at the Hungarian National Bank.

The table below shows the total credit exposure to sovereigns (including central banks) by products:

in € thousand	2016	Share	2015	Share
Bonds	13,190,659	52.9%	14,448,094	49.3%
Loans	11,217,626	45.0%	14,089,281	48.1%
Derivatives	487,999	2.0%	718,848	2.5%
Other	36,950	0.1%	38,068	0.1%
Total	**24,933,234**	**100.0%**	**29,294,291**	**100.0%**

The table below shows the credit exposure to sovereigns in non-investment grade (rating B3 and below):

in € thousand	2016	Share	2015	Share
Hungary	2,120,403	27.4%	2,624,900	32.0%
Croatia	1,047,445	13.5%	994,753	12.1%
Bulgaria	853,896	11.0%	942,536	11.5%
Albania	792,225	10.2%	856,583	10.5%
Russia	555,157	7.2%	604,315	7.4%
Serbia	500,992	6.5%	503,747	6.1%
Ukraine	494,194	6.4%	396,901	4.8%
Bosnia and Herzegovina	491,937	6.4%	477,723	5.8%
Belarus	188,830	2.4%	210,800	2.6%
Vietnam	163,728	2.1%	160,226	2.0%
Other	534,400	6.9%	418,987	5.1%
Total	**7,743,206**	**100.0%**	**8,191,468**	**100.0%**

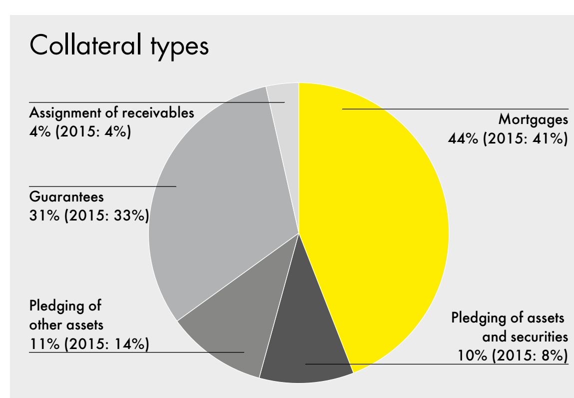
Compared to year-end 2015, the credit exposure to sovereigns in non-investment grade decreased € 448,262 thousand to € 7,743,206 thousand. This decrease resulted primarily from a reduction in short-term money market business. The increase in Other was largely due to an increase in facility financing in Ghana.

The credit exposure mainly resulted from deposits of Group units with the local central banks in Central and Southeastern Europe. They are used for meeting the respective minimum reserve requirements and for managing the short-term investment of excess liquidity, and are therefore inextricably linked to the business activities in these countries.

Credit risk mitigation

Collateralization is one of the main strategies and an actively pursued measure for reducing potential credit risks. The value of collateral and the effect of other risk mitigation techniques are determined within each limit application. The risk mitigation effect taken into account is the value that the Group expects to receive when selling the collateral within a reasonable liquidation period. Eligible collaterals are defined in the Group's collateral catalog and corresponding evaluation guidelines for collateral. The collateral value is calculated according to specified methods which include standardized calculation formulas based on market values, predefined discounts, and expert assessments.

Collateral is divided into pledges (e.g. guarantees) and physical collateral. In the Group liens on residential or commercial properties are the main types of collateral used.



Loans and advances to banks and customers net of allocated loan loss provisions (net exposure), the additional exposure off the statement of financial position (contingent liabilities, commitments, and revocable credit lines), and the market prices (fair value) of collateral pledged in favor of the Group are shown in the following table:

2016 in € thousand	Maximum credit exposure Net exposure	 Commitments/guarantees issued	Fair value of collateral
Banks	9,849,646	3,501,577	2,925,107
Sovereigns	654,478	758,490	420,141
Corporate customers – large corporates	38,746,308	27,215,300	23,049,198
Corporate customers – mid market	2,384,031	1,086,902	1,772,718
Retail customers – private individuals	21,877,636	3,464,393	13,069,419
Retail customers – small and medium-sized entities	1,946,897	508,747	1,312,405
Total	**75,458,996**	**36,535,409**	**42,548,987**

2015 in € thousand	Maximum credit exposure Net exposure	 Commitments/guarantees issued	Fair value of collateral
Banks	10,717,293	1,982,693	1,932,954
Sovereigns	809,033	436,169	421,672
Corporate customers – large corporates	37,906,937	28,329,257	25,366,407
Corporate customers – mid market	2,497,289	1,041,942	2,082,505
Retail customers – private individuals	20,294,767	2,858,860	12,408,275
Retail customers – small and medium-sized entities	2,478,120	495,495	1,843,926
Total	**74,703,439**	**35,144,417**	**44,055,739**

Problem loan management

The credit portfolio and individual borrowers are subject to ongoing monitoring. The main purpose of monitoring is to ensure that the borrower meets the terms and conditions of the contract, as well as following the obligor's economic development. Such a review is conducted at least once annually in the non-retail asset classes corporates, banks, and sovereigns. This includes a rating review and the re-evaluation 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 in individual Group units make decisions on problematic exposures. If the need for intensified treatment and workout is identified, then problem loans are assigned either to a designated specialist or to a restructuring unit (workout department). Employees of the workout units are specially trained and have extensive experience. They typically handle medium-sized to large cases and are assisted by in-house legal departments or by external specialists as well. Workout units play a decisive role in accounting and analyzing as well as booking provisions for impairment losses (write-downs, value adjustments or provisioning). Their early involvement can help reduce losses resulting from problem loans.

Problem loan management standards in the retail area comprise the whole restructuring and collection process for private individuals and small and medium-sized entities. A restructuring guideline defines the Group's restructuring framework including uniform strategy, organization, methods, monitoring and controlling. In the workout process customers are classified into three categories "early," "late," and "recovery," for which a standardized customer handling process is defined.

The assessment of the expected recovery value is heavily influenced by the number of days payments are late. The following table shows the amount of overdue – not impaired – loans and advances to banks and customers for different time bands.

2016 in € thousand	Current	Overdue Up to 30 days	31 days, up to 90 days	91 days, up to 180 days	181 days, up to 1 year	More than 1 year	Collateral received for assets which are past due
Banks	9,848,761	638	2	0	0	4	0
Sovereigns	651,117	736	368	1,400	1	2	0
Corporate customers – large corporates	36,634,944	681,648	125,729	4,577	8,763	8,972	444,282
Corporate customers – mid market	2,283,084	30,688	8,613	2,047	2,173	4,783	34,070
Retail customers – private individuals	20,144,167	1,270,439	240,309	18,311	12,065	21,285	554,240
Retail customers – small and medium-sized entities	1,750,505	75,877	27,883	3,785	1,327	4,756	61,032
Total	**71,312,579**	**2,060,026**	**402,903**	**30,121**	**24,330**	**39,801**	**1,093,624**

2015 in € thousand	Current	Overdue Up to 30 days	31 days, up to 90 days	91 days, up to 180 days	181 days, up to 1 year	More than 1 year	Collateral received for assets which are past due
Banks	10,716,548	0	1	0	0	3	0
Sovereigns	767,530	39,022	46	0	1	17	1,682
Corporate customers – large corporates	35,237,668	755,943	60,644	13,381	43,044	16,969	588,469
Corporate customers – mid market	2,322,891	62,904	13,325	3,243	1,867	5,481	70,091
Retail customers – private individuals	18,199,971	1,421,837	297,556	101,251	19,170	27,843	697,654
Retail customers – small and medium-sized entities	2,102,777	215,296	44,729	8,927	2,822	3,727	213,588
Total	**69,347,384**	**2,495,002**	**416,300**	**126,803**	**66,904**	**54,041**	**1,571,484**

Non-performing exposure (NPE)

This section refers exclusively to exposures without grounds for default pursuant to Article 178 CRR. In the corporate business, when loan terms or conditions are altered in favor of the customer, the Group distinguishes between modified loans and forborne loans according to the applicable definition of the EBA document "Implementing Technical Standard (ITS) on Supervisory Reporting (Forbearance and non-performing exposures)".

The critical aspect in deciding whether a loan is forborne in the non-retail business is the financial situation of a customer at the time the terms or loan conditions are altered. If based on the customer's creditworthiness (taking the internal early warning system into account) it can be assumed, at the point when the loan terms or conditions are altered, that the customer is in financial difficulties and if the modification is assessed as a concession, such loans are designated as forborne. If such a modification for a loan previously considered as non-performing is carried out, then the loan is assessed as non-performing exposure (NPE) irrespective of whether a reason for default pursuant to Article 178 CRR exists. The decision on whether a loan is classified as forborne/NPE does not trigger an individual loan loss provision in respect of the customer; this is based on the default definition of CRD IV/CRR.

In the retail business, restructured loans are subject to an observation period of at least three months in order to ensure that the customer meets the re-negotiated terms. For retail portfolios which are subject to PD/LGD calculation (Probability of Default/Loss Given Default) of portfolio-based loan loss provisions, it is necessary to avoid artificial improvement of the PD estimates for the non-performing restructured exposure. This is achieved either by, despite the restructuring, continuing to use those variables based on the days past due (DPD) before restructuring, which are foreseen for overdue payments prior to restructuring, for the duration of the observation period or by using a separate calibration for the partial volume of restructured loans. In exceptional cases, if neither of the aforementioned methods is technically possible, the PD of the next worse rating grade is used for the duration of the observation period. For retail portfolios where the amount of the portfolio-based loan loss provision is determined based on product portfolios and/or delinquencies, whether or not the loan was more than 180 days overdue prior to the renegotiation is taken into account. In those cases where the customer concerned meets the re-negotiated terms and the credit exposure was not overdue for 180 days before the re-negotiation, the credit exposure is transferred from the portfolio under observation to the living portfolio. Those credit exposures already overdue for more than 180 days prior to the re-negotiation or where the customers did not meet the re-negotiated terms remain in the portfolio which is fully impaired.

The following table shows the non-performing exposure according to segments:

in € thousand	2016	Share	2015	Share
Central Europe	76,556	27%	56,706	15%
Southeastern Europe	99,713	35%	118,883	31%
Eastern Europe	14,063	5%	67,729	18%
Group Corporates	42,313	15%	87,150	23%
Group Markets	0	0%	0	0%
Corporate Center	0	0%	0	0%
Non-Core	51,159	18%	52,594	14%
Total	**283,803**	**100%**	**383,061**	**100%**
hereof non-banks	283,803	100%	383,061	100%

The following table shows the non-performing exposure according to asset classes:

	Refinancing		Instruments with modified time and modified conditions		NPE total	
in € thousand	2016	2015	2016	2015	2016	2015
Corporate customers	11,897	15,357	72,252	159,044	84,150	174,402
Retail customers	23,768	28,933	175,885	179,726	199,654	208,659
Total	**35,666**	**44,291**	**248,138**	**338,771**	**283,803**	**383,061**

Non-performing loans (NPL) and provisioning

According to Article 178 CRR, a default and thus a non-performing loan (NPL) applies if it can be assumed that a customer is unlikely to fulfill all of its credit obligations to the bank, or if the debtor is overdue at least 90 days on any material credit obligation to the bank. For non-retail customers, the Group has defined twelve indicators which are used to identify a default event. For example, a default event applies if a customer is involved in insolvency or similar proceedings, if it has been necessary to apply an impairment or direct write-down of a customer loan, if credit risk management has judged a customer loan to be not wholly recoverable or if the workout unit is considering a restructuring.

Within the Group, a Group-wide default database is used for collecting and documenting customer defaults. The database also tracks the reasons for defaults, which enables the calculation and validation of default probabilities.

Provisions for impairment losses are formed on the basis of Group-wide standards according to IFRS accounting principles and cover all identifiable credit risks. In the non-retail business, problem loan committees from each Group unit decide on allocating individual loan loss provisions. In the retail area, provisioning is determined by retail risk management departments in the individual Group units. They compute the required loan loss provisions according to defined calculation methods on a monthly basis. The provisioning amount is then approved by local accounting departments.

The following tables show the development of non-performing loans in the defined asset classes loans and advances to customers and loans and advances to banks (excluding items off the statement of financial position):

in € thousand	As at 1/1/2016	Change in consolidated group/ Exchange differences	Additions	Disposals	As at 31/12/2016
Corporate customers	6,051,344	13,655	1,206,100	(2,913,678)	4,357,420
Retail customers	2,273,515	39,334	506,077	(692,408)	2,126,518
Sovereigns	3,305	(1,395)	271	(513)	1,669
Total non-banks	**8,328,164**	**51,595**	**1,712,448**	**(3,606,600)**	**6,485,607**
Banks	127,496	1,337	2,268	(53,824)	77,277
Total	**8,455,659**	**52,931**	**1,714,716**	**(3,660,423)**	**6,562,884**

in € thousand	As at 1/1/2015 restated	Change in consolidated group/ Exchange differences	Additions	Disposals	As at 31/12/2015
Corporate customers	6,264,985	109,313	1,463,302	(1,786,257)	6,051,344
Retail customers	2,610,770	102,651	515,840	(955,747)	2,273,515
Sovereigns	229	22	3,305	(251)	3,305
Total non-banks	**8,875,984**	**211,987**	**1,982,447**	**(2,742,255)**	**8,328,164**
Banks	129,909	4,837	0	(7,250)	127,496
Total	**9,005,894**	**216,824**	**1,982,447**	**(2,749,505)**	**8,455,659**

The following table shows the share of non-performing loans (NPL) 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):

	NPL		NPL ratio		NPL coverage ratio	
in € thousand	2016	2015	2016	2015	2016	2015
Corporate customers	4,357,420	6,051,344	9.3%	12.5%	71.5%	68.1%
Retail customers	2,126,518	2,273,515	8.3%	9.2%	82.2%	80.0%
Sovereigns	1,669	3,305	0.6%	0.8%	283.8%	129.8%
Total non-banks	**6,485,607**	**8,328,164**	**9.2%**	**11.9%**	**75.6%**	**71.3%**
Banks	77,277	127,496	0.5%	0.7%	65.4%	94.1%
Total	**6,562,884**	**8,455,659**	**8.2%**	**10.5%**	**75.5%**	**71.6%**

The volume of non-performing loans to non-banks fell € 1,842,557 thousand, in particular due to the sale of non-performing loans with a nominal value of € 1,186,945 thousand and the derecognition of uncollectible loans. The NPL ratio based on loans to non-banks declined 2.7 percentage points to 9.2 per cent.

In 2016, in the asset class corporate customers, non-performing loans decreased € 1,693,923 thousand to € 4,357,420 thousand (2015: € 6,051,344 thousand), mainly due to the derecognition of uncollectible loans in the amount of € 938,618 thousand. The ratio of non-performing loans to credit exposure fell 3.2 percentage points to 9.3 per cent. The NPL coverage ratio increased 3.4 percentage points to 71.5 per cent. In the retail portfolio, non-performing loans sank 6.5 per cent, or € 146,997 thousand, to € 2,126,518 thousand (2015: € 2,273,515 thousand). The ratio of non-performing loans to credit exposure decreased 0.9 percentage points to 8.3 per cent; the NPL coverage ratio increased 2.2 percentage points to 82.2 per cent. The portfolio of non-performing loans to banks decreased € 50,219 thousand to € 77,277 thousand at year-end and the NPL coverage ratio decreased 28.7 percentage points to 65.4 per cent.

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) according to segments:

	NPL		NPL ratio		NPL coverage ratio	
in € thousand	2016	2015	2016	2015	2016	2015
Central Europe	1,078,207	1,331,017	5.0%	6.4%	71.0%	75.3%
Southeastern Europe	1,421,322	1,587,178	9.9%	10.7%	79.7%	71.6%
Eastern Europe	1,576,113	1,902,359	12.0%	15.1%	85.9%	86.4%
Group Corporates	688,202	1,268,433	4.5%	9.1%	65.9%	56.7%
Group Markets	130,905	415,090	1.9%	5.7%	71.9%	82.0%
Corporate Center	33,742	48,703	0.5%	0.6%	87.8%	78.9%
Non-Core	1,634,393	1,902,879	16.7%	14.1%	66.6%	62.4%
Total	**6,562,884**	**8,455,659**	**8.2%**	**10.5%**	**75.5%**	**71.6%**
hereof non-banks	6,485,607	8,328,164	9.2%	11.9%	75.6%	71.3%

The declines in non-performing loans in the segment Group Corporates were particularly significant, falling 45.7 per cent, or € 580,231 thousand, to € 688,202 thousand (2015: € 1,268,433 thousand). This was primarily caused by the sale and the derecognition of uncollectible loans. The ratio of non-performing loans to credit exposure fell 4.6 percentage points to 4.5 per cent; the NPL coverage ratio increased 9.2 percentage points to 65.9 per cent.

The segment Eastern Europe posted a decline in non-performing loans of 17.1 per cent, or € 326,245 thousand, to € 1,576,113 thousand (2015: € 1,902,359 thousand), largely due to the sale of non-performing loans in the amount of € 235,304 thousand

in Russia and € 144,527 thousand in Ukraine. The ratio of non-performing loans to credit exposure fell 3.1 percentage points to 12.0 per cent and the NPL coverage ratio fell 0.5 percentage points to 85.9 per cent.

In the segment Group Markets, non-performing loans fell 68.5 per cent, or € 284,186 thousand, to € 130,905 thousand (2015: € 415,090 thousand) due to the derecognition of uncollectible loans. The NPL ratio fell 3.8 percentage points to 1.9 per cent; the NPL coverage ratio fell 10.1 percentage points to 71.9 per cent.

In the segment Non-Core, non-performing loans decreased 14.1 per cent, or € 268,485 thousand, to € 1,634,393 thousand (2015: € 1,902,879 thousand), mainly due to the sale of Raiffeisen Banka d.d., Maribor, in Slovenia. The ratio of non-performing loans to credit exposure rose 2.6 percentage points to 16.7 per cent compared to previous year-end; the NPL coverage ratio rose 4.2 percentage points to 66.6 per cent.

In Central Europe, non-performing loans fell € 252,810 thousand to € 1,078,207 thousand (2015: € 1,331,017 thousand), mainly due to sales of non-performing loans of € 261,196 thousand in Hungary. The NPL ratio fell 1.4 percentage points to 5.0 per cent; the NPL coverage ratio fell 4.3 percentage points to 71.0 per cent.

In Southeastern Europe, non-performing loans decreased 10.4 per cent, or € 165,857 thousand, to € 1,421,322 thousand (2015: € 1,587,178 thousand). Whereas declines totaling € 190,783 thousand were recorded in Bulgaria, Croatia, Serbia and Bosnia and Herzegovina, non-performing loans increased in Albania. The NPL ratio fell 0.8 percentage points to 9.9 per cent and the NPL coverage ratio increased 8.1 percentage points to 79.7 per cent.

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 1/1/2016	Change in consolidated group	Allocation[1]	Release	Usage[2]	Transfers, exchange differences	As at 31/12/2016
Individual loan loss provisions	**5,771,958**	**(55,027)**	**1,610,483**	**(841,648)**	**(1,875,662)**	**87,307**	**4,697,411**
Banks	117,672	0	6,533	(8,489)	(42,254)	(25,162)	48,300
Corporate customers	3,915,657	(33,863)	965,288	(420,436)	(1,464,920)	72,866	3,034,591
Retail customers	1,660,539	(21,963)	556,102	(349,788)	(368,022)	40,325	1,517,193
Sovereigns	5,028	0	954	(477)	(112)	(1,044)	4,347
Off-balance sheet obligations	73,062	798	81,607	(62,456)	(353)	321	92,979
Portfolio-based loan loss provisions	**381,982**	**(5,667)**	**179,338**	**(183,778)**	**(55)**	**9,134**	**380,954**
Banks	2,245	0	1,216	(1,467)	0	71	2,065
Corporate customers	152,085	(2,590)	40,583	(79,169)	(18)	781	111,673
Retail customers	201,546	(3,128)	125,091	(94,077)	(37)	7,162	236,556
Sovereigns	365	0	153	(355)	0	243	406
Off-balance sheet obligations	25,742	51	12,294	(8,710)	0	877	30,254
Total	**6,153,940**	**(60,695)**	**1,789,821**	**(1,025,426)**	**(1,875,717)**	**96,441**	**5,078,364**

1 Allocation including direct write-downs and income on written down claims
2 Usage including direct write-downs and income on written down claims

Usage was mainly based on the sale and derecognition of uncollectible loans.

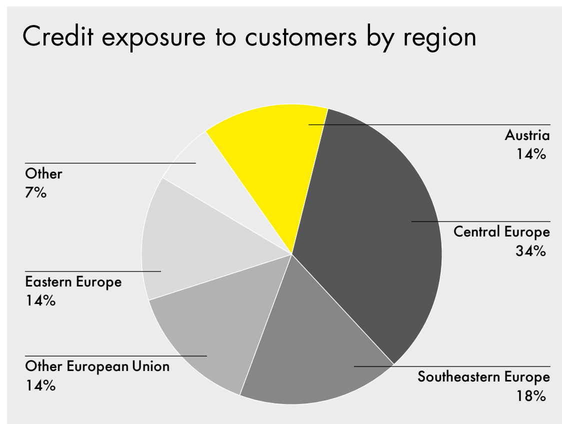
in € thousand	As at 1/1/2015 restated	Change in consolidated group	Allocation[1]	Release	Usage[2]	Transfers, exchange differences	As at 31/12/2015
Individual loan loss provisions	**5,763,004**	**6,414**	**1,962,765**	**(638,597)**	**(1,356,008)**	**34,380**	**5,771,958**
Banks	111,768	0	(6,462)	(224)	8,151	4,439	117,672
Corporate customers	3,717,206	3,191	1,282,900	(343,198)	(740,109)	(4,333)	3,915,657
Retail customers	1,865,203	798	670,721	(270,750)	(639,259)	33,827	1,660,539
Sovereigns	34	2,426	(21,049)	(88)	22,514	1,191	5,028
Off-balance sheet obligations	68,794	0	36,654	(24,336)	(7,305)	(744)	73,062
Portfolio-based loan loss provisions	**438,106**	**588**	**194,730**	**(244,421)**	**(1,120)**	**(5,901)**	**381,982**
Banks	2,853	0	1,485	(2,071)	0	(22)	2,245
Corporate customers	205,215	237	53,712	(106,118)	(225)	(736)	152,085
Retail customers	200,328	156	131,117	(123,841)	(895)	(5,320)	201,546
Sovereigns	755	35	109	(561)	0	27	365
Off-balance sheet obligations	28,954	160	8,307	(11,830)	0	150	25,742
Total	**6,201,109**	**7,003**	**2,157,495**	**(883,018)**	**(1,357,128)**	**28,479**	**6,153,940**

1 Allocation including direct write-downs and income on written down claims
2 Usage including direct write-downs and income on written down claims

The following table shows the breakdown of loan loss provisions according to segments:

in € thousand	2016	2015
Individual loan loss provisions	**4,697,411**	**5,770,893**
Central Europe	674,924	913,069
Southeastern Europe	1,029,070	1,046,997
Eastern Europe	1,283,701	1,568,170
Group Corporates	564,316	704,562
Group Markets	124,856	346,507
Corporate Center	77,881	31,728
Non-Core	942,663	1,159,860
Portfolio-based loan loss provisions	**380,953**	**383,047**
Central Europe	121,409	121,332
Southeastern Europe	121,094	92,290
Eastern Europe	76,319	76,745
Group Corporates	27,756	34,262
Group Markets	865	1,747
Corporate Center	0	2,260
Non-Core	33,510	54,411
Total	**5,078,364**	**6,153,940**

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. The Group is exposed to this risk due to its business activities in the Central and Eastern European markets. In these markets political and economic risks to some extent are still seen as comparatively significant.

Active country risk management in the Group 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 order to avoid risk concentrations. Consequently, in day-to-day work, business units have to submit limit applications for the respective countries for all cross-border transactions in addition to complying with customer limits. The limit size for individual countries is set by using a model which takes into account the internal rating for the sovereign, the size of the country, and the Group's own capitalization.

Country risk also is reflected via the internal funds transfer pricing system in product pricing and in risk-adjusted performance measurement. Business units therefore can benefit from country risk mitigation 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 for limiting the total cross-border exposure, but also for limiting the total credit exposure in each individual country (i.e. including the exposure that is funded by local deposits). Thereby the Group realigns its business activities according to the expected macroeconomic development within different markets and enhances the broad diversification of its credit portfolio.

Concentration risk

The credit portfolio of the Group is well diversified in terms of geographical region and industry. Single name concentrations are also actively managed (based on the concept of groups of connected customers) by limits and regular reporting. As a consequence portfolio granularity is high.

As part of the strategic realignment the limit structures related to concentration risk for each customer segment were reviewed.

The regional breakdown of the loans reflects the broad diversification of credit business in the Group's markets. The following table shows the distribution of the total credit exposure by the borrower's home country grouped by regions:

in € thousand	2016	Share	2015[1]	Share
Austria	**19,936,393**	**13.6%**	**26,730,656**	**17.7%**
Central Europe	**50,177,300**	**34.2%**	**51,179,153**	**33.9%**
Czech Republic	15,047,461	10.3%	12,368,270	8.2%
Slovakia	14,137,525	9.6%	13,856,339	9.2%
Poland	14,083,249	9.6%	16,374,737	10.8%
Hungary	6,471,385	4.4%	7,555,475	5.0%
Other	437,680	0.3%	1,024,332	0.7%
Other European Union	**21,138,955**	**14.4%**	**19,046,765**	**12.6%**
Germany	6,354,099	4.3%	6,089,890	4.0%
Great Britain	5,274,700	3.6%	4,535,558	3.0%
France	3,085,908	2.1%	2,169,294	1.4%
Netherlands	1,827,995	1.2%	1,743,832	1.2%
Italy	883,322	0.6%	1,101,715	0.7%
Spain	594,955	0.4%	795,341	0.5%
Other	3,117,977	2.1%	2,611,135	1.7%
Southeastern Europe	**25,658,526**	**17.5%**	**24,498,105**	**16.2%**
Romania	9,451,710	6.4%	8,902,051	5.9%
Croatia	5,090,754	3.5%	5,011,250	3.3%
Bulgaria	3,998,317	2.7%	3,906,302	2.6%
Serbia	2,467,276	1.7%	1,953,486	1.3%
Bosnia and Herzegovina	2,076,891	1.4%	2,123,730	1.4%
Albania	1,830,351	1.2%	1,912,134	1.3%
Other	743,226	0.5%	689,152	0.5%
Asia	**3,499,318**	**2.4%**	**5,282,122**	**3.5%**
China	935,664	0.6%	1,779,591	1.2%
Other	2,563,654	1.7%	3,502,531	2.3%
Eastern Europe	**19,813,764**	**13.5%**	**18,017,018**	**11.9%**
Russia	14,262,288	9.7%	12,522,070	8.3%
Ukraine	3,379,948	2.3%	3,546,669	2.3%
Belarus	1,635,031	1.1%	1,470,571	1.0%
Other	536,498	0.4%	477,707	0.3%
North America	**3,051,440**	**2.1%**	**3,058,359**	**2.0%**
Switzerland	**2,192,707**	**1.5%**	**1,931,252**	**1.3%**
Rest of World	**1,104,747**	**0.8%**	**1,225,415**	**0.8%**
Total	**146,573,149**	**100.0%**	**150,968,845**	**100.0%**

1 Adaptation of previous year figures

At € 6,794,262 thousand, the largest decline, in Austria, was attributable to the reduction in deposits at the Austrian National Bank and in Austrian government bonds. Overall, Central Europe showed a fall of € 1,001,853 thousand, with the decline in Poland due to the sale of Raiffeisen-Leasing-Polska S.A., Warsaw, offset by new business in Slovakia and in the Czech Republic and by the purchase of a loan portfolio in the Czech Republic. As a result of the decision, taken within the framework of the transformation program, to downscale operations, Asia showed a fall of € 1,782,804 thousand.

Risk policies and credit assessments in the Group take into account the industry class of customers as well. Banking represents the largest industry class. The second largest class is private households, primarily consisting of loans and advances to retail customers in Central and Southeastern European countries.

The following table shows the total credit exposure of the Group by the customers' industry classification:

in € thousand	2016	Share	2015	Share
Banking and insurance	39,182,850	26.7%	42,631,642	28.2%
Private households	26,589,450	18.1%	24,836,803	16.5%
Wholesale trade and commission trade (except car trading)	11,976,256	8.2%	13,014,461	8.6%
Public administration and defence and social insurance institutions	11,844,457	8.1%	11,774,484	7.8%
Other manufacturing	11,425,672	7.8%	11,532,103	7.6%
Real estate activities	8,385,798	5.7%	8,687,946	5.8%
Construction	5,551,211	3.8%	5,759,567	3.8%
Other business activities	4,437,567	3.0%	4,369,722	2.9%
Retail trade except repair of motor vehicles	3,674,826	2.5%	3,671,634	2.4%
Electricity, gas, steam and hot water supply	3,055,623	2.1%	3,740,070	2.5%
Manufacture of basic metals	2,182,536	1.5%	2,249,574	1.5%
Manufacture of food products and beverages	1,833,599	1.3%	1,968,692	1.3%
Other transport	1,904,549	1.3%	2,117,036	1.4%
Land transport, transport via pipelines	1,895,778	1.3%	1,929,462	1.3%
Manufacture of machinery and equipment	1,694,385	1.2%	1,661,274	1.1%
Sale of motor vehicles	915,539	0.6%	1,098,668	0.7%
Extraction of crude petroleum and natural gas	776,215	0.5%	686,746	0.5%
Other industries	9,246,836	6.3%	9,238,962	6.1%
Total	**146,573,149**	**100%**	**150,968,845**	**100%**

Structured credit portfolio

The Group invests in structured products. The total exposure to structured products is shown under (35) Securitization. Around 55 per cent of this portfolio (2015: 67 per cent) is rated A or better by external rating agencies. The pools mainly contain loans and advances to European customers.

Counterparty credit risk

The default of a counterparty in a derivative, repurchase, securities lending or borrowing transaction can lead to losses from re-establishing an equivalent contract. In the Group this risk is measured by the mark-to-market approach where a predefined add-on is added to the current positive fair value of the contract in order to account for potential future changes. For internal management purposes potential price changes, which affect the fair value of an instrument, are calculated specifically for different contract types based on historical market price changes.

For derivative contracts the standard limit approval process applies, where the same risk classification, limitation, and monitoring process is used as for traditional lending. In doing so, the weighted nominal exposure of derivative contracts is added to the customers' total exposure in the limit application and monitoring process as well as in the calculation and allocation of internal capital.

An important strategy for reducing counterparty credit risk is utilization of credit risk mitigation techniques such as netting agreements and collateralization. In general, the Group strives to establish standardized ISDA master agreements with all major counterparties for derivative transactions in order to be able to perform close-out netting and credit support annexes (CSA) for full risk coverage for positive fair values on a daily basis.

Market risk

The Group defines market risk as the risk of possible losses arising from changes in market prices of trading and investment positions. Market risk estimates are based on changes in exchange rates, interest rates, credit spreads, equity and commodity prices, and other market parameters (e.g. implied volatilities).

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

Organization of market risk management

All market risks are measured, monitored, and managed on Group level.

The Market Risk Committee is responsible for strategic market risk management issues. It is responsible for managing and controlling all market risks in the Group. The Group'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 the strategy, business model and risk appetite.

The Market Risk Management department ensures that the business volume and product range comply with the defined strategy of the Group. It is responsible for implementing and enhancing risk management processes, risk management infrastructure and systems, manuals and measurement techniques for all market risk categories and credit risks arising from market price changes in derivative transactions. Furthermore this department independently measures and reports 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 completing the product approval process successfully. 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

The Group uses a comprehensive risk management approach for both the trading and banking book (total-return approach). Market risks are managed therefore 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, risk horizon one day)
  Value-at-risk is the main market risk steering instrument in liquid markets and normal market situations. VaR is measured based on a hybrid simulation approach, where 5,000 scenarios are calculated. The approach combines the advantages of a historical simulation and a Monte-Carlo simulation and derives market parameters from 500 days historical data. Distribution assumptions include modern features like volatility declustering and random time change. This helps in reproducing fat-tailed and asymmetric distributions accurately. The Austrian Financial Market Authority approved this model so that it can be used for calculating total capital requirements for market risks. Value-at-risk results are not only used for limiting risk but also in the economic capital allocation.
- Sensitivities (to changes in exchange rates and interest rates, gamma, vega, equity and commodity prices)
  Sensitivity limits are to ensure that concentrations are avoided in normal market situations and are the main steering instrument under extreme market situations and in illiquid markets or in markets that are structurally difficult to measure.
- Stop loss
  This limit strengthens the discipline of traders such that they do not allow losses to accumulate on their own proprietary positions 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 results on market risk concentrations shown by these stress tests are reported to the Market Risk Committee and taken into account when setting limits. Stress test reports for individual portfolios are included in daily market risk reporting.

Value-at-Risk (VaR)

The following tables show the VaR (99 per cent, one day) for individual market risk categories of the trading and banking book. The Group's VaR mainly results from structural equity positions, structural interest rate risks, and credit spread risks of bonds, which are held as liquidity buffer.

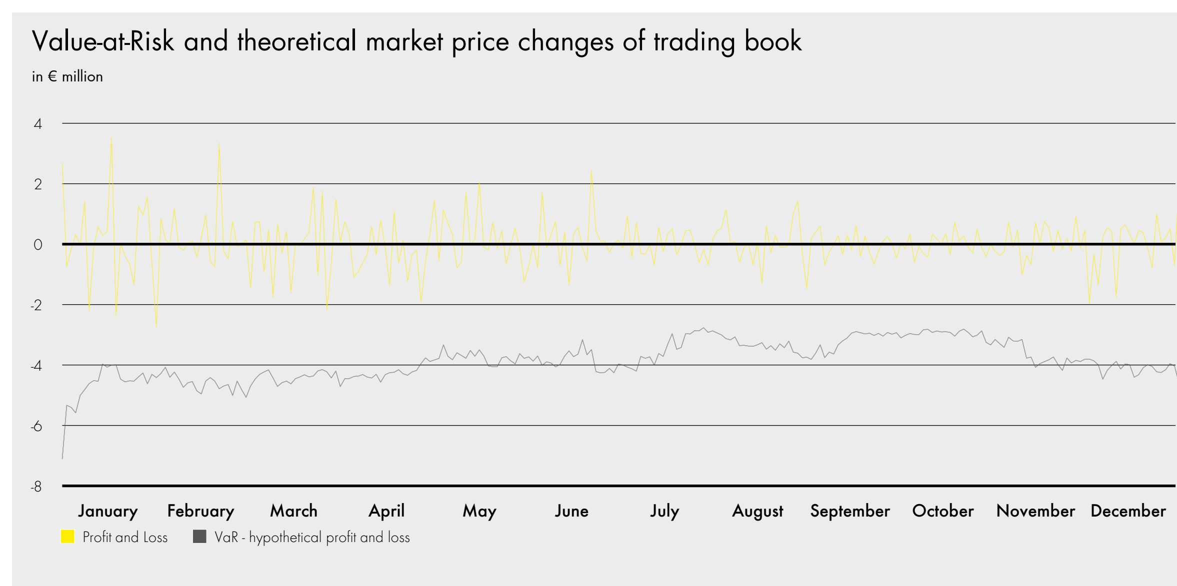
Trading book VaR 99% 1d in € thousand	VaR as at 31/12/2016	Average VaR	Minimum VaR	Maximum VaR	VaR as at 31/12/2015
Currency risk	3,506	2,984	1,778	5,980	2,386
Interest rate risk	3,522	2,400	1,258	4,461	1,534
Credit spread risk	692	2,119	496	6,375	3,869
Share price risk	909	724	474	951	676
Vega risk	255	482	121	1,333	779
Total	5,012	5,553	3,350	9,720	9,164

Banking book VaR 99% 1d in € thousand	VaR as at 31/12/2016	Average VaR	Minimum VaR	Maximum VaR	VaR as at 31/12/2015
Currency risk	23,525	26,328	17,128	42,811	28,191
Interest rate risk	15,260	7,842	4,317	15,367	5,094
Credit spread risk	7,316	9,011	5,940	13,427	14,537
Vega risk	1,082	2,162	632	5,240	522
Total	34,406	34,492	25,287	47,468	30,728

Total VaR 99% 1d in € thousand	VaR as at 31/12/2016	Average VaR	Minimum VaR	Maximum VaR	VaR as at 31/12/2015
Currency risk	23,683	25,182	16,616	38,973	28,914
Interest rate risk	15,827	9,505	5,435	17,059	5,834
Credit spread risk	7,576	10,325	6,345	16,114	16,915
Share price risk	909	724	474	951	676
Vega risk	1,009	1,973	670	4,699	814
Total	35,723	35,964	27,314	48,039	33,075

The risk measurement approaches employed are verified – besides analyzing returns qualitatively – on an ongoing basis through backtesting and statistical validation techniques. If model weaknesses are identified, then they are improved accordingly.

In the previous year, no backtesting exceedings arose. The following graph compares the VaR to the theoretical gains and losses on a daily basis. The VaR represents the maximum loss which will not be exceeded within one day, with a confidence level of 99 per cent. It is compared to the respective theoretical gain or loss which would arise on the following day due to the actual market conditions at the time.



Exchange rate risk and capital (ratio) hedge

Market risk in the Group results primarily from exchange rate risk, which stems from foreign-currency denominated equity investments in foreign Group units and the corresponding hedging positions entered into by the Group Asset/Liability Committee. In a narrow sense, exchange rate risk denotes the risk that losses are incurred due to open foreign exchange positions. However, exchange rate fluctuations also influence current revenues and expenses. They also affect regulatory capital requirements for assets denominated in foreign currencies, even if they are financed in the same currency and thus do not create an open foreign exchange position.

The Group holds material equity participations located outside of the euro area with equity denominated in the corresponding local currency. Also, a significant share of risk-weighted assets in the Group is denominated in foreign currencies. Changes in foreign exchange rates thus lead to changes in the consolidated capital of the Group and to changes in the total capital requirement for credit risks as well.

There are two different approaches for managing exchange rate risks:

- Preserve equity: With this hedging strategy an offsetting position is held on Group level for local currency denominated equity positions. However, the necessary hedging positions cannot be established in all currencies in the required size. Moreover, these hedges might be inefficient for some currencies if they carry a high interest rate differential.
- Stable capital ratio: The goal of this hedging strategy is to balance tier 1 capital and risk-weighted assets in all currencies according to the targeted tier 1 ratio (i.e. reduce excess capital or deficits in relation to risk-weighted assets for each currency) such that the tier 1 ratio remains stable even if foreign exchange rates change.

The Group aims at stabilizing its capital ratio when managing exchange rate risks. Changes in foreign exchange rates thus lead to changes in the consolidated equity amount; however, the regulatory capital requirement for credit risks stemming from assets denominated in foreign currencies also changes correspondingly. This risk is managed on a monthly basis in the Group Asset/Liability Committee based on historical foreign exchange volatilities, exchange rate forecasts, and the sensitivity of the tier 1 ratio to changes in individual foreign exchange rates.

The following table shows all material open foreign exchange rate positions as at 31 December 2016 and the corresponding values for the previous year. The numbers include both trading positions as well as capital positions of the subsidiaries with foreign currency denominated statements of financial position.

in € thousand	2016	2015
ALL	9,238	77,775
BAM	147,906	118,140
BGN	305,709	285,101
BYN	253,524	118,937
CNY	11,637	49,720
CHF	(240,133)	(13,999)
CZK	392,781	231,610
HRK	557,109	398,544
HUF	364,272	169,923
PLN	747,365	734,114
RON	505,480	478,732
RSD	378,831	384,463
RUB	566,157	368,721
UAH	11,036	(184,372)
USD	(417,224)	501,756

The changes in the UAH and USD positions were attributable to the change in capital position and hedging strategy.

Interest rate risk in the trading book

The following tables show the largest present value changes for the trading book of the Group given a one-basis-point interest rate increase for the whole yield curve in € thousand for the reporting dates 31 December 2016 and 31 December 2015. Currencies where the total interest rate sensitivity exceeds € 1 thousand are shown separately.

2016 in € thousand	Total	< 3 m	> 3 to 6 m	> 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
ALL	(14)	0	(1)	(1)	(2)	(5)	(5)	0	0	0	0	0
CHF	(9)	0	1	(6)	(9)	1	9	(5)	(1)	(1)	1	0
CNY	5	4	1	0	0	0	0	0	0	0	0	0
CZK	26	2	1	7	(4)	0	22	(4)	3	(2)	0	0
EUR	(162)	18	8	(6)	5	(8)	(37)	(87)	37	(89)	10	(12)
HRK	(14)	0	0	(1)	(4)	(4)	(2)	(3)	0	0	0	0
HUF	36	0	(8)	4	14	9	19	0	0	(2)	0	0
NOK	1	0	1	0	0	0	0	1	0	0	0	0
PLN	(10)	(3)	4	(13)	(1)	3	5	(3)	(3)	0	0	0
RON	(24)	1	(3)	1	0	(8)	(5)	(4)	(6)	0	0	0
RUB	(5)	(6)	(7)	(12)	16	1	19	3	1	(20)	0	0
UAH	(5)	0	0	0	(3)	(1)	(1)	0	0	0	0	0
USD	(62)	(16)	12	(19)	(15)	(13)	(3)	(17)	(24)	6	15	12
Other	0	(1)	(1)	0	1	0	0	0	1	0	0	0

The presentation of currencies changed year-on-year depending on the absolute amount of interest rate sensitivity.

2015 in € thousand	Total	< 3 m	> 3 to 6 m	> 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
ALL	(21)	0	(2)	(1)	(4)	(2)	(11)	0	0	0	0	0
BGN	(4)	0	0	0	(1)	(1)	(2)	0	0	0	0	0
CHF	2	6	(2)	3	(3)	(3)	1	(4)	3	(1)	1	0
CNY	12	2	0	10	0	0	0	0	0	0	0	0
CZK	18	(1)	9	4	(9)	(3)	2	5	14	(2)	0	0
EUR	(173)	(6)	(15)	(10)	(85)	(8)	56	(40)	(88)	11	27	(15)
GBP	6	0	0	0	1	0	0	0	5	0	0	0
HRK	(12)	(1)	0	(2)	(5)	0	(3)	0	0	0	0	0
HUF	(8)	(2)	0	2	0	(2)	4	(1)	(8)	1	0	0
PLN	(4)	(4)	7	6	(4)	(1)	2	(10)	0	0	0	0
RON	(26)	1	(1)	0	0	(2)	(14)	(4)	(5)	0	0	0
RUB	(9)	(2)	(2)	0	(18)	2	(3)	1	6	6	0	0
USD	57	0	6	(49)	33	(6)	(4)	38	33	(23)	4	25
Other	1	0	0	(1)	(2)	0	1	0	1	0	1	0

Interest rate risk in the banking book

Different maturities and repricing schedules of assets and the corresponding liabilities (i.e. deposits and financing from money markets and capital markets) cause interest rate risk in the Group. 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 is material for the euro and US dollar as major currencies as well as for local currencies of Group units located in Central and Eastern Europe.

This risk is mainly hedged by a combination of transactions on and off the statement of financial position where in particular interest rate swaps and – to a smaller extent – also interest rate forwards and interest rate options are used. Management of the statement of financial position is a core task of the central Global Treasury division and of individual network banks, which are supported by the Group Asset/Liability Committee. They base their decisions on various interest income analyses and 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 not only measured within a value-at-risk framework but also managed by the traditional tools of nominal and interest rate gap analyses. Interest rate risk is subject to quarterly reporting in the context of the interest rate risk statistic submitted to the banking supervisor. This report also shows the change in the present value of the banking book as a percentage of total capital in line with the CRR requirements. Maturity assumptions needed in this analysis are defined as specified by regulatory authorities and based on internal statistics and empirical values.

The following table shows the change in the present value of the Group's banking book given a one-basis-point interest rate increase for the whole yield curve in € thousand for reporting dates 31 December 2016 and 31 December 2015. Currencies where the total interest rate sensitivity exceeds € 1 thousand are shown separately.

2016 in € thousand	Total	< 3 m	> 3 to 6 m	> 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
ALL	(38)	3	(6)	(5)	(21)	(7)	(4)	0	1	1	0	1
BGN	(11)	(2)	2	(3)	(9)	11	42	(22)	(14)	(11)	(4)	(1)
BYN	(34)	(1)	(2)	(6)	(12)	(6)	(5)	(1)	(1)	0	0	0
CHF	(242)	13	4	(1)	(4)	(4)	(5)	(22)	(60)	(109)	(48)	(7)
CNY	(4)	(2)	(2)	0	0	0	0	0	0	0	0	0
CZK	(49)	17	(11)	(5)	18	42	138	(82)	(54)	(72)	(32)	(7)
EUR	448	(45)	(17)	75	135	37	379	370	(141)	(201)	(64)	(79)
GBP	(4)	(1)	0	1	0	0	(1)	(1)	(2)	0	0	0
HRK	(29)	2	(1)	(5)	(22)	3	14	(9)	(12)	3	(1)	0
HUF	(107)	1	(13)	7	1	6	(41)	(39)	(8)	(15)	(6)	(1)
PLN	(51)	(6)	(25)	29	(1)	(4)	(7)	(6)	(11)	(12)	(6)	(1)
RON	52	(3)	0	6	33	31	(6)	(4)	(2)	(1)	0	0
RSD	(45)	(1)	(2)	3	(20)	(6)	(13)	(5)	0	0	0	0
RUB	(670)	12	(16)	(25)	(193)	(121)	(90)	(80)	(85)	(62)	(8)	(2)
SGD	1	1	0	1	0	0	0	0	0	0	0	0
UAH	(10)	1	(1)	0	(6)	10	(1)	(5)	(5)	(2)	0	0
USD	108	28	17	46	23	(1)	26	(29)	2	29	(5)	(28)
Other	1	5	(2)	(4)	(1)	(1)	0	1	3	0	0	0

The increase in the RUB interest rate sensitivities was based on two factors:

- The strategic investment position in the Russian subsidiary bank was expanded.
- The measurement method was adapted to the Group standard under which all interest rate cash flows are considered in the measurement.

The presentation of currencies changed year-on-year depending on the absolute amount of interest rate sensitivity.

2015 in € thousand	Total	< 3 m	> 3 to 6 m	> 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
ALL	(31)	2	(4)	(3)	(14)	(5)	(4)	(4)	0	0	0	0
AUD	1	0	0	1	0	0	0	0	0	0	0	0
BAM	2	2	(1)	(5)	0	0	(1)	2	3	1	0	0
BGN	26	(1)	0	(7)	(2)	8	56	(9)	(8)	(7)	(2)	0
BYN	(28)	0	(1)	(8)	(10)	(5)	(2)	(1)	(1)	0	0	0
CHF	(351)	15	(3)	(20)	(9)	(6)	(18)	(15)	(71)	(138)	(71)	(13)
CNY	2	(4)	1	5	0	0	0	0	0	0	0	0
CZK	63	(3)	(15)	15	22	3	(12)	(18)	49	14	6	2
EUR	166	(38)	(26)	92	98	(48)	(85)	266	261	(218)	(48)	(88)
GBP	(2)	1	0	2	0	0	(1)	(1)	(2)	0	0	0
HRK	(21)	0	0	0	(11)	0	13	(12)	(8)	(3)	0	0
HUF	16	1	(5)	12	(5)	(13)	2	(11)	4	22	8	1
PLN	(29)	7	24	14	(29)	0	(1)	(9)	(13)	(15)	(7)	(1)
RON	45	5	(8)	(3)	(37)	9	95	(9)	(5)	(1)	0	0
RSD	(26)	(1)	(2)	(2)	(7)	(3)	(5)	(5)	0	0	0	0
RUB	(82)	(3)	(16)	(9)	(35)	(1)	32	(12)	(25)	(12)	(1)	0
SGD	(7)	1	0	(8)	0	0	0	0	0	0	0	0
UAH	(1)	(1)	0	(1)	(3)	3	9	(4)	(4)	(1)	0	0
USD	84	17	19	43	(30)	33	(7)	6	9	8	(3)	(10)
Other	1	0	0	1	0	0	0	0	0	0	0	0

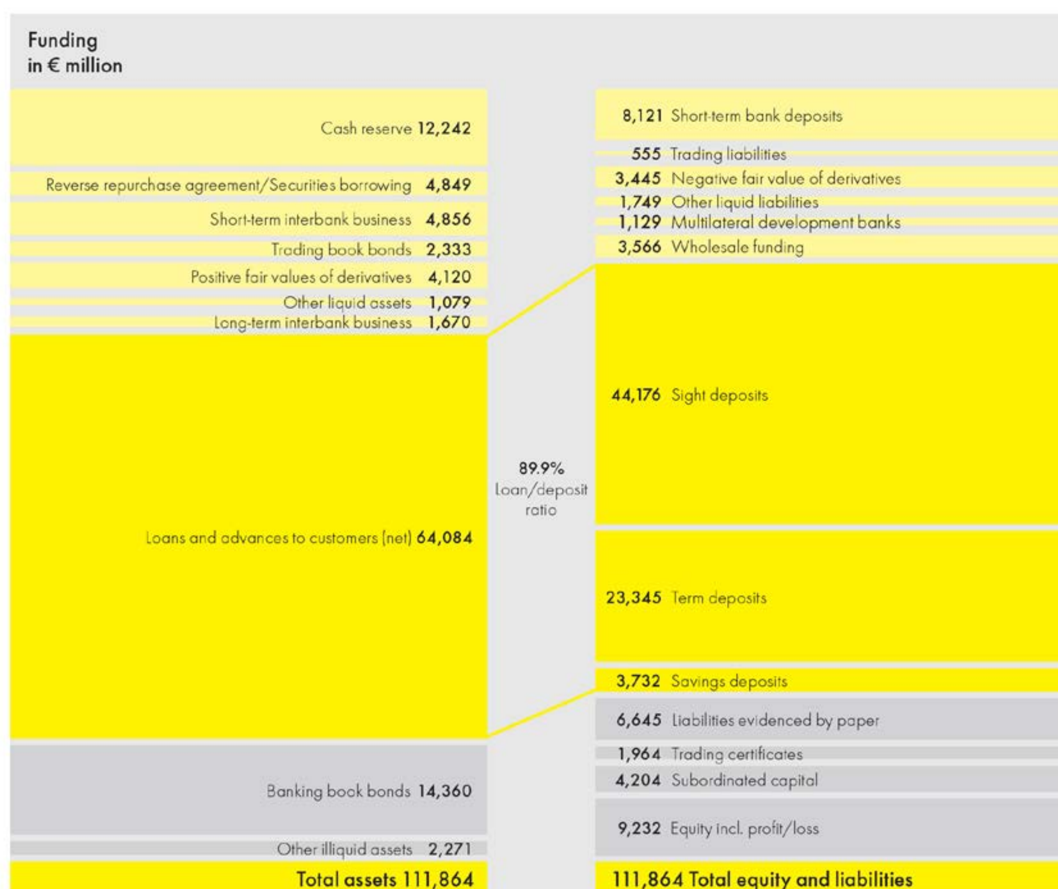
Credit spread risk

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

Liquidity management

Funding structure

The Group's funding structure is highly focused on retail business in Central and Eastern Europe. In addition, as a result of the Austrian Raiffeisen Banking Group's strong local market presence, the Group also benefits from funding through the Raiffeisen Landesbanken. Different funding sources are secured in accordance with the principle of diversification. These include the issue of international bonds by RBI AG, the issue of local bonds by the Group units and the use of third-party financing loans (including supranationals). The Group units also use interbank loans with third-party banks, partly due to tight country limits and partly due to beneficial pricing.



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 economic terms, the Group has established a governance framework comprising internal limits and control measures which complies with the Principles for Sound Liquidity Risk Management and Supervision established by the Basel Committee on Banking Supervision and the credit institutions risk management directive (KI-RMV) issued by the Austrian regulatory authority.

The regulatory component is addressed by compliance with the reporting requirements under Basel III (Liquidity Coverage Ratio, Net Stable Funding Ratio and additional liquidity monitoring metrics) and also by compliance with the regulatory limits. Also, additional liquidity and reporting requirements established by local regulatory authorities apply to some Group units.

