

# RAIFFEISEN BANK INTERNATIONAL AG

## ANNUAL FINANCIAL STATEMENTS 2016



**Raiffeisen Bank**  
**International**

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# 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 undertakings	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 institution 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
<b>Total assets</b>	<b>45,814,035,621.92</b>	<b>52,529,738</b>

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)
<b>Total liabilities</b>		<b>45,814,035,621.92</b>	<b>52,529,738</b>

# Income statement

		2016	2015
		in €	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)
<b>I.</b>	<b>NET INTEREST INCOME</b>	<b>277,011,801.46</b>	<b>419,736</b>
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
<b>II.</b>	<b>OPERATING INCOME</b>	<b>1,226,161,712.64</b>	<b>1,644,045</b>
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)
<b>III.</b>	<b>OPERATING EXPENSES</b>	<b>(659,277,655.62)</b>	<b>(632,963)</b>
<b>IV.</b>	<b>OPERATING RESULT</b>	<b>566,884,057.02</b>	<b>1,011,083</b>
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)
<b>V.</b>	<b>PROFIT ON ORDINARY ACTIVITIES</b>	<b>139,533,463.36</b>	<b>283,480</b>
15.	Extraordinary income	0.00	5,068
16.	Extraordinary expenses	0.00	0
<b>VI.</b>	<b>EXTRAORDINARY RESULT</b>	<b>0.00</b>	<b>5,068</b>
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)
<b>VII.</b>	<b>PROFIT FOR THE YEAR AFTER TAX</b>	<b>44,830,677.58</b>	<b>189,775</b>
19.	Changes in reserves	0.00	0
	hereof: allocation to liability reserve	0.00	0
<b>VIII.</b>	<b>PROFIT</b>	<b>44,830,677.58</b>	<b>189,775</b>
20.	Loss brought forward	(611,405,882.11)	(801,181)
<b>IX.</b>	<b>LOSS</b>	<b>(566,575,204.53)</b>	<b>(611,406)</b>

# Items off the statement of financial position

ASSETS		31/12/2016	31/12/2015
		in €	in € thousand
1.	Foreign assets	33,370,338,406.45	31,206,166

LIABILITIES		31/12/2016	31/12/2015
		in €	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 agency 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](http://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 122.1119m. 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 237 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 SLAs 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
<b>Loans and advances to credit institutions</b>	<b>9,739.5</b>	<b>10,188.7</b>
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
<b>Loans and advances to customers</b>	<b>18,026.6</b>	<b>18,497.3</b>
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
<b>Other assets</b>	<b>4,239.9</b>	<b>4,546.8</b>
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
<b>Liabilities to credit institutions</b>	<b>13,377.3</b>	<b>17,240.5</b>
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
<b>Liabilities to customers (non-banks)</b>	<b>13,638.3</b>	<b>15,351.6</b>
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
<b>Securitized liabilities</b>	<b>4,939.9</b>	<b>5,463.4</b>
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
<b>Other liabilities</b>	<b>3,597.3</b>	<b>4,003.6</b>
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
<b>Total</b>	<b>93,236</b>	<b>(37,528)</b>	<b>82,577</b>	<b>(33,747)</b>	<b>6,878</b>

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	Nominal amount	Net gain	Nominal amount	Net gain
in € million	31/12/2016	31/12/2016	31/12/2015	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
<b>Total</b>	<b>766.0</b>	<b>15.2</b>	<b>1,034.7</b>	<b>14.5</b>

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
<b>Loans and advances to credit institutions</b>		
to affiliated companies	4,386.4	6,414.3
to companies linked by virtue of a participating interest	183.2	170.9
<b>Loans and advances to customers</b>		
to affiliated companies	2,011.8	3,308.9
to companies linked by virtue of a participating interest	109.1	115.3
<b>Debt securities and other fixed-income securities</b>		
from affiliated companies	17.2	83.8
from companies linked by virtue of a participating interest	0.0	0.2
<b>Liabilities to credit institutions</b>		
from affiliated companies	3,917.7	5,019.5
from companies linked by virtue of a participating interest	568.5	2,541.6
<b>Liabilities to customers</b>		
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
<b>Total</b>	<b>258.0</b>	<b>175.6</b>