Organization and responsibility

Responsibility for ensuring adequate levels of liquidity lies with the overall Management Board. In terms of functions, the responsible Management Board members are the Chief Financial Officer (Treasury) and the Chief Risk Officer (Risk Controlling). Consequently, the processes relating to liquidity risk are mainly carried out by two areas within the bank. Firstly, Treasury units control the liquidity risk positions within the strategy, guidelines and parameters set by decision-making bodies. Secondly, these are monitored and supported by independent Risk Controlling units. The risk units measure and model liquidity risk positions, set limits and monitor their compliance. In addition to the aforementioned line functions, all Group units have Asset/Liability Committees (ALCOs). These committees act as decision-making bodies for all matters affecting management of a unit's liquidity positions and the structure of its statement of financial position, including determining strategies and guidelines for handling liquidity risks. The ALCOs make decisions and report to the respective management boards on at least a monthly basis using standardized liquidity risk reports. At Group level, this function is assumed by the Group ALCO. The work performed by Treasury and the corresponding ALCO decisions are mainly based on Group-wide, standardized Group rules and their local supplements, which take specific regional factors into account.

Liquidity strategy

Treasury is obliged to comply with certain performance indicators and risk-based principles. The current performance indicators include 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 horizon in defined stress scenarios or diversification of the financing structure). Besides achieving a structural contribution by means of maturity transformation which reflects the liquidity and market risk assumed by the bank, Treasury must pursue a prudent and sustainable risk policy in its management of the statement of financial position. Strategic objectives include reducing the parent company's funding to the Group subsidiaries, further stabilization of the customer deposit base and ongoing compliance with regulatory requirements and with internal rules and limits.

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.

The Group 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 economic 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 the Group 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) of the Group and its individual units.

The liquidity scenarios are modelled using a Group-wide approach which considers local specifics where warranted due to factors such as the market or the legal environment or certain business characteristics; the calculation is performed at Group head office. 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 at both Group level and at the level of the individual Group units. The technical infrastructure is enhanced in numerous Group-wide projects 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 Group level and at the level of the individual units 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 Group unit must demonstrate a survival horizon of up to 90 days (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 series of customized measuring instruments and early warning indicators which provide the Management Board and executives with timely and forward-looking information. Compliance with the liquidity risk framework ensures that the bank can continue its business activities even under a high degree of pressure.

Monitoring and reporting on compliance with the limits is regular and effective, and the corresponding escalation channels are functional and used as intended. The defined limits are generally complied with in a very disciplined manner throughout the Group, and any breach by Group units is reported to the Group ALCO and escalated. In such cases, appropriate steps are undertaken in consultation with the relevant unit or contentious matters are escalated to the next highest responsible body.

Liquidity stress test

Stress tests are conducted on a daily basis for the individual Group units and for the "Liquidity Association Vienna" (comprising Raiffeisen Bank International AG, Vienna, ZUNO BANK AG, Vienna, Kathrein Privatbank Aktiengesellschaft, Vienna, RB International Finance (USA) LLC, New York, and Raiffeisen Centrobank AG, Vienna) and on a weekly basis at Group level. The tests cover three scenarios (market, reputational and combined crisis), consider the effects of the scenarios for a period of up to three 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. in the stress tests of the Group, all network units are simultaneously subject to a pronounced combined crisis for all their major products). The results of the stress tests are reported to the Chief Risk Officer and the Chief Financial Officer as well as 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 simulation assumes a lack of access to the money or capital market and simultaneous significant outflows of customer deposits. In this respect, the deposit concentration risk is considered by assigning 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 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. The Group 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 counterbalancing capacity, including the secured and unsecured funding potential and the liquidity 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 securities held as assets as part of the liquidity buffer, the central bank haircut represents an additional haircut by the central bank for each individual relevant security that may be offered as collateral.

Contingency funding plan

Under difficult 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. The emergency management process is designed so that the Group can retain a strong liquidity position even in serious crisis situations.

Liability structure and liquidity position

Group funding is founded on a strong customer deposit base supplemented by wholesale funding (mainly at Group head office and the Group units). Funding instruments are appropriately diversified and are used regularly. The ability to procure funds is precisely monitored and evaluated by the Treasury ALM units and the ALCOs.

In the past year and to date, the Group's excess liquidity was significantly above all regulatory and internal limits. The result of the internal time to wall stress test demonstrates that the Group would survive throughout the modelled stress phase of 90 days even without applying contingency measures.

The results of the going concern scenario are shown in the following table. It illustrates excess liquidity and the ratio of expected cash inflows plus counterbalancing capacity to cash outflows (liquidity ratio) for selected maturities on a cumulative basis. Based on assumptions employing expert opinions, statistical analyses and country specifics, this calculation also incorporates estimates of the stability of the customer deposit base, outflows from items off the statement of financial position and downward market movements in relation to positions which influence the liquidity counterbalancing capacity.

in € thousand		2016		2015
Maturity	1 month	1 year	1 month	1 year
Liquidity gap	21,066,192	24,517,362	19,783,414	23,430,660
Liquidity ratio	160%	131%	147%	127%

Liquidity coverage ratio (LCR)

The liquidity coverage ratio (LCR) supports the short-term resilience of banks by ensuring that they have an adequate stock of unencumbered high-quality liquid assets (HQLA) to meet potential liability run offs that might occur in a crisis, which can be converted into cash to meet liquidity needs for a minimum of 30 calendar days in a liquidity stress scenario.

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

In 2016, the regulatory minimum ratio for the LCR was 70 per cent, which will be raised to 100 per cent by 2018.

in € thousand	2016	2015
Average liquid assets	**12,976,791**	**17,898,255**
Net outflows	**7,071,013**	**9,901,948**
Inflows	11,185,616	10,394,364
Outflows	18,256,629	20,296,311
Liquidity Coverage Ratio	**184%**	**181%**

In 2016 the LCR rose slightly year-on-year, firstly as a result of the implementation of the objectives under the transformation program and secondly as a result of the strategy of maintaining a higher liquidity position during the Group's planned restructuring. The HQLA portfolio was reduced by replacing ECB facilities with repos. Net outflows fell due to lower deposits from banks, unscheduled higher customer deposits and unscheduled reduced granting of loans.

Net Stable Funding Ratio (NSFR)

The NSFR is defined as the ratio of available stable funding to required stable funding. This ratio should continuously be at least 100 per cent, although no regulatory limit has been set. Available stable funding is defined as the 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 commitments off the statement of financial position.

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

in € thousand	2016
Required stable funding	73,729,744
Available stable funding	86,230,087
Net Stable Funding Ratio	**117%**

The NSFR is not shown for year-end 2015 due to limited comparability.

Funding liquidity risk

Funding liquidity risk is mainly driven by changes in the risk strategy of lenders or by a deterioration in the creditworthiness of a bank that needs external funding. Funding rates and supply rise and fall with credit spreads, which change due to the market- or bank-specific situation.

As a consequence, long-term funding depends on restoring confidence in banks and increased efforts in collecting customer deposits. RBI AG's banking activities are financed by combining wholesale funding and the retail franchise of deposit-taking subsidiary banks. It is the central liquidity balancing agent for the local Group units in Central and Eastern Europe.

In the Group's funding plans, special attention is paid to a diversified structure of funding to mitigate funding liquidity risk. In the Group, funds are not only raised by RBI AG as the Group's parent institution, but also individually by different banking subsidiaries. Those efforts are coordinated and optimized through a joint funding plan. Moreover, RBI AG arranges medium-term and long-term funding for its subsidiaries through syndicated loans, bilateral funding agreements with banks, and financing facilities provided by supranational institutions. These funding sources are based on long-term business relationships.

For managing and limiting liquidity risks, the targets for loan/deposit ratios (the ratio of customer loans to customer deposits) in the individual subsidiary banks take into account the planned future business volumes as well as the feasibility of increasing customer deposits in different countries. On the one hand, this initiative reduces external funding requirements. On the other hand, it also reduces the need for internal funding operations and the risk associated with such liquidity transfers.

The following table shows a breakdown of cash flows according to the contractual maturity of financial liabilities:

2016 in € thousand	Carrying amount	Contractual cash flows	Up to 3 months	More than 3 months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Non-derivative liabilities	**98,488,181**	**105,586,892**	**70,187,335**	**13,106,947**	**15,869,512**	**6,423,093**
Deposits from banks	12,816,475	16,405,878	6,505,140	2,575,320	5,124,414	2,201,003
Deposits from customers	71,538,226	73,358,262	60,881,071	7,758,164	3,532,505	1,186,522
Debt securities issued	6,645,127	7,167,793	979,807	2,410,159	3,061,778	716,049
Other liabilities	3,284,660	3,702,007	1,786,696	227,750	1,311,615	375,943
Subordinated capital	4,203,693	4,952,952	34,621	135,554	2,839,200	1,943,576
Derivatives	**3,387,282**	**8,109,383**	**4,123,582**	**1,700,682**	**1,717,117**	**568,004**
Derivatives in the trading book	2,600,333	6,292,952	3,157,018	1,533,305	1,139,389	463,241
Hedging derivatives	425,415	272,198	15,711	29,287	222,309	4,891
Other derivatives	361,534	1,544,233	950,853	138,090	355,419	99,872
Credit derivatives	0	0	0	0	0	0
Contingent liabilities	**9,055,448**	**1,558,439**	**856,711**	**424,683**	**239,507**	**37,538**
Credit guarantees	5,397,891	288,391	82,608	65,511	103,361	36,911
Other guarantees	2,626,370	199,050	85,802	68,599	44,022	627
Letters of credit (documentary business)	993,936	1,033,747	651,050	290,573	92,124	0
Other contingent liabilities	37,251	37,251	37,251	0	0	0
Commitments	**10,174,261**	**10,615,520**	**4,701,813**	**1,074,241**	**4,426,760**	**412,706**
Irrevocable credit lines	10,174,261	10,615,520	4,701,813	1,074,241	4,426,760	412,706

2015 in € thousand	Carrying amount	Contractual cash flows	Up to 3 months	More than 3 months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Non-derivative liabilities	**100,184,302**	**107,569,572**	**70,296,120**	**14,584,917**	**17,454,182**	**5,234,353**
Deposits from banks	16,369,175	21,105,519	10,315,690	3,402,338	5,848,589	1,538,902
Deposits from customers	68,990,887	70,689,215	57,806,203	9,483,172	3,066,938	332,902
Debt securities issued	7,501,593	8,502,892	794,522	1,425,090	5,615,737	667,543
Other liabilities	3,158,294	2,141,903	1,349,992	125,481	493,571	172,858
Subordinated capital	4,164,353	5,130,043	29,713	148,836	2,429,347	2,522,148
Derivatives	**4,927,492**	**10,705,247**	**3,658,348**	**2,100,882**	**3,292,865**	**1,653,151**
Derivatives in the trading book	3,943,192	8,706,683	3,020,170	1,805,114	2,321,286	1,560,113
Hedging derivatives	434,791	261,216	29,385	13,782	243,506	(25,457)
Other derivatives	549,355	1,737,142	608,725	281,848	728,073	118,495
Credit derivatives	154	206	68	138	0	0
Contingent liabilities	**9,386,509**	**1,082,964**	**573,621**	**306,735**	**163,070**	**39,538**
Credit guarantees	4,954,980	164,257	70,380	70,545	21,413	1,919
Other guarantees	2,985,994	203,408	99,820	68,501	34,466	621
Letters of credit (documentary business)	1,237,908	676,857	401,977	167,689	107,191	0
Other contingent liabilities	207,627	38,442	1,444	0	0	36,998
Commitments	**9,980,036**	**9,525,946**	**4,826,324**	**1,331,788**	**3,108,622**	**259,211**
Irrevocable credit lines	9,980,036	9,525,946	4,826,324	1,331,788	3,108,622	259,211

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, conduct-related losses, modelling errors, execution and process errors, or business disruption and system failures are managed. External factors such as damage to physical assets or fraud are managed and controlled as well.

This risk category is analyzed and managed based on own historical loss data and the results of risk assessments.

As with other risk types the principle of firewalling of risk management and risk controlling is also applied to operational risk in the Group. To this end, individuals are designated and trained as Operational Risk Managers for each business area. 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 partners (Operational Risk Managers).

Risk identification

Identifying and evaluating risks that might endanger the Group's existence (but the occurrence of which is highly improbable) and areas where losses are more likely to arise more frequently (but have only limited impact) are important aspects of operational risk management.

Operational risk assessment is executed in a structured and Group-wide uniform manner according to risk categories such as business processes and event types. Moreover, risk assessment applies to new products as well. All Group units grade the impact of high probability/low impact events and low probability/high impact incidents according to their estimation of the loss potential for the next year and in the next ten years. Low probability/high impact events are quantified by a Group-wide analytical tool (scenarios). The internal risk profile, losses arising and external changes determine which cases are dealt with in detail.

Monitoring

In order to monitor operational risks, early warning indicators are used that allow prompt identification and minimization of losses.

Loss data is collected in a central database called ORCA (Operational Risk Controlling Application) in a structured manner and on a Group-wide basis according to the event type and the business line. In addition to the requirements for internal and external reporting, information on loss events is exchanged with international data pools to further develop operational risk management tools as well as to track measures and control effectiveness. Since 2010, The Group has been a participant in the ORX data pool (Operational Risk Data Exchange Association), whose data are 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 as well as events resulting from operational risks are reported in a comprehensive manner to the relevant Operational Risk Management Committee on a regular basis.

Quantification and mitigation

Since October 2016, the Group has calculated the equity requirement for a significant part of the Group using the Advanced Measurement Approach (AMA). This includes units in Bulgaria, Romania, Russia, Slovakia and principal banks in Austria (Raiffeisen Bank International AG, Vienna, Kathrein Privatbank Aktiengesellschaft, Vienna, Raiffeisen Centrobank AG, Vienna). The Standardized Approach (STA) is still used to calculate the operational risk of the remaining units in the CRR scope of consolidation.

Operational risk reduction is initiated by business managers who decide on preventive actions like risk mitigation or risk transfer. Progress and success of these actions is monitored by risk controlling. The former also define contingency plans and nominate responsible persons or departments for initiating the defined actions if losses in fact occur. In addition, several dedicated organizational units provide support to business units for reducing 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. The Group also conducts an extensive staff training program and has different contingency plans and backup systems in place.

Other disclosures

(43) Fiduciary business

Fiduciary business not recognized in the statement of financial position was concluded with the following volumes on the reporting date:

in € thousand	2016	2015
Loans and advances to banks	0	11,168
Loans and advances to customers	249,078	274,912
Financial investments	7,091	7,091
Other fiduciary assets	68,651	52,860
Fiduciary assets	**324,821**	**346,031**
Deposits from banks	136,611	148,028
Deposits from customers	112,467	143,252
Other fiduciary liabilities	75,742	54,751
Fiduciary liabilities	**324,821**	**346,031**

Fiduciary income and expenses break down as follows:

in € thousand	2016	2015
Fiduciary income	15,083	13,248
Fiduciary expenses	(53)	(352)

The following table contains the funds managed by the Group:

in € thousand	2016	2015
Retail investment funds	**5,265,851**	**4,860,389**
Equity-based and balanced funds	4,279,473	3,813,056
Bond-based funds	719,722	751,719
Other	266,656	295,614
Special funds	**0**	**61,207**
Property-based funds	**244,036**	**242,143**
Total	**5,509,887**	**5,163,739**

(44) Finance leases

in € thousand	2016	2015
Gross investment value	**2,039,604**	**3,519,290**
Minimum lease payments	1,998,311	3,479,369
Up to 3 months	205,087	375,659
More than 3 months, up to 1 year	433,267	858,544
More than 1 year,up to 5 years	1,130,489	1,929,385
More than 5 years	229,467	315,782
Non-guaranteed residual value	41,293	39,921
Unearned finance income	**205,850**	**361,405**
Up to 3 months	27,548	47,433
More than 3 months, up to 1 year	52,189	95,063
More than 1 year,up to 5 years	104,064	181,878
More than 5 years	22,049	37,031
Net investment value	**1,833,754**	**3,157,885**

The reduction in the net investment value in finance leases is mainly attributable to the sale of the leasing company in Poland. Write-offs on unrecoverable minimum lease payments also fell, to € 9,633 thousand (2015: € 65,618 thousand).

Assets under finance leases break down as follows:

in € thousand	2016	2015
Vehicles leasing	929,756	1,869,112
Real estate leasing	367,469	694,080
Equipment leasing	536,529	594,693
Total	**1,833,754**	**3,157,885**

(45) Operating leases

Operating leases from view of lessor

Future minimum lease payments under non-cancelable operating leases are as follows:

in € thousand	2016	2015
Up to 1 year	31,285	35,552
More than 1 year, up to 5 years	51,568	65,200
More than 5 years	694	1,991
Total	**83,547**	**102,743**

Operating leases from view of lessee

Future minimum lease payments under non-cancelable operating leases are as follows:

in € thousand	2016	2015
Up to 1 year	62,876	77,938
More than 1 year, up to 5 years	125,060	149,314
More than 5 years	30,962	36,687
Total	**218,898**	**263,938**

(46) Other disclosures according to BWG

Geographical markets

2016 Monetary values in € thousand	Operating income	hereof net interest income	Profit/loss before tax	Current income taxes	Employees as at reporting date
Central Europe	**1,016,411**	**629,441**	**354,356**	**(63,524)**	**9,051**
Czech Republic	380,460	247,177	136,234	(26,920)	3,158
Hungary	209,896	106,635	52,453	139	1,983
Slovakia	426,552	274,774	165,670	(36,743)	3,910
Southeastern Europe	**1,202,953**	**738,218**	**362,627**	**(61,919)**	**14,831**
Albania	77,872	55,632	(32,250)	(289)	1,291
Bosnia and Herzegovina	106,407	67,007	34,777	(5,640)	1,268
Bulgaria	156,359	111,909	77,896	(7,390)	2,569
Croatia	224,427	126,379	77,910	(18,711)	2,128
Kosovo	48,786	37,577	19,826	(2,371)	731
Romania	462,719	259,239	125,492	(21,036)	5,322
Serbia	126,434	80,434	58,976	(6,483)	1,522
Eastern Europe	**1,314,919**	**866,320**	**649,271**	**(125,685)**	**17,827**
Belarus	184,894	127,918	95,135	(22,837)	2,005
Kazakhstan	396	468	113	(65)	7
Russia	869,097	566,773	404,235	(87,795)	7,742
Ukraine	260,532	171,071	149,788	(14,989)	8,073
Non-Core	**479,564**	**330,777**	**(203,041)**	**(40,609)**	**4,573**
Asia	28,256	37,484	(198,027)	(1,040)	108
Poland	413,509	262,473	46,710	(40,794)	4,242
Slovenia	9,069	3,495	1,114	(475)	16
USA	17,597	14,071	(36,671)	1,708	32
ZUNO	11,134	13,253	(16,168)	(8)	175
Head office and other	**1,180,436**	**736,454**	**152,888**	**(20,245)**	**2,274**
Reconciliation	**(502,061)**	**(365,781)**	**(430,504)**	**(0)**	**0**
Total	**4,692,222**	**2,935,429**	**885,598**	**(311,982)**	**48,556**

2015 Monetary values in € thousand	Operating income	hereof net interest income	Profit/loss before tax	Current income taxes	Employees as at reporting date
Central Europe	**1,048,134**	**654,409**	**309,943**	**(65,813)**	**8,623**
Czech Republic	362,680	234,950	127,100	(25,251)	2,753
Hungary	220,112	120,892	18,765	(539)	2,016
Slovakia	465,516	298,189	164,078	(40,023)	3,854
Southeastern Europe	**1,213,972**	**780,220**	**260,174**	**(32,686)**	**15,041**
Albania	90,430	69,880	14,872	(2,428)	1,349
Bosnia and Herzegovina	103,914	66,066	36,346	(4,169)	1,311
Bulgaria	158,217	116,144	34,275	(3,410)	2,546
Croatia	232,475	135,882	(14,028)	2,746	2,133
Kosovo	49,434	39,675	21,703	(2,278)	715
Romania	446,533	263,938	118,935	(18,933)	5,437
Serbia	133,352	88,637	48,072	(4,214)	1,550
Eastern Europe	**1,360,673**	**948,557**	**549,515**	**(127,589)**	**19,369**
Belarus	256,348	124,975	156,759	(38,185)	2,086
Kazakhstan	2,985	863	406	185	9
Russia	923,451	646,666	483,751	(96,331)	7,635
Ukraine	177,889	175,810	(91,401)	6,742	9,639
Non-Core	**576,677**	**384,908**	**(262,817)**	**(23,541)**	**5,797**
Asia	82,227	84,425	(269,316)	(6,669)	197
Poland	428,604	253,299	41,632	(16,209)	5,128
Slovenia	22,401	10,601	(14,722)	(15)	218
USA	31,915	25,476	(3,163)	(639)	56
ZUNO	11,605	11,107	(17,248)	(8)	198
Head office and other	**1,295,837**	**798,423**	**(49,068)**	**(19,592)**	**2,662**
Reconciliation	**(566,543)**	**(239,868)**	**(96,801)**	**(6,733)**	**0**
Total	**4,928,751**	**3,326,649**	**710,945**	**(275,954)**	**51,492**

Foreign assets/liabilities

Assets and liabilities with counterparties outside Austria are as follows:

in € thousand	2016	2015
Assets	86,906,325	81,049,678
Liabilities	71,456,232	71,856,759

Volume of the securities trading book

in € thousand	2016	2015
Securities, equity investments	4,771,172	5,806,872
Other financial instruments	146,269,000	152,826,437
Total	**151,040,172**	**158,633,308**

Securities admitted for trading on a stock exchange

in € thousand	2016		2015	
	listed	unlisted	listed	unlisted
Bonds, notes and other fixed-interest securities	9,897,188	276,540	11,397,602	452,546
Shares and other variable-yield securities	155,634	56,628	240,433	79,771
Equity participations	31,939	247,035	1,544	271,789
Total	**10,084,762**	**580,204**	**11,639,579**	**804,107**

Subordinated assets

in € thousand	2016	2015
Loans and advances to banks	1,803	4,139
Loans and advances to customers	178,873	252,219
Trading assets	15,226	13,694
Financial investments	59,429	102,919
Total	**255,331**	**372,971**

(47) Capital management and total capital according to CCR/CRD IV and Austrian Banking Act (BWG)

Capital management

Capital continues to be an integral part of the Group's control procedures. RBI as an international Group takes various control parameters into consideration. From a regulatory perspective, the RBI Group is supervised on a subgroup level according to Article 11 paragraph 5 CRR (Capital Requirement Regulation) based on the FMA (Austrian Financial Market Authority) notification from 24 October 2014, and is the superordinated credit institution for the subgroup in terms of Section 30 Austrian Banking Act (BWG). Moreover, the Group has to adhere to the legal capital regulations on an individual basis and is additionally part of the RZB credit institution group.

Regulatory values are defined on an individual and subgroup basis by the BWG and the applicable regulation of the European Parliament (CRR) based on corresponding EU guidelines. There are also – often deviating with regard to content – guidelines in individual countries in which the Group operates. Control on a Group level is undertaken by the Planning & Finance department, while compliance with the local capital requirements of the individual Group units is primarily the responsibility of the units themselves in coordination with the respective central departments.

For internal management purposes, targets which take account of a management buffer in addition to the regulatory requirements are defined for the Group. The main focus is on the regulatory (minimum) capital ratios and the economic capital within the framework of ICAAP (Internal Capital Adequacy Assessment Process, a quantitative method used to assess the adequacy of internal capital). Moreover, the optimal mixture of capital instruments (e.g. additional tier 1 capital and tier 2 capital) plays an important role and is continuously analyzed and optimized. Risk taking capacity is calculated within the framework of regulatory limits. It is defined as the maximum loss which the bank or the banking group may incur during the next twelve months without falling short of the regulatory minimum capital ratios.

The determination of the target values in relation to the compulsory minimum requirements necessitates additional internal control calculations. The Risk Controlling department calculates the value-at-risk in relation to the above defined risk taking capacity. Moreover, a comparison between economic capital and internal capital is drawn. Further details regarding this calculation are contained in the risk report.

In 2016, RBI continued to implement the planned measures aimed at stengthening the capital ratios, resulting in a steady and significant improvement.

Regulatory capital

RBI calculates the regulatory total capital and total capital requirement according to CRR. The implementation of these requirements in the European Union was carried out by way of a regulation (CRR) and a directive (CRD IV).

Moreover, based on the SSM (Single Supervisory Mechanism) regulation, the European Central Bank (ECB) took over supervision of large banks in the euro area in November 2014, whose total assets exceed € 30 billion or 20 per cent of a country's economic output. Both RBI and RZB are defined as large banks. Based on an annually undertaken Supervisory Review and Evaluation Process (SREP), the ECB instructs RBI and also RZB by way of an official notification to hold additional capital to cover risks which are not, or not adequately, considered under pillar I. A draft proposal from the Basel Committee to tighten up the definition of the basis for the calculation of risk-weighted assets is currently in preparation.

T

he so-called SREP requirement represents an add-on to the minimum requirements of the CRR and CRD IV and the Austrian Banking Act (BWG). Moreover, additional buffer requirements must be complied with. These are divided into the capital conservation buffer (up to 2.5 per cent), a systemic risk buffer (up to 5 per cent) determined by national supervisors as well as additional capital add-ons for systemic banks (up to 3.5 per cent). In the event that systemic risk buffers as well as add-ons for systemic banks are determined for a banking institution, only the higher of the two values is applicable. In September 2015, the responsible financial market stability committee of the FMA recommended the requirement of a systemic risk buffer for twelve large banks located in Austria, including RBI and RZB. This recommendation came into force as of the beginning of 2016 through the FMA. The systemic risk buffer was set at 0.25 per cent for RBI and RZB as of 1 January 2016 and progressively increases to 2 per cent by 2019. Moreover, a countercyclical buffer, can be implemented by member states in order to curb excessive lending growth. This countercyclical buffer was initially set at 0 per cent for Austria due to restrained lending growth and the stable macroeconomic environment. Within the framework of the Supervisory Review and Revaluation Process ECB implicitly sets CET 1 ratio to 8.5 per cent (SREP requirement), including capital conservation and systemic risk buffer.

A breach of the combined buffer requirement would lead to restrictions, for example, on dividend distributions and coupon payments for certain capital instruments. The capital requirements in force over the year, including a sufficient buffer, were met on a partially consolidated basis (Group level).

Further expected regulatory changes and developments are monitored, and included and analyzed in scenario calculations undertaken by Planning & Finance jointly with RZB's Group Regulatory & Transformation Office on an ongoing basis. Potential effects are taken into account in planning and governance, insofar as the extent and implementation are foreseeable.

Calculation of total capital

The determination of eligible total capital – including 2016 profit – in accordance with the applicable regulations is based on international accounting standards. Further details can be found in the regulatory disclosure report pursuant to Article 431 ff CRR.

The total capital broke down as follows:

in € thousand	2016	2015
Paid-in capital	5,886,199	5,885,624
Earned capital	2,584,942	1,750,292
Non-controlling interests	445,249	398,562
Common equity tier 1 (before deductions)	**8,916,390**	**8,034,479**
Deduction intangible fixed assets/goodwill	(520,436)	(326,273)
Deduction provision shortage for IRB positions	(33,511)	(19,753)
Deduction securitizations	(20,693)	(14,184)
Deduction deferred tax assets	0	0
Deduction loss carry forwards	(2,388)	(2,963)
Deduction insurance and other investments	0	0
Common equity tier 1 (after deductions)	**8,339,362**	**7,671,305**
Additional tier 1	90,475	308,876
Non-controlling interests	(1,374)	464
Deduction intangible fixed assets/goodwill	(77,930)	(294,526)
Deduction provision shortage for IRB positions	(11,170)	(14,815)
Deduction securitizations	0	0
Deduction insurance and other investments	0	0
Tier 1	**8,339,362**	**7,671,305**
Long-term subordinated capital	3,046,665	3,159,832
Non-controlling interests	(8,530)	(3,641)
Provision excess of internal rating approach positions	159,437	159,674
Provision excess of standardized approach positions	0	0
Deduction securitizations	0	0
Deduction insurance and other investments	0	0
Tier 2 (after deductions)	**3,197,573**	**3,315,864**
Total capital	**11,536,935**	**10,987,169**
Total capital requirement	**4,804,852**	**5,061,931**
Common equity tier 1 ratio (transitional)	13.9%	12.1%
Common equity tier 1 ratio (fully loaded)	13.6%	11.5%
Tier 1 ratio (transitional)	13.9%	12.1%
Tier 1 ratio (fully loaded)	13.6%	11.5%
Total capital ratio (transitional)	19.2%	17.4%
Total capital ratio (fully loaded)	18.9%	16.8%

The basis for the assessment of credit risk by asset class was as follows:

in € thousand	2016	2015
Risk-weighted assets according to standardized approach	**20,025,409**	**21,884,143**
Central governments and central banks	1,924,568	2,208,732
Regional governments	60,256	48,813
Public administration and non-profit organizations	12,330	6,673
Multilateral development banks	0	0
Banks	293,052	301,932
Corporate customers	7,908,946	8,905,615
Retail customers	7,240,705	7,447,821
Equity exposures	397,460	406,792
Covered bonds	0	0
Mutual funds	4,180	6,681
Securitization position	0	0
Other positions	2,183,912	2,551,083
Risk-weighted assets according to internal rating approach	**28,434,587**	**29,081,410**
Central governments and central banks	243,971	311,112
Banks	1,995,047	2,094,780
Corporate customers	21,454,083	22,143,058
Retail customers	4,389,683	4,140,911
Equity exposures	122,681	132,753
Securitization position	229,122	258,795
CVA risk	**381,249**	**405,734**
Basel 1 floor	**0**	**87,359**
Risk-weighted assets (credit risk)	**48,841,245**	**51,458,646**
Total capital requirement (credit risk)	**3,907,300**	**4,116,692**

The total capital requirement composition was as follows:

in € thousand	2016	2015
Total capital requirement for credit risk	3,907,300	4,116,692
Internal rating approach	2,274,767	2,326,513
Standardized approach	1,602,033	1,750,731
CVA risk	30,500	32,459
Basel 1 floor	0	6,989
Total capital requirement for position risk in bonds, equities, commodities and open currency positions	214,060	240,924
Total capital requirement for operational risk	683,492	704,161
Total capital requirement	**4,804,852**	**5,061,777**
Risk-weighted assets (total RWA)	**60,060,645**	**63,272,218**

Leverage ratio

Within the framework of CRR and in addition to the total capital requirements the leverage ratio was implemented as a new instrument to limit the risk of excessive indebtedness. According to Article 429 CRR, the leverage ratio is the ratio of capital to the leverage exposure. This means tier 1 capital in relation to unweighted exposure on and off the statement of financial position. The Basel Committee set a minimum ratio of 3 per cent. After a test period in which the credit institutions are required to publish the figures, and possible modification of the minimum ratio, the leverage ratio is set to become effective as of 1 January 2018.

in € thousand	2016	2015
Leverage exposure	122,842,860	136,163,097
Tier 1	8,339,362	7,671,305
Leverage ratio (transitional)	6.8%	5.6%
Leverage ratio (fully loaded)	6.6%	5.4%

The increase of 1.2 percentage points in the leverage ratio (transitional and fully loaded) compared to the previous year is attributable to the increase in tier 1 capital and a reduced total risk position – largely due to the changed classification of off-balance sheet transactions under Annex I of the CRR and the lower credit conversion factors (CCF) that were applied as a result.

The following table provides an overview of the calculation methods that are applied to determine total capital requirements in the subsidiaries:

Unit	Credit risk Non-Retail	Retail	Market risk	Operational risk
Raiffeisen Bank International AG, Vienna (AT)	IRB	n.a.	Internal model	AMA
RBI Finance (USA) LLC, New York (USA)	IRB	n.a.	STA	STA
Raiffeisenbank a.s., Prague (CZ)	IRB	IRB	STA	STA
Raiffeisen Bank Zrt., Budapest (HU)	IRB	IRB	STA	STA
Tatra banka a.s., Bratislava (SK)	IRB	IRB	STA	AMA
Raiffeisen Bank S.A., Bucharest (RO)	IRB	IRB	STA	AMA
Raiffeisenbank Austria d.d., Zagreb (HR)	IRB	STA	STA	STA
Raiffeisenbank Russia d.d., Moscow (RU)	IRB	STA	STA	AMA
Raiffeisenbank (Bulgaria) EAD, Sofia (BG)	IRB	IRB	STA	AMA
Raiffeisen Centrobank AG, Vienna (AT)	STA	n.a.	STA	AMA
Kathrein Privatbank Aktiengesellschaft, Vienna(AT)	STA	STA	n.a.	AMA
All other units	STA	STA	STA	STA

IRB: internal ratings-based approach
Internal model for risk of open currency positions and general interest rate risk in the trading book
STA: standardized approach
AMA: advanced measurement approach

(48) Average number of staff

Full-time equivalents	2016	2015
Salaried employees	49,443	53,156
Wage earners	743	936
Total	**50,186**	**54,092**

Full-time equivalents	2016	2015
Austria	2,196	2,656
Foreign	47,990	51,436
Total	**50,186**	**54,092**

(49) Related parties

Companies can carry out business with related parties that may affect the entity's assets, financial and earnings position. Information about related parties refers to the highest level of consolidation, that of Raiffeisen Zentralbank Österreich Aktiengesellschaft.

The following tables show the relationships to related parties. At the end of September 2016, the previous parent company, Raiffeisen-Landesbanken-Holding GmbH, Vienna, and its wholly owned subsidiary R-Landesbanken-Beteiligung GmbH, Vienna, were merged into Raiffeisen Zentralbank Österreich Aktiengesellschaft, Vienna. Transactions with the 306 subsidiaries that are not included in the consolidated financial statements due to immateriality are reported under affiliated companies. Disclosures on RBI's transactions with key management are reported in the notes under (50) Relations to key management.

2016 in € thousand	Parent companies	Affiliated companies	Companies valued at equity	Other interests
Loans and advances to banks	686,183	65,270	353,103	46,245
Loans and advances to customers	0	658,659	36,990	132,788
Trading assets	0	42,408	14	1,908
Financial investments	0	198,019	0	88,150
Investments in associates	0	0	0	0
Other assets (incl. derivatives)	59,501	13,764	47	822
Total receivables	**745,684**	**978,120**	**390,154**	**269,913**
Deposits from banks	332,683	296,608	2,592,458	75,425
Deposits from customers	0	553,641	401,928	89,433
Debt securities issued	0	1,355	0	0
Provisions for liabilities and charges	0	53	0	0
Trading liabilities	0	65,492	5,920	0
Other liabilities including derivatives	1,145	2,231	1,499	452
Subordinated capital	68,205	0	0	0
Total liabilities	**402,033**	**919,380**	**3,001,805**	**165,310**
Guarantees given	0	148,461	138	8,012
Guarantees received	556,098	204,432	46,809	37,828

2015 in € thousand	Parent companies	Affiliated companies	Companies valued at equity	Other interests
Loans and advances to banks	2,021,342	101,678	133,795	47,919
Loans and advances to customers	0	760,423	122,468	164,082
Trading assets	0	39,582	190	1,337
Financial investments	0	178,763	0	148,261
Investments in associates	0	0	0	0
Other assets (incl. derivatives)	7,284	23,814	8	205
Total receivables	**2,028,626**	**1,104,260**	**256,461**	**361,804**
Deposits from banks	337,960	206,556	2,452,570	118,197
Deposits from customers	171	471,582	719,037	52,069
Debt securities issued	0	11,319	0	0
Provisions for liabilities and charges	0	816	0	0
Trading liabilities	0	71,619	8,329	0
Other liabilities including derivatives	5,511	3,400	0	247
Subordinated capital	66,099	2,072	0	0
Total liabilities	**409,741**	**767,364**	**3,179,936**	**170,513**
Guarantees given	0	183,761	70	0
Guarantees received	698,789	266,066	164,083	36,277

2016 in € thousand	Parent companies	Affiliated companies	Companies valued at equity	Other interests
Interest income	46,190	13,589	7,118	8,407
Interest expenses	(10,711)	(6,347)	(30,142)	(935)
Dividends income	0	24,640	0	3,661
Fee and commission income	768	38,363	7,887	5,487
Fee and commission expense	(4,344)	(1,271)	(3,904)	(3,649)

2015 in € thousand	Parent companies	Affiliated companies[1]	Companies valued at equity	Other interests
Interest income	38,296	21,403	8,910	12,354
Interest expenses	(9,776)	(13,771)	(59,224)	(1,339)
Dividends income	0	82,702	0	4,949
Fee and commission income	297	42,072	5,097	5,515
Fee and commission expense	(6,125)	(1,546)	(5,960)	(3,291)

1 Adaptation of previous year figures

(50) Relations to key management

Group relationship with key management

Key management refers to the members of the Management Board and the Supervisory Board of RBI AG and Raiffeisen Zentralbank Österreich Aktiengesellschaft, the major shareholder. Transactions between key management and RBI are as follows (respective fair values):

in € thousand	2016	2015
Sight deposits	96	861
Bonds	1,226	1,186
Shares	1,746	1,246
Time deposits	0	65
Loans	0	2
Leasing liabilities	560	578
Other liabilities	34	0

The following table shows transactions with close family members of key management of RBI:

in € thousand	2016	2015
Shares	51	3
Other loans	13	0
Time deposits	66	114
Loans	3	4

There is no compensation agreed between the company and members of the Management Board and Supervisory Board or employees in the case of a takeover bid.

Remuneration of members of the Management Board

The following table shows total remuneration of the members of the Management Board according to IAS 24.17. The expenses according to IAS 24 were recognized on an accrual basis and according to the rules of the underlying standards (IAS 19 and IFRS 2):

in € thousand	2016	2015
Short-term employee benefits	7,209	7,223
Post-employment benefits	(787)	1,065
Other long-term benefits	498	(786)
Termination benefits	0	0
Share based payments	220	421
Total	**7,140**	**7,923**

Short-term employee benefits shown in the above table contain salaries and benefits in kind and other benefits, remuneration for membership of boards in affiliated companies and those parts of the bonuses which become due in the short term. Furthermore, it also includes changes possibly arising from the difference between the bonus provision and the bonus later awarded. Post-employment benefits comprise payments to pension funds, business insurances and payments according to Retirement Plan Act (Mitarbeitervorsorgegesetz) as well as net allocations to provisions for retirement benefits and severance payments.

Other long-term benefits contains portions of the provision for bonus payments relating to deferred bonus portions in cash and retained portions payable in instruments. For the latter, valuation changes due to currency fluctuations are taken into account.

Bonus calculation is linked to the achievement of annually agreed objectives. These comprise four or five categories covering specific targets and financial targets adapted to the respective function. These are, for example, profit after tax in a particular segment, return on risk adjusted capital (RORAC), total costs, risk-weighted assets, customer-oriented and employee-oriented targets, as well as process-based, efficiency-based, and infrastructure targets, and if necessary other additional targets. The bonus level is determined by the level of consolidated profit and the cost/income ratio, where the target values to be achieved are derived from the medium-term Group ROE objective. Payment is made according to the applicable regulations of the Austrian Banking Act (BWG) implemented in the bank's internal regulations (see employee compensation plans under the section recognition and measurement principles).

Share-based payments comprises adjustments for the SIP tranches launched up to 2013 (see share-based remuneration in the notes under (32) Equity).

An amount of € 511 thousand (2015: € 509 thousand) was paid in pension benefits to former members of the Management Board and to their surviving dependants. In addition to these amounts, deferred bonus components and pro-rata payments from a matured SIP tranche totaling € 493 thousand (2015: € 420 thousand) were paid to former members of the Management Board.

Remuneration of members of the Supervisory Board

in € thousand	2016	2015
Remunerations Supervisory Board	525	550

The Annual General Meeting held on 16 June 2016 approved annual remuneration for the members of the Supervisory Board of € 550 thousand and assigned the distribution to the Supervisory Board. The members of the Supervisory Board determined the distribution by resolution on 9 May 2016 subject to approval of the Annual General Meeting held on 16 June 2016 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 2016, no contracts subject to approval within the meaning of Section 95 (5) 12 of the Austrian Stock Corporation Act (AktG) were concluded with members of the Supervisory Board.

(51) Boards

Management Board

Members of the Management Board	First assignment	End of period
Karl Sevelda, Chairman	22 September 2010[1]	With entry of merger of RZB AG into RBI AG (expected on 18 March 2017)[2]
Johann Strobl, Deputy Chairman	22 September 2010[1]	28 February 2022[3]
Klemens Breuer	16 April 2012	31 December 2020
Martin Grüll	3 January 2005	28 February 2020
Andreas Gschwenter	1 July 2015	30 June 2018
Peter Lennkh	1 October 2004	31 December 2020

1Effective as of 10 October 2010
2 As a result of the merger of RZB AG into RBI AG, Karl Sevelda will resign his mandate as member of the Management Board once the merger is effective.
3 The mandates as Management Board members of Johann Strobl and Martin Grüll will be extended once the merger of RZB AG into RBI AG is effective.

At the Supervisory Board meeting on 30 November 2016, it was decided, in connection with the merger of RZB AG with RBI AG, to appoint Johann Strobl as Chairman of the Management Board with effect as of the date of the merger, Klemens Breuer as Deputy Chairman of the Management Board, and Hannes Mösenbacher as member of the Management Board.

Supervisory Board

Members of the Supervisory Board	First assignment	End of period
Walter Rothensteiner, Chairman	11 May 2001	AGM 2017[3]
Erwin Hameseder, 1st Deputy Chairman	8 July 2010[1]	AGM 2020
Heinrich Schaller, 2nd Deputy Chairman	20 June 2012	AGM 2017
Martin Schaller, 3rd Deputy Chairman	4 June 2014	AGM 2019
Klaus Buchleitner	26 June 2013	AGM 2020
Kurt Geiger	9 June 2009	AGM 2019
Michael Höllerer	17 June 2015	With entry of merger of RZB AG into RBI AG (expected on 18 March 2017)[4]
Günther Reibersdorfer	20 June 2012	AGM 2017
Johannes Schuster	8 July 2010[1]	With entry of merger of RZB AG into RBI AG (expected on 18 March 2017)[4]
Bettina Selden	4 June 2014	AGM 2019
Rudolf Kortenhof[2]	10 October 2010	Until further notice
Martin Prater[2]	10 October 2010	31 January 2016
Peter Anzeletti-Reikl[2]	10 October 2010	Until further notice
Suanne Unger[2]	18 January 2012	Until further notice
Helge Rechberger[2]	10 October 2010	Until further notice
Natalie Egger-Grunicke[2]	18 February 2016	Until further notice

1 Effective as of 10 October 2010.
2 Delegated by the Staff Council
3 As a result of the merger between RZB AG and RBI AG, Walter Rothensteiner will resign his mandate as member of the Supervisory Board as of the end of the Annual General Meeting on 22 June 2017.
4 Michael Höllerer and Johannes Schuster will withdraw from their functions on the Supervisory Board once the merger is effective.

Committees of the Supervisory Board

	Working Committee	Audit Committee	Personnel Committee	Remuneration Committee	Risk Committee	Nomination Committee
Chairman	Walter Rothensteiner	Michael Höllerer[1]	Walter Rothensteiner	Walter Rothensteiner	Johannes Schuster[1]	Walter Rothensteiner
1st Deputy Chairman	Erwin Hameseder	Walter Rothensteiner[2]	Erwin Hameseder	Erwin Hameseder	Walter Rothensteiner[2]	Erwin Hameseder
2nd Deputy	Heinrich Schaller	Erwin Hameseder[3]	Heinrich Schaller	Heinrich Schaller	Erwin Hameseder[3]	Heinrich Schaller
3rd Deputy Chairman	Martin Schaller	Heinrich Schaller[4]	Martin Schaller	Martin Schaller	Heinrich Schaller[4]	Martin Schaller
4th Deputy Chairman	–	Martin Schaller[5]	–	–	Martin Schaller[5]	–
Member	Johannes Schuster	Johannes Schuster[6]	Johannes Schuster	Johannes Schuster	Johannes Schuster[6]	Johannes Schuster
Member	Rudolf Kortenhof	Rudolf Kortenhof	–	Rudolf Kortenhof	Rudolf Kortenhof	Rudolf Kortenhof
Member	Peter Anzeletti-Reikl	Peter Anzeletti-Reikl	–	Peter Anzeletti-Reikl	Peter Anzeletti-Reikl	Peter Anzeletti-Reikl
Member	Susanne Unger[7]	Susanne Unger[7]	–	Susanne Unger[7]	Susanne Unger[7]	Susanne Unger[7]

1 As of15 March 2016; until 15 March 2016, Walter Rothensteiner
2 As of15 March 2016; until 15 March 2016, Erwin Hameseder
3 As of15 March 2016; until 15 March 2016, Heinrich Schaller
4 As of15 March 2016; until 15 March 2016, Martin Schaller
5 As of15 March 2016
6 Until 15 March 2016,
7 As of 1 February 2016; until 31 January 2016, Martin Prater

State Commissioners:

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

(52) Group composition

Consolidated group

Number of units	Fully consolidated 2016	2015
As at beginning of period	**120**	**135**
Included for the first time in the financial period	3	15
Merged in the financial period	(1)	(2)
Excluded in the financial period	(16)	(28)
As at end of period	**106**	**120**

Of the 106 entities in the Group, 36 are domiciled in Austria (2015: 37) and 70 abroad (2015: 83). They comprise 19 banks, 50 financial institutions, 16 companies rendering bank-related ancillary services, nine financial holding companies and twelve other companies.

Included units

Name, domicile	Share	Included as of	Reason
Financial institutions			
Ados Immobilienleasing GmbH, Eschborn (DE)	75.0%	1/1	Materiality
RBI eins Leasing Holding GmbH, Vienna (AT)	75.0%	1/6	Materiality
RBI ITS Leasing-Immobilien GmbH, Vienna (AT)	75.0%	1/6	Materiality

Excluded units

Name, domicile	Share	Excluded as of	Reason
Credit institutions			
Raiffeisen Banka d.d., Maribor (SI)	99.8%	30/6	Sale
Financial institutions			
Eastern European Invest GmbH, Vienna (AT)	100.0%	1/1	Immaterial
Eastern European Invest Holding GmbH, Vienna (AT)	100.0%	1/1	Immaterial
Golden Rainbow International Limited, Tortola (VG)	100.0%	1/1	Immaterial
Raiffeisen-Leasing Real Estate Sp. z o.o., Warsaw (PL)	100.0%	1/1.	Immaterial
RI Eastern European Finance B.V., Amsterdam (NL)	100.0%	1/1	Immaterial
Roof Russia DPR Finance Company S.A., Luxembourg (LU)	<0.1%	1/1	Immaterial
SCTF Szentendre Ingatlanforgalmazó és Ingatlanfejlesztő Kft., Budapest (HU)	100.0%	1/1	Immaterial
Raiffeisen Lízing Zrt., Budapest (HU)	100.0%	2/8	Sale
Raiffeisen-Leasing Polska S.A., Warsaw (PL)	100.0%	1/12	Sale
ROOF Poland Leasing 2014 Ltd, Dublin (IE)	<0.1%	1/12	Sale
Companies rendering bank-related ancillary services			
Raiffeisen Ingatlan Vagyonkezelő Kft., Budapest (HU)	100.0%	1/4	Immaterial
Tatra Residence, s. r. o., Bratislava (SK)	78.8%	31/10	Merger
Raiffeisen Insurance Agency Sp.z.o.o, Warsaw (PL)	100.0%	1/12	Sale
RSC Raiffeisen Service Center GmbH, Vienna (AT)	50.0%	31/12	Change in control
Other companies			
Raiffeisen Energiaszolgáltató Kft., Budapest (HU)	100.0%	1/1	Immaterial
Bondy Centrum, s.r.o., Prague (CZ)	43.8%	1/2	Sale

Consolidated subsidiaries where RBI holds less than 50 per cent of the ordinary voting shares

The Group controls the following types of entities, even though it holds less than half of the voting rights.

Structured entities

Name, domicile	Share	Reason
Raiffeisen Real Estate Fund, Budapest (HU)	<0.1%	Fund
CJSC Mortgage Agent Raiffeisen 01, Moscow (RU)	<0.1%	SPV
FWR Russia Funding B.V., Amsterdam (NL)	<0.1%	SPV

The above special purpose vehicles (SPV) are consolidated, as the Group is exposed to variability in returns from these structured entities. The returns are primarily from activities such as holding debt securities or issued financial guarantees. Beyond the ongoing management of the receivables (which is carried out by the Group under a service agreement), significant decisions only become necessary when there is a default on the part of the structured entity.

Subsidiaries not consolidated where RBI holds more than 50 per cent of the ordinary voting shares

Because of their minor importance in giving a view of the Group's assets, financial and earnings position 227 subsidiaries were not included in the consolidated financial statements (20115: 224). They are recognized at cost as interests in affiliated companies, under financial investments, and are assigned to the measurement category available-for-sale. Total assets of the companies not included came to less than 1 per cent of the Group's aggregate total assets.