## 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	1,670	1,668
<b>Common equity tier 1 (before deductions)</b>	<b>6,995</b>	<b>6,992</b>
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 adoptions for common equity tier 1	56	93
<b>Common equity tier 1 (after deductions)</b>	<b>6,304</b>	<b>6,144</b>
Additional tier 1	0	0
<b>Tier 1</b>	<b>6,304</b>	<b>6,144</b>
Supplementary capital	3,178	3,600
Less own supplementary capital	(2)	(7)
Provision excess of IRB positions	111	117
Transitional adoptions for Supplementary Capital	(21)	(34)
<b>Tier 2 (after deductions)</b>	<b>3,266</b>	<b>3,676</b>
<b>Total capital</b>	<b>9,570</b>	<b>9,820</b>
<b>Total risk exposure amount (assessment basis)</b>	<b>28,884</b>	<b>31,559</b>
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
<b>Total risk exposure amount (assessment basis)</b>	<b>28,884</b>	<b>31,559</b>
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
<b>Total capital requirement</b>	<b>2,311</b>	<b>2,525</b>

in € million	31/12/2016	31/12/2015
<b>Risk-weighted assets according to standardized approach</b>	<b>426</b>	<b>427</b>
Banks	2	1
Corporate customers	2	1
Equity exposures	401	406
Other positions	21	19
<b>Risk-weighted assets according to internal rating approach</b>	<b>1,490</b>	<b>1,555</b>
Central governments and central banks	3	5
Banks	335	420
Corporate customers	832	819
Equity exposures	307	296
Securitization position	13	15
<b>CVA risk</b>	<b>28</b>	<b>30</b>
<b>Basel I - Floor</b>	<b>59</b>	<b>163</b>
<b>Total capital requirement for credit risk</b>	<b>2,003</b>	<b>2,175</b>

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 (31/12/2015: € 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-à-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
<b>Loans and advances to credit institutions</b>	<b>1,718.0</b>	<b>1,850.5</b>
hereof to affiliated companies	1,716.4	1,817.0
hereof to companies linked by virtue of a participating interest	1.6	1.6
<b>Loans and advances to customers</b>	<b>174.0</b>	<b>249.6</b>
hereof to affiliated companies	6.3	6.8
hereof to companies linked by virtue of a participating interest	0.0	0.0
<b>Debt securities and other fixed-income securities</b>	<b>27.0</b>	<b>23.8</b>
hereof from affiliated companies	0.0	0.0
hereof from companies linked by virtue of a participating interest	0.0	0.0
<b>Shares and other variable-yield securities</b>	<b>95.6</b>	<b>95.5</b>
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		Negative fair values	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
<b>Derivatives in the trading book</b>				
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 Oesterreichische 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
<b>Total</b>	<b>3,231.6</b>	<b>4,050.5</b>

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	Fair value	Carrying amount	Fair value
	31/12/2016	31/12/2016	31/12/2015	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
<b>Total</b>	<b>693.4</b>	<b>678.8</b>	<b>655.0</b>	<b>627.4</b>

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:

<b>2016</b> <b>in € million</b>	<b>Total</b>	<b>Austria</b>	<b>Western Europe</b>	<b>Asia</b>
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

<b>2015</b> <b>in € million</b>	<b>Total</b>	<b>Austria</b>	<b>Western Europe</b>	<b>Asia</b>
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
<b>Total</b>	<b>3,791</b>	<b>5,246</b>	<b>14,441</b>	<b>9,209</b>

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 Sevelde, Chairman	22 September 2010 <sup>1</sup>	With entry of merger of RZB AG into RBI AG (expected on 18 March 2017) <sup>2</sup>
Johann Strobl, Deputy Chairman	22 September 2010 <sup>1</sup>	28 February 2022 <sup>3</sup>
Klemens Breuer	16 April 2012	31 December 2020
Martin Grill	3 January 2005	28 February 2020
Andreas Gschwenter	1 July 2015	30 June 2018
Peter Lennkh	1 October 2004	31 December 2020

<sup>1</sup> Effective as of 10 October 2010

<sup>2</sup> As a result of the merger of RZB AG into RBI AG, Karl Sevelde will resign his mandate as member of the Management Board once the merger is effective.

<sup>3</sup> The mandates as Management Board members of Johann Strobl and Martin Grill 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 <sup>3</sup>
Erwin Hameseder, 1st Deputy Chairman	8 July 2010 <sup>1</sup>	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) <sup>4</sup>
Günther Reibersdorfer	20 June 2012	AGM 2017
Johannes Schuster	8 July 2010 <sup>1</sup>	With entry of merger of RZB AG into RBI AG (expected on 18 March 2017) <sup>4</sup>
Bettina Selden	4 June 2014	AGM 2019
Rudolf Korten <sup>2</sup>	10 October 2010	Until further notice
Martin Prater <sup>2</sup>	10 October 2010	31 January 2016
Peter Anzeletti-Reikl <sup>2</sup>	10 October 2010	Until further notice
Susanne Unger <sup>2</sup>	18 January 2012	Until further notice
Helge Rechberger <sup>2</sup>	10 October 2010	Until further notice
Natalie Egger-Grunicke <sup>2</sup>	18 February 2016	Until further notice

<sup>1</sup> Effective as of 10 October 2010.

<sup>2</sup> Delegated by the Staff Council

<sup>3</sup> 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.

<sup>4</sup> 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 Höllner <sup>1</sup>	Walter Rothensteiner	Walter Rothensteiner	Johannes Schuster <sup>1</sup>	Walter Rothensteiner
1st Deputy Chairman	Erwin Hameseder	Walter Rothensteiner <sup>2</sup>	Erwin Hameseder	Erwin Hameseder	Walter Rothensteiner <sup>2</sup>	Erwin Hameseder
2nd Deputy	Heinrich Schaller	Erwin Hameseder <sup>3</sup>	Heinrich Schaller	Heinrich Schaller	Erwin Hameseder <sup>3</sup>	Heinrich Schaller
3rd Deputy Chairman	Martin Schaller	Heinrich Schaller <sup>4</sup>	Martin Schaller	Martin Schaller	Heinrich Schaller <sup>4</sup>	Martin Schaller
4th Deputy Chairman	-	Martin Schaller <sup>5</sup>	-	-	Martin Schaller <sup>5</sup>	-
Member	Johannes Schuster	Johannes Schuster <sup>6</sup>	Johannes Schuster	Johannes Schuster	Johannes Schuster <sup>6</sup>	Johannes Schuster
Member	Rudolf Korten Hof	Rudolf Korten Hof	-	Rudolf Korten Hof	Rudolf Korten Hof	Rudolf Korten Hof
Member	Peter Anzeletti-Reikl	Peter Anzeletti-Reikl	-	Peter Anzeletti-Reikl	Peter Anzeletti-Reikl	Peter Anzeletti-Reikl
Member	Susanne Unger <sup>7</sup>	Susanne Unger <sup>7</sup>	-	Susanne Unger <sup>7</sup>	Susanne Unger <sup>7</sup>	Susanne Unger <sup>7</sup>

<sup>1</sup> As of 15 March 2016; until 15 March 2016, Walter Rothensteiner

<sup>2</sup> As of 15 March 2016; until 15 March 2016, Erwin Hameseder

<sup>3</sup> As of 15 March 2016; until 15 March 2016, Heinrich Schaller

<sup>4</sup> As of 15 March 2016; until 15 March 2016, Martin Schaller

<sup>5</sup> As of 15 March 2016

<sup>6</sup> Until 15 March 2016

<sup>7</sup> 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
<b>Total</b>	<b>9,160</b>	<b>9,666</b>
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		Value at share price of € 13.92 on allocation date	Number of shares actually transferred
Group of persons	Number of shares due		
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		Minimum of allotment of shares	Maximum of allotment of shares
Group of persons	Number of contingently allotted shares as at 31/12/2016		
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 Grill