List of fully consolidated companies

Company, domicile (country)	Subscribed capital[1] in local currency		Share[1]	Type[2]
Ados Immobilienleasing GmbH, Eschborn (DE)	25,000	EUR	75.0%	FI
AMYKOS RBI Leasing-Immobilien GmbH, Vienna (AT)	35,000	EUR	75.0%	FI
AO Raiffeisenbank, Moscow (RU)	36,711,260,000	RUB	100.0%	BA
B52 RBI Leasing-Immobilien GmbH, Vienna (AT)	35,000	EUR	75.0%	OT
BAILE Handels- und Beteiligungsgesellschaft m.b.H., Vienna (AT)	40,000	EUR	100.0%	FI
Baumgartner Höhe RBI Leasing-Immobilien GmbH, Vienna (AT)	35,000	EUR	75.0%	FI
BUILDING BUSINESS CENTER DOO NOVI SAD, Novi Sad (RS)	559,220,792	RSD	100.0%	FI
Bulevard Centar BBC Holding d.o.o., Belgrade (RS)	63,708	RSD	100.0%	BR
CINOVA RBI Leasing-Immobilien GmbH, Vienna (AT)	35,000	EUR	75.0%	FI
CJSC Mortgage Agent Raiffeisen 01, Moscow (RU)	10,000	RUB	<0.1%	BR
CP Inlandsimmobilien-Holding GmbH, Vienna (AT)	364,000	EUR	99.0%	OT
DAV Holding Ltd., Budapest (HU)	3,030,000	HUF	100.0%	FI
DAV-PROPERTY Kft., Budapest (HU)	3,010,000	HUF	100.0%	OT
Expo 2000 Real Estate EOOD, Sofia (BG)	10,000	BGN	100.0%	OT
FCC Office Building SRL, Bucharest (RO)	30,298,500	RON	100.0%	BR
Floreasca City Center Verwaltung Kft., Budapest (HU)	41,000	HUF	100.0%	FI
FWR Russia Funding B.V., Amsterdam (NL)	1	EUR	<0.1%	FI
Harmadik Vagyonkezelő Kft., Budapest (HU)	3,100,000	HUF	100.0%	BR
Infrastruktur Heilbad Sauerbrunn GmbH, Vienna (AT)	35,000	EUR	75.0%	FI
Infrastruktur Heilbad Sauerbrunn RBI-Leasing GmbH & Co.KG., Bad Sauerbrunn (AT)	0	EUR	75.0%	FI
Invest Vermögensverwaltungs-GmbH, Vienna (AT)	73,000	EUR	98.0%	OT
JLLC "Raiffeisen-leasing", Minsk (BY)	430,025	BYN	91.4%	FI
Kathrein Privatbank Aktiengesellschaft, Vienna (AT)	20,000,000	EUR	100.0%	BA
Lexxus Services Holding GmbH, Vienna (AT)	35,000	EUR	100.0%	FH
Limited Liability Company Raiffeisen Leasing Aval, Kiev(UA)	180,208,527	UAH	72.3%	FI
LLC "ARES Nedvizhimost", Moscow (RU)	10,000	RUB	50.0%	BR
MP Real Invest a.s., Bratislava (SK)	140,000,000	EUR	100.0%	OT
OOO Raiffeisen-Leasing, Moscow (RU)	1,071,000,000	RUB	100.0%	FI
Park City real estate Holding d.o.o., Novi Sad (RS)	63,708	RSD	100.0%	BR
PERSES RBI Leasing-Immobilien GmbH, Vienna (AT)	35,000	EUR	75.0%	FI
Pointon Investment Limited, Limassol (CY)	77,446	RUB	100.0%	BR
Priorbank JSC, Minsk (BY)	86,147,909	BYN	87.7%	BA
Raiffeisen Bank Aval JSC, Kyiv (UA)	6,154,516,258	UAH	68.2%	BA
Raiffeisen Bank d.d. Bosna i Hercegovina, Sarajevo (BA)	247,167,000	BAM	100.0%	BA
Raiffeisen Bank Kosovo J.S.C., Pristina (KO)	63,000,000	EUR	100.0%	BA
Raiffeisen Bank Polska S.A., Warsaw (PL)	2,256,683,400	PLN	100.0%	BA
Raiffeisen Bank S.A., Bucharest (RO)	1,200,000,000	RON	99.9%	BA
Raiffeisen Bank Sh.a., Tirana (AL)	14,178,593,030	ALL	100.0%	BA
Raiffeisen Bank Zrt., Budapest (HU)	50,000,090,000	HUF	100.0%	BA
Raiffeisen banka a.d., Belgrade (RS)	27,466,157,580	RSD	100.0%	BA
Raiffeisen CEE Region Holding GmbH, Vienna (AT)	35,000	EUR	100.0%	FH
Raiffeisen Centrobank AG, Vienna (AT)	47,598,850	EUR	100.0%	BA
Raiffeisen CIS Region Holding GmbH, Vienna (AT)	35,000	EUR	100.0%	FH
Raiffeisen consulting d.o.o., Zagreb (HR)	105,347,000	HRK	100.0%	FI
Raiffeisen Corporate Lízing Zrt., Budapest (HU)	50,100,000	HUF	100.0%	BR
Raiffeisen Factoring Ltd., Zagreb (HR)	15,000,000	HRK	100.0%	FI
Raiffeisen FinCorp, s.r.o., Prague (CZ)	200,000	CZK	87.5%	FI
Raiffeisen International Invest Holding GmbH, Vienna (AT)	35,000	EUR	100.0%	FH
Raiffeisen International Liegenschaftsbesitz GmbH, Vienna (AT)	35,000	EUR	100.0%	BR
Raiffeisen Leasing Bulgaria OOD, Sofia (BG)	5,900,000	BGN	100.0%	FI

1 Less own shares
2 Company type: BA Bank, BR Company rendering banking-related ancillary services, FH Financal holding, FI Financial institution, OT Other companies, VV Insurance, SC Securities firms

Company, domicile (country)	Subscribed capital[1] in local currency		Share[1]	Type[2]
Raiffeisen Leasing d.o.o., Belgrade (RS)	226,389,900	RSD	100.0%	FI
Raiffeisen Leasing d.o.o., Ljubljana (SI)	3,738,107	EUR	100.0%	FI
Raiffeisen Leasing d.o.o. Sarajevo, Sarajevo (BA)	15,405,899	BAM	100.0%	FI
Raiffeisen Leasing IFN S.A., Bucharest (RO)	14,935,400	RON	100.0%	FI
Raiffeisen Leasing Kosovo LLC, Pristina (KO)	642,857	EUR	100.0%	FI
Raiffeisen Leasing sh.a., Tirana (AL)	263,520,134	ALL	100.0%	FI
Raiffeisen Mandatory and Voluntary Pension Funds Management Company Plc., Zagreb (HR)	143,445,300	HRK	100.0%	FI
Raiffeisen Pension Insurance d.d., Zagreb (HR)	23,100,000	HRK	100.0%	VV
Raiffeisen Property Holding International GmbH, Vienna (AT)	35,000	EUR	100.0%	FI
Raiffeisen Property International GmbH, Vienna (AT)	40,000	EUR	100.0%	OT
Raiffeisen Property Management GmbH, Vienna (AT)	40,000	EUR	100.0%	OT
Raiffeisen Real Estate Fund, Budapest (HU)	0	HUF	<0.1%	FI
Raiffeisen Rent DOO, Belgrade (RS)	243,099,913	RSD	100.0%	FI
Raiffeisen RS Beteiligungs GmbH, Vienna (AT)	35,000	EUR	100.0%	FH
Raiffeisen SEE Region Holding GmbH, Vienna (AT)	35,000	EUR	100.0%	FH
Raiffeisen stambena stedionica d.d., Zagreb (HR)	180,000,000	HRK	100.0%	BA
Raiffeisenbank (Bulgaria) EAD, Sofia (BG)	603,447,952	BGN	100.0%	BA
Raiffeisenbank a.s., Prague (CZ)	11,060,800,000	CZK	75.0%	BA
Raiffeisenbank Austria d.d., Zagreb (HR)	3,621,432,000	HRK	100.0%	BA
Raiffeisen-Leasing d.o.o., Zagreb (HR)	30,000,000	HRK	100.0%	FI
Raiffeisen-Leasing International Gesellschaft m.b.H., Vienna (AT)	36,336	EUR	100.0%	FI
Raiffeisen-Leasing Lithuania UAB, Vilnius (LT)	100,000	EUR	92.3%	FI
Raiffeisen-Leasing, s.r.o., Prague (CZ)	450,000,000	CZK	87.5%	FI
Raiffeisen-RBHU Holding GmbH, Vienna (AT)	236,640	EUR	100.0%	FH
RB International Finance (Hong Kong) Ltd., Hong Kong (HK)	10,000,000	HKD	100.0%	FI
RB International Finance (USA) LLC, New York (US)	1,510,000	USD	100.0%	FI
RB International Investment Asia Limited, Labuan (MY)	1	USD	100.0%	FI
RB International Markets (USA) LLC, New York (US)	8,000,000	USD	100.0%	FI
RBI KI Beteiligungs GmbH, Vienna (AT)	48,000	EUR	100.0%	FH
RBI eins Leasing Holding GmbH, Vienna (AT)	35,000	EUR	75.0%	FI
RBI IB Beteiligungs GmbH, Vienna (AT)	35,000	EUR	100.0%	FH
RBI ITS Leasing-Immobilien GmbH, Vienna (AT)	35,000	EUR	75.0%	FI
RBI LEA Beteiligungs GmbH, Vienna (AT)	70,000	EUR	100.0%	FI
RBI Leasing GmbH, Vienna (AT)	100,000	EUR	75.0%	FI
RBI LGG Holding GmbH, Vienna (AT)	35,000	EUR	100.0%	FI
RBI PE Handels- und Beteiligungs GmbH, Vienna (AT)	150,000	EUR	100.0%	FI
REC Alpha LLC, Kyiv (UA)	267,643,204	UAH	100.0%	BR
Regional Card Processing Center s.r.o., Bratislava (SK)	539,465	EUR	100.0%	BR
RIRE Holding GmbH, Vienna (AT)	35,000	EUR	100.0%	BR
RLI Holding Gesellschaft m.b.H., Vienna (AT)	40,000	EUR	100.0%	FI
RZB Finance (Jersey) III Ltd, St Helier (JE)	1,000	EUR	100.0%	FI
RZB Finance (Jersey) IV Limited, St Helier (JE)	2,000	EUR	100.0%	FI
S.C. PLUSFINANCE ESTATE 1 S.R.L., Bucharest (RO)	13,743,340	RON	100.0%	BR
Sky Tower Immobilien- und Verwaltung Kft, Budapest (HU)	41,000	HUF	100.0%	OT
Skytower Building SRL, Bucharest (RO)	126,661,500	RON	100.0%	OT
'S-SPV'' d.o.o. Sarajevo, Sarajevo (BA)	2,000	BAM	100.0%	FI
Tatra Asset Management, správ. spol., a.s., Bratislava (SK)	1,659,700	EUR	78.8%	FI
Tatra banka, a.s., Bratislava (SK)	64,326,228	EUR	78.8%	BA
Tatra Residence, a.s., Bratislava (SK)	21,420,423	EUR	78.8%	BR
Tatra-Leasing, s.r.o., Bratislava (SK)	6,638,785	EUR	78.8%	FI

1 Less own shares
2 Company type: BA Bank, BR Company rendering banking-related ancillary services, FH Financal holding, FI Financial institution, OT Other companies, VV Insurance, SC Securities firms

Company, domicile (country)	Subscribed capital[1] in local currency		Share[1]	Type[2]
TOO Raiffeisen Leasing Kazakhstan, Almaty (KZ)	85,800,000	KZT	100.0%	FI
Ukrainian Processing Center PJSC, Kiev (UA)	180,000	UAH	100.0%	BR
Viktor Property, s.r.o., Prague (CZ)	200,000	CZK	87.5%	OT
Vindalo Properties Limited, Limassol (CY)	67,998	RUB	100.0%	BR
ZUNO BANK AG, Vienna (AT)	5,000,000	EUR	100.0%	BA

1 Less own shares
2 Company type: BA Bank, BR Company rendering banking-related ancillary services, FH Financal holding, FI Financial institution, OT Other companies, VV Insurance, SC Securities firms

Structured units

The following tables show, by type of structured entity, the carrying amounts of the Group's interests recognized in the consolidated statement of financial position as well as the maximum exposure to loss resulting from these interests. The carrying amounts presented below do not reflect the true variability of returns faced by the Group because they do not take into account the effects of collateral or hedges.

Assets

2016 in € thousand	Loans and advances	Equities	Debt instruments	Derivatives
Securitization vehicles	315,147	0	389,813	0
Third party funding entities	166,949	1,925	0	0
Funds	0	48,004	0	0
Total	**482,095**	**49,929**	**389,813**	**0**

2015 in € thousand	Loans and advances	Equities	Debt instruments	Derivatives
Securitization vehicles	231,362	0	451,637	0
Third party funding entities	111,577	18,180	0	0
Funds	0	29,922	0	0
Total	**342,939**	**48,101**	**451,637**	**0**

Liabilities

2016 in € thousand	Deposits	Equities	Debt securities issued	Derivatives
Securitization vehicles	330	0	0	0
Third party funding entities	22,219	0	0	1,051
Funds	0	0	0	956
Total	**22,550**	**0**	**0**	**2,007**

2015 in € thousand	Deposits	Equities	Debt securities issued	Derivatives
Securitization vehicles	2,920	0	22,628	0
Third party funding entities	30,067	0	0	1,118
Total	**32,987**	**0**	**22,628**	**1,118**

Nature, purpose and extent of the Group's interests in non-consolidated structured entities

The Group engages in various business activities with structured entities which are designed to achieve a specific business purpose. A structured entity is one that has been set up so that any voting rights or similar rights are not the dominant factor in deciding who controls the entity. An example is when voting rights relate only to administrative tasks and the relevant activities are directed by contractual arrangements.

A structured entity often has some or all of the following features or attributes:

- Restricted activities;
- A narrow and well defined objective;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support;
- Financing in the form of the issue of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The principal uses of structured entities are to provide clients with access to specific portfolios of assets and to provide market liquidity for clients through securitizing financial assets. Structured entities may be established as corporations, trusts or partnerships. Structured entities generally finance the purchase of assets by issuing debt and equity securities that are collateralized by and/or indexed to the assets held by the structured entities.

Structured entities are consolidated when the substance of the relationship between the Group and the structured entities indicate that the structured entities are controlled by the Group.

Below is a description of the Group's involvements in non-consolidated structured entities by type.

Third party funding entities

The Group provides funding to structured entities that hold a variety of assets. These entities may take the form of funding entities, trusts and private investment companies. The funding is collateralized by the assets in the structured entities. The group's investment activity involves predominantly lending.

Securitization vehicles

The Group establishes securitization vehicles which purchase diversified pools of assets, including fixed income securities, company loans, and asset-backed securities (predominantly commercial and residential mortgage-backed securities and credit card receivables). The vehicles fund these purchases by issuing multiple tranches of debt and equity securities, the repayment of which is linked to the performance of the assets in the vehicles.

The Group often transfers assets to these securitization vehicles and provides financial support to these entities in the form of liquidity facilities.

Funds

The Group establishes structured entities to accommodate client requirements to hold investments in specific assets. The Group also invests in funds that are sponsored by third parties. A Group entity may act as fund manager, custodian or in some other capacity and provide funding and liquidity facilities to both Group sponsored and third party funds. The funding provided is collateralized by the underlying assets held by the fund.

Maximum exposure to and size of non-consolidated structured entities

The maximum exposure to loss is determined by considering the nature of the interest in the non-consolidated structured entity. The maximum exposure for loans and trading instruments is reflected by their carrying amounts in the consolidated statement of financial position. The maximum exposure for derivatives and instruments off the statement of financial position such as guarantees, liquidity facilities and loan commitments under IFRS 12, as interpreted by the Group, is reflected by the notional amounts. Such amounts do not reflect the economic risks faced by the Group because they do not take into account the effects of collateral or hedges or the probability of such losses being incurred. At 31 December 2016, the notional values of derivatives and instruments off the statement of financial position were € 27,822 thousand (2015: € 29,064 thousand) and € 95,292 thousand (2015: € 104,682 thousand) respectively. Information on the size of structured entities is not always publicly available therefore the Group has determined that its exposure is an appropriate guide to size.

Financial support

The Group provided financial support during the financial year to non-consolidated structured entities with a carrying value of € 3,420 thousand as at 31 December 2016 (2015: € 0 thousand).

Sponsored structured entities

As a sponsor, the Group is often involved in the legal set up and marketing of the entity and supports the entity in different ways such as providing operational support to ensure the entity's continued operation.

The Group is also deemed a sponsor for a structured entity if market participants would reasonably associate the entity with the Group. Additionally, the use of the Raiffeisen name for the structured entity often indicates that the Group has acted as a sponsor.

The gross proceeds from sponsored entities for the year ending 31 December 2016 amounted to € 18,197 thousand (2015: € 21,923 thousand).

No assets were transferred to sponsored non-consolidated structured entities in 2016 or 2015.

(53) List of equity participations

Other affiliated companies

Company, domicile (country)	Subscribed capital in local currency		Share	Type[1]
"A-SPV" d.o.o. Sarajevo, Sarajevo (BA)	2,000	BAM	100.0%	FI
"Immobilien Invest" Limited Liability Company, Moscow (RU)	10,000	RUB	100.0%	BR
"K-SPV" d.o.o. Sarajevo, Sarajevo (BA)	2,000	BAM	100.0%	FI
Afrodite Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
ALT POHLEDY s.r.o., Prague (CZ)	84,657,000	CZK	100.0%	OT
Amfion Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
Appolon Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Aspius Immobilien Holding International GmbH, Vienna (AT)	35,000	EUR	100.0%	OT
Astra Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
Athena Property, s.r.o. v likvidaci, Prague (CZ)	200,000	CZK	100.0%	OT
BA Development II., s.r.o., Bratislava (SK)	6,639	EUR	100.0%	OT
BA Development, s.r.o., Bratislava (SK)	6,639	EUR	100.0%	OT
Boreas Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
BUXUS Handels- und Beteiligungs GmbH, Vienna (AT)	35,000	EUR	100.0%	OT
Centralised Raiffeisen International Services & Payments S.R.L., Bucharest (RO)	2,820,000	RON	100.0%	BR
Centrotrade Chemicals AG - in liquidation, Zug (CH)	5,000,000	CHF	100.0%	OT
Centrotrade Holding GmbH, Vienna (AT)	3,000,000	EUR	100.0%	OT
Chronos Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	FI
CP Linzerstraße 221-227 Projektentwicklungs GmbH, Vienna (AT)	37,000	EUR	100.0%	OT
CP Logistikcenter Errichtungs- und Verwaltungs GmbH, Vienna (AT)	37,000	EUR	<0.1%	OT
CP Projekte Muthgasse Entwicklungs GmbH, Vienna (AT)	40,000	EUR	100.0%	OT
Credibilis a.s., Prague (CZ)	2,000,000	CZK	100.0%	OT
CRISTAL PALACE Property s.r.o., Prague (CZ)	400,000	CZK	100.0%	FI
Dafne Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
DAV Depo Projekt Korlátolt Felelősségű Társaság, Budapest (HU)	3,000,000	HUF	100.0%	OT
DAV Management Kft., Budapest (HU)	3,010,000	HUF	100.0%	BR
DAV-ESTATE Kft., Budapest (HU)	3,030,000	HUF	100.0%	BR
DAV-LAND Kft., Budapest (HU)	3,020,000	HUF	100.0%	BR
DAV-OUTLET Kft., Budapest (HU)	3,020,000	HUF	100.0%	OT
Dike Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Dom-office 2000, Minsk (BY)	283,478	BYN	100.0%	OT
Don Giovanni Properties, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
Doplnková dôchodková spoločnosť Tatra banky, a.s., Bratislava (SK)	1,659,700	EUR	100.0%	FI
DORISCUS ENTERPRISES LTD., Limassol (CY)	18,643,400	EUR	86.6%	OT
Dúbravčice, s.r.o., Bratislava (SK)	5,000	EUR	100.0%	FI
Eastern European Invest GmbH, Vienna (AT)	35,000	EUR	100.0%	FI
Eastern European Invest Holding GmbH, Vienna (AT)	35,000	EUR	100.0%	OT
Easy Develop s.r.o., Prague (CZ)	200,000	CZK	100.0%	SC
Eos Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	FI
Erato Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
Eris Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Euro Green Energy Fejlesztő és Szolgáltató Kft., Budapest (HU)	14,490,000	HUF	100.0%	OT
Eurolease RE Leasing, s. r. o., Bratislava (SK)	6,125,256	EUR	100.0%	OT
Euros Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Euterpe Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	FI
Exit 90 SPV s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Extra Year Investments Limited, Tortola (VG)	50,000	USD	100.0%	FH
FARIO Handels- und Beteiligungsgesellschaft m.b.H., Vienna (AT)	40,000	EUR	100.0%	OT
FMK Fachmarktcenter Kohlbruck Betriebs GmbH, Eschborn (DE)	30,678	EUR	<0.1%	FI
FORZA SOLE s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT

1 Company type: BA Bank, BR Company rendering banking-related ancillary services, FH Financal holding, FI Financial institution, OT Other companies, VV Insurance, SC Securities firms

Company, domicile (country)	Subscribed capital in local currency		Share	Type[1]
FVE Cihelna s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Gaia Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Gala Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
Gergely u. Ingatlanfejlesztő Kft., Budapest (HU)	3,010,000	HUF	100.0%	OT
Golden Rainbow International Limited, Tortola (VG)	1	SGD	100.0%	FI
Grainulos s.r.o., Prague (CZ)	1	CZK	100.0%	FI
GS55 Sazovice s.r.o., Prague (CZ)	15,558,000	CZK	90.0%	OT
Harmonia Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
Hebe Property, s.r.o., Prague (CZ)	200,000	CZK	95.0%	OT
Hermes Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Hestia Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
Holeckova Property s.r.o., Prague (CZ)	210,000	CZK	100.0%	FI
Humanitarian Fund ''Budimir Bosko Kostic'', Belgrade (RS)	30,000	RSD	100.0%	OT
Hyperion Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	FI
Hypnos Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	FI
ICS Raiffeisen Leasing s.r.l, Chisinau (MD)	8,307,535	MDL	100.0%	FI
INFRA MI 1 Immobilien Gesellschaft mbH, Vienna (AT)	1,000,000	EUR	100.0%	OT
Ino Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
Iris Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	FI
Janus Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
Kalypso Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
KAPMC s.r.o., Prague (CZ)	100,000	CZK	100.0%	OT
Kappa Estates s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Kathrein & Co Life Settlement Gesellschaft m.b.H., Vienna (AT)	35,000	EUR	100.0%	OT
Kathrein & Co. Private Equity I AG, Vienna (AT)	190,000	EUR	100.0%	OT
Kathrein & Co. Trust Holding GmbH, Vienna (AT)	35,000	EUR	100.0%	FI
Kathrein Capital Management GmbH, Vienna (AT)	1,000,000	EUR	100.0%	FI
KIWANDA Handels- und Beteiligungs GmbH, Vienna (AT)	35,000	EUR	100.0%	OT
Kleio Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	FI
Konevova s.r.o., Prague (CZ)	50,000,000	CZK	10.0%	BR
Leasing Poland Sp.z.o.o., Warsaw (PL)	19,769,500	PLN	100.0%	FI
Leto Property, s.r.o., Prague (CZ)	200,000	CZK	77.0%	OT
Limited Liability Company European Insurance Agency, Moscow (RU)	120,000	RUB	100.0%	OT
Limited Liability Company REC GAMMA, Kyiv (UA)	49,015,000	UAH	100.0%	BR
LOTA Handels- und Beteiligungs-GmbH, Vienna (AT)	35,000	EUR	100.0%	FI
Luna Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Lysithea a.s., Prague (CZ)	2,000,000	CZK	100.0%	OT
Mall Varna EAD, Sofia (BG)	146,700,000	BGN	100.0%	OT
MAMONT GmbH, Kiev (UA)	44,000	UAH	100.0%	OT
Medea Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
Melete Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	FI
Melpomene Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	FI
Michalka - Sun s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Morfeus Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	FI
MORHUA Handels- und Beteiligungs GmbH, Vienna (AT)	36,336	EUR	100.0%	OT
MOVEO Raiffeisen-Leasing GmbH, Vienna (AT)	35,000	EUR	51.0%	FI
Na Starce, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
NAURU Handels- und Beteiligungs GmbH, Vienna (AT)	35,000	EUR	100.0%	OT
NC Ivancice, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Neptun Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT

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Company, domicile (country)	Subscribed capital in local currency		Share	Type[1]
Nike Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Niobe Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
Nußdorf Immobilienverwaltung GmbH, Vienna (AT)	36,336	EUR	99.5%	OT
Ofion Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	FI
Onyx Energy Projekt II s.r.o., Prague (CZ)	210,000	CZK	100.0%	OT
Onyx Energy s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
OOO "Vneshleasing", Moscow (RU)	131,770	RUB	100.0%	FI
OOO Raiffeisen Capital Asset Management Company, Moscow (RU)	225,000,000	RUB	100.0%	FI
OOO SB "Studia Strahovania", Minsk (BY)	34,924	BYN	100.0%	OT
Orchideus Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Ötödik Vagyonkezelő Kft., Budapest (HU)	9,510,000	HUF	100.0%	FI
P & C Beteiligungs Gesellschaft m.b.H., Vienna (AT)	36,336	EUR	100.0%	OT
Palace Holding s.r.o., Prague (CZ)	2,700,000	CZK	90.0%	FI
Peito Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	FI
Photon Energie s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Photon SPV 10 s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Photon SPV 11 s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Photon SPV 3 s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Photon SPV 4 s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Photon SPV 6 s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Photon SPV 8 s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
PILSENINEST SICAV, a.s., Prague (CZ)	212,000,000	CZK	100.0%	OT
PLUSFINANCE LAND S.R.L., Bucharest (RO)	1,000	RON	100.0%	BR
PLUSFINANCE OFFICE S.R.L., Bucharest (RO)	1,000	RON	100.0%	BR
PLUSFINANCE RESIDENTIAL S.R.L., Bucharest (RO)	1,000	RON	100.0%	BR
Pontos Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Pro Invest da Vinci e.o.o.d., Sofia (BG)	5,000	BGN	100.0%	OT
PRODEAL, a.s., Bratislava (SK)	796,654	EUR	100.0%	FI
Production unitary enterprise "PriortransAgro", Minsk (BY)	50,000	BYN	100.0%	OT
PZ PROJEKT a.s., Prague (CZ)	2,000,000	CZK	100.0%	OT
R LUX IMMOBILIEN LINIE S.R.L., Timisoara (RO)	50,000	RON	1.0%	OT
R MORMO IMMOBILIEN LINIE S.R.L., Bucharest (RO)	50,000	RON	1.0%	OT
R.L.H. Holding GmbH, Vienna (AT)	35,000	EUR	100.0%	FI
Raiffeisen (Beijing) Investment Management Co., Ltd., Beijing (CN)	2,000,000	CNH	100.0%	FI
Raiffeisen Asset Management (Bulgaria) EAD, Sofia (BG)	250,000	BGN	100.0%	FI
Raiffeisen Assistance D.O.O., Beograd, Belgrade (RS)	4,307,115	RSD	100.0%	OT
Raiffeisen Assistance doo Sarajevo, Sarajevo (BA)	4,000	BAM	100.0%	BR
Raiffeisen Autó Lízing Kft., Budapest (HU)	3,000,000	HUF	100.0%	FI
Raiffeisen Banca pentru Locuinte S.A., Bucharest (RO)	131,074,560	RON	33.3%	BA
Raiffeisen Befektetési Alapkezelõ Zrt., Budapest (HU)	100,000,000	HUF	100.0%	FI
Raiffeisen Biztosításközvetítö Kft., Budapest (HU)	5,000,000	HUF	100.0%	BR
Raiffeisen Bonus Ltd., Zagreb (HR)	200,000	HRK	100.0%	BR
Raiffeisen Capital a.d. Banja Luka, Banja Luka (BA)	355,000	BAM	100.0%	BR
Raiffeisen Direct Investments CZ s.r.o., Prague (CZ)	200,000	CZK	100.0%	FI
Raiffeisen Energiaszolgáltató Kft., Budapest (HU)	3,000,000	HUF	100.0%	OT
Raiffeisen Financial Services Polska Sp. z o.o., Warsaw (PL)	4,657,500	PLN	100.0%	FI
Raiffeisen Future AD Beograd drustvo za upravljanje dobrovoljnim penzijskim fondom, Belgrade (RS)	143,204,921	RSD	100.0%	FI
Raiffeisen Gazdasági Szolgáltató Zrt., Budapest (HU)	20,099,879	HUF	100.0%	FI
Raiffeisen Ingatlan Üzemeltető Kft., Budapest (HU)	3,000,000	HUF	100.0%	OT

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Company, domicile (country)	Subscribed capital in local currency		Share	Type[1]
Raiffeisen Ingatlan Vagyonkezelő Kft., Budapest (HU)	3,110,000	HUF	100.0%	BR
Raiffeisen Insurance and Reinsurance Broker S.R.L, Bucharest (RO)	180,000	RON	100.0%	BR
RAIFFEISEN INSURANCE BROKER EOOD, Sofia (BG)	5,000	BGN	100.0%	BR
Raiffeisen Insurance Broker Kosovo L.L.C., Pristina (KO)	10,000	EUR	100.0%	BR
RAIFFEISEN INVEST AD DRUSTVO ZA UPRAVLJANJE INVESTICIONIM FONDOVIMA BEOGRAD, Belgrade (RS)	47,662,692	RSD	100.0%	FI
Raiffeisen Invest d.o.o., Zagreb (HR)	8,000,000	HRK	100.0%	FI
Raiffeisen Invest Drustvo za upravljanje fondovima d.o.o Sarajevo, Sarajevo (BA)	945,424	BAM	100.0%	BR
Raiffeisen INVEST Sh.a., Tirana (AL)	90,000,000	ALL	100.0%	FI
Raiffeisen investicni spolecnost a.s., Prague (CZ)	40,000,000	CZK	100.0%	SC
Raiffeisen Investment Advisory GmbH, Vienna (AT)	730,000	EUR	100.0%	FI
Raiffeisen Investment Financial Advisory Services Ltd. Co., Istanbul (TR)	2,930,000	TRY	99.0%	FI
Raiffeisen Investment Polska sp.z.o.o., Warsaw (PL)	3,024,000	PLN	100.0%	FI
Raiffeisen Investment Ukraine TOV - in liquidation, Kiev (UA)	3,733,213	UAH	100.0%	FI
Raiffeisen Property Management Bulgaria EOOD, Sofia (BG)	80,000	BGN	100.0%	OT
Raiffeisen Property Management spol.s.r.o., Prague (CZ)	100,000	CZK	100.0%	OT
RAIFFEISEN SERVICE EOOD, Sofia (BG)	4,220,000	BGL	100.0%	OT
Raiffeisen Services SRL, Bucharest (RO)	30,000	RON	100.0%	OT
Raiffeisen Solutions Spółka z ograniczoną odpowiedzialnością, Warsaw (PL)	550,000	PLN	100.0%	FI
RAIFFEISEN SPECIAL ASSETS COMPANY d.o.o. Sarajevo (in liquidation), Sarajevo (BA)	1,982,591	BAM	100.0%	FI
Raiffeisen stavebni sporitelna, a.s., Prague (CZ)	650,000,000	CZK	10.0%	BA
Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A., Warsaw (PL)	4,000,000	PLN	100.0%	OT
Rail-Rent-Holding GmbH in Liqu., Vienna (AT)	40,000	EUR	60.0%	OT
Ratio Holding Gesellschaft mit beschränkter Haftung, Vienna (AT)	40,000	EUR	100.0%	OT
RB Kereskedhőáz Kft., Budapest (HU)	4,000,000	HUF	100.0%	BR
RB Szolgáltató Központ Kft. - RBSC Kft., Nyíregyháza (HU)	3,000,000	HUF	100.0%	BR
RBI Vajnoria spol.s.r.o., Bratislava (SK)	5,000	EUR	100.0%	OT
RCR Ukraine LLC, Kiev (UA)	282,699	UAH	100.0%	BR
RDI Czech 1 s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
RDI Czech 3 s.r.o, Prague (CZ)	200,000	CZK	100.0%	OT
RDI Czech 4 s.r.o, Prague (CZ)	200,000	CZK	100.0%	OT
RDI Czech 5 s.r.o, Prague (CZ)	200,000	CZK	100.0%	OT
RDI Czech 6 s.r.o, Prague (CZ)	3,700,000	CZK	100.0%	OT
RDI Management s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Real Estate Rent 4 DOO, Belgrade (RS)	40,310	RSD	100.0%	FI
Rent CC, s.r.o., Bratislava (SK)	6,639	EUR	100.0%	FI
Rent GRJ, s.r.o., Bratislava (SK)	6,639	EUR	100.0%	OT
Rent PO, s.r.o., Bratislava (SK)	6,639	EUR	100.0%	FI
Residence Park Trebes, s.r.o., Prague (CZ)	20,000,000	CZK	100.0%	OT
Rheia Property, s.r.o., Prague (CZ)	200,000	CZK	95.0%	OT
RIRBRO ESTATE MANAGEMENT S.R.L., Bucharest (RO)	1,000	RON	100.0%	BR
RL Leasing Gesellschaft m.b.H., Eschborn (DE)	25,565	EUR	25.0%	FI
RL-Assets Sp.z.o.o., Warsaw (PL)	50,000	PLN	100.0%	OT
RLRE Beta Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	FI
RLRE Carina Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
RLRE Dorado Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
RLRE Eta Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	FI
RLRE Hotel Ellen, s.r.o., Prague (CZ)	100,000	CZK	100.0%	FI
RLRE Jota Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	FI
RLRE Ypsilon Property, s.r.o., Prague (CZ)	200,000	CZK	50.0%	FI

1 Company type: BA Bank, BR Company rendering banking-related ancillary services, FH Financal holding, FI Financial institution, OT Other companies, VV Insurance; SC Securities firms

Company, domicile (country)	Subscribed capital in local currency		Share	Type[1]
Robert Károly Körút Irodaház Kft., Budapest (HU)	3,000,000	HUF	100.0%	OT
Rogofield Property Limited, Nicosia (CY)	2,174	USD	100.0%	OT
RPM Budapest KFT, Budapest (HU)	3,000,000	HUF	100.0%	OT
RPN Verwaltungs GmbH, Vienna (AT)	37,464	EUR	100.0%	OT
S.A.I. Raiffeisen Asset Management S.A., Bucharest (RO)	10,656,000	RON	100.0%	FI
SAM-House Kft, Budapest (HU)	3,000,000	HUF	100.0%	BR
SASSK Ltd., Kiev (UA)	152,322,000	UAH	88.7%	OT
SCT Kárász utca Ingatlankezelő Kft., Budapest (HU)	3,000,000	HUF	100.0%	FI
SCTB Ingatlanfejlesztés Ingatlanhasznosító Kft., Budapest (HU)	3,010,000	HUF	100.0%	OT
SCTF Szentendre Ingatlanforgalmazó és Ingatlanfejlesztő Kft., Budapest (HU)	3,000,000	HUF	100.0%	FI
SCTP Biatorbágy Ingatlanfejlesztő és Ingatlanhasznosító Kft., Budapest (HU)	3,000,000	HUF	75.3%	OT
SCTS Kft., Budapest (HU)	3,100,000	HUF	100.0%	OT
Selene Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Sirius Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	FI
Sky Solar Distribuce s.r.o., Prague (CZ)	200,000	CZK	77.0%	OT
St. Marx-Immobilien Verwertungs- und Verwaltungs GmbH, Vienna (AT)	36,336	EUR	99.0%	OT
Stadtpark Hotelreal GmbH, Vienna (AT)	6,543,000	EUR	1.0%	OT
Szentkiraly utca 18 Kft., Budapest (HU)	5,000,000	HUF	100.0%	OT
Tatra Office, s.r.o., Bratislava (SK)	185,886	EUR	100.0%	BR
TAURUS Raiffeisen-Immobilien-Leasing Gesellschaft m.b.H. in Liqu., Vienna (AT)	36,336	EUR	100.0%	FI
TB Invest Ingatlanforgalmazó Zrt., Budapest (HU)	20,000,000	HUF	50.0%	OT
Theia Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
Triton Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	FI
Unitary insurance enterprise "Priorlife", Minsk (BY)	4,689,500	BYN	100.0%	VV
UPC Real, s.r.o., Prague (CZ)	200,000	CZK	100.0%	FI
Urania Property, s.r.o., Prague (CZ)	50,000	CZK	100.0%	FI
Villa Atrium Bubenec, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
VINAGRIUM Borászati és Kereskedelmi Kft., Budapest (HU)	3,010,000	HUF	100.0%	OT
VN-Industrie Immobilien GmbH, Vienna (AT)	35,000	EUR	74.0%	OT
VN-Wohn Immobilien GmbH, Vienna (AT)	35,000	EUR	74.0%	OT
VUWG Verwaltung und Verwertung von Gewerbeimmobilien GmbH, Vienna (AT)	35,000	EUR	100.0%	OT
Zefyros Property, s.r.o., Prague (CZ)	200,000	CZK	100.0%	OT
Zeleny Zlonin s.r.o., Prague (CZ)	50,000	CZK	100.0%	OT
ZHS Office- & Facilitymanagement GmbH, Vienna (AT)	36,336	EUR	1.2%	BR

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Other equity participations

Company, domicile (country)	Subscribed capital in local currency		Share	Type[1]
Accession Mezzanine Capital II L.P., Bermuda (BM)	2,613	EUR	5.7%	OT
Accession Mezzanine Capital III L.P., St. Helier (BM)	134,125,000	EUR	3.7%	OT
Accession Mezzanine Capital L.P. in Liquidation, Bermuda (BM)	1,147	EUR	2.6%	OT
Agricultural Open Joint Stock Company Illintsi Livestock Breeding Enterprise, Illinci (UA)	703,100	UAH	4.7%	OT
ALCS Association of Leasing Companies in Serbia, Belgrade (RS)	853,710	RSD	12.5%	OT
A-Trust Gesellschaft für Sicherheitssysteme im elektronischen Datenverkehr GmbH, Vienna (AT)	5,290,013	EUR	<0.1%	OT
bat-groupware GmbH, Vienna (AT)	50,000	EUR	<0.1%	BR
Belarussian currency and stock exchange JSC, Minsk (BY)	9,006,584	BYN	<0.1%	SC
Biroul de Credit S.A., Bucharest (RO)	4,114,615	RON	13.2%	FI
Bucharest Stock Exchange, Bucharest (RO)	76,741,980	RON	1.0%	OT
Budapest Stock Exchange, Budapest (HU)	541,348,100	HUF	<0.1%	SC
Burza cennych papierov v. Bratislave, a.s., Bratislava (SK)	11,404,927,296	EUR	0.1%	SC
CASA DE COMPENSARE S.A., Bucharest (RO)	239,255	RON	0.1%	OT
Cash Service Company AD, Sofia (BG)	12,500,000	BGN	20.0%	BR
CEESEG Aktiengesellschaft, Vienna (AT)	18,620,720	EUR	7.0%	SC
CELL MED Research GmbH, Vienna (AT)	1,898,418	EUR	4.5%	OT
Central Depository and Clearing Company, Inc., Zagreb (HR)	86,925,000	HRK	0.1%	FI
Closed Joint Stock Company Truskavets Valeological Innovative Centre, Truskavets (UA)	100,000	UAH	5.0%	OT
Closed Joint Stock Company Vinegar-yeast Factory, Uzyn (UA)	9,450,000	UAH	33.8%	OT
Commodity Exchange Crimean Interbank Currency Exchange, Simferopol (UA)	440,000	UAH	4.5%	SC
Commodity Exchange of the Agroindustrial Complex of Central Regions of Ukraine, Cherkassy (UA)	90,000	UAH	11.1%	OT
Czech Real Estate Fund (CREF) B.V., Amsterdam (NL)	18,000	EUR	20.0%	FI
D. Trust Certifikacná Autorita, a.s., Bratislava (SK)	331,939	EUR	10.0%	OT
Easdaq NV, Leuven (BE)	128,526,849	EUR	<0.1%	OT
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H., Vienna (AT)	70,000	EUR	0.1%	FI
EMERGING EUROPE GROWTH FUND II, L.P., Delaware (US)	370,000,000	USD	1.9%	OT
Euro Banking Association (ABE Clearing S.A.S.), Paris (FR)	53,000	EUR	1.9%	FI
European Investment Fund S.A., Luxembourg (LU)	3,000,000,000	EUR	0.2%	FI
Export and Industry Bank Inc., Makati City (PH)	4,734,452,540	PHP	9.5%	BA
Flex-space Plzen I, s.r.o., Prague (CZ)	200,000	CZK	<0.1%	OT
Fondul de Garantare a Creditului Rural S.A., Bucharest (RO)	15,940,890	RON	33.3%	FI
Garantiqa Hitelgarancia ZRt., Budapest (HU)	7,839,600,000	HUF	0.2%	FI
Greenix Limited, Road Town (VG)	100,000	USD	25.0%	OT
Hrvatski registar obveza po kreditima d.o.o., Zagreb (HR)	13,500,000	HRK	10.5%	BR
INVESTOR COMPENSATION FUND, Bucharest (RO)	344,350	RON	0.4%	SC
Limited Liability Company Scientific-Production Enterprise Assembling and Implementation of Telecommunication Sytems, Dnepropetrovsk (UA)	500,000	UAH	10.0%	OT
LLC "Insurance Company 'Raiffeisen Life", Moscow (RU)	240,000,000	RUB	25.0%	VV
LUXTEN LIGHTING COMPANY S.A., Bucharest (RO)	42,126,043	RON	<0.1%	OT
MasterCard Inc, New York (US)	13,518	USD	<0.1%	BA
National Settlement Depositary, Moscow (RU)	1,180,675,000	RUB	<0.1%	FI
Open Joint Stock Company Kiev Special Project and Design Bureau Menas, Kiev (UA)	3,383,218	UAH	4.7%	OT
Open Joint Stock Company Volodymyr-Volynskyi Sugar Refinery, Volodymyr-Volynskyi Stadt (UA)	13,068,010	UAH	2.6%	OT
Österreichische Raiffeisen-Einlagensicherung eGen, Vienna (AT)	3,100	EUR	9.7%	OT
OT-Optima Telekom d.d., Zagreb (HR)	635,568,080	HRK	3.3%	OT
OVIS Raiffeisen-Immobilien-Leasing Gesellschaft m.b.H., Vienna (AT)	36,400	EUR	<0.1%	FI
Pannon Lúd Kft, Mezokovácsháza (HU)	852,750,000	HUF	0.6%	OT
Polish Real Estate Investment Limited, Limassol (CY)	911,926	EUR	11.2%	OT
Private Joint Stock Company First All-Ukrainian Credit Bureau, Kiev (UA)	11,750,000	UAH	5.1%	OT
Private Joint Stock Company Sumy Enterprise Agrotechservice, Sumy (UA)	1,545,000	UAH	0.6%	OT

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Company, domicile (country)	Subscribed capital in local currency		Share	Type[1]
Private Joint Stock Company Ukrainian Interbank Currency Exchange, Kiev (UA)	36,000,000	UAH	3.1%	SC
Public Joint Stock Company Bird Farm Bershadskyi, Viytivka (UA)	6,691,141	UAH	0.5%	OT
Public Joint Stock Company National Depositary of Ukraine, Kiev (UA)	103,200,000	UAH	0.1%	BR
Public Joint Stock Company Settlement Center for Servicing of Contracts in Financial Markets, Kiev (UA)	153,100,000	UAH	<0.1%	FI
Public Joint Stock Company Stock Exchange PFTS, Kiev (UA)	32,010,000	UAH	0.2%	SC
Raiffeisen e-force GmbH, Vienna (AT)	145,346	EUR	0.7%	OT
Raiffeisen Informatik GmbH, Vienna (AT)	1,460,000	EUR	0.1%	BR
Raiffeisen Software GmbH, Linz (AT)	150,000	EUR	0.1%	OT
Raiffeisen-Leasing BOT s.r.o., Prague (CZ)	100,000	CZK	<0.1%	OT
Raiffeisen-Leasing Management GmbH, Vienna (AT)	300,000	EUR	25.0%	OT
Raiffeisen-Leasing Mobilien und KFZ GmbH, Vienna (AT)	35,000	EUR	15.0%	FI
RC Gazdasági és Adótanácsadó Zrt., Budapest (HU)	20,000,000	HUF	22.2%	FI
Registry of Securities in FBH, Sarajevo (BA)	2,052,300	BAM	1.4%	OT
REPEF Holding GmbH in Liquidation, Vienna (AT)	400,000	EUR	3.5%	OT
RLKG Raiffeisen-Leasing GmbH, Vienna (AT)	40,000	EUR	12.5%	FI
RSC Raiffeisen Service Center GmbH, Vienna (AT)	2,000,000	EUR	50.0%	BR
RVS, a. s., Bratislava (SK)	6,852,480	EUR	0.7%	OT
S.C. DEPOZITARUL CENTRAL S.A., Budapest (RO)	25,291,953	RON	2.6%	OT
Sarajevska berza-burza vrijednosnih papira dd Sarajevo, Sarajevo (BA)	1,975,680	BAM	5.2%	OT
Scanviwood Co. Ltd., Ho Chi Minh City (VN)	2,500,000	USD	6.0%	OT
Slovak Banking Credit Bureau, s.r.o., Bratislava (SK)	9,958	EUR	33.3%	BR
Societatea de Transfer de Fonduri si Decontari-TRANSFOND S.A, Bucharest (RO)	6,720,000	RON	3.4%	BR
Society for Worldwide Interbank Financial Telekommunication scrl, La Hulpe (BE)	13,781,250	EUR	0.5%	FI
Stemcor Global Holdings Limited, St Helier (JE)	100,000	USD	3.2%	OT
Syrena Immobilien Holding AG, Spittal an der Drau (AT)	22,600,370	EUR	21.0%	OT
The Zagreb Stock Exchange joint stock company, Zagreb (HR)	46,357,000	HRK	2.9%	SC
Transilvania LEASING SI CREDIT IFN S.A., Brasov (RO)	51,569,000	RON	0.6%	FI
UNIQA Raiffeisen Software Service Kft., Budapest (HU)	19,900,000	HUF	1.0%	OT
VERMREAL Liegenschaftserwerbs- und -betriebs GmbH, Vienna (AT)	36,336	EUR	17.0%	OT
Visa Inc., San Francisco (US)	192,964	USD	<0.1%	BR
Zhytomyr Commodity Agroindustrial Exchange, Zhitomir (UA)	476,615	UAH	3.1%	OT
Ziloti Holding S.A., Luxemburg (LU)	48,963	EUR	0.9%	OT

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Recognition and measurement principles

Financial instruments: Recognition and measurement (IAS 39)

According to IAS 39, all financial assets, financial liabilities and derivative financial instruments are to be recognized in the statement of financial position. A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. On initial recognition, financial instruments are to be measured at fair value, which generally corresponds to the transaction price at the time of acquisition or issue. According to IFRS 13, the fair value is defined as the exit price. This is the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For subsequent measurement, financial instruments are recognized in the statement of financial position according to the respective measurement category pursuant to IAS 39, either at (amortized) cost or at fair value.

Categorization of financial assets and financial liabilities and their measurement

The measurement categories for financial instruments pursuant to IAS 39 do not equate to the principal line items in the statement of financial position. Relationships between the principal line items in the statement of financial position and the measurement standard applied are described in the table "Categories of financial instruments according to IFRS7" and in the notes under (1) Income statement according to measurement categories and (12) Statement of financial position according to measurement categories.

1. Financial assets or liabilities at fair value through profit and loss

On initial recognition, the Group categorizes certain financial assets and liabilities as held-for-trading or measured at fair value. These financial assets and liabilities are recognized at fair value and shown as financial assets and liabilities at fair value.

a. Trading assets/liabilities

Trading assets/liabilities are acquired or incurred principally for the purpose of generating profit from short-term fluctuations in market prices. Securities (including short selling of securities) and derivative financial instruments held-for-trading are recognized at their fair values. If securities are listed, the fair value is based on stock exchange prices. Where such prices are not available, internal prices based on present value calculations for originated financial instruments and futures or option pricing models for options are applied. Present value calculations are based on an interest rate curve which consists of money market rates, future rates and swap rates. Option price formulas Black-Scholes 1972, Black 1976 or Garman-Kohlhagen are applied depending on the kind of option. The measurement for complex options is based on a binominal tree model and Monte Carlo simulations.Derivative financial instruments held-for-trading are shown under the item "trading assets" or "trading liabilities". Positive fair values including accrued interest (dirty price) are shown under trading assets. Negative fair values are recorded under trading liabilities. Positive and negative fair values are not netted. Changes in dirty prices are recognized in net trading income. Derivatives that are used neither for trading purposes nor for hedging purposes are recorded under the item "derivatives". Any liabilities from the short-selling of securities are shown in "trading liabilities".

Capital-guaranteed products (guarantee funds and pension plans) are shown as sold put options on the respective funds to be guaranteed, in accordance with statutory requirements. The valuation is based on a Monte Carlo simulation. The Group has provided capital guarantee obligations as part of the government-funded state-sponsored pension plans according to Section 108h (1) item 3 EStG (Austrian Income Tax Act). The bank guarantees that the retirement annuity, available for the payment amount, is not less than the sum of the amounts paid by the taxpayer plus credits for such taxable premiums within the meaning of Section 108g EStG.

b. Designated financial instruments at fair value

This category comprises mainly all those financial assets that are irrevocably designated as financial instruments at fair value (so-called fair value option) upon initial recognition in the statement of financial position independent of any intention to trade. An entity may use this designation only when doing so results in more relevant information for the user of the financial statements. This is the case for those financial assets, which belong to a portfolio, which is managed and its performance evaluated on a fair value basis.

These instruments are bonds, notes and other fixed-interest securities as well as shares and other variable-yield securities. These financial instruments are valued at fair value under IAS 39. In the statement of financial position, they are shown under the item "financial investments". Current income is shown under net interest income, valuation results and proceeds from disposals are shown in net income from financial investments.

Financial liabilities are also designated as financial instruments at fair value, to avoid valuation discrepancies with related derivatives. The fair value of financial obligations under the fair value option in this category reflects all market risk factors, including those related to the credit risk of the issuer.

In 2016, as in 2015, observable market prices were used for the valuation of liabilities of subordinated issues measured at fair value. The financial liabilities are mostly structured bonds. The fair value of these financial liabilities is calculated by discounting the contractual cash flows with a credit-risk-adjusted yield curve, which reflects the level at which the Group could issue similar financial instruments at the reporting date. The market risk parameters are evaluated according to similar financial instruments that are held as financial assets. Valuation results for liabilities that are designated as a financial instrument at fair value are recognized in income from derivatives and liabilities.

2. Financial assets held-to-maturity

Non-derivative financial assets (securities with fixed or determinable payments and a fixed maturity) purchased with the intention and ability to hold them to maturity are reported under the item "financial investments". They are recognized at amortized cost and differences are amortized over the term to maturity and recognized in the income statement under net interest income. If impairment occurs, it is taken into account when determining the amortized cost and shown in net income from financial investments. Coupon payments are recognized under net interest income. A sale of these financial instruments is only allowed in certain cases explicitly stated in IAS 39.

3. Loans and advances

Non-derivative financial assets with fixed or determinable payment entitlements for which there is no active market are allocated to this category. These financial instruments are mainly recorded in the items "loans and advances to banks" and "loans and advances to customers". Moreover, loans and advances relating to finance lease business, which are recognized in accordance with IAS 17, are stated in the items "loans and advances to banks" and "loans and advances to customers".

They are measured at amortized cost. If there is a difference between the amount paid and face value – and this has an interest character – the effective interest method is used and the amount is stated under net interest income. If impairment occurs it is taken account of when determining the amortized cost. Impairment provisions and provisions for losses that have occurred but have not yet been recognized are reported in the statement of financial position under the item "impairment losses on loans and advances". Profits from the sale of impaired loans are recognized in the income statement in the item "net provisioning for impairment losses".

Moreover, debt instruments are also allocated to this category if there is no active market for them. Derecognition of financial assets within the framework of securitizations is – after checking if the securitized special purpose vehicle has to be integrated into the consolidated accounts – undertaken on the basis of a risk and rewards or control test according to IAS 39 after identifying loss of control over the contractual rights relating to the asset.

4. Financial assets available-for-sale

The category of financial assets available-for-sale contains financial instruments including non-consolidated equity participations that were not allocated to any of the other three categories. They are stated at fair value, if a fair value is reliably measurable. Valuation differences are shown directly in equity in other comprehensive income and only recognized in the income statement under net income from financial investments if there is an objective indication of impairment or if the financial asset available-for-sale is sold.

For equity instruments impairment exists, among other indicators, if the fair value is either significantly or permanently below cost. In the Group, equity instruments classified as available-for-sale are impaired when the fair value over the last six months before the reporting date was consistently more than 20 per cent below carrying value, or in the last twelve months, on average, more than 10 per cent below carrying value. In addition to these quantitative indications (trigger events), qualitative indications from IAS 39.59 are considered. It is not permitted to include any appreciation in value in the income statement for equity instruments classified as available-for-sale, but rather this should be recognized in other comprehensive income under the item fair value reserve (available-for-sale financial assets). This means that only impairments or disposals are to be shown in the income statement.

Unquoted equity instruments which, due to a lack of materiality, are not fully consolidated are measured at cost of acquisition because the fair values do not represent a better approximation of the fully consolidated values. Other unquoted equity instruments for which reliable fair values cannot be assessed regularly are valued at cost of acquisition less impairment losses. It is not permitted to show an appreciation in the value. Reliable fair values cannot be regularly assessed in emerging countries due to the absence of comparative yardsticks for the "market approach" and due to the inherent difficulties when using the "income approach". This kind of financial instrument is reported under the item "financial investments".

Interest and dividend income from financial assets available-for-sale are recorded in net interest income.

5. Financial liabilities

Liabilities are predominantly recognized at amortized cost. Discounted debt securities issued and similar obligations are measured at their present value. Financial liabilities are reported in the statement of financial position under the items "deposits from banks", "deposits from customers", "debt securities issued" or "subordinated capital". Financial liabilities measured at fair value are shown in the category "liabilities at fair value through profit and loss". Interest expenses are stated under net interest income.

Derecognition of financial assets and liabilities

Derecognition of financial assets

A financial asset is derecognized when the contractual rights to the cash flows arising from a financial asset have expired, when the Group has transferred the rights to the cash flows, or if the Group has the obligation, in case that certain criteria occur, to transfer the cash flows to one or more receivers. A transferred asset is also derecognized if all material risks and rewards of ownership of the assets are transferred.