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	Exchange differences	Additions	Disposals	Reclass- ification	As at 31/12/2016	Cumulative depreciation as of 1/1/2016	Exchange differences	Cumulative depreciation and amortization disposal	Write-ups	Depreciation	Reclass- ification	Cumulative depreciation as of 31/12/2016	31/12/2016	31/12/2015
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	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
<b>Total</b>		<b>14,284,522</b>	<b>15,650</b>	<b>395,017</b>	<b>(1,057,893)</b>	<b>0</b>	<b>13,637,296</b>	<b>(2,301,552)</b>	<b>(667)</b>	<b>186,403</b>	<b>88,739</b>	<b>(332,300)</b>	<b>0</b>	<b>(2,359,376)</b>	<b>11,277,919</b>	<b>11,982,970</b>

## 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
<b>Total</b>	<b>71,386,187</b>	<b>80,164,389</b>	<b>71,394,359</b>	<b>222,944,935</b>	<b>151,390,487</b>	<b>4,520,613</b>	<b>(3,697,565)</b>
<b>a) Interest rate contracts</b>	<b>29,563,963</b>	<b>67,924,229</b>	<b>52,695,132</b>	<b>150,183,324</b>	<b>107,675,775</b>	<b>3,160,097</b>	<b>(2,257,876)</b>
<b>OTC products</b>							
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
<b>Exchange-traded products</b>							
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>b) Foreign exchange rate contracts</b>	<b>40,908,792</b>	<b>11,913,857</b>	<b>18,630,327</b>	<b>71,452,976</b>	<b>42,710,683</b>	<b>1,358,606</b>	<b>(1,438,475)</b>
<b>OTC products</b>							
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
<b>Exchange-traded products</b>							
Currency contracts (futures)	13,342	0	0	13,342	13,342	0	(25)
Currency options	0	0	0	0	0	0	0
<b>c) Securities-related transactions</b>	<b>17,895</b>	<b>240,560</b>	<b>68,900</b>	<b>327,355</b>	<b>22,748</b>	<b>1,262</b>	<b>(527)</b>
<b>OTC products</b>							
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)
<b>Exchange-traded products</b>							
Equity/Index futures	0	0	0	0	0	0	0
Equity/Index options	0	0	0	0	0	0	0
<b>d) Commodity contracts</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>OTC products</b>							
Commodity forward transactions	0	0	0	0	0	0	0
<b>Exchange-traded products</b>							
Commodity futures	0	0	0	0	0	0	0
<b>e) Credit derivative contracts</b>	<b>895,537</b>	<b>85,743</b>	<b>0</b>	<b>981,280</b>	<b>981,281</b>	<b>648</b>	<b>(687)</b>
<b>OTC products</b>							
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
<b>Total</b>	<b>90,807,807</b>	<b>81,469,510</b>	<b>74,087,014</b>	<b>223,840,443</b>	<b>163,591,226</b>	<b>4,975,320</b>	<b>(4,190,266)</b>
<b>a) Interest rate contracts</b>	<b>33,467,254</b>	<b>67,087,996</b>	<b>48,684,393</b>	<b>149,239,643</b>	<b>108,646,050</b>	<b>3,258,083</b>	<b>(2,463,865)</b>
<b>OTC products</b>							
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
<b>Exchange-traded products</b>							
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>b) Foreign exchange rate contracts</b>	<b>56,830,275</b>	<b>13,174,949</b>	<b>2,739,841</b>	<b>72,745,065</b>	<b>53,479,793</b>	<b>1,711,995</b>	<b>(1,722,768)</b>
<b>OTC products</b>							
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
<b>Exchange-traded products</b>							
Currency contracts (futures)	8,554	0	0	8,554	0	0	0
Currency options	0	0	0	0	0	0	0
<b>c) Securities-related transactions</b>	<b>16,200</b>	<b>214,260</b>	<b>22,662,780</b>	<b>369,352</b>	<b>6,000</b>	<b>3,466</b>	<b>(1,519)</b>
<b>OTC products</b>							
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)
<b>Exchange-traded products</b>							
Equity/Index futures	0	0	0	0	0	0	0
Equity/Index options	0	0	0	0	0	0	0
<b>d) Commodity contracts</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>OTC products</b>							
Commodity forward transactions	0	0	0	0	0	0	0
<b>Exchange-traded products</b>							
Commodity futures	0	0	0	0	0	0	0
<b>e) Credit derivative contracts</b>	<b>494,078</b>	<b>992,305</b>	<b>0</b>	<b>1,486,383</b>	<b>1,459,383</b>	<b>1,776</b>	<b>(2,114)</b>
<b>OTC products</b>							
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 <sup>1</sup>	From annual financial statements <sup>2</sup>
BAILE Handels- und Beteiligungsgesellschaft m.b.H., Vienna <sup>2</sup>	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 <sup>2</sup>	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 <sup>3</sup>	1	USD	100%	4,642	91	31/12/2015
Kathrein Privatbank Aktiengesellschaft, Vienna <sup>2</sup>	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 <sup>2</sup>	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, Kiev <sup>3</sup>	6,154,516,258	UAH	68%	347,590	133,913	31/12/2016
Raiffeisen Bank Polska S.A., Warschau <sup>3</sup>	2,256,683,400	PLN	100%	1,422,555	34,507	31/12/2016
Raiffeisen RS Beteiligungs GmbH, Vienna <sup>2</sup>	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