Securitization transactions

The Group securitizes various financial assets from transactions with retail and commercial customers by selling them to a special purpose vehicle (SPV) that issues securities to investors. The assets transferred may be derecognized fully or partly. Rights to securitized financial assets can be retained in the form of senior or subordinated tranches, interest claims or other residual claims (retained rights).

Derecognition of financial liabilities

The Group derecognizes a financial liability if the obligations of the Group have been paid, expired or revoked. The income or expense from the repurchase of own liabilities is shown in the notes under (6) Net income from derivatives and liabilities. The repurchase of own bonds also falls under derecognition of financial liabilities. Differences on repurchase between the carrying value of the liability (including premiums and discounts) and the purchase price are reported in the income statement in net income from derivatives and liabilities.

Reclassification

In accordance with IAS 39.50, non-derivative financial instruments classified as trading assets and available-for-sale financial instruments can be reclassified as financial assets held-to-maturity and loans and advances in exceptional circumstances. The effects resulting from such reclassifications are shown in the notes under (19) Financial investments.

Offsetting of financial instruments

Where the borrower and lender are the same, offsetting of loans and liabilities with matching maturities and currencies occurs only if a legal right, by contract or otherwise, exists and offsetting is in line with the actually expected course of the business. Information on offsetting of financial instruments is provided in the notes under (38) Offsetting financial assets and liabilities.

Derivatives

Within the operating activity, the Group carries out different transactions with derivative financial instruments for trading and hedging purposes. The Group uses derivatives including swaps, standardized forward contracts, futures, credit derivatives, options and similar contracts. The Group uses derivatives in order to meet client requirements concerning their risk management, to manage and hedge risks and to generate profit in proprietary trading. Derivatives are initially recognized at the time of the transaction at fair value and subsequently revalued to fair value. The resulting valuation gain or loss is recognized immediately in net income from derivatives and liabilities, unless the derivative is designated as a hedging instrument for hedge accounting purposes and the hedge is effective. Here the timing of the recognition of the gain or loss on the hedging instrument depends on the type of hedging relationship.

Derivatives which are used for hedging against market risk (excluding trading assets/liabilities) for a non-homogeneous portfolio do not meet the conditions for IAS 39 hedge accounting. These are recognized as follows: the dirty price is booked under the item "derivatives" in the statement of financial position (positive fair values under assets and negative fair values under liabilities). The change in value of these derivatives, on the basis of the clean price, is shown in net income from derivatives and liabilities (net income from other derivatives) and interest is shown in net interest income.

Credit derivatives, the value of which is dependent on future specified credit (non-)events are shown at fair value under the item "derivatives" (positive fair values under assets and negative fair values under liabilities). Changes in valuation are recognized under net income from derivatives and liabilities.

Additional information on derivatives is provided in the notes under (39) Derivative financial instruments.

Hedge Accounting

If derivatives are held for the purpose of risk management and if the respective transactions meet specific criteria, the Group uses hedge accounting. The Group designates certain hedging instruments as fair value hedges, cash flow hedges or capital hedges. Most of these are derivatives. At the beginning of the hedging relationship, the relationship between underlying and hedging instrument, including the risk management objectives, is documented. Furthermore, it is necessary to regularly document from the beginning and during the lifetime of the hedging relationship that the fair value or cash flow hedge is highly effective.

a. Fair value hedge

Hedge accounting according to IAS 39 applies to those derivatives that are used to hedge the fair values of financial assets and liabilities. The credit business is especially subject to such fair value risks if it deals with fixed-interest loans. Interest rate swaps that satisfy the prerequisites for hedge accounting are contracted to hedge against the interest-rate risks arising from individual loans or refinancing. Thus, hedges are formally documented, continuously assessed, and tested to be highly effective. Throughout the term of a hedge it can therefore be assumed that changes in the fair value of a hedged item will be nearly completely offset by a change in the fair value of the hedging instrument and that the actual effectiveness outcome will lie within a band of 80 to 125 per cent.

Derivative instruments held to hedge the fair values of individual items in the statement of financial position (except trading assets/liabilities) are recognized at their fair values (dirty prices) under the item "derivatives" (for assets: positive dirty prices; for liabilities: negative dirty prices). Changes in the carrying amounts of hedged items (assets or liabilities) are allocated directly to the corresponding items of the statement of financial position and reported separately in the notes.

Both the effect of changes in the carrying values of positions requiring hedging and the effects of changes in the clean prices of the derivative instruments are recorded under “net income from derivatives and liabilities” (net income from hedge accounting).

Within the management of interest rate risks, the hedging of interest rate risk is also undertaken on the portfolio level. Individual transactions or groups of transactions with similar risk structures, divided into maturities according to the expected repayment and interest rate adjustment date in a portfolio, are hedged. Portfolios can contain assets only, liabilities only, or both. For hedge accounting, the change in the value of the hedged asset or liability is shown as a separate item in other assets/liabilities. The hedged amount of the hedged items is determined in the consolidated financial statements including sight deposits (the rules of the EU carve-out are therefore applied).

b. Cash flow hedge

Cash flow hedge accounting according to IAS 39 applies for those derivatives that are used to hedge against the risk of fluctuating future cash flows. Variable-interest loans and liabilities, as well as expected transactions such as expected borrowing or investment, are especially subject to such cash flow risks. Interest rate swaps used to hedge against the risk of fluctuating cash flows arising from specific variable interest-rate items are recognized as follows: The hedging instrument is recognized at fair value, changes in its clean price are recorded in other comprehensive income. Any ineffective portion is recognized in the income statement in net income from derivatives and liabilities.

c. Hedge of a net investment in an economically independent operation (capital hedge)

In the Group, foreign exchange hedges of investments in economically independent sub-units (IAS 39.102) are executed in order to reduce differences arising from the foreign currency translation of equity components. Currency swaps are mainly used as hedging instruments. Where the hedge is effective the resulting gains or losses from foreign currency translation are recognized in other comprehensive income and shown separately in the statement of comprehensive income. Any ineffective part of the hedge is recognized in net trading income. The related interest components are shown in net interest income.

Fair value

The fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability, in an orderly business transaction between market participants on the measurement reference date. This applies irrespective of whether the price is directly observable or has been estimated using a valuation method. In accordance with IFRS 13, RBI uses the following hierarchy to determine and report the fair value for financial instruments.

Quotation on an active market (Level I)

If market prices are available, the fair value is reflected best by the market price. This category contains equity instruments traded on the stock exchange, debt instruments traded on the interbank market, and derivatives traded on the stock exchange. The valuation is mainly based on external data sources (stock exchange prices or broker quotes in liquid market segments). In an active market, transactions involving financial assets and liabilities are traded in sufficient frequency and volumes, so that price information is continuously available. Indicators for active markets are the number, the frequency of update or the quality of quotations (e.g. banks or stock exchanges). Moreover, narrow bid/ask spreads and quotations from market participants within a certain corridor are also indicators of an active liquid market.

Measurement techniques based on observable market data (Level II)

When quoted prices for financial instruments are unavailable, the prices of similar financial instruments are used to determine the current fair value or accepted measurement methods utilizing observable prices or parameters (in particular present value calculations or option price models) are employed. These methods concern the majority of the OTC-derivatives and non-quoted debt instruments.

Measurement techniques not based on observable market data (Level III)

If no sufficient current verifiable market data is available for the measurement with measurement models, parameters which are not observable in the market are also used. These input parameters may include data which is calculated in terms of approximated values from historical data among other factors (fair value hierarchy level III). The utilization of these models requires assumptions and estimates of the Management. The scope of the assumptions and estimates depends on the price transparency of the financial instrument, its market and the complexity of the instrument.

For financial instruments valued at amortized cost (this comprises loans and advances, deposits, other short-term borrowings and long-term liabilities), the Group publishes the fair value. In principle, there is low or no trading activity for these instruments, therefore a significant degree of assessment by the Management is necessary for determining the fair value.

Further information on measurement methods and quantitative information for determination of fair value is shown in the notes under (40) Fair value of financial instruments.

Amortized cost

The effective interest rate method is a method of calculating the amortized cost of a financial instrument and allocating interest expenses and interest income to the relevant periods. The effective interest rate is the interest rate used to discount the forecast future cash inflows and outflows (including all fees which form part of the effective interest rate, transaction costs and other premiums and discounts) over the expected term of the financial instrument or a shorter period, where applicable, to arrive at the net carrying amount from initial recognition.

Categories of financial instruments according to IFRS 7

As the nature of the financial instruments is already shown by the classification of the items of the statement of financial position, the formation of categories was built in line with these items, which include financial instruments. Categories of financial instruments on the asset side of the statement of financial position are primarily cash reserve, loans and advances to banks, loans and advances to customers, trading assets, derivative financial instruments, derivatives for hedging, and financial investments (within this category are separately financial assets not traded on an active market and which are shown at cost of acquisition). Categories of financial instruments on the liability side are most notably trading liabilities, derivative financial instruments, derivatives for hedge accounting, deposits from banks, deposits from customers, debt securities issued and subordinated capital.

Assets/liabilities	Fair Value	Measurement Amortized Cost	Others	Category according to IAS 39[1]
Asset classes				
Cash reserve			Nominal value	n/a
Trading assets	X			TA
Derivatives	X			TA
Loans and advances to banks		X		LAR
Loans and advances to customers		X		LAR
of which finance lease business			to IAS 17	n/a
Financial investments	X			AFVTPL
Financial investments	X			AfS
Financial investments		X		HTM
of which not traded on an active market			At Cost	AfS
Positive fair values of derivatives for hedge accounting (IAS 39)	X			n/a
Liability classes				
Trading liabilities	X			TL
Derivatives	X			TL
Deposits from banks		X		FL
Deposits from customers		X		FL
Subordinated capital		X		FL
Debt securities issued		X		FL
Debt securities issued	X			AFVTPL
Negative fair values of derivatives for hedge accounting (IAS 39)	X			n/a

1 AfS Available-for-sale
AFVTPL At fair value through profit and loss
FL Financial liabilities
HTM Held to maturity
LAR Loans and advances
TA Trading assets
TL Trading liabilities

Impairment losses on loans and advances

At each reporting date an assessment is made as to whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, when:

- there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the financial asset up until the reporting date (a "loss event");
- that loss event has 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 for an impairment may exist when the issuer or the counterparty faces considerable financial difficulties, a breach of contract occurs (for example, default or delay in interest or principal payments) or it can be assumed with high probability that insolvency or other restructuring proceedings will be instituted against the borrower.

Credit risk is accounted for by forming individual loan loss provisions and portfolio-based loan loss provisions. The latter comprise impairment provisions for portfolios of loans with the same risk profiles that are formed under certain conditions for IBNR losses (incurred but not reported). This involves cases where there is not yet any objective evidence of an individual impairment of a financial asset and for this reason groups of financial assets with a similar default risk profile are collectively examined for impairment. The underlying rating models for corporate customers are distinguished between “corporate large” and “corporate regular” as well as “SME large” and “SME regular”. Moreover, portfolios for which the “financial institutions” or “project finance” rating models are applied are separately evaluated. A Group-wide uniform approach is in place for calculation of portfolio-based provisions in that centrally calculated historical Group default rates (“Group HDRs”) for each rating class are evaluated and applied. These Group HDRs show the average actually observed probability of default over the last five years. In the retail segment, with the exception of one Group unit where the amount of the portfolio impairment is calculated according to product portfolio and past due days, provisions are formed using a PD/LGD-based calculation (probability of default/loss given default). Individual and portfolio-based impairment provisions are not netted against corresponding receivables but are stated separately in the statement of financial position.

For credit risks related to loans and advances to customers and banks, provisions are formed in the amount of expected loss according to homogeneous Group-wide standards. Risk of loss is deemed to exist if the discounted projected repayment amounts and interest payments are below the carrying value of the loan – taking collateral into account. Portfolio-based impairments are calculated using valuation models that estimate expected future cash flows for the loans in the respective loan portfolio based on loss experience history.

The total provision for impairment losses arising from loans reported in the statement of financial position comprising individual loan loss provisions and portfolio-based loan loss provisions is shown as a separate item "Impairment losses on loans and advances" under assets, below loans and advances to banks and customers.

Genuine sale and repurchase agreements

In a genuine sale and repurchase transaction, the Group sells assets to a third party and agrees at the same time to repurchase these assets at an agreed price and time. The assets remain on the statement of financial position of the Group and are measured according to the standards applied to the item in the statement of financial position under which they are shown. The securities are not derecognized since all the risks and rewards associated with the ownership of the repurchased securities are retained. Cash inflows arising from a sale and repurchase transaction are recognized in the statement of financial position as “deposits from banks” or “deposits from customers” depending on the counterparty.

Under reverse repurchase agreements, assets are acquired with the obligation to sell them in the future. The purchased securities on which the financial transaction is based are not reported in the statement of financial position and accordingly not measured. Cash outflows arising from reverse repurchase agreements are recorded in the statement of financial position under the item "loans and advances to banks" or "loans and advances to customers”.

Interest expense from sale and repurchase agreements and interest income from reverse sale and repurchase agreements is accrued in a straight line over their term to maturity and shown under net interest income.

Securities lending

The Group concludes securities lending transactions with banks or customers in order to meet delivery obligations or to conduct security sale and repurchase agreements. Securities lending transactions are shown in the same way as genuine sale and repurchase agreements. This means loaned securities continue to remain in the securities portfolio and are valued according to IAS 39. Borrowed securities are not recognized and not valued. Cash collateral provided by the Group for securities lending transactions is shown as a claim under the item "loans and advances to banks" or "loans and advances to customers" while collateral received is shown as deposits from banks or deposits from customers in the statement of financial position.

Leasing

Leases are classified according to their contractual structure as follows:

Finance leases

When nearly all the risks and rewards of a leased asset are transferred to the lessee, the Group as lessor recognizes a loan to banks or a loan to customers. The loan amount is the amount of the net investment. The income from the finance lease is spread over periods in such a way as to represent a constant periodic rate of interest on the outstanding net investment in the leases. Interest income is reported under net interest income.

If the Group holds assets under a finance lease as lessee, these are shown under the relevant tangible fixed asset item, which corresponds to a lease liability. Interest expenditure is reported under net interest income.

Operating leases

An operating lease exists when the risks and rewards of ownership remain with the lessor. The leased assets are allocated to the Group under the item "tangible fixed assets" and depreciated in accordance with the principles applicable to the type of fixed assets. Rental income from the corresponding lease object is spread on a straight-line basis over the term of the leasing contract and reported in other net operating income. Expenses for operating leases are generally amortized on a straight-line basis over the term of the leasing contract and reported as administrative expenses.

Consolidation principles

Subsidiaries

All material subsidiaries over which RBI AG directly or indirectly has control are fully consolidated. The Group has control over an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Structured entities are entities in which the voting or similar rights are not the dominant factor for determining control, e.g. if the voting rights are solely related to administration activities and the relevant activities are governed by contractual agreements.

Similar to subsidiaries, consolidation of structured entities is necessary, if the Group has control over the entity. In the Group, the need to consolidate structured entities is reviewed as part of the securitization transaction process, where the structured entity is either formed by the Group with or without participation of third parties, or, in which the Group with or without participation of third parties enters into contractual relationships with already existing structured entities. Whether an entity should be consolidated or not is reviewed at least quarterly. All fully consolidated structured entities and interests in non-consolidated structured entities are to be found in the notes under (56) Group composition.

In order to determine when an entity has to be consolidated, a series of control factors have to be checked. These include an examination of

- the purpose and the constitution of the entity,
- the relevant activities and how they are determined,
- if the Group has the ability to determine the relevant activity through its rights,
- if the Group is exposed to risks of or has rights to variable returns,
- if the Group has the ability to use its power over the investee in order to affect the amount of variable returns.

If voting rights are relevant, the Group has control over an entity in which it directly or indirectly holds more than 50 per cent of the voting rights; except when there are indicators that another investee has the ability to determine unilaterally the relevant activities of the entity. One or more of the following points may be such an indicator:

- Another investor has control over more than half of the voting rights due to an agreement with the Group,
- Another investor has the ability to control financial policy and operational activities of the equity participation due to legal provisions or an agreement,
- Another investor has control over the equity participation due to its possibility to appoint and withdraw the majority of members of the Board or members of an equivalent governing body,

- Another investor has control over the entity due to its possibility to possess the majority of the delivered voting rights in a meeting of members of the Board or of members an equivalent governing body.

When judging control, also potential voting rights are considered as far as they are material.

The Group assesses evidence of control in cases in which it does not hold the majority of voting rights but has the ability to unilaterally govern the relevant activities of the entity. This ability may occur in cases in which the Group has the ability to control the relevant activities due to the extent and distribution of voting rights of the investees.

In principle, subsidiaries are initially integrated into the consolidated group on the date when the Group obtains control of the company and are excluded from the date on when it no longer has control of the company. The results from subsidiaries acquired or disposed of during the year are recorded in the consolidated income statement, either from the actual date of acquisition or up to the actual date of disposal. The Group reviews the adequacy of previous decisions on which companies to consolidate at least every quarter. Accordingly, any organizational changes are immediately taken into account. Apart from changes in ownership, these also include any changes to the Group's existing contractual arrangements or new contractual arrangements with a unit.

Non-controlling interests are shown in the consolidated statement of financial position as part of equity, but separately from RBI AG's equity. The profit attributable to non-controlling interests is shown separately in the consolidated income statement.

In debt consolidation, intra-group loans and liabilities are eliminated. Remaining temporary differences are recognized under the items "other assets/other liabilities" in the consolidated statement of financial position.

Intra-group income and expenses are also eliminated and temporary differences resulting from bank business transactions are included partly in net interest income and partly in net trading income. Other differences are shown in the item "other net operating income."

Intra-group results are eliminated insofar as they have a material effect on the income statement items. Transactions between Group members are executed on an arm's length basis.

Changes in the Group's ownership interests in existing subsidiaries

If, in the case of existing control, further shares are acquired or sold without loss of control, in subsequent consolidation such transactions are recognized directly in equity. The carrying amount of the shares held by the Group and the non-controlling interests are adjusted in such a way as to reflect changes in existing shareholdings in subsidiaries. Any difference between the amount which is adjusted for the non-controlling interests and the fair value of the consideration paid or received is recognized directly in equity and is assigned to the shareholders of the parent company.

If the company loses control over a subsidiary, the income/loss from disposal of group assets is shown in the income statement. This is calculated as the difference between

- the total amount of fair value of the received consideration and fair value of the shares retained and
- the carrying amount of assets (including goodwill), liabilities of the subsidiary and all non-controlling interests

All amounts related to these subsidiaries and shown in other comprehensive income are recognized in the same way as would be the case for the sale of assets. This means the amounts are reclassified to the income statement or directly transferred to retained earnings.

Associated companies

An associated company is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity in which shares are held. No control or joint management of decision making processes exists. As a rule, significant influence is assumed if the Group holds 20 to 50 per cent of the voting rights. When judging whether the Group has the ability to exert a significant influence on another entity, the existence and the effect of potential voting rights which are actually usable or convertible are taken into account. Further parameters for judging significant influence are, for example, the representation in executive committees and supervisory boards (Supervisory Board in Austrian Joint Stock companies) of the entity and material business transactions with the entity. Shares in associated companies are valued at equity and shown in the statement of financial position under the item "investments in associates".

The acquisition cost of these investments including goodwill is determined at the time of their initial consolidation, applying by analogy the same rules as for subsidiaries (offsetting acquisition costs against proportional fair net asset value). If associated companies are material, appropriate adjustments are made to the carrying value in the accounts, in accordance with developments in the company's equity. Profit or losses of companies valued at equity are netted and recognized in the item "current income from associates". Losses attributable to companies accounted for using the equity method are only recognised up to the level of the carrying value. Losses in excess of this amount are not recognised, since there is no obligation to offset excess losses. Further, any amounts recognised by the associate through other comprehensive income will be recognised in the other comprehensive Income statement of RBI. This is especially relevant for valuation effects seen from financial assets available-for-sale.

At each reporting date, the Group reviews to what extent there is objective evidence for impairment of an equity participation in an associated company. If there is objective evidence of impairment, an impairment test is carried out, in which the recoverable value of the participation – this is higher of the usable value and the fair value less selling costs – is compared to the carrying amount. An impairment made in previous periods is reversed only if the assumptions underlying the determination of the recoverable value have been changed since recognition of the last impairment. In this case the carrying amount is written up to the higher recoverable value.

Shares in subsidiaries not included in the consolidated financial statements because of their minor significance and shares in associated companies that have not been valued at equity are included under the item "financial investments" and assigned to the measurement category "financial assets available-for-sale". They are measured at acquisition cost.

Business combinations

The acquisition of business operations is recognized according to the acquisition method. The consideration transferred in a business combination is measured at fair value. This is calculated as the aggregate of the acquisition-date fair value of all assets transferred, liabilities assumed from former owners of the acquired business combination and equity instruments issued by the Group in exchange for control of the business combination. Transaction costs related to business combinations are recognized in the income statement when incurred.

Goodwill is measured as the excess of the aggregate of the value of the consideration transferred, the amount of any non-controlling interest and the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree (if any), and the net of the acquisition-date amounts of the fair values of identifiable assets acquired and the liabilities assumed. In the event that the difference is negative after further review, the resulting gain is recognized immediately in the income statement.

Non-controlling interests which confer ownership rights and grant the right to the owner to receive a proportionate share of the net assets of the entity in the event of liquidation, are measured either at fair value or at the non-controlling interest's proportionate share of net assets of the acquiree at the acquisition date. This accounting policy choice can be newly made for every business combination. Other components of non-controlling interests are measured at fair value or with measurement values derived from other standards.

If the consideration transferred includes a contingent consideration, this is measured at the acquisition-date fair value. Changes in the fair value of the contingent consideration within the measurement period are adjusted retroactively and are booked against goodwill. Adjustments within the measurement period are corrections to reflect additional information about facts and circumstances already existing at the acquisition date. The measurement period may not exceed one year from the acquisition date.

Recognition of changes in the fair value of the contingent consideration which do not represent corrections within the measurement period is dependent on how the contingent consideration is to be classified. If the contingent consideration is classified as equity, it is not re-measured on the following reporting date. Its settlement is recognized within equity. A contingent consideration classified as assets or liabilities is measured on the following reporting dates according to IAS 39 or IAS 37 Provisions for liabilities and charges, contingent liabilities or contingent receivables if applicable and a resulting profit or loss is recognized in the income statement.

Cash reserve

The cash reserve includes cash in hand and balances at central banks that are due on call. They are shown with their nominal value.

Equity participations

Shareholdings in subsidiaries not included in the consolidated financial statements because of their minor significance, shareholdings in associated companies that are not valued at equity and other equity participations are shown under financial investments.

These are categorized as "financial assets available-for-sale" upon initial recognition and – if no share prices are available – are measured at cost. Changes in value are recognized in other comprehensive income. Impairment is shown in net income from financial investments.

Intangible fixed assets

Separately acquired intangible fixed assets

Separately acquired intangible fixed assets, i.e. those with a definite useful life not acquired in a business combination, are capitalized at acquisition cost less accumulated amortization and impairment. Amortization is accrued in a straight line over the expected useful life and reported as an expense in the income statement. The expected useful life and the depreciation method are reviewed at each reporting date and any possible changes in measurement taken into account prospectively. Separately acquired intangible fixed assets with an indefinite useful life are capitalized at acquisition cost less accumulated impairment. The normal useful life of software is between four and six years. The normal useful life for large software projects may extend over a longer period.

Internally developed intangible fixed assets – research and development costs

Internally developed intangible assets comprise exclusively software and are capitalized if it is probable that the future economic benefits attributable to the asset will accrue to the Group and the cost of the asset can be measured reliably. Expenses for research are recognized as an expense when they are incurred.

An internally developed intangible fixed asset resulting from development activities or from the development stage of an internal project is capitalized when the following evidence is provided:

- The final completion of the intangible fixed asset is technically feasible so that it will be available for use or sale.
- It is intended to finally complete the intangible fixed asset and to use or to sell it.
- The ability exists to use or to sell the intangible fixed asset. The intangible fixed asset is likely to generate future economic benefit.
- The availability of adequate technical, financial and other resources required in order to complete development and to use or sell the intangible fixed asset is assured.
- The ability exists to reliably determine the expenditure incurred during the development of the intangible fixed asset.

The amount at which an internally developed intangible fixed asset is initially capitalized is the sum of all expenses incurred beginning from the day on which the aforementioned conditions are initially met. If an internally developed intangible fixed asset cannot be capitalized, or if there is as yet no intangible fixed asset, the development costs are reported in the income statement for the reporting period in which they are incurred.

Capitalized development costs are generally amortized in the Group in a straight line over a useful life of five years. The normal useful life of software is between four and six years. The normal useful life for large software projects may extend over a longer period.

Intangible fixed assets acquired in a business combination

Intangible fixed assets acquired in a business combination are reported separately from goodwill and measured at fair value. Goodwill and other intangible fixed assets without definite useful lives are tested for impairment at each reporting date. Impairment tests are performed whenever certain events (trigger events) occur during the year. Whenever circumstances indicate that the expected benefit no longer exists, impairment must be recognized pursuant to IAS 36.

Intangible fixed assets with a definite useful life are amortized over the period during which the intangible fixed asset can be used. The useful life of the acquired customer base was set at 20 years in the retail business of Raiffeisen Bank Aval JSC. For the customer base of Polbank EFG S.A. a useful life of ten years was set for the purchase price allocation.

Group companies use brands to differentiate their services from the competition. According to IFRS 3, brands of acquired companies are recognized separately under the item "intangible fixed assets." Brands have an indeterminable useful life and are therefore not subject to scheduled amortization. Brands have to be tested annually for impairment and additionally whenever indications of impairment arise. Details on impairment testing can be found in the notes under (20) Intangible fixed assets.

Tangible fixed assets

The land and buildings as well as office furniture and equipment reported under tangible fixed assets are measured at cost of acquisition or conversion less depreciation. Depreciation is recorded under the item "general administrative expenses". The straight-line method is used for depreciation and is based on the following useful life figures:

Useful life	Years
Buildings	25 – 50
Office furniture and equipment	5 – 10
Hardware	3 – 5

Land is not subject to depreciation.

Expected useful lives, residual values and depreciation methods are reviewed annually. Any necessary future change of estimates is taken into account. Any anticipated permanent impairment is reported in the income statement and shown under the item "general administrative expenses". In the event that the reason for the write-down no longer applies, a write-up will take place up to a maximum of the amount of the amortized cost of the asset.

A tangible fixed asset is derecognized on disposal or when no future economic benefit can be expected from the continued use of the asset. The resulting gain or loss from the sale or retirement of any asset is determined as the difference between the proceeds and the carrying value of the asset and is recognized in other net operating income.

Investment property

This is property that is held to earn rental income and/or for capital appreciation. Investment property is reported at amortized cost using the cost model permitted by IAS 40 and is shown under tangible fixed assets because of minor importance. Straight line depreciation is applied on the basis of useful life. The normal useful life of investment property is identical to that of buildings recognized under tangible fixed assets. Depreciation is recorded under the item "general administrative expenses".

Investment property is derecognized on disposal or when it is no longer to be used and no future economic benefit can be expected from disposal. The resulting gain or loss from the disposal is determined as the difference between the net proceeds from the disposal and the carrying value of the asset and is recognized in other net operating income in the reporting period in which the asset was sold.

Impairment of non-financial assets (tangible fixed assets, investment property and intangible fixed assets)

Impairment test for goodwill

On each reporting date, goodwill is examined with a view to its future economic utility on the basis of cash generating units (CGUs). A cash generating unit is defined by the management and represents the smallest identifiable group of assets of a company that generates cash inflows from operations. Within RBI, all segments according to segment reporting are determined as cash generating units. Legal entities within the segments form their own CGU for the purpose of impairment testing of goodwill. The carrying value of the relevant entity (including any assigned goodwill) is compared with its recoverable amount. This is, as a general principle, defined as the amount resulting from its value in use and based on expected potential dividends discounted using a rate of interest reflecting the risk involved. The estimation of the future results requires an assessment of previous as well as future performance. The latter must take into account the likely development of the relevant markets and the overall macroeconomic environment.

Impairment tests for goodwill based on cash-generating units use a multi-year plan drawn up by the relevant management team and approved by the bodies responsible. This covers the CGU's medium-term prospects for success taking into account its business strategy, overall macroeconomic conditions (gross domestic product, inflation expectations, etc.) and the specific market circumstances. The data is then used to capture the terminal value based on a going concern concept. Discounting of the earnings relevant for the measurement, i.e. potential dividends, is undertaken using risk-adapted and country-specific equity capital cost rates determined by means of the capital asset pricing model. The individual interest rate parameters (risk-free interest rate, inflation difference, market risk premium, country-specific risks and beta factors) were defined by using external information sources. The entire planning horizon is divided into three phases with phase I covering the management planning period of three years. Detailed planning, including macroeconomic planning data, is extrapolated in phase II, which lasts another two years. The terminal value is then calculated in phase III based on the assumption of a going concern. Details on impairment testing can be found in the notes under (20) Intangible fixed assets.

Inventory

Inventories are measured at the lower of cost or net realizable value. Write-downs are made if the acquisition cost is above the net realizable value as of the reporting date or if limited usage or longer storage periods have impaired the value of the inventory.

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when the related carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is only considered met if the sale is highly probable and the asset (or disposal groups) is immediately available for sale and furthermore that the Management Board has committed itself to a sale. Moreover, the sale transaction must be due to be completed within twelve months.

Non-current assets and disposal groups classified as held for sale are valued at the lower amount of their original carrying value or fair value less costs to sell and are reported under other assets. Income from non-current assets held for sale and discontinued operations is reported under other net operating income. If the impairment expense of the discontinued operations exceeds the carrying value of the assets which fall under the scope of IFRS 5 (Measurement), there is no special provision in the IFRS on how to deal with this difference. This difference is recognized as other provisions in the item "provisions for liabilities and charges" in the statement of financial position.

In the event that the Group has committed to a sale involving the loss of control over a subsidiary, all assets and liabilities of the subsidiary concerned are classified as held for sale provided the aforementioned conditions for this are met. This applies irrespective of whether the Group retains a non-controlling interest in the former subsidiary after the sale or not. Results from discontinued business operations are reported separately in the income statement as result from discontinued business operations.

Details on assets held for sale pursuant to IFRS 5 are included in the notes under (23) Other assets.

Provisions for liabilities and charges

Provisions are recognized when the Group has a present obligation from a past event, where it is likely that it will be obliged to settle, and a reliable estimate of the amount is possible. The level of provisions is the best possible estimate of expected outflow of economic benefits at the reporting date while taking into account the risks and uncertainties underlying the commitment to fulfill the obligation. If a provision is formed based on cash flows estimated to fulfill an obligation, the cash flows must be discounted if the interest effect is material.

These types of provision are reported in the statement of financial position under the item "provisions for liabilities and charges". Allocation to the various types of provision is booked through different line items in the income statement depending on the nature of the provision. Allocation of loan loss provisions for contingent liabilities are recorded under net provisioning for impairment losses, restructuring provisioning, provisioning for legal risks and other employee benefits are recorded in general administrative expenses. Provision allocations that are not assigned to a corresponding general administrative expense are as a matter of principle booked against other net operating income.

Provisions for pensions and similar obligations

All defined benefit plans relating to so-called social capital (provisions for pensions, provisions for severance payments and provisions for service anniversary bonuses) are measured using the Projected Unit Credit Method in accordance with IAS 19 – Employee Benefits. The biometrical basis for the calculation of provisions for pensions, severance payments and service anniversary bonuses for Austrian companies is provided by AVÖ 2008-P-Rechnungsgrundlagen für die Pensionsversicherung (Computational Framework for Pension Insurance) – Pagler & Pagler, using the relevant parameters for salaried employees. In other countries, comparable actuarial parameters are used for calculation.

Please refer to Provisions for pensions and similar obligations in the notes under (27) Provisions for liabilities and charges for further details.

Defined contribution plans

Under defined contribution plans, the company pays fixed contributions into a separate entity (a fund). These payments are recognized as staff expenses in the income statement.

Employee compensation plans

Variable remuneration – special remuneration policies

In the Group variable compensation is based on bonus pools on the bank or profit center level. Every variable remuneration system has fixed minimum and maximum levels and thus defines maximum payout values.

As of the financial year 2011, the following general and specific principles for the allocation, the claim and the payment of variable remuneration (including the payment of the deferred portion of the bonus) for board members of RBI AG and certain Group units and identified staff ("risk personnel") are applied:

- 60 per cent and for especially high amounts 40 per cent of the annual bonus respectively will be paid out on a proportional basis as 50 per cent cash immediately (up-front), and 50 per cent through a phantom share plan (see details below), which will pay out after a holding period (retention period) of one year. An exception to this are the Group units in Bulgaria, with 40 percent up-front portion and a retention period of two years, and in the Czech Republic with a holding period of 1.5 years.
- 40 per cent and 60 per cent of the annual bonus respectively will be deferred according to local law over a period of three (in Austria, five) years (deferral period). Payment will be made on a proportional basis, 50 per cent cash and 50 per cent based on the phantom share plan.

Variable remuneration including a deferred portion is only allocated, paid or transferred if the following criteria are met:

- This is not prohibited at the level of RZB/ RBI and/or RBI AG on the basis of a decision by the competent supervisory authority (e.g. by the European Central Bank for RZB/ RBI).
- This is tenable overall based on the financial position of RZB/ RBI and the financial position of RBI AG and is justified based on the performance of the Group, RBI AG, the business unit and the individual concerned.
- The minimum requirements applicable to RBI AG under local legislation for the allocation or payment of variable remuneration are fulfilled.
- The legally required CET 1 ratio of RZB/ RBI is achieved, the capital and buffer requirements of the CRR and CRD IV for RZB/ RBI are complied with in full and additionally neither the allocation, payment or transfer of the variable remuneration is detrimental to the maintenance of a sound capital base for RZB/RBI.

- RBI has met the minimum requirements under applicable law for economic and regulatory capital and additionally neither the allocation, payment nor transfer of the variable remuneration is detrimental to the maintenance of a sound capital base for RZB/ RBI.
- All additional criteria and prerequisites for the allocation and/or payment of variable remuneration, as defined from time to time by the Management Board or the Supervisory Board (REMCO) of RZB/RBI, are met.

The Group fulfills the obligation arising from Clause 11 of the Annex to Section 39b of the Austrian Banking Act (BWG) which stipulates that at least 50 per cent of the variable remuneration of risk personnel must be paid out in the form of shares or similar non-cash instruments by means of a phantom share plan as follows: 50 per cent of the "up front" and 50 per cent of the "deferred" portion of the bonus are divided by the average closing price of the RBI share on trading days of the Vienna Stock Exchange in the payment year serving as the basis for calculating the bonus. Thereby, a certain amount of phantom shares is determined. This amount is fixed for the entire duration of the deferral period. After the expiration of the respective retention period, the amount of specified phantom shares is multiplied by RBI's share price for the previous financial year, calculated as described above. The resulting cash amount is paid on the next available monthly salary payment date.

These rules are valid unless any applicable local laws prescribe a different procedure (e.g. Poland).

Further details of the employee compensation plans are described in the management report.

Share-based compensation

The Management Board, with approval of the Supervisory Board, of RBI AG has approved a share incentive program (SIP) for the years 2011, 2012 and 2013 which provides performance based allotments of shares to eligible employees domestically and abroad for a given period. Eligible employees are current board members and selected executives of RBI AG, as well as executives of its affiliated bank subsidiaries and other affiliated companies. In 2014, it was already decided not to continue the program due to the complexity of the regulatory rules regarding variable compensation.

The number of ordinary shares of RBI AG which will ultimately be transferred depends on the achievement of two performance criteria: the targeted return on equity (ROE) and the performance of the shares of RBI AG compared to the total shareholder return of the shares of companies in the DJ EURO STOXX Banks index after a five-year holding period.

All expenses related to the share incentive program are recognized in staff expenses in accordance with IFRS 2 (share-based payment) and charged to equity. They are described in greater detail in the notes under (32) Equity.

Subordinated capital

This item comprises subordinated capital and supplementary capital. Assets are subordinated if, in the event of liquidation or bankruptcy, they can only be met after the claims of the other – not subordinated – creditors have been satisfied. Supplementary capital contains all paid-in capital provided by a third-party and available for the company for at least eight years, for which interest is paid only from profit and which can be repaid in the case of insolvency only after all other creditors are satisfied.

Net interest income

Interest and interest-like income mainly includes interest income on loans and advances to banks and customers and from fixed-interest securities. In addition, current income from shares and other variable-yield securities (especially dividends), income from equity participations and from investments accounted for at equity, and interest-like income are also reported under net interest income. Dividend income is recognized if the entitlement of the owner for payment exists. Interest expenses and interest-like expenses mainly include interest paid on deposits from banks and customers and on debt securities issued and subordinated capital. Interest income and interest expenses are accrued in the reporting period. Negative interest from asset items is shown in interest income; negative interest from liability items is shown in interest expenses.

Net fee and commission income

Net fee and commission income mainly includes income and expenses arising from payment transfer business, foreign exchange business and credit business. Fee and commission income and expenses are accrued in the reporting period.

Net trading income

Net trading income comprises the trading margins resulting from the foreign exchange business, results due to foreign exchange revaluations and all realized and unrealized gains and losses from financial assets and liabilities at fair value. In addition, it includes all interest and dividend income attributable to trading activities and related refinancing costs.

General administrative expenses

General administrative expenses include staff and other administrative expenses as well as amortization/depreciation and impairment losses on tangible and intangible fixed assets.

Income taxes

RBI AG and eight of its consolidated domestic subsidiaries are members of a tax group for which Raiffeisen Zentralbank Österreich Aktiengesellschaft acts as group parent. Current taxes are calculated on the basis of taxable income for the current year taking into account the tax group (in terms of a tax group allocation). In the reporting year, a supplementary agreement was added to the current tax group allocation agreement. If RBI AG generates a negative taxable net income and these taxable losses are not usable in the group, then the group parent does not immediately pay a negative tax group allocation. Only and after withdrawal from the tax group at the latest, a final settlement is carried out. The group parent still pays a negative tax group allocation to RBI AG if the tax losses of RBI AG are usable. The taxable income deviates from the profit of the consolidated statement of comprehensive income due to expenses and income which are taxable or tax-deductible in the following years or which are never taxable or tax-deductible. The liability of the Group for current taxes is recognized on the basis of the actual tax rate or the expected applicable tax rate.

Deferred taxes are calculated and recognized in accordance with IAS 12 applying the liability method. Deferred taxes are based on all temporary differences that result from comparing the carrying amounts of assets and liabilities in the IFRS accounts with the tax bases of assets and liabilities, and which will reverse in the future. Deferred taxes are calculated by using tax rates applicable in the countries concerned. A deferred tax asset should also be recognized on tax loss carry-forwards if it is probable that sufficient taxable profit will be generated against which the tax loss carry-forwards can be utilized within the same entity. On each reporting date, the carrying amount of the deferred tax assets is reviewed and impaired if it is no longer probable that sufficient taxable income will become available in order to partly or fully realize the tax assets. Deferred tax assets and deferred tax liabilities within the same entity are netted. Income tax credits and income tax obligations are recorded separately under the items "other assets" and "tax provisions" respectively.

Current taxes and movements of deferred taxes are recognized in the income statement unless they are linked to items which are recognized in other comprehensive income, in which case the current and deferred taxes are also directly recognized in other comprehensive income.

Other comprehensive income

Other comprehensive income comprises all income and expenses directly recognized in equity according to IFRS standards. Income and expenses recognized directly in equity that are reclassified in the income statement are reported separately from income and expenses recognized directly in equity that are not reclassified in the income statement. This applies to currency differences resulting from the translation of equity held in foreign currency, changes resulting from the hedging of net investments in a foreign entity (capital hedge), the effective part of a cash flow hedge, changes resulting from valuation of available-for-sale financial assets as well as deferred taxes on the mentioned items. Revaluations of defined benefit plans are reported in other comprehensive income and are not reclassified to the income statement.

Fiduciary business

Transactions arising from the holding and placing of assets on behalf of third parties are not shown in the statement of financial position. Fees arising from these transactions are shown under net fee and commission income.

Financial guarantees

According to IAS 39, a financial guarantee is a contract under which the guarantor is obliged to make certain payments. These payments compensate the party to whom the guarantee is issued for losses arising in the event that a particular debtor does not fulfill payment obligations on time as stipulated in the original terms of a debt instrument. At the date of recognition of a financial guarantee, the initial fair value corresponds under market conditions to the premium at the date of signature of the contract. For subsequent measurement the credit commitment has to be presented as a provision according to IAS 37.

Insurance contracts

Liabilities arising from insurance contracts change depending on changes in interest rates, income from investments and expenses for pension agreements for which future mortality rates cannot be reliably predicted. IFRS 4 must be applied to the reporting of liabilities resulting from the existence of mortality rate risks and discretionary participation features. All assets associated with pension products are reported in accordance with IAS 39. Liabilities are recorded under other liabilities. Please refer to the notes under (30) Other liabilities for more information on insurance contracts.

Contingent liabilities and commitments

This item mainly includes contingent liabilities from guarantees, credit guarantees, letters of credit and loan commitments recognized at face value. Guarantees are used in situations in which the Group guarantees payment to the creditor of a third party to fulfill the obligation of the third party. Irrevocable credit lines must be reported when a credit risk may occur. These include commitments to provide loans, to purchase securities or to provide guarantees and acceptances. Loan loss provisions for contingent liabilities and irrevocable loan commitments are reported under provisions for liabilities and charges.

Own shares

Own shares of RBI AG at the reporting date are deducted directly from equity. Gains and losses on own shares have no impact on the income statement.

Statement of cash flows

The cash flow statement reports the change in the cash and cash equivalents of the Group through the net cash from operating activities, investing and financing activities. Cash flows for investing activities mainly include proceeds from the sale, or payments for the acquisition of, financial investments and tangible fixed assets. The net cash from financing activities shows all cash flows from equity capital, subordinated capital, and participation capital. All other cash flows are – according to international practices for financial institutions – assigned to operating activities.

Segment reporting

Notes on segment reporting are to be found in the section segment reporting.

Notes on the nature and extent of risks

Information about risks arising from financial instruments is disclosed in the explanatory notes. The risk report in particular contains detailed information on credit risk, country risk, concentration risk, market risk and liquidity risk.

Capital management

Information on capital management, regulatory capital and risk-weighted assets is disclosed in the notes under (47) Capital management and total capital according to CCR/CRD IV and Austrian Banking Act (BWG).

Application of new and revised standards

IAS 19 (Employee contributions; entry into force February 1, 2015)

The amendments clarify the provisions that relate to the allocation of employee or third-party contributions linked to periods of service. In addition, a solution that simplifies accounting practice is permitted if the amount of the contributions is independent of the number of years of service performed. These amendments have no material impact on the consolidated financial statements of RBI.

Annual Improvements to IFRS – 2010–2012 cycle (entry into force February 1, 2015)

The Annual Improvements to IFRS – 2010–2012 cycle include numerous amendments to various IFRS. These amendments have no material impact on the consolidated financial statements of RBI.

Amendments to IAS 1 (Presentation of financial statements; entry into force January 1, 2016)

The amendments aim to remove obstacles encountered by those responsible for preparing the financial statements relating to the exercise of discretion in the presentation of financial statements. These amendments have no material impact on the consolidated financial statements of RBI.

Amendments to IAS 16/IAS 38 (Clarification of acceptable methods of depreciation and amortization; entry into force January 1, 2016)

These amendments provide guidelines for methods of depreciation on tangible and intangible fixed assets to be used; especially related to revenue-based methods of depreciation. These amendments have no material impact on the consolidated financial statements of RBI.

Amendments to IAS 16/IAS 41 (Agriculture: bearer plants; entry into force January 1, 2016)

According to these amendments, IAS 16 is applicable for bearer plants which are no longer subject to obvious biological changes; therefore they can be recognized as tangible fixed assets. These amendments have no impact on the consolidated financial statements of RBI.

Amendments to IAS 27 (Equity method in separate financial statements; entry into force January 1, 2016)

Under these amendments, the option to use the equity method to measure investments in subsidiaries, joint ventures and associated companies in separate financial statements of investors is reinstated. These amendments have no impact on the consolidated financial statements of RBI.

Amendment to IFRS 10, IFRS 12 and IAS 28 (Investment entities: Applying the consolidation exception; entry into force January 1, 2016)

These amendments clarify that an entity may also apply the consolidation exception if its parent entity is an investment entity which measures its subsidiaries at fair value pursuant to IFRS 10. The amendments also clarify that an investment entity only has to consolidate a subsidiary that provides services related to the parent's investment activities if the subsidiary itself is not an investment entity. These amendments have no material impact on the consolidated financial statements of RBI because the Group is not an investment entity pursuant to IFRS 10.

Amendments to IFRS 11 (Joint arrangements; entry into force January 1, 2016)

The amendments to IFRS 11 modify accounting for acquisitions of interests in joint operations in such a way that the acquirer of shares in a joint operation in which the activity constitutes a business operation as defined in IFRS 3 is required to apply all of the principles regarding the recognition of business combinations pursuant to IFRS 3 and other IFRS, provided they do not contradict the principles contained in IFRS 11. These amendments have no material impact on the consolidated financial statements of RBI.

Annual Improvements to IFRS – 2012–2014 cycle (entry into force January 1, 2016)

Numerous amendments and clarifications to various IFRS. These amendments have no material impact on the consolidated financial statements of RBI.

Standards and interpretations that are not yet applicable (already endorsed by the EU)

The following new or amended standards and interpretations, which have been adopted, but are not yet mandatory, have not been applied early.

IFRS 15 (Revenue from contracts with customers; entry into force January 1, 2018)

The standard regulates when revenue is recognized and how much revenue is recognized. IFRS 15 replaces IAS 18 (Revenue), IAS 11 (Construction contracts) and a series of revenue-related interpretations. The application of IFRS 15 is obligatory for all IFRS users and is applicable to almost all contracts with customers – the material exemptions are leasing contracts, financial instruments and insurance contracts.

IFRS 9 (Financial Instruments; entry into force January 1, 2018)

IFRS 9 (financial instruments) contains requirements for the classification, measurement, derecognition of and accounting for hedging relationships. The IASB published the final version of the standard within the context of completion of the various phases on July 24, 2014 and it was definitively incorporated into EU law through the EU Commission's adoption of Regulation (EU) No. 2016/2067 of November 22, 2016. Key requirements of IFRS 9 are:

According to IFRS 9, all financial assets must be measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortized cost at the end of subsequent accounting periods. All other instruments must be measured at fair value.

IFRS 9 also includes an irrevocable option to recognize subsequent changes in the fair value of an equity instrument (not held for trading purposes) in other comprehensive income and to recognize only dividend income in the profit and loss statement.

With regard to the measurement of financial liabilities (designated as measured at fair value through profit or loss), IFRS 9 requires that changes in fair value arising out of changes in the default risk of the reporting entity are to be recognized in other comprehensive income. Changes in fair value attributable to a reporting entity's own credit risk may not be subsequently reclassified to profit or loss.

For subsequent measurement of financial assets measured at amortized cost, IFRS 9 provides for three stages which determine the future amount of losses to be recognized and the recognition of interest. The first stage requires that at the time of initial recognition, expected losses must be shown in the amount of the present value of an expected twelve-month loss. If there is a significant increase in the default risk, the risk provision must be increased up to the amount of the expected full lifetime loss (stage 2). When there is an objective indication of impairment, the interest in step 3 must be recognized on the basis of the net carrying amount. In addition to transitional provisions, IFRS 9 also includes extensive provisions on disclosure both during transition and during ongoing application. New provisions relate in particular to impairment. The mandatory date of the initial application of IFRS 9 will be January 1, 2018.

RBI is implementing a centrally managed IFRS 9 program ("IFRS 9 Implementation") which is sponsored by the Group's Chief Financial Officer and Chief Risk Officer and for which experts provide support in matters relating to methodology, data acquisition and modelling, IT processes and accounting. Overall steering is the responsibility of an IFRS 9 steering committee ("Steering Committee IFRS9 Business Policy & Group Implementation"), whose members include Finance and Risk employees together with the board members with relevant responsibility. Policies and training on IFRS 9 are being provided across all Group units and Group functions as part of the IFRS 9 program in order to prepare for IFRS 9's entry into force for the Group as of January 1, 2018. During the 2016 financial year, RBI also further developed the relevant technical concepts and associated implementation guidelines. As part of the project, steps were commenced to conduct Group-wide iterative impact analyses with regard to classification and measurement ("SPPI test" and "benchmark test") and impairment of financial instruments. RBI will complete the analyses in stages in 2017 and move the project into its implementation phase.

RBI also anticipates that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities. It is expected that overall, IFRS 9 will increase the level of risk provision. This estimate is based on the requirement to recognize a risk provision in the amount of the expected loan defaults for the first twelve months even for those instruments where the credit risk has not increased significantly since initial recognition. Moreover, it is based on the estimate that the volume of assets for which the "lifetime expected loss" is applied is probably larger than the volume of assets where loss events pursuant to IAS 39 have already occurred.

RBI also assumes that IFRS 9 will have consequences for the classification and measurement of financial instruments. Following a detailed analysis, it was established with regard to classification and measurement that for certain contractual cash flows of financial assets there is a risk that parts of the portfolio will have to be re-measured "at fair value through profit or loss".

IFRS 9 grants accounting options for hedge accounting. RBI plans to continue to apply the provisions on hedge accounting pursuant to IAS 39 while, however, taking into account the changes in the information in the notes pursuant to IFRS 7. In addition, RBI will adapt the structure of the consolidated financial statements due to the first-time application of IFRS 9 and resulting changes to IFRS 7 and regulatory requirements (especially (FINREP).

Standards and interpretations not yet applicable (not yet endorsed by the EU)

Amendments to IAS 7 (Disclosure initiative; entry into force January 1, 2017)

The amendments aim to ensure that entities provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to IAS 12 (Deferred taxes; entry into force January 1, 2017)

The amendments clarify that unrealized losses related to debt instruments measured at fair value but at cost for tax purposes can give rise to deductible temporary differences. This applies irrespective of whether the holder expects to recover the carrying amount by holding the debt instrument until maturity and collecting all contractual payments or by selling the debt instrument. In addition, the carrying amount of an asset does not represent the upper limit for the estimation of probable future taxable profits. When estimating future taxable profits tax deductions resulting from the reversal of deductible temporary differences must be excluded and a company must assess a deferred tax asset in combination with other deferred tax assets. If tax law restricts the realization of tax losses, a company must assess a deferred tax asset in combination with other deferred tax assets of the same (admissible) type.

Amendments to IFRS 2 (Share-based payment; entry into force January 1, 2018)

The amendments concern individual matters relating to the accounting of cash-settled share-based payments. The principal amendment/addition relates to the fact that IFRS 2 now contains provisions which relate to the calculation of the fair value of liabilities resulting from share-based payments. The consequences for the consolidated financial statements are still being analyzed.

Amendments to IFRS 4 (Insurance contracts; entry into force January 1, 2018)

The amendments aim to mitigate the consequences resulting from different first-time effective dates for the application of IFRS 9 and the successor standard to IFRS 4, especially for companies whose activities are predominantly connected with insurance. Two optional approaches are being introduced which can be used by insurers if certain requirements are met: the overlay approach and the deferral approach. The consequences for the consolidated financial statements are still being analyzed.

Amendments to IFRS 15 (Revenue from contracts with customers; entry into force January 1, 2018)

The IASB published clarifications to IFRS 15 in 2016. The amendments to clarify IFRS 15 'Revenue from contracts with customers' address three of the five topics identified (identifying performance obligations, principal versus agent considerations and licensing) and aim to provide transition relief for modified contracts and completed contracts. The consequences for the consolidated financial statements are still being analyzed.

IFRS 16 (Leases; entry into force January 1, 2019)

For lessees, the new standard provides an accounting model which does not distinguish between finance and operating leases. In future, it will be necessary to report the majority of lease agreements in the balance sheet. For lessors, the rules of IAS 17 remain largely applicable, with the result that in future, they will still have to distinguish between finance and operating lease agreements – with corresponding implications for accounting. The consequences for the consolidated financial statements are still being analyzed.

Annual improvements to IFRS – 2014–2016 cycle (entry into force January 1, 2017/2018)

The amendments include in particular:

- IFRS 1 First-time adoption of International Financial Reporting Standards: Deletion of the remaining short-term exemptions in IFRS 1 for first-time users.
- IFRS 12 Disclosure of interests in other entities: Clarification that with the exception of IFRS 12.B10-B16, the standard's disclosure requirements also apply to interests which fall under the scope of IFRS 5.
- IAS 28 Investments in associates and joint ventures: Clarification that the election to measure an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment on an investment-by-investment basis.

The amendments to IFRS 12 are applicable from January 1, 2017, the amendments to IFRS 1 and IAS 28 from January 1, 2018. Earlier application is permitted.

IFRIC 22 (Foreign currency transactions and advance consideration; entry into force January 1, 2018)

This interpretation clarifies the accounting for transactions that include the receipt or payment of considerations in a foreign currency.

Amendments to IAS 40 for the classification of property under construction or development published (entry into force January 1, 2018)

The amendments serve to clarify the provisions in relation to transfers to or from investment properties. In particular, the amendments clarify whether property which is under construction or development which was previously classified under inventories can be transferred to investment properties when there is an evident change of use.

Amendments to IFRS 10/IAS 28 (Sale or contribution of assets between an investor and its associate or joint venture; entry into force January 1, 2016)

The amendments clarify that for transactions with an associate or joint venture, the extent of recognition of gains or losses depends on whether the sold or contributed assets constitute a business. The effective date has been deferred indefinitely.

IFRS 14 (Regulatory deferral accounts; entry into force January 1, 2016)

Only entities applying IFRS for the first time and who recognize regulatory deferrals according to their previous accounting standards are allowed to continue with regulatory deferrals after transition to IFRS. The standard is intended to be a short-term interim solution till the IASB concludes the long-term project relating to price-regulated business transactions. The European Commission has decided not to commence the adoption process for this temporary standard yet and to await the final IFRS 14.

Events after the reporting date

Extraordinary General Meeting approves merger with RZB

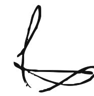
The Extraordinary General Meeting of RBI approved the merger with RZB by a clear majority on 24 January 2017. The shareholders also approved the capital increase related to the merger. RBI's share capital will be increased by € 109,679,778.15, from € 893,586,065.90 to € 1,003,265,844.05, through the issuance of 35,960,583 new no par value common bearer shares. The number of shares issued will therefore increase to 328,939,621.

The merged company will operate under the name of Raiffeisen Bank International AG, as previously the case for RBI, and RBI shares will continue to be listed on the Vienna Stock Exchange.

Vienna, 28 February 2017

The Management Board

Karl Sevelda



Johann Strobl

Klemens Breuer

Martin Grüll

Andreas Gschwenter

Peter Lennkh

Auditor's report

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of

Raiffeisen Bank International AG,
Vienna, Austria,

and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Sections 245a UGB (Austrian Commercial Code) and 59a BWG (Austrian Banking Act).

Basis for our Opinion

We conducted our audit in accordance with the EU Regulation (EU) 537/2014 ("EU Regulation") and with Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities pursuant to these rules and standards are described in the "Auditors' Responsibility" section of our report. We are independent of the audited entity within the meaning of Austrian commercial law and professional regulations, and 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 consolidated financial statements. Key audit matters are selected from the matters communicated with the audit committee, but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

In the following we present the key audit matters from our point of view:

- Recoverability of loans and advances to customers
- Valuation of derivative financial instruments
- Valuation of liabilites at fair value through profit and loss

Recoverability of loans and advances to customer

The Financial Statement Risk

Loans and advances to customers as at the Balance Sheet date amout to EUR 70.5 billion. This is made up of EUR 44.2 billion in loans to corporates, EUR 25.6 billion in loans to retail customers and EUR 0.7 billion in loans to the public sector. For these assets individual as well as portfolio loan loss provisions amounting to a total of EUR 4.9 billion have been recognized, comprising EUR 3.1 billion for loans to corporates and EUR 1.8 billion loans to retail customers.

The Board describes the process of monitoring the credit risk and the procedures for determining the loan loss provisions within the "Risk Report" and "Recognition and Measurement Principles" chapters within the notes of the Financial Statements.

As part of the credit risk monitoring process the bank checks if there is any indication of impairment and therefore whether an individual loan loss provision is needed. This includes assessing whether the customer can fully fulfill the contractually agreed repayments without the need of realizing collaterals.

Where there is an indication of impairment on loans to corporates, provisions are formed in the amount of the expected loss according to homogeneous Group-wide standards. This occurs when the discounted projected future repayment amounts, including interest and any amounts realisable from collateral, is below the carrying value of the loan. This assessment is significantly influenced by the estimate of the clients economic situation and development, the estimate of collateral values and the amount and timing of future cash flows.

For retail clients individual loan loss provisions are calculated using the Internal Rating Based Approach using the default definitions of the internal rating systems. One entity uses the Delinquency Bucket based Approach whereby all amounts overdue by more than 180 days are fully provisioned.

Portfolio loan loss provisions are calculated for all corporate customers that are not impaired based on their individual risk profile (individul rating classes). Portfolio loan loss provisions are determined using centrally calculated historical default rates for each rating class, collateral values and other statistical and historical data.

For retail clients the portfolio loan loss provision is calculated automatically using general probability of default rates and loss given default rates. These parameters are based on historical statistic 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 mistatement 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 and analysed these documents to determine whether the processes adequately identify impairment indicators and ensure amounts are recorded at their appropriate carrying value in the Financial Statements. In addition we tested the entire process as well as 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 provision we used a sampling based approach to determine whether impairment indicators were indentified and whether appropriate loan loss provisions were calculated. We critically assessed the banks estimates regarding the amount and timing of future cash flows, including those resulting from realisation of collaterals, and whether the banks assessment was in line with the internal and external information available. The sample selection was made using both a risk based approach dependant on the clients rating class, and random selection approach for clients with a lower probability of default. With regards to the internal collateral valuation we analysed whether the assumptions used in the model were adequate and in line with available market data. We involved our internal valuation specialists in this process.

For portfolio loan loss provision we reviewed whether the models and relevant parameters used were adequate for calculating loan loss provisions. For corporate clients we used sampling to test whether the applied probability of default rates per rating class had been correctly determined. Our internal valuation specialists assessed the appropriateness of the models and parameters used in the calculation. We further analysed whether the models and parameters used, taking into account backtesting results, are appropriate for calculating loan loss provisions.

Finally we asssessed whether the disclosures in the notes to the Financial Statements regardings loan loss provisions were appropriate.

Valuation of Derivatives

The Financial Statement Risk

The Group has entered into derivatives for trading and hedging purposes as part of its business activities. The allocation of a derivative to the trading/banking book or hedge accounting is significant for it's presentation and subsequent valuation.

The Board describes its derivative financial instruments, the designation of derivatives to a hedging relationship as well as the calculation of fair value of financial instruments within the "Recognition and Measurement Principles" chapter in the notes of the Financial Statements.

For fair value instruments for which no quoted prices or only insufficient observable market data is available fair value is determined using internal models based on the assumptions and parameters within these models. Due to the leverage inherent in derivatives, market values of derivatives can be subject to significant fluctuation.

In order to apply hedge accounting, the bank is required to document the hedging relationship as well as the hedge effectiveness testing. In the case of a suitably documented strategy, bank book derivatives can be designated as hedging instruments for both micro hedges and portfolio hedges.

Our Audit Approach

We have analysed the allocation of derivatives and their presentation in the Statement of Financial Position using a sampling approach. We have analysed the process documentation regarding derivate closing, settlement, valuation, risk and limit monitoring, clearing and internal data management. The design and implementation of essential controls in the processes were critically assessed and the effectiveness of these controls was tested.

We involved valuation specialists to evaluate the fair values determined by the Group. We have examined the appropriateness of the valuation models used and the underlying valuation parameters by comparing the parameters used with available market data. Additionally we have sample tested the calculation and the assumptions used.

We have examined the existence of hedging relationships by reviewing the hedge accounting documentation using a sampling approach and in particular whether the hedging intention and documentation were in place at inception of the hedging relationship. We also reviewed the effectiveness tests provided by the Group to ensure they have been calculated appropriately. In addition, we have reconciled on a sample basis the hedge accounting adjustments to the Statement of Financial Position and Statement of Comprehensive Income.

Finally, we assessed whether the disclosures in the notes regarding the valuation methods, fair value hierarchy and hedging relationships were complete and appropriate.

Valuation of Liabilities at fair value through profit and loss

The Financial Statement Risk

As at the Balance Sheet date liabilities measured at fair value amount to EUR 2.8 billion, out of which EUR 0.7 are subordinated. In addition to the general market risk factors, their fair value is significantly influenced by the own credit risk of the issuing entity (credit spread).

The Board describes the process of calculating the fair value of these liabilities that are measured at fair value within Note 40 and the “Recognition and Measurement Principles” chapter in the notes of the Financial Statements.

The fair value calculation of own debt security issued for which there no market price available is based on an internal valuation model. The fair value is determined using a Discounted Cash Flow model applying estimated credit spreads. The credit spreads used in the model are derived from available market data.

The credit spread curve is a significant input to the fair value calculation and due to the indicative nature of the price quotations leads to a risk of mistatement in the Financial Statements.

Our Audit Approach

We have analysed the documentation that describes the process of issuance, valuation and risk and limit monitoring of liabilites measured at fair value. The design and implementation of essential controls in the processes were critically assessed and the effectiveness of these controls was tested.

We involved valuation specialists to evaluate the fair value model used by the Group. Further we compared the data inputs to this model to the available market data to determine whether the data input lies within a reasonable range in comparison to the available market data. Based on the documentation obtained we assessed whether the derived credit spread curve was adequate for dertermining the fair value of the liabilities. Using a samplling approach We tested whether the fair values calculation is appropriate on a sample basis.

Finally, we assessed whether the disclosures in the notes regarding the fair valued liabilities was appropriate and complete.

Management's Responsibility and Responsibility of the Audit Committee for the Consolidated Financial Statements

The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Sections 245a UGB (Austrian Commercial Code) and 59a BWG and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, and, where appropriate, to disclose matters that are relevant to the Group's ability to continue as a going concern and to apply the going concern assumption in its financial reporting, except in circumstances in which liquidation of the Group or closure of operations is planned or cases in which such measures appear unavoidable.

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

Auditors' Responsibility

Our aim is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatements, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance represents a high degree of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, will always detect a material misstatement when it exists. Misstatements may result from fraud or error and are considered material if they could, individually or in the aggregate, reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation and with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, we exercise professional judgment and retain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, we plan and perform procedures to address such risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk that material misstatements due to fraud remain undetected is higher than that of material misstatements due to error, since fraud may include collusion, forgery, intentional omissions, misleading representation or 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 as well as related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In case we conclude that there is a material uncertainty about the entity's ability to continue as a going concern, we are required to draw attention to the respective note in the financial statements in our audit report or, in case such disclosures are not appropriate, to modify our audit opinion. We conclude based on the audit evidence obtained until the date of our audit report. Future events or conditions however may result in the Company departing from the going concern assumption.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, among 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 in the course of our audit.
- We report to the audit committee that we have complied with the relevant professional requirements in respect of our independence and that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, related measures taken to ensure our independence.
- From the matters communicated with the audit committee we determine those matters that required significant auditor attention in performing the audit and which are therefore key audit matters. We describe these key audit matters in our audit report except in the circumstances where laws or other legal regulations forbid publication of such matter or in very rare cases, we determine that a matter should not be included in our audit report because the negative effects of such communication are reasonably expected to outweigh its benefits for the public interest.

Report on Other Legal Requirements

Group Management Report

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

The legal representatives of the Company are responsible for the preparation of the group management report in accordance with Austrian Generally Accepted Accounting Principles.

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

Opinion

In our opinion, the group management report has been prepared in accordance with legal requirements and is consistent with the consolidated financial statements. 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 consolidated financial statements and the understanding of the Group and its environment, we did not note any material misstatements in the group management report.

Other Information

The legal representatives of the Company are responsible for the other information. Other information comprises all information provided in the annual report, with the exception of the consolidated financial statements, the group management report, and the auditor's report thereon.

Our opinion on the consolidated financial statements does not cover other information, and we will not provide any assurance on it.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether it contains any material inconsistencies with the consolidated financial statements and our knowledge gained during our audit, or any apparent material misstatement of fact. If on the basis of our work performed, we conclude that there is a material misstatement of fact in the other information, we must report that fact. We have nothing to report with this regard

Auditor in Charge

The auditor in charge is Mr. Wilhelm Kovsca.

Vienna, 28 February 2017

KPMG Austria GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Wilhelm Kovsca

Wirtschaftsprüfer

(Austrian Chartered Accountant)

Management report

Market development

Markets swayed by monetary policy

Developments in the money and capital markets continued to be dominated last year by international central bank policies. In the spring of 2016, for example, the European Central Bank (ECB) decided among other things to expand its bond-buying program from € 60 billion per month to € 80 billion, to offer banks funding through long-term refinancing operations, as well as to cut key interest rates. The central bank made adjustments to its policy mix at its last meeting in 2016. The minimum remaining period for its bond purchases was extended to the end of 2017, with the monthly volume to return to € 60 billion as of April 2017. Money market rates fluctuated between the central bank's deposit rate and main refinancing rate over the course of last year, and were in negative territory across all maturities since mid-January 2016. The yield on two-year German government bonds was already negative in 2015, with yields at the short end continuing to fall in 2016. The yield on ten-year German government bonds came down in the first half of 2016, due to falling inflation expectations and the increase in ECB bond purchases; however, started increasing as of last autumn. In the US, the Fed raised its key rate range by 25 basis points to 0.50-0.75 per cent in December after a one-year pause.

According to preliminary data, real GDP in the euro area grew 1.7 per cent in 2016. Consequently, the upswing in the monetary union continued, despite the fact that economic growth concerns repeatedly surfaced last year. Economic growth was driven primarily by private consumption and to a lesser extent by government consumption and gross fixed capital formation. At the country level, economic development continued to be highly varied. Whereas Spain's GDP expanded by 3.3 per cent, Italy posted GDP growth of a mere 1.0 per cent. The average price level of consumer goods remained virtually unchanged in the euro area during most of the year. The lack of general inflationary pressure on consumer goods was attributable to falling prices for energy and imported goods. Only when energy prices increased towards the end of 2016 – compared to prior year levels – did the inflation rate pull away appreciably from the zero per cent mark.

Austria's economy experienced a moderate upturn in 2016, with real GDP growing 1.5 per cent. Domestic demand was the main pillar of economic growth. Private consumption benefited from the tax reform that went into effect at the beginning of 2016, and equipment investment was comparatively dynamic. Construction investment expanded for the first time in a number of years. In contrast, net exports did not support real GDP growth.

The US economy had a weak start to 2016. This was primarily the result of unusually low inventory investment, as well as declining investment in mining and oil & gas exploration due to sharply lower commodity prices. These negative effects subsequently subsided in the second half of the year, and the economy resumed its dynamic growth. In particular, private consumption grew at an encouraging pace. Nevertheless, real gross domestic product increased only 1.6 per cent in 2016, due to the weak start to the year.

China's economic growth stabilized and is estimated to be 6.7 per cent for 2016. Although the government's economic support initiatives are likely to have kicked in, these primarily benefited large state enterprises through infrastructure investment. Growth impetus continued to come from the real estate sector.

Solid growth in CE and SEE, recession flattening out in Russia

The low and in some cases negative inflation rates in Central and Southeastern Europe (CE and SEE) and the ECB's low interest rate policy enabled key rates in the region to be kept at a low level last year. In a number of countries further monetary policy easing measures were even taken or continued to be implemented. In Poland and Romania, moreover, fiscal growth stimuli supported private consumption.

The CE region registered a somewhat weaker economic trend in 2016, with GDP growth at 2.7 per cent. Although CE continued to benefit from solid economic growth in Germany, as well as from the recovery in the euro area and from expansionary monetary policies in some CE countries, economic growth in CE came in below the previous year's level. One contributory factor was the drop in investment activity owing to temporarily lower EU transfer payments into the region. Poland, the region's growth engine, lost considerable momentum and recorded 2.8 per cent year-on-year growth. Overall, however, the economic data indicates balanced growth with solid export and dynamic domestic economic activity.

SEE reported strong economic growth of 3.9 per cent year-on-year in 2016. Once again, the Serbian and Croatian economies significantly stepped up their pace of growth compared to the previous year. The Croatian economy benefited from political stabilization. In Romania, household demand was stimulated by tax cuts. With GDP growth of 3.3 per cent, Bulgaria caught up somewhat with Romania. Overall, economic growth in SEE was at its strongest pace in several years. Although a portion of this growth was attributable to temporary factors, it nonetheless underscores that the weak phase of previous years has been overcome.

Economic conditions in Eastern Europe (EE) improved in 2016. Russia benefited from a recovery in oil prices over the course of the year. Prudent monetary and fiscal policy had a stabilizing effect but failed to deliver additional growth impetus. The recession in Russia flattened out significantly, and economic output fell only 0.2 per cent year-on-year in 2016. Russia's manufacturing sector improved somewhat towards the end of last year, but private household demand remained weak. Ukraine's economy bottomed out in 2015 and returned to growth of 2.2 per cent in 2016. The Belarusian economy, which is heavily dependent on financial support from and exports to Russia, remained in a persistent recession. Inflation rates in EE retreated from high levels amid more stable exchange rate developments and weak domestic demand.

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

Region/country	2015	2016e	2017f	2018f
Czech Republic	4.6	2.3	2.7	2.5
Hungary	2.9	2.0	3.2	3.4
Poland	3.9	2.8	3.3	3.0
Slovakia	3.8	3.3	3.3	4.0
Slovenia	2.3	2.5	2.7	2.5
Central Europe	**3.8**	**2.7**	**3.1**	**3.0**
Albania	2.6	3.5	4.0	4.0
Bosnia and Herzegovina	3.0	2.5	3.0	3.5
Bulgaria	3.6	3.3	3.3	3.3
Croatia	1.6	2.9	3.3	2.8
Kosovo	4.1	3.5	3.5	3.5
Romania	3.9	4.8	4.2	3.5
Serbia	0.7	2.8	3.0	3.0
Southeastern Europe	**3.1**	**3.9**	**3.7**	**3.3**
Belarus	(3.8)	(2.6)	(0.5)	1.5
Russia	(2.8)	(0.2)	1.0	1.5
Ukraine	(9.9)	2.2	2.0	3.0
Eastern Europe	**(3.3)**	**(0.1)**	**1.0**	**1.6**
Austria	**1.0**	**1.5**	**1.7**	**1.5**
Germany	**1.5**	**1.8**	**1.7**	**1.5**
Euro area	**2.0**	**1.7**	**1.9**	**1.7**

Development of the banking sector in CEE

In 2016, many indicators exhibited a substantial recovery of the banking sector from the subdued levels of the previous year. Positive trends in new lending or in asset growth continued in several CE and SEE countries in 2016 (e.g. in the Czech Republic, Slovakia and Romania). The banking sector in Russia also recovered significantly. Nearly 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, many challenging banking markets of recent years started posting considerable profits again at sector level in 2016 (e.g. Hungary, Romania, Croatia and Russia). In particular, leading foreign banks also significantly outperformed general market trends in the challenging Eastern European banking markets (Russia, Ukraine, and Belarus). The positive profitability trend was additionally supported by the sustained stabilization, or even a sharp drop, in non-performing loans (NPLs) in CE and SEE (with significant differences at country level). Overall, the NPL ratio in CE and SEE fell from previously 8.3 per cent to 7.4 per cent in 2016 as a result. In view of the positive developments in CE and SEE, as well as the stabilization of NPLs and profitability in Russia, return on equity in the CEE banking sector significantly increased above the comparable figure in the euro area again in 2016.

Banking sector in Austria

In 2016, the banking sector in Austria continued to perform below average when compared to the euro area in terms of credit growth (notably in corporate banking). Lending focused on retail customer and real estate financing transactions in particular. However, the profitability of Austria's banking sector markedly increased at a consolidated level, mainly supported by CEE business. As a result, the Austrian banking sector also significantly improved its capitalization relative to major Western European countries. However, the reported regulatory capital ratios continue to be below average by international standards. If the leverage ratio is included as benchmark, Austrian banks performed remarkably better. Capital requirements will gradually increase following the introduction of the Systemic Risk Buffer as well as of the buffer for Other Systemically Important Institutions (O-SIIs), which the Financial Market Stability Board (FMSB) has recommended. The reduction in the bank tax from 2016 should also have a positive impact in the following years.

The Sustainability Package, which was launched in 2012, has helped to strengthen the local funding base of Austrian subsidiary banks in CEE. The loan/deposit ratio fell from 117 per cent in 2008 to 88 per cent in the first quarter of 2016, and was primarily attributable to an increase in local savings deposits. Accordingly, credit growth is increasingly financed on a local basis.

The Single Resolution Mechanism (SRM) became fully effective on 1 January 2016. The Single Resolution Board (SRB) is the central body responsible for making all decisions relating to the resolution of major banks that are either failing or at risk of failing. The measures are implemented in cooperation with the relevant national resolution authorities.

In the first half of 2016, the Austrian banks generated a positive consolidated net income of roughly € 2.9 billion, or € 0.3 billion more than in the same period of the previous year. The positive result was mainly driven by the sharp reduction in loan loss provisions, which not only more than offset significant declines in net interest income as the most important income component, but also lower income from commissions and net trading income. The profitability of Austrian subsidiary banks in CEE significantly improved in the first quarter of 2016. Profit contributions from Austrian subsidiary banks were positive in all CEE countries. The highest profits were made in the Czech Republic, Romania and Russia, albeit with profits down in Russia in comparison with the previous year's quarter.

Regulatory environment

Changes in the regulatory environment

The Group focused intensively on current and forthcoming regulatory developments again in the year under review.

Proposed legislation relating to the European Deposit Insurance Scheme (EDIS)

In 2015, the European Commission proposed a European Deposit Insurance Scheme (EDIS) designed to support the banking union, strengthen the protection of depositors, increase financial stability, and further weaken the link between banks and sovereigns. The EDIS is part of the European SRB and covers all national deposit guarantee systems (including IPS) and is to be developed incrementally in three stages by 2024. In the first stage it is to comprise a reinsurance scheme of the national deposit guarantee systems and subsequently become a co-insurance scheme after three years, under which the contribution of the EDIS is to progressively increase over time. A fully comprehensive EDIS is planned as the last stage, which is scheduled for 2024. The final adoption and publication of the law is lined up for the fourth quarter of 2017 at the earliest.

Bank recovery and bank resolution

The Austrian Bank Recovery and Resolution Act (Bankenabwicklungs- und Sanierungsgesetz (BaSAG)) went into force in 2015 and ensures the national implementation of the EU's Bank Recovery and Resolution Directive from 2014. With regard to recovery planning under the Single Supervisory Mechanism (SSM), the Group is subject to direct supervision by the ECB while, with regard to resolution planning under the SRM, it is subject to direct supervision by the SRB.

The Group has drawn up a recovery plan that meets the requirements of the BaSAG. The recovery plan describes potential measures for ensuring the capacity to act in financial stress situations. With the help of material key performance indicator (KPI) monitoring for early detection, the recovery plan establishes a comprehensive governance structure for stress situations. The recovery plan is drawn up by the Group, updated on a regular basis and reviewed by the supervisory authority (ECB).

Resolution plans are drafted by the resolution authority, which also grants powers to remove any barriers to resolution. Resolution strategies for banks are likewise laid down in the resolution plans. As part of the framework for the resolution of banks, specific resolution tools are made available to the resolution authorities. For example, the Group – already prior to the introduction of the Austrian Bank Intervention and Restructuring Act (Banken Interventions- und Restrukturierungsgesetz (BIRG)) and the BaSAG – set limits on intra-Group relationships in order to reduce cluster risk and unrestricted residual risk both to itself and to its owners.

In addition to preparing resolution plans, the obligation to comply with an MREL (Minimum Requirement for Own Funds and Eligible Liabilities) is also determined and individually specified for each bank/resolution entity. The Group is currently working in close cooperation with the SRB and national resolution authorities to draw up a resolution plan that meets the statutory requirements. The participation of creditors (bail-in tool) represents one possible tool in a resolution concept. As a result, the resolution authorities will set the MREL. On the basis of the resolution strategy, an MREL is set for each bank/resolution entity or the entire banking group. The calibration of MREL targets is to be carried out by the supervisory authorities and is based on relevant statutory regulations, resolution plans, as well as individual aspects of the respective bank (e.g. size, business model and risk profile). Not only a bank's regulatory capital but also its long-term unsecured debt that is not subject to a deposit protection scheme or similar restrictions are basically considered to be eligible for MREL.

Amendment to European regulations

In November 2016, the European Commission published a legislative proposal to change the prudential requirements (CRD IV/CRR), as well as to amend the recovery and resolution framework (BRRD, SRM). The documents provide the basis for follow-up negotiations with the EU Parliament and European Council and at the same time offer a preview of the regulatory challenges for the years following 2017.

On the one hand, the proposed changes to the CRR can be broken down thematically into criteria for classification under the finalized Basel III. This comprises, for example, the introduction of a binding minimum leverage ratio and net stable funding ratio (NSFR), as well as add-ons to the bank recovery and resolution regulations, in order to meet the Total Loss Absorbing Capacity (TLAC) requirements for global systemically important banks. On the other hand, the drafts include adjustments whose content already relates to Basel IV, e.g. the introduction of a standardized approach for measuring counterparty risks, an overhaul of market price risk regulations within the framework of the Fundamental Review of the Trading Book (FRTB) and new rules for investment funds. Compared to the previous implementation of Basel standards, it is clearly evident that proportionality is given far greater weight, in particular, to meet the needs of the numerous smaller banks in the EU. According to the latest information, the new rules and regulations are expected to be applicable from 2019 onwards.

Action plan for building a capital markets union

The European Commission aims to improve access to capital market funding for all companies, especially small and medium-sized enterprises (SMEs). It wants to break down barriers that are blocking cross-border investments on the capital market. The action plan of 30 September 2015, provides for a bundle of measures through to 2017, including specific legislative proposals relating to securitization and consultations on covered bonds. The work packages for the action plan were processed and/or expedited in 2016. While the fundamental aim of driving cross-border investments is certainly to be welcomed, it cannot provide a realistic alternative to credit financing for SMEs through banks. Instead, the proposed measures can arguably only be considered as measures to supplement financing by banks.

Earnings and financial performance

The consolidated financial statements of RBI are prepared in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU. RBI AG also prepares individual financial statements in accordance with the Austrian Commercial Code (UGB) in conjunction with the Austrian Banking Act (BWG), which provide the formal basis of assessment for calculating dividend distributions and taxes. For more information on disclosures required by the UGB and BWG, please see note (46) other disclosures according to BWG in the consolidated financial statements.

Significant events

Merger of RBI AG and RZB AG

On 5 October 2016, the Management and Supervisory Boards of RBI AG and RZB AG passed in principle a resolution to merge RBI AG and RZB AG. The respective Extraordinary General Meetings of the participating companies subsequently approved the merger by a clear majority in January 2017. Accordingly, the merger of RZB AG into RBI AG will become effective in the first quarter of 2017 with its entry in the commercial register. Consequently, reporting will be prepared on the basis of the combined bank as of the first quarter of 2017. The Company will continue to operate under the name of Raiffeisen Bank International AG, and RBI shares will remain listed on the Vienna Stock Exchange. The shareholding of the RBI free float will be 41.2 per cent following the merger. The regional Raiffeisen banks will hold approximately 58.8 per cent of RBI shares. There is a related syndicate agreement that contains, among other things, lock-up provisions.

Following the merger, the Group's risk-weighted assets (total RWA) would increase 13 per cent to € 68 billion (pro forma as at the end of 2016). The common equity tier 1 ratio (transitional) of the merged entity, based on a pro forma calculation, would be 12.7 per cent as at the end of 2016, with a common equity tier 1 ratio (fully loaded) of 12.4 per cent.

Transformation program

The sale of Raiffeisen-Leasing Polska S.A., Warsaw, to PKO Leasing S.A., Warsaw, was closed on 1 December 2016. The purchase price was € 193 million. Including reclassified realized currency effects, this led to a positive impact of approximately € 18 million on RBI's consolidated profit in the fourth quarter. The transaction also resulted in an improvement of 33 basis points in RBI's CET1 ratio (fully loaded). RWA decreased around € 1,272 million.

Negotiations with Alior Bank S.A. on the sale of the core banking business of Raiffeisen Bank Polska S.A. (Raiffeisen Polbank) were terminated on 7 December 2016. As agreed with the regulator, RBI is now preparing to list a 15 per cent stake in Raiffeisen Polbank in an initial public offering, while also working on rightsizing the business model.

Following the inconclusive sales process relating to ZUNO BANK AG, parts of the existing business are being integrated into the subsidiary banks in the Czech Republic and Slovakia. It is planned to complete the integration by the middle of 2017.

As part of the planned reduction in RWA, significant progress has been made in Asia since the end of 2014, with RWA scaled back by approximately 84 per cent to € 395 million. The winding down of the US operations is also making good headway, with a decrease in RWA of circa 66 per cent to € 347 million since the end of 2014. The remaining business is now being run down; branches in Asia and business outlet in the US are being reduced to a minimum, and no longer conduct active business.

As a result of the measures described, RBI reached its CET1 ratio (fully loaded) target of at least 12 per cent by the end of 2017, ahead of schedule, and significantly exceeded it with a ratio of 13.6 per cent (fully loaded) at the end of 2016. The transformation program was thereby completed ahead of time, and the Non-Core segment is to be dissolved as of the beginning of 2017. The remaining business will be integrated into the existing segments.

Merger of Group parent companies

RBI's former ultimate parent company, Raiffeisen-Landesbanken-Holding GmbH, Vienna, and its wholly owned subsidiary R-Landesbanken-Beteiligung GmbH, Vienna, in which 82.4 per cent of the shares in Raiffeisen Zentralbank Österreich AG were pooled, were merged into Raiffeisen Zentralbank Österreich AG at the end of September 2016. The latter will thus serve as ultimate parent company of RBI up until its merger into RBI, forming a consolidated group. Once RZB AG is merged into RBI AG, then RBI AG itself will be the ultimate parent company.

Revision of bank levy regulation in Austria

In July 2016 the Austrian government reached an agreement to amend the bank levy regulation from 2017 onwards. The amendment includes a reduction in the annual bank levy; at the same time, Austrian banks are to make a one-off payment. For the merged Group this will amount to around € 163 million. This payment will be spread over a four-year period, starting in 2017. The Austrian bank levy came to approximately € 85 million for RBI in 2016 (€ 1 million less than in 2015). Starting in 2017, the amount will be around € 58 million per year for the merged Group, including the proportional share of the one-off payment, until 2020.

Overview of the financial year

In addition to the persistently low interest rate level, which also resulted in a decline in RBI's operating result, the financial year was primarily influenced by significantly lower impairment losses on loans and advances. In CEE, nearly all markets registered declines. Also in Asia, impairment losses were € 118 million lower than in the previous year. Net provisioning for impairment losses fell 40 per cent year-on-year, or € 509 million, to € 754 million. The largest declines occurred in Ukraine, Asia and at Group head office. Consolidated profit amounted to € 463 million and improved 22 per cent year-on-year, or € 84 million.

Operating income was down 5 per cent year-on-year, or € 237 million, to € 4,692 million. A portion of the decline was attributable to currency devaluations in Eastern Europe. Net interest income fell 12 per cent, or € 391 million, to € 2,935 million. This was primarily attributable to continuing low market interest rates in many of the Group's countries, existing excess liquidity, and a reduction of € 215 million, particularly in Russia, in interest income from derivatives entered into for hedging purposes. Despite the currency devaluations in Eastern Europe and lower sales in Central Europe, net fee and commission income declined only 1 per cent, or € 22 million, to € 1,497 million. Net trading income rose € 198 million year-on-year to € 215 million. Net income from currency-based transactions improved by € 176 million to € 116 million, primarily as a result of a more limited devaluation of the Ukrainian hryvnia than in the previous year (€ 81 million increase).

General administrative expenses were down 2 per cent year-on-year, or € 66 million, to € 2,848 million. On the one hand, this decline was attributable to currency devaluations in Eastern Europe; on the other, deposit insurance fees were lower (€ 34 million) mainly in Poland, the Czech Republic, Romania and Bulgaria. In addition, office space expenses fell € 26 million because of branch closures. Expenses were increased by expenditures for the bank resolution fund (up € 10 million) and for IT (up € 6 million). Staff expenses rose 1 per cent, or € 20 million, to € 1,410 million. Cost savings from the workforce reduction of 7 per cent were set against increases from the purchase of Citibank's retail business in the Czech Republic and from growth in Slovakia. Furthermore, no bonuses for the year 2014 were paid in 2015, which resulted in a release of provisions totaling approximately € 76 million. This effect was absent in the 2016 financial year.

The average number of staff was further reduced, down 3,906 year-on-year to 50,186. The number of business outlets decreased 199 year-on-year to 2,506.

In the course of the year, total assets fell 2 per cent, or € 2,563 million, to € 111,864 million. Changes in the scope of consolidation were responsible for around € 2,400 million decline in consolidated total assets, which resulted primarily from the sale of the Polish leasing business and of the Slovenian subsidiary bank. Currency developments – predominantly the appreciation of the Russian rouble (up 25 per cent) and the US dollar against the euro (up 3 per cent) – resulted in an increase of around € 1,700 million.

Equity including capital attributable to non-controlling interests increased 9 per cent, or € 731 million, to € 9,232 million. Increases resulted from profit after tax of € 574 million and other comprehensive income of € 190 million. Exchange rate differences represented the largest item in other comprehensive income and amounted to € 291 million in the reporting period (2015: minus € 194 million).

In terms of regulatory capital, the key metrics changed as follows: Common equity tier 1 (after deductions) was € 8,339 million at the end of the year, a € 668 million increase over the 2015 comparable figure. Total capital pursuant to the CRR came to € 11,537 million, which corresponds to an increase of € 550 million compared to the 2015 year-end figure. Total risk-weighted assets were down € 3,212 million to € 60,061 million, as a result of the sale of the Slovenian subsidiary bank and the Polish leasing business, as well as due to rating improvements in Ukraine and Belarus. Based on total risk, the common equity tier 1 ratio (transitional) was 13.9 per cent while the total capital ratio (transitional) was 19.2 per cent. Excluding the transitional provisions as defined in the CRR, the common equity tier 1 ratio (fully loaded) stood at 13.6 per cent, and the total capital ratio (fully loaded) was 18.9 per cent.

No dividend will be distributed for the 2016 financial year, to continue to sustainably strengthen the capital ratio.

Detailed review of income statement items

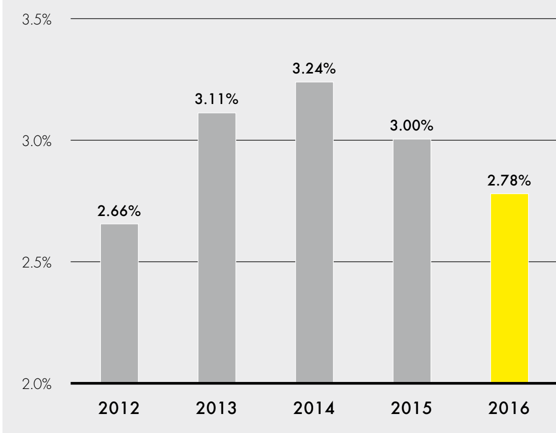
in € million	2016	2015	Change absolute	Change in %
Net interest income	2,935	3,327	(391)	(11.8)%
Net fee and commission income	1,497	1,519	(22)	(1.5)%
Net trading income	215	16	198	>500.0%
Recurring other net operating income	45	66	(21)	(31.8)%
Operating income	**4,692**	**4,929**	**(237)**	**(4.8)%**
Staff expenses	(1,410)	(1,389)	(20)	1.5%
Other administrative expenses	(1,107)	(1,173)	66	(5.6)%
hereof regulatory other administrative expenses	(144)	(167)	24	(14.1)%
Depreciation	(331)	(351)	20	(5.8)%
General administrative expenses	**(2,848)**	**(2,914)**	**66**	**(2.3)%**
Operating result	**1,844**	**2,015**	**(171)**	**(8.5)%**
Net provisioning for impairment losses	(754)	(1,264)	509	(40.3)%
Other results	(204)	(40)	(164)	409.8%
Profit/loss before tax	**886**	**711**	**175**	**24.6%**
Income taxes	(312)	(276)	(36)	13.1%
Profit/loss after tax	**574**	**435**	**139**	**31.9%**
Profit attributable to non-controlling interests	(111)	(56)	(54)	96.8%
Consolidated profit/loss	**463**	**379**	**84**	**22.2%**

Operating income

Net interest income

In 2016, net interest income declined 12 per cent, or € 391 million, to € 2,935 million. This was primarily attributable to continuing low market interest rates in many of the Group's countries, existing excess liquidity, and a reduction of € 215 million, particularly in Russia, in interest income from derivatives entered into for hedging purposes. This was a result of the lower interest rates in 2016 (the interbank interest rates were exceptionally high in Russia in the first half of 2015) and of a lower volume of USD swaps. The decline in loan portfolios in Asia also contributed to the reduction in net interest income; across the Group, the volume of interest-bearing assets declined 5 per cent.

Development of the net interest margin (average interest-bearing assets)



In the Central Europe segment, net interest income fell 4 per cent, or € 25 million, to € 629 million. Lower interest rates reduced net interest income by € 23 million in Slovakia, and by € 14 million in Hungary. In contrast, the Czech Republic reported a volume-related rise of € 12 million. In the Southeastern Europe segment, net interest income fell 5 per cent, or € 42 million, to € 738 million. All countries in this segment – with the exception of Bosnia and Herzegovina – reported declines, which were also mainly attributable to the continuing low level of interest rates. The Eastern Europe segment reported a 9 per cent, or € 82 million, decline in net interest income to € 866 million. This primarily resulted from a 12 per cent, or € 80 million, drop in net interest income to € 567 million in Russia, due to a € 175 million reduction in interest income from derivatives. In contrast, margins from the core business improved significantly, especially on the liabilities side. In Ukraine, the 3 per cent, or € 5 million, decline in net interest income to € 171 million was currency related, whereas in local currency terms, net interest income rose 14 per cent. In Belarus, net interest income increased € 3 million to € 128 million. In the Non-Core segment, however, net interest income fell 14 per cent, or € 54 million, to € 331 million, with Asia reporting the largest decline of 56 per cent, or € 47 million, to € 37 million due to reduced volumes. In the USA, net interest income fell € 11 million to € 14 million, due to the reduction in business volumes. In contrast, in Poland, repricing measures in the deposit business increased net interest income by 4 per cent, or € 9 million, to € 262 million.

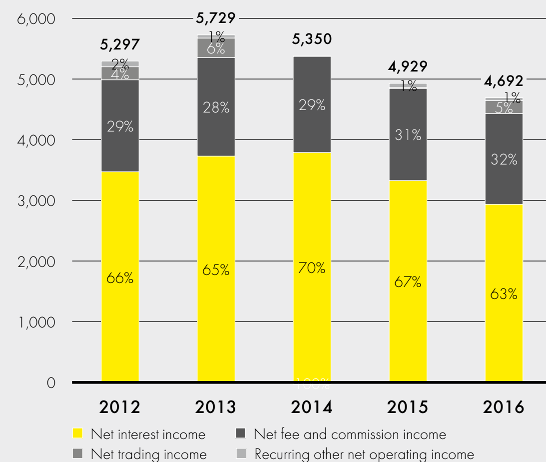
The Group's net interest margin declined 22 basis points year-on-year to 2.78 per cent, of which a reduction of 6 basis points was due to exchange rate effects in the Eastern Europe segment. The decline in the net interest margin was attributable to the aforementioned low market interest rates, especially in the Central Europe and Southeastern Europe segments. In addition, the business volume (average interest-bearing assets) was down 5 per cent.

Net fee and commission income

Net fee and commission income declined year-on-year, despite the currency devaluations in Eastern Europe and lower sales in Central Europe, by just 1 per cent, or € 22 million, to € 1,497 million. Net income from the loan and guarantee business fell € 28 million to € 170 million; aside from currency effects, this was also due to volume reductions in Asia and Slovenia, the legal restriction on fees for early loan repayments in Slovakia, lower guarantee income at Group head office and in Croatia, and lower fee and commission income in Hungary. Net income from the management of investment and pension funds also fell, € 5 million to € 38 million, mainly in Slovakia. In contrast, net income from the foreign currency, notes/coins and precious metals business grew 3 per cent, or € 11 million, to € 392 million, predominantly due to higher income in the Czech Republic and at Group head office. Net income from the sale of own and third party products grew 15 per cent, or € 8 million, to € 60 million, most notably in Poland and Romania. Net income from the payment transfer business rose € 7 million to € 651 million due to margins and volumes, primarily at Group head office and in Russia.

Development of operating income

in € million



Net trading income

Net trading income increased € 198 million year-on-year to € 215 million. Currency-based transactions rose € 176 million to € 116 million, primarily as a result of a more limited Ukrainian hryvnia devaluation than in the previous year (€ 81 million increase). Another positive effect was attributable to the discontinuation of a hedging transaction for Russian rouble denominated dividend income, which had resulted in a € 70 million reduction in the previous year. Net trading income also increased as a result of valuation gains on derivatives and foreign currency positions in Russia (€ 13 million increase) and Croatia (€ 6 million increase). In contrast, Group head office (down € 82 million) and Belarus (down € 61 million) reported declines resulting from lower net income from open foreign currency positions due to valuations and volumes and to the termination of a strategic currency position. Net income from interest-based business rose € 51 million to € 119 million, primarily due to valuation gains and higher interest income from derivatives and securities positions at Group head office. In contrast, net income from equity and index-based transactions fell € 25 million to minus € 18 million, as a result of an adjustment of the yield curve due to changed market conditions.

Recurring other net operating income

Recurring other net operating income decreased € 21 million year-on-year to € 45 million. This included a € 13 million decline in net income from the allocation and release of other provisions, caused by higher allocations for litigation in Slovakia. Net income from investment property fell € 7 million, predominantly due to the disposal of a Group unit in the Czech Republic.

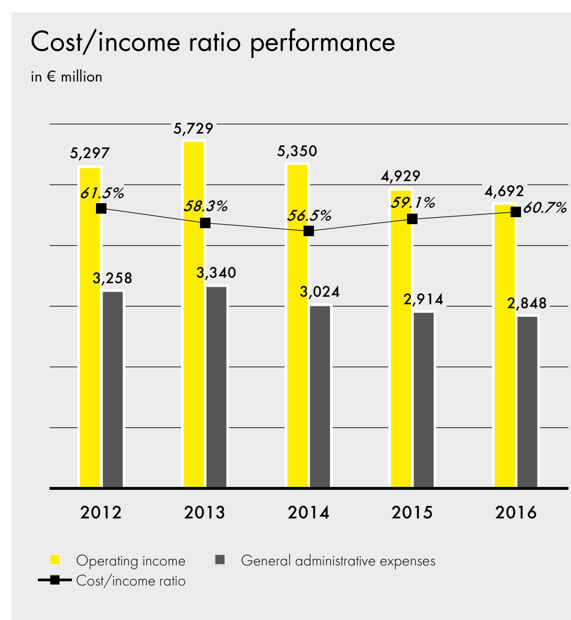
General administrative expenses

The Group's general administrative expenses were down 2 per cent, or € 66 million, to € 2,848 million in the reporting period. The cost/income ratio increased 1.6 percentage points to 60.7 per cent due to lower operating income.

Staff expenses

Staff expenses, which constituted the largest item within general administrative expenses (50 per cent), increased 1 per cent, or € 20 million, to € 1,410 million. Following the decision not to pay a bonus for 2014, bonus provisions of € 76 million were released in the previous year. The Czech Republic reported an increase of € 27 million, primarily driven by higher staffing levels following the purchase of Citibank's retail business. In Slovakia, staff expenses rose € 9 million and was also due to increased staffing levels. At Group head office, staff expenses grew € 7 million as a result of an increase in staffing levels and salary adjustments. Staff expenses fell in Russia (down € 14 million) due to a reduction in staffing levels and to currency effects. In Asia, staff expenses were down € 5 million due to reduced staffing levels.

The average number of staff (full-time equivalents) fell 3,906 year-on-year to 50,186. The largest declines occurred in Ukraine (down 1,728), in Poland (down 1,143) due to the sale of the Polish leasing company, in Russia (down 358), in Slovenia (down 189) due to the sale of the Slovenian subsidiary bank, and in Hungary (down 150). The largest increases occurred in the Czech Republic (up 341) and in Slovakia (up 154).



Other administrative expenses

Other administrative expenses decreased 6 per cent, or € 66 million, to € 1,107 million. The decline was largely driven by lower deposit insurance fees (down € 34 million), primarily in Poland, in the Czech Republic, in Romania, and in Bulgaria. Office space expenses also fell (down € 26 million) due to branch closures. The number of business outlets was down 199 to 2,506 compared to year-end 2015. The most significant declines occurred in Ukraine (down 80), Poland (down 58), Romania (down 32), and in Slovenia due to the sale of the subsidiary bank (down 13). Communication and car expenses also declined, whereas contributions to the bank resolution fund increased € 10 million and IT expenses grew € 6 million.

Depreciation of tangible and intangible fixed assets

Depreciation of tangible and intangible fixed assets fell 6 per cent year-on-year, or € 20 million, to € 331 million. The most significant decline occurred in Hungary, which reported impairment charges in the previous year as a result of branch closures (€ 5 million) and in relation to software (€ 7 million). Ukraine also reported a decline of € 10 million, following impairment charges in relation to buildings and the brand in the previous year. The impairment charge in relation to the Polbank brand amounted to € 21 million in the previous year, with the remaining € 26 million written down in the year under review. An increase was reported in Russia, where investments in software and licenses resulted in higher depreciation.

The Group invested € 384 million in fixed assets in the reporting period. Of that amount, 36 per cent (€ 137 million) was invested in own tangible assets. Investments in intangible fixed assets – mainly related to software projects – accounted for 42 per cent. The remainder was invested in assets in the operating leasing business.

Net provisioning for impairment losses

Net provisioning for impairment losses declined 40 per cent overall year-on-year, or € 509 million, to € 754 million. This included a € 555 million reduction in individual loan loss provisions to € 769 million, while net releases for portfolio-based loan loss provisions declined € 45 million to € 4 million. Proceeds from the sale of impaired loans remained almost unchanged at € 10 million.

The majority of net provisioning for impairment losses in the reporting year was attributable to corporate customers, for which provisions of € 506 million were required. The figure for retail customers was € 237 million, of which € 88 million related to the switch to a rating-based model (PD/LGD) to calculate portfolio-based loan loss provisions, which had commenced in the previous year. An amount of € 28 million was already reported in the previous year.

The largest decline in net provisioning for impairment losses was recorded in Ukraine, which reported a net release of € 2 million compared to a net provisioning requirement of € 212 million in the previous year. This was because higher allocations for retail and corporate customers were still necessary in the previous year, due to the economic situation in the Donbass region, and because currency effects had a reduced influence in the reporting period. In Asia, net provisioning for corporate customers amounted to € 179 million, € 118 million less than in the previous year. In the Group Corporates segment, net provisioning for impairment losses for large corporate customers also fell € 66 million to € 74 million. Hungary reported a net release of € 7 million, compared to net provisioning for impairment losses of € 56 million for corporate and retail customers in the previous year. The decline was due in particular to sales of non-performing loans collateralized with real estate and to rating improvements of corporate customers. The credit risk situation for corporate and retail customers also improved in Russia, where net provisioning for impairment losses amounted to € 145 million, € 36 million less than in the previous year. In Bulgaria, the settlement of several corporate customer non-performing loans resulted in a decline of € 32 million, with no net provisioning requirement in the reporting year. Albania was the only country where the situation was different, with the default of several large corporate customers resulting in a € 34 million increase to € 65 million.

The significant credit risk improvement is also reflected in the portfolio of non-performing loans, which fell € 1,843 million to € 6,486 million during the year. The reduction was primarily attributable to sales of non-performing loans (€ 1,187 million), while the remainder of the decline was largely due to the derecognition of uncollectible loans. Currency effects resulted in a € 52 million rise. The largest declines occurred in Group Corporates (down € 587 million), Ukraine (down € 299 million), Hungary (down € 252 million), Group Markets (down € 233 million), Russia (down € 152 million), Slovenia (down € 121 million as a result of the sale of the Slovenian subsidiary bank), Bulgaria (down € 77 million) and Croatia (down € 72 million). The NPL ratio declined 2.7 percentage points year-on-year to 9.2 per cent. Non-performing loans compared to loan loss provisions amounting to € 4,905 million. Despite the sales and write-offs, the NPL coverage ratio improved from 71.3 per cent to 75.6 per cent.

The provisioning ratio – net provisioning for impairment losses in relation to the average volume of loans and advances to customers – fell 0.59 percentage points year-on-year to 1.05 per cent.

Other results

Net income from derivatives and liabilities

Net income from derivatives and liabilities declined € 184 million to minus € 189 million. This reduction was primarily due to net income from changes in credit spreads for own liabilities, which fell € 116 million to minus € 119 million due to lower risk premiums for RBI. Net income from the valuation of derivatives entered into for hedging purposes fell € 68 million.

Net income from financial investments

Net income from financial investments improved € 84 million year-on-year to € 153 million. This was primarily attributable to net proceeds from the sale of equity participations, which rose € 144 million year-on-year to € 145 million. The sale of Visa Europe shares to Visa Inc. in June 2016 resulted in proceeds of € 132 million, of which € 78 million was transferred from other comprehensive income. Impairment charges relating to equity participations fell € 28 million in the reporting year to € 18 million. In contrast, the valuation result for securities in the fair value portfolio declined € 59 million to € 16 million, mainly due to significantly lower valuation results on fixed income government bonds linked to the US dollar in Ukraine. Net income from the sale of securities from the fair value portfolio also fell € 23 million. This decline was primarily due to the sale of Icelandic bonds at Group head office in the previous year.

Bank levies and non-recurring effects

The expense for bank levies rose € 39 million year-on-year to € 158 million. The increase was primarily due to expenses of € 34 million for the newly-introduced bank levy in Poland.

The "Walkaway Law" came into force in Romania in the second quarter of 2016. The expected utilization resulted in a provisioning requirement of € 27 million in the reporting period. The new mortgage loan law stipulates that borrowers can sign their properties over to banks and thereby settle their debts, even if the outstanding volume of the loan exceeds the value of the property. The law relates to certain mortgage loans taken out by private individuals in any currency and applies retroactively. Since the Group is of the opinion that this contravenes the Romanian constitution, corresponding proceedings were initiated. In October 2016, the Romanian Constitutional Court repealed sections of the law connected with its retroactive application.

A provision of € 67 million was released in the previous year in connection with the implementation of the adjustments required in 2014 under the Settlement Act in Hungary, and a further € 7 million was released in the reporting period.

In Croatia, a law to enforce the conversion of loans denominated in Swiss francs resulted in a negative one-off effect of € 77 million in the previous year (2016: minus € 10 million). Proceedings initiated by the banks against the Croatian government challenging the constitutionality of the law are pending.

Net income from the disposal of Group assets

The disposal of 16 subsidiaries resulted in net income of € 19 million in the reporting year, mainly from the sale of the Polish leasing company. Net income of € 41 million was recorded in the previous year as a result of the exclusion of 28 subsidiaries from the consolidation group. Proceeds of € 86 million from the sale of the 75 per cent stake in the Russian pension fund business ZAO NPF Raiffeisen, Moscow, were offset by an impairment of € 52 million in respect of assets available for sale in connection with the sale of the Slovenian subsidiary bank Raiffeisen Banka d.d., Maribor. Of the 16 subsidiaries excluded in the reporting year, nine companies were excluded due to immateriality, six as a result of their sale and a further one due to a change in control. The companies were predominantly active in leasing, financing and banking business, and as suppliers of ancillary services.