<sup>1</sup> 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).

<sup>2</sup> For the fully consolidated domestic companies, the equity and annual profit figures are accounted for in accordance with the International Financial Reporting Standards (IFRS).

<sup>3</sup> 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 <sup>1</sup>	From annual financial statements <sup>2</sup>
RB International Finance (Hong Kong) Ltd., HK-Hong Kong <sup>3</sup>	10,000,000 HKD	100%	(29,981)	(35,784)	31/12/2016
RB International Finance (USA) LLC, New York <sup>3</sup>	1,510,000 USD	100%	11,874	(36,053)	31/12/2016
RB International Investment Asia Limited, MY-Labuan <sup>3</sup>	1 EUR	100%	(927)	(9,402)	31/12/2016
RB International Markets (USA) LLC, USA-New York <sup>3</sup>	8,000,000 USD	100%	10,612	4	31/12/2016
RBI KI Beteiligungs GmbH, Vienna <sup>2</sup>	48,000 EUR	100%	41	(69)	31/12/2016
RBI LEA Beteiligungs GmbH, Vienna <sup>2</sup>	70,000 EUR	100%	151,330	30	31/12/2016
RBI PE Handels- und Beteiligungs GmbH, Vienna <sup>2</sup>	150,000 EUR	100%	21,981	(554)	31/12/2016
Regional Card Processing Center s.r.o., Bratislava <sup>3</sup>	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 <sup>3</sup>	1,000 EUR	100%	33	(21)	31/12/2016
RZB Finance (Jersey) IV Limited, JE-St. Helier <sup>3</sup>	2,000 EUR	100%	138	(9)	31/12/2016
RBI IB Beteiligungs GmbH, Vienna <sup>2</sup>	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, Kiev <sup>3</sup>	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

<sup>1</sup> 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).

<sup>2</sup> For the fully consolidated domestic companies, the equity and annual profit figures are accounted for in accordance with the International Financial Reporting Standards (IFRS).

<sup>3</sup> 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 per cent (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 Raiffeisen 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 7<sup>th</sup> 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](http://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<sub>2</sub>e, 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](http://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 division Group Compliance, which continuously analyzes the internal control system and – if actions are necessary for addressing any deficiencies – is also responsible for tracking their implementation.