Income taxes

Income taxes increased € 36 million, or 13 per cent, year-on-year to € 312 million. The increase was predominantly the result of the write-off of tax receivables from prior periods in Poland and the return to positive results from a tax perspective in Ukraine and in Croatia. At 35 per cent, the effective tax rate in the reporting year was significantly above the Austrian income tax rate of 25 per cent. This was largely attributable to expenses which are non-deductible for tax purposes mainly in Russia, in the Czech Republic, at Group head office and in Ukraine, as well as to loss carryforwards which cannot be capitalized for tax purposes at Group head office and in Hungary.

Comparison of results with the previous quarter

in € million	Q4/2016	Q3/2016	Change absolute	Change in %
Net interest income	748	732	16	2.2%
Net fee and commission income	400	378	22	5.7%
Net trading income	78	52	27	51.3%
Recurring other net operating income	(4)	24	(28)	–
Operating income	**1,222**	**1,186**	**36**	**3.1%**
Staff expenses	(362)	(347)	(15)	4.4%
Other administrative expenses	(293)	(245)	(48)	19.4%
Depreciation	(94)	(95)	1	(1.2)%
General administrative expenses	**(749)**	**(687)**	**(62)**	**9.0%**
Operating result	**474**	**499**	**(25)**	**(5.0)%**
Net provisioning for impairment losses	(251)	(100)	(151)	151.4%
Other results	(82)	(103)	21	(20.0)%
Profit/loss before tax	**140**	**296**	**(156)**	**(52.7)%**
Income taxes	(46)	(84)	38	(45.0)%
Profit/loss after tax	**94**	**212**	**(118)**	**(55.8)%**
Profit attributable to non-controlling interests	(25)	(28)	4	(13.9)%
Consolidated profit/loss	**69**	**184**	**(114)**	**(62.3)%**

Operating income

Net interest income

Compared to the third quarter of 2016, net interest income rose 2 per cent, or € 16 million, to € 748 million in the fourth quarter. The net interest margin (calculated on interest-bearing assets) increased 6 basis points from the previous quarter to 2.83 per cent. The primary cause of this positive development was the € 21 million increase in interest income from loans and advances to customers, predominantly in Russia and at Group head office.

Net fee and commission income

Net fee and commission income grew 6 per cent compared to the third quarter, or € 22 million, to € 400 million. The increase was based in part on exchange rate movements in Eastern Europe, but was largely due to volume effects. Net income from the payment transfer business posted the largest increase, up 5 per cent, or € 9 million, to € 176 million, due to higher fee and commission income driven by volumes and margins in Russia, at Group head office and in Romania. Net income from the loan and guarantee business improved by € 7 million to € 46 million, due to higher guarantee income at Group head office and higher volumes, notably in Russia and in the Czech Republic. Net income from the foreign currency, notes/coins and precious metals business rose € 6 million to € 105 million, particularly at Group head office and in Poland.

Net trading income

Compared to the previous quarter, net trading income improved € 27 million to € 78 million. Net income from currency-based transactions increased € 21 million to € 44 million, primarily due to exchange rate-related valuation gains on foreign currency positions and on derivatives at Group head office, at Raiffeisen Centrobank and in Russia. This was set against valuation losses from foreign currency positions, notably in Ukraine and Asia. Net income from equity and index-based transactions posted a € 6 million increase as a result of higher levels of activity in securities trading, as well as positive valuation effects in connection with changed market conditions.

Recurring other net operating income

Recurring other net operating income fell € 28 million in the fourth quarter to minus € 4 million. This was primarily attributable to net income from the allocation and release of other provisions, which was down € 8 million due to a provision made for litigation in Slovakia, and net proceeds from the disposal of tangible and intangible fixed assets, which declined € 7 million, largely driven by sales completed in Slovakia in the previous quarter.

General administrative expenses

At € 749 million, general administrative expenses in the fourth quarter were up 9 per cent, or € 62 million, from € 687 million in the previous quarter.

Staff expenses rose € 15 million in the fourth quarter to € 362 million. In addition to currency effects, this was mainly due to higher wages and salaries, predominantly in Russia, Ukraine and the Czech Republic, whereas staff expenses in Poland and Asia were down due to lower staff numbers.

Other administrative expenses increased € 48 million to € 293 million. This was in large part due to a seasonally-driven rise in advertising, legal and advisory and consulting expenses in nearly all countries.

Depreciation of tangible and intangible fixed assets fell € 1 million quarter-on-quarter to € 94 million. An impairment charge for the Polbank brand was recognized in the previous quarter, while depreciation of tangible fixed assets was higher in the fourth quarter, largely in Slovakia.

Net provisioning for impairment losses

Compared to the third quarter, net provisioning for impairment losses rose € 151 million to € 251 million. The increase was mainly attributable to Russia, Asia, Croatia, and the Group Corporates segment. In Russia, net provisioning for impairment losses was up € 60 million from the previous quarter due to a large individual case and to the implementation of a PD/LGD-based calculation of portfolio-based loan loss provisions for retail customers. In Asia, loan loss provisions for corporate customers were up € 39 million. In Croatia, higher loan loss provisions both for corporate and for retail customers were responsible for the € 29 million increase. In the Group Corporates segment, the provisioning requirement was € 24 million higher than in the previous quarter.

Overall, net individual loan loss provisioning rose € 116 million to € 226 million. Net portfolio-based loan loss provisions amounted to € 28 million in the fourth quarter, while net releases of € 5 million were recognized in the third quarter.

The portfolio of non-performing loans to customers declined € 663 million from the previous quarter to € 6,486 million, primarily due to sales of non-performing loans. On a currency-adjusted basis, the decline was € 778 million. There were reductions in nearly all countries, most notably in Hungary (down € 215 million), Russia (down € 144 million), Asia (down € 112 million), Poland (down € 70 million), and Ukraine (down € 55 million). The NPL ratio decreased quarter-on-quarter, from 10.2 per cent to 9.2 per cent, and the NPL coverage ratio was up 3.6 percentage points to 75.6 per cent.

Other results

Net income from derivatives and liabilities

Net income from derivatives improved € 16 million in the fourth quarter to minus € 55 million. This was mainly due to net income from the valuation of derivatives entered into for hedging purposes; whereas net income from the change in credit spreads on own issues came to minus € 12 million.

Net income from financial investments

Net income from financial investments fell € 7 million in the fourth quarter to minus € 13 million, largely attributable to higher impairment charges on equity participations.

Bank levies, non-recurring effects

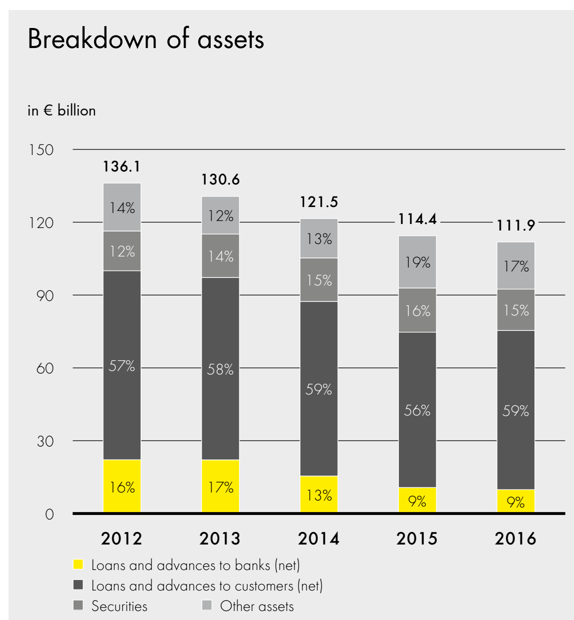
Bank levies amounted to € 43 million in the fourth quarter (third quarter: € 34 million). The largest amounts were at Group head office (€ 23 million) and in Poland (€ 9 million). The "Walkaway Law" came into force in Romania in the second quarter of 2016. As a result of the expected take-up rate under the new law, a provision of € 43 million was recognized in May, with releases in the amount of € 12 million in the fourth quarter and € 3 million in the third quarter.

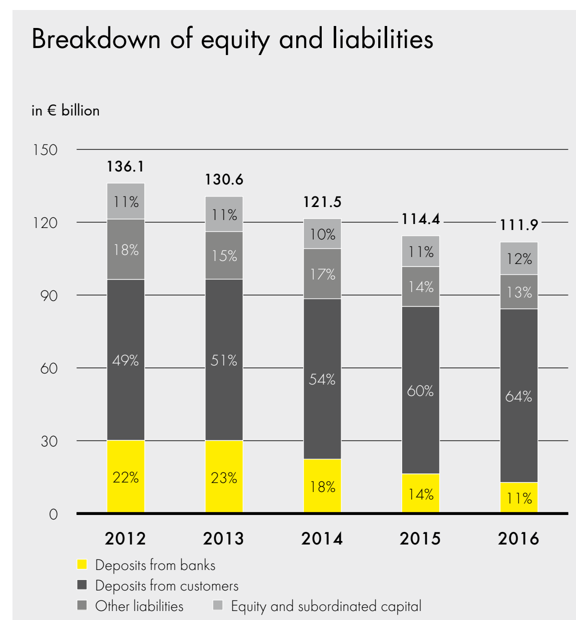
Income taxes

Income tax expense decreased € 38 million quarter-on-quarter to € 46 million, notably in Ukraine, Russia and Slovakia. The effective tax rate was 33 per cent, up from 28 per cent in the previous quarter.

Statement of financial position

In the course of 2016, RBI's total assets declined 2 per cent, or € 2,563 million, to € 111,864 million. The reduction was attributable to changes in the scope of consolidation of around € 2,400 million, primarily as a result of the sale of the Polish leasing company and the Slovenian subsidiary bank. Currency developments – predominantly the appreciation of the Russian rouble (up 25 per cent) and the US dollar (up 3 per cent) against the euro – resulted in a rise of around € 1,700 million.





Assets

Loans and advances to banks before deduction of impairment losses (€ 50 million) fell 9 per cent over the year, or € 937 million, to € 9,900 million. This was primarily attributable to a decline of € 1,004 million to € 1,412 million in receivables from the lending business, mainly at Group head office. In contrast, receivables from repurchase agreements and securities lending increased € 2,194 million to € 3,374 million.

Loans and advances to customers before deduction of impairment losses (€ 4,905 million) increased 1 per cent, or € 593 million, to € 70,514 million in the reporting period. In particular, this included a € 943 million net increase in loans and advances to retail customers to € 25,578 million, while loans and advances to corporate customers declined € 195 million to € 44,277 million, and loans and advances to sovereigns fell € 155 million to € 659 million. Loans to private individuals recorded a rise of € 1,514 million. This included an increase in mainly in Russia (primarily currency-related), in the Czech Republic (as a result of organic growth in the lending and mortgage lending business and of the acquisition of Citibank's retail customer and credit card business), and in Slovakia. The € 571 million decline in loans and advances to small and medium-sized entities to € 2,185 million was attributable to the sale of the Polish leasing business. Declines in loans and advances to corporate customers in Asia and the US, due to the planned reduction in business volumes, were largely offset by increases in the Czech Republic, in Russia (notably currency-related) and in Romania.

The item securities registered a decrease of € 1,253 million to € 16,972 million, notably at Group head office and in Poland. The € 2,065 million decline in other assets was mainly the result of the € 970 million reduction in the cash reserve (primarily at Group head office), of the € 745 million reduction in assets available for sale pursuant to IFRS 5 (sale of the Slovenian subsidiary bank, reclassification of Zuno), and of the € 324 million reduction in trading and banking book derivatives.

Equity and liabilities

The volume of Group financing from banks (mainly commercial banks) decreased 22 per cent, or € 3,553 million, to € 12,816 million. Long-term and short-term deposits declined, notably at Group head office and in Asia.

Deposits from customers increased 4 per cent, or € 2,547 million, to € 71,538 million in the course of the year. In particular, deposits from retail customers increased € 4,885 million to € 38,529 million, while deposits from corporate customers declined € 2,089 million to € 31,554 million. The € 4,032 million increase in deposits from retail customers was attributable to private individuals mainly in the Czech Republic (organic growth and purchase of a business unit), Russia, Slovakia and Romania. Deposits from small and medium-sized entities also rose, by € 853 million to € 5,949 million, notably in the Czech Republic and Slovakia. The decline in deposits from corporate customers was mainly recorded at Group head office (repayments) as well as in Poland and Slovakia due to the reduction of excess liquidity. In particular, deposits from large corporate customers reduced by € 2,083 million to € 28,561 million.

Other liabilities fell € 2,328 million to € 14,073 million. Debt securities issued decreased € 856 million, primarily due to the reduced refinancing required, while liabilities available for sale pursuant to IFRS 5 declined € 1,294 million (sale of the Slovenian subsidiary bank, reclassification of Zuno).

Funding

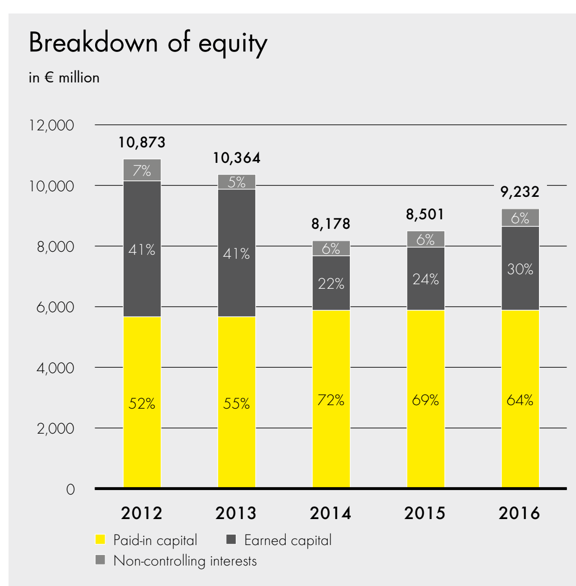
For information relating to funding, please refer to the risk report, note (42) to the consolidated financial statements.

Equity

Equity on the statement of financial position

Equity on the statement of financial position – consisting of consolidated equity, consolidated profit/loss and non-controlling interests – increased 9 per cent compared to year-end 2015, or € 731 million, to € 9,232 million. This increase was mainly attributable to total comprehensive income (€ 763 million), whereas dividend payments to non-controlling interests resulted in a € 40 million reduction in capital. No dividends were paid out to RBI's shareholders for the financial year 2015.

Total comprehensive income attributable to the Group of € 667 million comprises consolidated profit of € 463 million and other comprehensive income of € 204 million. Exchange rate differences represented the largest item in other comprehensive income and amounted to € 299 million in the reporting year (2015: minus € 185 million). Key drivers were the appreciation of the Russian rouble, which resulted in an increase of € 348 million, and the devaluation of the Polish zloty, which reduced equity by € 49 million. Since part of the equity in these currencies was hedged (capital hedge), the movement in the exchange rate also resulted in a loss of € 43 million. The sale of Visa Europe Ltd. shares to Visa Inc. realized € 122 million, resulting in a net loss of € 70 million under the item net gains (losses) on financial assets available-for-sale.



Capital of non-controlling interests rose € 47 million to € 581 million.This was primarily due to the proportion of total comprehensive income attributable to non-controlling interests of € 96 million, the payment of dividends of € 40 million to minority shareholders of Group units – mainly from Tatra Banka (€ 24 million) and Raiffeisenbank in the Czech Republic (€ 13 million) – as well as other smaller capital movements.

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

The following consolidated figures have been calculated in accordance with the provisions of the Capital Requirements Regulation (CRR). Pursuant to Article 11 of the CRR, RBI is supervised by the ECB on a subconsolidated basis and is subject to the CRR provisions not only as an individual credit institution but also as a subgroup. RBI is also part of the RZB Group for regulatory purposes. In addition to the minimum capital requirements defined by the CRR, RBI must also comply with the capital requirements set by the ECB under the SREP process. With respect to this, please refer to note (47) Capital management and total capital according to CRR/CRD IV and the Austrian Banking Act (BWG).

Common equity tier 1 after deductions stood at € 8,339 million. The increase from the 2015 comparable level totaled € 668 million, mainly due to the inclusion of the net profit for 2016 and to positive currency effects, especially in relation to the Russian rouble. In contrast, the application of transitional provisions for 2016 and the inability to continue to recognize the hybrid capital of RZB Finance Jersey IV since May, due to the change in interest terms as stipulated in the prospectus, had a negative impact. Tier 2 capital declined € 118 million compared to the previous year and totaled € 3,198 million. The decline was mainly attributable to matured tier 2 capital instruments in RBI AG. As at 31 December 2016, total capital under CRR amounted to € 11,537 million. This corresponds to an increase of € 550 million compared to the 2015 year-end figure.

Total capital compared to a total capital requirement of € 4,805 million. The total capital requirement for credit risk amounted to € 3,907 million. The decline of € 209 million was based on the sale of Raiffeisen-Leasing Polska, Raiffeisen Banka d.d., Maribor, the rating improvement in Belarus and Ukraine, and also on the reduction in exposures in the Non-Core segment. The total capital requirement for position risk in bonds, equities, commodities and currencies came to € 214 million, a decline of € 27 million. The decline of € 21 million in the total capital requirement for operational risk to € 684 million was attributable to the conversion of larger units to the advanced approach.

Based on total risk, the common equity tier 1 ratio (transitional) was 13.9 per cent, with a total capital ratio (transitional) of 19.2 per cent. Excluding the transitional provisions as defined in the CRR, the common equity tier 1 ratio (fully loaded) stood at 13.6 per cent, and the total capital ratio (fully loaded) was 18.9 per cent.

Research and development

As a universal bank, RBI is not involved in research and development in the strictest sense of the term.

In the context of financial engineering, however, it does develop customized investment, financing and risk hedging solutions for its customers. Financial engineering encompasses not only structured investment products, but also structured financing, i.e. financing concepts that go beyond the application of standard instruments and are used in areas such as acquisition or project financing. RBI also develops individual solutions to hedge a broad spectrum of risks, from interest rate risk and currency risk through to commodity price risk. Besides financial engineering, RBI is also actively working on the further development of integrated product solutions for international payment transfers within cash management.

In CEE, the RBI subsidiary banks in Slovakia and the Czech Republic are leaders in the mobile and online banking field. To learn from the experiences and know-how in these markets, an extensive project to establish a Group-wide digital roadmap was launched at the end of 2016.

As part of innovation management, networking with ambitious start-up companies, renowned research institutes and original thinkers provides new incentives and solutions for changing customer requirements, which are then placed at the disposal of the Raiffeisen Banking Group. Here, too, the focus is on developing a culture of innovation and supporting the digital transformation of the entire Raiffeisen Banking Group.

Internal control and risk management system in relation to the Group accounting process

Balanced and comprehensive financial reporting is a priority for RBI and its governing bodies. Compliance with all relevant statutory requirements is of course a basic prerequisite. The Management Board is responsible for establishing and defining a suitable internal control and risk management system that encompasses the entire accounting process while adhering to company requirements. This is embedded in the company-wide framework for the internal control system (ICS).

The ICS is intended to provide the Management Board with the information needed to ensure effective and continuously improving internal controls for accounting. The control system is designed to comply with all relevant guidelines and regulations and to optimize the conditions for specific control measures.

The consolidated financial statements are prepared in accordance with the relevant Austrian laws, predominantly the Austrian Banking Act (BWG) and Austrian Commercial Code (UGB), which govern the preparation of consolidated annual financial statements. The accounting standards, used to prepare the consolidated financial statements, are the International Financial Reporting Standards (IFRS) as adopted by the EU.

Control environment

An internal control system has been in place for many years at the Group, which includes directives and instructions on key strategic issues. It incorporates:

- The hierarchical decision-making process for approving Group and company directives, as well as departmental and divisional instructions.
- Process descriptions for the preparation, quality control, approval, publication, implementation, and monitoring of directives and instructions.
- Regulations for the revision and repeal of directives and instructions.

The senior management of each Group unit is responsible for implementing the Group-wide instructions. Compliance with Group rules is monitored as part of the audits performed by internal and local auditors.

The consolidated financial statements are prepared by Accounting & Reporting, which reports to the Chief Financial Officer. The associated responsibilities are defined for the Group within the framework of a dedicated Group function.

Risk assessment

Significant risks relating to the Group accounting process are evaluated and monitored by the Management Board. Complex accounting standards can increase the risk of errors, as can the use of differing valuation standards, particularly in relation to the Group's principal financial instruments. A difficult business environment can also increase the risk of significant financial reporting errors. For the purpose of preparing the consolidated financial statements, estimates have to be made for asset and liability items for which no market value can be reliably determined. This is particularly relevant for credit business, equity participations, trademark rights and goodwill. Social capital and the valuation of securities are also based on estimates.

Control measures

The preparation of individual financial statements is decentralized and carried out by each Group unit in accordance with the RZB or RBI guidelines. The Group unit employees and managers responsible for accounting are required to provide a full presentation and accurate valuation of all transactions. Differences in local accounting standards can result in inconsistencies between the individual financial statements and the figures submitted to RBI. The local management is responsible for ensuring implementation of mandatory internal control measures, such as the separation of functions and the principle of dual control. The reconciliation and validation controls are imbedded in the aggregation, calculation and accounting valuation activities for all financial reporting processes.

Group consolidation

The financial statement data, which are examined by an external auditor or undergo an audit review, are mostly entered directly in, or automatically transferred to, the IBM Cognos Controller consolidation system by the end of January of the subsequent year. The IT system is kept secure by limiting access rights.

The plausibility of each Group unit's financial statements is initially checked by the responsible key account manager within Accounting & Reporting. Group-level control activities comprise the analysis and, where necessary, modification of the financial statements submitted by Group units. In this process, the reports submitted by the auditor and the results of meetings with the representatives of the individual companies where the financial statements are discussed are taken into account. The discussions cover the plausibility of the individual financial statements as well as critical matters pertaining to the Group unit.

The subsequent consolidation steps are then performed using the consolidation system, including capital consolidation, expense and income consolidation, and debt consolidation. Finally, intra-Group gains are eliminated where applicable. At the end of the consolidation process, the notes to the financial statements are prepared in accordance with IFRS and the BWG/UGB.

In addition to the Management Board, the general control system also encompasses middle management. All control measures constitute part of the day-to-day business processes and are used to prevent, detect and correct any potential errors or inconsistencies in the financial reporting. Control measures range from managerial reviews of the results for the period, as well as the specific reconciliation of accounts, through to analyzing ongoing accounting processes.

The consolidated financial statements and management report are reviewed by the Audit Committee of the Supervisory Board and are also presented to the Supervisory Board for information. The consolidated financial statements are published as part of the Annual Report on the company's website and in the Wiener Zeitung's official journal and are then filed in the commercial register.

Information and communication

The consolidated financial statements are prepared using Group-wide standardized forms. The accounting and valuation standards are defined and explained in the RZB Group Accounts Manual and must be applied when preparing the financial statements. Detailed instructions for the Group units on measuring credit risk and similar issues are provided in the Group directives. The relevant units are kept abreast of any changes to the instructions and standards through regular training courses.

Each year the Annual Report shows the consolidated results in the form of a complete set of consolidated financial statements. These consolidated financial statements are examined by an external auditor. In addition, the Group management report contains comments on the consolidated results in accordance with the statutory requirements.

Throughout the year, consolidated monthly reports are produced for the Group's senior management. Statutory interim reports are produced that conform to the provisions of IAS 34 and are also published quarterly in accordance with the Austrian Stock Exchange Act. Before publication, the consolidated financial statements are presented to senior managers and the Chief Financial Officer for final approval and then submitted to the Supervisory Board's Audit Committee. Analyses pertaining to the consolidated financial statements are also provided for management, as are forecast Group figures at regular intervals. The financial and capital planning process, undertaken by Planning & Finance, includes a three-year Group budget.

Monitoring

Financial reporting is a main focus of the ICS framework, whereby financial reporting processes with inherent misstatement risk are identified and subject to additional monitoring and control reviews – the results of which are presented to the Management Board and the Supervisory Board's Audit Committee for evaluation. 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 individual departments, where department heads are responsible for monitoring their business areas. The departments conduct control activities and plausibility checks on a regular basis, in accordance with the documented processes.

The second line of defense is provided by specialist areas focused on specific issues. These include, for example, Compliance, Data Quality Governance, Operational Risk Controlling, and 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 RZB 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 also apply (notably the Audit Charter). Group Audit regularly and independently verifies compliance with the internal rules within the RZB Group units. The head of Group Internal Audit reports directly to the Management Boards.

Capital, share, voting, and control rights

The following disclosures cover the provisions of § 243a (1) of the Austrian Commercial Code (UGB):

(1) As at 31 December 2016, the company's share capital amounted to € 893,586,065.90 and was divided into 292,979,038 voting common bearer shares. As at 31 December 2016, 509,977 of those were own shares, and consequently 292,469,061 shares were outstanding at the reporting date. In comparison with 31 December 2015 (557,295 shares), this results in a reduction of 47,318 shares and was based on the transferring of shares within the framework of the share-based remuneration program. Please see note (32) for further disclosures.

(2) The Articles of Association contain no restrictions concerning voting rights or the transfer of shares. As RZB's shareholders, the regional Raiffeisen banks are parties to syndicate agreements regarding RZB AG. These syndicate agreements will be replaced by a new syndicate agreement concluded by the regional Raiffeisen banks for RBI AG. The new syndicate agreement will take effect on the effective date of the merger between RZB AG and RBI AG. The terms that the regional Raiffeisen banks intend to incorporate in the new syndicate agreement include a block voting agreement, preemption rights and a prohibition on the sale of 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, 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 would fall to 40 per cent of the share capital of RBI AG.

(3) As at 31 December 2016, RZB AG indirectly held around 60.7 per cent of the share capital of the company through its wholly owned subsidiary Raiffeisen International Beteiligungs GmbH. By virtue of a syndicate agreement, the voting rights attributable to RZB AG from the 177,847,115 shares in RBI AG are also assigned to the individual regional Raiffeisen banks as syndicate partners and to their holding companies who have acceded to the syndicate agreement (in each case pursuant to § 91 and § 92 7 of the Austrian Stock Exchange Act (BörseG)), which hold, in total, around 90.43 per cent of the share capital and voting rights in RZB AG as parties acting in concert (see notification on voting rights published on 19 July 2016). The remaining shares of RBI AG are held in free float, with no direct or indirect shareholdings amounting to 10 per cent or more known to the Management Board. Please see the "Merger of RBI and RZB" chapter of the Annual Report with regard to the merger approved at the Extraordinary General Meeting of RBI AG on 24 January 2017.

(4) Pursuant to the company's Articles of Association, RZB AG is granted the right to delegate up to one third of the Supervisory Board members to be elected by the Annual General Meeting, as long as it holds an interest in the share capital. Beyond that, there are no special rights of control associated with holding shares. At the Extraordinary General Meeting of RBI AG on 24 January 2017, a decision was made to remove the right to delegate members in § 9 of RBI AG's Articles of Association. The right to delegate members will therefore cease to exist when the amendment to the Articles of Association is registered with the commercial register. According to the syndicate agreement of the regional Raffieisen banks, the regional Raiffeisen banks will be able to nominate nine members of the RBI AG Supervisory Board once the merger between RZB AG and RBI AG takes effect. In addition to the members nominated by the regional Raiffeisen banks, the RBI AG Supervisory Board will in the future also include three (previously: two) independent representatives of free-float shareholders who are not attributable to the Austrian Raiffeisen Banking Group. This is to be implemented at the RBI AG Annual General Meeting in 2017.

(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 (with regard to RZB AG's right to delegate members, please see point (4) above). The Articles of Association stipulate that the resolutions of the Annual General Meeting are, provided that there are no mandatory statutory provisions or Articles of Association 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 via 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 common bearer shares with voting rights 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 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 the 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 resolutions to be passed by the 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 General Meeting resolution, i.e. as of 15 December 2018. 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 10 trading days prior to exercising this authorization. The authorization may be exercised in full or in part or also in several partial amounts, for one or more purposes – with the exception of securities trading – by the company, by a subsidiary (§ 189a 7 of the UGB) or by third parties for the account of the company or a subsidiary.

The Management Board was further authorized, pursuant to § 65 (1b) of the AktG, to decide, with the approval of the Supervisory Board, on the sale of own shares by means other than the stock exchange or a public tender, to the full or partial exclusion of shareholders' subscription rights, and to stipulate the terms of sale. Shareholders' subscription rights may only be excluded if the own shares are used to pay for a contribution in kind, to acquire enterprises, businesses, operations or stakes in one or several companies in Austria or abroad, or for the purpose of implementing the company's Share Incentive Program 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 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.

This resolution, any repurchase program based on it, or any resale program must be published along with the applicable duration. This authorization replaces the authorization granted at the Annual General Meeting of 4 June 2014 pursuant to § 65 (1) 4 and 8 of the AktG to purchase and use own shares and, with regard to their use, extends to the own shares already purchased by the company. 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. This authorization replaces the authorization to purchase own shares for the purpose of securities trading that was granted in the Annual General Meeting of 4 June 2014.

(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:

- As a subsidiary of RZB, RBI AG is insured under RZB's group-wide D&O insurance. Insurance cover remains in place in the event of a merger with another legal entity of the RZB Group. In the event of a merger with a legal entity outside the RZB Group, RBI AG will no longer be covered under the group-wide insurance from the date of the merger. 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 insurance carrier prior to any termination of RZB's group-wide D&O insurance and thereafter within the agreed notification period of five years.
- The company's SIP provides the following upon a 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.
- The brand agreement concluded with RZB AG (which will cease to exist once the merger is in effect) on the unrestricted use of the name and logo of Raiffeisen Bank International for an indefinite period of time in all jurisdictions in which the brand is registered now or in the future includes a right of cancellation 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 a shareholder 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.
- 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.

Risk management

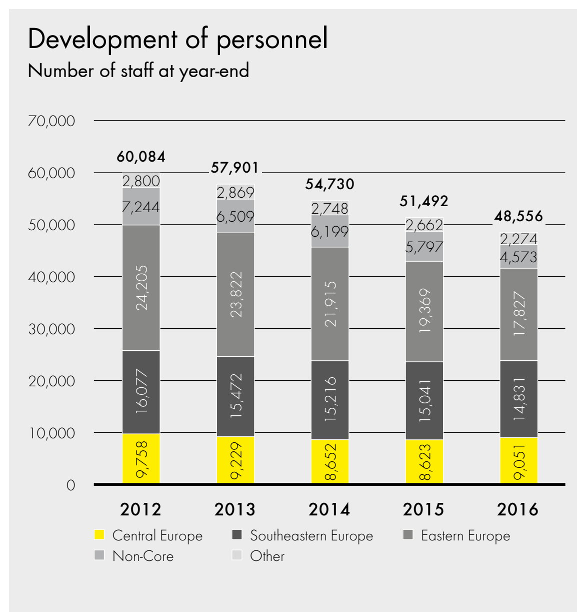
For information on risk management, please refer to note (42) Risks arising from financial instruments, in the risk report section of the consolidated financial statements.

Corporate Governance

The Corporate Governance Report can be found on the RBI website (www.rbinternational.com → Investor Relations → Corporate Governance), as well as in the Corporate Governance Report chapter of the Annual Report.

Human Resources

Human Resources (HR) deals with the key corporate processes for managing personnel resources within the Group, taking both the needs of employees and corporate interests into account. As at 31 December 2016, RBI had 48,556 employees (full-time equivalents), 2,936 or 6 per cent fewer than at the end of 2015. The majority of this reduction is attributable to developments in Ukraine, Poland and Slovenia. The average age of employees remained relatively low at 37 years, and women accounted for 67 per cent of the workforce. Graduates make up 76 per cent of employees, indicating a highly skilled workforce.



Professional and management development

In 2016, the training budget was primarily used for strategic objectives and initiatives. As well as ensuring regulatory training requirements were met, increasing emphasis was placed on key areas such as digital banking, sales, affluent retail customer business, procurement and IT. The “Branch Management Academy”, a training initiative for managers within sales, was implemented throughout the Group.

The main focus for management development was on strengthening management expertise in the areas of change management, staff leadership, motivation, and communication. The use of reflective learning methods, such as 360° feedback, coaching and mentoring, as well as experience-based measures such as job rotation, was also further expanded.

In Albania, for example, a development program covering a wide variety of areas, “Growth is a Marathon, not a Sprint”, was initiated within the subsidiary bank to equip managers for the challenges faced in an increasingly complex operating environment and to facilitate growth.

A similar program, “FIRE” (Freedom – Inspiration – Raiffeisen – Energy), was also implemented in Hungary, focusing on key leadership skills such as credibility and integrity, or resilience and inspiration.

The subsidiary bank in Russia increased efforts to foster a positive culture of communication and cooperation among managers and employees, for example, by implementing ad-hoc feedback and round-table discussions on topical business issues.

Performance and talent management

The new performance management model for Group executives developed during 2015 was successfully implemented in 2016. This included introducing clearly defined target categories (similar to a balanced scorecard approach) and improving consultation between head office and Group units. Other measures included a new competence model and the intensification of dialog and feedback. Based on these concepts, an international team developed the guidelines and fundamental principles for the new performance management process for all other employee levels. Some subsidiary banks have already launched corresponding pilot projects. In Hungary, for example, the focus was on increasing the level of individual responsibility with respect to target definition and performance, as well as on regular and mutual feedback, coaching and staff development.

The annual standard processes to identify and develop talent – each with varying local focal points – were carried out again in 2016. The intensive efforts produced results, with talent pipelines at all levels in almost all units. Data for Austria, for example, shows that 39 per cent of talented individuals identified have advanced in their careers in the last two years (compared to 14 per cent of other employees).

Employee survey

In 2016, around 40,000 employees participated in a Group-wide employee survey. The overall response rate was 87 per cent. Improvements were achieved for the two key factors employee engagement (commitment to the company and associated willingness to voluntarily make additional effort) and employee enablement (existence of an environment which nurtures success). Of the employees surveyed, 65 per cent felt committed to the company and 67 per cent felt their environment nurtured success. Compared to the last Group-wide survey, this represents an increase of 4 and 3 percentage points respectively.

The results are now being used as a basis to develop further improvement measures. For example, the Management Board in Hungary has defined four issues which will be given further attention. Each of the issues is being addressed by an interdisciplinary team led by a member of first-level management, with expert support from the change facilitator and with a Management Board member acting as sponsor.

Developments in compensation management

In order to more strongly reflect the critical importance of RBI's medium-term objectives and its capitalization in the compensation system, the bonus system was further adapted in 2016 by expanding the "step-in" criteria for Group executives and adjusting the criteria for target achievement.

A reduction in the variable compensation components of remuneration packages also led to new, non-financial concepts for recognizing special achievements by employees being established. For example, a non-financial motivation program (starting with a system of medical services) was launched in Belarus to improve employee commitment and reward long-serving employees, while the "Success Celebration System", which aims to strengthen team cooperation and collaboration between business areas, was established in Hungary.

HR awards

The diverse measures taken by HR managers from the subsidiary banks designed to continuously improve HR functions and processes were again recognized by a number of awards during the year under review. The Hungarian subsidiary bank, for example, received the "Employer Partner Certificate" in recognition of high quality standards and "best HR practice". Headhunters ranked the Russian subsidiary bank among the "Top 10 best places to work" and the Head of HR was awarded the accolade "Best HR director in the banking sector". In Romania, the subsidiary bank's project "Inspire to Aspire-Wakanda Challenge" prevailed against 17 competitors and won an HR award in the category "Training and Development of People". This program places special emphasis on adapting leadership behavior. The Bulgarian subsidiary bank received the "Best HR project in a large company award" for the restructuring and modernization of its HR area. In the Czech Republic, RBI received the "HR Excellence Award" which is awarded by HR managers and experts from 300 Czech companies. Finally, the Hungarian bank subsidiary received the "Colibri Internship Award" as the best employer for interns.

Outlook

Economic prospects

Central Europe

Following somewhat weaker growth last year, growth in Central Europe (CE) is expected to pick up again in 2017. Ongoing expansionary monetary policy in the region, a solid growth climate in the euro area and an expected recovery in investment demand – amid continued strong private household consumer spending – should support this positive momentum. Leading the way are Poland and Slovakia, each with projected growth of 3.3 per cent, closely followed by Hungary, whose economy should grow by 3.2 per cent. In the Czech Republic, growth is forecast to reach 2.7 per cent.

Southeastern Europe

The Southeastern European (SEE) region is likewise expected to continue its growth trend. Following very strong GDP growth of 3.9 per cent in 2016, SEE should increase its economic output in 2017 by slightly more than 3 per cent, which is its current potential growth rate. In particular, Romania could continue its solid growth trajectory with GDP growth of 4.2 per cent, but momentum is already slowing somewhat following last year's peak of over 4.8 per cent. Conversely, negative overheating effects such as a ballooning current account deficit should be avoided as a result. Serbia and Croatia, the two countries showing the strongest economic recovery in 2016, should both achieve economic growth of around or just over 3.0 per cent.

Eastern Europe

In Russia, moderate economic growth of 1.0 per cent is expected following the easing of the recession; a positive trend in oil prices would further support the Russian economy. In Ukraine, a continuation of last year's weak recovery process is anticipated whereas the economy in Belarus is still expected to shrink slightly. In general, Eastern Europe currently lacks strong external and internal growth drivers, as a result of which the region is not able to replicate the higher growth rates of the past. In addition, event risk remains considerable.

Austria

In Austria, the moderate economic upturn in 2017 should continue and gain momentum. Domestic demand (private consumption, gross capital investment) should continue to be the main pillar of support. The growth rate for exports should be higher than in 2016. Notwithstanding continuing solid growth in imports resulting from domestic economic momentum, net exports are expected to continue to support GDP growth in 2017. This scenario implies a 1.7 per cent increase in real GDP, following 1.5 per cent in 2016.

CEE banking sector

Solid economic growth in CE and SEE – as well as the end of the recession in Russia and Ukraine – should have a markedly positive impact on the CEE banking sector in 2017. Favorable developments in the operating business in CE and SEE could also be supported by at least stable or even slightly improved interest margins and/or somewhat steeper yield curves in 2017. In addition, recent years have already seen necessary adjustments for foreign currency loans and NPL portfolios resulting from the earlier expansion in CE and SEE, as well as their negative income effects. Accordingly, return on equity in the CEE banking sector should continue to recover in 2017.

Outlook for RBI

As a result of the merger with RZB, to be entered in the commercial register on 18 of March 2017, the following outlook applies to the combined bank.

RBI reached the 12 per cent CET1 ratio target one year ahead of schedule with a fully loaded CET1 ratio of 13.6 per cent at 31 December 2016 (12.4 per cent for the pro forma combined bank). In the medium term we strive to achieve a CET1 ratio (fully loaded) of around 13 per cent.

After stabilizing loan volumes, we look to resume growth with an average yearly percentage increase in the low single digit area.

We expect net provisioning for impairment losses for 2017 to be below the level of 2016 (€ 754 million).

We look to reach an NPL ratio of around 8 per cent by the end of 2017, and over the medium term we expect this to reduce further.

We further aim to achieve a cost/income ratio of between 50 and 55 per cent in the medium term, unchanged from our previous target.

Our medium term return on equity before tax target is unchanged at approximately 14 per cent, with a consolidated return on equity target of approximately 11 per cent.

Events after the reporting date

Extraordinary General Meeting approves merger with RZB

The Extraordinary General Meeting of RBI approved the merger with RZB by a clear majority on 24 January 2017. The shareholders also approved the capital increase related to the merger. RBI's share capital will be increased by € 109,679,778.15, from € 893,586,065.90 to € 1,003,265,844.05, through the issuance of 35,960,583 new no par value common bearer shares. The number of shares issued will therefore increase to 328,939,621.

The merged company will operate under the name of Raiffeisen Bank International AG, as previously the case for RBI, and RBI shares will continue to be listed on the Vienna Stock Exchange.

Annual financial statements

Statement of financial position

	ASSETS	31/12/2016 in €	31/12/2015 in € thousand
1.	Cash in hand and balances with central banks	1,677,797,910.42	5,316,213
2.	Treasury bills and other bills eligible for refinancing with central banks	2,242,744,063.41	3,361,729
3.	Loans and advances to credit institutions	9,739,523,003.05	10,188,691
	a) Repayable on demand	1,785,973,031.81	822,746
	b) Other loans and advances	7,953,549,971.24	9,365,945
4.	Loans and advances to customers	18,026,569,049.82	18,497,292
5.	Debt securities and other fixed-income securities	1,613,101,748.83	2,125,554
	a) issued by public bodies	321,092,270.76	206,699
	b) issued by other borrowers	1,275,962,561.80	1,918,855
	hereof: own debt securities	16,046,916.27	65,393
6.	Shares and other variable-yield securities	103,921,086.71	117,889
7.	Participating interests	22,345,935.38	18,213
	hereof: in credit institutions	0.00	0
8.	Shares in affiliated untertakings	7,980,260,690.42	8,170,931
	hereof: in credit institutions	1,154,972,001.34	1,241,307
9.	Intangible assets	35,979,836.45	41,143
10.	Tangible assets	5,642,029.94	7,284
	hereof: land and buildings occupied by a credit insitution for its own activities	0.00	0
11.	Other assets	4,239,859,957.85	4,546,804
12.	Accruals and deferred income	126,290,309.64	137,994
	Total assets	**45,814,035,621.92**	**52,529,738**

	LIABILITIES	31/12/2016 in €	31/12/2015 in € thousand
1.	Liabilities to credit institutions	13,377,310,997.87	17,240,455
	a) Repayable on demand	2,942,878,463.90	3,803,792
	b) With agreed maturity dates or periods of notice	10,434,432,533.97	13,436,663
2.	Liabilities to customers (non-banks)	13,638,332,060.28	15,351,584
	a) Savings deposits	0.00	0
	b) Other liabilities	13,638,332,060.28	15,351,584
	aa) Repayable on demand	4,705,322,113.91	5,756,086
	bb) With agreed maturity dates or periods of notice	8,933,009,946.37	9,595,498
3.	Securitised liabilities	4,939,861,640.93	5,463,430
	a) Debt securities issued	3,553,108,262.44	4,245,511
	b) Other securitised liabilities	1,386,753,378.49	1,217,919
4.	Other liabilities	3,597,255,334.03	4,003,596
5.	Accruals and deferred income	121,330,103.28	138,397
6.	Provisions	365,768,102.98	278,873
	a) Provisions for severance payments	55,760,260.11	50,435
	b) Provisions for pensions	28,335,741.22	30,176
	c) Provisions for taxation	23,683,314.09	22,657
	d) Other Provisions	257,988,787.56	175,605
7.	Supplementary capital pursuant to Chapter 4 of Title I of Part 2 of Regulation (EU) No 575/2013	3,346,002,644.84	3,672,126
8.	Subscribed capital	892,030,635.90	891,886
	a) Share capital	893,586,065.75	893,586
	b) Nominal value of own shares	(1,555,429.85)	(1,700)
9.	Capital reserves	4,432,772,765.64	4,432,717
	a) Committed	4,334,858,645.26	4,335,003
	b) Uncommitted	97,066,398.80	97,066
	c) Option reserve	847,721.58	647
10.	Retained earnings	1,286,931,540.70	1,285,064
	a) Legal reserve	5,500,000.00	5,500
	b) Other reserves	1,281,431,540.70	1,279,564
11.	Liability reserve pursuant to Article 57 (5)	383,015,000.00	383,015
12.	Net loss for the year	(566,575,204.53)	(611,406)
	Total liabilities	**45,814,035,621.92**	**52,529,738**

Income statement

		2016 in €	2015 in € thousand
1.	Interest receivable and similar income	885,402,841.39	1,090,890
	hereof: from fixed-income securities	60,153,624.34	79,620
2.	Interest payable and similar expenses	(608,391,039.93)	(671,154)
I.	**NET INTEREST INCOME**	**277,011,801.46**	**419,736**
3.	Income from securities and participating interests	638,459,034.70	777,105
	a) Income from shares and other variable-yield securities	6,220,984.43	6,402
	b) Income from participating interests	2,013,165.02	618
	c) Income from shares in affiliated undertakings	630,224,885.25	770,085
4.	Commissions receivable	287,892,546.40	277,417
5.	Commissions payable	(111,264,700.07)	(84,073)
6.	Net profit or net loss on financial operations	(17,853,601.92)	66,466
7.	Other operating income	151,916,632.07	187,394
II.	**OPERATING INCOME**	**1,226,161,712.64**	**1,644,045**
8.	General administrative expenses	(579,056,104.19)	(583,980)
	a) Staff costs	(288,258,954.79)	(288,172)
	aa) Wages and salaries	(216,942,383.49)	(221,485)
	bb) Expenses for statutory social contributions and compulsory contributions related to wages and salaries	(45,499,434.28)	(45,519)
	cc) Other social expenses	(6,643,458.75)	(6,522)
	dd) Expenses für pensions and assistance	(5,580,790.56)	(5,690)
	ee) Allocation to provision for pensions	1,360,885.22	443
	ff) Expenses for severance payments and contributions to severance funds	(14,953,772.93)	(9,400)
	b) Other administrative expenses	(290,797,149.40)	(295,808)
9.	Value adjustments in respect of asset items 9 and 10	(15,273,004.61)	(12,050)
10.	Other operating expenses	(64,948,546.82)	(36,932)
III.	**OPERATING EXPENSES**	**(659,277,655.62)**	**(632,963)**
IV.	**OPERATING RESULT**	**566,884,057.02**	**1,011,083**
11./12.	Net income/expenses from the disposal and valuation of loans and advances and securities classified as current assets	(233,716,421.21)	(435,601)
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	(193,634,172.45)	(292,002)
V.	**PROFIT ON ORDINARY ACTIVITIES**	**139,533,463.36**	**283,480**
15.	Extraordinary income	0.00	5,068
16.	Extraordinary expenses	0.00	0
VI.	**EXTRAORDINARY RESULT**	**0.00**	**5,068**
17.	Tax on profit or loss	(13,398,048.73)	(10,204)
18.	Other taxes not reported under Item 17	(81,304,737.05)	(88,570)
VII.	**PROFIT FOR THE YEAR AFTER TAX**	**44,830,677.58**	**189,775**
19.	Changes in reserves	0.00	0
	hereof: allocation to liability reserve	0.00	0
VIII.	**PROFIT**	**44,830,677.58**	**189,775**
20.	Loss brought forward	(611,405,882.11)	(801,181)
IX.	**LOSS**	**(566,575,204.53)**	**(611,406)**

Items off the statement of financial position

	ASSETS	31/12/2016 in €	31/12/2015 in € thousand
1.	Foreign assets	33,370,338,406.45	31,206,166

	LIABILITIES	31/12/2016 in €	31/12/2015 in € thousand
1.	Contingent liabilities	5,087,299,577.38	6,494,130
	Guarantees and assets pledged as collateral security	5,087,299,577.38	6,494,130
2.	Commitments	11,932,400,000.00	12,215,770
	hereof: liabilities from asset sale and repurchase agreements pursuant to Article 12 (3) and (5) of Regulation (EU) No 575/		
3.	Commitments arising from agengy services	241,115,381.92	272,202
4.	Eligible own funds according to Part 2 of Regulation (EU) No 575/2013	9,569,936,792.70	9,820,072
	hereof: supplementary capital pursuant to Chapter 4 of Title I of Part 2 of Regulation		
	(EU) No 575/2013	3,266,439,756.51	3,675,813
5.	Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013	28,883,504,491.57	31,559,096
	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)	21.8%	19.5%
	b) hereof: capital requirements pursuant to Article 92 (b)	21.8%	19.5%
	c) hereof: capital requirements pursuant to Article 92 (c)	33.1%	31.1%
6.	Foreign liabilities	12,059,742,599.20	17,972,428

Notes

Recognition and measurement principles

General principles

The annual financial statements for the year ending 31 December 2016 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). 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 the best of our knowledge the annual financial statements give a true and fair view of the company's net assets, financial position and earnings.

Since the 2014 Austrian Financial Reporting Amendment Act (RÄG) is being applied for the first time, the nominal value of own shares previously reported on the asset side has to be deducted from share capital. The difference between the nominal value and the accounting par value of the shares has to be deducted from the free reserve under retained earnings. In addition, temporary differences in the form of deferred taxes attributable to different accounting and tax treatments have to be recognized on the asset and liability sides, while long-term provisions have to be discounted at the prevailing market interest rate. These new legal requirements were satisfied during the financial year. To improve comparability, the previous year's figures were adjusted to conform to the 2014 Austrian Financial Reporting Amendment Act (RÄG).

The consolidated financial statements were prepared in compliance with the consistency principle.

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.

RBI AG chose the internet as the medium for the disclosure under Section 431 ff Regulation (EU) No. 575/2013. The disclosure is reported on RBI AG's homepage (www.rbinternational.com).

Amounts in foreign currencies

Assets and liabilities in foreign currencies are converted at the ECB's reference exchange rates as at 31 December 2016 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	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

No deferred tax assets were recognized based on asset-side temporary differences or tax loss carryforwards 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.

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 1.6 per cent (31/12/2015: 2.0 per cent) p.a. and an effective salary increase of 2.7 per cent (31/12/2015: 3.0 per cent) p.a. The parameters for retired employees are calculated using a capitalization rate of 1.6 per cent (31/12/2015: 2.0 per cent) p.a. and an expected increase in retirement benefits of 1.2 per cent (31/12/2015: 2.0 per cent) p.a., and in the case of pension commitments with existing reinsurance policies of 1.0 per cent (31/12/2015: 1.0 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 also based on an interest rate of 1.6 per cent (31/12/2015: 2.0 per cent) p.a. and an average salary increase of 2.7 per cent (31/12/2015: 3.0 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. In conformity with the 2014 Austrian Financial Reporting Amendment Act (RÄG), long-term provisions were discounted at prevailing market interest rates in the reporting period. The interest rates ranged from 1.59 to 1.97 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.

Company

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 Raiffeisen Bank International Group (RBI) regards Central and Eastern Europe (including Austria) as its home market. For around 25 years, RBI has been operating in Central and Eastern Europe (CEE), where today it maintains a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers in 15 markets. As a universal bank, RBI ranks among the top five banks in several countries. This role is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. RBI has positioned itself in CEE as a fully integrated corporate and retail banking group with a comprehensive product offering. At the end of 2016, around 46,000 RBI employees served approximately 14.1 million customers in around 2,500 outlets in CEE.

In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international customers and major multinational clients operating in CEE. All in all, RBI employs around 49,000 staff and has total assets of approximately €112 billion.

RBI AG has branches in Asia (Beijing and Singapore) and also in London and Frankfurt. The branches in Xiamen and Hong Kong were closed on 8 July 2016 and 31 October 2016, respectively.

RBI AG has a group relationship with Raiffeisen Zentralbank Österreich AG, Vienna (ultimate parent) and its affiliated companies and is part of the fully consolidated group. The annual consolidated financial statements are filed at the location of the company seat.

As shares in the company are traded under Section 2 37 of the Austrian Banking Act (BWG) within a regulated market, RBI AG has to publish annual consolidated financial statements in accordance with Section 245 (5) of the Austrian Commercial Code (UGB) in compliance with International Financial Reporting Standards.

Service relationships between RZB AG and RBI AG

There are mutual service relationships between RZB AG and RBI AG that are covered by service level agreements (SLAs). On the basis of a framework agreement and an SLA template, which regulate the rights and obligations of the contracting parties and the settlement modalities between them, there are a variety of SLAs covering dealings between RZB AG and RBI AG in different areas. These are subject to an annual review process based on the services actually provided.

On the reporting date there were 27 SLAs regulating services provided by RBI AG. The principal ones relate to:

- Accounting & Reporting
- Risk Controlling
- Information Technology (IT)
- Human Resources
- Tax Management
- Group Communications

In return, RZB AG provides services that constitute group guidelines, such as group management instruments. These are regulated in 7 SLAs: Compliance, Corporate Responsibility, Executive Secretariat, Group Organizations & Internal Control System (integrated into Compliance as of 1 October 2016), Risk Controlling and Raiffeisen Banking Group customers.

Service relationships between RBI AG and other companies

Service relationships exist between RBI AG and other companies in the field of IT, facility management and processing of payment transfer and securities transactions. Corresponding SLA's are in place.

Notes on individual items of the statement of financial position

Loans and advances and liabilities

In the items of the statement of financial position "Loans and advances to credit institutions" and "Loans and advances to customers", loans and advances in an amount of € 0.0 million (31/12/2015: € 61.8 million) are secured by bills of exchange.

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	31/12/2016	31/12/2015
Loans and advances to credit institutions	**9,739.5**	**10,188.7**
Repayable on demand	1,786.0	823
Up to 3 months	3,230.9	4,357.7
More than 3 months, up to 1 year	1,104.6	1,802.2
More than 1 year, up to 5 years	2,513.5	1,906.3
More than 5 years	1,104.2	1,299.7
Loans and advances to customers	**18,026.6**	**18,497.3**
Repayable on demand	2,258.1	1,133.5
Up to 3 months	3,349.9	9,415.8
More than 3 months, up to 1 year	2,748.5	3,919.8
More than 1 year, up to 5 years	7,473.6	3,420.7
More than 5 years	2,196.5	607.5
Other assets	**4,239.9**	**4,546.8**
Up to 3 months	4,239.9	4,546.8
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

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

in € million	31/12/2016	31/12/2015
Liabilities to credit institutions	13,377.3	17,240.5
Repayable on demand	2,942.9	3,803.8
Up to 3 months	3,544.2	7,721.7
More than 3 months, up to 1 year	1,725.3	2,635.2
More than 1 year, up to 5 years	3,328.4	2,192.6
More than 5 years	1,836.6	887.2
Liabilities to customers (non-banks)	13,638.3	15,351.6
Repayable on demand	4,705.3	5,756.1
Up to 3 months	4,099.1	4,750.2
More than 3 months, up to 1 year	2,861.4	2,882.8
More than 1 year, up to 5 years	550.3	798.2
More than 5 years	1,422.3	1,164.3
Securitised liabilities	4,939.9	5,463.4
Up to 3 months	295.7	368.1
More than 3 months, up to 1 year	1,690.5	806.4
More than 1 year, up to 5 years	2,317.5	3,653.1
More than 5 years	636.2	635.9
Other liabilities	3,597.3	4,003.6
Up to 3 months	3,597.3	4,003.6
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 other fixed-interest securities amounting to € 202.5 million (31/12/2015: € 261.6 million) will become due in the next financial year.

Bonds and notes issued amounting to € 1,553.9 million (31/12/2015: € 1,262,0 million) will become due in the next financial year.

Derivative financial instruments

Hedging relationships

Fair value hedges with hedging periods up to 2053 existed as at 31 December 2016.

On the basis of clean prices, the positive market values of the hedging derivatives amounted to € 559.5 million at the reporting date (31/12/2015: € 610.0 million). The negative market values of the derivatives amounted to € 86.5 million (31/12/2015: € 107.1 million) as at 31 December 2016.

Interest rate management derivatives

As at 31 December 2016, a provision for impending losses of € 37.5 million (31/12/2015: € 33.7 million) was recognized for derivatives in connection with functional units. In the 2016 financial year, in this context € 10.5 million (31/12/2015 € 8.2 million) was allocated to the provision and € 6.7 million (31/12/2015: € 15.1 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	31/12/2016		31/12/2015		Valuation effect
	Positive values	Negative values	Positive values	Negative values	31/12/2016
CHF	13	0	39	0	(26)
CZK	327	(14)	106	(165)	372
EUR	86,921	(37,479)	77,180	(33,533)	5,795
HUF	239	0	47	0	192
JPY	1	0	2	0	(1)
PLN	15	0	33	0	(18)
RUB	359	0	313	0	46
USD	5,361	(35)	4,857	(49)	518
Total	**93,236**	**(37,528)**	**82,577**	**(33,747)**	**6,878**

The main factor driving the valuation result was the change in market value due to the change in the euro interest rate market.

Securities

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 31/12/2016	Unlisted 31/12/2016	Listed 31/12/2015	Unlisted 31/12/2015
Debt securities and other fixed-income securities	1,613.2	0.0	2,125.6	0.0
Shares and other variable-yield securities	8.4	0.0	22.4	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 31/12/2016	Current assets 31/12/2016	Fixed assets 31/12/2015	Current assets 31/12/2015
Debt securities and other fixed-income securities	982.2	631.0	916.6	1,209.0
Shares and other variable-yield securities	0.0	8.4	0.0	24.6

The following table shows the sale of fixed asset securities, including € 553.1 million in principal repayments (31/12/2015: € 892.0 million).

Statement of financial position in € million	Nominal amount 31/12/2016	Net gain 31/12/2016	Nominal amount 31/12/2015	Net gain 31/12/2015
Treasury bills and other bills eligible for refinancing with central banks	493.3	12.7	450.9	0.0
Loans and advances to credit institutions	56.8	0.0	71.0	1.1
Loans and advances to customers	15.5	1.4	4.2	0.4
Debt securities and other fixed-income securities	200.3	1.0	508.6	13.0
Total	**766.0**	**15.2**	**1,034.7**	**14.5**

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 € 33.2 million (31/12/2015: € 52.9 million) to be recognized in the future as expenditure and € 1.2 million (31/12/2015: € 1.5 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 € 3.2 million (31/12/2015: € 4.8 million) pursuant to Section 56 (4) of the Austrian Banking Act (BWG) and € 2.2 million (31/12/2015: € 3.0 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 € 8.4 million (31/12/2015: € 18.4 million).

Securities amounting to € 239.7 million (31/12/2015: € 260.5 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 € 152,151.1 million (31/12/2015: € 160,105.5 million), with € 1,028.5 million (31/12/2015: € 1,761.9 million) accounted for by securities and € 151,122.6 million (31/12/2015: € 158,343.6 million) accounted for by other financial instruments.

Investments and shares in affiliated companies

The list of investments is shown separately in the notes, Annex 3. There are no cross-shareholdings and no profit and loss transfer agreements as at 31 December 2016.

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

Loans and advances to and deposits from affiliated companies and companies linked by virtue of a participating interest:

in € million	31/12/2016	31/12/2015
Loans and advances to credit institutions		
to affiliated companies	4,386.4	6,414.3
to companies linked by virtue of a participating interest	183.2	170.9
Loans and advances to customers		
to affiliated companies	2,011.8	3,308.9
to companies linked by virtue of a participating interest	109.1	115.3
Debt securities and other fixed-income securities		
from affiliated companies	17.2	83.8
from companies linked by virtue of a participating interest	0.0	0.2
Liabilities to credit institutions		
from affiliated companies	3,917.7	5,019.5
from companies linked by virtue of a participating interest	568.5	2,541.6
Liabilities to customers		
from affiliated companies	1,781.5	2,013.7
from companies linked by virtue of a participating interest	77.3	27.4

Fixed assets

The statement of fixed assets is shown separately in the notes, Annex 1.

RBI AG was not directly involved in the leasing business as a lessor in 2016.

Obligations from the use of tangible fixed assets not reported on the statement of financial position amount to € 30.0 million (31/12/2015: € 30.9 million) for the following financial year. The total amount of obligations for the following five years amounts to € 154.5 million (31/12/2015: € 170.8 million).

The intangible fixed assets item includes € 0.2 million (31/12/2015: € 0.5 million) of intangible fixed assets acquired from affiliated companies.

Other assets

As at 31 December 2016, other assets totaled € 4,239.9 million (31/12/2015: € 4,546.8 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 – refer to Annex 2 for details) in the amount of € 3,321.1 million (31/12/2015: € 3,552.5 million). This item also includes dividends receivable totaling € 561.8 million (31/12/2015: € 731.5 million), and loans and advances for precious metals in coin and other forms in the amount of € 87.0 million (31/12/2015: € 62.2 million).

The other assets also contain income of € 841.8 million (2015: € 998.7 million) which is not payable until after the reporting date.

Deferred tax assets

No deferred tax assets were recognized based on the asset-side temporary differences of € 317,637,258.00 or the tax loss carryforwards of € 141,273,498.00 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.

Other liabilities

As at 31 December 2016, other liabilities amounted to € 3,597.3 million (31/12/2015: € 4,003.6 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 – refer to Annex 2 for details) in the amount of € 2,807.8 million (31/12/2015: € 3,052.9 million) and liabilities of € 77.2 million (31/12/2015: € 43.1 million) from short positions in bonds. Capital guarantees for funds are valued at € 118.0 million (31/12/2015: € 148.3 million). The item also includes accrued interest for additional capital of € 251.8 million (31/12/2015: € 221.6 million).

The other liabilities also contain expenses in the amount of € 481.8 million (2015: 410.2 million), for which payment is to be made after the reporting date.

Provisions

Provisions are valued at € 365.8 million, representing a year-on-year increase of € 86.9 million.

Provisions amount to € 55.8 million (31/12/2015: € 50.4 million) for severance payments, € 28.3 million (31/12/2015: € 30.2 million) for pensions; € 23.7 million (31/12/2015: € 22.7 million) for tax provisions; and € 258.0 million (31/12/2015: € 175.6 million) for other provisions. Reinsurance policies are in place in the amount of € 15.2 million for pension provisions. Pension claims of the same amount are reported under other assets.

Tax provisions of € 23.7 million amount to € 13.3 million (31/12/2015: € 17.1 million) for corporate income tax, € 5.5 million (31/12/2015: € 4.4 million) for value added tax, € 4.8 million (31/12/2015: € 0.0 million) for other levies and € 0.1 million (31/12/2015: € 1.1 million) for income tax at the branches in Frankfurt and Singapore. The change in other provisions mainly resulted from the increase in additional funding obligations for equity interests and affiliated enterprises and new provisioning for process risks.

Breakdown of other provisions in € million	31/12/2016	31/12/2015
Provisions for bonus payments	27.4	29.9
Provisions for losses on bankbook interest rate derivatives	37.5	33.7
Provisions for participations and affiliated enterprises	76.2	18.0
Provisions for process risks	53.1	23.2
Provisions for audit costs	0.9	1.4
Provisions for anniversary payments	15.4	14.1
Provisions for overdue vacation	13.6	14.4
Provisions for guarantee loans	22.9	20.5
Provisions for Supervisory Board fees	0.6	0.7
Provisions for other expenses/outstanding invoices	7.6	8.4
Provisions for credit-brokerage	0.0	6.4
Provisions for restructuring costs	0.6	2.3
Provisions for operational risk/losses/other	2.2	2.6
Total	**258.0**	**175.6**

Equity

Subscribed capital

As at 31 December 2016, the subscribed capital of RBI AG as defined by the articles of association amounted to unchanged € 893,586 thousand. The subscribed capital consists of 292,979,038 non-par bearer shares. After deduction of own shares of 509,977, the stated subscribed capital totaled € 892.031 thousand (31/12/2015: € 891,886 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 Sections (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 or branches of activity of 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 replaces the authorization granted at the Annual General Meeting of 4 June 2014 pursuant to Section 65 (1) 4 and 8 of the Austrian Stock Corporation Act (AktG) to purchase and use own shares and, with regard to their use, extends to the own shares already purchased by the company. No own shares have been bought since the authorization was issued in June 2016. This authorization applies for a period of five years from the date of the resolution (i.e. until 15 June 2021).

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 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 € 4,334,858,645.26 (31/12/2015: € 4,335,003 thousand and the uncommitted capital reserves of € 97,066,398.80 (31/12/2015: € 97,066 thousand) remained essentially unchanged over the entire financial year. The year-on-year change is partly the result of an increase of € 200,407.00 in the option reserve for obligations under the Share Incentive Program (SIP) and partly the result of a decrease of € 144,319.90 in committed capital reserves due to the sale of own shares. An adjustment of € 1,699,749.75 was applied to the previous year's value to reflect the application of the 2014 Austrian Financial Reporting Amendment Act (RÄG).

An option reserve was set up in the amount of € 847.721,58 (2015: € 647,314.58) for obligations under the Share Incentive Program for which RBI holds no own shares. The corresponding expense is booked under staff expenses.

Retained earnings

Retained earnings consist of legal reserves of € 5,500,000.00 (31/12/2015: € 5,500 thousand) and other free reserves amounting to € 1, 281,431,540.70 (31/12/2015: € 1,279,564 thousand). In accordance with Section 229 of the Austrian Commercial Code (UGB), the difference between the cost and the lower nominal value of own shares of € 2,110,083.89 was deducted from other reserves. The rest of the change in other free reserves is fully attributable to changes relating to the Share Incentive Program (SIP). An adjustment of € 4,029,880.35 was applied to the previous year's value for other free reserves pursuant to the 2014 Austrian Financial Reporting Amendment Act (RÄG). The adjustment pertains to the retroactive release of other free reserves reallocated to own shares.

Liability reserves

As at 31 December 2016, liability reserves stood at € 383,015,000.00 (31/12/2015: € 383,015 thousand).

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

Additional Tier 1 capital amounted to € 3,346,002,644.84 as at 31 December 2016 (31/12/2015: € 3,672,126 thousand).

Company Tier 2 capital according to CRR:

in € million	31/12/2016	31/12/2015
6,625 % RBI bonds 2011-2021	0.2	0.3
5.875 % RBI debt securities issued 2023-2023	0.5	2.3
6 % RBI debt securities issued 2013-2023	0.4	2.6
RBI bonds 2014-2025	1.0	1.0

In the reporting year issuances in the amount of € 11.1 million (2015: € 117.9 million) were redeemed. A loss of € 0.3 million (2015: profit of € 1.6 million) including the release of the corresponding hedging transaction was booked.

Subordinated liabilities

List of subordinated loans (including additional capital) that exceed 10 per cent of the total subordinated liabilities of € 3,780.0 million (i.e. that exceed € 378.0 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 € 183.8 million (2015: € 179.3 million).

Total capital according to CCR

in € million	31/12/2016	31/12/2015
Paid-in capital	892	892
Capital reserves and premium to CET1 instruments	4,433	4,433
Retained earnings and other reserves	1670	1,668
Common equity tier 1 (before deductions)	**6,995**	**6,992**
Net loss for the year	(567)	(611)
Intangible fixed assets/goodwill	(36)	(41)
Provision shortage for IRB positions	(104)	(114)
Deductions exceeding common equity tier 1	(35)	(59)
Deduction securitizations	(5)	(116)
Transitional adaptions for common equity tier 1	56	93
Common equity tier 1 (after deductions)	**6,304**	**6,144**
Additional tier 1	0	0
Tier 1	**6,304**	**6,144**
Supplementary capital	3,178	3,600
Less own supplementary capital	(2)	(7)
Provision excess of IRB positions	111	117
Transitional adaptions for Supplementary Capital	(21)	(34)
Tier 2 (after deductions)	**3,266**	**3,676**
Total capital	**9,570**	**9,820**
Total risk exposure amount (assessment basis)	**28,884**	**31,559**
Common equity tier 1 capital ratio	21.8%	19.5%
Tier 1 capital ratio	21.8%	19.5%
Total capital ratio (transitional)	33.1%	31.1%
Common equity tier 1 capital ratio (fully loaded)	21.8%	19.4%
Total capital ratio (fully loaded)	33.1%	31.1%

Total capital requirement

in € million	31/12/2016	31/12/2015
Total risk exposure amount (assessment basis)	**28,884**	**31,559**
Total capital requirement for credit risk	2,003	2,175
Internal rating approach	1,490	1,555
Standardized approach	426	427
CVA risk	28	30
Basel I - Floor	59	163
Total capital requirement for position risk in bonds, equities, commodities and open currency positions	91	115
Total capital requirement for operational risk	217	235
Total capital requirement	**2,311**	**2,525**

in € million	31/12/2016	31/12/2015
Risk-weighted assets according to standardized approach	**426**	**427**
Banks	2	1
Corporate customers	2	1
Equity exposures	401	406
Other positions	21	19
Risk-weighted assets according to internal rating approach	**1,490**	**1,555**
Central governments and central banks	3	5
Banks	335	420
Corporate customers	832	819
Equity exposures	307	296
Securitization position	13	15
CVA risk	**28**	**30**
Basel I - Floor	**59**	**163**
Total capital requirement for credit risk	**2,003**	**2,175**

Per cent	31/12/2016	31/12/2015
Leverage ratio (fully loaded)	10.8%	8.8%
Risk-weighted assets in per cent of total assets	63.0%	60.2%

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 2016, the volume of these guarantees was € 1,540 million (31/21/2015: € 1,682 million).

As at 31 December 2016, RBI AG also issued capital guarantees in connection with structured financial products, with a guarantee volume of € 0 million (31/12/2015: € 44 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.

As at 31 December 2016, soft letters of comfort in the amount of € 379.2 million (31/12/2015 € 460.8 million) had been issued.

The volume of liabilities to affiliated companies amounted to € 818.1 million as at 31 December 2016 (31/12/2015: € 1,950.0 million).

Open capital commitments on share capital in the amount of € 5.6 million (31/12/2015: € 5.6 million) exist vis-á-vis European Investment Fund S.A., Luxembourg.

Contingent liabilities off the statement of financial position of RBI AG of € 5,087.3 million were reported as at 31 December 2016 (31/12/2015: € 6,494.1 million). Of that amount, € 4,518.4 million (31/12/2015: € 5,710.6 million) was attributable to guarantees and € 568.9 million (31/12/2015: € 757.9 million) to letters of credit.

As at 31 December 2016, € 11,932.4 million (31/12/2015: € 12,215.8 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.

Total assets and liabilities in foreign currency:

in € million	31/12/2016	31/12/2015
Assets in foreign currency	11,354.6	14,727.3
Liabilities in foreign currency	8,839.2	14,182.9

Subordinated assets contained under assets:

in € million	31/12/2016	31/12/2015
Loans and advances to credit institutions	1,718.0	1,850.5
hereof to affiliated companies	1,716.4	1,817.0
hereof to companies linked by virtue of a participating interest	1.6	1.6
Loans and advances to customers	174.0	249.6
hereof to affiliated companies	6.3	6.8
hereof to companies linked by virtue of a participating interest	0.0	0.0
Debt securities and other fixed-income securities	27.0	23.8
hereof from affiliated companies	0.0	0.0
hereof from companies linked by virtue of a participating interest	0.0	0.0
Shares and other variable-yield securities	95.6	95.5
hereof from affiliated companies	72.9	72.9
hereof from companies linked by virtue of a participating interest	2.2	2.2

Open forward transactions as at the reporting date are listed in Annex 2 to the Notes.

The derivative financial instruments listed in Annex 2 are recognized in the statement of financial position at fair value:

Derivatives in € million	Positive fair values 31/12/2016	 31/12/2015	Negative fair values 31/12/2016	 31/12/2015
Derivatives in the trading book				
a) Interest rate contracts	2,210.4	2,312.4	1,743.2	1,935.8
b) Foreign exchange rate contracts	829.6	969.9	834.2	925.1
c) Share and index contracts	0.4	1.2	0.5	1.5
d) Credit derivatives	0.7	1.8	0.7	2.0

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

in € million	31/12/2016	31/12/2015
Indemnification for securities lending transactions	3.9	5.7
Loans assigned to Oestereichische Kontrollbank (OeKB)	1,660.0	1,929.3
Loans assigned to European Investment Bank (EIB)	238.9	289.0
Loans assigned to Kreditanstalt für Wiederaufbau (KfW)	15.9	16.7
Loans assigned to Swedish Export Corporation (SEK)	56.2	70.4
Loans assigned to Euler Hermes	43.9	37.2
Margin requirements	37.0	29.0
Treasury call deposits for contractual netting agreements	1,175.9	1,673.4
Total	**3,231.6**	**4,050.5**

In addition, assets with usage restrictions in an amount of € 1,430.2 million (31/12/2015: € 1,296.3 million) exist for covered bonds which have been established but not yet issued.

For the following financial instruments within financial assets, the fair value is lower than the book value:

	Financial investments in € million	Carrying amount 31/12/2016	Fair value 31/12/2016	Carrying amount 31/12/2015	Fair value 31/12/2015
1.	Treasury bills and other bills eligible for refinancing with centralbank	26.1	26.0	25.2	25.1
2.	Loans and advances to credit institutions	30.7	28.7	31.0	29.0
3.	Loans and advances to customers	156.9	156.1	137.5	136.4
4.	Debt securities and other fixed-income securities				
	a) issued by public bodies	132.5	132.1	119.3	118.8
	b) issued by other borrowers	277.2	276.3	272.1	271.0
5.	Shares and other variable-yield securities	70.0	59.5	70.0	47.1
Total		**693.4**	**678.8**	**655.0**	**627.4**

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.

Notes to the income statement

Breakdown of 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:

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

2015 in € million	Total	Austria	Western Europe	Asia
Interest receivable and similar income	1,090.9	1,003.2	0.0	87.7
hereof: from fixed-income securities	79.6	77.8	0.0	1.8
Income from variable-yield securities and participations	777.1	777.1	0.0	0.0
Commissions receivable	277.4	270.8	0.5	6.2
Net profit or net loss on financial operations	66.5	74.2	(0.1)	(7.7)
Other operating income	187.4	186.7	0.3	0.4

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 € 16.3 million (2015: € 3.6 million) in the item interest receivable and similar income. This contrasted with income of € 18.8 million (2015: € 4.2 million) resulting from negative interest for liabilities which was shown in the item interest payable and similar expenses. The persistently low interest rate level is responsible for the increase in expense and income resulting from negative interest.

Other operating income includes staff and administrative expenses passed on for services in the amount of € 87.8 million (2015: € 102.5 million), income from releases of provisions for impending losses from derivatives in the amount of € 6.7 million (2015: 15.1 million), as well as other income from the release of other provisions in the amount of € 1.9 million (2015: € 22.8 million).

Expenses for severance payments and benefits for occupational employee pension funds include € 12.7 million (2015: € 7.1 million) in expenses for severance payments.

The sundry operating expenses increased € 28.0 million to € 65.0 million in the reporting year. This position includes allocations of € 12.1 million (2015: € 8.2 million) to provisions for impending losses on bank book derivatives.

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, (€ 76.0 million). It also included write-downs of the book values of Raiffeisen Bank Polska S.A., Warsaw (€ 161.8 million), and Eastern European Invest Holding GmbH, Vienna (€ 62.4 million). In total, losses of € 270.8 million (2015: € 307.6 million) on the valuation of shares in affiliated companies and equity participations were reported.

The company has been a member of the Raiffeisen Zentralbank Österreich Aktiengesellschaft, Vienna group of companies in accordance with Section 9 of the Corporation Tax Act (KStG) since 2005. In the previous financial year, the existing tax compensation agreement was extended by a supplementary agreement. If RBI AG records a negative result for tax purposes and if these tax losses cannot be utilized within the Group, the group parent does not have to pay any negative tax compensation to RBI AG immediately. A final settlement takes place only/at the latest when the company leaves the tax group. The group parent must still pay a negative tax contribution to RBI AG for usable shares in losses of RBI AG.

On the basis of a tax allocation agreement, loss carry-forwards that are economically attributable to banking operations split off from RZB may be utilized by RBI.

The overall return on assets (net loss or profit after tax divided by the average total assets) in 2016 was 0.1 per cent (2015: 0.3 per cent).

Recommendation for the Appropriation of Profits

Due to the net loss for the year, RBI AG will not pay a dividend on shares for the 2016 financial year.

Events after the reporting date

Extraordinary General Meeting approves merger with RZB

The Extraordinary General Meeting of RBI approved the merger with RZB by a clear majority on 24 January 2017. The shareholders also approved the capital increase related to the merger. RBI's share capital will be increased by € 109,679,778.15, from € 893,586,065.90 to € 1,003,265,844.05, through the issuance of 35,960,583 new no par value common bearer shares. The number of shares issued will therefore increase to 328,939,621.

The merged company will operate under the name of Raiffeisen Bank International AG, as previously the case for RBI, and RBI shares will continue to be listed on the Vienna Stock Exchange.

Other

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

In the 2016 financial year the company had an average of 2,099 employees (2015: 2,079).

Expenses for severance payments and pensions broke down as follows:

Values in € thousand	Pension expenditure		Severance payments	
	2016	2015	2016	2015
Members of the managing board and senior staff	156	919	2,712	1,327
Employees	3,635	4,327	11,729	7,882
Total	**3,791**	**5,246**	**14,441**	**9,209**

The year-on-year increase in severance payments expense was due to the reduction of business operations in Asia.

Management Board

Members of the Management Board	First assignment	End of period
Karl Sevelda, Chairman	22 September 2010[1]	With entry of merger of RZB AG into RBI AG (expected on 18 March 2017)[2]
Johann Strobl, Deputy Chairman	22 September 2010[1]	28 February 2022[3]
Klemens Breuer	16 April 2012	31 December 2020
Martin Grüll	3 January 2005	28 February 2020
Andreas Gschwenter	1 July 2015	30 June 2018
Peter Lennkh	1 October 2004	31 December 2020

1 Effective as of 10 October 2010
2 As a result of the merger of RZB AG into RBI AG, Karl Sevelda will resign his mandate as member of the Management Board once the merger is effective.
3 The mandates as Management Board members of Johann Strobl and Martin Grüll will be extended once the merger of RZB AG into RBI AG is effective.

At the Supervisory Board meeting on 30 November 2016, it was decided, in connection with the merger of RZB AG with RBI AG, to appoint Johann Strobl as Chairman of the Management Board with effect as of the date of the merger, Klemens Breuer as Deputy Chairman of the Management Board, and Hannes Mösenbacher as member of the Management Board.

Supervisory Board

Members of the Supervisory Board	First assignment	End of period
Walter Rothensteiner, Chairman	11 May 2001	AGM 2017[3]
Erwin Hameseder, 1st Deputy Chairman	8 July 2010[1]	AGM 2020
Heinrich Schaller, 2nd Deputy Chairman	20 June 2012	AGM 2017
Martin Schaller, 3rd Deputy Chairman	4 June 2014	AGM 2019
Klaus Buchleitner	26 June 2013	AGM 2020
Kurt Geiger	9 June 2009	AGM 2019
Michael Höllerer	17 June 2015	With entry of merger of RZB AG into RBI AG (expected on 18 March 2017)[4]
Günther Reibersdorfer	20 June 2012	AGM 2017
Johannes Schuster	8 July 2010[1]	With entry of merger of RZB AG into RBI AG (expected on 18 March 2017)[4]
Bettina Selden	4 June 2014	AGM 2019
Rudolf Kortenhof[2]	10 October 2010	Until further notice
Martin Prater[2]	10 October 2010	31 January 2016
Peter Anzeletti-Reikl[2]	10 October 2010	Until further notice
Suanne Unger[2]	18 January 2012	Until further notice
Helge Rechberger[2]	10 October 2010	Until further notice
Natalie Egger-Grunicke[2]	18 February 2016	Until further notice

1 Effective as of 10 October 2010.
2 Delegated by the Staff Council
3 As a result of the merger between RZB AG and RBI AG, Walter Rothensteiner will resign his mandate as member of the Supervisory Board as of the end of the Annual General Meeting on 22 June 2017.
4 Michael Höllerer and Johannes Schuster will withdraw from their functions on the Supervisory Board once the merger between RZB AG and RBI AG is effective.

Committees of the Supervisory Board

	Working Committee	Audit Committee	Personnel Committee	Remuneration Committee	Risk Committee	Nomination Committee
Chairman	Walter Rothensteiner	Michael Höllerer[1]	Walter Rothensteiner	Walter Rothensteiner	Johannes Schuster[1]	Walter Rothensteiner
1st Deputy Chairman	Erwin Hameseder	Walter Rothensteiner[2]	Erwin Hameseder	Erwin Hameseder	Walter Rothensteiner[2]	Erwin Hameseder
2nd Deputy	Heinrich Schaller	Erwin Hameseder[3]	Heinrich Schaller	Heinrich Schaller	Erwin Hameseder[3]	Heinrich Schaller
3rd Deputy Chairman	Martin Schaller	Heinrich Schaller[4]	Martin Schaller	Martin Schaller	Heinrich Schaller[4]	Martin Schaller
4th Deputy Chairman	–	Martin Schaller[5]	–	–	Martin Schaller[5]	–
Member	Johannes Schuster	Johannes Schuster[6]	Johannes Schuster	Johannes Schuster	Johannes Schuster[6]	Johannes Schuster
Member	Rudolf Kortenhof	Rudolf Kortenhof	–	Rudolf Kortenhof	Rudolf Kortenhof	Rudolf Kortenhof
Member	Peter Anzeletti-Reikl	Peter Anzeletti-Reikl	–	Peter Anzeletti-Reikl	Peter Anzeletti-Reikl	Peter Anzeletti-Reikl
Member	Susanne Unger[7]	Susanne Unger[7]	–	Susanne Unger[7]	Susanne Unger[7]	Susanne Unger[7]

1 As of 15 March 2016; until 15 March 2016, Walter Rothensteiner
2 As of 15 March 2016; until 15 March 2016, Erwin Hameseder
3 As of 15 March 2016; until 15 March 2016, Heinrich Schaller
4 As of 15 March 2016; until 15 March 2016, Martin Schaller
5 As of 15 March 2016
6 Until 15 March 2016
7 As of 1 February 2016; until 31 January 2016, Martin Prater

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	2016	2015
Fixed remunerations	5,017	5,007
Bonus (performance-based)	1,467	1,759
Share-based remuneration (performance-based)	220	0
Payments to pension funds and reinsurance policies	264	262
Other remunerations	2,192	2,638
Total	**9,160**	**9,666**
hereof remuneration of affiliated companies	2,084	2,521

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 2011 tranche. The bonuses reported above are immediately payable bonus amounts for 2015 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 € 511 thousand (2015: € 509 thousand) was paid to former members of the Management Board and their surviving dependants in the financial year. In addition to these amounts, deferred bonus amounts and pro rata benefits under a matured SIP tranche totaling € 493 thousand (2015: 420 thousand) were paid to former members of the Management Board.

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 2011 tranche matured in 2016. In accordance with the terms and conditions of the program (published by "euro adhoc" on 14 September 2011), the number of shares actually transferred was as follows:

Share incentive program (SIP) 2011 Group of persons	Number of shares due	Value at share price of € 13.92 on allocation date	Number of shares actually transferred
Members of the management board of the company	24,493	340,943	12,809
Members of the management boards of bank subsidiaries affiliated with the company	30,050	418,296	23,125
Executives of the company and other affiliated companies	19,839	276,159	11,384

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.

This means that as at the reporting date, contingent shares for two tranches were allocated. As at 31 December 2016, the number of these contingent shares was 693,462 (of which 367,977 shares were attributable to the 2012 allotment and 325,485 shares to the 2013 allotment). 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) 2012 – 2013 Group of persons	Number of contingently allotted shares as at 31/12/2016	Minimum of allotment of shares	Maximum of allotment of shares
Members of the management board of the company	214,091	64,227	321,137
Members of the management boards of bank subsidiaries affiliated with the company	291,910	87,573	437,865
Executives of the company and other affiliated companies	187,461	56,238	281,192

In the financial year 2016, no shares were bought back for the share incentive program.

Remuneration of members of the Supervisory Board

in € thousand	2016	2015
Remunerations Supervisory Board	525	550

The Annual General Meeting held on 16 June 2016 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 9 May 2016 under the condition of approval in the Annual General Meeting held on 16 June 2016 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 2016 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.

Vienna, 28 February 2017

The Management Board

Karl Sevelda

Johann Strobl

Klemens Breuer

Martin Grüll

Andreas Gschwenter

Peter Lennkh

Annex 1: Statement of fixed assets

Values in € thousand		Cost of acquisition or conversion						Writing up/depreciation/revaluation							Carrying amount	
Item	Description of fixed assets	As at 1/1/2016 1	Exchange differences 2	Additions 3	Disposals 4	Reclass-ification 5	As at 31/12/2016 6	Cumulative depreciation as of 1/1/2016 7	Exchange differences 8	Cumulative depreciation and amortization disposal 9	Write-ups 10	Deprecia-tion 11	Reclass-ification 12	Cumulative depreciation as of 31/12/2016 13	31/12/2016 14	31/12/2015 15
1.	Treasury bills and other bills eligible for refinancing with central banks	2,356,062	828	0	(468,479)	0	1,888,411	(10,135)	0	(9,646)	583	(18,804)	0	(38,002)	1,850,409	2,345,927
2.	Loans and advances to credit institutions	49,787	1,025	270	(6,975)	12,278	56,385	(8,922)	(602)	(487)	108	0	(9,247)	(19,150)	37,234	40,865
3.	Loans and advances to customers	358,352	269	0	(103,477)	25,513	280,658	(2,002)	22	1,891	89	(100)	(2,928)	(3,027)	277,631	356,350
4.	Debt securities and other fixed-income securities	952,688	13,336	167,869	(94,001)	(37,791)	1,002,100	(40,432)	2	2,327	5,000	(2,755)	12,174	(23,683)	978,417	912,256
a)	issued by public bodies	153,398	5,035	70,696	0	0	229,129	93	3	0	180	(38)	0	239	229,368	153,491
b)	issued by other borrowers	799,290	8,301	97,173	(94,001)	(37,791)	772,971	(40,525)	(1)	2,327	4,820	(2,717)	12,174	(23,922)	749,049	758,765
5.	Shares and other variable-yield securities	90,000	0	0	0	0	90,000	0	0	0	0	0	0	0	90,000	90,000
6.	Participating interests	24,927	0	3,961	(826)	998	29,060	(6,714)	0	0	0	0	0	(6,714)	22,346	18,213
7.	Shares in affiliated undertakings	10,197,596	0	214,234	(334,540)	(998)	10,076,292	(2,026,665)	0	143,042	82,959	(295,368)	0	(2,096,031)	7,980,261	8,170,931
8.	Intangible fixed assets	230,187	239	7,627	(45,762)	117	192,408	(189,044)	(113)	45,514	0	(12,779)	(5)	(156,428)	35,980	41,143
9.	Tangible assets	24,923	(47)	1,056	(3,832)	(117)	21,982	(17,638)	24	3,763	0	(2,494)	5	(16,340)	5,642	7,285
	Total	**14,284,522**	**15,650**	**395,017**	**(1,057,893)**	**0**	**13,637,296**	**(2,301,552)**	**(667)**	**186,403**	**88,739**	**(332,300)**	**0**	**(2,359,376)**	**11,277,919**	**11,982,970**

Annex 2: Open forward transactions

31/12/2016	Nominal amount by maturity in € thousand					Market value	
	Up to 1 year	More than 1 year, up to 5 years	More than 5 years	Total	hereof trading book	positive	negative
Total	**71,386,187**	**80,164,389**	**71,394,359**	**222,944,935**	**151,390,487**	**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 foreign exchange 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**
OTC products							
Commodity forward transactions	0	0	0	0	0	0	0
Exchange-traded products							
Commodity futures	0	0	0	0	0	0	0
e) Credit derivative contracts	**895,537**	**85,743**	**0**	**981,280**	**981,281**	**648**	**(687)**
OTC products							
Credit default swaps	895,537	85,743	0	981,280	981,281	648	(687)

Open forward transactions

31/12/2015	Nominal amount by maturity in € thousand					Market value	
	Up to 1 year	More than 1 year, up to 5 years	More than 5 years	Total	hereof trading book	positive	negative
Total	**90,807,807**	**81,469,510**	**74,087,014**	**223,840,443**	**163,591,226**	**4,975,320**	**(4,190,266)**
a) Interest rate contracts	**33,467,254**	**67,087,996**	**48,684,393**	**149,239,643**	**108,646,050**	**3,258,083**	**(2,463,865)**
OTC products							
Interest rate swaps	29,096,858	58,453,369	42,778,572	130,328,799	90,222,874	2,973,357	(2,208,371)
Floating Interest rate swaps	0	0	0		0	0	0
Interest rate futures	1,869,944	0	0	1,869,944	1,869,944	997	(1,755)
Interest rate options - buy	975,474	4,347,057	2,944,024	8,266,555	7,859,319	283,665	0
Interest rate options - sell	1,312,004	4,253,372	2,884,481	8,449,857	8,369,425	0	(253,739)
Other similar interest rate contracts	0	0	0	0	0	0	0
Exchange-traded products							
Interest rate futures	212,974	34,198	58,945	306,117	306,117	0	0
Interest rate options	0	0	18,371	18,371	18,371	64	0
b) Foreign exchange rate contracts	**56,830,275**	**13,174,949**	**2,739,841**	**72,745,065**	**53,479,793**	**1,711,995**	**(1,722,768)**
OTC products							
Cross-currency interest rate swaps	7,699,630	12,185,848	2,739,841	22,625,319	8,079,116	1,193,891	(1,240,304)
Forward foreign exchange contracts	46,448,944	782,149	0	47,231,093	42,520,578	485,973	(451,543)
Currency options – purchased	1,327,153	100,737	0	1,427,890	1,427,890	32,131	0
Currency options – sold	1,345,994	106,215	0	1,452,209	1,452,209	0	(30,921)
Other similar foreign exchange rate contracts	0	0	0	0	0	0	0
Exchange-traded products							
Currency contracts (futures)	8,554	0	0	8,554	0	0	0
Currency options	0	0	0	0	0	0	0
c) Securities-related transactions	**16,200**	**214,260**	**22,662,780**	**369,352**	**6,000**	**3,466**	**(1,519)**
OTC products							
Securities-related forward transactions	0	0	0	0	0	0	0
Equity/Index options -buy	16,200	212,760	116,346	345,306	3,000	3,466	0
Equity/Index options -sell	0	1,500	22,546,434	24,046	3,000	0	(1,519)
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**
OTC products							
Commodity forward transactions	0	0	0	0	0	0	0
Exchange-traded products							
Commodity futures	0	0	0	0	0	0	0
e) Credit derivative contracts	**494,078**	**992,305**	**0**	**1,486,383**	**1,459,383**	**1,776**	**(2,114)**
OTC products							
Credit default swaps	494,078	992,305	0	1,486,383	1,459,383	1,776	(2,114)

Annex 3: List of investments

Affiliated companies

Company, registered office (country)	Total nominal value in currency		Direct share of RBI	Equity in € thousand	Result in € thousand[1]	From annual financial statements[2]
BAILE Handels- und Beteiligungsgesellschaft m.b.H.,Vienna[2]	40,000	EUR	100%	230,035	(16)	31/12/2016
BUXUS Handels- und Beteiligungs GmbH, Vienna	35,000	EUR	100%	14	(4)	31/12/2015
Centralised Raiffeisen International Services & Payments S.R.L., Bukarest	2,820,000	RON	100%	4,624	2,334	31/12/2015
Eastern European Invest Holding GmbH, Vienna[2]	35,000	EUR	100%	72,105	(8)	31/12/2015
Extra Year Investments Limited, VG-Tortola	50,000	USD	100%	0	0	31/12/2010
FARIO Handels- und Beteiligungsgesellschaft m.b.H., Vienna	40,000	EUR	100%	6,938	1,634	31/12/2015
Golden Rainbow International Limited, VG-Tortola[3]	1	USD	100%	4,642	91	31/12/2015
Kathrein Privatbank Aktiengesellschaft, Vienna[2]	20,000,000	EUR	0%	30,093	3,385	31/12/2016
KIWANDA Handels- und Beteiligungs GmbH, Vienna	35,000	EUR	100%	15	(4)	31/12/2015
LOTA Handels- und Beteiligungs-GmbH, Vienna	35,000	EUR	100%	843	(8)	31/12/2015
NAURU Handels- und Beteiligungs GmbH, Vienna	35,000	EUR	100%	120	4	31/12/2015
P & C Beteiligungs Gesellschaft m.b.H., Vienna	36,336	EUR	100%	17	(5)	31/12/2015
R.L.H. Holding GmbH, Vienna[2]	35,000	EUR	100%	4,244	2,768	31/12/2015
Raiffeisen Investment Advisory GmbH, Vienna	730,000	EUR	100%	764	0	31/12/2015
Raiffeisen Bank Aval JSC, Kiew[3]	6,154,516,258	UAH	68%	347,590	133,913	31/12/2016
Raiffeisen Bank Polska S.A., Warschau[3]	2,256,683,400	PLN	100%	1,422,555	34,507	31/12/2016
Raiffeisen RS Beteiligungs GmbH, Vienna[2]	35,000	EUR	100%	5,364,725	672,297	31/12/2016
Rail-Rent-Holding GmbH in Liqu., Wien	40,000	EUR	60%	162	(7)	31/12/2015

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 For the fully consolidated domestic companies, the equity and annual profit figures are accounted for in accordance with the International Financial Reporting Standards (IFRS).
3 For the fully consolidated foreign companies, the equity and annual profit figures are accounted for in accordance with the International Financial Reporting Standards (IFRS).

Affiliated companies

Company, registered office (country)	Total nominal value in currency		Direct share of RBI	Equity in € thousand	Result in € thousand[1]	From annual financial statements[2]
RB International Finance (Hong Kong) Ltd., HK-Hong Kong[3]	10,000,000	HKD	100%	(29,981)	(35,784)	31/12/2016
RB International Finance (USA) LLC, New York[3]	1,510,000	USD	100%	11,874	(36,053)	31/12/2016
RB International Investment Asia Limited, MY-Labuan[3]	1	EUR	100%	(927)	(9,402)	31/12/2016
RB International Markets (USA) LLC, USA-New York[3]	8,000,000	USD	100%	10,612	4	31/12/2016
RBI KI Beteiligungs GmbH, Vienna[2]	48,000	EUR	100%	41	(69)	31/12/2016
RBI LEA Beteiligungs GmbH, Vienna[2]	70,000	EUR	100%	151,330	30	31/12/2016
RBI PE Handels- und Beteiligungs GmbH, Vienna[2]	150,000	EUR	100%	21,981	(554)	31/12/2016
Regional Card Processing Center s.r.o., Bratislava[3]	539,465	EUR	100%	6,131	836	31/12/2016
RL Leasing Gesellschaft m.b.H., Eschborn	50,000	EUR	25%	1,409	721	31/12/2016
RZB Finance (Jersey) III Ltd, JE-St. Helier[3]	1,000	EUR	100%	33	(21)	31/12/2016
RZB Finance (Jersey) IV Limited, JE-St. Helier[3]	2,000	EUR	100%	138	(9)	31/12/2016
RBI IB Beteiligungs GmbH, Vienna[2]	35,000	EUR	0%	18,047	7,044	31/12/2016
Stadtpark Hotelreal GmbH, Vienna*	6,543,000	EUR	1%	10,640	4,047	31.12.2015
Ukrainian Processing Center PJSC, Kiew[3]	180,000	UAH	100%	11,029	4,213	31/12/2016
ZHS Office- & Facility management GmbH, Vienna	36,336	EUR	1%	331	13	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 For the fully consolidated domestic companies, the equity and annual profit figures are accounted for in accordance with the International Financial Reporting Standards (IFRS).
3 For the fully consolidated foreign companies, the equity and annual profit figures are accounted for in accordance with the International Financial Reporting Standards (IFRS).

Management report
Development of the banking sector

Development of the banking sector in CEE

In 2016, many indicators exhibited a substantial recovery of the banking sector from the subdued levels of the previous year. Positive trends in new lending or in asset growth continued in several CE and SEE countries in 2016 (e.g. in the Czech Republic, Slovakia and Romania). The banking sector in Russia also recovered significantly. Nearly 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, many challenging banking markets of recent years started posting considerable profits again at sector level in 2016 (e.g. Hungary, Romania, Croatia and Russia). In particular, leading foreign banks also significantly outperformed general market trends in the challenging Eastern European banking markets (Russia, Ukraine, and Belarus). The positive profitability trend was additionally supported by the sustained stabilization, or even a sharp drop, in non-performing loans (NPLs) in CE and SEE (with significant differences at country level). Overall, the NPL ratio in CE and SEE fell from previously 8.3 per cent to 7.4 per cent in 2016 as a result. In view of the positive developments in CE and SEE, as well as the stabilization of NPLs and profitability in Russia, return on equity in the CEE banking sector significantly increased above the comparable figure in the euro area again in 2016.

Banking sector in Austria

In 2016, the banking sector in Austria continued to perform below average when compared to the euro area in terms of credit growth (notably in corporate banking). Lending focused on retail customer and real estate financing transactions in particular. However, the profitability of Austria's banking sector markedly increased at a consolidated level, mainly supported by CEE business. As a result, the Austrian banking sector also significantly improved its capitalization relative to major Western European countries. However, the reported regulatory capital ratios continue to be below average by international standards. If the leverage ratio is included as benchmark, Austrian banks performed remarkably better. Capital requirements will gradually increase following the introduction of the Systemic Risk Buffer as well as of the buffer for Other Systemically Important Institutions (O-SIIs), which the Financial Market Stability Board (FMSB) has recommended. The reduction in the bank tax from 2016 should also have a positive impact in the following years.

In the first half of 2016, the Austrian banks generated a positive consolidated net income of roughly € 2.9 billion, or € 0.3 billion more than in the same period of the previous year. The positive result was mainly driven by the sharp reduction in loan loss provisions, which not only more than offset significant declines in net interest income as the most important income component, but also lower income from commissions and net trading income. The profitability of Austrian subsidiary banks in CEE significantly improved in the first quarter of 2016. Profit contributions from Austrian subsidiary banks were positive in all CEE countries. The highest profits were made in the Czech Republic, Romania and Russia, albeit with profits down in Russia in comparison with the previous year's quarter. The Sustainability Package, which was launched in 2012, has helped to strengthen the local funding base of Austrian subsidiary banks in CEE. The loan/deposit ratio fell from 117 per cent in 2008 to 88 per cent in the first quarter of 2016, and was primarily attributable to an increase in local savings deposits. Accordingly, credit growth is increasingly financed on a local basis.

The Single Resolution Mechanism (SRM) became fully effective on 1 January 2016. The Single Resolution Board (SRB) is the central body responsible for making all decisions relating to the resolution of major banks that are either failing or at risk of failing. The measures are implemented in cooperation with the relevant national resolution authorities.

Regulatory environment

Changes in the regulatory environment

The Group focused intensively on current and forthcoming regulatory developments again in the year under review.

Proposed legislation relating to the European Deposit Insurance Scheme (EDIS)

In 2015, the European Commission proposed a European Deposit Insurance Scheme (EDIS) designed to support the banking union, strengthen the protection of depositors, increase financial stability, and further weaken the link between banks and sovereigns. The EDIS is part of the European SRB and covers all national deposit guarantee systems (including IPS) and is to be developed incrementally in three stages by 2024. In the first stage it is to comprise a reinsurance scheme of the national deposit guarantee systems and subsequently become a co-insurance scheme after three years, under which the contribution of the EDIS is to progressively increase over time. A fully comprehensive EDIS is planned as the last stage, which is scheduled for 2024. The final adoption and publication of the law is lined up for the fourth quarter of 2017 at the earliest.

Bank recovery and bank resolution

The Austrian Bank Recovery and Resolution Act (Bankenabwicklungs- und Sanierungsgesetz (BaSAG)) went into force in 2015 and ensures the national implementation of the EU's Bank Recovery and Resolution Directive from 2014. With regard to recovery planning under the Single Supervisory Mechanism (SSM), the Group is subject to direct supervision by the ECB while, with regard to resolution planning under the SRM, it is subject to direct supervision by the SRB.

The Group has drawn up a recovery plan that meets the requirements of the BaSAG. The recovery plan describes potential measures for ensuring the capacity to act in financial stress situations. With the help of material key performance indicator (KPI) monitoring for early detection, the recovery plan establishes a comprehensive governance structure for stress situations. The recovery plan is drawn up by the Group, updated on a regular basis and reviewed by the supervisory authority (ECB).

Resolution plans are drafted by the resolution authority, which also grants powers to remove any barriers to resolution. Resolution strategies for banks are likewise laid down in the resolution plans. As part of the framework for the resolution of banks, specific resolution tools are made available to the resolution authorities. For example, the Group – already prior to the introduction of the Austrian Bank Intervention and Restructuring Act (Banken Interventions- und Restrukturierungsgesetz (BIRG)) and the BaSAG –set limits on intra-Group relationships in order to reduce cluster risk and unrestricted residual risk both to itself and to its owners.

In addition to preparing resolution plans, the obligation to comply with an MREL (Minimum Requirement for Own Funds and Eligible Liabilities) is also determined and individually specified for each bank/resolution entity. The Group is currently working in close cooperation with the SRB and national resolution authorities to draw up a resolution plan that meets the statutory requirements. The participation of creditors (bail-in tool) represents one possible tool in a resolution concept. As a result, the resolution authorities will set the MREL. On the basis of the resolution strategy, an MREL is set for each bank/resolution entity or the entire banking group. The calibration of MREL targets is to be carried out by the supervisory authorities and is based on relevant statutory regulations, resolution plans, as well as individual aspects of the respective bank (e.g. size, business model and risk profile). Not only a bank's regulatory capital but also its long-term unsecured debt that is not subject to a deposit protection scheme or similar restrictions are basically considered to be eligible for MREL.

Amendment to European regulations

In November 2016, the European Commission published a legislative proposal to change the prudential requirements (CRD IV/CRR), as well as to amend the recovery and resolution framework (BRRD, SRM). The documents provide the basis for follow-up negotiations with the EU Parliament and European Council and at the same time offer a preview of the regulatory challenges for the years following 2017.

On the one hand, the proposed changes to the CRR can be broken down thematically into criteria for classification under the finalized Basel III. This comprises, for example, the introduction of a binding minimum leverage ratio and net stable funding ratio (NSFR), as well as add-ons to the bank recovery and resolution regulations, in order to meet the Total Loss Absorbing Capacity (TLAC) requirements for global systemically important banks. On the other hand, the drafts include adjustments whose content already relates to Basel IV, e.g. the introduction of a standardized approach for measuring counterparty risks, an overhaul of market price risk regulations within the framework of the Fundamental Review of the Trading Book (FRTB) and new rules for investment funds. Compared to the previous implementation of Basel standards, it is clearly evident that proportionality is given far greater weight, in particular, to meet the needs of the numerous smaller banks in the EU. According to the latest information, the new rules and regulations are expected to be applicable from 2019 onwards.

Action plan for building a capital markets union

The European Commission aims to improve access to capital market funding for all companies, especially small and medium-sized enterprises (SMEs). It wants to break down barriers that are blocking cross-border investments on the capital market. The action plan of 30 September 2015, provides for a bundle of measures through to 2017, including specific legislative proposals relating to securitization and consultations on covered bonds.

The work packages for the action plan were processed and/or expedited in 2016. While the fundamental aim of driving cross-border investments is certainly to be welcomed, it cannot provide a realistic alternative to credit financing for SMEs through banks. Instead, the proposed measures can arguably only be considered as measures to supplement financing by banks.

Business performance at Raiffeisen Bank International AG

Business development

Raiffeisen Bank International AG (which along with its subsidiaries forms the RBI Group, or RBI) regards Central and Eastern Europe (including Austria) as its home market. For over 25 years, RBI has been operating in Central and Eastern Europe (CEE), where today it maintains a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers. This role is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. RBI has positioned itself in CEE as a fully integrated corporate and retail banking group with a comprehensive product offering. At the end of 2016, around 46,000 RBI employees served approximately 14.1 million customers in around 2,500 outlets in CEE. In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international customers and major multinational clients operating in CEE. All in all, RBI employs around 49,000 staff and has total assets of approximately € 112 billion.

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 Central and Eastern Europe, large corporate customers from Central and Eastern Europe and internationally active commodities and trading companies.

The transformation program's objectives for Asia and the USA proceeded according to plan. Booking of customer business was ended in all affected units and receivables were in some cases repaid, with the remainder transferred to Group head office. Corresponding measures were implemented to significantly re-scale the three units.

In Austria, the strategic focus was on structured customer acquisition and further exploitation of Group-wide earnings potential (cross-selling) using strategic management tools (Group account planning) and targeted sales initiatives in order to maximize earnings potential as far as possible and further expand Group-wide cross-selling. A core element here is the successfully established Global Account Management System, which offers RBI AG’s numerous international clients advisory services and support coordinated across the entire Group and – in conjunction with specialized product experts – a comprehensive product portfolio across the whole network.