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

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

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

## **Overall bank risk management**

Maintaining an adequate level of capital is a core objective of the risk management of the company. Capital requirements are monitored regularly on the basis of the risk determined by internal models; the choice of models used reflects the materiality of risks. This overall bank risk management approach takes account of capital requirements from a regulatory point of view (sustainability and going concern perspective) and from an economic standpoint (target rating perspective). It is therefore in line with the quantitative aspects of the internal capital adequacy assessment process (ICAAP) as legally required. RBI AG's overall ICAAP process is audited during the supervisory review process for the 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%
<b>Total</b>	<b>2,800,063</b>	<b>100.0%</b>	<b>2,675,559</b>	<b>100.0%</b>

The objective of calculating the economic capital is to determine the amount of capital that would be required for servicing all customer and creditor claims also for such a rare loss event. To calculate the economic capital, RBI AG applies a confidence level of 99.92 per cent derived from the default probability implied by the target rating. On the basis of the empirical analysis of rating agencies, the selected confidence level corresponds to a rating of "Single A."

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

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

## Going concern perspective

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

## Sustainability perspective

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

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

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

## 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%
<b>Total</b>	<b>55,068,672</b>	<b>100.0%</b>	<b>64,525,293</b>	<b>100.0%</b>

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, motorcycles 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%
<b>Total</b>	<b>55,068,672</b>	<b>100.0%</b>	<b>64,525,293</b>	<b>100.0%</b>

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

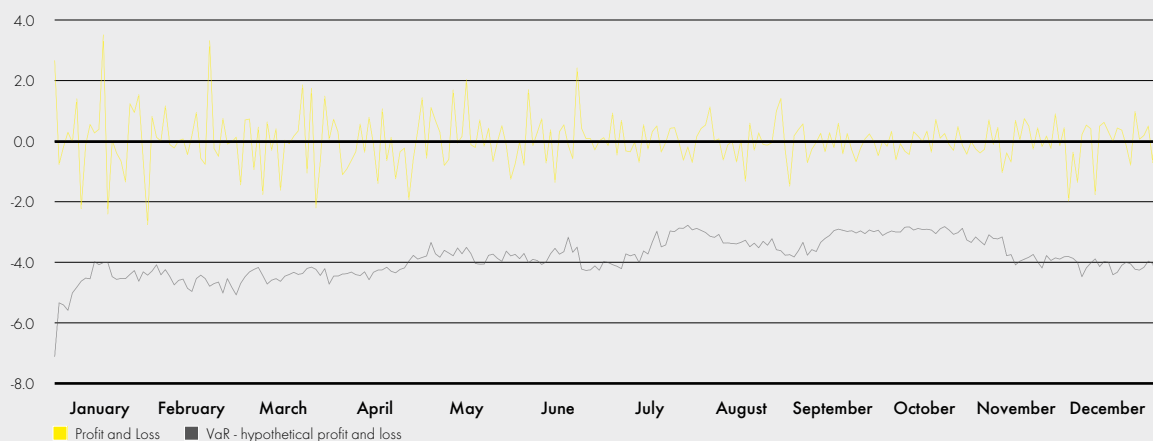
Total VaR 99% 1d in € thousand	VaR as of 31/12/2016	Average VaR	Maximum VaR	Minimum VaR
Currency risk	2,951	1,595	5,207	478
Interest rate risk	2,079	2,064	14,459	891
Credit spread risk	1,653	3,903	10,591	1,389
Vega risk	1,007	1,969	4,702	665
Total	4,480	6,850	17,320	3,668

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.

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

in € million



### 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	> 20 y
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 (KIRMV) 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 Maturity	2016		2015	
	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
<b>Liquidity Coverage Ratio</b>	<b>222%</b>	<b>143%</b>

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
<b>Net Stable Funding Ratio</b>	<b>97%</b>

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
- Recoverability 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 position net 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.

### Management'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 the Board of Management pursuant to Art. 82 (4) Z3 Austrian Stock Exchange Act

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

Vienna, 28 February 2017  
The Managing Board



**Karl Sevelda**

Chief Executive Officer responsible for Group Compliance<sup>1</sup>, 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

<sup>1</sup> Outsourced to RZB/Reporting to the whole Board of Management.