Further optimization of service and support processes and 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 area, RBI AG benefited considerably from the at times positive market development and consolidated its key position in promissory note and senior bond issuance.

The further 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 Financial Institutions & Sovereigns, the 2016 financial year was shaped by the continuing tensions in the Middle East, the progressive de-globalization of some competitors and the continuing sanctions against Russia. As in previous years, another factor was the ECB's continuing extensive provision of liquidity to banks.

As in the previous years, sales activities for Financial Institutions & Sovereigns in 2016 focused on equity and liquidity-preserving banking products. In addition to the payment transfer business, which again posted higher than average performance, in the second half of the year in particular some attractive capital market transactions were arranged which made a good contribution to the results. Traditional credit business with financial institutions was stable at a low level and focused exclusively on strong customer relationships with high cross-selling potential. These endeavors were very well complemented by the ongoing drive in Custody and Security.

The tensions in the Middle East and in North Africa as well as the noticeable slowdown in the economic markets in Latin America and Asia resulted in reduced sales in export and trade finance. However, banks' appetite for risk remains high in this area, maintaining pressure on the level of risk premiums.

The withdrawal of some large competitors from the CEE/CIS markets again highlights the long-term nature of RBI's strategy in these markets, which is also reflected in the gaining of new clients in the Financial Institutions & Sovereigns business and in improved customer retention.

Capital Markets

For the financial markets, 2016 was another highly volatile year, heavily influenced by a number of major political events. At the start of the year until the middle of February, the markets experienced a sell-off of shares and significant credit spread widening. This was followed by an extension of the ECB's quantitative easing program and a further reduction in the official deposit rate to -0.40 per cent. Following the UK's decision to withdraw from the EU, interest rates for EUR swaps reached a new low in June. Donald Trump's election as the new US President and the Italian referendum also had a major impact on the financial centers. These developments resulted in a strong rise in USD interest rates, and subsequently also in EUR interest rates. The entire Capital Markets area used this volatility to increase volumes and returns from foreign currency transactions.

RBI bond spreads continued to tighten significantly and remain very attractive. This was, among other factors, attributable to the positive development of the Russian markets following the increase in the oil price, to the favorable stock markets and to the increased demand for attractive returns, due to the ECB's low interest rate policy.

Significantly more interest rate derivative products were traded than in the previous year, primarily in order to hedge customers against negative Euribor (zero rate floors). Demand for interest rate hedges for loans and private placements was generally good in 2016.

In Institutional Sales, the crisis in confidence in the Austrian financial market, driven by the Heta situation, eased somewhat during the year. Investors from Germany also began to once again become selectively involved in securities issued by Austrian banks. The broad regional diversification of RBI's sales activities again enabled it to raise funding from a diversified customer base. As a result of the low interest rate environment, demand for higher yielding bonds from the CEE region rose, resulting in a further increase in trading volumes from customer business.

In Capital Markets Corporate Sales, the historically low interest rates were used to successfully restructure existing customer hedging transactions. Despite a continuing difficult market environment in this area, its contribution to performance was above average. A high level of excess liquidity among corporate customers again ensured stable access to liquidity in 2016.

Despite the significant turbulence, volatilities, the ECB's generally continuing low interest rate policy and the resulting excess liquidity in the market, active and risk-conscious position management and a focus on customer business enabled performance in all areas within Capital Markets to surpass planned results.

Treasury

For medium to long-term financing, RBI AG used long-term deposits and issuances. 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. The total volume of outstanding bonds under this program may not exceed € 25 billion. At the end of 2016, a total of € 7.7 billion of unsecured bonds were outstanding.

In 2016, 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 € 1.6 billion and a weighted maturity of approximately 3.6 years, around € 0.4 billion was placed in the form of unsecured bonds, with the remaining amount in the form of long-term deposits. In addition to raising new unsecured financing, RBI extended the maturity of covered bonds due in July 2016 in a total volume of € 1.6 billion under the aforementioned issuance program..

Branches and representative offices

RBI AG operates a total of four branches – in Frankfurt, London, Singapore and Beijing.

The branches in Xiamen (China) and Hong Kong were closed during the financial year as part of the rescaling of the business in Asia. With the loan portfolio of the Beijing and Singapore branches run down entirely, the restructuring measures in Asia were successfully implemented as planned. Both branches remain in place and will represent the RBI Group in Asia as service branches, and offer RBI customers from the home markets in Austria and CEE specific services tailored to their respective needs.

The Frankfurt branch further expanded its consulting and structuring services for various forms of receivables financing as well as its local sales support activities for the RBI Group in its business with subsidiaries of German corporate customers, in particular in Central and Eastern Europe (CEE). As a result, in the past financial year RBI was again able to win and execute further receivables financing mandates for customers in RBI's various core markets. As in the last few years, sales support in the corporate customer business has an increasingly higher priority for the RBI Group network and satisfies the growing demand from German SME corporate customers for points of contact in Germany.

The branch office in London provides key support for the placement of the RBI Group's capital market products. Many international investors are based in London. RBI AG's wealth of CEE expertise is of particular interest to these investors. In 2016, additional investor groups were won as clients of RBI AG in the London market. Moreover, the branch has a dedicated corporate desk to support British and Irish corporate customers, notably with regard to their CEE activities.

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

In a global economic environment with increasing regulatory requirements, the local expertise of branches and representative offices is a key source of information and support for the comprehensive customer service offerings at RBI AG, as well as across the entire network in CEE.

Financial Performance Indicators

Statement of financial position

Raiffeisen Bank International AG's (RBI AG) total assets decreased € 6.7 billion, or 12.8 per cent, to € 45.8 billion in the 2016 financial year.

On the asset side, the cash reserve and balances with central banks decreased € 3.6 billion year-on-year to € 1.7 billion as RBI AG invested less short-term liquidity at the ECB/Austrian National Bank (OeNB). Treasury bills also declined € 1.1 billion to € 2.2 billion, due on the one hand to a € 0.5 billion reduction in securities, predominantly resulting from scheduled repayments reported under fixed assets, and on the other to a € 0.6 billion fall in securities reported under other current assets. The decline in securities reported under other current assets was due equally (in both cases € 0.3 billion) to scheduled repayments and to the reduction in the trading portfolio.

Loans and advances to banks declined 4.4 per cent, or € 0.5 billion, to € 9.7 billion in total. The decrease was mainly in the area of short-term money market deposits.

Loans and advances to customers fell 2.5 per cent, or €0.5 billion, to €18.0 billion. The € 1.0 billion reduction of the loan portfolio in the Asian branches in Singapore and Beijing was partly offset by € 0.5 billion new business in head office.

Bonds, notes and other fixed-interest securities fell 24.1 per cent, or € 0.5 billion year-on-year, to € 1.6 billion. This decrease resulted from the € 0.5 billion decline in the securities portfolio held in the trading book. Shares and other variable-yield securities remained unchanged at € 0.1 billion.

Shares in affiliated companies were down € 0.2 billion to € 8.0 billion. This development resulted primarily from a partial write-down of € 162 million of Raiffeisenbank Poland and a partial write-down in relation to dividend payments of Eastern European Invest Holding of € 70 million. This contrasted with a write-up of € 76 million for Raiffeisenbank Aval.

Other assets declined 6.8 per cent, or € 0.3 billion year-on-year, to € 4.2 billion.

On the liabilities side, liabilities to credit institutions fell 22.4 per cent, or € 3.9 billion, to € 13.4 billion due largely to a significant € 2.2 billion reduction in money market transactions. Liabilities to credit institutions still represent the largest source of funding for RBI AG at 29 per cent of total assets.

Liabilities to customers were down € 1.7 billion, or 11.2 per cent, to € 13.3 billion, largely due to a considerable € 1.0 billion decrease in the giro and clearing business and a € 0.7 billion fall in term deposits.

Debt securities issued and additional capital according to CRR declined 9.3 per cent, or € 0.8 billion year-on-year, to € 8.3 billion. Funds raised through new issues amounted to € 0.8 billion in 2016 (2015: € 0.5 billion). In contrast, debt securities issued fell € 1.3 billion in 2016 as a result of repayments and retirements (2015: € 2.9 billion). Furthermore, short-term money market certificates in the amount of € 0.1 billion (2015: € 0.1 billion) were outstanding as at the reporting date.

The total risk exposure amount at the end of 2016 was € 28.9 billion (2015: € 31.6 billion). Of this amount, credit risk accounted for € 24.0 billion (2015: € 24.8 billion), operational risk for € 2.7 billion (2015: € 3.0 billion), market risk for € 1.1 billion (2015: € 1.4 billion), the CVA risk for € 0.4 billion (2015: € 0.4 billion), and the Basel I floor for € 0.7 billion (2015: € 2.0 billion). The total risk exposure amount dropped around € 2.7 billion year-on-year. Common equity tier I (CET1) capital amounted to € 6.3 billion at the end of 2016 (2015: € 6.1 billion) while additional capital amounted to € 3.3 billion (2015: € 3.7 billion). All in all, total capital amounted to € 9.6 billion, a year-on-year fall of € 0.2 billion. The substantial reduction in the total risk exposure resulted, despite the decline in total capital, in improved ratios on the whole. The CET1 ratio and tier 1 ratio amounted to 21.8 per cent (2015: 19.5 per cent) and the total capital ratio to 33.1 percent (2015: 31.1 per cent). The total capital surplus was € 7.3 billion, therefore remaining unchanged 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 509,977 shares at the end of 2016. At a nominal value of € 1.6 million, this represented a proportion of 0.2 per cent of the total share capital. In the 2016 financial year, 47,318 of these own shares were allocated to the entitled individuals. The nominal value of these allocated shares was € 0.1 million, representing 0.0 per cent of share capital.

Earnings performance

In the 2016 financial year, Raiffeisen Bank International AG's (RBI AG) net interest income declined 34.0 per cent, or € 142.7 million, to € 277.0 million. This was predominantly the result of the decrease of the Asian portfolio, where net interest income from loans and advances to customers fell € 48.3 million year-on-year. Reduced volumes primarily with respect to investments, and the generally low interest-rate level, also contributed to the decline in net interest income.

Income from securities and participating interests fell € 138.7 million to € 638.5 million mainly because income from shares in affiliated companies decreased € 139.9 million, due to lower dividend income from affiliated companies in 2016.

The net amount of commissions payable and commissions receivable declined € 16.7 million to € 176.6 million. The largest share of commission earnings came from the guarantee business (33.8 per cent, or € 59.8 million), followed by the securities business (29.7 per cent, or € 52.4 million).

The net loss on financial operations was € 17.9 million, compared to a net profit of € 66.5 million the previous year. Most of the reduction was due to a net loss from currency-based derivative transactions of minus € 45.7 million (2015: plus € 64.3 million). This contrasted with a net gain mainly from interest-based derivative transactions of € 28.3 million (2015: € 1.7 million).

Other operating income fell € 35.5 million to € 151.9 million. This was mainly due to the decline in various services provided to network banks and RZB AG, the parent company, and to lower income from the release of other provisions. This item included income from services provided to network banks and the parent company RZB AG amounting to € 87.8 million (2015: € 102.5 million), income from the release of other provisions amounting to € 1.9 million (2015: € 22.8 million), and income from the release of provisions for losses on bank book derivatives amounting to € 15.1 million (2015: € 6.7 million).

Operating income was € 1,226.2 million, a 25.4 per cent fall on the previous year.

Total operating expenses rose 4.2 per cent year-on-year, to € 659.3 million.

Staff costs remained, at € 288.3 million, almost unchanged year-on-year. Salaries fell € 4.5 million to € 216.9 million as a result of the decline in business activities in Asia. This contrasted with a € 5.5 million increase in expenses for severance payments.

Other administrative expenses declined 1.7 per cent, or € 5.0 million, to € 290.8 million. Other administrative expenses consisted mainly of IT expenses amounting to € 102.0 million (2015: € 97.5 million), rent amounting to € 28.7 million (2015: € 28.2 million), and consulting fees and audit fees amounting to € 32.7 million (2015: € 31.6 million). They also included the annual contribution to the bank resolution fund in an amount of € 26.0 million (2015: € 23.5 million). Depreciation of tangible assets and intangible fixed assets increased € 3.2 million to € 15.3 million.

Other operating expenses of RBI AG increased € 28.0 million to € 65.0 million in 2016, mainly because allocations to provisions for legal costs rose to € 31.3 million (2015: € 0.0 million).

After deducting operating expenses from operating income, RBI AG generated an operating result of € 566.9 million for the 2016 financial year. This represents a year-on-year reduction of 43.9 per cent, or € 444.2 million.

The cost/income ratio was consequently 53.8 per cent (2015: 38.5 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 € 233.7 million in 2016 (2015: € 435.6 million). This development was due above all to an improvement of the negative result from the valuation of loans and advances and guarantees to € 228.3 million (2015: € 449.4 million), resulting from a lower requirement for loan loss provisions compared to the previous year. Sales of non-performing loans with a nominal value of € 404 million led to releases of loan loss provisions amounting to around € 28 million.

Net income/expenses from the disposal and valuation of financial investments changed from a net expense of € 292.0 million in 2015 to a net expense of € 193.6 million in 2016, mainly due to a € 78.3 million increase in write-ups relating to Raiffeisenbank Aval and increases in unscheduled write-downs of affiliated companies (predominantly Raiffeisenbank Poland). In addition, there were gains on sale of € 63.5 million, predominantly from the sale of Raiffeisen Leasing Poland and of Visa shares.

As a result, the profit on ordinary activities for the year under review amounted to € 139.5 million (2015: € 283.5 million).

The extraordinary income of € 5.1 million in the previous year was entirely due to the positive net assets incorporated as a result of the inclusion of Raiffeisen Centrobank AG's investment banking and M&A business.

The return on equity before taxes was 2.46 per cent (2015: 4.58 per cent).

Taxes on profit or loss amounted to an expense of € 13.4 million in 2016 (2015: € 10.2 million). Expenses for other taxes amounted to € 81.3 million (2015: € 88.6 million) and largely consisted of € 78.2 million for the stability contribution for banks (2015: € 81.5 million).

The return on equity after taxes was 0.79 per cent (2015: 3.06 per cent).

In 2016 the profit for the year after tax was € 44.8 million (2015:€ 189.8 million).

After including the loss brought forward of € 611.4 million, the net loss for the year is reduced to € 566.6 million.

Capital, share, voting, and control rights

The following disclosures cover the provisions of § 243a (1) of the Austrian Commercial Code (UGB):

(1) As at 31 December 2016, the company's share capital amounted to € 893,586,065.90 and was divided into 292,979,038 voting common bearer shares. As at 31 December 2016, 509,977 of those were own shares, and consequently 292,469,061 shares were outstanding at the reporting date. In comparison with 31 December 2015 (557,295 shares), this results in a reduction of 47,318 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. As RZB's shareholders, the regional Raiffeisen banks are parties to syndicate agreements regarding RZB AG. These syndicate agreements will be replaced by a new syndicate agreement concluded by the regional Raiffeisen banks for RBI AG. The new syndicate agreement will take effect on the effective date of the merger between RZB AG and RBI AG. The terms that the regional Raiffeisen banks intend to incorporate in the new syndicate agreement include a block voting agreement, preemption rights and a prohibition on the sale of 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, 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 would fall to 40 per cent of the share capital of RBI AG.

(3) As at 31 December 2016, RZB AG indirectly held around 60.7 per cent of the share capital of the company through its wholly owned subsidiary Raiffeisen International Beteiligungs GmbH. By virtue of a syndicate agreement, the voting rights attributable to RZB AG from the 177,847,115 shares in RBI AG are also assigned to the individual regional Raiffeisen banks as syndicate partners and to their holding companies who have acceded to the syndicate agreement (in each case pursuant to § 91 and § 92 7 of the Austrian Stock Exchange Act (BörseG)), which hold, in total, around 90.43 per cent of the share capital and voting rights in RZB AG as parties acting in concert (see notification on voting rights published on 19 July 2016). The remaining shares of RBI AG are held in free float, with no direct or indirect shareholdings amounting to 10 per cent or more known to the Management Board. Please see the "Merger of RBI and RZB" chapter of the Annual Report with regard to the merger approved at the Extraordinary General Meeting of RBI AG on 24 January 2017.

(4) Pursuant to the company's Articles of Association, RZB AG is granted the right to delegate up to one third of the Supervisory Board members to be elected by the Annual General Meeting, as long as it holds an interest in the share capital. Beyond that, there are no special rights of control associated with holding shares. At the Extraordinary General Meeting of RBI AG on 24 January 2017, a decision was made to remove the right to delegate members in § 9 of RBI AG's Articles of Association. The right to delegate members will therefore cease to exist when the amendment to the Articles of Association is registered with the commercial register. According to the syndicate agreement of the regional Raffieisen banks, the regional Raiffeisen banks will be able to nominate nine members of the RBI AG Supervisory Board once the merger between RZB AG and RBI AG takes effect. In addition to the members nominated by the regional Raiffeisen banks, the RBI AG Supervisory Board will in the future also include three (previously: two) independent representatives of free-float shareholders who are not attributable to the Austrian Raiffeisen Banking Group. This is to be implemented at the RBI AG Annual General Meeting in 2017.

(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 (with regard to RZB AG's right to delegate members, please see point (4) above). The Articles of Association stipulate that the resolutions of the Annual General Meeting are, provided that there are no mandatory statutory provisions or Articles of Association 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 via 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 common bearer shares with voting rights 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 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 the 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 resolutions to be passed by the 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 General Meeting resolution, i.e. as of 15 December 2018. 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 10 trading days prior to exercising this authorization. The authorization may be exercised in full or in part or also in several partial amounts, for one or more purposes – with the exception of securities trading – by the company, by a subsidiary (§ 189a 7 of the UGB) or by third parties for the account of the company or a subsidiary.

The Management Board was further authorized, pursuant to § 65 (1b) of the AktG, to decide, with the approval of the Supervisory Board, on the sale of own shares by means other than the stock exchange or a public tender, to the full or partial exclusion of shareholders' subscription rights, and to stipulate the terms of sale. Shareholders' subscription rights may only be excluded if the own shares are used to pay for a contribution in kind, to acquire enterprises, businesses, operations or stakes in one or several companies in Austria or abroad, or for the purpose of implementing the company's Share Incentive Program 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 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.

This resolution, any repurchase program based on it, or any resale program must be published along with the applicable duration. This authorization replaces the authorization granted at the Annual General Meeting of 4 June 2014 pursuant to § 65 (1) 4 and 8 of the AktG to purchase and use own shares and, with regard to their use, extends to the own shares already purchased by the company. 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. This authorization replaces the authorization to purchase own shares for the purpose of securities trading that was granted in the Annual General Meeting of 4 June 2014.

(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:

- As a subsidiary of RZB, RBI AG is insured under RZB's group-wide D&O insurance. Insurance cover remains in place in the event of a merger with another legal entity of the RZB Group. In the event of a merger with a legal entity outside the RZB Group, RBI AG will no longer be covered under the group-wide insurance from the date of the merger. 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 insurance carrier prior to any termination of RZB's group-wide D&O insurance and thereafter within the agreed notification period of five years.

- The company's SIP provides the following upon a 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.

- The brand agreement concluded with RZB AG (which will cease to exist once the merger is in effect) on the unrestricted use of the name and logo of Raiffeisen Bank International for an indefinite period of time in all jurisdictions in which the brand is registered now or in the future includes a right of cancellation 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 a shareholder 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.

- 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

Human Resources

As at 31 December 2016, RBI AG had 2,104 employees (full-time equivalents, excluding employees assigned to other Group companies), a rise of 2.2 per cent on 2015 (2,058 employees). The traditionally very high proportion of women among the total workforce continued at 44.5 per cent. To help achieve the best possible balance between work and family life, RBI AG offers home office and a number of part-time models alongside flexible working time without core working hours. "Daddy's month" has also been introduced within RBI AG, with some fathers already taking advantage of this scheme to spend time with their family following the birth of a child. An increasing number of fathers are also taking several months' leave.

Vacancies were notably filled in critical functions in order to replace losses due to staff turnover. In the year under review the rate of staff turnover was 8.6 per cent (2015: 7.7 per cent).

Remuneration Management Developments

To establish the crucial importance of the bank's medium-term goals and the capitalization of RBI AG even more firmly in the remuneration system, the bonus system was adapted further in 2016 through a broadening of the "step-in" prerequisites for Group executives and an adjustment of the target achievement criteria. These steps have led to an even closer link between RBI's remuneration structure and its business strategy. Furthermore, preparatory activities were already undertaken in 2016 to ensure smooth implementation of the EBA's Guidelines on Sound Remuneration Policies which came into force in January 2017. Since RBI's remuneration system and its remuneration processes already largely fulfill the regulatory requirements, only slight adjustments to the remuneration policy are to be anticipated.

Performance and Talent Management

The bank's new Performance Management Model for top executives, developed in 2015, was successfully implemented in 2016. Among other things, a clear target structure was introduced along the lines of a balanced scorecard approach. Moreover, the competence model was revised and the corresponding dialogue and feedback intensified. In keeping with this approach, an international team developed the guidelines and the fundamental components of the new Performance Management Process for all other employee levels.

The annual standard processes for the identification and further development of talent were also conducted in 2016. These intensive efforts have proven successful, leading to talent pipelines at all employee levels in almost all units. The data for Austria shows that 39 per cent of the identified talent progressed in their careers within the last two years (compared to 14 per cent among other employees).

Specialist Training and Management Development

The key focus of RBI's human resources development over the reporting period, apart from ongoing specialist further training, was placed on management and team development.

As regards management development, the main emphasis was on strengthening executives' skills in change management, leadership, motivation and communication. The use of reflective learning methods such as 360° feedback, coaching, mentoring or experience-based methods (e.g. job rotation) was also expanded. In addition, the offering of Leaders' Breakfasts and short executive workshops on relevant management topics was also developed further. Increased importance was attached to the networking of executives from RZB, RBI, and the RZB specialized subsidiaries.

Diversity

Implementation of the package of measures adopted by RBI's Management Board under its Empowerment of Women scheme was commenced in 2016. These measures included, among other things, Leaders' Breakfasts on the topic of subconscious prejudices, an optimized mentoring process to promote the proportion of women among mentees, and the development of women-specific training measures to strengthen the skill sets of female executives and their leadership potential.

The bank's recruiting activities have an increased focus on directly approaching qualified female candidates and when it comes to filling executive positions, a post is not filled until there is at least one qualified female candidate. If no female candidate applies for the post, a male candidate may subsequently be picked after a one-month waiting period.

Introduction of a Sabbatical Model

The newly introduced sabbatical model offers all permanently employed staff an attractive leisure-time model extending well beyond the statutory vacation entitlement, enabling the bank's employees to make their leisure time arrangements by agreement with their respective superiors.

Employer Branding & Personal Marketing

The key focus on technology and IT was continued in 2016 and expanded by a number of online activities. These featured, among other things, Internet banner campaigns directed at IT specialists using the tag line "Raiffeisen invests in the digital future – your IT employer", an own "IT employer" Internet page, and video-based insights into the day-to-day working life of an "IT business analyst".

The sustained investment of time in technology and IT students paid off, resulting in RBI's improved ranking (25 places) in a listing of most attractive employers in Austria, the "Universum Studie 2016". According to the listing, RBI was voted one of the top 50 most attractive employers by those studying technology and IT. Among Economics and Business Management students, RBI welcomed the securing of 7th place in the ranking of most attractive employers in Austria. (Source: http://universumglobal.com/rankings/austria/student/2016)

Sustainability Management

Since the Group was founded by Friedrich Wilhelm Raiffeisen, sustainable action and corporate responsibility have been part of the Group's policy and identity throughout all Raiffeisen companies and form integral components of its business activities.

Within this context, sustainability management supports value creation combining economic, ecological and social aspects. In this process, RBI focuses on adherence to the ten principles of the United Nations Global Compact. These principles address the key areas of human rights, labor standards, environmental protection and anti-corruption. Against this background RBI expects a corresponding approach not only from all its employees but also from partners and suppliers. For more detailed information on sustainability management developments, the current sustainability report is available at www.rbinternational.com → *About us* → *Sustainability Management* on the website (*English* option is top right).

RBI has an Environmental and Social Management System (ESMS) that spans nine network banks and a corresponding Environmental and Social Policy (E&S Policy) that defines the principles of the bank's ecological and social risk management. These are based on the standards of the International Finance Corporation (IFC) and/or the Multilateral Investment Guarantee Agency (MIGA).

In addition, RBI is a member of the "Green Bond Principles" (GBP) of the International Capital Market Association (ICMA), which promote the transparency and integrity of this fast-growing market through definition of a uniform issuance process.

RBI continually works together with the sustainability rating agencies oekom research, Sustainalytics, MSCI, and VIGEO EIRIS in respect of preparing the assessment documents. In November 2016, in recognition of the measures undertaken by the bank, its sustainability rating issued by oekom research was adjusted from "C-" to "C", meaning a "Prime" rating. Among other factors, this took account of the increasing significance of environmental and social management across the Group, the strategic approach to diversity, and the excellent performance with respect to the CDP (formerly Carbon Disclosure Project). The group of currently around 550 companies which carry a "Prime" rating from oekom research form a comprehensive basis for structuring sustainable financial investments and investment products – the so-called oekom Prime Universe. In the fall of 2016, RBI again received an "Outperformer" rating from Sustainalytics.

Also in 2016, for the eleventh time in succession, RBI was included in the VÖNIX (VBV Austrian Sustainability Index). The index contains Austrian listed companies that are leaders in social and ecological performance. RBI continues to be a constituent of the STOXX® Global ESG Leaders indices.

In the spring of 2016, RBI began its diversity initiative "Diversity 2020". The project's first focus was on the empowerment of women (for further details, please refer to the Corporate Governance Report). In organizational terms, the topic was firmly established by setting up a diversity committee, appointing diversity ambassadors, and nominating a diversity officer.

Around 9 per cent of over 1,800 listed companies around the world achieved a place on the A list of the non-profit organization CDP this year. RBI was again included in the A list and, for the second time in succession, was ranked as the best domestic company in the "Financials" sector in 2016. The bank's carbon footprint per employee in 2015 came to 2,693 kg CO_2e, marking a 24 per cent reduction compared to 2011.

The seventh Stakeholder Council took place in November, where workshop groups held discussions of the expectations and requirements of internal and external participants on the following topics: sustainable investments and engagement activities, raising awareness among employees, impacts of the climate conference, investments in the community, diversity in the core business, impacts of the social transformation process, and sustainability in the supply chain. The extensive insights gained from this event are incorporated into the various action areas of the Sustainability Strategy 2017 and are to contribute to the continual development of the field of sustainability.

The annual Sustainability Report has key significance as an essential communication instrument in the open and transparent dialog with the stakeholders. The Sustainability Report 2015 received a "gold" ASRA (Austrian Sustainability Reporting Award) as the best sustainability report in the "large companies" category. This award for the best sustainability reports drafted by Austrian companies is conferred annually by the Austrian Chamber of Professional Accountants and Tax Advisors (KWT).

Corporate Governance

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

Risk management

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.

Risk report

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 in coordination with Raiffeisen Zentralbank AG 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 central and independent risk controlling function under the Austrian Banking Act is performed by the 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 Risk Management Committee is responsible for ongoing development and implementation of methods and parameters for risk quantification models and for refining steering instruments. The committee also analyzes 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 of RBI and RZB) and is chaired by the Chief Risk Officer (CRO) of RBI. 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 Operational Risk Management 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 divisionGroup 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 RZB credit institution group (RZB Kreditinstitutsgruppe) 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 capital
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	70-90 per cent based on the management decision that the Group might be required to temporarily reduce risks or raise additional 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.

in € thousand	2016	Percentage	2015	Percentage
Participation risk	1,744,561	62.3%	1,670,291	62.4%
Credit risk corporate customers	428,390	15.3%	419,672	15.7%
Credit risk sovereigns	139,020	5.0%	38,620	1.4%
Credit risk financial institutions	115,551	4.1%	102,240	3.8%
Operational risk	95,801	3.4%	134,530	5.0%
Market risk	63,143	2.3%	71,060	2.7%
Other tangible assets	28,253	1.0%	22,990	0.9%
CVA risk	28,007	1.0%	29,200	1.1%
Macroeconomic risk	24,000	0.9%	60,940	2.3%
Liquidity risk	0	0.0%	0	0.0%
Risk buffer	133,336	4.8%	126,017	4.7%
Total	**2,800,063**	**100.0%**	**2,675,559**	**100.0%**

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 1capital 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.

Bank recovery and bank resolution

On 1 January 2015, the Federal Act on the Recovery and Resolution of Banks (BaSAG), the national transposition of the European Union's 2014 Banking Recovery and Resolution Directive (BRRD), came into force. With regard to recovery issues, RBI AG is subject within the framework of the Single Supervisory Mechanism (SSM) to direct supervision by the European Central Bank (ECB) and with regard to resolution issues is subject within the framework of the Single Resolution Mechanism (SRM) to direct supervision by the Single Resolution Board (SRB).

In accordance with the requirements of the Federal Act on the Recovery and Resolution of Banks (BaSAG), RBI AG has a Group Recovery Plan. The Recovery Plan describes potential measures to ensure the capacity to act in financial stress scenarios. Accompanied by the monitoring of important KPIs (Key Performance Indicators) for the early identification of risk, the Recovery Plan establishes a comprehensive governance structure for stress scenarios.

The Recovery Plan is prepared by RBI AG and is audited by the supervisory authority (ECB).

The resolution authority drafts the resolution plans including powers for the elimination of obstacles to resolution. The resolution plans also stipulate the resolution strategies for the banks. Certain resolution instruments are made available to the resolution authorities within the framework of bank resolutions. For example, even before the introduction of the BIRG and the BaSAG, RBI AG limited internal group exposures in order to reduce cluster risks as well as unlimited residual risks for itself and for its bank shareholders. Besides drafting resolution plans, the resolution authority also stipulates the obligation to comply with an MREL (Minimum Own Funds and Eligible Liabilities) ratio, which is prescribed for each individual bank/resolution unit.

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 reflects the broad diversification of the credit business in the European markets. The 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	2016	Percentage	2015	Percentage
Austria	18,539,615	33.7%	25,315,357	39.2%
Germany	5,143,729	9.3%	4,901,128	7.6%
United Kingdom	4,957,889	9.0%	4,084,524	6.3%
France	2,711,170	4.9%	1,669,739	2.6%
Far East	2,541,580	4.6%	3,758,097	5.8%
Russia	2,065,985	3.8%	3,469,515	5.4%
Poland	1,916,577	3.5%	3,244,628	5.0%
Swiss	1,912,805	3.5%	1,763,810	2.7%
USA	1,834,726	3.3%	2,244,061	3.5%
Netherlands	1,378,088	2.5%	1,326,947	2.1%
Romania	1,368,135	2.5%	1,461,470	2.3%
Italy	854,804	1.6%	1,048,840	1.6%
Spain	586,024	1.1%	748,013	1.2%
Ukraine	464,117	0.8%	775,500	1.2%
Others	8,793,431	16.0%	8,713,666	13.5%
Total	**55,068,672**	**100.0%**	**64,525,293**	**100.0%**

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. 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	2016	Percentage	2015	Percentage
Financial Intermediation	25,627,976	46.5%	32,385,325	50.2%
Real estate, renting and business activities	6,755,529	12.3%	7,701,390	11.9%
Manufacturing	6,329,540	11.5%	5,754,519	8.9%
Wholesale and retail trade; repair of motor vehicles, motorcyles and personal and household goods	5,741,176	10.4%	5,586,829	8.7%
Public administration and defence, compulsory social security	3,426,900	6.2%	4,172,574	6.5%
Agriculture, hunting and forestry; fishing; mining and quarrying	1,103,904	2.0%	2,586,269	4.0%
Construction	1,586,444	2.9%	1,521,860	2.4%
Electricity, gas and water supply	979,316	1.8%	1,081,098	1.7%
Transport, storage and communication	996,611	1.8%	1,019,829	1.6%
Education; health and social work; other community, social and personal service activities	641,043	1.2%	600,264	0.9%
Others	1,880,235	3.4%	2,115,335	3.3%
Total	**55,068,672**	**100.0%**	**64,525,293**	**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 twenty-seven main grades, and in the public sector for ten main 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.

A default and thus non-performing loan (NPL) is internally 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.

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 predefined add-on 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 instrument, 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 techniques 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 the Participations division. 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.

- 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.

Trading book VaR 99% 1d in € thousand	VaR as at 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

Trading book VaR 99% 1d in € thousand	VaR as at 31/12/2015	Average VaR	Maximum VaR	Minimum VaR
Currency risk	1,919	2,970	24,002	619
Interest rate risk	725	646	3,424	180
Credit spread risk	3,150	1,885	3,262	888
Vega risk	812	1,605	11,382	349
Total	3,685	5,810	25,355	2,525

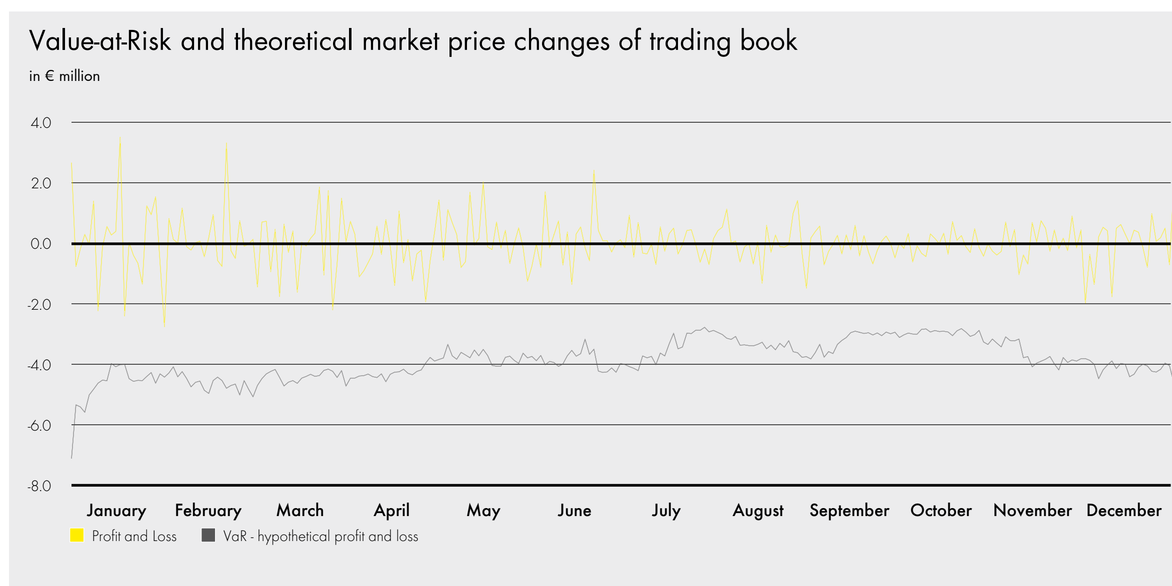
Banking book VaR 99% 1d in € thousand	VaR as at 31/12/2016	Average VaR	Maximum VaR	Minimum VaR
Currency risk	0	0	4	0
Interest rate risk	2,267	1,875	15,063	851
Credit spread risk	1,591	2,883	9,960	1,071
Vega risk	1,082	2,160	5,240	632
Total	3,552	5,634	18,315	3,048

Banking book VaR 99% 1d in € thousand	VaR as at 31/12/2015	Average VaR	Maximum VaR	Minimum VaR
Interest rate risk	1,573	2,391	10,130	882
Credit spread risk	4,637	10,285	24,098	2,706
Vega risk	522	1,384	8,729	399
Total	4,112	11,983	28,360	3,167

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

Total VaR 99% 1d in € thousand	VaR as at 31/12/2015	Average VaR	Maximum VaR	Minimum VaR
Currency risk	1,919	2,969	24,002	619
Interest rate risk	1,136	2,325	9,265	751
Credit spread risk	5,162	11,508	25,607	3,831
Vega risk	837	1,321	6,400	530
Total	5,954	13,335	27,189	4,941

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 backtesting exceptions.



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.

2016 in € thousand	Total	< 3 m	> 3 to 6 m	> 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

2015 in € thousand	Total	< 3 m	> 3 to 6 m	> 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	1	4	(2)	3	(3)	(3)	1	(4)	3	(1)	1	0
CNH	0	0	0	0	0	0	0	0	0	0	0	0
CNY	12	2	0	10	0	0	0	0	0	0	0	0
CZK	7	(2)	3	6	(5)	0	(3)	5	5	0	0	0
EUR	(121)	(12)	(11)	(1)	(52)	(7)	69	(26)	(94)	2	27	(15)
GBP	7	0	0	0	1	0	0	0	5	0	0	0
HUF	7	(1)	2	4	3	(2)	1	0	1	0	0	0
PLN	8	(3)	8	1	(1)	2	1	0	0	0	0	0
USD	36	2	3	(24)	9	(5)	(4)	44	4	(23)	4	25

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.

2016 in € thousand	Total	< 3 m	> 3 to 6 ms	> 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

2015 in € thousand	Total	< 3 m	> 3 to 6 m	> 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
CAD	0	0	0	0	0	0	0	0	0	0	0	0
CHF	(16)	(2)	(1)	(2)	0	2	6	14	(7)	(26)	0	0
CNY	2	(4)	1	5	0	0	0	0	0	0	0	0
CZK	17	3	0	1	2	7	6	2	(4)	0	0	0
EUR	260	(32)	23	128	2	(1)	(11)	223	36	(55)	22	(75)
GBP	(5)	0	(1)	0	0	0	(1)	(1)	(2)	0	0	0
PLN	18	0	(2)	(2)	2	6	15	0	0	0	0	0
SGD	(7)	1	0	(8)	0	0	0	0	0	0	0	0
USD	(45)	13	9	3	(19)	30	0	(8)	(14)	(32)	(19)	(9)

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 economic terms, RBI AG has established a governance framework comprising internal limits and control 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 (minimum liquidity ratio, liquidity coverage ratio, structural liquidity ratio and net stable funding ratio as well as key ratios for liquidity monitoring and additional liquidity monitoring metrics) as well as by compliance with the regulatory limits.

Organization and responsibility

Responsibility for ensuring adequate levels of liquidity lies with the overall Management Board. In terms of functions, the responsible Management Board members are the Chief Financial Officer (Treasury) and the Chief Risk Officer (Risk Controlling). Consequently, the processes relating to liquidity risk are mainly carried out by two areas within the bank. Firstly, Treasury controls the liquidity risk position within the strategy, guidelines and parameters set by the decision-making bodies. Secondly, this is monitored and supported by the independent Risk Controlling unit. The risk units measure and model liquidity risk positions, set limits and monitor their compliance

In addition to the aforementioned line functions, the Asset/Liability Management Committee (ALCO) acts as a decision-making body for all matters affecting management of RBI AG's liquidity position and the structure of its statement of financial position, including determining strategies and guidelines for handling liquidity risks. The ALCO makes decisions and reports to the respective management boards on at least a monthly basis using standardized liquidity risk reports.

Liquidity strategy

Treasury is obliged to comply with certain performance indicators and risk-based principles. The current performance indicators include 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 horizon in defined stress scenarios or diversification of the financing structure). Besides achieving a structural contribution by means of maturity transformation which reflects the liquidity and market risk assumed by the bank,

Treasury must pursue a prudent and sustainable risk policy in its management of the statement of financial position. Strategic objectives include reducing the parent company's funding to the Group subsidiaries, further stabilization of the deposit base and ongoing compliance with regulatory requirements and with internal rules and limits.

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 economic 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) of the Group and its individual units.

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 up to 90 days (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 series of customized measuring instruments and early warning indicators which provide the Management Board and executives with timely and forward-looking information. Compliance with the liquidity risk framework ensures that the bank can continue its business activities even under a high degree of pressure.

Monitoring and reporting on compliance with the limits is regular and effective, and the corresponding escalation channels are functional and are used as intended. The defined limits are complied with in a very disciplined manner and any breach is reported to the ALCO and escalated. This takes appropriate steps or escalates contentious matters to the Managing Board.

Liquidity stress test

Stress tests are conducted on a daily basis for RBI AG and its branches 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 up to three 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 counter-balancing capacity, including the secured and unsecured 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 by the central bank for each individual relevant security that may be offered as collateral.

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. 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 the Group would survive throughout the modelled stress phase of 90 days 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	2016		2015	
Maturity	1 month	1 year	1 month	1 year
Liquidity gap	4,211,782	4,958,137	4,598,123	5,554,595
Liquidity ratio	113%	108%	110%	107%

Liquidity coverage ratio (LCR)

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 2016 the regulatory LCR limit was 70 per cent, which will be raised gradually to 100 per cent by 2018.

in € thousand	31/12/2016	31/12/2015
Average liquid assets	4,616,369	10,387,050
Net outflows	2,077,857	7,253,731
Inflows	4,780,120	3,314,059
Outflows	6,857,977	10,567,789
Liquidity Coverage Ratio	**222%**	**143%**

The LCR increased in 2016 year-on-year, firstly as a result of the implementation of the objectives under the transformation program and secondly as a result of the strategy of maintaining a higher liquidity position during the Group's planned restructuring. The HQLA portfolio was reduced as a result of replacing ECB facilities with repos. Net outflows fell due to lower FI deposits, unscheduled higher customer deposits and unscheduled reduced granting of loans.

Net Stable Funding Ratio (NSFR)

The NSFR is defined as the ratio of available stable funding to required stable funding. 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	2016
Required stable funding	26,830,272
Available stable funding	26,144,916
Net Stable Funding Ratio	**97%**

The NSFR is not shown for year-end 2015 due to limited comparability.

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) 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 advanced measurement methods as well as to track measures and effectiveness of controls. Since 2010, the RBI Group 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.

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 Raiffeisen Bank International AG (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 RZB 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 RZB 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 RZB Group units. The head of Group Internal Audit reports directly to the Management Boards.

Outlook

Economic prospects

Central Europe

Following somewhat weaker growth last year, growth in Central Europe (CE) is expected to pick up again in 2017. Ongoing expansionary monetary policy in the region, a solid growth climate in the euro area and an expected recovery in investment demand – amid continued strong private household consumer spending – should support this positive momentum. Leading the way are Poland and Slovakia, each with projected growth of 3.3 per cent, closely followed by Hungary, whose economy should grow by 3.2 per cent. In the Czech Republic, growth is forecast to reach 2.7 per cent.

Southeastern Europe

The Southeastern European (SEE) region is likewise expected to continue its growth trend. Following very strong GDP growth of 3.9 per cent in 2016, SEE should increase its economic output in 2017 by slightly more than 3 per cent, which is its current potential growth rate. In particular, Romania could continue its solid growth trajectory with GDP growth of 4.2 per cent, but momentum is already slowing somewhat following last year's peak of over 4.8 per cent. Conversely, negative overheating effects such as a ballooning current account deficit should be avoided as a result. Serbia and Croatia, the two countries showing the strongest economic recovery in 2016, should both achieve economic growth of around or just over 3.0 per cent.

Eastern Europe

In Russia, moderate economic growth of 1.0 per cent is expected following the easing of the recession; a positive trend in oil prices would further support the Russian economy. In Ukraine, a continuation of last year's weak recovery process is anticipated whereas the economy in Belarus is still expected to shrink slightly. In general, Eastern Europe currently lacks strong external and internal growth drivers, as a result of which the region is not able to replicate the higher growth rates of the past. In addition, event risk remains considerable.

Austria

In Austria, the moderate economic upturn in 2017 should continue and gain momentum. Domestic demand (private consumption, gross capital investment) should continue to be the main pillar of support. The growth rate for exports should be higher than in 2016. Notwithstanding continuing solid growth in imports resulting from domestic economic momentum, net exports are expected to continue to support GDP growth in 2017. This scenario implies a 1.7 per cent increase in real GDP, following 1.5 per cent in 2016.

CEE banking sector

Solid economic growth in CE and SEE – as well as the end of the recession in Russia and Ukraine – should have a markedly positive impact on the CEE banking sector in 2017. Favorable developments in the operating business in CE and SEE could also be supported by at least stable or even slightly improved interest margins and/or somewhat steeper yield curves in 2017. In addition, recent years have already seen necessary adjustments for foreign currency loans and NPL portfolios resulting from the earlier expansion in CE and SEE, as well as their negative income effects. Accordingly, return on equity in the CEE banking sector should continue to recover in 2017.

Outlook for RBI AG

As a result of the merger with RZB AG, to be entered in the commercial register on 18 March 2017, the following outlook applies to the combined bank.

The downscaling and reduction of business activities in Asia that was decided upon in 2015 is nearly complete and will be further continued for the remaining credit exposure in the 2017 financial year. Following the stable development of the rest of the lending business, we expect average loan growth to be in the low single-digit percentage area for the next few years.

For 2017, we anticipate that operating income will exceed the 2016 level (€ 1,226 million) as a result of the merger and due to higher dividend income. Owing to the persistent low interest rate environment at present, we expect net interest income to be at approximately the same level as in 2016 (€ 277 million) and therefore plan to expand fee- and commission-driven business and to generate higher income in this area.

In the area of general administrative expenses, cost reduction measures will have a positive effect. However, additional administrative expenses will be incurred as a result of the merger. We aim for a cost/income ratio of below 50 per cent for the medium term.

In spite of the merger, we expect that net provisioning for impairment losses in 2017 will remain below the 2016 level (€ 228 million).

With a CET1 ratio (fully loaded) of 13.6 per cent (12.4 per cent pro forma for the combined bank), the RBI Group had met its capital target of at least 12 per cent on 31 December 2016 – one year ahead of its own deadline. For the medium term, we aim for a CET1 ratio (fully loaded) of around 13 per cent for the Group.

Auditor's Report

Report on the Financial Statements

Audit Opinion

We have audited the financial statements of

Raiffeisen Bank International AG,
Vienna

that comprise the statement of financial position as of 31 December 2016, 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 2016, 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 Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities pursuant to these rules and standards are described in the "Auditors' Responsibility" section of our report. We are independent of the Company within the meaning of Austrian commercial law and professional regulations, and 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. Key audit matters are selected from the matters communicated with the audit committee, but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

In the following we present the key audit matters from our point of view:

- Recoverability of loans and advances to customers
- Recoverabilty of shares in affiliated companies
- 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 positionnet of individual and portfolio-based loan loss provisions, in the amount of EUR 18 billion. They comprise predominantly loans and advances to Austrian and foreign corporate customers.

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 collaterals.

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 Group-wide standards. The provision amount is determined by the difference between the carrying 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 analyzed 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 relevant processes as well as 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 critically assessed the bank's estimates regarding the amount and timing of future cash flows, including those resulting from realization of collaterals, 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 regards to the internal collateral valuation we analyzed 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. These specialists analyzed whether the models and parameters used, taking into account backtesting results, are appropriate for calculating loan loss provisions. We have analyzed the accurate 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 8 billion in total and represent a significant proportion of the total assets 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 (Raiffeisen Bank Polska S.A., Warsaw; Raiffeisen Bank Aval JSC, Kiev) or indirectly through a holding company. Additionally, it has holdings in 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 section "Participation risk" in the Risk Report in the Management Report.

At the reporting date, the banks division "Participations" assesses whether, on the basis of the fair value of the individual 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 company valuations are used to calculate the fair value. The company valuation calculation is based to a large extent on assumptions and estimates regarding the expected future cash flows. These are based on the budgeted figures approved by the governing bodies of the respective company. The discount rates applied can furthermore 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 and carry uncertainties with respect to the estimates. They therefore lead to a risk of misstatement in the Financial Statements.

Our Audit Approach

We have examined the processes in the "Participations" division and tested the key controls using a sampling 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 model (models (?)) for calculations of the fair value of the companies was analyzed. The valuation parameters used in the model, primarily the interest rate components, were evaluated and critically assessed. 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 analyzed in relation to the actual values and the current budgeted values. The calculation of the company valuations was analyzed on a sampling basis. The results of the company valuations were compared with market data and publicly available information (primarily market multiples).

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 is 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 losses must be recognized for derivatives with a negative fair value.

Our Audit Approach

We have examined using sampling whether the criteria for designation of derivatives to the banking book or the trading book are met.

Our valuation specialists have assessed the fair values calculated by the bank. We have 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 values 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 reviewed 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 critically assessed whether the required strategy is in place based on the documentation, and evaluated 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.

Managemet's Responsibility and Responsibility of the Audit Committee for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these 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, and, where appropriate, to disclose matters that are relevant to the Company's ability to continue as a going concern and to apply the going concern assumption in its financial reporting, except in circumstances in which liquidation of the Company or closure of operations is planned or cases in which such measures appear unavoidable.

The audit committee is responsible for the oversight of the financial reporting process of the Company.

Auditors' Responsibility

Our aim is to obtain reasonable assurance about whether the financial statements taken as a whole, are free of material – intentional or unintentional– misstatements and to issue an audit report containing our audit opinion. Reasonable assurance represents a high degree of assurance, but provides no guarantee that an audit conducted in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, will detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if they could, individually or as a whole, be expected to influence the economic decisions of users based on the financial statements.

As part of an audit in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, we exercise professional judgment and retain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatements – intentional or unintentional – in the financial statements, we plan and perform procedures to address such risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk that material misstatements due to fraud remain undetected is higher than that of material misstatements due to error, since fraud may include collusion, forgery, intentional omissions, misleading representation or override of internal control.
- We consider 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 as well as related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In case we conclude that there is a material uncertainty about the entity's ability to continue as a going concern, we are required to draw attention to the respective note in the financial statements in our audit report or, in case such disclosures are not appropriate, to modify our audit opinion. We conclude based on the audit evidence obtained until the date of our audit report. Future events or conditions however may result in the Company departing from the going concern assumption.
- We assess the overall presentation, structure and content of the financial statements including the notes as well as whether the financial statements give a true and fair view of the underlying business transactions and events.
- We communicate to the audit committee the scope and timing of our audit as well as significant findings including significant deficiencies in internal control that we identify in the course of our audit.
- We report to the audit committee that we have complied with the relevant professional requirements in respect of our independence and that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, related measures taken to ensure our independence.
- From the matters communicated with the audit committee we determine those matters that required significant auditor attention in performing the audit and which are therefore key audit matters. We describe these key audit matters in our audit report except in the circumstances where laws or other legal regulations forbid publication of such matter or in very rare cases, we determine that a matter should not be included in our audit report because the negative effects of such communication are reasonably expected to outweigh its benefits for the public interest.

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 as to whether it has been prepared in accordance with legal requirements.

The legal representatives of the Company are 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 has been prepared in accordance with legal requirements and is consistent with the financial statements. 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 the understanding of the Company and its environment, we did not note any material misstatements in the management report.

Auditor in Charge

The auditor in charge is Mr. Mag. Wilhelm Kovsca.

Vienna, 28 February 2017

KPMG Austria GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Wilhelm Kovsca

Wirtschaftsprüfer

(Austrian Chartered Accountants)

Statement of all legal representatives

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

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, 28 February 2017
The Managing Board

Karl Sevelda

Chief Executive Officer responsible for Group Compliance[1], Group Communications, Group Strategy, Human Resources, Internal Audit, International Banking Units, Legal Services, Management Secretariat and Marketing & Event Management

Johann Strobl

Deputy to the Chief Executive Officer responsible for Credit Management Corporates, Financial Institutions, Country & Portfolio Risk Management, Retail Risk Management, Risk Controlling, Risk Excellence & Projects and Special Exposures Management

Klemens Breuer

Member of the Management Board responsible for Business Management & Development, Consumer & Small Business Banking, Group Capital Markets, Institutional Clients, Investment Banking Products, Premium & Private Banking, Raiffeisen Research and Retail Strategy & Products

Martin Grüll

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

Andreas Gschwenter

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

Peter Lennkh

Member of the Management Board responsible for Corporate Customers, Corporate Finance, Corporate Sales Management & Development, International Business Support, Leasing Steering & Product Management and Trade Finance & Transaction Banking

1 Outsourced to RZB/Reporting to the whole Board of Management.